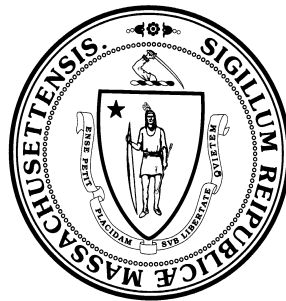


**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated September 9, 2013

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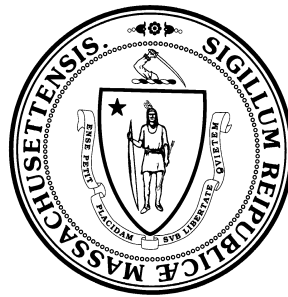
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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
[VACANT].....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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

September 9, 2013

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 1, 2013. 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, 2012 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2012. 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 and the Highway Department.) 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, 2012, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2012, 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 2012, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 15 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2012 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."

On September 4, 2013, the Attorney General certified 25 petitions proposing voter-enacted laws covering 11 topics; some petitioners submitted more than one version of a petition on the same topic. Several of the petitions, if placed on the ballot and approved by the voters, would have a material impact on future Commonwealth revenues. The Department of Revenue is currently in the process of estimating the revenue impacts. See “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes.”

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.

On September 4, 2013, the Attorney General certified three petitions proposing constitutional amendments, including one requiring the state government to ensure the provision of comprehensive, affordable and equitably financed health insurance coverage for all Massachusetts residents.

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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 98.2% of the statutory basis budgeted operating fund outflows in fiscal 2012 were made. The remaining approximately 1.8% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Workforce Training Fund, the Substance Abuse Prevention and Treatment Fund, and the Massachusetts Tourism Fund. There were also 12 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 Highway Fund, the Gaming Local Aid Fund, the Education Fund, the Local Stabilization Fund, the Gaming Economic Development Fund, the Manufacturing Fund, the Community College Fund and the Healthcare Payment Reform Fund. In fiscal 2012, 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 2013 AND FISCAL 2014 – 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, 2012; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

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

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

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

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 2012, on a statutory basis, approximately 60.4% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 24.5% 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 2012. Projections for fiscal 2013 and fiscal 2014 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 2009 through fiscal 2012, preliminary revenues and expenditures for fiscal 2013, and projected revenues and expenditures for fiscal 2014.

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

| | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Preliminary Fiscal 2013</u> | <u>Projected Fiscal 2014 (2)</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|------------------------------------|--------------------------------------|
| <u>Beginning Fund Balances</u> | | | | | | |
| Reserved or Designated | \$171.5 | \$68.9 | \$122.0 | \$400.1 | \$170.4 | \$97.2 |
| Stabilization Fund | 2,119.2 | 841.3 | 669.8 | 1,379.1 | 1,652.1 | 1,602.9 |
| Undesignated | <u>115.1</u> | <u>106.4</u> | <u>111.3</u> | <u>121.7</u> | <u>167.2</u> | <u>19.3</u> |
| Total | <u>\$2,405.8</u> | <u>\$1,016.6</u> | <u>\$903.1</u> | <u>\$1,900.8</u> | <u>\$1,989.7</u> | <u>\$1,719.4</u> |
| <u>Revenues and Other Sources</u> | | | | | | |
| Alcoholic Beverages | 71.9 | 71.0 | 72.7 | 76.1 | 76.3 | 77.1 |
| Banks | 242.6 | 234.9 | (11.0) | 266.6 | 78.0 | 85.4 |
| Cigarettes | 456.8 | 456.2 | 453.6 | 451.0 | 440.1 | 541.9 |
| Corporations | 1,548.6 | 1,600.3 | 1,951.4 | 1,771.1 | 1,821.9 | 1,842.8 |
| Deeds | 105.5 | 137.9 | 140.2 | 158.8 | 188.9 | 198.6 |
| Income | 10,583.7 | 10,110.3 | 11,576.0 | 11,911.4 | 12,830.9 | 12,948.8 |
| Inheritance and Estate | 259.7 | 221.4 | 309.6 | 293.3 | 313.4 | 285.6 |
| Insurance | 356.7 | 330.0 | 340.3 | 363.6 | 426.0 | 441.4 |
| Motor Fuel | 654.0 | 654.6 | 660.8 | 661.9 | 651.6 | 747.0 |
| Public Utilities | (1.7) | (0.3) | (8.8) | (35.9) | (11.5) | (11.5) |
| Room Occupancy | 109.5 | 101.6 | 110.4 | 121.6 | 129.2 | 131.5 |
| Sales: | | | | | | |
| Regular | 2,799.7 | 3,282.8 | 3,476.3 | 3,544.4 | 3,595.9 | 3,855.5 |
| Meals | 629.6 | 759.6 | 813.3 | 868.8 | 901.2 | 942.4 |
| Motor Vehicles | <u>439.3</u> | <u>569.3</u> | <u>615.2</u> | <u>646.1</u> | <u>666.9</u> | <u>696.5</u> |
| Sub-Total–Sales | 3,868.6 | 4,611.7 | 4,904.8 | 5,059.3 | 5,163.9 | 5,494.4 |
| Miscellaneous | <u>3.3</u> | <u>14.1</u> | <u>16.6</u> | <u>15.9</u> | <u>14.4</u> | <u>14.4</u> |
| Total Tax Revenues | <u>\$18,259.5</u> | <u>\$18,543.7</u> | <u>\$20,516.6</u> | <u>\$21,114.7</u> | <u>\$22,123.2</u> | <u>\$22,797.3</u> |
| MBTA Transfer | (767.1) | (767.1) | (767.1) | (779.1) | (786.9) | (799.3) |
| MSBA Transfer | <u>(702.3)</u> | <u>(605.2)</u> | <u>(654.6)</u> | <u>(670.5)</u> | <u>(682.0)</u> | <u>(728.3)</u> |
| WTF Transfer(3) | - | - | - | <u>(21.4)</u> | <u>(22.2)</u> | <u>(21.6)</u> |
| Total Budgeted Operating Tax Revenues | <u>\$16,790.0</u> | <u>\$17,171.4</u> | <u>\$19,094.9</u> | <u>\$19,643.7</u> | <u>\$20,632.1</u> | <u>\$21,248.1</u> |
| Federal Reimbursements | 8,250.9 | 8,548.8 | 9,299.5 | 7,971.7 | 8,077.3 | 8,555.4 |
| Departmental and Other Revenues | 2,326.2 | 2,800.9 | 2,912.3 | 2,921.4 | 3,292.9 | 3,673.4 |
| Inter-fund Transfers from Non-budgeted Funds and other sources (4) | <u>1,850.3</u> | <u>1,788.8</u> | <u>1,768.6</u> | <u>2,009.7</u> | <u>1,753.4</u> | <u>1,992.0</u> |
| Budgeted Revenues and Other Sources | <u>\$29,217.4</u> | <u>\$30,310.0</u> | <u>\$33,075.3</u> | <u>\$32,546.5</u> | <u>\$33,755.8</u> | <u>\$35,468.9</u> |
| Inter-fund Transfers | <u>1,963.8</u> | <u>770.8</u> | <u>3,460.9</u> | <u>1,032.3</u> | <u>1,640.9</u> | <u>899.9</u> |
| Total Budgeted Revenues and Other Sources | <u>\$31,181.2</u> | <u>\$31,080.8</u> | <u>\$36,536.3</u> | <u>\$33,578.8</u> | <u>\$35,396.7</u> | <u>\$36,368.8</u> |
| <u>Expenditures and Uses</u> | | | | | | |
| Direct Local Aid | 4,723.6 | 4,837.4 | 4,784.7 | 4,929.5 | 5,114.1 | 5,292.2 |
| Medicaid (5) | 8,679.2 | 9,287.6 | 10,237.3 | 10,431.1 | 10,821.4 | 12,097.4 |
| Other Health and Human Services | 4,828.3 | 4,616.6 | 4,614.8 | 4,710.5 | 4,868.8 | 5,050.8 |
| Group Insurance | 973.1 | 1,063.8 | 1,130.3 | 1,206.2 | 1,285.8 | 1,349.6 |
| Department of Elementary and Secondary Education | 495.9 | 358.1 | 349.4 | 435.9 | 566.0 | 590.4 |
| Higher Education | 1,035.5 | 845.6 | 943.0 | 937.1 | 975.2 | 1,081.1 |
| Department of Early Education and Care | 560.3 | 513.5 | 515.1 | 494.3 | 488.7 | 500.3 |
| Public Safety | 1,514.3 | 1,423.2 | 905.0 | 929.7 | 1,505.3 | 1,518.2 |
| Energy and Environmental Affairs | 215.9 | 202.2 | 185.6 | 186.8 | 204.4 | 218.5 |
| Debt Service | 2,011.7 | 1,979.9 | 1,663.9 | 1,923.2 | 2,366.4 | 2,428.2 |
| Post Employment Benefits (6) | 1,314.4 | 1,748.6 | 1,838.9 | 1,892.3 | 1,967.0 | 2,050.4 |
| Other Program Expenditures | <u>2,350.9</u> | <u>2,509.0</u> | <u>2,850.4</u> | <u>2,898.7</u> | <u>2,230.3</u> | <u>2,195.3</u> |
| Total - Programs and Services before transfers to Non-budgeted funds | <u>\$28,703.1</u> | <u>\$29,384.5</u> | <u>\$30,018.6</u> | <u>\$30,975.3</u> | <u>\$32,394.0</u> | <u>\$34,372.4</u> |

| | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Preliminary Fiscal 2013</u> | <u>Projected Fiscal 2014 (2)</u> |
|---|---------------------------|--------------------------|--------------------------|--------------------------|------------------------------------|--------------------------------------|
| Inter-fund Transfers to Non-budgeted Funds | | | | | | |
| Commonwealth Care Trust Fund | 987.6 | 631.7 | 739.0 | 614.9 | 661.2 | 340.1 |
| State Retiree Benefit Trust Fund (7) | 352.0 | - | - | - | - | - |
| Medical Assistance Trust Fund | 374.0 | 313.3 | 886.1 | 220.9 | 390.9 | 394.0 |
| Massachusetts Transportation Trust Fund | - | - | 195.1 | 180.1 | 188.9 | 315.1 |
| Other | <u>189.9</u> | <u>94.1</u> | <u>238.8</u> | <u>466.4</u> | <u>391.1</u> | <u>369.8</u> |
| Total Inter-Fund Transfers to Non-Budgeted Funds | <u>\$1,903.5</u> | <u>\$1,039.1</u> | <u>\$2,059.0</u> | <u>\$1,482.3</u> | <u>\$1,632.1</u> | <u>\$1,419.0</u> |
| Budgeted Expenditures and Other Uses | <u>\$30,606.6</u> | <u>\$30,423.6</u> | <u>\$32,077.6</u> | <u>\$32,457.6</u> | <u>\$34,026.1</u> | <u>\$35,791.4</u> |
| Inter-fund Transfers | <u>1,963.8</u> | <u>770.8</u> | <u>3,460.9</u> | <u>1,032.3</u> | <u>1,640.9</u> | <u>899.9</u> |
| Total Budgeted Expenditures and Other Uses | <u>\$32,570.4</u> | <u>\$31,194.4</u> | <u>\$35,538.5</u> | <u>\$33,489.9</u> | <u>\$35,667.0</u> | <u>\$36,691.3</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>(\$1,389.2)</u> | <u>(\$113.6)</u> | <u>\$997.8</u> | <u>\$88.9</u> | <u>(\$270.3)</u> | <u>(\$322.5)</u> |
| Ending Fund Balances | | | | | | |
| Reserved or Designated (8) | 68.9 | 122.0 | 400.1 | 170.5 | 97.2 | 7.6 |
| Stabilization Fund | 841.3 | 669.8 | 1,379.1 | 1,652.1 | 1,602.9 | 1,371.9 |
| Undesignated | <u>106.4</u> | <u>111.3</u> | <u>121.7</u> | <u>167.1</u> | 19.3 | 17.4 |
| Total | <u>\$1,016.6</u> | <u>\$903.1</u> | <u>\$1,900.8</u> | <u>\$1,989.7</u> | <u>\$1,719.4</u> | <u>\$1,396.9</u> |

SOURCES: Fiscal 2009-2012, Office of the Comptroller; fiscal 2013 and 2014, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Based on the budgetary tax revenue estimate of \$22.797 billion (\$22.334 billion consensus estimate, adjusted for (a) budgeted revenue enhancements, the Amazon agreement and FAS109 delay based on the fiscal 2014 budget approved by the Governor on July 12, 2013, (b) approximately \$370 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013 and (c) estimated revenue loss impact of \$24.3 million for the subsequently enacted (on August 2, 2013) two-day sales tax holiday held on August 10-11, 2013.
- (3) The fiscal 2012 budget adopted changes to the Workforce Training Fund, which is funded annually through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF is not subject to annual appropriation, and the employer contributions 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 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 58.0% of the preliminary total tax revenues in fiscal 2013, the sales and use tax, which accounted for approximately 23.3%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which accounted for approximately 10.2%. Other tax and excise sources accounted for the remaining 8.5% of total fiscal 2013 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 was between \$111 million and \$117 million.

For the state income tax rate to be reduced further from 5.25% to 5.20%, effective January 1, 2013, the growth in fiscal 2012 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2011 needed to exceed the 2.5% growth threshold, and for each consecutive three-month period starting in August and ending in November, 2012 there would have had to have been positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in 2011. The Department of Revenue initially determined that fiscal 2012 inflation-adjusted baseline revenues grew by 2.77% from fiscal 2011, exceeding the initial trigger of 2.5% for the income tax rate reduction. The first two three-month period certifications during the first half of fiscal 2013 also indicated positive inflation-adjusted baseline revenue growth. However, the growth for the third three-month period ended October 31, 2012 was negative (-1.29%) and did not exceed the statutory threshold requirement of 0%. Accordingly, the Department of Revenue determined that the thresholds to lowering the Part B income tax rate as set forth had not been met and that the Part B income tax rate would be kept unchanged at 5.25% for the tax year 2013.

The same process will be repeated during 2013 to determine whether the state income tax rate will be reduced further from 5.25% to 5.20%, effective January 1, 2014. In order for state income tax rate to be reduced further from 5.25% to 5.20% (effective January 1, 2014), the growth in fiscal 2013 inflation adjusted baseline revenues (as defined in state law) over fiscal 2012 would have to exceed 2.5%, and also for each consecutive three-month period starting in August and ending in November, 2013 there will have to be positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2012. On September 4, 2013, the Commissioner of Revenue certified that fiscal 2013 inflation-adjusted baseline revenues grew by 3.99% from fiscal 2012, which exceeds the initial trigger (2.5%) for the income tax rate reduction. To determine if there will be a positive inflation-adjusted baseline revenue growth for each consecutive three-month period starting in August and ending in November, 2013 as compared to the same consecutive three-month period in calendar 2012, the Commissioner will issue four more “three-month period” certifications on September 16, 2013, October 15, 2013, November 15, 2013 and December 16, 2013. Accordingly, it will not be known if the rate reduction will be triggered until the Commissioner issues a final certification on December 16, 2013 as to whether or not all of the statutory triggers were met. The Department of Revenue estimates that the revenue impact of this rate reduction (5.25% to 5.20%) for fiscal 2014 would be between \$60 million and \$70 million (with a mid-point of \$65 million). The revenue impact for fiscal 2015 (assuming no further rate reduction in calendar year 2015) would be between \$125 million and \$140 million (mid-point of \$132.5 million).

Under state finance law, tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold are required to be transferred to the Commonwealth’s Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund and an additional 5% transferred to the Commonwealth’s Pension Liability Fund. A threshold of \$1 billion was in effect for fiscal 2011, 2012 and 2013. For fiscal years after fiscal 2013, the threshold is subject to annual adjustment to reflect the average annual rate of growth in U. S. gross domestic product over the preceding five years. The adjusted threshold is certified annually by the Department of Revenue each December for the ensuing fiscal year. On December 28, 2012, the Department of Revenue determined the fiscal 2014 capital gains collections threshold to be approximately \$1.023 billion. The Department of Revenue is also required, after each quarter, to certify the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income, and, once the threshold has been exceeded, the Comptroller is required to transfer the excess to the Commonwealth Stabilization Fund. For fiscal 2012, the final certified amount of tax revenues collected from capital gains income was \$994.3 million, which was less than the statutory threshold. On June 25, 2013, the Commissioner of Revenue certified that for the period July 1, 2012

through May 30, 2013, fiscal 2013 capital gains tax revenues totaled approximately \$1,305.2 million. Based on this certification, the Comptroller transferred \$305.2 million to the Commonwealth Stabilization Fund and then made two transfers from the Stabilization Fund to the Commonwealth's Pension Liability Fund and the State Retiree Benefit Trust Fund of approximately \$15.3 million each. On July 18, 2013, the Commissioner of Revenue certified the final amounts of capital gains tax revenues for fiscal 2013 to be \$1.467 billion, an increase of approximately \$162.3 million from the prior certification. This final certification will trigger an additional transfer of approximately \$146.1 million to the Commonwealth Stabilization Fund and transfers of \$8.1 million each to the Commonwealth Pension Liability Fund and the State Retiree Benefits Trust Fund.

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 \$963 million in fiscal 2012, and that it will result in additional revenues of \$935 million to \$1.035 billion 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.

Beginning in fiscal 2014, the Commonwealth's receipts from the sales and use tax on motor vehicles (net of amounts dedicated to the MBTA and MSBA) are required to be credited to the Commonwealth Transportation Fund.

Beginning in August, 2013, the sales and use tax base was expanded to include computer system design services. On September 4, 2013, the Attorney General certified four initiative petitions that would repeal this tax in December, 2014. On September 4, 2013, the Attorney General also certified an initiative petition that would reduce the sales and use tax rate from 6.25% to 5%, effective January 1, 2015. See "THE GOVERNMENT – Initiative Petitions."

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 2013 AND FISCAL 2014 – 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 and fiscal 2014 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.

On September 4, 2013, the Attorney General certified an initiative petition that would provide corporate taxpayers with a tax credit for each newly hired employee, for the first five years of the employee’s employment. The amount of the tax credit would be equal to the employee’s wages, multiplied by the greater of the tax rate applicable to the taxpayer or 5%. The credit would be allowed only if the taxpayer has not previously employed the employee at any time, the employee is eligible for legal employment in Massachusetts, and the employee earns less than \$100,000 annually. The proposed law would take effect on January 1, 2015.

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 state tax on hotel/motel room occupancy is 5.7%. Effective August 1, 2013, the excise tax on motor fuels was increased from 21¢ per gallon to 24¢ per gallon. The same legislation that increased the rate also provided that the excise tax is to be adjusted for increases in the consumer price index beginning January 1, 2015. On September 4, 2013, the Attorney General certified an initiative petition that would repeal the indexing provision. See “THE GOVERNMENT – Initiative Petitions.”

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

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 \$326.5 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue (figures are preliminary). The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately \$11.9 million, fiscal 2008 tax revenues by approximately \$10.5 million, fiscal 2009 tax revenues by approximately \$110.0 million, fiscal 2010 tax revenues by approximately \$90.8 million, fiscal 2011 tax revenues by approximately \$45.4 million, fiscal 2012 tax revenues by approximately \$55.6 million and fiscal 2013 revenues by between \$70 million and \$90 million, and will reduce fiscal 2014 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.

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, nor do the Governor’s fiscal 2014 budget recommendations.

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.

An additional component of the consensus revenue process is the new requirement, beginning in January, 2013, that the consensus tax revenue forecast joint resolution must include a benchmark for the estimated growth rate of Massachusetts potential gross state product, or PGSP. The recently passed health care cost control legislation requires that the Secretary and the House and Senate Committees on Ways and Means include a PGSP growth benchmark for the ensuing calendar year, initially, for calendar year 2014. The PGSP growth benchmark is to be used by the health policy commission to establish the Commonwealth’s health care cost growth benchmark. See “Medicaid and the Commonwealth Care Trust Fund; *Health Care Cost Control Legislation*” below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2009 to 2014. Figures for fiscal 2014 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.

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Tax Revenue Forecasting (in millions)

| | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Preliminary Fiscal 2013</u> | <u>Projected Fiscal 2014</u> |
|---|--------------------|--------------------|--------------------|--------------------|------------------------------------|----------------------------------|
| Consensus forecast | \$20,987 | \$17,989 | \$19,050 | \$20,525 | \$21,950 | \$22,334 |
| Total taxes per enacted budget | <u>\$21,402</u> | <u>\$18,879</u> | <u>\$19,078</u> | <u>\$20,615</u> | <u>\$22,011</u> | <u>\$22,797</u> |
| October revision | 20,302 | 18,279 | - | 21,010 | 21,496(1) | - |
| January revision | 19,450 | 18,460 | 19,784 | - | - | - |
| April revision | 19,333 | - | - | - | - | - |
| May revision | 18,436 | - | - | - | - | - |
| Actual budgeted operating tax revenues | <u>\$18,260</u> | <u>\$18,544</u> | <u>\$20,517</u> | <u>\$21,115</u> | N/A | N/A |
| Actual revenues as a percentage of consensus forecast | 87% | 103% | 108% | 103% | N/A | N/A |
| Actual revenues as a percentage of total taxes per enacted budget | 85% | 98% | 108% | 102% | N/A | N/A |

SOURCE: Executive Office for Administration and Finance; actual budgeted operating tax revenues, Office of the Comptroller
(1) Revised on December 4, 2012.

On December 11, 2012, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees conducted a hearing on state tax revenue estimates for fiscal 2014. The Commissioner of Revenue provided a forecast that fiscal 2014 tax revenue collections will be \$22.150 billion to \$22.467 billion, reflecting actual growth of 3.2% to 4.5% from the projected fiscal 2013 revenues, and baseline growth of 3.5% to 4.9% from fiscal 2013, which represents growth of \$688 million to \$977 million over projected fiscal 2013 revenues.

The Secretary of Administration and Finance and the Committees on Ways and Means also heard public testimony from economists and state budget experts from Northeastern University, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute, who provided a range of forecasts for fiscal 2013 tax revenue collections, from \$21.113 billion to \$21.585 billion.

On January 14, 2013, a fiscal 2014 consensus tax revenue estimate of \$22.334 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 2014 consensus tax revenue estimate represents revenue growth of 3.9% actual from the revised fiscal 2013 estimate of \$21.496 billion. The \$22.334 billion figure includes off-budget transfers of \$1.630 billion for pension funding, \$799.3 million in dedicated sales tax receipts for the MBTA (as certified by the Comptroller on March 1, 2013), \$703.6 million in dedicated sales tax receipts for the MSBA and \$21.6 million for the Workforce Training Fund. The total amount of off-budget transfers is \$3.155 billion. Accordingly, after taking into account the \$37 million of capital gains tax revenue that exceeds the fiscal 2014 threshold and that must be deposited into the Stabilization Fund, the Secretary and Committees agreed that \$19.142 billion would be the maximum amount of tax revenue available for the fiscal 2014 budget and that they would base their respective budget recommendations on that number.

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means also agreed upon a potential gross state product (PGSP) estimate of 3.6% for calendar year 2014. The estimate of PGSP was developed through consultation with the Health Policy Commission, the Executive Office for Administration and Finance, the Department of Revenue, the House and Senate Ways and Means Committees and outside economists. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth's health care cost growth benchmark.

Fiscal 2013 and Fiscal 2014 Tax Revenues

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 (the final estimate was determined to be \$23.4 million, which was certified by the Commissioner of Revenue on December 31, 2012). On October 15, 2012, the Secretary of Administration and Finance kept the fiscal 2012 tax revenue estimate of \$22.011 billion unchanged based on available data on tax revenue collections and economic trends. On December 4, 2012, the Secretary reduced the tax revenue estimate for fiscal 2013 by \$515 million, to \$21.496 billion.

Preliminary tax revenues for fiscal 2013, ended June 30, 2013, totaled approximately \$22.123 billion, an increase of approximately \$1.009 billion, or 4.8%, compared to fiscal 2012. The following table shows the tax collections for fiscal 2013 and the change from tax collections in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

Fiscal 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(3)</u> | <u>MSBA Portion</u> | <u>Tax Collections: Net of MBTA and MSBA</u> |
|------------------|------------------------|-------------------------------|--------------------------|------------------------|---------------------|--|
| July | \$1,453.4 | \$8.8 | 0.6% | \$60.5 | \$60.5 | \$1,332.4 |
| August | 1,422.6 | (2.7) | (0.2) | 56.2 | 56.2 | 1,310.1 |
| September | 2,204.8 | 9.0 | 0.4 | 80.0 | 53.3 | 2,071.6 |
| October | 1,401.4 | (47.4) | (3.3) | 57.7 | 57.7 | 1,286.1 |
| November | 1,420.8 | 57.5 | 4.2 | 54.0 | 54.0 | 1,312.7 |
| December | 2,147.8 | 180.5 | 9.2 | 85.0 | 55.1 | 2,007.7 |
| January | 2,287.0 | 248.4 | 12.2 | 67.6 | 67.6 | 2,151.9 |
| February | 1,057.0 | 45.9 | 4.5 | 51.3 | 51.3 | 954.3 |
| March | 1,884.1 | 82.0 | 4.5 | 77.8 | 49.3 | 1,756.9 |
| April | 2,865.6 | 358.1 | 14.3 | 59.4 | 59.4 | 2,746.9 |
| May | 1,514.5 | (102.3) | (6.3) | 58.0 | 58.0 | 1,398.6 |
| June (1) | 2,464.3 | 170.8 | 7.4 | 79.4 | 59.8 | 2,325.1 |
| Total (2) | \$22,123.2 | \$1,008.5 | 4.8% | \$786.9 | \$682.0 | \$20,654.3 |

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

(3) The figure for September includes a quarterly adjustment of \$26.7 million, the figure for December includes a quarterly adjustment of \$30.0 million, the figure for March includes a quarterly adjustment of \$28.5 million, and the figure for June includes a quarterly adjustment of \$19.6 million to cover the shortfall between the dedicated sales tax revenue and the base revenue amount statutorily required to be credited to the MBTA during the first, the second, the third, and the fourth quarters of fiscal 2013, respectively.

The tax revenue increase from fiscal 2012 to fiscal 2013 of approximately \$1.009 billion is attributable, in large part, to an increase of approximately \$403.1 million, or 23.6%, in income tax payments with returns and extensions, an increase of approximately \$273.2 million, or 14.9%, in income cash estimated payments, an increase of approximately \$248.3 million, or 2.5%, in withholding collections, and an increase of approximately \$104.5 million, or 2.1%, in sales and use tax collections, which were partly offset by a decline of approximately \$58.3 million, or 2.5%, in corporate and business collections. Fiscal 2013 tax collections were approximately \$627.2 million above the revised benchmark for the fiscal 2013 tax revenue estimate of \$21.496 billion.

Fiscal 2014. On January 12, 2013, as noted above, a fiscal 2014 consensus tax revenue estimate of \$22.334 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 2014 budget assumes tax revenues of \$22.797 billion, reflecting the fiscal 2014 consensus tax estimate of \$22.334 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 \$35 million), and Amazon agreement (additional \$36.7 million), as well as approximately \$370.0 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013. The tax estimate also reflects the estimated cost of the subsequently enacted two-day sales tax holiday held on August 10-11, 2013 (\$24.3 million). The enacting legislation for the sales tax holiday requires that proceeds of one-time settlements and judgments that otherwise would be transferred to the Commonwealth Stabilization Fund, be used to reimburse the General Fund for foregone tax revenue as a result of the holiday. Approximately \$1.060 billion of the \$22.797 billion tax estimate is assumed to be generated from taxes on capital gains. Approximately \$37 million of that amount will be deposited into the Stabilization Fund and will not be available for

budgetary purposes pursuant to the certification released by the Department of Revenue on December 28, 2012, that established a fiscal 2014 capital gains threshold of \$1.023 billion.

Preliminary tax revenues for the first two months of fiscal 2014, ended August 31, 2013, totaled approximately \$3.128 billion, an increase of approximately \$252.2 million, or 8.8%, over the same period in fiscal 2013. The following table shows the tax collections for the first two months of fiscal 2014 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.

| <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 | \$1,584.9 | \$131.4 | 9.0% | \$64.2 | \$64.2 | \$1,456.4 |
| August (2) | 1,543.3 | 120.8 | 8.5 | 60.3 | 60.3 | 1,422.8 |
| Total (2) | \$3,128.2 | \$252.2 | 8.8% | \$124.5 | \$124.5 | \$2,879.2 |

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 increase of approximately \$252.2 million through August 31, 2013 from the same period in fiscal 2013 is attributable, in large part, to an increase of approximately \$99.4 million, or 6.7%, in withholding collections, an increase of approximately \$74.8 million, or 142.2%, in income payments with returns and bills, an increase of approximately \$54.3 million, or 6.1%, in sales and use tax collections, and an increase of approximately \$36.8 million, or 106.9%, in estate tax collections, which were partly offset by a decrease of approximately \$11.9 million, 21.0%, in income tax estimated payments and a decrease of approximately \$7.8 million, or 7.0%, in corporate and business collections. Year-to-date fiscal 2014 tax collections (through August) were approximately \$138.9 million above the benchmarks associated with the fiscal 2014 tax revenue estimate of \$22.797 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 2012 were approximately \$8.0 billion and are projected to be \$8.077 billion for fiscal 2013.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2012, departmental and other non-tax revenues were \$2.921 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2012 included \$474.1 million for Registry of Motor Vehicles fees, fines and assessments, \$217.6 million from filing, registration and other fees paid to the Secretary of State's office, \$114.1 million in fees, fines and assessments charged by the court systems and \$79.7 million in tuition remitted to schools of higher education. Fiscal 2013 departmental and other non-tax revenues are projected to be \$3.293 billion.

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 \$1.128 billion, \$1.003 billion, \$989.7 million, \$976.5 million and \$1.075 billion in fiscal 2008 through 2012, 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 2012 were \$1.075 billion. The result was a surplus of \$63.7 million against the actual \$1.011 billion budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and \$834 million in appropriations for local aid to cities and towns.

As enacted, the fiscal 2013 budget assumed total transfers from the Lottery of \$1.027 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and \$840.2 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.

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) | | | |
| Fiscal Year | Revenues | Net Operating Revenues | Net Profits |
| 2014 (1) | 4,713,428 | 1,035,870 | 937,260 |
| 2013 (1) | 4,850,477 | 1,050,123 | 952,838 |
| 2012 | 4,741,417 | 1,074,927 | 983,786 |
| 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 2013 figures are preliminary and 2014 figures are projected.

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

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%, which equals more than \$8.962 billion through fiscal 2024, subject to adjustments, reductions and offsets. However, 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 employees' 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 transferred 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 were to be transferred to the State Retiree Benefits Trust Fund. Pursuant to this requirement, in May, 2013 the Comptroller transferred \$25.3 million (10% of the \$253.5 million in fiscal 2013 tobacco settlement proceeds) to the State Retiree Benefits Trust Fund, with the balance deposited in the General Fund. Pursuant to the fiscal 2012 legislation, 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. While the fiscal 2012 legislation required that 20% of fiscal 2014 tobacco settlement proceeds be transferred to the State Retiree Benefits Trust Fund, the fiscal 2014 budget, as approved by the Governor on July 12, 2013, includes provisions that change the funding source for this transfer, for fiscal 2014 only. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the State Retiree Benefits Trust Fund, up to 20% of the value of fiscal 2014 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 20% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 20% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the State Retiree Benefits Trust Fund. It is projected that approximately \$50 million (equal to 20% of tobacco settlement proceeds) will be transferred to the State Retiree Benefits Trust Fund in fiscal 2014 as a result of these provisions. 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 |
| 2013 | - | 253.5 | 253.5 |
| Total | <u>\$434.00</u> | <u>\$3,355.0</u> | <u>\$3,789.1</u> |

SOURCE: Office of the Comptroller.

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

(2) Payments received for both 1999 and 2000.

Settlements and Judgments. The fiscal 2012 budget amended state finance law to provide that any one-time settlement or judgment amounting to \$10 million or more is to be deposited in the Stabilization Fund rather than used as miscellaneous revenue for the current fiscal year. Upon receiving a joint certification from the Commissioner of Revenue and the Attorney General that a state agency is in receipt of a one-time settlement or judgment for the Commonwealth in excess of \$10 million in any one fiscal year, the Comptroller is to transfer the proceeds of the settlement or judgment from the General Fund to the Stabilization Fund. Such transfers are made on a bi-monthly basis. In fiscal 2012, the Comptroller transferred \$375.0 million received on account of settlements and judgments. Such settlement and judgment payments totaled \$133.8 million during fiscal 2013. Approximately \$55 million of that amount has been dedicated for the Smart Growth Housing Trust Fund (\$4 million), to reimburse the General Fund for the costs related to the investigation and response to the breach at the Hinton Drug Testing Laboratory (\$30 million) and to replace revenue foregone during the August, 2012 sales tax holiday (\$21 million). There have been \$69.6 million tax- or non-tax related settlement or judgment payments during the first two months of fiscal 2014.

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 (a “Category 1” license) and \$25 million for the slot facility (a “Category 2” license).

Under the current published calendar of the Massachusetts Gaming Commission two Category 1 licenses and one Category 2 license are estimated to be awarded by June 30, 2014, generating \$195 million in gaming licensing revenue that would be available to support state programs and services in fiscal 2014. However, the first \$20 million of any gaming licensing revenue must be used to repay the Stabilization Fund for the “start-up costs” for the Commission. This leaves \$175 million in licensing revenues to be distributed via the prescribed allocation under the gaming legislation. Approximately \$83 million of that amount would be available for state budgetary purposes and is assumed in the fiscal 2014 budget. The remaining amount would be dedicated to off-budget trust funds and would not be subject to appropriation.

Limitations on Tax Revenues

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

The following table sets forth the Commonwealth’s net state tax revenues and allowable state tax revenues, as defined in Chapter 62F, for fiscal 2008 through fiscal 2012. Tax revenues are also expected to be lower than the limit in fiscal 2013. The State Auditor’s Office is expected to release its report for fiscal 2013 on or about September 17, 2013.

| | <u>Net State Tax Revenues</u> | <u>Allowable State Tax Revenues</u> | <u>Net State Tax Revenues (under) Allowable State Tax Revenues</u> |
|------|-------------------------------|-------------------------------------|--|
| 2012 | \$21,384,338,827.60 | \$25,236,379,380.49 | \$(3,852,040,552.89) |
| 2011 | 20,776,233,462.11 | 25,063,267,392.61 | (4,287,033,930.50) |
| 2010 | 18,792,776,938.03 | 24,948,702,948.67 | (6,155,926,010.64) |
| 2009 | 18,513,036,393.40 | 24,591,415,515.00 | (6,078,379,121.60) |
| 2008 | 21,009,085,497.69 | 23,410,733,895.91 | (2,401,648,398.22) |

SOURCES: State Auditor’s Office.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See “Property Tax Limits” below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called “cherry sheet” prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. The Commonwealth’s budget for fiscal 2014 provides \$5.22 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 2014 budget includes state funding for Chapter 70 education aid of \$4.30 billion. This level of funding for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, ensures that all local educational authorities receive an increase of funding of at least \$25 per pupil, and is an increase of \$130 million over the fiscal 2013 state-supported amount of \$4.17 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 2014 budget provided for cities and towns to receive \$920 million in unrestricted general government aid, with funding allocated to ensure a 2% increase in funding over the fiscal year 2013 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 2013, the aggregate property tax levy grew from \$3.347 billion to \$13.4 billion, a compound annual growth rate of 4.25%.

Medicaid and the Health Connector

MassHealth. The Commonwealth’s Medicaid program, called MassHealth, provides health care to 1.4 million 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).

The fiscal 2014 budget includes \$12.097 billion for the MassHealth program; this is approximately 11.9%, or \$1.28 billion, higher than fiscal 2013 spending of \$10.814 billion. Additionally, approximately \$16 million in spending is expected to shift from fiscal 2013 to fiscal 2014 when the legislature acts on the fiscal 2013 supplemental budget filed by the Governor in August, 2013. MassHealth was able to make certain June, 2013 payments that were previously scheduled to occur in fiscal 2014 as part of an annual cash management strategy.

Making the payments in June instead of July alleviated some of the anticipated budget pressures at MassHealth in fiscal 2014. The fiscal 2014 budget assumes base caseload growth of 2.8% over fiscal 2013.

The growth in MassHealth's fiscal 2014 budget is largely driven by the expansion of the eligible population due to the federal Affordable Care Act (ACA) beginning January 1, 2014. Under the ACA, all Massachusetts residents below 133% of the federal poverty level (FPL) will become eligible MassHealth if they are citizens or qualified aliens, and most will be enrolled in a new program called MassHealth CarePlus. The projected incremental cost of the ACA expansion population in the second half of fiscal 2014 is estimated to be \$458 million, with projected revenues of \$485 million. Projected revenues are higher than projected spending because some current members, as well as newly eligible members, are expected to be 75% to 100% federally reimbursable under ACA. The budget also supports several policies that aim to streamline current programs to promote alignment, access and administrative simplification in a post-ACA coverage environment at minimal cost to the Commonwealth. The Commonwealth's estimates suggest that 325,000 residents will become eligible for the new MassHealth program, including 137,000 MassHealth members currently covered under other programs such as the Basic, Essential, and Insurance Partnership programs. The majority of the remaining 189,000 new members will transition from other state-subsidized health insurance programs including Commonwealth Care (106,000 members), the Health Safety Net (HSN) (36,000 members), and the Medical Security Program (MSP) (2,000 members), while the other 45,000 are new to state-subsidized health insurance. In addition to ACA implementation, the growth in the MassHealth budget is driven by enrollment increases for currently eligible individuals and a variety of investments in base hospital rates, payments to specialty hospitals, rates for managed care organizations (MCOs), partial restoration of dental benefits for adults, and operational capacity.

The fiscal 2014 budget supports hospital investments of \$105.2 million (\$52.6 million net) at MassHealth, comprised of \$85.2 million (\$42.6 million net) in budgetary resources and a transfer of \$20 million from the Health Care Payment Reform Trust Fund, which is funded through gaming revenues. These investments include \$51.4 million (\$25.7 million net) for base hospital rate increases and increases tied to participation in alternative payment methodologies (APMs), \$26 million (\$13 million net) to increase inpatient and outpatient payment rates for Disproportionate Share Hospitals, and \$27.8 million (\$13.9 million net) to increase infrastructure capacity building grants for hospitals and community health centers and payments to specialty hospitals. The fiscal 2014 budget also includes \$11.2 million (\$5.6 million net) to provide coverage for fillings on all teeth for adults at MassHealth whose benefits were restructured in 2010, beginning in early 2014. Additionally, a transfer of \$12.3 million from the Health Care Payment Reform Trust Fund will support increased rates for behavioral health services.

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 \$382 million in federal grant funds under the Affordable Care Act. Projects include transforming the Health Connector into an ACA-compliant, state-based health insurance exchange, developing and implementing a state-based risk adjustment program to achieve premium stabilization for the Massachusetts small and non-group market, executing a comprehensive outreach and education plan to inform stakeholders of the changes brought on by the ACA, planning for coverage for populations eligible for subsidized coverage through the exchange, working to improve the quality of care in Medicaid, developing 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 continuing 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. Also, Massachusetts was awarded \$44 million in federal funding to support the multi-payer transition away from fee-for-service payments towards alternative payment methodologies to promote better healthcare and better value for Massachusetts residents.

In order to implement the ACA, the Commonwealth identified sections of state law that needed to be amended. These amendments included designation of the Health Connector as the state's certified Exchange; designation of the Health Connector to administer the state's risk adjustment program; designation of the Division of Insurance as the agency to administer the state's reinsurance program; authorization for the Health Connector to offer child-only plans, catastrophic plans and stand-alone dental and vision plans; authorization for the Health Connector to wrap federal premium and cost-sharing subsidies to keep coverage affordable for low-income

individuals; a transition plan for the state's open enrollment program for the non-group market; realignment of state subsidized health insurance programs; and revisions to the state's small and non-group health insurance market laws. Supplementing prior ACA implementation legislation enacted in 2012 and 2013, on July 5, 2013, the Governor signed legislation that aligns the Commonwealth's small and non-group insurance laws with ACA rules, refines MassHealth and Health Connector eligibility statutes in light of the federal law and allows for data sharing to facilitate implementation of the new integrated eligibility system.

Medicaid Expenditures and Enrollment (in millions)

| | <u>Fiscal 2009</u> | <u>Fiscal 2010 (1)</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013</u> | <u>Fiscal 2014 (2)</u> |
|---|--------------------|------------------------|--------------------|--------------------|--------------------|--|
| Budgeted Medicaid program expenses | \$8,535.5 | \$9,287.6 | \$10,237.3 | \$10,431.1 | \$10,821.4 | \$12,097.4 |
| Budgeted Medicaid administrative expenses | \$143.7 | \$90.8 | \$86.5 | \$84.3 | \$89.6 | \$96.7 |
| Off-Budget Medicaid expenses | - | - | - | - | - | - |
| Total expenditures | \$8,679.2 | \$9,378.4 | \$10,323.8 | \$10,515.4 | \$10,911 | \$12,194 |
| Annual percentage growth in total expenditures | 5.2% | 8.1% | 10.1% | 1.9% | 3.8% | 11.8% |
| Enrollment (in member months) | 1,212,730 | 1,262,516 | 1,315,208 | 1,361,302 | 1,414,698 | 1,643,683 |
| Annual percentage growth in enrollment | 3.8% | 4.1% | 4.2% | 3.5% | 3.9% | 2.8% (16.2 % including ACA expansion) |

SOURCE: Fiscal 2009-2012, Office of the Comptroller; fiscal 2013 and 2014, Executive Office for Administration and Finance. Enrollment, Executive Office of Health and Human Services.

(1) 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.

(2) Fiscal 2014 figures include projected spending and enrollment growth (approximately 189,000) due to the implementation of the Affordable Care Act.

Commonwealth Health Insurance Connector Authority. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority (Health Connector) to, among other things, administer the 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 minimally subsidized employer-sponsored insurance or other public coverage. Commonwealth Care began enrolling individuals on October 1, 2006. In addition, the Health Connector administers the Commonwealth Choice program, a non-subsidized program providing health insurance coverage options to individuals ineligible for subsidies and to Massachusetts-based small employers. Most of the funding to support these programs is paid out of the Commonwealth Care Trust Fund (CCTF) which is supported by the General Fund and other dedicated revenue sources,

Fiscal 2013 spending is projected to have been \$823.2 million for both the federally reimbursable and non-reimbursable populations in Commonwealth Care, the Patient Centered Medical Home Initiative, risk sharing, a small business wellness subsidy, and administrative costs. Fiscal 2013 spending includes \$106.6 million to provide coverage for approximately 28,000 Commonwealth Care members who are not eligible for federal reimbursement. An additional \$694.4 million covered enrollment of approximately 180,000 Commonwealth Care members who are eligible for federal reimbursement. Also included in fiscal 2013 spending is \$0.5 million to fund a program enacted in 2010 that permits the Health Connector to offer 15% premium rebates for certain small businesses that purchase coverage through Commonwealth Choice and set up wellness programs for their employees. In fiscal 2013 there was a transfer of \$30 million from the Commonwealth Care Trust Fund to support the Health Safety Net Trust Fund.

The first half of fiscal 2014 will operate with the current Commonwealth Care and Commonwealth Choice programs. In the second half of fiscal 2014 (January, 2014 and beyond), the Health Connector will administer the Commonwealth's Health Insurance Exchange ("Exchange"). As the Commonwealth's Exchange, the Health Connector will offer qualified health plans (QHPs) to individuals and small businesses. Individuals with incomes under 400% of the federal poverty level (FPL) will be eligible for federal tax credits, and certain small businesses shopping through the Exchange will have access to small business health care tax credits. Individuals with incomes between 133% and 300% FPL, as well as certain Aliens with Special Status (AWSS) with incomes between 0% and 300% FPL will have access to additional state and federal subsidies. The goal is to account for the difference in cost (premium and cost sharing) between that which is currently available to those enrolled in Commonwealth Care and the benefits available under the ACA after factoring in federal tax credits and cost sharing reductions alone. The state will provide additional state subsidies (State Wrap) to ensure that the premiums and point-of-service cost sharing for certain low-income members are equivalent to that which is available to them through the Commonwealth Care program today. An estimated 150,000 individuals with incomes between 0% and 300% of FPL are expected to enroll in health coverage through the Health Connector and participate in the State Wrap program.

Commonwealth Care, the State Wrap and support for the Health Safety Net Trust Fund remain funded through the Commonwealth Care Trust Fund (CCTF) in fiscal 2014. The fiscal 2014 budget provides \$340 million from the General Fund for both the current programs and the new State Wrap. The trust fund is supported by transfers from the General Fund and several dedicated revenue sources, including certain cigarette tax revenues and revenues generated as part of Massachusetts health care reform policies. The fiscal 2014 budget adds additional dedicated cigarette tax revenue and revenue assessed from employers that was formerly used for the Medical Security Plan.

The fiscal 2014 cost of the State Wrap is estimated at \$118.5 million. The federal Centers for Medicare and Medicaid Services (CMS) has indicated that a 50% federal match may be available in fiscal 2014 for premium assistance payments for Non-AWSS State Wrap plan members, resulting in an estimated \$21 million in revenue for the Commonwealth.

As a result of ACA implementation, Health Connector program spending is expected to decrease by an estimated \$249.9 million (\$114.9 million net) in fiscal 2014 compared to the prior fiscal year. This reduction incorporates the transfer of an estimated 106,000 former Commonwealth Care members to MassHealth, the addition of an estimated 29,000 new members from the Health Safety Net and the estimated cost of the State Wrap program for members 300% FPL and below.

Federal 1115 MassHealth Demonstration Waiver. The Commonwealth's 1115 waiver was renewed on December 20, 2011 and extends 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. The waiver contains provisions for a smooth transition to full implementation of the ACA, and MassHealth submitted a waiver amendment request to CMS on June 4, 2013 to codify required changes to waiver authorities under the ACA. The amendment request also included proposals for federal matching funds to support state health care programs such as the Health Connector's State Wrap and certain programs authorized by legislation enacted in 2012. The Commonwealth expects that an agreement with CMS on the waiver amendment will be reached in September or early October of 2013.

The waiver also includes spending authority to support alternative payment models and integrated care through various programs such as the multi-payer Patient Centered Medical Home Initiative, a bundled payment pilot program for children with asthma, and Delivery System Transformation Initiative (DSTI) incentive payments to eligible safety net hospitals. The total amount of DSTI 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 2012 supported the establishment and full funding for the DSTI trust fund for fiscal 2012 and 2013, and MassHealth began implementation of the program at the end of fiscal 2012. These funds will support safety net hospitals' investments to fundamentally change the delivery of care, with the ultimate goal of transitioning away from fee-for-service payments toward alternative payment methodologies that reward high-quality, efficient and integrated care systems. The fiscal 2014 budget supports \$94 million in DSTI payments to safety net hospitals

with an additional \$11 million funded by Cambridge Health Alliance through an Inter-Governmental Transfer (IGT) for a total of \$105 million in fiscal 2014. This figure represents only half of the payments for the fiscal year; due to timing requirements, the remaining payments are expected to be made and budgeted in fiscal 2015.

Health Safety Net. The Health Safety Net (HSN) makes payments to hospitals and community health centers for providing certain health care services to their low-income patients who are not eligible for health insurance or cannot afford it. In accordance with legislation enacted in 2012, authority to administer the HSN was transferred to the Executive Office of Health and Human Services, effective November 5, 2012. The HSN is funded primarily through assessments on hospitals and health insurance providers. The fiscal 2013 budget provided \$420 million in dedicated resources for the HSN, 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 Executive Office of Health and Human Services continues to monitor HSN service volume and costs and to update evolving trends relating to Trust Fund care demand. An HSN funding shortfall of \$143 million is anticipated for hospital fiscal 2013.

The fiscal 2014 budget maintains the same funding amounts for HSN. Due to expanded options for affordable health coverage through MassHealth and the Health Connector under the ACA, HSN demand is expected to decline by \$36 million (assuming 8% growth rates) to \$58 million (assuming 4% growth rates). The reduction in the shortfall from \$143 million in fiscal 2013 to at least \$107 million represents a 25% decline, with the possibility of a 41% decline to \$85 million, which would constitute a major step towards improving the fiscal outlook for Massachusetts hospitals.

Medical Security Program. The Massachusetts Department of Unemployment Assistance provides health insurance assistance through the Medical Security Program (MSP) for low income residents of the Commonwealth who are receiving unemployment insurance benefits. The MSP has projected spending of \$26.8 million for the first half of fiscal 2014. Beginning January 1, 2014, MSP members will become eligible for other health insurance programs such as those offered by MassHealth and the Health Connector. In addition, the funding that supported the MSP, known as the Unemployment Health Insurance (UHI) assessment will be reduced and repurposed to support subsidized coverage in MassHealth and the Connector.

The fiscal 2014 budget eliminates the Fair Share Contribution Program, which is the state's quarterly assessment for employers that do not offer a "fair and reasonable" contribution to health insurance for their employees. The Fair Share Contribution policy around "fair and reasonable" was set forth in regulation and was a source of revenue for the CCTF. The fiscal 2014 budget also eliminates the Medical Security Program (MSP) effective January 1, 2014, streamlining the state's subsidized coverage through MassHealth and the Health Connector. Lastly, in order to ensure employers are contributing their share to health care for residents, the budget creates a rebranded "employer responsibility contribution" for employers, starting in 2014, which helps finance the cost of subsidized health insurance for low-income residents at the Health Connector. This funding takes the place of an assessment on businesses for the MSP program known as the Unemployment Health Insurance Assessment or UHI. The employer medical assistance contribution is lower than the current UHI assessment, and it is designed to be more streamlined for both small and large businesses than the current Fair Share Contribution. The fiscal 2014 budget assumes that the new contribution to the Connector will be \$94 million in fiscal 2014.

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

The Health Policy Commission (HPC) is an integral component of the implementation of the new legislation. The HPC will set health care cost growth goals, enhance provider transparency, monitor the health care marketplace and establish standards for accountable care organizations, among other responsibilities. It is governed by an 11-person board appointed by the Governor, the Attorney General and the State Auditor. The HPC is funded through a one-time assessment on health care payers and providers as well as a one-time licensing fee for new resort casinos that are expected to be established in Massachusetts. The one-time assessment on health care payers and providers is equal to the \$209 million that is expected to be used over four years to support HPC operations, a distressed hospital fund, a public health fund and a health information technology fund. The amount dedicated to HPC operations is equal to 5% of the total assessment (approximately \$10.5 million over the four-year period, or approximately \$2.6 million each year). Calculations pertaining to the assessment were released on December 31, 2012, and collection of payments began in June, 2013. A portion of the one-time casino licensing money collected in fiscal 2014, expected to be \$40 million, is designated for the Health Care Payment Reform Trust Fund to be administered by the HPC. Of that total, \$20 million gross (\$10 million net) is designated for support of MassHealth's transition to alternative payments and \$12.3 million gross (\$6.2 million net) is designated for additional MassHealth payments for inpatient and outpatient behavioral and mental health services. The projected Health Care Payment Reform fund balance in fiscal 2014 is approximately \$23.3 million. The fund balance is expected to support operational and programmatic costs related to health care payment reform not only in fiscal 2014 but in future years as well.

The 2012 legislation establishes a cost growth target for the Commonwealth based on Potential Gross State Product (PGSP), which is estimated to be 3.6% for calendar year 2013. The growth rate of PGSP is the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. As part of the consensus revenue process for fiscal 2014, The Secretary of Administration and Finance and the chairs of the House and Senate Ways and Means Committees were required to establish PGSP for calendar year 2014. After consultation with economists, they determined a PGSP number of 3.6% for calendar 2014. 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 HPC and the Legislature have some ability to change those growth targets after 2018. Insurers and providers with cost growth exceeding the growth target may be required by the HPC to file performance improvement plans describing specific strategies, adjustments and action steps they propose to implement to improve cost performance. If 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.

In February, 2013, the Legislature approved \$2.95 million in funding in fiscal 2013 for the Executive Office of Health and Human Services (EOHHS) and the Department of Public Health (DPH) to begin immediate implementation of certain initiatives associated with the 2012 legislation. These initiatives include convening a health planning council to develop a state health plan, modifying existing Determination of Need statutes, administering the Prevention and Wellness Trust Fund and wellness tax credit program for small businesses, and operational funds for the Commonwealth's ongoing development and operation of the Health Information Exchange (HIE) that enables the sharing of health care information across organizations.

The fiscal 2014 budget supports the continued implementation of these fiscal 2013 initiatives, and also includes additional investments, including \$22 million for MassHealth rate increases for hospitals that demonstrate use of alternative payment methodologies (APM) and \$5.7 million for increased rates for critical access and pediatric specialty hospitals. These investments are offset by 50% FFP; a portion of the investment is supported through a \$20 million (\$10 million net) transfer from the HPC's Healthcare Payment Reform Trust Fund, the purpose of which is to foster innovation in health care payment and service delivery. In addition, the State Auditor's Office will receive \$431,000 to support additional staffing and IT capacity to evaluate implementation of the 2012 legislation and impacts on controlling health care costs.

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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 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Preliminary Fiscal 2013</u> | <u>Projected Fiscal 2014</u> |
|--|--------------------|--------------------|--------------------|--------------------|------------------------------------|----------------------------------|
| Office of Health Services | | | | | | |
| Department of Mental Health | \$623.5 | \$614.0 | \$598.2 | \$613.1 | \$673.9 | \$703.8 |
| Department of Public Health | 548.5 | 493.7 | 488.1 | 488.3 | 516.7 | 554.9 |
| Division of Healthcare and Finance Policy (1) | <u>14.0</u> | <u>13.4</u> | <u>14.8</u> | <u>14.1</u> | <u>31.9</u> | <u>30.6</u> |
| Sub Total | \$1,186.0 | \$1,121.2 | \$1,101.1 | \$1,115.5 | \$1,222.5 | \$1,289.3 |
| Office of Children, Youth, and Family Services | | | | | | |
| Department of Social Services | \$810.0 | \$772.1 | \$741.6 | \$741.6 | \$753.9 | \$778.7 |
| Department of Transitional Assistance | 859.5 | 724.5 | 736.7 | 733.6 | 773.2 | 776 |
| Department of Youth Services | 154.7 | 147.1 | 142.1 | 141.2 | 154.5 | 160.4 |
| Office for Refugees and Immigrants | <u>1.3</u> | <u>1.0</u> | <u>1.0</u> | <u>0.4</u> | <u>0.2</u> | <u>0.3</u> |
| Sub Total | \$1,823.5 | \$1,644.8 | \$1,621.4 | \$1,616.8 | \$1,681.8 | \$1,715.4 |
| Office of Disabilities and Community Services | | | | | | |
| Department of Developmental Services | \$1,250.6 | \$1,247.0 | \$1,278.5 | \$1,314.6 | \$1,374.8 | \$1,463.3 |
| Other | <u>133.6</u> | <u>125.7</u> | <u>124.6</u> | <u>126.8</u> | <u>115.3</u> | <u>121.1</u> |
| Sub Total | \$1,384.2 | \$1,372.1 | \$1,403.1 | \$1,441.4 | \$1,490.1 | \$1,584.4 |
| Department of Elder Affairs | \$279.7 | \$257.7 | \$250.2 | \$265.8 | \$240.5 | \$251.4 |
| Executive Office of Human Services (2) | 101.0 | 192.4 (3) | 210.1 (3) | 240.5 (3) | 210.5 (3) | 197.6 |
| Veterans' Services (4) | <u>51.9</u> | <u>28.2</u> | <u>28.9</u> | <u>30.5</u> | <u>32.9</u> | <u>12.7</u> |
| Sub Total | \$432.6 | \$478.5 | \$489.2 | \$536.8 | \$483.9 | \$461.7 |
| Budgeted Expenditures and Other Uses | \$4,828.3 | \$4,616.6 | \$4,614.8 | \$4,710.5 | \$4,878.2 | \$5,050.8 |

SOURCES: Fiscal 2009-2012 Office of the State Comptroller; fiscal 2013 and 2014, Executive Office for Administration and Finance.

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

(2) 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 through 2013 includes Medicaid program administration.

(3) Fiscal 2010 through 2013 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

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

Office of Children, Youth and Family Services. The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of 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 (DTA), the Commonwealth funds three major programs of public assistance for eligible state residents: Transitional Aid to Families with Dependent Children (TAFDC); Emergency Aid to the Elderly, Disabled and Children (EAEDC); and the State Supplemental Program (SSP) for individuals enrolled in the federal Supplemental Security Income (SSI) program. In addition, DTA is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP,

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

The SNAP program provides nutritional support to low-income households in the Commonwealth. On average, DTA issues more than \$116 million in SNAP benefits each month. The U. S. Department of Agriculture (USDA) estimates that each dollar in SNAP assistance generates nearly \$2 in economic activity – for the Commonwealth, this would translate to nearly \$2.8 billion per year in local production, sales and jobs.

Since the beginning of fiscal 2002, the SNAP caseload in the Commonwealth has increased by more than 375%, while total DTA staffing levels have decreased by about 30%. Between June, 2009 and March, 2011, due to its inability to timely meet statutory case recertification requirements and in order to avoid placing clients in jeopardy of losing their benefits, DTA did not close SNAP cases for which clients had complied with all recertification requirements, but for which DTA had not completed the recertification process. This resulted in SNAP benefit over-issuances that USDA calculated to total \$27.8 million. To prevent such a situation from recurring, DTA has reinstated automatic closure of all SNAP cases with expired recertification periods. Therefore, cases not recertified in a timely manner are being automatically closed. DTA is currently working with USDA to address this matter.

Federal welfare reform legislation enacted on August 22, 1996 eliminated the federal entitlement program of Aid to Families with Dependent Children and replaced it with the Temporary Assistance For Needy Families (TANF) block grant. Since the inception of block grant funding, the Commonwealth has received \$459.4 million annually exempt from federal sequestration. In order to be eligible for the full block grant funding, the Commonwealth must meet maintenance-of-effort and work participation requirements.

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) is 50% for all families and 90% for two-parent families. States can lower their work participation rate requirement by applying credits earned through annual caseload reductions. In order to assist in meeting work participation requirements, in fiscal 2008, the Commonwealth established the state-funded Supplemental Nutrition Assistance (SNA) program. Working families receiving SNAP are enrolled in SNA if they meet the TANF work requirements and are categorically eligible for TANF.

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 21st 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, 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 enforcement 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 more than 400,000 people, including active and retired state employees and dependents, participating municipalities and certain retired municipal teachers. 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%. Fiscal 2013 spending at the GIC was \$1.721 billion including active and retired state and municipal employees. During fiscal 2013 the GIC brought eleven municipalities into the program, adding 14,000 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. Two additional municipalities are expected to join the GIC in fiscal 2014, adding approximately 2,000 GIC enrollees. As of July 1, 2014, the GIC is expected to provide health insurance to employees and retirees of 48 municipalities: 10 cities, 27 towns, seven regional school districts and four planning councils.

The fiscal 2014 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 2014 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 2014 is \$1.272 billion. The fiscal 2014 budget authorizes transfers of up to \$420 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents.

The Group Insurance Commission (GIC) has begun implementation of the 2012 health care cost containment legislation, which is expected to accelerate changes to the way doctors, hospitals and other health care providers are paid for their services. Through this process the GIC aims to limit growth in premiums, avoid higher co-pays and deductibles and improve patient health. The GIC estimates it will save taxpayers hundreds of millions of dollars over five years with improved quality of care.

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, 2013 and of the MTRS as of January 1, 2012, the date of the most recent valuations, is as follows:

Retirement Systems Membership

| | <u>MSERS</u> | <u>MTRS</u> |
|---|--------------|-------------|
| Retirees and beneficiaries currently receiving benefits | 55,383 | 57,406 |
| Terminated employees entitled to benefits but not yet receiving them | 4,067 | N/A |
| Subtotal | 59,450 | 57,406 |
| Current Members | 87,175 | 86,860 |
| Total | 146,625 | 144,266 |

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 \$90.4 million for fiscal 2012.

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):

| Employee Contribution Rates | | | |
|------------------------------------|--------------------------------|-----------------------|--------------------------|
| <u>MTRS (1)</u> | <u>% of</u> | <u>Active</u> | <u>% of Total</u> |
| <u>Hire Date</u> | <u>Compensation (1)</u> | <u>Members</u> | <u>Active</u> |
| Pre-1975 | 5% | 663 | 0.8% |
| 1975-1983 | 7% | 1,217 | 1.4% |
| 1984-June 30, 1996 | 8% | 9,781 | 11.3% |
| July 1, 1996-Present | 9% | 12,297 | 14.2% |
| July 1, 2001-Present | 11% | <u>62,902</u> | <u>72.3%</u> |
| Totals | | <u>86,860</u> | <u>100.0%</u> |

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2012 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) | | | |
|---------------------------|------------------------------|-----------------------|--------------------------|
| Hire Date | % of Compensation (1) | Active Members | % of Total Active |
| Pre-1975 | 5% | 1,392 | 1.6% |
| 1975-1983 | 7% | 7,399 | 8.5% |
| 1984-June 30, 1996 | 8% | 22,412 | 25.7% |
| July 1, 1996-Present | 9% | 55,456 | 63.6% |
| State Police 1996-Present | 12% | 516 | 0.6% |
| Totals | | 87,175 | 100.0% |

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2013 Actuarial Valuation.

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

Funding Schedule

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

The most recently approved 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 Legislature adopted the specific funding amounts for fiscal 2012 to 2017 in an amendment to the General Laws enacted in 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 and will be informed by the January 1, 2013 valuation.

Current Funding Schedule for Pension Obligations (in thousands)

| Fiscal Year | Payments | Fiscal Year | Payments |
|--------------------|-----------------|--------------------|-----------------|
| 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 October 2, 2012, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2012. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2011.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$23.605 billion, including approximately \$7.277 billion for the Massachusetts State Employees' Retirement System (MSERS), \$14.342 billion for the Massachusetts Teachers' Retirement System (MTRS), \$1.723 billion for Boston Teachers and \$263 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2012 to be approximately \$67.547 billion (comprised of \$27.785 billion for MSERS, \$36.483 billion for MTRS, \$3.015 billion for Boston Teachers and \$263 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$43.941 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2012 total asset market value.

On May 24, 2013, PERAC published the actuarial valuation for the MSERS as of January 1, 2013. The report determined the unfunded actuarial accrued liability for the MSERS to be approximately \$9.068 billion. The total actuarial accrued liability as of January 1, 2013 is approximately \$29.385 billion, and total assets were valued on an actuarial basis at approximately \$20.317 billion.

Actuarial valuations during the 15 years prior to the January 1, 2013 valuation have used an investment return assumption of 8.25%. In keeping with PERAC's recommendation in its 2012 report, the investment return assumption in the 2013 report was reduced to 8.00%. This change by itself increased MSERS plan liabilities by approximately \$703 million. At the same time, other assumptions (relating to salary increases, rates of retirement, disability, turnover and mortality) were also revised, based on an experience study of the years 2006 through 2011. These revised assumptions (most notably lowered salary increase assumptions) decreased the active actuarial liability for the MSERS by approximately \$541 million. The completed experience study and the January 1, 2013 actuarial valuation for the MTRS will be released later this year.

At the August 26, 2013 PERAC meeting, a draft report of the Commonwealth Actuarial Valuation as of January 1, 2013 was discussed. The report is scheduled to be finalized in late September. The figures in the draft report may change before the report is finalized and released.

The unfunded actuarial liability as of January 1, 2013 shown in the draft is \$28.348 billion. The estimate of the actuarial accrued liability is \$71.866 billion. Total assets were valued on an actuarial basis at approximately \$43.517 billion based on the five-year average valuation method, which equaled 99.4% of the January 1, 2013 market value.

The actuarial valuation has used an investment return assumption of 8.25% for the past 15 years. In keeping with PERAC's recommendation in its 2012 report, the investment return assumption was decreased to 8.0% effective January 1, 2013. This change by itself increased the actuarial liability by approximately \$1.66 billion. At the same time, other assumptions (relating to salary increases, rates of retirement, disability, turnover, and mortality) were also revised based on experience studies of the years 2006 through 2011 for both MSERS and MTRS. These revised assumptions (most notably lowered salary increase assumptions for MSERS and MTRS and an updated mortality assumption for MTRS) decreased the overall actuarial liability by approximately \$23 million. The net increase in the actuarial liability due to the revised assumptions (both investment return and experience analysis) is approximately \$1.64 billion (\$1.66 billion minus \$23 million). The experience study reports are expected to be released later this year.

The impact of the change in assumptions was more significant for MTRS than MSERS. For MSERS, the increase in liability due to the change in assumptions was approximately \$162 million. This reflects an increase of \$703 million due to the change in the investment return assumption and a decrease of \$541 million due to all changes in other assumptions. For MTRS, the increase in liability due to the change in assumptions was approximately \$1.38 billion. This reflects an increase of \$900 million due to the change in the investment return

assumption, \$1.0 billion due to a change in the mortality assumption to reflect greater life expectancy and a decrease of \$520 million due to all changes in other assumptions.

Salary increase assumptions are based on Group and years of service. The ultimate salary increase rate in the pre-2013 valuations is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The ultimate salary increase rate in the 2013 MSERS valuation is 4.0% for Groups 1 and 2 and 4.5% for Groups 3 and 4. For MTRS the revised ultimate rate effective in the 2013 valuation is 4.0%. The assumption is higher in early years of employment and grades down to the ultimate rate. The pre-2013 assumptions are based on PERAC's Experience Study Analysis for the State Retirement System (published in 2007) and the Massachusetts Teachers' Retirement System (published in 2008). A recent change to the Actuarial Standards of Practice, moving toward "fully generational" mortality, necessitated a change to the mortality assumption. For the 2012 valuation, mortality improvement for state employees was assumed to be an additional five years for retirees and ten years for active members, compared to the 2011 valuation. For teachers, liabilities were increased over the prior assumption by 1.25%. These changes increased the total Commonwealth actuarial liability by approximately 1.1%. The adoption of a "fully generational" mortality table (mortality improvement projected indefinitely) would have increased the actuarial liability by approximately 2.0%. The 2012 valuation also reflects the \$1,000 increase in the level of pension income that is protected by cost-of-living adjustments (from \$12,000 to \$13,000) which was included in pension reform legislation passed in 2011. This change increased the actuarial liability by 0.4%.

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 inactive members, 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, 2012 is 110% of the market value (the 110% limit has applied as of January 1, 2009, 2010, 2011 and 2012). The unfunded actuarial liability increased from \$18.6 billion on January 1, 2011 to \$23.6 billion on January 1, 2012. Approximately \$1.0 billion of this increase is due to the change in the mortality assumption and an increase in the cost of living base to \$13,000. The draft January 1, 2013 report shows the unfunded liability increased from \$23.6 billion on January 1, 2012 to \$28.3 billion on January 1, 2013. As described above, approximately \$1.64 billion of this increase is due to the revised assumptions. The remainder of the increase primarily reflects the final recognition of the 2008 investment loss.

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 (this table does not include the January 1, 2013 valuation report for the MSERS, because the full Commonwealth report has not been finalized):

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

| Valuation Date (Jan. 1) | Actuarial Value of Assets (1) | Market Value of Assets | % of | | |
|------------------------------------|--|---------------------------------------|--|---|--|
| | | | Actuarial Value to Market Value | Funded Ratio (Actuarial Value) | Funded Ratio (Market Value) |
| 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 |
| 2012 | 43,942 | 39,947 | 110.0 | 65.1 | 59.1 |

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, 2013 valuation report for the MSERS, because the full Commonwealth report has not been finalized):

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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> |
|---|---|--|--|-------------------------|---------------------------------------|---|
| State Employees' Retirement System | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$20,507,604 | \$27,784,731 | \$7,277,127 | 73.8% | \$4,922,388 | 185.7% |
| 2011 | 21,244,900 | 26,242,776 | 4,997,876 | 81.0% | 4,808,250 | 103.9% |
| 2010 | 19,019,062 | 24,862,421 | 5,843,359 | 76.5% | 4,711,563 | 124.0% |
| 2009 | 16,992,214 | 23,723,240 | 6,731,026 | 71.6% | 4,712,655 | 142.8% |
| 2008 | 20,400,656 | 22,820,502 | 2,419,846 | 89.4% | 4,574,233 | 52.9% |
| 2007 | 18,445,225 | 21,670,810 | 3,225,585 | 85.1% | 4,391,891 | 73.4% |
| 2006 | 16,638,043 | 20,406,926 | 3,768,883 | 81.5% | 4,200,577 | 89.7% |
| 2005 | 16,211,000 | 19,575,000 | 3,364,000 | 82.8% | 3,967,000 | 84.8% |
| 2004 | 15,931,000 | 18,996,000 | 3,065,000 | 83.9% | 3,842,000 | 79.8% |
| 2003 | 13,947,000 | 17,551,000 | 3,604,000 | 79.5% | 3,779,000 | 95.4% |
| Teachers' Retirement System | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$22,141,475 | \$36,483,027 | \$14,341,552 | 60.7% | \$5,655,353 | 253.6% |
| 2011 | 23,117,952 | 34,890,991 | 11,773,039 | 66.3% | 5,558,311 | 211.8% |
| 2010 | 21,262,462 | 33,738,966 | 12,476,504 | 63.0% | 5,509,698 | 226.4% |
| 2009 | 18,927,731 | 32,543,782 | 13,616,051 | 58.2% | 5,389,895 | 252.6% |
| 2008 | 22,883,553 | 30,955,504 | 8,071,951 | 73.9% | 5,163,498 | 156.3% |
| 2007 | 20,820,392 | 29,320,714 | 8,500,322 | 71.0% | 4,969,092 | 171.1% |
| 2006 | 18,683,295 | 27,787,716 | 9,104,421 | 67.2% | 4,819,325 | 188.9% |
| 2005 | 17,684,000 | 26,167,000 | 8,483,000 | 67.6% | 4,643,000 | 182.7% |
| 2004 | 17,075,000 | 24,519,000 | 7,444,000 | 69.6% | 4,556,000 | 163.4% |
| 2003 | 14,762,000 | 22,892,000 | 8,130,000 | 64.5% | 4,406,000 | 184.5% |
| Aggregate Commonwealth Pension Obligations | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$43,941,682 | \$67,546,587 | \$23,604,905 | 65.1% | \$11,011,466 | 214.4% |
| 2011 | 45,630,507 | 64,219,135 | 18,588,628 | 71.1% | 10,811,975 | 171.9% |
| 2010 | 41,589,706 | 61,575,676 | 19,985,970 | 67.5% | 10,655,881 | 187.6% |
| 2009 | 37,057,703 | 59,142,155 | 22,084,452 | 62.7% | 10,537,212 | 209.6% |
| 2008 | 44,531,652 | 56,636,710 | 12,105,058 | 78.6% | 10,156,252 | 119.2% |
| 2007 | 40,411,920 | 53,761,095 | 13,349,175 | 75.2% | 9,766,122 | 136.7% |
| 2006 | 36,376,773 | 50,864,974 | 14,488,201 | 71.5% | 9,406,336 | 154.0% |
| 2005 | 34,938,529 | 48,357,694 | 13,419,165 | 72.3% | 8,989,134 | 149.3% |
| 2004 | 34,045,177 | 46,059,209 | 12,014,032 | 73.9% | 8,765,592 | 137.1% |
| 2003 | 29,628,897 | 43,030,338 | 13,401,442 | 68.9% | 8,573,114 | 156.3% |

SOURCE: Public Employee Retirement Administration Commission.

Historical Pension Funding Progress for the Last Ten Fiscal Years- Market Value
(Amounts in thousands except for percentages)

| | <u>Market Value of Plan Assets</u> | <u>Actuarial Accrued Liability</u> | <u>Unfunded Actuarial Liability (UAAL)-Market Value</u> | <u>Funded Ratio</u> | <u>Annual Covered Payroll</u> | <u>UAAL as % of Covered Payroll</u> |
|---|------------------------------------|------------------------------------|---|---------------------|-------------------------------|-------------------------------------|
| State Employees' Retirement System | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$18,643,313 | \$27,784,731 | \$9,141,418 | 67.1% | \$4,922,388 | 185.7% |
| 2011 | 19,313,545 | 26,242,776 | 6,929,231 | 73.6% | 4,808,250 | 144.1% |
| 2010 | 17,290,056 | 24,862,421 | 7,572,365 | 69.5% | 4,711,563 | 160.7% |
| 2009 | 15,447,467 | 23,723,240 | 8,275,773 | 65.1% | 4,712,655 | 175.6% |
| 2008 | 22,538,610 | 22,820,502 | 281,892 | 98.8% | 4,574,233 | 6.2% |
| 2007 | 20,494,694 | 21,670,810 | 1,176,116 | 94.6% | 4,391,891 | 26.8% |
| 2006 | 17,875,032 | 20,406,926 | 2,531,894 | 81.5% | 4,200,577 | 89.7% |
| 2005 | 16,489,000 | 19,575,000 | 3,086,000 | 82.8% | 3,967,000 | 84.8% |
| 2004 | 14,834,000 | 18,996,000 | 4,162,000 | 84.0% | 3,842,000 | 79.8% |
| 2003 | 12,128,000 | 17,551,000 | 5,423,000 | 69.1% | 3,779,000 | 143.5% |
| Teachers' Retirement System | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$20,128,614 | \$36,483,027 | \$16,354,413 | 55.2% | \$5,655,353 | 289.2% |
| 2011 | 21,016,320 | 34,890,991 | 13,874,671 | 60.2% | 5,558,311 | 249.6% |
| 2010 | 19,329,511 | 33,738,966 | 14,409,455 | 57.3% | 5,509,698 | 261.5% |
| 2009 | 17,207,028 | 32,543,782 | 15,336,754 | 52.9% | 5,389,895 | 284.5% |
| 2008 | 25,316,044 | 30,955,504 | 5,639,460 | 81.8% | 5,163,498 | 109.2% |
| 2007 | 23,133,769 | 29,320,714 | 6,186,945 | 78.9% | 4,969,092 | 124.5% |
| 2006 | 20,013,412 | 27,787,716 | 7,774,304 | 67.2% | 4,819,325 | 188.9% |
| 2005 | 17,946,000 | 26,167,000 | 8,221,000 | 67.6% | 4,643,000 | 182.7% |
| 2004 | 15,907,000 | 24,519,000 | 8,612,000 | 69.6% | 4,556,000 | 163.4% |
| 2003 | 12,837,000 | 22,892,000 | 10,055,000 | 56.1% | 4,406,000 | 228.2% |
| Aggregate Commonwealth Pension Obligations | | | | | | |
| Actuarial Valuation as of Jan. 1 | | | | | | |
| 2012 | \$39,946,984 | \$67,546,587 | \$27,599,603 | 59.1% | \$11,011,466 | 250.6% |
| 2011 | 41,482,279 | 64,219,135 | 22,736,856 | 64.6% | 10,811,975 | 210.3% |
| 2010 | 37,808,823 | 61,575,676 | 23,766,853 | 61.4% | 10,655,881 | 223.0% |
| 2009 | 33,688,821 | 59,142,155 | 25,453,334 | 57.0% | 10,537,212 | 241.3% |
| 2008 | 49,234,569 | 56,636,710 | 7,402,141 | 86.9% | 10,156,252 | 72.9% |
| 2007 | 44,902,133 | 53,761,095 | 8,858,962 | 83.5% | 9,766,122 | 90.7% |
| 2006 | 39,020,885 | 50,864,974 | 11,844,089 | 76.7% | 9,406,336 | 125.9% |
| 2005 | 35,496,704 | 48,357,694 | 12,860,990 | 73.4% | 8,989,134 | 143.1% |
| 2004 | 31,709,129 | 46,059,209 | 14,350,080 | 68.8% | 8,765,592 | 163.7% |
| 2003 | 25,764,258 | 43,030,338 | 17,266,080 | 59.9% | 8,573,114 | 201.4% |

SOURCE: Public Employee Retirement Administration Commission.

PERAC expects to provide five-year projections of the prospective funded status of the Commonwealth's pension systems after the January 1, 2013 valuation is completed.

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.

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>2012</u> | | | | | |
| Annual required contribution (ARC)..... | \$620,274 | \$941,918 | \$1,562,192 | n/a | n/a |
| Contributions made, excluding COLAs..... | <u>518,918</u> | <u>849,496</u> | <u>1,368,414</u> | <u>19,187</u> | <u>90,399</u> |
| % Funded for the fiscal year..... | 84% | 90% | 88% | | |
| ARC as ratio of total government expenditures (2) | 1.6% | 2.6% | 4.2% | n/a | n/a |
| <u>2011</u> | | | | | |
| Annual required contribution (ARC)..... | \$471,096 | \$767,960 | \$1,239,056 | n/a | n/a |
| Contributions made, excluding COLAs..... | <u>431,166</u> | <u>855,201</u> | <u>1,286,367</u> | <u>34,153</u> | <u>121,290</u> |
| % Funded for the fiscal year..... | 92% | 111% | 104% | | |
| ARC as ratio of total government expenditures (2) | 1.5% | 2.4% | 3.9% | n/a | n/a |
| <u>2010</u> | | | | | |
| Annual required contribution (ARC)..... | \$646,932 | \$1,106,052 | \$1,752,984 | n/a | n/a |
| Contributions made, excluding COLAs..... | <u>410,682</u> | <u>690,397</u> | <u>1,101,079</u> | <u>32,683</u> | <u>242,857</u> |
| % Funded for the fiscal year..... | 63% | 62% | 63% | | |
| ARC as ratio of total government expenditures (2) | 2.1% | 3.6% | 5.8% | n/a | n/a |
| <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 |

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.

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. 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, 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, 2013):

Domestic Equity. Domestic Equity constitutes 20.9% of the PRIT Fund portfolio, approximately 78% of which is invested using a large-capitalization stock strategy (two active managers and one passive manager), with the remaining 22% invested under a small-capitalization strategy (one passive manager and five active managers). The portfolio is style-neutral between growth- and value-oriented stocks.

International Equity. International Equity constitutes 17.9% of the PRIT Fund portfolio which is allocated to one passively managed account (which comprises 48% of the portfolio) and three actively managed accounts (52% 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 6.5% 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 12.6% of the PRIT Fund portfolio, 74% 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 7% 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 8.9% of the PRIT Fund portfolio, which is invested in distressed debt (27%), high-yield bonds (18%), emerging markets debt (16%), bank loans (18%), and emerging markets debt - local currency (21%).

Private Equity. Private Equity constitutes 11.7 % of the PRIT Fund portfolio. Two components comprise the private equity portfolio: venture capital (early-stage and multi-stage, 20%) and special equity partnerships (large market buyout, middle market buyout, and growth equity, 80%). 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 8.2% of the PRIT Fund portfolio, which consists of directly owned properties (70%) and real estate investment trusts (30%).

Timber/Natural Resources. Timber/Natural Resources constitutes 4.0% of the PRIT Fund portfolio, which is invested in both timberland investments (65%), and natural resource-oriented companies (35%) such as petrochemical, mining and energy companies.

Hedge Funds. Hedge Funds constitute 9.2% 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>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Domestic Equity | 20.9% | 19.3% | 22.0% | 19.9% | 24.4% |
| International Equity | 17.9% | 16.7% | 21.7% | 20.0% | 19.0% |
| Emerging Markets | 6.5% | 6.7% | 6.6% | 5.7% | 5.0% |
| Fixed Income | 12.6% | 13.0% | 13.2% | 14.0% | 13.0% |
| Value-Added Fixed Income | 8.9% | 8.6% | 6.0% | 7.0% | 7.7% |
| Private Equity | 11.7% | 12.1% | 10.7% | 10.6% | 9.6% |
| Real Estate | 8.2% | 9.7% | 8.2% | 9.1% | 10.9% |
| Timber/Natural Resources | 4.0% | 3.9% | 4.0% | 4.1% | 4.7% |
| Hedge Funds | 9.2% | 9.9% | 7.2% | 7.7% | 5.7% |
| Portable Alpha Wind Down(1) | 0.1% | 0.1% | 0.4% | 1.9% | 0.0% |

SOURCE: Pension Reserves Investment Management Board.

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

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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> |
|--------------------|-------------------------|--------------------|-----------------------|
| 2013 (1) | 12.69% | 2008 | (1.81)% |
| 2012 | (0.08)% | 2007 | 19.92% |
| 2011 | 22.30% | 2006 | 15.47% |
| 2010 | 12.82% | 2005 | 13.39% |
| 2009 | (23.87)% | 2004 | 19.43% |
| | 3yr average | 11.26% | |
| | 5yr average | 3.41% | |
| | 10yr average | 8.10% | |
| | Assumed Rate (2) | 8.25% | |

SOURCE: Pension Reserves Investment Management Board.

(1) Fiscal 2013 rate is preliminary and unaudited.

(2) Assumed rate changed to 8% as of January 1, 2013.

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. The GIC had 156,160 state enrollees as of the end of fiscal 2013.

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

The most recent update of this actuarial valuation report was released in October, 2012. 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 \$16.654 billion as of January 1, 2012. 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 \$12.510 billion using a discount rate of 6.4% and approximately \$9.872 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, 2012, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is \$3.446 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, 2012 was approximately \$360.5 million.

| State Retiree Benefits Trust | | | | | | |
|---|---|--------------------------------|--|------------------------------------|-----------------------|--|
| (amounts in thousands) | | | | | | |
| | <u>Actuarial Value of Plan Assets</u> | <u>Actuarial Liability</u> | <u>Accrued Unfunded Liability (UAAL)</u> | <u>Actuarial Ratio Covered</u> | <u>Funded Payroll</u> | <u>Annual Covered Payroll as % of UAAL</u> |
| Actuarial Valuation as of Jan. 1, 2012 | \$360,500 | \$16,659,400 | \$16,298,900 | 2.16% | \$4,922,388 | 331.1% |
| 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.

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

\$20 billion for state and local governments in the Commonwealth over the next 30 years, according to outside actuaries. On February 12, 2013, the Governor filed legislation to implement the Commission's recommendations. The bill has been referred to the Legislature's Joint Committee on Public Service.

State finance law was amended in 2010 to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues transferred to the Stabilization Fund because they are in excess of the statutory capital gains threshold.

The 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 and fiscal 2014 budgets have adhered to this requirement, although the fiscal 2014 budget altered the funding sources. The projected fiscal 2013 and 2014 amounts to be deposited to the State Retiree Benefits Trust Fund as a result of this provision are \$25 million and \$50 million, respectively. 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 2009</u> | <u>June 2010</u> | <u>June 2011</u> | <u>June 2012</u> | <u>June 2013</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Executive Office | 72 | 69 | 76 | 69 | 68 |
| Office of the Comptroller | 115 | 115 | 113 | 109 | 111 |
| Executive Departments | | | | | |
| Administration and Finance (2) | 2,861 | 2,768 | 2,679 | 2,784 | 2,823 |
| Energy and Environmental Affairs (1) | 2,208 | 2,020 | 1,960 | 1,949 | 1,915 |
| Housing and Community Development (1) | - | - | - | - | - |
| Early Education and Care (3) | - | - | - | - | - |
| Health and Human Services | 20,895 | 19,763 | 19,435 | 19,397 | 19,379 |
| Transportation and Public Works (4) | 1,200 | - | - | - | - |
| Board of Library Commissioners | 13 | 10 | 10 | 10 | 10 |
| Economic Development (1) | - | - | - | - | - |
| Housing and Economic Development (1) | 616 | 693 | 673 | 677 | 684 |
| Labor and Workforce Development (1) | 316 | 285 | 269 | 262 | 236 |
| Executive Office of Education (3) | 570 | 336 | 318 | 322 | 359 |
| Department of Education (3) | - | - | - | - | - |
| Board of Higher Education (3) | - | - | - | - | - |
| Public Safety and Security | 8,483 | 8,444 | 8,259 | 8,534 | 8,626 |
| Elder Affairs | <u>50</u> | <u>38</u> | <u>39</u> | <u>37</u> | <u>38</u> |
| Subtotal under Governor's Authority | 37,398 | 34,541 | 33,831 | 34,150 | 34,249 |
| Judiciary | 7,821 | 7,387 | 7,109 | 7,085 | 7,217 |
| Higher Education | 13,409 | 12,048 | 12,940 | 12,539 | 12,957 |
| Other (5) | <u>8,044</u> | <u>10,320</u> | <u>10,111</u> | <u>10,084</u> | <u>10,356</u> |
| Subtotal funded by the Operating Budget | <u>66,672</u> | <u>64,297</u> | <u>63,991</u> | <u>63,858</u> | <u>64,779</u> |
| Federal Grant, Trust and Capital Funded | <u>16,381</u> | <u>20,551</u> | <u>20,078</u> | <u>20,654</u> | <u>20,650</u> |
| Total | <u>83,053</u> | <u>84,848</u> | <u>84,069</u> | <u>84,512</u> | <u>85,429</u> |

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, 2013 through December 31, 2014 and provides increases of 1.5%, 1.5% and 1.5% effective July 13, 2013, January 12, 2014 and July 13, 2014, respectively. The total estimated cost of the contract is \$8.9 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, 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 \$16.6 million. The contract has been extended by two years

to June, 2015, with semiannual increases of 1.5%, and is pending legislative approval. The total estimated cost of the contract is \$11.4 million.

(9) The contract with the Coalition of Public Safety runs from July 1, 2013 through June 30, 2015 and provides increases of 3% and 3% effective June 30, 2014 and 2015, respectively. The total estimated cost of the contract is \$0.8 million.

(10) The contract with the International Association of Fire Fighters runs from January 1, 2013 through December 31, 2014 and provides increases of 3% effective December 31, 2013 and 2014. The total estimated cost of the contract is \$0.1 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 | 6/30/15 |
| 4A | New England Police Benevolent Association | Corrections | 88 | 6/30/14 |
| 5 | Coalition of Public Safety | Law enforcement | 204 | 6/30/15 |
| 5A, C22 | State Police Association of Massachusetts | State Police | 2,091 | 12/31/12 |
| 7 | Massachusetts Nurses Association | Health professionals | 1,550 | 12/31/14 |
| 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 | 12/31/14 |
| | | Total | 34,585 | |

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

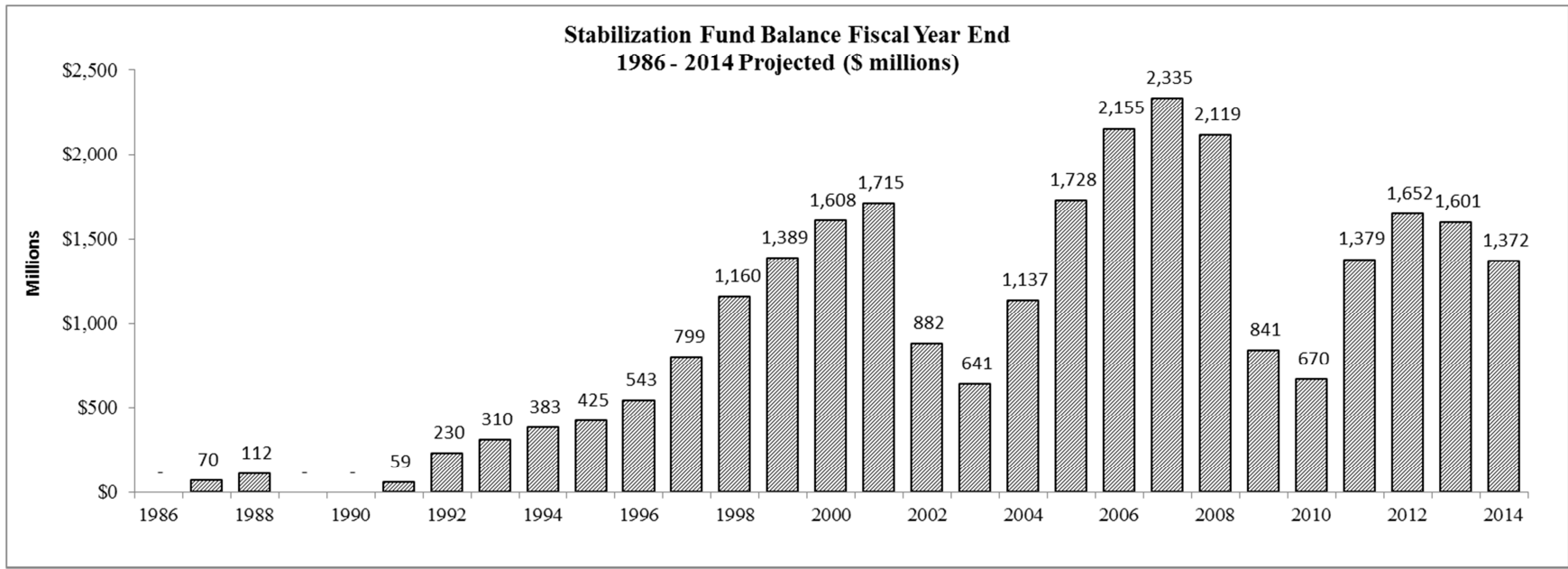
Stabilization Fund

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 2013 AND FISCAL 2014" for a description of fiscal 2013 and 2014 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 (adjusted annually, beginning in fiscal 2014, for U. S. gross domestic product growth) is to be deposited into the Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund. 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 2012 (actual) and fiscal 2013 and 2014 (projected).

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SOURCE: Fiscal 1986-Fiscal 2012, Office of the Comptroller; Fiscal 2013 (preliminary) and 2014 (projected), Executive Office for Administration and Finance.

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The following table shows the sources and uses of the Stabilization Fund during fiscal 2008 through fiscal 2012:

Stabilization Fund Sources and Uses (in thousands)

| | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Beginning fund balances | \$2,335,021 | \$2,119,194 | \$841,344 | \$669,803 | \$1,379,071 |
| Revenues and Other Sources | | | | | |
| Consolidated net surplus | - | 64,747 | 11,269 | 348,605 | 116,673 |
| Deposits made directly during fiscal year | - | - | - | 350,000 | - |
| Deposits due to judgments and settlements in excess of \$10 million | - | - | - | - | 375,021 |
| Lottery transfer taxes | 2,243 | 2,436 | 1,982 | 1,619 | 1,353 |
| Investment income | 96,930 | 43,967 | 21,782 | 9,044 | 10,408 |
| Excess permissible tax revenue | - | - | - | 9,044 | - |
| Total Revenues and Other Sources | 99,173 | 111,150 | 35,033 | 718,312 | 503,455 |
| Total Expenditures and Other Uses | | | | | |
| | <u>315,000</u> | <u>1,389,000</u> | <u>206,574</u> | <u>9,044</u> | <u>230,408</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | | | | | |
| | <u>-215,827</u> | <u>-1,277,850</u> | <u>-171,541</u> | <u>709,268</u> | <u>273,047</u> |
| Ending fund balances | <u>\$2,119,194</u> | <u>\$841,344</u> | <u>\$669,803</u> | <u>\$1,379,071</u> | <u>\$1,652,118</u> |
| Allowable Stabilization Fund Balance | <u>\$4,546,976</u> | <u>\$4,382,687</u> | <u>\$4,546,502</u> | <u>\$4,961,300</u> | <u>\$4,881,982</u> |

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2012, 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, 2012 | |
| Budgeted Fund Balance | \$1,989.7 |
| Non-budgeted special revenue fund balance | 2,059.5 |
| Capital Projects Fund Balance | <u>(190.6)</u> |
| Governmental Fund Balance-Statutory Basis, June 30, 2012 | \$3,858.6 |
| Plus: Expendable Trust and similar fund statutory balances that are considered governmental fund for GAAP reporting purposes | 545.4 |
| Less: Massachusetts Department of Transportation Funds | <u>(1,270.2)</u> |
| Adjusted Statutory Governmental Fund Balance | \$3,133.8 |
| Short term accruals, net of allowances and deferrals for increases/(decreases) | |
| Taxes, net of refunds and abatements | 1,893.2 |
| Tobacco settlement agreement receivable | 126.8 |
| Medicaid | (247.1) |
| Assessments and other receivables | 216.4 |
| Amounts due to authorities and municipalities, net | (508.8) |
| Amounts due to healthcare providers and insurers | (106.6) |
| Workers' compensation and group insurance | (128.4) |
| Other accruals, net | <u>175.0</u> |
| Net increase to governmental funds balances | \$1,420.5 |
| Massachusetts School Building Authority fund balance | <u>1,767.7</u> |
| Total changes to governmental funds | \$3,185.2 |
| Governmental fund balance (fund perspective) | 6,319.0 |
| Plus: Capital assets including infrastructure, net of accumulated depreciation | 4,259.9 |
| Deferred revenue, net of other eliminations | 889.4 |
| Long term accruals: | |
| Pension benefits cumulative over/(under) funding | (1,418.9) |
| Post employment benefits other than pensions cumulative over/(under) funding | (3,446.0) |
| Environmental remediation liability | (240.8) |
| Massachusetts School Building Authority debt and school construction payables | (7,574.7) |
| Long term debt, unamortized premiums and deferred losses on debt refundings | (21,870.6) |
| Compensated Absences | (504.0) |
| Capital leases | (60.5) |
| Accrued interest on bonds | (363.6) |
| Other long term liabilities | <u>(287.0)</u> |
| Total governmental net assets (government-wide perspective) | (\$24,297.8) |

SOURCE: Office of the Comptroller

The deficit of \$24.3 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 2012, MassDOT held over \$22.1 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 \$5.9 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> |
|-----------------------------|------------------------------------|---|----------------------------|
| Total net assets: | | | |
| Fiscal Year 2011 | (\$22,832,865) | \$4,355,428 | (\$18,463,953) |
| Fiscal Year 2012 | (24,297,788) | 4,912,212 | (19,385,576) |
| Change in net assets | (\$1,464,923) | \$556,784 | (\$908,139) |

SOURCE: Office of the Comptroller

During the fiscal year, approximately \$830 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$1.086 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 2012:

Comparison of Fiscal 2012 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 | \$21,383 | \$21,533 | \$21,403 |
| Federal Revenue | 11,516 | 12,985 | 12,990 |
| Departmental and Miscellaneous Revenue | <u>17,369</u> | <u>19,851</u> | <u>9,943</u> |
| Total | <u>\$50,268</u> | <u>\$54,369</u> | <u>\$44,336</u> |

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 2008 through fiscal 2012.

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

| | <u>Fiscal 2008</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Beginning fund balances | \$7,735.9 | \$7,062.7 | \$5,061.3 | \$4,585.7 | \$5,267.6 |
| Revenues and Financing Sources | 50,136.8 | 49,787.9 | 49,853.1 | 53,898.4 | 54,370.1 |
| Expenditures and Financing Uses | 50,810.0 | 51,789.3 | 50,328.7 | 53,216.5 | 53,318.8 |
| Excess (deficit) | <u>(673.2)</u> | <u>(2,001.4)</u> | <u>(475.6)</u> | <u>681.9</u> | <u>1,051.3</u> |
| Ending fund balances—GAAP fund perspective | <u>\$7,062.7</u> | <u>\$5,061.3</u> | <u>\$4,585.7</u> | <u>\$5,267.6</u> | <u>\$6,318.9</u> |

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, 2012 and the CAFR for the year ended June 30, 2012 are included herein by reference as Exhibits B and C, respectively. Copies of these financial reports are available at the address provided under “CONTINUING DISCLOSURE.” The SBFR for fiscal 1997 through fiscal 2012 and the CAFR for fiscal 1994 through fiscal 2012 are also available on the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports” under the “Publications and Reports” tab.

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth’s financial statements and issue certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. For fiscal 1991 through 2012 the independent auditors’ opinions were unqualified.

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2011 marked the 21st consecutive year that the Commonwealth has received this award. The fiscal year 2012 CAFR 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, 2012 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2012 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR for the year ended June 30, 2012 and the CAFR for the year ended June 30, 2012, attention is called in particular to the portion of the CAFR under the heading “Management’s Discussion and Analysis.”

Auditors’ Report on Fiscal 2012 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2012 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 19, 2012 on the general purpose financial statements included in the CAFR for the year ended June 30, 2012 contained an unqualified opinion. A copy of the audit report of KPMG dated December 19, 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, 2012. 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 2013 AND FISCAL 2014

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 original fiscal 2013 budget assumed tax revenues of \$22.032 billion, which reflected 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 had assumed a reduction of \$21 million in revenues attributable to the two-day sales tax holiday that occurred on August 11-12, 2012, for a total revenue estimate of \$22.011 billion. Legislation approved by the Governor on August 7, 2012 requires that the cost of the sales tax holiday be defrayed by one-time settlement funds that are expected to be received in fiscal 2013. That legislation also redirects \$4 million of one-time settlements that would otherwise go to the Stabilization Fund to the Smart Growth Housing Trust Fund. Approximately \$1.1 billion of the \$22.011 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 (\$90 million after accounting for the required transfers of this capital gains tax revenue to the Commonwealth's Pension Liability Fund and State Retiree Benefits Trust Fund) and will not be available for budgetary purposes.

The original fiscal 2013 budget relied on \$616 million in one-time resources to support recurring spending, down from the fiscal 2012 assumption of \$669 million. Among the one-time resources assumed as part of the fiscal 2013 budget was 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.

On October 15, the Secretary for Administration and Finance certified that projected operating revenues (tax and non-tax) remained sufficient to support projected expenses for fiscal 2013. He noted that while tax receipts, at the time of the certification, were \$95 million below budgeted estimates, it was premature to conclude that tax revenues would end the year below the budgeted estimate or to estimate the extent of any such shortfall that might occur. The Secretary also noted, however, that there were a number of risks to tax revenues meeting the budgeted estimate for the fiscal year, including slower-than-projected economic growth, a potential automatic reduction in the state's income tax rate and the potential failure of the federal government to address the so-called "fiscal cliff." Accordingly, the Secretary announced the immediate implementation of spending and hiring controls, and he launched contingency planning measures in the event a downward revision of the fiscal 2013 tax revenue estimate and corresponding budget reductions might become necessary.

On November 1, 2012 the Governor filed supplemental budget legislation that would create a \$30 million fund to reimburse agencies and municipalities for costs associated with investigating and responding to the breach at the Hinton drug testing laboratory. The amount of the supplemental budget is based on initial agency estimates to pay immediate costs. Agencies are undertaking additional analysis to identify the scope of the impact of this breach and they are developing longer-term cost estimates to investigate and respond to the Hinton Laboratory breach. Because these costs are one-time in nature, the Governor proposed the use of one-time resources to help fund these costs. This supplemental budget legislation would reimburse the General Fund for the costs related to the investigation and response to the breach at the Hinton Laboratory using one-time settlements and judgments in excess of \$10 million. These resources would otherwise be transferred to the Stabilization Fund. Should they not be sufficient this year to reimburse the General Fund for the full costs of the reserve, then the remaining amount would be transferred from the Stabilization Fund. See "LEGAL MATTERS – Other; *Drug Testing Laboratory disputes.*"

On December 4, 2012, pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, the Secretary of Administration and Finance advised the Governor of an estimated budgetary shortfall of revenues totaling \$540 million with respect to the appropriations approved to date for fiscal 2013. On the same day, the Secretary revised the tax revenue estimate for fiscal 2013 to \$21.496 billion, which represents a reduction of \$515 million from the revenue estimate assumed in the fiscal 2013 budget adjusted for subsequent tax law changes. The \$540 million shortfall is arrived at by also accounting for the fact that \$25 million of tax collections received were one-time settlements and judgments in excess of \$10 million which have already been dedicated for certain one-time costs. State finance law provides the Governor 15 days after this notification 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.

On December 4, 2012 the Governor filed legislation containing proposed solutions to the projected \$540 million tax revenue shortfall, including \$225 million in spending reductions across executive branch agencies. As part of the \$225 million in executive branch cuts, which resulted in \$157 million in net budgetary savings after accounting for reduced federal revenues resulting from the spending cuts, the Governor directed agencies to reduce personnel positions to achieve an additional \$20 million in savings. In addition, the Governor sought expanded 9C authority to make \$25 million in spending reductions in non-executive branch agencies, including the Legislature, other constitutional officers, the judiciary, sheriffs and district attorneys. The legislation also included a 1% across-the-board reduction to unrestricted local aid, for total savings of \$9 million. The legislation included a proposal that if lottery profits exceeded the \$1.026 billion amount budgeted in fiscal 2013, all such excess proceeds would be committed to increasing the amount of unrestricted local aid. The Governor's plan also proposed to use an additional \$200 million from the Stabilization Fund, bringing the total amount that would be used in fiscal 2013 from \$350 million to \$550 million. This represents a \$51.1 million net withdrawal in fiscal 2013 after factoring in statutorily required deposits that have been made or are expected to be made (including settlements and judgments in excess of \$10 million and capital gains revenues in excess of the fiscal 2013 threshold). The Governor's plan also assumed the use of \$20 million of savings (in the aggregate) in debt service and savings from the Health Connector Authority attributed to a successful re-procurement for Commonwealth Care to help address the tax revenue shortfall. Current revenue estimates assume that total state sales tax revenues that are transferred to the Massachusetts School Building Authority will total \$682.3 million, which is \$20 million less than the \$702.3 million assumption after enactment of the fiscal 2013 budget (adjusted for the August, 2012 sales tax holiday). Additional federal revenues in the amount of \$98 million and \$11 million from certain reserve fund surpluses are also helping to address the balance of the revenue shortfall.

On January 12, 2013, the Governor filed legislation that included items that he filed on November 1, 2012 to address costs related to the breach at the Hinton drug testing laboratory, as well as reductions and other actions filed on December 4, 2012, that are designed to address the projected tax revenue shortfall announced in December and then reflected in the revised fiscal 2013 revenue estimate. The legislation filed on January 12, 2013 also included approximately \$94 million in supplemental funding, the majority of which were items originally filed for in the December 4, 2012 legislation, such as \$44.3 million for family homeless services, \$25 million for public counsel services provided by the Committee for Public Counsel Services, \$11 million for the continued operation of the Fernald Campus in Waltham, \$5 million for judgments and settlements which must be paid by the state, \$3 million for the costs to implement the recent health care cost control legislation, \$3 million for state agency costs in response to the Hurricane Sandy storm in October and \$2.5 million for tuition waivers for National Guard members. In addition to these items, the legislation filed on January 12, 2013 also included approximately \$1 million to support spring semester fee waivers for students previously or currently involved in the state's foster care system. The Executive Office for Administration and Finance projects that there will be sufficient budgetary resources to support this funding.

On February 15, 2013 the Governor approved supplemental budget legislation that was largely consistent with the legislation he filed on January 12, 2013 and that contained approximately \$145 million in supplemental appropriations, including a \$30 million reserve for costs associated with investigating and responding to the breach at the Hinton drug testing laboratory. The legislation also included many of the provisions filed by the Governor that would be needed to address the projected tax revenue shortfall, including expanded 9C authority to make \$25 million in spending reductions in non-executive branch agencies, including the Legislature, other constitutional officers, the judiciary, sheriffs and district attorneys. The legislation also included authorization to withdraw an additional \$200 million from the Stabilization Fund. The legislation omitted provisions that would have solved \$19.7 million of the projected tax revenue shortfall for fiscal 2013, including a proposed 1% across-the-board reduction to unrestricted local aid, for total savings of \$9 million.

On March 1, 2013 sequestration took effect under the federal Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2013, and the President issued an order canceling \$85.3 billion in federal budgetary resources for the remainder of federal fiscal 2013 (which ends on September 30, 2013). Federal agencies implemented across-the-board percentage reductions required for federal fiscal 2013 spending. While most of these affect federal employees and federal contracts, the Executive Office for Administration and Finance and state agencies assessed the potential impact of the sequestration on their programs and services and concluded that the impact through fiscal 2013 was minimal to state programs. However, these sequestration provisions in the Budget Control Act are expected to continue to affect federal funds in fiscal 2014 and beyond. The Secretary of Administration and Finance has convened a "Sequestration Impact Task Force" comprised of industry and economic experts to assess the likely longer-term economic impact of sequestration on Massachusetts and any associated effects on state revenues, safety net caseloads and other state programs and services. The Task Force will continue to study and evaluate the impact of future action taken by federal agencies.

On April 18, 2013 the Governor approved supplemental budget legislation containing \$6.5 million in supplemental appropriations to cover the costs related to the tragic events on Patriots Day, including \$1.5 million to allow the timely payment of National Guard expenses and \$5 million for a reserve to be used, upon request of the Secretary of Administration and Finance, to address other costs incurred in response to the Patriots Day event.

On July 11, 2013 the Governor approved supplemental budget legislation containing approximately \$126.1 million in supplemental appropriations. The supplemental appropriations included \$55.6 million to fund costs for snow and ice removal on Department of Conservation and Recreation and non-toll MassDOT roads, \$18.2 million for costs associated with providing legal representation to indigent persons in criminal and civil court cases, \$13.6 million to provide funding for the special election to fill the vacancy for the United States Senate (primaries and final election) and \$10 million for the summer jobs program.

On August 1, 2013, the Governor filed supplemental budget legislation requesting funding of \$41.1 million, including \$20 million for emergency assistance services for homeless families, \$14.2 million to support direct care salary raises, \$2.5 million for public counsel services provided by the Committee for Public Counsel Services and \$2.6 million for National Guard tuition and fee waiver costs at state higher education campuses. Fiscal 2013 ended on June 30, 2013, but, as is customary, the final fiscal 2013 appropriations bill has not yet been enacted.

Fiscal 2014

On July 24, 2013, the Legislature enacted transportation finance legislation projected to raise \$805 million (preliminary estimate) in additional annual resources for transportation by fiscal 2018. The \$805 million would be generated by increasing the motor fuels tax by 3¢ and indexing it to the rate of inflation (\$157 million), mandating a combination of reforms, efficiencies and increases in fares, fees and tolls at MassDOT and the MBTA (\$354 million), shifting motor sales tax collections currently dedicated to the General Fund to the Commonwealth Transportation Fund while also redirecting the 0.385% of regular and meals sales tax that is currently dedicated to the Commonwealth Transportation Fund to the General Fund (\$170 million), dedicating the revenue from the existing underground storage tank fee to transportation (\$84 million) and requiring a transfer from the General Fund (\$40 million).

The transportation finance legislation enacted by the Legislature also includes a number of other tax-related items that the Legislature does not specifically dedicate for transportation purposes, and may be available for other budgetary purposes. These total \$460 million (projected fiscal 2018 values) and include increasing the excise tax on tobacco products (\$186 million), applying the sales tax to computer systems design services and to the modification of prewritten software (\$181 million) and making certain changes to the corporate excise (\$93 million). However, after accounting for the motor vehicles, regular and meals sales tax revenue shift as well as the \$40 million General Fund subsidy mentioned above, only approximately \$166 million of additional resources would be available for non-transportation purposes in fiscal 2018.

On July 2, 2013, the Governor returned the legislation to the Legislature with an amendment that would offset the amount of revenue lost from the scheduled discontinuance of the western turnpike tolls in calendar 2017 with an increase in the gas tax. The provision would only be triggered if and to the extent the toll revenues are reduced. The annual revenue loss should the western turnpike tolls come down in calendar 2017 is estimated to be \$135 million. On July 18, 2013 the Legislature rejected the Governor's proposed amendment by more than a two-thirds vote in each house and returned essentially the same bill to the Governor. On July 19, 2013 the Governor vetoed the bill. On July 24, 2013 the Legislature overrode the Governor's veto. These new tax provisions, assuming an effective date of July 1, 2013 and no implementation delays, had been expected to raise \$439.6 million in fiscal 2014. With the bill becoming law on July 24, 2013, the Department of Revenue estimates that approximately \$398.5 million will be generated by these new tax provisions in fiscal 2014, \$28.5 million of which will be dedicated to the Commonwealth Care Trust Fund as a result of the cigarette tax increase, leaving approximately \$370.1 million available for budgetary purposes in fiscal 2014.

On September 4, 2013, the Attorney General certified initiative petitions that would repeal the expansion of the sales tax to computer systems design services and the indexing of the motor fuels tax to inflation. See "THE GOVERNMENT – Initiative Petitions" and "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes."

The fiscal 2014 budget was enacted by the Legislature on July 1, 2013 and approved by the Governor on July 12, 2013 with certain line item vetoes described below. A \$4.075 billion interim budget for the first 30 days of fiscal 2014 had been enacted by the Legislature and approved by the Governor on June 21, 2013. Total spending in the fiscal 2014 budget approved by the Governor amounts to approximately \$33.667 billion, after accounting for \$435.4 million in vetoes and accompanying fiscal 2014 legislation proposed by the Governor that included \$40.0 million in supplemental appropriations. The fiscal 2014 budget is approximately \$1.132 billion, or 3.5%, greater than fiscal 2013 estimated spending. The fiscal 2014 budget also provides that \$85 million of a potential fiscal 2013 surplus is to go to the Massachusetts Community Preservation Trust Fund (\$25 million), to the Massachusetts Life Sciences Investment Fund (\$19.5 million), to the Housing Stabilization Trust Fund (\$10 million), to the Department of Early Education and Care (\$11.5 million), to private human and social services providing for a one-time rate reserve payment (\$11.5 million) and to the Social Innovation Financing Trust Fund (\$7.5 million).

Approximately \$417.1 million of the line item vetoes (\$240 million to transportation line items and \$177.1 million to unrestricted general government aid) was to ensure that the budget would be in balance in light of the then-unresolved status of the transportation finance legislation described above, which raises revenue to support transportation and other budget needs. The Governor's vetoes of those line items were overridden by the Legislature on July 24, 2013, the same day that the Legislature overrode the Governor's veto of the transportation finance bill. The Legislature has since overridden the remainder of the budget vetoes, those that were unrelated to transportation and local aid.

The total budgetary exposure created by the then-unresolved status of the transportation finance legislation was \$439.6 million. The remaining \$22.5 million exposure after accounting for vetoes is solved due to an adjustment to the Massachusetts School Building Authority transfer, which would otherwise receive a portion of the sales tax on computer systems design services and on the modification of prewritten software, a provision that is included in the transportation finance legislation. The Governor also amended an outside section in the budget to expand the "bottle bill" to include bottled water and non-carbonated soft drinks, which would generate an estimated \$22 million in fiscal 2014. This additional revenue when combined with the \$18.3 million in non-transportation and unrestricted general government aid vetoes would provide sufficient resources to support the \$40 million fiscal 2014 supplemental budget legislation, described below, which was filed by the Governor on the same day he approved the budget.

The budget assumes tax revenues of \$22.797 billion, reflecting the fiscal 2014 consensus tax estimate of \$22.334 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 \$35 million), and Amazon agreement (additional \$36.7 million), as well as approximately \$370.0 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013. The tax estimate also reflects the estimated cost of the subsequently enacted two-day sales tax holiday held on August 10-11, 2013 (\$24.3 million). The enacting legislation for the sales tax holiday requires that proceeds of one-time settlements and judgments that otherwise would be transferred to the Commonwealth Stabilization Fund, be used to reimburse the General Fund for foregone tax revenue as a result of the holiday. Approximately \$1.060 billion of the \$22.797 billion tax estimate is assumed to be generated from taxes on capital gains. Approximately \$37 million of that amount will be deposited into the Stabilization Fund and will not be available for budgetary purposes pursuant to the certification released by the Department of Revenue on December 28, 2012, that established a fiscal 2014 capital gains threshold of \$1.023 billion.

The fiscal 2014 budget relies on \$696 million in one-time resources to support recurring spending, down from the fiscal 2013 assumption of \$920 million. Among the one-time resources assumed as part of the fiscal 2014 budget is a \$350 million withdrawal from the Stabilization Fund, using debt service reversions instead of tobacco settlement proceeds to fund the scheduled fiscal 2014 OPEB fund deposit (\$51 million) and redirecting \$35 million in projected one-time tax settlements and judgments to the General Fund that would otherwise be statutorily required to be deposited to the Stabilization Fund. The net withdrawal, after accounting for projected deposits of capital gain revenues and tax settlements, is \$207 million. The fiscal 2014 Stabilization Fund ending balance, based on fiscal 2013 year-to-date deposits and withdrawals and those assumed in the fiscal 2014 budget, is projected to be \$1.372 billion.

On the same day that he signed the fiscal 2014 budget, the Governor also filed fiscal 2014 supplemental budget legislation requesting funding of \$40.0 million, including \$21.8 million to fund core information technology costs to support services provided to residents and business, \$7 million for higher education scholarships, \$3 million for recycling programs at the Department of Environmental Protection and \$5.7 million to fund the increased salary costs in the courts' budgets associated with judicial salary increases.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." The Commonwealth does not engage in inter-fund borrowing. Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. All revenue anticipation notes, including those issued as commercial paper, must be repaid by the end of the fiscal year. The state currently has liquidity support for a \$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 2013 with a non-segregated cash balance of approximately \$2.276 billion. The most recent cash flow statement projects a fiscal 2014 ending balance of approximately \$2.379 billion.

The fiscal 2013 and fiscal 2014 cash flow statements released by the State Treasurer and the Secretary of Administration and Finance on September 5, 2013 are summarized in the tables below. Fiscal 2014 is based upon the budget signed on July 12, 2013 and all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal year 2014. Fiscal 2014 projections are based on actual spending and revenue through July, 2013 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 portfolios, professionally managed by Federated Investors, Inc, the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at amortized cost, which approximates fair value and the Short Term Bond Fund investments are carried at fair value.

The Cash Portfolio invests in a diversified portfolio of high quality United States dollar-denominated money market instruments (eligible under Rule 2a-7 of the Securities and Exchange Commission) of domestic and foreign issuers, United States government securities and repurchase agreements. As of June 30, 2013, the Cash Portfolio holdings were made up of commercial paper and notes (44.9%), variable rate instruments (18.2%), repurchase agreements (13.6%) and bank instruments (23.3%). As of August 31, 2013, the Cash Portfolio's weighted average life was 85 days, and the weighted average maturity was 58 days.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of July 31, 2013, the Short Term Bond Fund holdings were made up of Adjustable Rate Mortgages (1.4%), Asset Backed Securities (11.7%), Corporate Bonds (38.0%), Mortgage Backed Securities (3.3%), Collateralized Mortgage Obligations (5.6%), U.S Treasury obligations (32.0%), Government Agencies (7.5). As of July 31, 2013, the fund's weighted average effective duration was 2.52 years, and the weighted average effective maturity was 2.68 years.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2014 bond issuance of approximately \$2.75 billion, which includes \$2.0 billion in borrowings subject to the bond cap, \$597.9 million in borrowings for the Accelerated Bridge Program and \$151.9 million for project-finance spending. For cash flow needs for fiscal 2014, the Treasury expects to issue \$800 million in revenue anticipation notes to augment the Commonwealth's liquidity due to the statutory changes to the disbursement of local aid. As in previous years, all cash flow borrowing will be repaid in the final quarter of fiscal 2014.

The next cash flow statement is expected to be released on or about November 29, 2013.

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The following table provides General Fund ending cash balances by month for fiscal 2010 through fiscal 2014.

Month End General Fund Cash Balances (in millions)

| | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013</u> | <u>Fiscal 2014</u> |
|-----------|--------------------|--------------------|--------------------|--------------------|--------------------|
| July | \$ 581.8 | \$ 1,082.2 | \$ 2,194.7 | \$ 1,944.4 | \$ 1,253.7 |
| August | 837.7 | 1,852.1 | 2,153.1 | 1,505.4 | 1,067.0 (1) |
| September | 1,033.1 | 1,715.3 | 1,462.0 | 675.8 | 2,415.1(1) |
| October | 703.4 | 1,522.2 | 1,522.5 | 2,175.8 | 1,724.2(1) |
| November | 529.2 | 1,661.9 | 1,973.0 | 1,625.7 | 1,305.7(1) |
| December | 890.0 | 1,558.0 | 1,287.4 | 1,018.4 | 1,791.4(1) |
| January | 1,271.7 | 1,948.2 | 1,995.5 | 1,597.6 | 2,174.2(1) |
| February | 988.4 | 1,591.3 | 1,551.2 | 1,334.9 | 1,211.4(1) |
| March | 891.4 | 924.8 | 860.1 | 368.3 | 1,087.9(1) |
| April | 1,335.9 | 2,246.0 | 1,823.8 | 2,001.3 | 1,997.4(1) |
| May | 1,515.1 | 2,363.0 | 1,643.4 | 1,829.7 | 1,671.5(1) |
| June | 844.3 | 2,200.4 | 2,096.7 | 2,276.6 | 2,379.9(1) |

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2014 ending balances are estimated for August through June.

The following tables provide cash flow detail for fiscal 2013 and fiscal 2014.

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Overview of Fiscal 2013 Non-Segregated Operating Cash Flow (in millions) (1)
(as of September 5, 2013)

| | <u>Jul-12</u> | <u>Aug-12</u> | <u>Sep -12</u> | <u>Oct-12</u> | <u>Nov -12</u> | <u>Dec-12</u> | <u>Jan-13</u> | <u>Feb-13</u> | <u>Mar-13</u> | <u>Apr-13</u> | <u>May-13</u> | <u>June-13</u> | Total FY 2013 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------------|
| Opening Non-Segregated Operating Cash Balance | \$2,096.7 | \$1,944.4 | \$1,505.4 | \$675.8 | \$2,175.5 | \$1,625.7 | \$1,018.4 | \$1,597.6 | \$1,334.9 | \$368.3 | \$2,001.3 | \$1,829.7 | \$2,096.7 |
| Operating Activities: | | | | | | | | | | | | | |
| Budgetary Funds: | | | | | | | | | | | | | |
| <i>Transfer from/(to) Stabilization Fund</i> | 0.0 | 0.0 | 4.0 | 0 | (114.3) | 0.0 | (94.6) | 0.0 | 0.0 | 17.1 | 1.4 | 275.8 | 89.5 |
| Total Budgetary Revenue/Inflows | 2,399.1 | 2,449.3 | 3,298.0 | 2,598.4 | 2,175.8 | 3,299.4 | 3,334.1 | 2,344.1 | 3,116.7 | 4,294.4 | 2,832.5 | 3,651.8 | 35,793.6 |
| Total Budgetary Expenditures/Outflows | 2,361.8 | 3,109.3 | 3,231.7 | 2,279.0 | 2,637.8 | 3,272.4 | 2,461.0 | 2,407.1 | 3,689.0 | 2,440.8 | 2,111.9 | 2,576.4 | 32,578.1 |
| Net Budgetary Funds | 37.4 | (660.1) | 66.3 | 319.4 | (462.0) | 27.1 | 873.1 | (63.0) | (572.3) | 1,853.6 | 720.7 | 1,075.4 | 3,215.5 |
| Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds): | | | | | | | | | | | | | |
| Total Non Budgetary Revenue/Inflows | 854.6 | 1,568.5 | 330.4 | 856.4 | 873.0 | 672.8 | 673.9 | 782.5 | 1,056.2 | 750.4 | 826.5 | 510.7 | 9,756.0 |
| Total Non Budgetary Expenditures/Outflows | 871.6 | 1,066.0 | 1,240.8 | 1,086.8 | 878.6 | 1,476.0 | 914.9 | 866.2 | 1,271.0 | 861.0 | 938.5 | 1,224.7 | 12,696.2 |
| Net Non Budgetary Funds | (17.0) | 502.4 | (910.4) | (230.4) | (5.6) | (803.2) | (241.0) | (83.7) | (214.8) | (110.6) | (111.9) | (714.0) | (2,940.2) |
| Net Undesignated Revenue/Inflows and Expenditures/Outflows | 1.1 | 1.6 | 3.3 | 1.6 | 1.2 | 9.0 | 1.5 | 0.9 | 5.3 | 1.3 | 4.3 | 2.6 | 33.9 |
| Net Operating Activities | \$21.5 | (\$156.0) | (\$840.9) | \$90.7 | (\$466.3) | (\$767.1) | \$633.7 | (\$145.8) | (\$781.8) | \$1,744.3 | \$613.1 | \$364.0 | \$309.2 |
| Federal Grants: | | | | | | | | | | | | | |
| Total Federal Grants Revenue/Inflows | 168.4 | 110.0 | 341.2 | 111.4 | 154.7 | 241.7 | 176.2 | 186.6 | 166.8 | 252.5 | 203.0 | 346.5 | 2,459.9 |
| Total Federal Grants Expenditures/Outflows | <u>242.6</u> | <u>247.8</u> | <u>164.2</u> | <u>146.1</u> | <u>183.0</u> | <u>239.6</u> | <u>193.1</u> | <u>222.1</u> | <u>227.9</u> | <u>213.6</u> | <u>212.5</u> | <u>227.5</u> | <u>2,520.1</u> |
| Net Federal Grants | (\$74.2) | (\$136.8) | \$177.0 | (\$34.7) | (\$28.3) | \$2.1 | (\$16.9) | (\$35.6) | (\$61.1) | \$38.9 | (\$9.5) | \$119.0 | (\$60.2) |
| Capital Funds: | | | | | | | | | | | | | |
| Total Capital Revenue/Inflows | 152.8 | 121.3 | 51.1 | 453.8 | 159.7 | 352.9 | 195.1 | 64.1 | 54.5 | 640.7 | 40.6 | 209.0 | 2,495.7 |
| Total Capital Expenditures/Outflows: | <u>252.4</u> | <u>267.5</u> | <u>216.8</u> | <u>223.7</u> | <u>214.9</u> | <u>195.2</u> | <u>232.7</u> | <u>145.4</u> | <u>178.3</u> | <u>184.1</u> | <u>208.1</u> | <u>245.1</u> | <u>2,564.0</u> |
| Net Capital Funds | (\$99.5) | (\$146.2) | (\$165.7) | \$230.1 | (\$55.2) | \$157.7 | (\$37.5) | (\$81.3) | (\$123.8) | \$456.5 | (\$167.5) | (\$36.1) | (\$68.4) |
| Financing Activities: | | | | | | | | | | | | | |
| Cash Flow Financing Activities Inflows: | | | | | | | | | | | | | |
| <i>Commercial Paper</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Revenue Anticipation Notes (RANS)</i> | 0.0 | 0.0 | 0.0 | 1,213.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,213.7 |
| Total Cash Flow Financing Activities Inflows | 0.0 | 0.0 | 0.0 | 1,213.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,213.7 |
| 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 | 606.7 | 607.7 | 0.0 | 1,214.4 |
| 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>606.7</u> | <u>607.7</u> | <u>0.0</u> | <u>1,214.4</u> |
| Net Financing Activities | \$ 0.0 | \$0.0 | \$0.0 | \$1,213.7 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | (\$606.7) | (\$607.7) | \$0.0 | (\$0.7) |
| Ending Non-Segregated Operating Cash Balance | \$1,944.4 | \$1,505.4 | \$675.8 | \$2,175.5 | \$1,625.7 | \$1,018.4 | \$1,597.6 | \$1,334.9 | \$368.3 | \$2,001.3 | \$1,829.7 | \$2,276.6 | \$2,276.6 |

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

Overview of Fiscal 2014 Non-Segregated Operating Cash Flow (in millions) (1)
(as of September 5, 2013)

| | <u>Jul-13</u> | <u>Aug-13 (2)</u> | <u>Sep -13 (2)</u> | <u>Oct-13 (2)</u> | <u>Nov -13 (2)</u> | <u>Dec-13 (2)</u> | <u>Jan-14 (2)</u> | <u>Feb-14 (2)</u> | <u>Mar-14(2)</u> | <u>Apr-14 (2)</u> | <u>May-14(2)</u> | <u>June-14(2)</u> | Total FY 2014 (2) |
|---|------------------|-------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------------------|
| Opening Non-Segregated Operating Cash Balance | \$2,276.5 | \$1,253.8 | \$1,067.0 | \$2,415.1 | \$1,724.2 | \$1,305.7 | \$1,791.4 | \$2,174.2 | \$1,211.4 | \$1,087.9 | \$1,997.4 | \$1,671.5 | \$2,276.5 |
| Operating Activities: | | | | | | | | | | | | | |
| Budgetary Funds: | | | | | | | | | | | | | |
| <i>Transfer from/(to) Stabilization Fund</i> | (145.6) | 350.0 | (33.6) | 0.0 | 0.0 | 25.4 | (18.3) | 0.0 | (16.9) | 0.0 | (18.3) | 1.4 | 144.2 |
| Total Budgetary Revenue/Inflows | 2,459.1 | 2,816.7 | 3,254.5 | 2,714.0 | 2,491.6 | 3,463.0 | 3,344.5 | 2,464.6 | 3,614.6 | 4,250.6 | 2,788.8 | 3,879.2 | 37,541.3 |
| Total Budgetary Expenditures/Outflows | 3,120.7 | 3,026.5 | 2,647.3 | 3,010.6 | 3,024.6 | 2,896.2 | 3,050.5 | 3,254.9 | 3,508.0 | 2,961.8 | 2,664.2 | 2,670.8 | 35,836.1 |
| Net Budgetary Funds | (661.7) | (209.8) | 607.1 | (296.5) | (532.9) | 566.8 | 294.0 | (790.3) | 106.6 | 1,288.8 | 124.7 | 1,208.4 | 1,705.2 |
| Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds): | | | | | | | | | | | | | |
| Total Non Budgetary Revenue/Inflows | 693.1 | 995.8 | 1,081.8 | 815.8 | 802.8 | 886.8 | 1,047.8 | 864.5 | 998.8 | 838.8 | 835.8 | 897.8 | 10,760.0 |
| Total Non Budgetary Expenditures/Outflows | 954.5 | 1,044.0 | 1,156.7 | 990.7 | 965.7 | 1,088.7 | 974.2 | 1,000.6 | 1,163.6 | 982.0 | 982.5 | 1,140.5 | 12,443.7 |
| Net Non Budgetary Funds | (261.4) | (48.2) | (74.9) | (174.9) | (162.9) | (201.9) | 73.6 | (136.1) | (164.8) | (143.2) | (146.7) | (242.7) | (1,683.7) |
| Net Undesignated Revenue/Inflows and Expenditures/Outflows | 0.7 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 11.7 |
| Net Operating Activities | (\$922.4) | (\$257.0) | \$533.3 | (\$470.4) | (\$694.8) | \$365.9 | \$368.7 | (\$925.3) | (\$57.2) | \$1,146.7 | (\$21.0) | \$966.7 | \$33.3 |
| Federal Grants: | | | | | | | | | | | | | |
| Total Federal Grants Revenue/Inflows | 163.6 | 180.0 | 210.0 | 175.0 | 170.0 | 200.0 | 175.0 | 175.0 | 192.0 | 175.0 | 180.0 | 200.5 | 2,196.1 |
| Total Federal Grants Expenditures/Outflows | <u>39.8</u> | <u>213.8</u> | <u>208.0</u> | <u>186.3</u> | <u>185.3</u> | <u>198.0</u> | <u>186.3</u> | <u>179.8</u> | <u>208.0</u> | <u>186.3</u> | <u>185.3</u> | <u>198.0</u> | <u>2,174.9</u> |
| Net Federal Grants | 123.8 | (\$33.8) | \$2.0 | (\$11.3) | (\$15.3) | \$2.0 | (\$11.3) | (\$4.8) | (\$16.0) | (\$11.3) | (\$5.3) | \$2.5 | \$21.2 |
| Capital Funds: | | | | | | | | | | | | | |
| Total Capital Revenue/Inflows | 48.5 | 456.7 | 324.7 | 115.5 | 576.7 | 419.0 | 300.2 | 237.6 | 219.2 | 227.0 | 302.8 | 379.7 | 3,607.8 |
| Total Capital Expenditures/Outflows: | <u>272.7</u> | <u>352.6</u> | <u>311.9</u> | <u>324.8</u> | <u>285.2</u> | <u>301.2</u> | <u>274.7</u> | <u>270.3</u> | <u>269.5</u> | <u>250.9</u> | <u>299.5</u> | <u>337.5</u> | <u>3,550.8</u> |
| Net Capital Funds | (224.2) | \$104.1 | \$12.8 | (\$209.3) | \$291.5 | \$117.8 | \$25.5 | (\$32.7) | (\$50.3) | (\$23.9) | \$3.3 | \$42.2 | \$57.0 |
| Financing Activities: | | | | | | | | | | | | | |
| 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 | 800.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 800.0 |
| Total Cash Flow Financing Activities Inflows | 0.0 | 0.0 | 800.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 800.0 |
| 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 | 202.0 | 303.0 | 303.0 | 808.0 |
| Total Cash Flow Financing Activities Outflows | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>202.0</u> | <u>303.0</u> | <u>303.0</u> | <u>808.0</u> |
| Net Financing Activities | 0.0 | \$0.0 | \$800.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | (\$202.0) | (\$303.0) | (\$303.0) | (\$8.0) |
| Ending Non-Segregated Operating Cash Balance | 1,253.8 | \$1,067.0 | \$2,415.1 | \$1,724.2 | \$1,305.7 | \$1,791.4 | \$2,174.2 | \$1,211.4 | \$1,087.9 | \$1,997.4 | \$1,671.5 | \$2,379.9 | \$2,379.9 |

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 (now the Massachusetts Development Finance Agency) and the Massachusetts State College Building Authority. See "Contingent Liabilities" below.

Statutory Limit on Direct Debt. Since December, 1989, state finance law has included a limit on the amount of outstanding "direct" bonds of the Commonwealth. For fiscal 2012, the debt limit was \$18.944 billion under the statute in place during fiscal 2012. In August, 2012, state finance law was amended, effective January 1, 2013, to specify that the debt limit be calculated for fiscal years starting in fiscal 2013 using a fiscal 2012 base value of \$17,070,000,000 and increasing the limit for each subsequent fiscal year to 105% of the previous fiscal year's limit. Based on this calculation, the statutory limit on "direct" bonds during fiscal 2014 is \$18,819,675,000. Prior to June 10, 2013, this limit was calculated using a statutory definition that differed from GAAP in that the principal amount of outstanding bonds included the amount of any premium and was measured net of any discount, costs of issuance and other financing costs ("net proceeds"). On June 10, 2013, state finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal outstanding, a change that brings the debt outstanding definition in conformance with GAAP.

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

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis. Previous versions of this table published in Commonwealth Information Statements and in the corresponding schedules to the Commonwealth's Comprehensive Annual Financial Reports contained incorrect information for fiscal 2011 and fiscal 2012. That information has been corrected in this table. For fiscal 2009 through fiscal 2012, the table below shows the calculation of the debt limit prior to the passage of the legislation approved on June 10, 2013, as described above, and is presented showing net proceeds. For fiscal 2013 the limit calculations are presented showing principal amounts as required by the amended law.

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Calculation of the Debt Limit
(in thousands)

| | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013 (3)</u> |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Principal balance as of June 30 | \$19,264,569 | \$19,726,507 | \$20,875,055 | \$21,433,553 | \$21,513,039 |
| Plus/ (less) amounts excluded: | | | | | |
| Net unamortized (discount)/premium and issuance costs | <u>216,890</u> | <u>216,688</u> | <u>335,078</u> | <u>477,815</u> | N/A |
| Total net proceeds/principal | 19,481,459 | 19,943,195 | 21,210,133 | 21,911,368 | \$21,513,039 |
| Less: net proceeds/principal of direct debt excluded from the statutory debt limit: | | | | | |
| Special obligation debt (1) | (1,100,698) | (1,063,500) | (1,025,739) | (986,050) | (935,095) |
| Accelerated bridge program | - | - | (672,587) | (1,035,859) | (988,605) |
| Federal grant anticipation notes (1) | (1,134,797) | (997,467) | (691,398) | (628,290) | (449,100) |
| Assumed county debt | (300) | (225) | (150) | (75) | - |
| MBTA forward funding | (231,000) | (165,559) | (45,907) | (207) | (207) |
| Transportation Infrastructure Fund School Building Assistance (SBA) | (1,401,581) | (1,243,250) | (1,362,894) | (1,345,406) | (1,303,013) |
| | <u>(921,751)</u> | <u>(894,502)</u> | <u>(841,841)</u> | <u>(811,088)</u> | <u>(764,338)</u> |
| Outstanding direct debt, net proceeds/principal (2) | <u>\$14,691,332</u> | <u>\$15,578,692</u> | <u>\$16,569,617</u> | <u>\$17,104,393</u> | <u>\$17,072,681</u> |
| Statutory Debt Limit | <u>\$16,365,011</u> | <u>\$17,183,261</u> | <u>\$18,042,424</u> | <u>\$18,944,152</u> | <u>\$17,923,500</u> |

SOURCE: Office of the Comptroller. Fiscal 2013 amounts are unaudited.

- (1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (2) Includes capital appreciation bonds reported at original net proceeds.
- (3) For fiscal 2009 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

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, 2013, the Commonwealth had approximately \$ 19.3 billion in general obligation bonds outstanding, of which \$15.6 billion, or approximately 81% was fixed rate debt and \$3.7 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 \$761.6 million of outstanding general obligation debt as of August 31, 2013. Other outstanding variable rate structures include LIBOR Index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. The variable rate demand bonds are generally supported by liquidity facilities that require the bonds to be tendered by a specified date if the facility is not replaced or the bonds are not otherwise refinanced. See "Liquidity Facilities." Certain of the Commonwealth's variable rate demand bonds have been converted to an "index floating mode" for direct purchase by a bank. As of August 31, 2013, the Commonwealth had approximately \$445.9 million of bonds in such a mode. Of the variable rate debt outstanding, the interest rates on \$2.9 billion, or approximately 15% 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 \$853.0 million, or approximately 4.42% 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, 2013, the Commonwealth had outstanding approximately \$122.5 million (\$65.6 million principal and including a discount equal to \$56.9 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. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment will be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011. 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, 2013, 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, 2013 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, 2013, the Commonwealth had outstanding \$ 296,395,000 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, 2013, the Commonwealth had outstanding \$988,605,000 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. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment will be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011. 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, 2013.

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, 2013, \$ 349.1 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, 2013, \$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. As noted above, on March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment will be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011. 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 2009 through fiscal 2013, exclusive of unamortized bond premiums:

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

| | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Beginning Balance as of July 1 | \$18,734,440 | \$19,264,569 | \$19,726,507 | \$20,875,055 | \$21,433,553 |
| Debt Issued | <u>1,887,108</u> | <u>1,669,088</u> | <u>2,233,368</u> | <u>1,759,627</u> | 1470,473 |
| Subtotal | <u>20,621,548</u> | <u>20,933,657</u> | <u>21,959,875</u> | <u>22,634,682</u> | <u>22,904,026</u> |
| Debt retired or defeased, exclusive of refunded debt | (1,227,029) | (1,207,150) | (974,770) | (1,202,094) | (1,386,527) |
| Refunding debt issued, net of refunded debt (3) | <u>(129,950)</u> | - | <u>(110,050)</u> | <u>965</u> | <u>(4,460)</u> |
| Ending Balance June 30 (2) | <u>\$19,264,569</u> | <u>\$19,726,507</u> | <u>\$20,875,055</u> | <u>\$21,433,553</u> | <u>\$21,513,039</u> |

SOURCE: Office of the Comptroller. Fiscal 2013 amounts are unaudited.

- (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 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013</u> |
|-------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| General Obligation Debt | \$17,051,724 | \$17,682,517 | \$18,516,760 | \$18,851,538 | \$19,140,239 |
| Special Obligation Debt | 1,078,630 | 1,052,620 | 1,591,505 | 1,971,630 | 1,923,700 |
| Federal Grant Anticipation Notes(1) | <u>1,134,215</u> | <u>991,370</u> | <u>766,790</u> | <u>610,385</u> | <u>449,100</u> |
| TOTAL | <u>\$19,264,569</u> | <u>\$19,726,507</u> | <u>\$20,875,055</u> | <u>\$21,433,553</u> | <u>\$21,513,039</u> |

SOURCE: Office of the Comptroller. Fiscal 2013 amount are unaudited.

- (1)The fiscal year 2009 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, 2013, 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, 2013 through Maturity (in thousands) (1)

| Period Ending | <u>General Obligation Bonds</u> | | | | | | <u>Federal Highway Grant Anticipation Notes</u> | | | | |
|---------------|---------------------------------|-----------------|--------------------|------------------------------|--------------------|---------------------|---|-----------------|------------------------------|-----------------|------------------|
| | Principal | CABs | Gross Interest | Build America Bond Subsidies | Net Interest | Debt Service | Principal | Gross Interest | Build America Bond Subsidies | Net Interest | Debt Service |
| 6/30/2014 | \$1,000,000 | \$ - | \$653,630 | \$(24,658) | \$628,972 | \$1,628,972 | \$170,710 | \$17,451 | \$(1,494) | \$15,957 | \$186,667 |
| 6/30/2015 | 1,352,428 | 7,686 | 816,536 | (36,557) | 779,979 | 2,140,093 | 178,390 | 9,773 | (1,494) | 8,279 | 186,669 |
| 6/30/2016 | 1,401,755 | 6,652 | 763,722 | (36,557) | 727,165 | 2,135,571 | 11,390 | 4,098 | (1,434) | 2,664 | 14,054 |
| 6/30/2017 | 1,150,307 | 5,580 | 710,013 | (36,557) | 673,456 | 1,829,342 | 11,635 | 3,720 | (1,302) | 2,418 | 14,053 |
| 6/30/2018 | 1,045,080 | 4,958 | 663,579 | (36,557) | 627,021 | 1,677,060 | 11,925 | 3,277 | (1,147) | 2,130 | 14,055 |
| 6/30/2019 | 917,352 | 4,234 | 619,243 | (36,557) | 582,686 | 1,504,273 | 12,245 | 2,780 | (973) | 1,807 | 14,052 |
| 6/30/2020 | 913,529 | 3,479 | 575,592 | (36,300) | 539,292 | 1,456,300 | 12,600 | 2,235 | (782) | 1,453 | 14,053 |
| 6/30/2021 | 1,130,754 | 3,071 | 523,959 | (35,014) | 488,946 | 1,622,771 | 12,985 | 1,648 | (577) | 1,071 | 14,056 |
| 6/30/2022 | 1,033,870 | 2,765 | 472,516 | (32,698) | 439,818 | 1,476,454 | 13,390 | 1,020 | (357) | 663 | 14,053 |
| 6/30/2023 | 851,165 | 2,556 | 427,242 | (31,412) | 395,830 | 1,249,552 | 13,830 | 348 | (122) | 226 | 14,056 |
| 6/30/2024 | 821,132 | 2,174 | 386,820 | (31,295) | 355,526 | 1,178,832 | - | - | - | - | - |
| 6/30/2025 | 772,393 | 2,160 | 349,132 | (31,295) | 317,838 | 1,092,390 | - | - | - | - | - |
| 6/30/2026 | 725,073 | 2,153 | 313,664 | (30,776) | 282,888 | 1,010,114 | - | - | - | - | - |
| 6/30/2027 | 631,178 | 2,170 | 282,120 | (30,203) | 251,917 | 885,265 | - | - | - | - | - |
| 6/30/2028 | 623,216 | 2,290 | 254,707 | (28,953) | 225,753 | 851,259 | - | - | - | - | - |
| 6/30/2029 | 654,263 | 1,725 | 224,894 | (26,687) | 198,207 | 854,195 | - | - | - | - | - |
| 6/30/2030 | 615,172 | 1,323 | 192,933 | (22,892) | 170,041 | 786,536 | - | - | - | - | - |
| 6/30/2031 | 539,780 | 1,082 | 159,321 | (16,808) | 142,514 | 683,376 | - | - | - | - | - |
| 6/30/2032 | 306,037 | 582 | 142,547 | (14,776) | 127,771 | 434,390 | - | - | - | - | - |
| 6/30/2033 | 274,443 | 274 | 128,196 | (12,440) | 115,756 | 390,473 | - | - | - | - | - |
| 6/30/2034 | 350,550 | - | 113,615 | (11,068) | 102,547 | 453,097 | - | - | - | - | - |
| 6/30/2035 | 294,845 | - | 98,299 | (9,647) | 88,651 | 383,496 | - | - | - | - | - |
| 6/30/2036 | 304,405 | - | 83,912 | (8,177) | 75,735 | 380,140 | - | - | - | - | - |
| 6/30/2037 | 310,250 | - | 69,019 | (6,654) | 62,365 | 372,615 | - | - | - | - | - |
| 6/30/2038 | 295,825 | - | 53,801 | (5,077) | 48,724 | 344,549 | - | - | - | - | - |
| 6/30/2039 | 226,585 | - | 41,172 | (3,445) | 37,727 | 264,312 | - | - | - | - | - |
| 6/30/2040 | 195,820 | - | 30,304 | (1,609) | 28,695 | 224,515 | - | - | - | - | - |
| 6/30/2041 | 171,095 | - | 21,138 | - | 21,138 | 192,233 | - | - | - | - | - |
| 6/30/2042 | 145,325 | - | 13,885 | - | 13,885 | 159,210 | - | - | - | - | - |
| 6/30/2043 | 182,600 | - | 9,912 | - | 9,912 | 192,512 | - | - | - | - | - |
| 6/30/2044 | 50,000 | - | 1,125 | - | 1,125 | 51,125 | - | - | - | - | - |
| Totals | \$19,286,228 | \$56,914 | \$9,196,547 | \$(634,670) | \$8,561,877 | \$27,905,019 | \$449,100 | \$46,349 | \$(9,682) | \$36,667 | \$485,767 |

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

Special Obligation Revenue Bonds
(Convention Center)

Special Obligation Revenue Bonds
(CTF- Accelerated Bridge Program)

Special Obligation Revenue Bonds
(Gas Tax)

| Period Ending | Principal | Gross Interest | Debt Service | Principal | Gross Interest | Build America Bond Subsidies | Net Interest | Debt Service | Principal | Interest | Debt Service |
|-------------------|------------------|------------------|--------------------|------------------|------------------|------------------------------|------------------|--------------------|------------------|-----------------|------------------|
| 6/30/2014 | \$ - | \$17,243 | \$17,243 | \$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 | - | - | - | - | - | - | - | - | - | - | - |
| 6/30/2043 | - | - | - | - | - | - | - | - | - | - | - |
| 6/30/2044 | - | - | - | - | - | - | - | - | - | - | - |
| Totals (1) | \$638,700 | \$440,109 | \$1,078,809 | \$988,605 | \$949,691 | \$(255,943) | \$693,749 | \$1,682,354 | \$296,395 | \$73,626 | \$370,021 |

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

Interest Rate Swaps

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. Approximately \$2.9 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, 2013, 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 \$2.9 billion effectively matches the par amount of the related variable-rate bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.486% to 5.25% 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. A formal mediation commenced on November 19, 2012, and concluded without resolution.

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The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of August 31, 2013.

| 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 8/31/2013 | Counterparty |
|--|--|--------------------|------------------------------|-------------------------------------|----------------|-------------------|----------------------------|---|
| <i>General Obligation Bonds:</i> | | | | | | | | |
| Series 1997B (refunding) | \$54,075 | VRDB | 4.659% | Cost of Funds | 8/12/1997 | August 1, 2015 | \$(3,416,580) | Goldman Sachs Matsui Marine Derivative Products Co., LP |
| Series 1997B (refunding) | 36,050 | VRDB | 4.659% | SIFMA | 9/1/2010 | August 1, 2015 | (2,241,920) | Sumitomo Mitsui Banking Corp |
| Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B | 181,191 | VRDB | 4.174% | 60% 1-Month LIBOR + 25 basis points | 11/17/2008 | September 1, 2016 | (9,516,549) | Deutsche Bank AG |
| Series 1998A (refunding) | 120,794 | VRDB | 4.174% | Cost of Funds | 9/17/1998 | September 1, 2016 | (6,721,488) | Citi Swapco, Inc |
| Series 2001B & C | 491,755 | VRDB | 4.150% | Cost of Funds | 2/20/2001 | January 1, 2021 | (66,888,578) | Morgan Stanley Capital Services |
| Series 2003B | 58,765 | CPI | 4.500% | CPI-based formula | 3/12/2003 | December 1, 2014 | (769,058) | Goldman Sachs Matsui Marine Derivative Products Co., LP |
| Series 2003B | 10,000 | CPI | 4.500% | CPI-based formula | 10/8/2008 | December 1, 2013 | (63,853) | Deutsche Bank AG |
| Series 2010A, 2011A, 2012A & 2013A (refunding) | 523,745 | SIFMA | 3.486% - 4.004% | SIFMA | 3/15/2005 | February 1, 2028 | (69,783,486) | Citibank N.A. |
| Series 2006C (refunding) | 100,000 | CPI | 3.73%-3.85% | CPI-based formula | 1/1/2007 | November 1, 2020 | (4,435,029) | Citibank N.A. |
| Series 2007A | 400,000 | LIBOR | 4.420% | 67% 3-Month LIBOR + 0.57% | 10/8/2008 | May 1, 2037 | (36,394,122) | Barclays Bank PLC |
| Series 2007A (refunding) | 31,665 | LIBOR | 3.936% | 67% 3-Month LIBOR + 0.46% | 10/8/2008 | November 1, 2020 | (4,090,909) | Deutsche Bank AG |
| Series 2007A (refunding) | 414,130 | LIBOR | 4.083% | 67% 3-Month LIBOR + 0.55% | 10/8/2008 | November 1, 2025 | (58,787,582) | Bank of NY Mellon |

| 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 8/31/2013 | Counterparty |
|---|--|--------------------|------------------------------|-----------------------------|----------------|------------------|----------------------------|---------------------------------|
| Series 2000A | \$105,417 | VRDB | 3.942% | SIFMA - 3 basis points | 8/16/2007 | August 1, 2018 | \$(10,944,440) | Merrill Lynch Capital Services |
| Series 2000A | 53,108 | VRDB | 3.942% | SIFMA - 3 basis points | 8/16/2007 | August 1, 2018 | (5,523,365) | JP Morgan formerly Bear Stearns |
| Series 2006B, Series 2000D | 294,000 | VRDB/ ARS | 4.515% | 67% 3- MonthLIBOR | 4/2/2009 | June 15, 2033 | (76,887,955) | Barclays Bank PLC |
| Subtotal | \$2,874,695 | | | | | | \$(356,464,914) | |
| <i>Special Obligation Dedicated Tax Revenue Bonds</i> | | | | | | | | |
| Series 2004 (Convention Ctr) | \$28,863 | CPI | 4.45% - 5.25% | CPI-based formula | 6/29/2004 | January 1, 2018 | \$(1,407,888) | Goldman Sachs Capital Markets |
| Series 2004 (Convention Ctr) | 28,864 | CPI | 4.45% - 5.25% | CPI-based formula | 6/29/2004 | January 1, 2018 | (1,450,842) | JP Morgan formerly Bear Stearns |
| Series 2004 (Convention Ctr) | 28,863 | CPI | 4.45% - 5.25% | CPI-based formula | 6/29/2004 | January 1, 2018 | (1,450,780) | JPMorgan Chase Bank |
| Series 2005A (Gas Tax) | 96,490 | CPI | 4.771% - 5.059% | CPI-based formula | 1/12/2005 | June 1, 2022 | (5,999,690) | Merrill Lynch Capital Services |
| Subtotal | \$183,080 | | | | | | \$(10,309,200) | |
| Total | \$3,057,775 | | | | | | \$(366,774,114) | |

SOURCE: Office of the Treasurer and Receiver General.

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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 bond purchase agreements with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. The following table describes the liquidity facilities that the Commonwealth had with respect to such bonds as of August 31, 2013.

| <u>Variable Rate Bonds</u> | <u>Outstanding Principal Amount (in thousands)</u> | <u>Bank</u> | <u>Termination Date</u> |
|-----------------------------------|---|--------------------|--------------------------------|
| 1997 Series B (Refunding) | \$90,125 | TD Bank | 8/10/2015 |
| 2000 Series A | 200,000 | Bank of America | 12/23/2014 |
| 2000 Series B | 75,590 | US Bank | 5/22/2015 |
| 2001 Series C (Refunding) | 245,880 | State Street Bank | 2/20/2014 |
| 2006 Series A | 150,000 | Wells Fargo Bank | 8/15/2014 |

SOURCE: Office of the Treasurer and Receiver General.

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 TD 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.

Direct Purchase Agreements

Certain of the Commonwealth's variable rate demand bonds have been converted to an "index floating mode" for direct purchase by a bank. The following table describes the Commonwealth's direct purchase agreements, each with a different bank, as of August 31, 2013.

| <u>Direct Purchase Bonds</u> | <u>Outstanding Principal Amount (in thousands)</u> | <u>Mandatory Tender Date</u> |
|-------------------------------------|---|-------------------------------------|
| 2001 Series B (Refunding) | \$245,875 | 2/3/2014 |
| 2006 Series B, Subseries B-1 | 100,000 | 5/31/2016 |
| 2006 Series B, Subseries B-2 | 100,000 | 5/31/2016 |

SOURCE: Office of the Treasurer and Receiver General.

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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 40th 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 may bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's 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 full faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of August 31, 2013 the Trust had approximately \$3.32 billion of bonds outstanding. Approximately 9.66% 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 bond anticipation notes in anticipation of the issuance of bonds to finance certain public infrastructure costs at a development in Somerville, Massachusetts. Renewals of these notes are expected to be financed by special obligation bonds issued in 2014.

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 August 31, 2013, approximately \$28.1 million of such bonds were outstanding.

The following table sets forth the Commonwealth's general obligation contract assistance requirements for fiscal 2014 and thereafter 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.

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> |
|--------------------|--|---|---|---------------------------|
| 2014 | \$63,056 | \$125,000 | \$2,176 | \$190,232 |
| 2015 | 59,376 | 125,000 | 2,544 | 186,920 |
| 2016 | 54,463 | 125,000 | 2,546 | 182,009 |
| 2017 | 47,290 | 125,000 | 2,545 | 174,835 |
| 2018 | 41,485 | 125,000 | 2,543 | 169,028 |
| 2019 | 41,187 | 125,000 | 2,545 | 168,732 |
| 2020 | 35,793 | 125,000 | 2,544 | 163,337 |
| 2021 | 28,898 | 125,000 | 2,546 | 156,444 |
| 2022 | 19,650 | 125,000 | 2,547 | 147,197 |
| 2023 | 19,977 | 125,000 | 2,543 | 147,520 |
| 2024 | 11,865 | 125,000 | 2,544 | 139,409 |
| 2025 | 7,853 | 125,000 | 2,544 | 135,397 |
| 2026 | 5,644 | 125,000 | 2,547 | 133,191 |
| 2027 through 2049 | <u>11,431 (1)</u> | <u>1,875,000</u> | <u>36,968</u> | <u>1,923,399</u> |
| Total | <u>\$447,968</u> | <u>\$3,500,000 (2)</u> | <u>\$69,682</u> | <u>\$4,017,650</u> |

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 December 31, 2012, the Route 3 North Transportation Improvements Association had \$5.52 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 approximately \$400,000 in ground rent for fiscal 2014.

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 August 31, 2013, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately \$162.9 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 formal mediation process commenced on October 11, 2012 and concluded without resolution. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 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> |
|--------------------|---|--|-----------------------------|-------------------------|
| 2014 | \$1,130 | \$9,534 | \$120,048 | \$130,712 |
| 2015 | 1,128 | 9,629 | 100,586 | 111,343 |
| 2016 | 1,129 | 9,701 | 83,542 | 94,372 |
| 2017 | 1,116 | 9,775 | 65,171 | 76,062 |
| 2018 | -- | 9,851 | 57,317 | 67,168 |
| 2019 | -- | 9,930 | 48,248 | 58,178 |
| 2020 | -- | 10,037 | 39,024 | 49,061 |
| 2021 | -- | 10,120 | 23,725 | 33,845 |
| 2022 | -- | 10,206 | 16,368 | 26,574 |
| 2023 | -- | 10,295 | 14,179 | 24,474 |
| 2024 | -- | 10,386 | 14,269 | 24,655 |
| 2025 | -- | 10,506 | 13,352 | 23,858 |
| 2026 through 2036 | -- | <u>122,886</u> | <u>84,930</u> | <u>207,816</u> |
| Total | <u>\$4,503</u> | <u>\$242,856</u> | <u>\$680,759</u> | <u>\$928,118</u> |

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 August 31, 2013, the Massachusetts Bay Transportation Authority had approximately \$388.8 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 \$118 million to \$87 million through fiscal 2015 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 August 31, 2013 the Steamship Authority had approximately \$52.85 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 August 31, 2013, the Massachusetts State College Building Authority had approximately \$21.95 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 \$129.5 million of Commonwealth-guaranteed debt outstanding as of August 31, 2013.

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, 2013, MassHousing had outstanding approximately \$195.0 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, 2012, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately \$161.6 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.

In 2008, the Legislature enacted a series of five-year bond authorizations to fund the Commonwealth’s Capital Investment Plan. See “COMMONWEALTH CAPITAL INVESTMENT PLAN.” To continue funding the plan, the Governor will soon file bond authorization bills for investments in housing, energy and environment, state buildings, information technology, state military facilities, public safety, and grants to municipalities. In addition, the Governor will file a bond authorization bill to fund the transportation investment plan that was released with his fiscal 2014 budget recommendations. See “FISCAL 2013 AND FISCAL 2014 – Fiscal 2014.” Consistent with the current policies of the Executive Office for Administration and Finance, capital spending and subsequent debt issuance will continue to be constrained by the debt affordability policy and the statutory debt limit, and will be published annually in the Capital Investment Plan.

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COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, 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.

On October 8, 2012, the Governor released a five-year capital investment plan for fiscal 2013 through fiscal 2017, totaling over \$16.7 billion. With the release of the plan, the Governor announced that the bond cap is expected to be \$1.875 billion for fiscal 2013, plus \$93 million in unused bond cap from fiscal 2012 which has been carried forward to support spending in fiscal 2013. The bond cap for fiscal 2014 is projected to be \$2 billion, and the bond cap for fiscal 2015 through fiscal 2017 is projected to be \$2.125 billion. Future debt affordability analysis may show sufficient revenue growth to permit a higher bond cap in the out-years of the current five-year plan.

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 2013 estimate was based on the adopted fiscal 2013 budget. For purposes of projecting budgeted revenue in future fiscal years, projected increases to budgeted revenues are the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years. The compound annual growth rate in budgeted revenues from fiscal 2002 through fiscal 2012 was 4.32%. To be consistent with the debt affordability policy, a 3% compound growth rate was applied to fiscal 2013 revenues and to each year thereafter.

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 2013 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, 2012.

| | Bond Cap (in thousands) | | | | |
|--|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>Fiscal 2013</u> | <u>Fiscal 2014</u> | <u>Fiscal 2015</u> | <u>Fiscal 2016</u> | <u>Fiscal 2017</u> |
| Bond Cap (1) | \$1,968,000 | \$2,000,000 | \$2,125,000 | \$2,125,000 | \$2,125,000 |
| Total Debt Service Obligations | 2,475,157 | 2,543,845 | 2,649,731 | 2,903,383 | 2,688,323 |
| Estimated Budgeted Revenues | 33,604,667 | 34,611,145 | 35,648,368 | 36,715,024 | 37,829,139 |
| Debt Service as % of Budgeted Revenues | 7.37% | 7.35% | 7.43% | 7.91% | 7.11% |

SOURCE: Executive Office for Administration and Finance..

(1) Includes \$93 million of fiscal 2012 unused bond cap that has been carried forward to fiscal 2013.

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 2008 through fiscal 2012 according to these categories.

Commonwealth Historical Capital Spending (in millions) (1)

| Investment Category: | <u>Fiscal 2008</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Information technology | \$ 65 | \$ 97 | \$ 100 | \$ 119 | \$ 120 |
| Infrastructure/facilities | 186 | 333 | 391 | 458 | 518 |
| Environment | 188 | 246 | 158 | 142 | 131 |
| Housing | 172 | 252 | 318 | 174 | 185 |
| Public safety | 19 | 21 | 11 | 7 | 17 |
| Transportation | 1,109 | 1,388 | 1,694 | 1,512 | 1,740 |
| Convention centers | - | - | 5 | - | - |
| Other | 43 | 96 | 108 | 127 | 126 |
| Total (1) | <u>\$1,782</u> | <u>\$2,432</u> | <u>\$2,785</u> | <u>\$2,539</u> | <u>\$2,837</u> |

SOURCE: Executive Office for Administration and Finance and Office of the State Comptroller.

(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 2013 through fiscal 2017 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 2013 through fiscal 2017.

Capital Investment Plan – Total Bond Cap (in millions)

| Investment Category: | Fiscal 2013(2) | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 | Fiscal 2017 | 5-Year Total | % of 5-Year Total |
|-----------------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------------|
| Community Investments | \$292 | \$285 | \$277 | \$273 | \$273 | \$1,401 | 14% |
| Corrections | 37 | 55 | 57 | 64 | 77 | 289 | 3% |
| Courts | 20 | 76 | 128 | 148 | 114 | 486 | 5% |
| Economic Development | 138 | 129 | 139 | 150 | 148 | 704 | 7% |
| Energy/Environment | 167 | 159 | 114 | 86 | 87 | 614 | 6% |
| Health/Human Services | 28 | 38 | 70 | 75 | 102 | 312 | 3% |
| Higher Education | 177 | 260 | 293 | 288 | 282 | 1,300 | 13% |
| Housing | 180 | 170 | 170 | 170 | 170 | 858 | 8% |
| Information Technology | 174 | 102 | 119 | 121 | 120 | 636 | 6% |
| Public Safety | 28 | 38 | 67 | 67 | 51 | 251 | 2% |
| State Buildings/Facilities | 74 | 64 | 73 | 59 | 68 | 337 | 3% |
| Transportation | 653 | 624 | 620 | 625 | 634 | 3,156 | 31% |
| Total (1) | \$1,968 | \$2,000 | \$2,125 | \$2,125 | \$2,125 | \$10,343 | 100% |

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2012.

(1) Totals may not add due to rounding.

(2) Includes \$1.875 billion in Bond Cap and \$93 million in unused capacity from the prior fiscal year.

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

| Investment Category: | Fiscal 2013 | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 | Fiscal 2017 | 5-Year Total | % of 5-Year Total |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------------|
| Community Investments | \$323 | \$315 | \$305 | \$300 | \$301 | \$1,543 | 9% |
| Corrections | 37 | 55 | 57 | 64 | 77 | 289 | 2% |
| Courts | 20 | 76 | 133 | 163 | 119 | 511 | 3% |
| Economic Development | 188 | 154 | 164 | 175 | 173 | 854 | 5% |
| Energy/Environment | 267 | 287 | 221 | 143 | 133 | 1,051 | 6% |
| Health/Human Services | 31 | 40 | 89 | 104 | 106 | 369 | 2% |
| Higher Education | 248 | 326 | 310 | 291 | 285 | 1,460 | 9% |
| Housing | 180 | 170 | 170 | 170 | 170 | 858 | 5% |
| Information Technology | 237 | 211 | 178 | 177 | 140 | 942 | 6% |
| Public Safety | 40 | 52 | 73 | 67 | 51 | 282 | 2% |
| State Buildings/Facilities | 74 | 64 | 73 | 59 | 68 | 337 | 2% |
| Transportation | 1,631 | 1,776 | 1,686 | 1,648 | 1,431 | 8,172 | 49% |
| Total (1) | \$3,275 | \$3,526 | \$3,456 | \$3,359 | \$3,052 | \$16,668 | 100% |

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2012.

(1) Totals may not add due to rounding.

The following table shows the sources of capital funds for fiscal 2013 and the estimated sources of funds for the next five fiscal years. The different sources of funding for the capital program, as reflected in the table, include:

- State Bond Cap – Commonwealth borrowing to support the regular capital program.
- Federal Funds – Federal reimbursements for capital expenditures.
- Other Funds – Contributions made by third parties to capital projects being carried out by the Commonwealth.
- Project Financed – General obligation bonds, the debt service for which is budgeted from savings or new revenue related to the project, including the CEIP program where Commonwealth bonds are to be paid with savings achieved as a result of energy efficiencies.
- Pay-As-You-Go – Funding from current revenue for capital projects.
- Accelerated Bridge Program (ABP) – 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.

Capital Investment Plan – Sources of Funds (in millions)

| | State Bond Cap | Federal Funds | Project Financed | Pay-As-You-Go | Other Funds | Accelerated Bridge Program | Total |
|-----------------------------|-------------------|----------------|---------------------|---------------|----------------|-------------------------------|-----------------|
| 2013 (1) | \$1,968 | \$669 | \$127 | \$15 | \$87 | \$360 | \$3,227 |
| 2014 | 2,000 | 702 | 177 | - | 86 | 561 | 3,526 |
| 2015 | 2,125 | 606 | 145 | - | 42 | 532 | 3,451 |
| 2016 | 2,125 | 666 | 106 | - | 13 | 435 | 3,344 |
| 2017 | 2,097 | 656 | 79 | - | 8 | 178 | 3,019 |
| 5-year total (2) | \$10,315 | \$3,299 | \$634 | \$15 | \$237 | \$2,067 | \$16,566 |

SOURCE: Executive Office for Administration and Finance.

(1) Fiscal 2013 includes \$1.875 billion in bonds issued under the bond cap and \$93 million in unused capacity from the prior fiscal year.

(2) 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.

LEGAL MATTERS

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

Programs and Services

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

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February, 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July, 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has undertaken implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. MassHealth estimates that its implementation of program changes in compliance with the remedy order will increase its costs, including administrative costs, prospectively by over \$20 million annually. Although the monitoring period had most recently been set to expire December 31, 2012, the court entered an order in June, 2013, extending monitoring through December 31, 2013, and raised the possibility of further extensions. The Commonwealth maintains that it is in full compliance with the court's judgment, but plaintiffs disagree. The court has indicated that it cannot determine that the Commonwealth is in compliance without an evidentiary hearing and has ordered the parties to work together to narrow the issues of disagreement.

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 likely will not be argued to the court until 2014.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court. 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. A bench trial began in January, 2013 and is currently on hiatus. Plaintiffs have rested their case. The Court has under advisement the defendants' motion for judgment on the record, filed on April 30, 2013. 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, Massachusetts Appeals Court, with Application for Direct Appellate Review pending in the Supreme Judicial Court. The Service Employees International Union ("SEIU") has challenged the Department of Mental Health's contracts for the provision of Community Based Flexible Supports ("CBFS") as unlawful privatization contracts under the so-called Pacheco Law (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. By Memorandum of Decision and Order dated March 8, 2013, the court (Hopkins, J.) allowed the Department's motion, and on March 24, 2013, judgment entered dismissing the case. SEIU subsequently filed a Notice of Appeal, and that appeal is pending. In addition to its defenses based on lack of subject matter jurisdiction and failure to name necessary parties, the Department 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.

Hutchinson et al v. Patrick et al, United States District Court, Massachusetts. This is a class action, commenced in 2007, brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of between 2,000 and 4,000 brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs asserted claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act; they sought declaratory and injunctive relief.

After the court certified a class in October 2007, the parties engaged in an intensive period of settlement negotiations. In May, 2008, the parties entered into a settlement agreement ("Agreement"). Under the terms of the Agreement, the state defendants were to create two new home- and community-based programs to serve brain-injured individuals. These programs were subject to federal approval by the Centers for Medicare and Medicaid Services ("CMS") under Section 1115 of the Social Security Act. After it became apparent that CMS would not approve one of these programs, the plaintiffs served defendants with a Notice of Noncompliance pursuant to the Agreement. The parties engaged in substantial negotiations over how to address this issue and, after formal mediation sessions, the parties executed an Amended Settlement Agreement. The Amended Settlement Agreement received final approval from the court on July 11, 2013.

Under the terms of the Amended Settlement Agreement, the defendants will use the Massachusetts Money Follows the Person Demonstration Project ("MFP Project") and various waiver programs to provide community residential and non-residential supports in an integrated setting to Massachusetts Medicaid-eligible persons with an acquired brain injury who are in nursing and long-term rehabilitation facilities ("Class Members in Facilities").

Over the six-year term of the Agreement, the defendants will provide between 905 and 1,174 waiver slots for Class Members in Facilities. The exact number of slots to be added will depend on the level of demand for waiver services.

Demand for additional waiver slots will be determined based on the 12-month period ending on September 30 for each year in years 3, 4 and 5. If at least one Class Member in a Facility is denied waiver services due to lack of capacity in the MFP Project and waiver programs, then demand is considered to have exceeded capacity for that year. If demand exceeds capacity in a given year, the following year capacity will be increased by 125% of the number of slots added in the prior year. If demand does not exceed capacity in a given year, the following year's capacity will be increased by 100% of the number of slots added in the prior year.

The cost of implementing these programs is projected to be approximately \$386 million, with approximately half of that amount expected to be reimbursed by the federal government. These costs will be phased in over the six-year term of the agreement. The net state cost in fiscal 2014 is expected to be \$11.5 million, which is projected to be absorbed within MassHealth's fiscal 2014 appropriation. The net state cost in the sixth year of the agreement (fiscal 2019) is expected to be \$56.2 million. The net state cost in the sixth year represents the expected annualized cost of these programs going forward.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. Updated federal regulations on health care-related taxes took effect June 30, 2010. By the end of pool fiscal year 2013, the Commonwealth will have collected an estimated \$5.317 billion in acute hospital assessments since 1990 and an estimated \$2.197 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 (DAB) on June 12, 2012. Oral argument was held on June 18, 2013.

In re: Office of the Inspector General Report Number: A-01-12-0006 (Claiming the correct Federal medical assistance percentage for claim adjustments made to the Form CMS-64). On April 6, 2012, the federal Office of the Inspector General (OIG) initiated an audit of MassHealth's federal reporting of certain claims with dates of service between January 1, 2006 and December 31, 2010. The OIG has not yet issued a draft report but has stated orally that its recommended financial findings could be as much as \$133 million. An exit conference is scheduled for September 13, 2013. The OIG has stated orally that it expects to issue a draft report by the end of calendar year 2013. EOHHS is in the process of reviewing the OIG's working papers and evaluating response options to this potential audit finding. Such options include legal defenses as well as applying the OIG's claims methodology to other datasets that might yield significant financial off-sets to the initial finding amount. The strength of these off-sets and legal defenses will need to be further assessed once the OIG issues its draft report and EOHHS completes its review of the OIG's methodology. EOHHS will have 30 days to respond to the draft report once it is issued.

In re: Centers for Medicare and Medicaid Financial Management Review: 01-MS-2012-MA-01 (Massachusetts Medicaid Nursing Facility User Fees – Federal Fiscal Year 2010). On November 10, 2011, the Centers for Medicare and Medicaid Services (CMS) Office initiated a financial review of Massachusetts' Nursing Facility User Fees for federal fiscal year 2010. On September 4, 2013, CMS issued a draft report. In its report, CMS referenced that the Commonwealth collected \$220.7 million in federal fiscal year 2010 in nursing facility user fees and that non-compliance with requirements for federal funding could result in recoupment of federal funds. The findings and recommendations included a request to submit a new application for a waiver of federal requirements applicable to the user fee. CMS has asked EOHHS to develop a new tax structure governing the imposition of Massachusetts Medicaid nursing facility user fees to ensure that the Commonwealth can maintain compliance with federal funding requirements. EOHHS has until October 4, 2013 to respond to the draft report.

Taxes

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Supreme Judicial Court (SJC) and Appellate Tax Board (ATB). 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 M.G.L. 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 if amended to include a lack of good faith. Dell filed a third-party complaint against the Commissioner of Revenue, seeking a declaration that the sales taxes it collected (and paid) on service contracts were wrongfully collected and should be paid back. The Commissioner successfully moved to stay Dell's third-party action until Dell had fully prosecuted appeals from the denials of the abatement petitions that Dell had filed with the Appellate Tax Board, seeking return of the same sales taxes. On April 27, 2011, the U.S. Supreme Court issued a decision in *AT&T Mobility v. Concepcion*, in which it held that arbitration clauses cannot be overruled by state laws or court rulings because the Federal Arbitration Act (FAA) preempts state laws. Citing *Concepcion*, Dell filed a motion to dismiss in Superior Court to confirm an arbitration award and bar the class action, which was denied. The Appeals Court allowed Dell's motion for interlocutory review of the ruling, and the SJC subsequently granted Dell's application for direct appellate review. Following receipt of amicus briefs, the case was argued before the SJC on December 4, 2012, and on June 12, 2013, the SJC ruled against Dell, distinguishing *Concepcion* and finding that the arbitration clause was invalid. Subsequently, on June 20, 2013, the U. S. Supreme Court issued a decision in *American Express Co. v. Italian Colors Restaurant*, No. 12-133. On June 26, 2013, Dell filed a petition for rehearing with the SJC, arguing that the Supreme Court's *American Express* decision overrules the SJC's June 12, 2013 decision. By Opinion dated August 1, 2013, the SJC reversed the lower court's denial of the renewed motion to confirm the arbitration award and remanded the case to the Superior Court. A conference will be held in the Superior Court in September 2013.

Dell's sales tax appeals were heard by the Appellate Tax Board on June 12, 2013 — coincidentally, the same day the SJC issued its decision relating to the Superior Court matter. The ATB case was presented on a lengthy stipulation of facts together with over 6,500 pages of exhibits. Post-hearing briefs will be due by October 13, 2013 and reply briefs will be due by November 1, 2013. The ATB has also requested legal memoranda by September 10, 2013 on whether the August 1st SJC opinion has any legal effect on the ATB appeals.

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. But on November 21, 2012, the Court (Billings, J.) granted summary judgment in favor of the Department, declaring that M.G.L. c. 64M, §§ 1 *et seq.*, which imposes a tax on direct broadcast satellite services, does not violate the Commerce Clause or the Equal Protection Clause of the U.S. Constitution. The providers appealed on January 25, 2013. The Superior Court is currently assembling the record. In late 2012, the providers also filed petitions for relief with the Appellate Tax Board. A status conference in the Board proceedings is scheduled for November 7, 2013.

Allied Domecq Spirits & Wines USA, Inc. v. Commissioner of Revenue, Appellate Tax Board. This case, which if resolved adversely to the Commissioner could mean a loss of \$31.7 million in tax revenue, involves two major issues. The first is a finding of no nexus by the auditor with respect to a subsidiary with large losses. The second issue is a *Syms*-type intangible holding company case involving Allied Domecq's subsidiary, Dunkin Donuts. While there is a clear circular flow of funds, the holding company does appear to have employees. The ATB bifurcated the case, and the 'no nexus' adjustment was tried on April 15, 2009. On April 1, 2010, the Board decided the 'no nexus' issue in the Commissioner's favor. The parties agreed to settle the case by settling all the issues other than the one the Board has decided, so that the taxpayer can then appeal the Board's decision on that one issue. After signing a settlement agreement, the parties filed a stipulation with the ATB, which then issued a decision on November 9, 2011. On May 22, 2013, the Appellate Tax Board issued Findings of Fact and a Report in favor of the Commissioner in the corporate excise tax case for the years ended August 31, 1996 through August 31, 2004. The Commissioner argued that the losses of Allied Domecq's affiliate, Allied Domecq North America Corporation ("ADNAC"), had been properly excluded from Allied Domecq's Massachusetts combined group because the transactions that ADNAC relied on as creating nexus with Massachusetts lacked business purpose or economic substance. Appellant filed a notice of appeal within 60 days of the date of the ATB decision and has docketed its appeal with the Appeals Court.

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 Disputes)

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

(a) (2003 NPM Adjustment) The PMs seek to reduce, by approximately \$1.1 billion, the MSA payments they made to the States for 2003 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. In January, 2009, Massachusetts and other settling states entered into an agreement with the PMs to arbitrate the 2003 NPM Adjustment dispute. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the dispute. As consideration for the States' assent to this agreement, the PMs agreed, among other things, to release the funds withheld from their April, 2008 MSA payments in connection with the 2005 NPM adjustment dispute (discussed below). Notwithstanding this release of funds, the PMs continue to contest the States' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released approximately \$21.8 million in withheld 2005 MSA payments to the Commonwealth.

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, the Commonwealth'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 fiscal 2014, after resolution of the contested states' claims by the arbitration panel. Those hearings concluded in May, 2013, and the parties await the arbitration panel's rulings. Any post-arbitration litigation could further delay payment of this additional amount.

(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 PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2004 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$17 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2004 sales, depending upon the outcome of similar NPM proceedings against other states.

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

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

(e) (2007 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$791 million, the MSA payments they made to the States for 2007 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2007 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$9 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.

(f) (2008 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$888 million, the MSA payments they made to the States for 2008 sales. This amount is subject to revision until a Final Calculation in March, 2013. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2008 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$2 million, plus interest, up to but not

exceeding the full amount of the state's MSA payment for 2009 sales, depending upon the outcome of similar NPM proceedings against other states.

(g) (2009 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$848 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 PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2009. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$1 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.

(h) (2010 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$843 million, the MSA payments they made to the States for 2010 sales. This amount is subject to revision until a Final Calculation in March, 2015. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2010. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$1 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2010 sales, depending upon the outcome of similar NPM proceedings against other states.

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; (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years (N.B.: if a full clean-up of the lake is required in the future, it could cost up to \$100 million); and (3) contaminated sediments in lower Waban Brook, which are expected to be addressed by Wellesley College within the next 12 months.

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

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, e.g., *United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) abatement costs, has been approximately \$3.8 billion. The MWRA has also spent approximately \$846 million through June 2013 in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately \$4.65 billion. Going forward, the MWRA anticipates spending at least an additional \$56.9 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 ("PKC") make claims for alleged increased costs arising from differing site conditions, changes 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 a Project Director's/Chief Engineer's decision. The DRB has issued decisions on some of the claims, awarding PKC approximately \$78.3 million on claims of approximately \$158 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 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. On January 17, 2013, the Appeals Court issued its decision, concluding that the DRB exceeded its authority by purporting to issue binding arbitration awards totaling approximately \$44.4 million. As a result, the Appeals Court affirmed the trial court's decision to set aside the awards. The Appeals Court also ruled that the DRB's "awards" constituted recommendations that were subject to final review by the Project Director. Following review of the DRB's recommendations relative to the matters on appeal, the Project's Chief Engineer concluded that PKC was entitled to approximately \$3.4 million. PKC requested a rehearing before the Appeals Court which was denied. PKC also filed an application for further appellate review by the Supreme Judicial Court, which was denied on June 6, 2013.

The Appeals Court's decision will affect additional "awards" issued by the DRB, which now could be supplanted by a Chief Engineer's decision. PKC is challenging the Project Director's/Chief Engineer's decisions in these matters under the standard of review set forth in G.L. c. 30, § 39J. A court hearing is scheduled for September 20, 2013.

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 sought 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 (EOPSS), 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 District Court denied the motions to dismiss of the remaining defendants with respect to personal jurisdiction and absolute immunity. On interlocutory appeal, the Ninth Circuit Court of Appeals on November 19, 2012, reversed the District Court's ruling as to absolute immunity, holding that defendants are entitled to absolute immunity to the extent they participated in the decision whether to extradite Tavares. Following the Ninth Circuit's ruling, the District Court dismissed the case against Lieutenant Richard Range of the Commonwealth Fusion Center, and plaintiffs voluntarily dismissed the suit against Assistant District Attorney Erin Donnelly. In an order issued on July 30, 2013, the District Court affirmed the dismissal of all claims against Donnelly and dismissed all claims against the remaining defendant, former EOPSS Secretary Kevin Burke, with prejudice.

Ianella, Trustee of Tecce Family Trust v. Massachusetts Turnpike Authority, Suffolk Superior Court. The plaintiff seeks damages against the Massachusetts Turnpike Authority ("Authority") for harm caused to its property and restaurant as a result of construction work done on the Central Artery/Tunnel ("CA/T") project. The plaintiff claims that the construction diminished the value of the rental units located within the property and prevented access to the restaurant causing lost business revenue. The plaintiff is seeking damages under the eminent domain statutes, G.L. c. 79, §§ 10 and 12, alleging that the construction performed for the Authority resulted in a constructive "taking" of the property. Additionally, the plaintiff has brought claims for "business interference," nuisance, and negligence.

The plaintiff claims to have suffered \$17 million in lost business as well as an unspecified amount of property damage and diminished value of the property. The lawsuit is being defended under a \$25 million owner-controlled insurance program issued by Chartis Insurance Co. for the CA/T project. However, Chartis is doing so under a reservation of rights concerning coverage. The Authority's motion for summary judgment was denied in late February, 2012. The discovery period will close at the end of August, 2013, and a March, 2014 trial date has been set.

Takings associated with the Yawkey Way Extension roadway project. MassDOT has recorded Orders of Taking for the acquisition of permanent and temporary easements for the Yawkey Way Extension roadway project in the Fenway area of Boston. The following pro tanto awards were approved by the Highway Administrator on December 13th: (1) a \$3,260,000 award to the Olde Town Team Realty Trust (controlled by the Red Sox organization); (2) a \$2,500,000 award to the HRPT Medical Buildings Realty Trust; (3) a \$370,000 award to the Soho Realty Limited Partnership/51 B, LLC; (4) a \$155,000 award to the Fenmore Realty Corporation (Children's Hospital); and (5) a \$25,000 award to Beth Israel Hospital. These awards total \$6,310,000. It is anticipated that HRPT Medical Buildings Realty Trust will challenge the pro tanto award and file suit, since that entity challenged the City of Boston's zoning decision for the Fenway Center Project.

In re Lehman Brothers Holdings, et al., Debtors, United States Bankruptcy Court, Southern District of New York. This is a proceeding under Chapter 11 of the Bankruptcy Code. Prior to the bankruptcy filings by Lehman Brothers Holdings Inc. and its subsidiaries in September and October, 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 submitted its response to the Derivative ADR Notice denying the settlement demand on August 13, 2012. Formal mediation commenced on November 19, 2012, and concluded without resolution. LBSF asserts that interest continues to accrue on its claim and it valued its claim at approximately \$35 million, including interest, on November 19, 2012. LBSF may initiate litigation in further pursuit of its claim.

Lehman Brothers Special Financing Inc. (“LBSF”) v. Massachusetts Development Finance Agency (“MDFA”) and the Commonwealth of Massachusetts, acting by and through its Executive Office for Administration and Finance (“Mass. A&F”); claim subject of mediation. In 1993, MDFA used the proceeds of variable interest rate bonds issued by the City of Chelsea’s Industrial Development Financing Authority to finance the construction of the Massachusetts Information Technology Center. In order to provide a synthetic fixed rate financing for the project, MDFA entered into a rate swap agreement with LBSF. In a subsequent agreement between MDFA and Mass. A&F, dated as of December 11, 2008, the Commonwealth agreed, to the extent permitted by law and subject to appropriation, to indemnify, defend and hold harmless MDFA from and against any losses, damages, injuries, costs or expenses and any suits, demands, claims, actions or other proceedings arising out of the termination of the swap agreement. Effective December 17, 2008, MDFA terminated the swap agreement with LBSF. In September, 2008, Lehman Brothers Holdings, Inc. and its various subsidiaries, including LBSF, filed for bankruptcy pursuant to Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York in a proceeding titled: *In Re Lehman Brothers Holdings, Inc.*, No. 08-013555 (JMP)(JD013). As part of those proceedings, the Bankruptcy Court issued an Alternative Dispute Resolution Procedures Order for Affirmative Claims of Debtors Under Derivatives Contracts. On April 20, 2012, pursuant to the Bankruptcy Court’s Order, LBSF initiated mediation proceedings against MDFA, claiming that that MDFA improperly calculated the termination value of the interest rate swap agreement by applying the wrong index in its termination calculation. LBSF demands payment of the principal amount of approximately \$12.6 million plus interest from December 11, 2008 to the date of payment (calculated by LBSF as of April 20, 2012 to be approximately \$6.1 million). MDFA rejected LBSF’s demand, and the matter proceeded to mediation. The matter was not resolved through mediation and so LBSF may initiate litigation in further pursuit of its claim.

Debra Baggett and April Marlborough, on behalf of themselves and others similarly situated v. Michael Ashe, Jr. and Patricia Murphy, in their individual capacities, U.S. District Court, District of Mass., Western Div. This is a civil rights class action for money damages against Hampden County Sheriff Michael J. Ashe, Jr. and Assistant Superintendent Patricia Murphy regarding policies and procedures of the Western Massachusetts Regional Women’s Correctional Center related to inmate movement and the fact that the challenged policies do not specifically prohibit male correctional officers from operating the video camera during an inmate move to a higher security placement even though that move includes a strip search. On May 23, 2013, the court certified a class of approximately 178 current and former inmates. Defendants have filed a petition for leave to pursue an interlocutory appeal of the class certification order with the United States Court of Appeals for the First Circuit. Assuming, however, the class certification stands and the plaintiff class were to prevail on all claims, total damages awarded could exceed, in theory, \$10 million.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health’s drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may be affected by the chemist’s alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory’s operations. In addition, the Attorney General’s Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist’s alleged malfeasance. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As neither the criminal investigation nor the determination of the number of specific cases affected has been completed, there is not sufficient information to fully estimate these additional state costs at this time. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. See “FISCAL 2013 AND FISCAL 2014 – Fiscal 2013” and “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Nontax Revenues; Settlements and Judgments.”

Solomon v. Bigby et al. and *Jones v. Bigby et al.*, U.S. District Court, District of Massachusetts – Eastern Division. These are civil actions for civil rights violations against the former Secretary of Health and Human Services, the former Commissioner of the Department of Public Health and the supervisors of the state drug testing lab. Additionally, the Commonwealth has received three presentment letters alleging civil rights and tort violations arising out of events at the state drug lab. One of these presentment letters, *Alomar et al. v. Bigby et al.* foreshadows a class action that will be brought by 37 plaintiffs alleging violations of their civil rights.

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MISCELLANEOUS

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

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

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

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

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

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CONTINUING DISCLOSURE

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

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

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

In December, 2012, the Commonwealth learned that notice of a rating downgrade of certain Commonwealth bonds insured by Assured Guaranty Municipal (originally insured by Financial Security Assurance Inc.) had not been filed following a downgrade of the rating of Assured Guaranty Municipal from AAA to AA+ in October, 2010 by S&P. Any such downgrade notice would have been superseded by the subsequent notice filed by the Commonwealth in September, 2011 that the Commonwealth's underlying S&P rating had been upgraded to AA+.

The fiscal 2011 annual financial information filed by the Commonwealth on March 26, 2012 pursuant to its continuing disclosure undertakings related to its grant anticipation note program inadvertently omitted a statement of the actual amounts (gross and net) of pledged funds as of the end of fiscal 2011. The fiscal 2011 amounts were included in the fiscal 2012 filing made on March 26, 2013, and an amended filing has been posted with EMMA for fiscal 2011.

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

The State Treasurer also regularly files information with EMMA beyond the documents required by the Commonwealth's continuing disclosure undertakings, including updated Information Statements. In addition, information of interest to investors may be posted on the Commonwealth's investor website at www.massbondholder.com or on twitter at twitter.com/BuyMassBonds.

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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, Undersecretary of the 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/ Glen Shor
Glen Shor
Secretary of Administration and Finance

September 9, 2013

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Exhibit A

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The Massachusetts Economic Due Diligence Report

FOURTH QUARTER FY 2013





Cover photo: Tarpaulin Cove Lighthouse, Gosnold, MA. Gosnold is the least populous town in Massachusetts. The U.S. Census counted 75 residents in 2010. Photo taken by Charles River Recreation, 2012.

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ECONOMIC INFORMATION - Quarter 4, FY 2013

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 31, 2013. Information in the text, tables, charts, and graphs is current as of July 1, 2013.** Sources of information are indicated in the text or immediately following the charts and tables, and also from the *Sources* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, it makes no independent verification of the information presented herein and therefore does not warrant its accuracy.

Statistical Overview

| <u>Population</u> (p. A-2) | <u>Massachusetts</u> | <u>United States</u> |
|---|----------------------|----------------------|
| Estimated Percent Change in Population, July 1, 2010 - July 1, 2012 | 1.4% | 1.5% |
| | | |
| <u>Personal Income, Consumer Prices, and Poverty</u> (p. A-8) | | |
| Per Capita Personal Income, 2012 | \$54,687 | \$42,693 |
| Average Annual Pay, All Industries, 2012 p | \$60,901 | \$49,289 |
| Percent Change in CPI-U*, 2011-2012 | 1.6% | 2.1% |
| Percent Change in CPI-U*, May 2012 - May 2013 | 1.4% | 1.4% |
| Poverty Rate, 2009-2011 Average | 10.8% | 14.8% |
| Average Weekly Earnings, Manufacturing Production Workers: 2012 | \$831.82 | \$794.81 |
| Percent Change from previous year | 3.1% | 1.3% |
| | | |
| <u>Employment</u> (p. A-18) | | |
| Percent Change in Nonfarm Payroll Employment (Not Seasonally Adjusted), June 2012 - June 2013p | 0.3% | -0.6% |
| Unemployment Rate, 2012 | 6.7% | 8.1% |
| Unemployment Rate, June 2013 (seasonally adjusted) | 7.0% | 7.6% |
| | | |
| <u>Education</u> (p. A-24) | | |
| Expenditure Per Pupil K-12 Public, 2011 | \$13,941 | \$10,560 |
| Percent of Adults with a Bachelor's Degree or higher, 2011 | 39.1% | 28.5% |
| | | |
| <u>Economic Base and Performance</u> (p. A-30) | | |
| Percent Change in Gross Domestic Product, 2011-2012 | 2.2% | 2.8% |
| Percent Change in International Exports, 2011-2012 | -8.0% | 4.5% |
| Percent Change in Housing Permits Authorized, 2011-2012 | 21.7% | 9.4% |

*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 rose to 7.0 percent in June 2013 from the previous month, 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

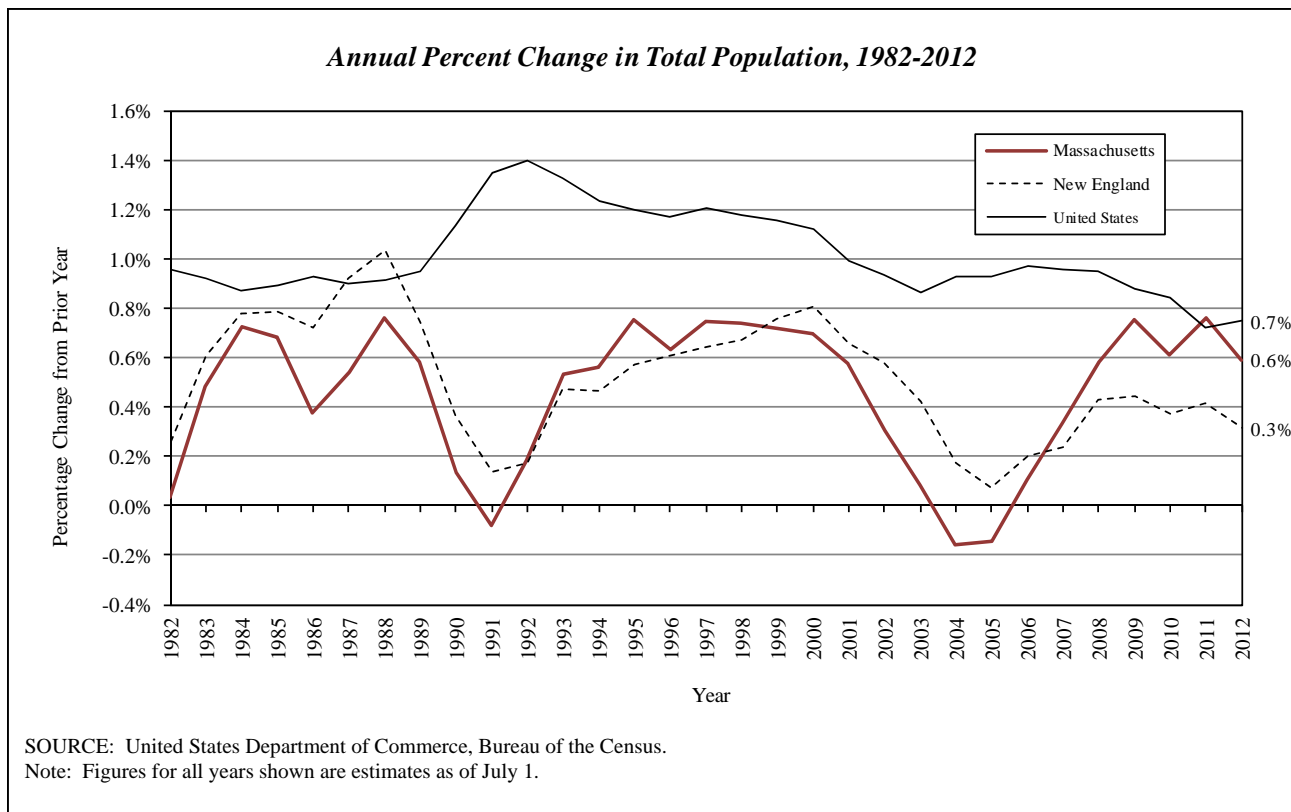
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2012 to be 847.7 persons per square mile, as compared to 88.1 for the United 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, 2012 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, 2012 estimated at 4,640,802 or 31.9 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, 2012 estimated at 1,926,030.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2012 population estimated at 923,762. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2012 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, 2012 population estimated at 625,718. Springfield, the third largest city in the Commonwealth with a July 1, 2012 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.



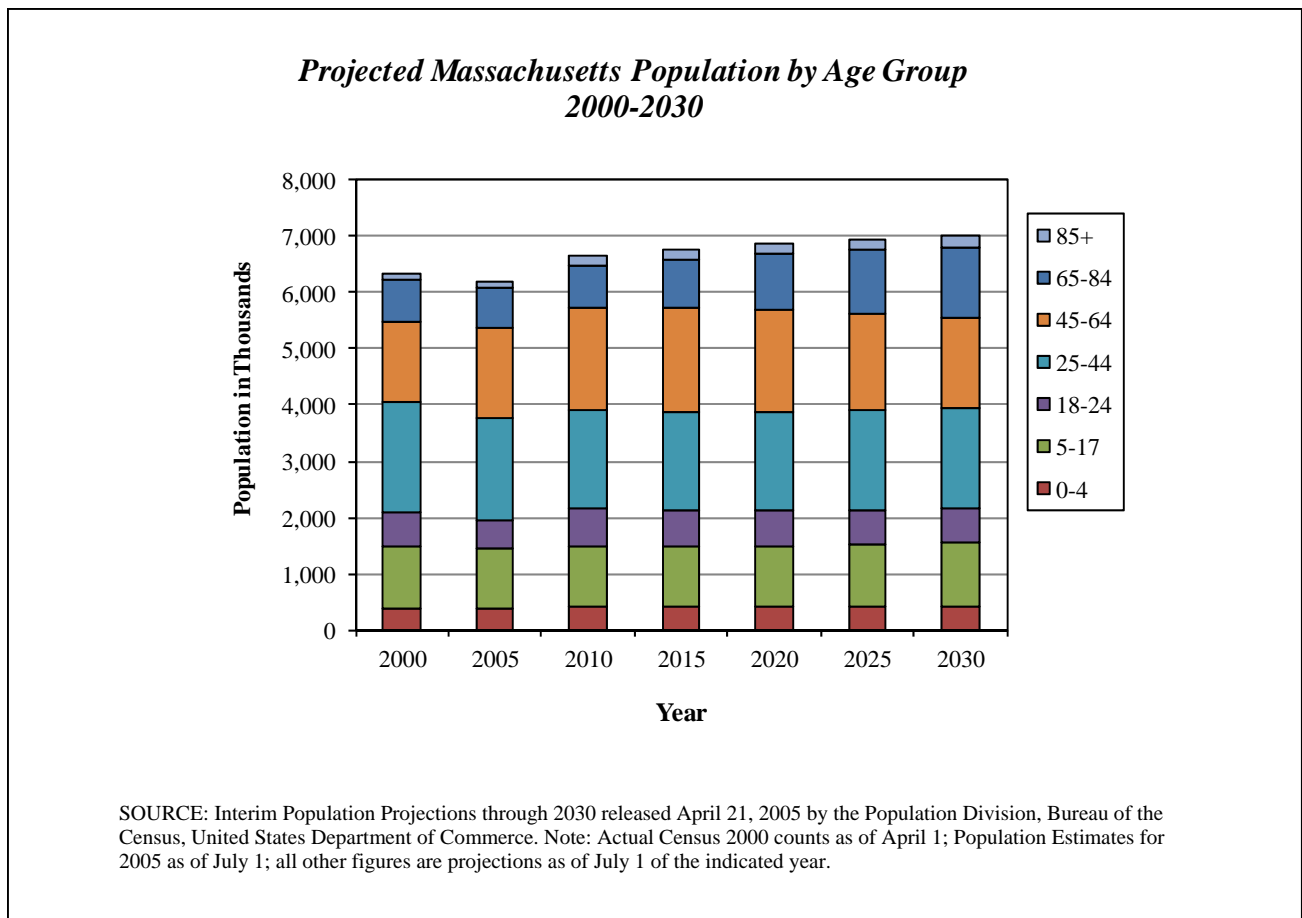
The following table compares the population level and percentage change in the population of Massachusetts to the six-state New England region and to the United States.

| <i>Population, 1974-2012</i> <i>(in thousands)</i> | | | | | | |
|---|----------------------|-----------------------|--------------------|-----------------------|----------------------|-----------------------|
| Year | Massachusetts | | New England | | United States | |
| | Total | Percent Change | Total | Percent Change | Total | Percent Change |
| 1974 | 5,774 | -0.1% | 12,146 | 0.0% | 213,342 | 0.9% |
| 1975 | 5,758 | -0.3% | 12,163 | 0.1% | 215,465 | 1.0% |
| 1976 | 5,744 | -0.2% | 12,192 | 0.2% | 217,563 | 1.0% |
| 1977 | 5,738 | -0.1% | 12,239 | 0.4% | 219,760 | 1.0% |
| 1978 | 5,736 | 0.0% | 12,283 | 0.4% | 222,095 | 1.1% |
| 1979 | 5,738 | 0.0% | 12,322 | 0.3% | 224,567 | 1.1% |
| 1980 | 5,737 | 0.0% | 12,348 | 0.2% | 226,546 | 0.9% |
| 1981 | 5,769 | 0.6% | 12,436 | 0.7% | 229,466 | 1.3% |
| 1982 | 5,771 | 0.0% | 12,468 | 0.3% | 231,664 | 1.0% |
| 1983 | 5,799 | 0.5% | 12,544 | 0.6% | 233,792 | 0.9% |
| 1984 | 5,841 | 0.7% | 12,642 | 0.8% | 235,825 | 0.9% |
| 1985 | 5,881 | 0.7% | 12,741 | 0.8% | 237,924 | 0.9% |
| 1986 | 5,903 | 0.4% | 12,833 | 0.7% | 240,133 | 0.9% |
| 1987 | 5,935 | 0.5% | 12,951 | 0.9% | 242,289 | 0.9% |
| 1988 | 5,980 | 0.8% | 13,085 | 1.0% | 244,499 | 0.9% |
| 1989 | 6,015 | 0.6% | 13,182 | 0.7% | 246,819 | 0.9% |
| 1990 | 6,023 | 0.1% | 13,230 | 0.4% | 249,623 | 1.1% |
| 1991 | 6,018 | -0.1% | 13,248 | 0.1% | 252,981 | 1.3% |
| 1992 | 6,029 | 0.2% | 13,271 | 0.2% | 256,514 | 1.4% |
| 1993 | 6,061 | 0.5% | 13,334 | 0.5% | 259,919 | 1.3% |
| 1994 | 6,095 | 0.6% | 13,396 | 0.5% | 263,126 | 1.2% |
| 1995 | 6,141 | 0.8% | 13,473 | 0.6% | 266,278 | 1.2% |
| 1996 | 6,180 | 0.6% | 13,555 | 0.6% | 269,394 | 1.2% |
| 1997 | 6,226 | 0.7% | 13,642 | 0.6% | 272,647 | 1.2% |
| 1998 | 6,272 | 0.7% | 13,734 | 0.7% | 275,854 | 1.2% |
| 1999 | 6,317 | 0.7% | 13,838 | 0.8% | 279,040 | 1.2% |
| 2000 | 6,361 | 0.7% | 13,950 | 0.8% | 282,162 | 1.1% |
| 2001 | 6,398 | 0.6% | 14,041 | 0.7% | 284,969 | 1.0% |
| 2002 | 6,417 | 0.3% | 14,122 | 0.6% | 287,625 | 0.9% |
| 2003 | 6,423 | 0.1% | 14,182 | 0.4% | 290,108 | 0.9% |
| 2004 | 6,412 | -0.2% | 14,207 | 0.2% | 292,805 | 0.9% |
| 2005 | 6,403 | -0.1% | 14,217 | 0.1% | 295,517 | 0.9% |
| 2006 | 6,410 | 0.1% | 14,246 | 0.2% | 298,380 | 1.0% |
| 2007 | 6,432 | 0.3% | 14,279 | 0.2% | 301,231 | 1.0% |
| 2008 | 6,469 | 0.6% | 14,340 | 0.4% | 304,094 | 1.0% |
| 2009 | 6,518 | 0.8% | 14,404 | 0.4% | 306,772 | 0.9% |
| 2010 | 6,557 | 0.6% | 14,457 | 0.4% | 309,350 | 0.8% |
| 2011 | 6,607 | 0.8% | 14,517 | 0.4% | 311,588 | 0.7% |
| 2012 | 6,646 | 0.6% | 14,563 | 0.3% | 313,914 | 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.

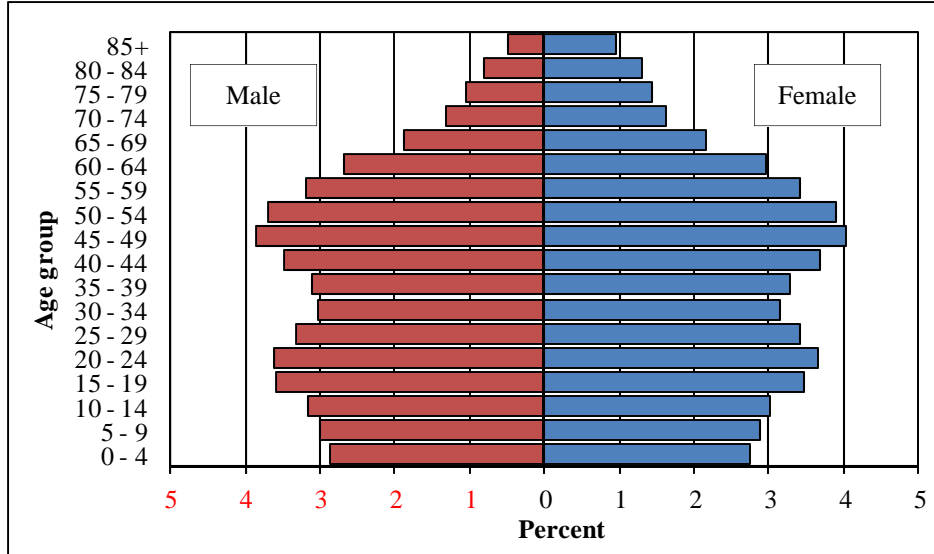
| <i>Projected Massachusetts Population by Age Group 2000-2030 (in thousands)</i> | | | | | | | | | Median |
|---|------------|-------------|--------------|--------------|--------------|--------------|------------|-----------------|------------|
| Year | 0-4 | 5-17 | 18-24 | 25-44 | 45-64 | 65-84 | 85+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

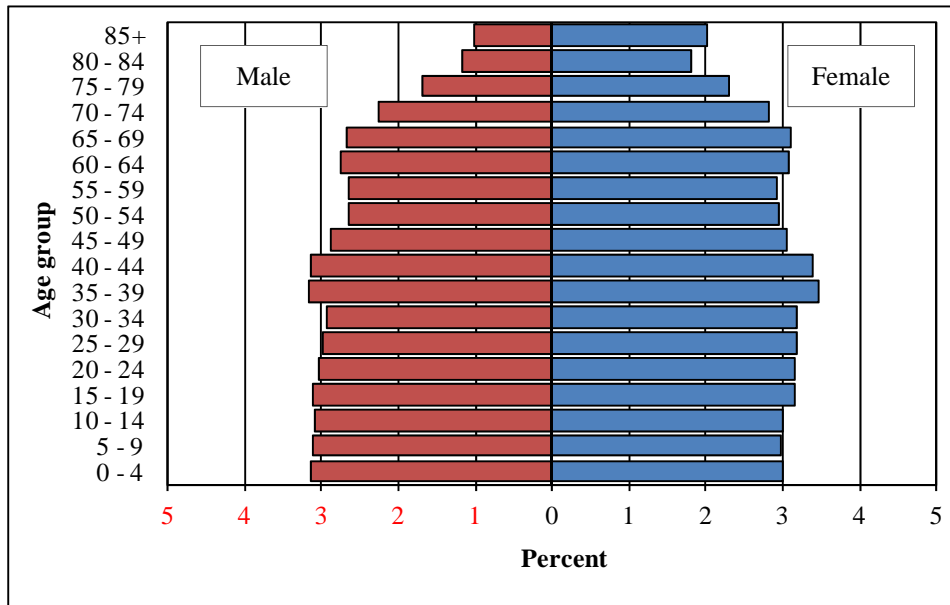
Percent of Total Population

2010



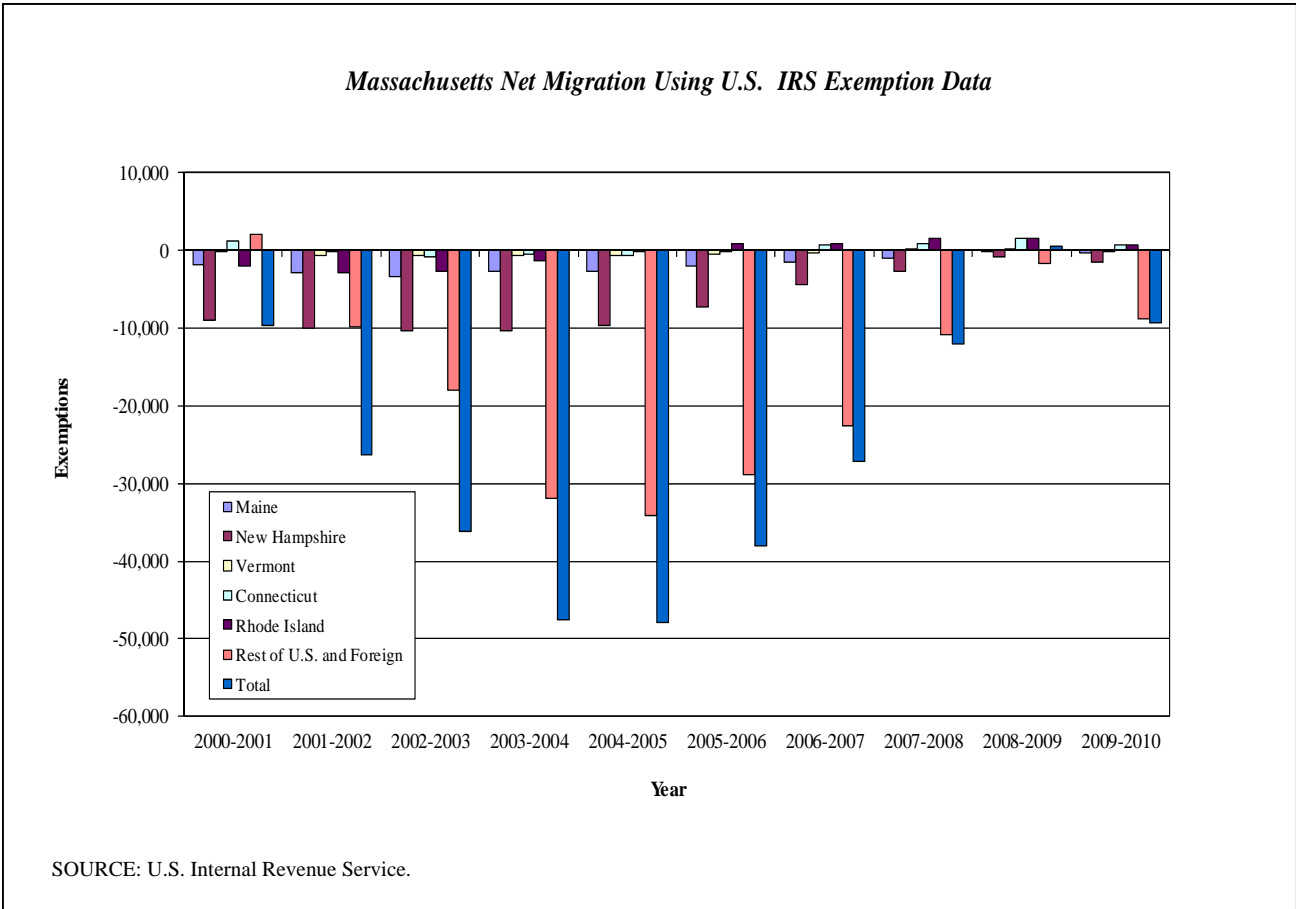
SOURCE: U.S. Census Bureau, 2010 Census.

2030



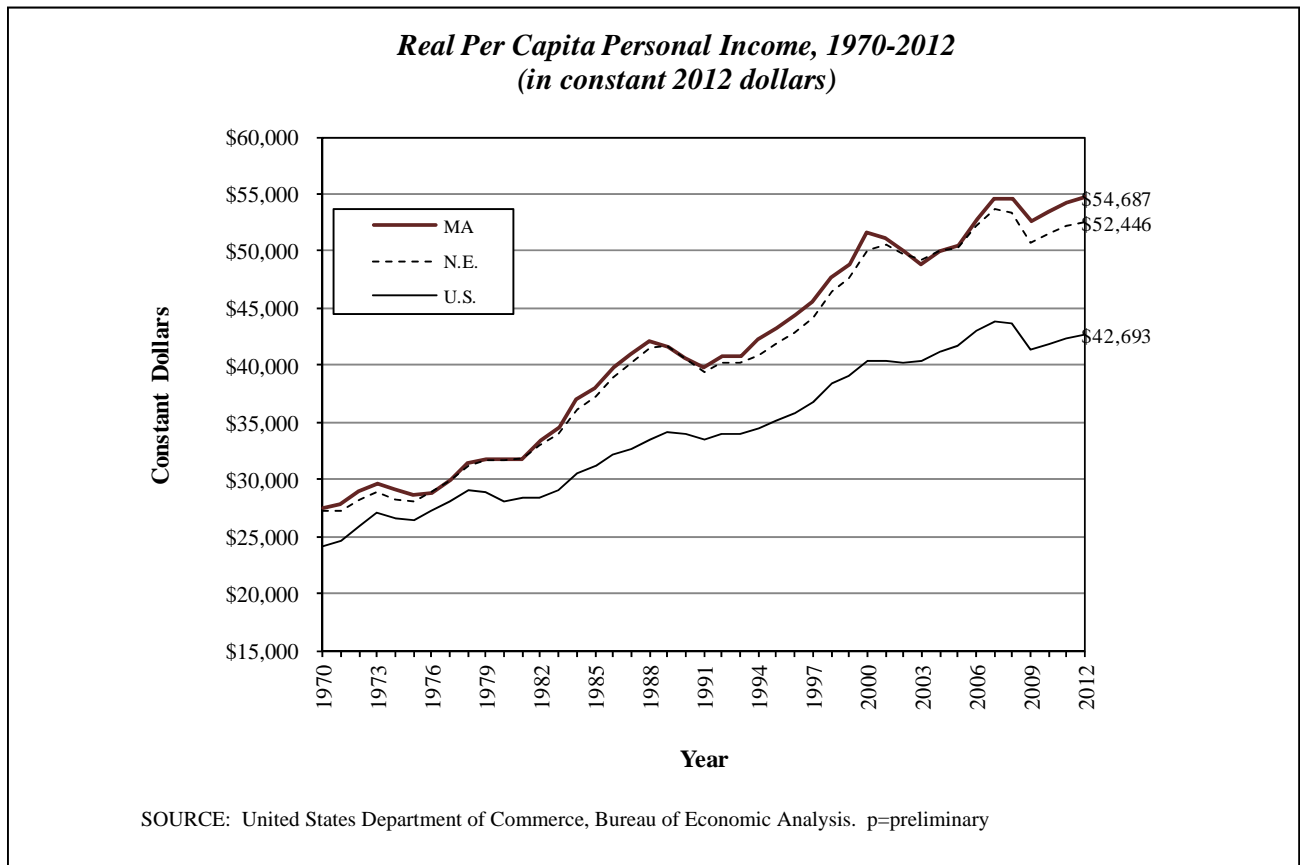
SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.
Internet Release Date: April 21, 2005.

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. In 2009, Massachusetts, New England, and the U.S. experienced the biggest decline in income in over four decades but have increased over the last three years. 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 1970-2012.

| <i>Per Capita Personal Income, 1970-2012</i> | | | | | | | | | |
|--|--|----------|----------|----------------------------------|----------|----------|----------------------------------|-------|-------|
| Year | Nominal Income (in current dollars) | | | Real Income (in 2012 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 | \$27,555 | \$27,260 | \$24,167 | 6.5% | 6.8% | 7.8% |
| 1971 | \$4,743 | \$4,674 | \$4,340 | \$27,840 | \$27,278 | \$24,604 | 1.0% | 0.1% | 1.8% |
| 1972 | \$5,102 | \$5,025 | \$4,717 | \$28,919 | \$28,188 | \$25,910 | 3.9% | 3.3% | 5.3% |
| 1973 | \$5,541 | \$5,477 | \$5,230 | \$29,644 | \$28,940 | \$27,045 | 2.5% | 2.7% | 4.4% |
| 1974 | \$6,011 | \$5,954 | \$5,708 | \$29,081 | \$28,296 | \$26,583 | -1.9% | -2.2% | -1.7% |
| 1975 | \$6,453 | \$6,376 | \$6,172 | \$28,645 | \$28,075 | \$26,340 | -1.5% | -0.8% | -0.9% |
| 1976 | \$6,993 | \$6,954 | \$6,754 | \$28,869 | \$28,959 | \$27,253 | 0.8% | 3.1% | 3.5% |
| 1977 | \$7,611 | \$7,586 | \$7,402 | \$29,877 | \$29,918 | \$28,045 | 3.5% | 3.3% | 2.9% |
| 1978 | \$8,422 | \$8,407 | \$8,243 | \$31,418 | \$31,202 | \$29,027 | 5.2% | 4.3% | 3.5% |
| 1979 | \$9,371 | \$9,381 | \$9,138 | \$31,710 | \$31,661 | \$28,899 | 0.9% | 1.5% | -0.4% |
| 1980 | \$10,570 | \$10,598 | \$10,091 | \$31,697 | \$31,678 | \$28,118 | 0.0% | 0.1% | -2.7% |
| 1981 | \$11,744 | \$11,800 | \$11,209 | \$31,688 | \$31,860 | \$28,312 | 0.0% | 0.6% | 0.7% |
| 1982 | \$12,892 | \$12,833 | \$11,901 | \$33,438 | \$32,913 | \$28,316 | 5.5% | 3.3% | 0.0% |
| 1983 | \$13,942 | \$13,770 | \$12,583 | \$34,604 | \$33,900 | \$29,007 | 3.5% | 3.0% | 2.4% |
| 1984 | \$15,639 | \$15,342 | \$13,807 | \$36,999 | \$36,072 | \$30,511 | 6.9% | 6.4% | 5.2% |
| 1985 | \$16,798 | \$16,440 | \$14,637 | \$38,033 | \$37,263 | \$31,233 | 2.8% | 3.3% | 2.4% |
| 1986 | \$18,003 | \$17,592 | \$15,338 | \$39,745 | \$38,905 | \$32,131 | 4.5% | 4.4% | 2.9% |
| 1987 | \$19,397 | \$18,958 | \$16,137 | \$41,030 | \$40,155 | \$32,615 | 3.2% | 3.2% | 1.5% |
| 1988 | \$21,127 | \$20,612 | \$17,244 | \$42,135 | \$41,579 | \$33,468 | 2.7% | 3.5% | 2.6% |
| 1989 | \$22,095 | \$21,848 | \$18,402 | \$41,683 | \$41,742 | \$34,073 | -1.1% | 0.4% | 1.8% |
| 1990 | \$22,797 | \$22,462 | \$19,354 | \$40,654 | \$40,491 | \$33,999 | -2.5% | -3.0% | -0.2% |
| 1991 | \$23,314 | \$22,867 | \$19,818 | \$39,827 | \$39,427 | \$33,408 | -2.0% | -2.6% | -1.7% |
| 1992 | \$24,422 | \$24,077 | \$20,799 | \$40,709 | \$40,161 | \$34,037 | 2.2% | 1.9% | 1.9% |
| 1993 | \$25,182 | \$24,773 | \$21,385 | \$40,795 | \$40,203 | \$33,979 | 0.2% | 0.1% | -0.2% |
| 1994 | \$26,393 | \$25,804 | \$22,297 | \$42,205 | \$40,877 | \$34,544 | 3.5% | 1.7% | 1.7% |
| 1995 | \$27,662 | \$27,048 | \$23,262 | \$43,202 | \$41,770 | \$35,046 | 2.4% | 2.2% | 1.5% |
| 1996 | \$29,279 | \$28,521 | \$24,442 | \$44,412 | \$42,833 | \$35,767 | 2.8% | 2.5% | 2.1% |
| 1997 | \$30,911 | \$30,087 | \$25,654 | \$45,602 | \$44,107 | \$36,699 | 2.7% | 3.0% | 2.6% |
| 1998 | \$33,006 | \$32,128 | \$27,258 | \$47,616 | \$46,434 | \$38,395 | 4.4% | 5.3% | 4.6% |
| 1999 | \$34,671 | \$33,581 | \$28,333 | \$48,795 | \$47,555 | \$39,047 | 2.5% | 2.4% | 1.7% |
| 2000 | \$38,222 | \$36,610 | \$30,319 | \$51,566 | \$50,139 | \$40,425 | 5.7% | 5.4% | 3.5% |
| 2001 | \$39,547 | \$37,996 | \$31,157 | \$51,153 | \$50,627 | \$40,393 | -0.8% | 1.0% | -0.1% |
| 2002 | \$39,597 | \$38,131 | \$31,481 | \$49,914 | \$49,781 | \$40,178 | -2.4% | -1.7% | -0.5% |
| 2003 | \$40,264 | \$38,798 | \$32,295 | \$48,913 | \$49,264 | \$40,299 | -2.0% | -1.0% | 0.3% |
| 2004 | \$42,276 | \$40,837 | \$33,909 | \$49,985 | \$50,118 | \$41,215 | 2.2% | 1.7% | 2.3% |
| 2005 | \$44,097 | \$42,376 | \$35,452 | \$50,475 | \$50,177 | \$41,678 | 1.0% | 0.1% | 1.1% |
| 2006 | \$47,559 | \$45,627 | \$37,725 | \$52,803 | \$52,142 | \$42,965 | 4.6% | 3.9% | 3.1% |
| 2007 | \$50,150 | \$48,223 | \$39,506 | \$54,625 | \$53,731 | \$43,747 | 3.4% | 3.0% | 1.8% |
| 2008 | \$51,902 | \$49,726 | \$40,947 | \$54,621 | \$53,281 | \$43,666 | 0.0% | -0.8% | -0.2% |
| 2009 | \$49,578 | \$47,344 | \$38,637 | \$52,530 | \$50,720 | \$41,350 | -3.8% | -4.8% | -5.3% |
| 2010 | \$51,143 | \$49,056 | \$39,791 | \$53,352 | \$51,537 | \$41,898 | 1.6% | 1.6% | 1.3% |
| 2011 | \$53,471 | \$51,274 | \$41,560 | \$54,308 | \$52,274 | \$42,421 | 1.8% | 1.4% | 1.2% |
| 2012 | \$54,687 | \$52,446 | \$42,693 | \$54,687 | \$52,446 | \$42,693 | 0.7% | 0.3% | 0.6% |

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

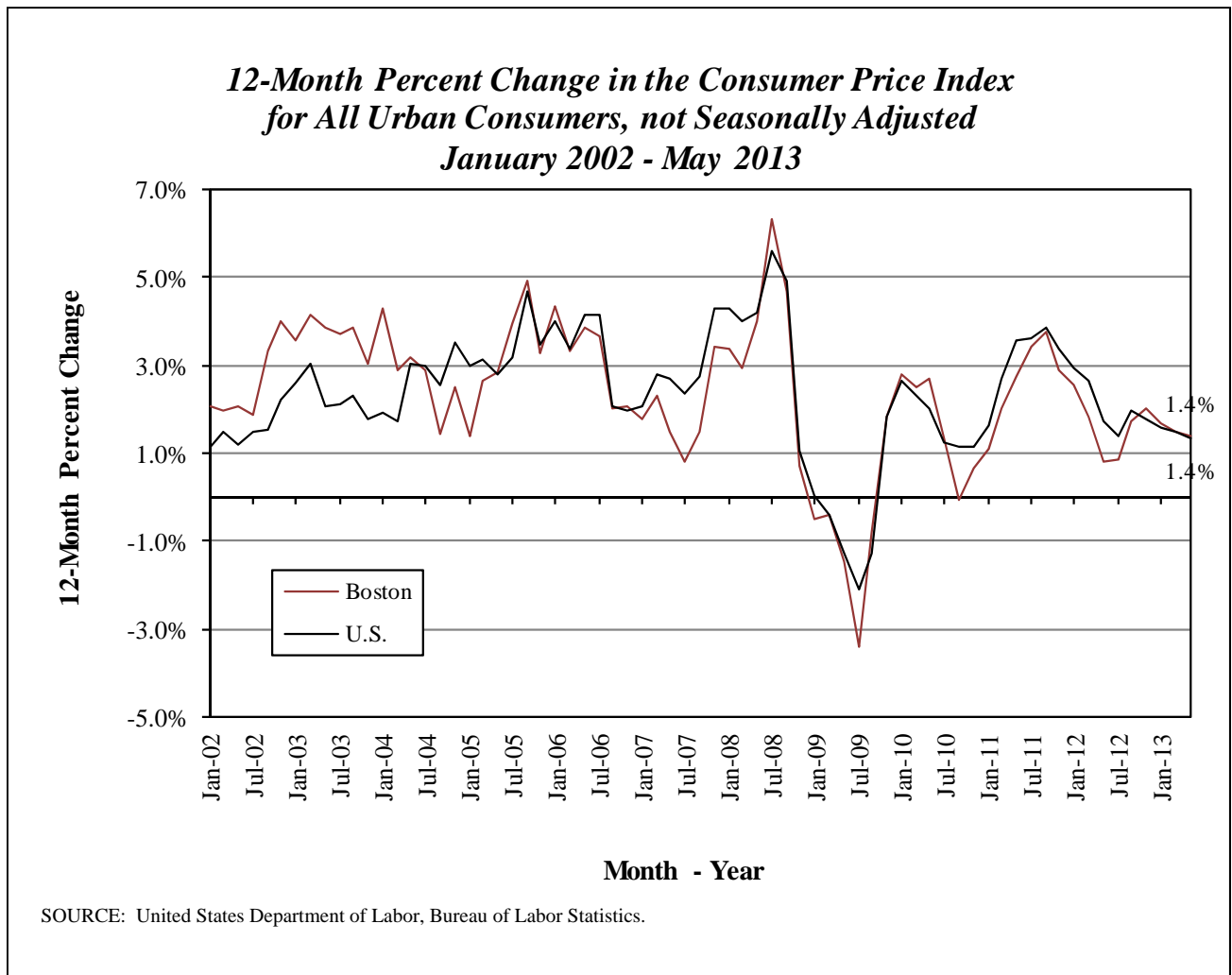
Annual Pay in Nominal Dollars. Massachusetts saw steady growth in average annual pay for most of the past decade, lost ground in 2009, but resumed growth in 2010. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average 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 3.2 percent, compared to 3.0 percent for the nation. The level of average annual pay in Massachusetts in 2012 was 23.6 percent higher than the national average: \$60,901 compared to \$49,289.

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 51.1, and 2.9 percent respectively in 2012.

| Annual Wage and Salary Disbursements, 1990-2012 (in millions of dollars) | | | | |
|--|--------------|-------------|-----------|-----------------------------|
| Year | U.S. | N.E. | MA | MA as a pct. of N.E. |
| 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 | \$ 6,261,910 | \$362,858 | \$182,303 | 50.2% |
| 2010 | \$ 6,394,612 | \$372,069 | \$188,139 | 50.6% |
| 2011 | \$ 6,651,787 | \$386,529 | \$196,393 | 50.8% |
| 2012 | \$ 6,870,482 | \$393,110 | \$201,061 | 51.1% |

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

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following graph presents consumer price trends for the Boston metropolitan area and the United States for the period between January 2002 and May 2013. 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 2013 U.S. CPI-U has increased 8.6 percent since 2009. Boston's CPI-U only increased 6.9 percent during that period. The latest available data for May 2013 show that the CPI-U for the Boston metropolitan area increased at a rate of 1.4 percent over May 2012, while the U.S. index also increased by 1.4 percent over the same period.



Consumer Price Index for All Urban Consumers (CPI-U), 1970-2013

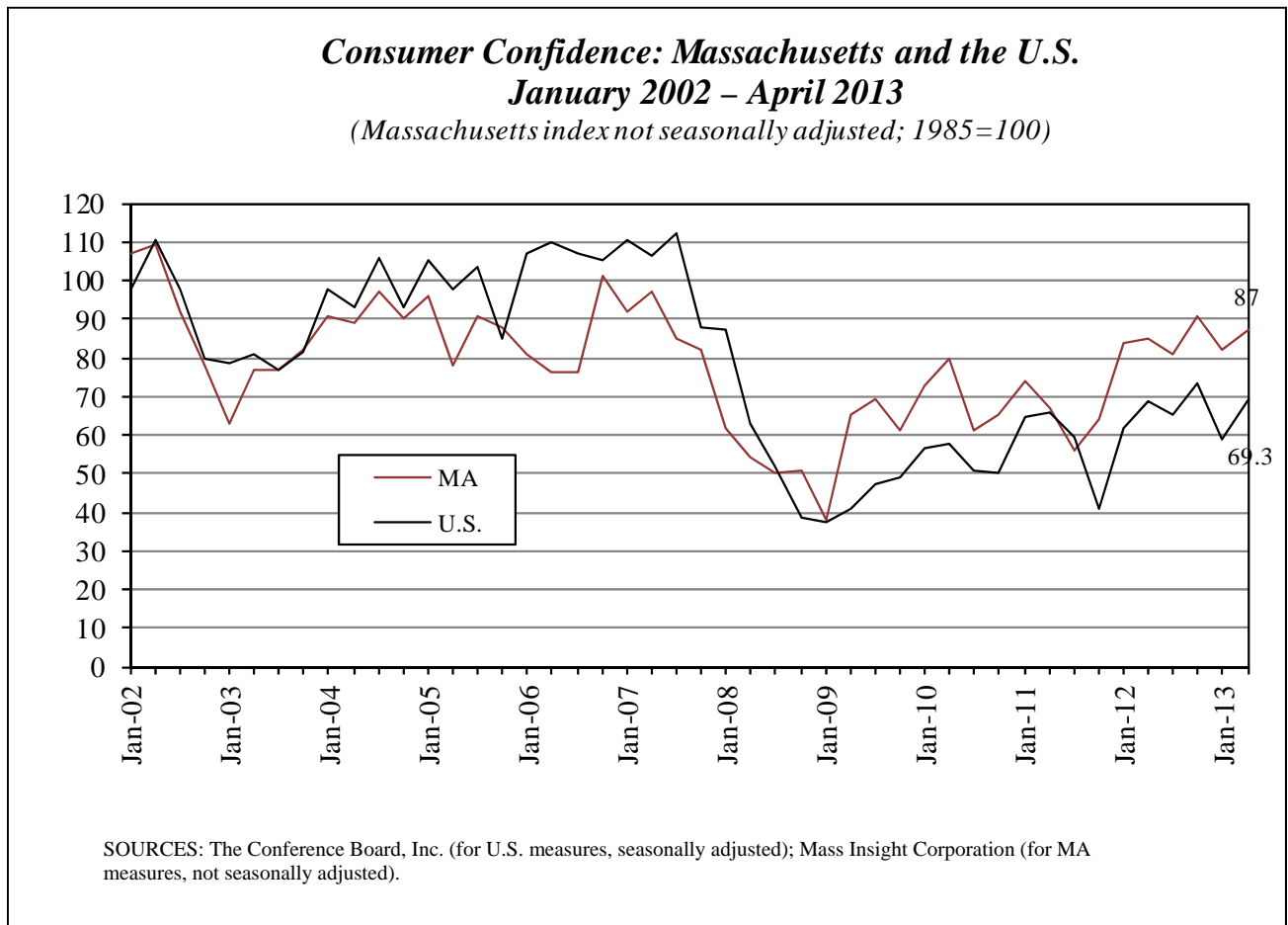
(not seasonally adjusted; 1982-1984 base period average=100)

| Year | Boston Metro Area | | United States | |
|--------|-------------------|------------|---------------|-------------|
| | CPI-U | Pct.Change | CPI-U | Pct. Change |
| 1970 | 40.2 | | 38.8 | |
| 1971 | 42.2 | 5.0% | 40.5 | 4.4% |
| 1972 | 43.7 | 3.6% | 41.8 | 3.2% |
| 1973 | 46.3 | 5.9% | 44.4 | 6.2% |
| 1974 | 51.2 | 10.6% | 49.3 | 11.0% |
| 1975 | 55.8 | 9.0% | 53.8 | 9.1% |
| 1976 | 60.0 | 7.5% | 56.9 | 5.8% |
| 1977 | 63.1 | 5.2% | 60.6 | 6.5% |
| 1978 | 66.4 | 5.2% | 65.2 | 7.6% |
| 1979 | 73.2 | 10.2% | 72.6 | 11.3% |
| 1980 | 82.6 | 12.8% | 82.4 | 13.5% |
| 1981 | 91.8 | 11.1% | 90.9 | 10.3% |
| 1982 | 95.5 | 4.0% | 96.5 | 6.2% |
| 1983 | 99.8 | 4.5% | 99.6 | 3.2% |
| 1984 | 104.7 | 4.9% | 103.9 | 4.3% |
| 1985 | 109.4 | 4.5% | 107.6 | 3.6% |
| 1986 | 112.2 | 2.6% | 109.6 | 1.9% |
| 1987 | 117.1 | 4.4% | 113.6 | 3.6% |
| 1988 | 124.2 | 6.1% | 118.3 | 4.1% |
| 1989 | 131.3 | 5.7% | 124.0 | 4.8% |
| 1990 | 138.9 | 5.8% | 130.7 | 5.4% |
| 1991 | 145.0 | 4.4% | 136.2 | 4.2% |
| 1992 | 148.6 | 2.5% | 140.3 | 3.0% |
| 1993 | 152.9 | 2.9% | 144.5 | 3.0% |
| 1994 | 154.9 | 1.3% | 148.2 | 2.6% |
| 1995 | 158.6 | 2.4% | 152.4 | 2.8% |
| 1996 | 163.3 | 3.0% | 156.9 | 3.0% |
| 1997 | 167.9 | 2.8% | 160.5 | 2.3% |
| 1998 | 171.7 | 2.3% | 163.0 | 1.6% |
| 1999 | 176.0 | 2.5% | 166.6 | 2.2% |
| 2000 | 183.6 | 4.3% | 172.2 | 3.4% |
| 2001 | 191.5 | 4.3% | 177.1 | 2.8% |
| 2002 | 196.5 | 2.6% | 179.9 | 1.6% |
| 2003 | 203.9 | 3.8% | 184.0 | 2.3% |
| 2004 | 209.5 | 2.7% | 188.9 | 2.7% |
| 2005 | 216.4 | 3.3% | 195.3 | 3.4% |
| 2006 | 223.1 | 3.1% | 201.6 | 3.2% |
| 2007 | 227.4 | 1.9% | 207.3 | 2.8% |
| 2008 | 235.4 | 3.5% | 215.3 | 3.8% |
| 2009 | 233.8 | -0.7% | 214.5 | -0.4% |
| 2010 | 237.4 | 1.6% | 218.1 | 1.6% |
| 2011 | 243.9 | 2.7% | 224.9 | 3.2% |
| 2012 | 247.7 | 1.6% | 229.6 | 2.1% |
| May-12 | 246.6 | | 229.8 | |
| May-13 | 250.0 | 1.4% | 232.9 | 1.4% |

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. 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 82 in January 2013 (the most recent month available for comparison to the U.S. index), well above the comparable U.S. value of 59.7. The following graph and table detail the recent record of these measures.

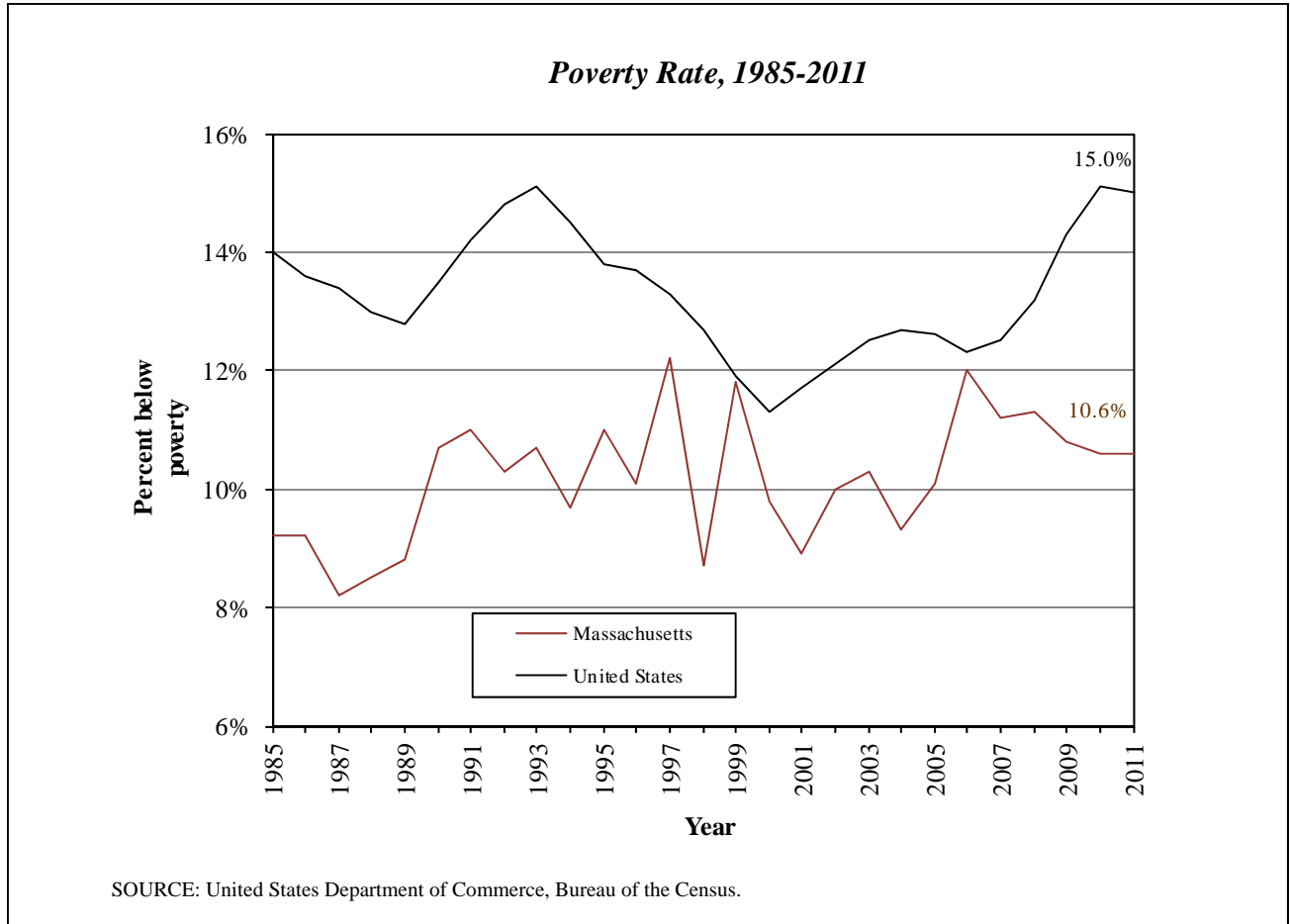


*Consumer Confidence, Present Situation, and Future
Expectations for Massachusetts and the U.S.
(1985=100)*

| | Consumer Confidence | | Present Situation | | Future Expectations | |
|---------------|---------------------|-------|-------------------|-------|---------------------|-------|
| | MA | U.S. | MA | U.S. | MA | U.S. |
| Jul-02 | 92.0 | 97.4 | 68.0 | 99.4 | 108.0 | 96.1 |
| Oct-02 | 78.0 | 79.6 | 48.0 | 77.2 | 97.0 | 81.1 |
| Jan-03 | 63.0 | 78.8 | 28.0 | 75.3 | 86.0 | 81.1 |
| Apr-03 | 77.0 | 81.0 | 31.0 | 75.2 | 108.0 | 84.8 |
| Jul-03 | 77.0 | 77.0 | 41.0 | 63.0 | 101.0 | 86.3 |
| Oct-03 | 82.0 | 81.7 | 36.0 | 67.0 | 112.0 | 91.5 |
| Jan-04 | 91.0 | 97.7 | 48.0 | 86.1 | 119.0 | 105.3 |
| Apr-04 | 89.0 | 93.0 | 53.0 | 90.4 | 113.0 | 94.8 |
| Jul-04 | 97.0 | 105.7 | 66.0 | 106.4 | 119.0 | 105.3 |
| Oct-04 | 90.0 | 92.9 | 64.0 | 94.0 | 108.0 | 92.2 |
| Jan-05 | 96.0 | 105.1 | 70.0 | 112.1 | 114.0 | 100.4 |
| Apr-05 | 78.0 | 97.5 | 63.0 | 113.8 | 88.0 | 86.7 |
| Jul-05 | 91.0 | 103.6 | 80.0 | 119.3 | 99.0 | 93.2 |
| Oct-05 | 88.0 | 85.2 | 80.0 | 107.8 | 95.0 | 70.1 |
| Jan-06 | 81.0 | 106.8 | 71.0 | 128.8 | 87.0 | 92.1 |
| Apr-06 | 76.0 | 109.8 | 77.0 | 136.2 | 76.0 | 92.3 |
| Jul-06 | 76.0 | 107.0 | 68.0 | 134.2 | 81.0 | 88.9 |
| Oct-06 | 101.0 | 105.1 | 86.0 | 125.1 | 111.0 | 91.9 |
| Jan-07 | 92.0 | 110.2 | 74.0 | 133.9 | 104.0 | 94.4 |
| Apr-07 | 97.0 | 106.3 | 89.0 | 133.5 | 102.0 | 88.2 |
| Jul-07 | 85.0 | 111.9 | 80.0 | 138.3 | 90.0 | 94.4 |
| Oct-07 | 82.0 | 87.8 | 76.0 | 115.7 | 86.0 | 69.1 |
| Jan-08 | 62.0 | 87.3 | 49.0 | 114.3 | 71.0 | 69.3 |
| Apr-08 | 54.0 | 62.8 | 35.0 | 81.9 | 67.0 | 50.0 |
| Jul-08 | 50.0 | 51.9 | 24.0 | 65.8 | 68.0 | 42.7 |
| Oct-08 | 51.0 | 38.8 | 27.0 | 43.5 | 66.0 | 35.7 |
| Jan-09 | 38.0 | 37.4 | 9.0 | 29.7 | 58.0 | 42.5 |
| Apr-09 | 65.0 | 40.8 | 24.0 | 25.5 | 92.0 | 51.0 |
| Jul-09 | 69.0 | 47.4 | 16.0 | 23.3 | 105.0 | 63.4 |
| Oct-09 | 61.0 | 48.7 | 14.0 | 21.1 | 93.0 | 67.0 |
| Jan-10 | 73.0 | 56.5 | 14.0 | 25.2 | 112.0 | 77.3 |
| Apr-10 | 80.0 | 57.7 | 22.0 | 28.2 | 119.0 | 77.4 |
| Jul-10 | 61.0 | 51.0 | 16.0 | 26.4 | 91.0 | 67.5 |
| Oct-10 | 65.0 | 49.9 | 15.0 | 23.5 | 99.0 | 67.5 |
| Jan-11 | 74.0 | 64.8 | 17.0 | 31.1 | 112.0 | 87.3 |
| Apr-11 | 67.0 | 66.0 | 24.0 | 40.2 | 96.0 | 83.2 |
| Jul-11 | 56.0 | 59.5 | 20.0 | 35.7 | 80.0 | 75.4 |
| Oct-11 | 64.0 | 40.9 | 24.0 | 27.1 | 91.0 | 50.0 |
| Jan-12 | 84.0 | 61.5 | 34.0 | 38.8 | 118.0 | 76.7 |
| Apr-12 | 85.0 | 68.7 | 41.0 | 51.2 | 114.0 | 80.4 |
| Jul-12 | 81.0 | 65.4 | 40.0 | 45.9 | 109.0 | 78.4 |
| Oct-12 | 91.0 | 73.1 | 48.0 | 56.7 | 120.0 | 84.0 |
| Jan-13 | 82.0 | 58.6 | 48.0 | 57.3 | 105.0 | 59.5 |
| Apr-13 | 87.0 | 69.3 | 54.0 | 61.0 | 109.0 | 74.3 |

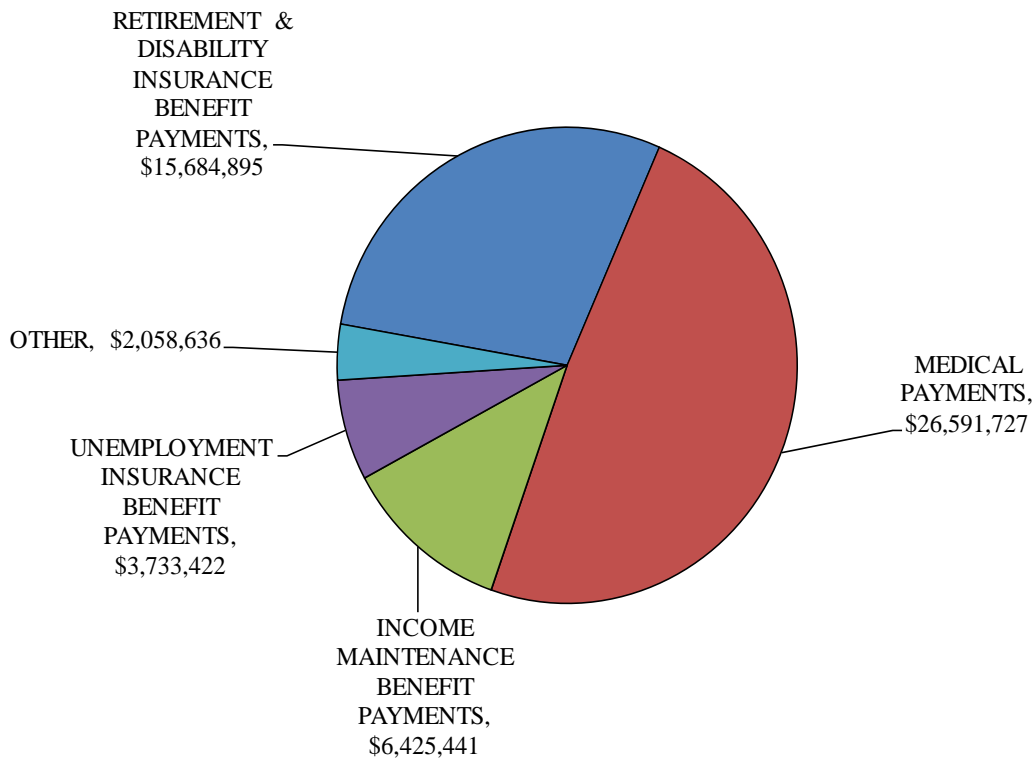
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted); Mass Insight Corporation (for MA measures, not seasonally adjusted).

Poverty. Through 2011, 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 stayed the same from 2010 at 10.6 percent in 2011, while the poverty rate in the United States decreased slightly from 15.1 percent in 2010 to 15.0 percent in 2011. 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 - 2011) 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 2012 are not yet available.



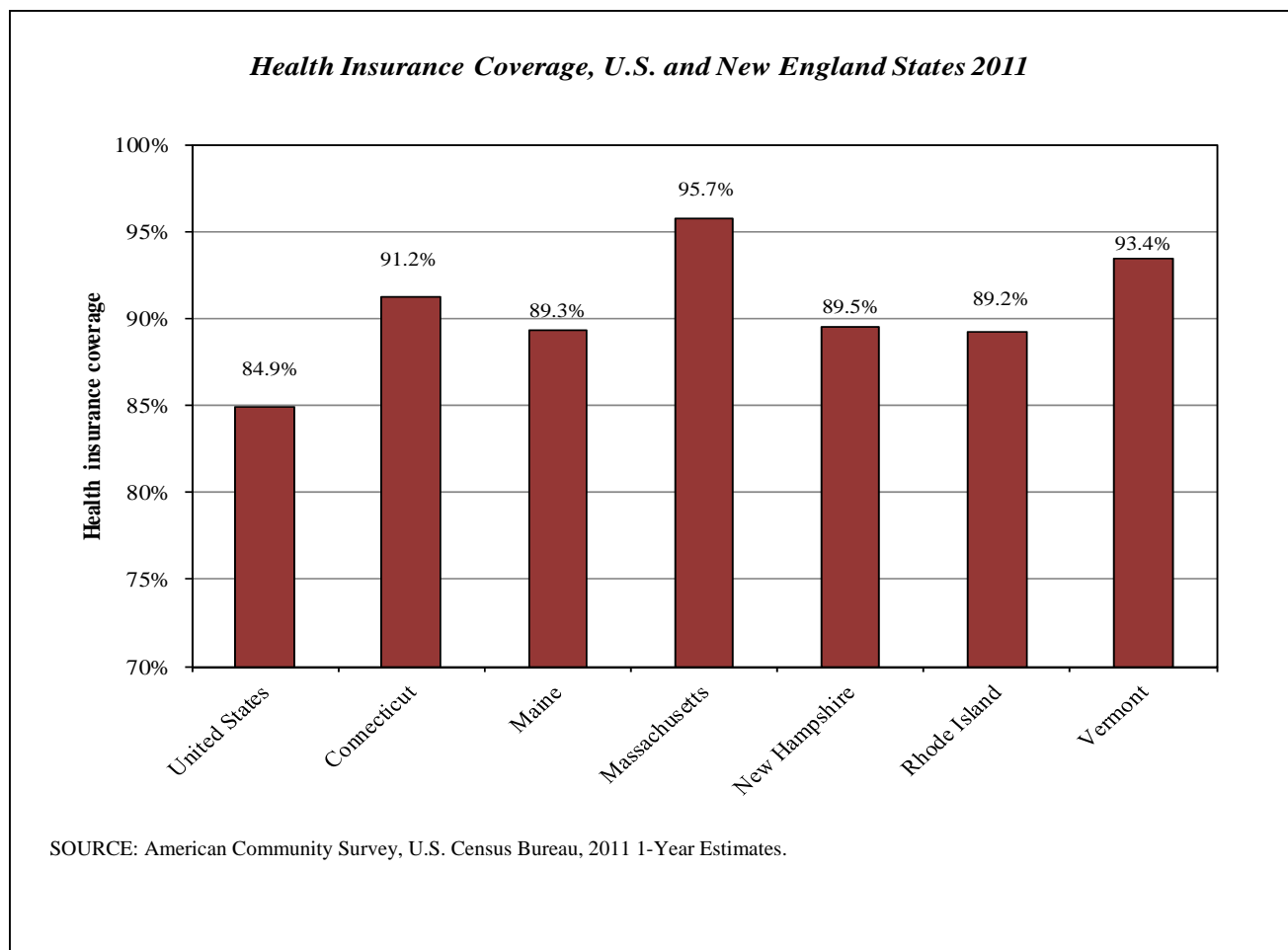
Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for 15.9 percent of total personal income in Massachusetts in 2011, dropping from 16.5 percent in 2010. 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 \$55.9 billion for 2011. Nearly 49 percent of government transfer payments to individuals were medical payments, up from just over 47 percent in 2010.

**Transfer Payments from Governments to Individuals in
Massachusetts in 2011**
(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 2011, 95.7 percent of the civilian non-institutionalized population was covered in the state by either public or private insurance, compared with 84.9 percent nationwide. Massachusetts also leads the other New England states in coverage, with Vermont as the next closest at 93.4 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.



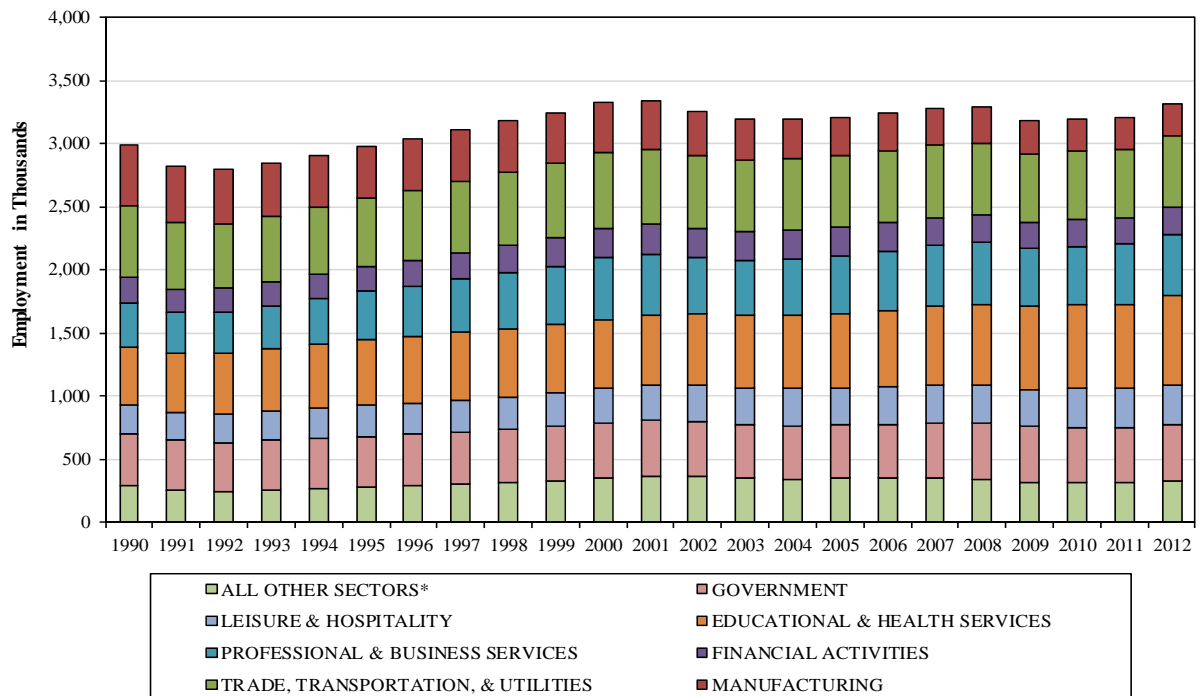
EMPLOYMENT

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 2011-2012 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, Education and Health Services, Professional and Business Services, and Leisure and Hospitality have grown to take the place of manufacturing in driving the Massachusetts economy and now account for almost half of total payroll employment, while Financial Activities, Government, Information, and Trade, Transportation & Utilities have remained relatively level or declined in share.

After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts eventually increased 0.5 percent in 2005 and continued to increase every year through 2008. After a 0.6 percent increase in 2011, employment grew 2.0 percent in 2012, still 2.0 percent below its 2001 peak. The comparable growth rate for the nation in 2012 was up 1.7 percent from 2011 and up 1.4 percent from 2001. The latest seasonally adjusted estimate for the state (3.32 million for June 2013) is about 65.4 thousand below the peak month in 2001 (3.38 million in February 2001) and about 15.3 thousand more than the last peak in April 2008 (3.30 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). After a steep decline of 9.5 percent in 2009, the decline returned to a less dramatic 2.2 percent in 2010, a slight uptick of 0.2 percent in 2011 and another drop of 1.8 percent in 2012. The preliminary seasonally adjusted estimates for June 2013 were lower than the estimates for the same period in 2012 (249.5 thousand compared to 253.5 thousand).

*Annual Average Employment in Massachusetts,
NAICS Super-Sectors, 1990-2012*

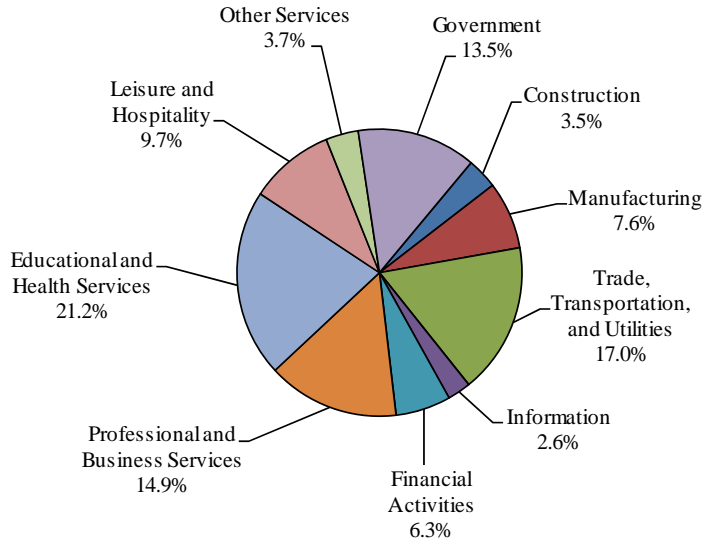


SOURCE: MA Division of Unemployment Assistance.

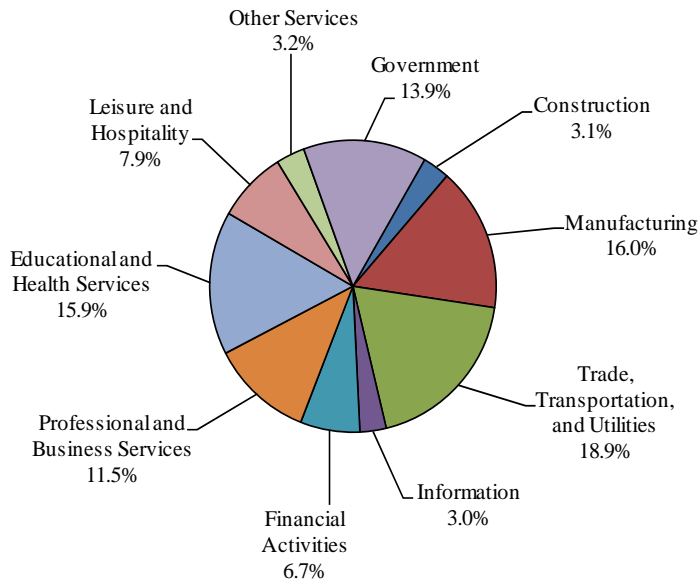
*Includes Mining & Natural Resources, Construction, Information, and Other Services.

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

NAICS Super-Sectors: 2011-2012 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 December 2011. Macy's replaces Partners Health Care from the March 2011 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 December 2011

(listed alphabetically)

| | |
|--------------------------------------|---------------------------------------|
| Bank of America, NA | Massachusetts Institute of Technology |
| 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 |
| CVS Pharmacy, LLC | Target Corporation |
| Demoulas Super Markets, Inc. | The Children's Hospital Corporation |
| E.M.C. Corporation | UMass Memorial Medical Center |
| General Hospital Corporation | United Parcel Service, Inc. |
| Harvard University | Verizon New England, Inc. |
| Home Depot U.S.A., Inc. | Wal-Mart Associates, Inc. |
| Macy's Retail Holdings, Inc. | |

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Division of Unemployment Assistance, Research Department 7-13-12.

NOTE: This alphabetic listing includes private employers reporting large numbers of jobs covered by the Massachusetts unemployment insurance program. The information is based on December 2011 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 twelve 2013 Fortune 500 companies headquartered here. There were eleven in 2011. When comparing the 2013 Fortune 500 list to the 2012, eight Massachusetts companies gained and four lost rank. Northeast Utilities located in Springfield, climbed 125 places on the list, the largest leap for a Massachusetts company.

Massachusetts Companies in the 2013 Fortune 500

| Rank | | Company (location) | Industry | 2012 revenues |
|------|------|--------------------------------------|--------------------------------------|---------------|
| 2013 | 2012 | | | (billions) |
| 81 | 84 | Liberty Mutual Ins. Group (Boston) | Insurance: P & C (stock) | \$36.9 |
| 94 | 121 | Mass. Mutual Life Ins. (Springfield) | Insurance: Life, Health (mutual) | \$32.9 |
| 115 | 125 | TJX (Framingham) | Specialty Retailers: Apparel | \$25.9 |
| 122 | 114 | Staples (Framingham) | Specialty Retailers: Other | \$24.7 |
| 124 | 117 | Raytheon (Waltham) | Aerospace and Defense | \$24.4 |
| 133 | 139 | EMC (Hopkinton) | Computer Peripherals | \$21.7 |
| 157 | 182 | Global Partners (Waltham) | Wholesalers: Diversified | \$17.6 |
| 220 | 225 | Thermo Fisher Scientific (Waltham) | Scientific, Photo, Control Equipment | \$12.7 |
| 268 | 262 | State St. Corp. (Boston) | Commercial Banks | \$10.1 |
| 357 | 335 | Boston Scientific (Natick) | Medical Products & Equipment | \$7.2 |
| 402 | 527 | Northeast Utilities (Springfield) | Utilities: Gas and Electric | \$6.3 |
| 454 | 476 | Biogen Idec (Weston) | Pharmaceuticals | \$5.5 |

SOURCE: *Fortune*, May 20, 2013 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 September 30, 2012, the Massachusetts Unemployment Trust Fund had a balance of \$496.7 million. This balance is the sum of the private contributory account balance of \$407.8 million and the government contributory account balance of \$88.9 million. This compares to an August 2012 balance of \$640 million with a private contributory portion of \$547 million. The October 2012 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$1.548 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 fourteen out of seventeen months between January 2006 and May 2007, but only three of those differences exceeded 0.2 percent. Since June 2007, the state rate has been at or below the comparable (seasonally adjusted) U.S. rate. In March 2007 the Massachusetts rate was 4.5 percent, the lowest it had been since October 2001. From October 2009 to June 2010 the rate peaked at 8.7 percent. The latest figure, the Massachusetts June 2013 seasonally adjusted rate was 7.0 percent, 0.6 percent below the national rate. 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.

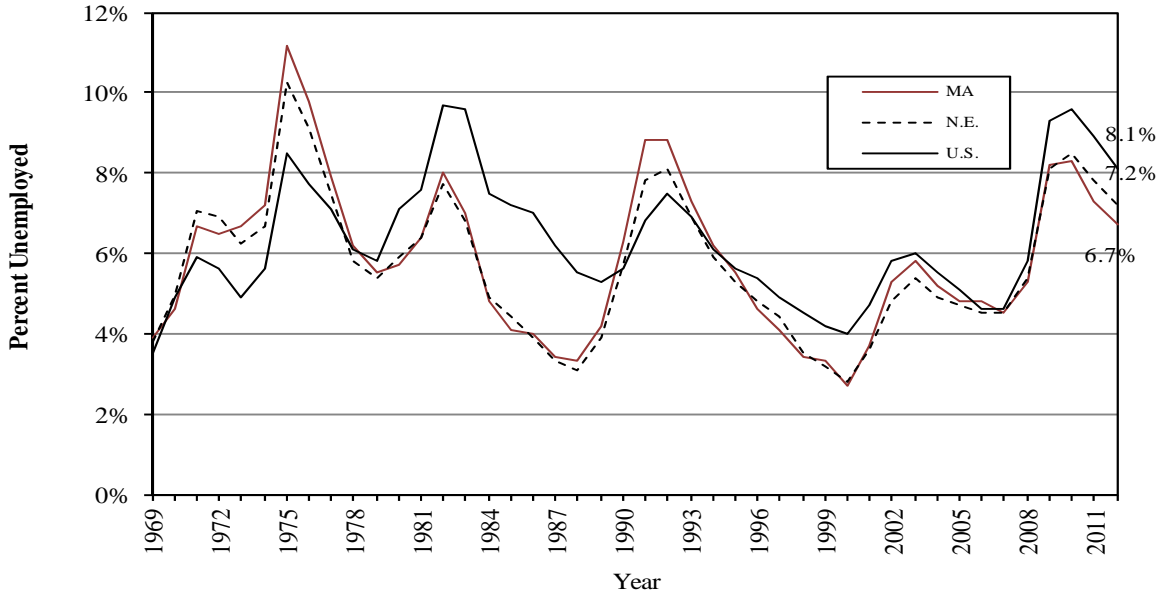
Annual Average Civilian Labor Force and Unemployment, 1969-2012

(in thousands)

| Year | Civilian Labor Force | | | Unemployed | | | Unemployment Rate | | | MA Rate as |
|------|----------------------|-------|---------|------------|------|--------|-------------------|-------|------|--------------|
| | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. | Pct. of U.S. |
| 1969 | 2,581 | 5,201 | 80,734 | 100 | 198 | 2,832 | 3.9% | 3.8% | 3.5% | 111.2% |
| 1970 | 2,465 | 5,128 | 82,771 | 113 | 253 | 4,093 | 4.6% | 4.9% | 4.9% | 93.7% |
| 1971 | 2,459 | 5,157 | 84,382 | 163 | 364 | 5,016 | 6.6% | 7.1% | 5.9% | 112.7% |
| 1972 | 2,487 | 5,260 | 87,034 | 161 | 363 | 4,882 | 6.5% | 6.9% | 5.6% | 115.6% |
| 1973 | 2,557 | 5,387 | 89,429 | 171 | 336 | 4,365 | 6.7% | 6.2% | 4.9% | 136.1% |
| 1974 | 2,637 | 5,514 | 91,949 | 190 | 368 | 5,156 | 7.2% | 6.7% | 5.6% | 128.5% |
| 1975 | 2,725 | 5,633 | 93,775 | 305 | 578 | 7,929 | 11.2% | 10.3% | 8.5% | 131.5% |
| 1976 | 2,726 | 5,714 | 96,158 | 268 | 521 | 7,406 | 9.8% | 9.1% | 7.7% | 127.3% |
| 1977 | 2,760 | 5,820 | 99,009 | 218 | 437 | 6,991 | 7.9% | 7.5% | 7.1% | 111.3% |
| 1978 | 2,809 | 5,936 | 102,251 | 173 | 343 | 6,202 | 6.2% | 5.8% | 6.1% | 101.6% |
| 1979 | 2,863 | 6,080 | 104,962 | 156 | 326 | 6,137 | 5.5% | 5.4% | 5.8% | 94.8% |
| 1980 | 2,885 | 6,154 | 106,940 | 164 | 365 | 7,637 | 5.7% | 5.9% | 7.1% | 80.3% |
| 1981 | 2,938 | 6,268 | 108,670 | 189 | 400 | 8,273 | 6.4% | 6.4% | 7.6% | 84.2% |
| 1982 | 2,966 | 6,345 | 110,204 | 236 | 489 | 10,678 | 8.0% | 7.7% | 9.7% | 82.5% |
| 1983 | 2,972 | 6,386 | 111,550 | 209 | 434 | 10,717 | 7.0% | 6.8% | 9.6% | 72.9% |
| 1984 | 3,032 | 6,540 | 113,544 | 146 | 318 | 8,539 | 4.8% | 4.9% | 7.5% | 64.0% |
| 1985 | 3,049 | 6,630 | 115,461 | 125 | 290 | 8,312 | 4.1% | 4.4% | 7.2% | 56.9% |
| 1986 | 3,080 | 6,724 | 117,834 | 123 | 264 | 8,237 | 4.0% | 3.9% | 7.0% | 57.1% |
| 1987 | 3,114 | 6,827 | 119,865 | 104 | 228 | 7,425 | 3.4% | 3.3% | 6.2% | 54.8% |
| 1988 | 3,156 | 6,907 | 121,669 | 104 | 215 | 6,701 | 3.3% | 3.1% | 5.5% | 60.0% |
| 1989 | 3,189 | 7,004 | 123,869 | 132 | 274 | 6,528 | 4.2% | 3.9% | 5.3% | 79.2% |
| 1990 | 3,226 | 7,128 | 125,840 | 204 | 409 | 7,047 | 6.3% | 5.7% | 5.6% | 112.5% |
| 1991 | 3,199 | 7,112 | 126,346 | 283 | 558 | 8,628 | 8.8% | 7.8% | 6.8% | 129.4% |
| 1992 | 3,181 | 7,105 | 128,105 | 281 | 573 | 9,613 | 8.8% | 8.1% | 7.5% | 117.3% |
| 1993 | 3,173 | 7,062 | 129,200 | 232 | 486 | 8,940 | 7.3% | 6.9% | 6.9% | 105.8% |
| 1994 | 3,188 | 7,041 | 131,056 | 199 | 415 | 7,996 | 6.2% | 5.9% | 6.1% | 101.6% |
| 1995 | 3,205 | 7,053 | 132,304 | 176 | 375 | 7,404 | 5.5% | 5.3% | 5.6% | 98.2% |
| 1996 | 3,231 | 7,118 | 133,943 | 148 | 340 | 7,236 | 4.6% | 4.8% | 5.4% | 85.2% |
| 1997 | 3,293 | 7,228 | 136,297 | 135 | 315 | 6,739 | 4.1% | 4.4% | 4.9% | 83.7% |
| 1998 | 3,322 | 7,257 | 137,673 | 113 | 253 | 6,210 | 3.4% | 3.5% | 4.5% | 75.6% |
| 1999 | 3,355 | 7,327 | 139,368 | 110 | 234 | 5,880 | 3.3% | 3.2% | 4.2% | 78.6% |
| 2000 | 3,366 | 7,348 | 142,583 | 92 | 204 | 5,692 | 2.7% | 2.8% | 4.0% | 67.5% |
| 2001 | 3,401 | 7,424 | 143,734 | 126 | 266 | 6,801 | 3.7% | 3.6% | 4.7% | 78.7% |
| 2002 | 3,424 | 7,496 | 144,863 | 181 | 363 | 8,378 | 5.3% | 4.8% | 5.8% | 91.4% |
| 2003 | 3,407 | 7,508 | 146,510 | 198 | 407 | 8,774 | 5.8% | 5.4% | 6.0% | 96.7% |
| 2004 | 3,381 | 7,476 | 147,401 | 177 | 366 | 8,149 | 5.2% | 4.9% | 5.5% | 94.5% |
| 2005 | 3,383 | 7,516 | 149,320 | 164 | 353 | 7,591 | 4.8% | 4.7% | 5.1% | 94.1% |
| 2006 | 3,418 | 7,607 | 151,428 | 162 | 344 | 7,001 | 4.8% | 4.5% | 4.6% | 104.3% |
| 2007 | 3,431 | 7,646 | 153,124 | 154 | 342 | 7,078 | 4.5% | 4.5% | 4.6% | 97.8% |
| 2008 | 3,463 | 7,713 | 154,287 | 185 | 418 | 8,924 | 5.3% | 5.4% | 5.8% | 91.4% |
| 2009 | 3,471 | 7,735 | 154,142 | 283 | 628 | 14,265 | 8.2% | 8.1% | 9.3% | 88.2% |
| 2010 | 3,475 | 7,761 | 153,889 | 288 | 659 | 14,825 | 8.3% | 8.5% | 9.6% | 86.5% |
| 2011 | 3,470 | 7,735 | 153,617 | 254 | 601 | 13,747 | 7.3% | 7.8% | 8.9% | 83.1% |
| 2012 | 3,475 | 7,720 | 154,975 | 234 | 560 | 12,506 | 6.7% | 7.2% | 8.1% | 82.7% |

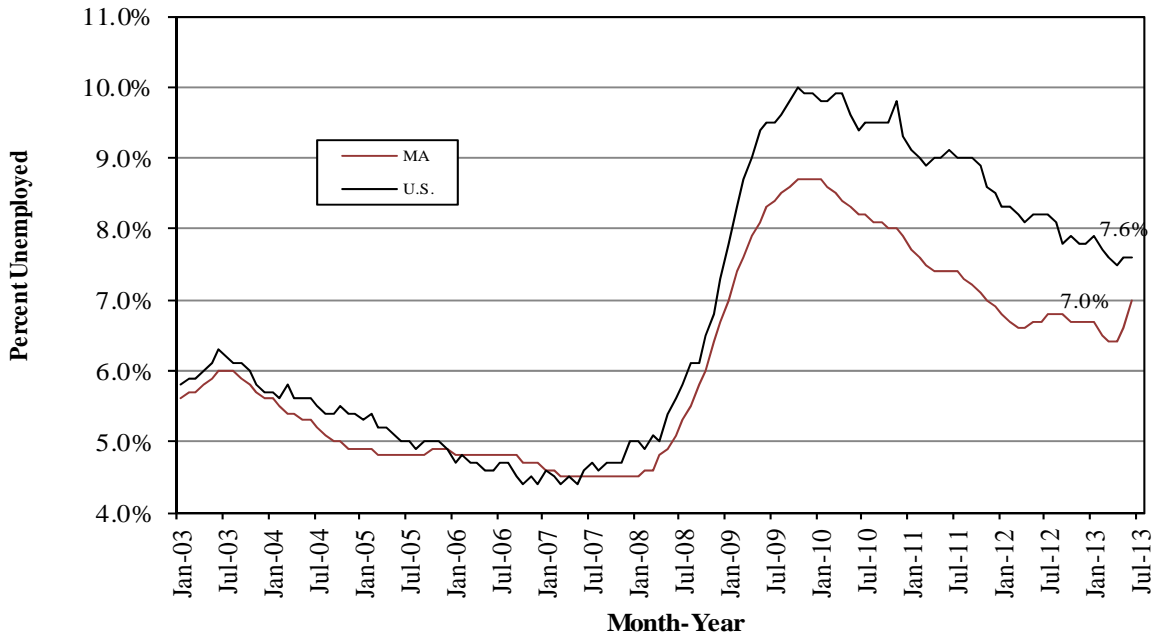
SOURCE: United States Department of Labor, Bureau of Labor Statistics.

**Annual Average Unemployment Rate, 1969-2012
Massachusetts, New England, and United States**



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

**Monthly Unemployment Rate, January 2003 - June 2013
Massachusetts and United States
(seasonally adjusted)**

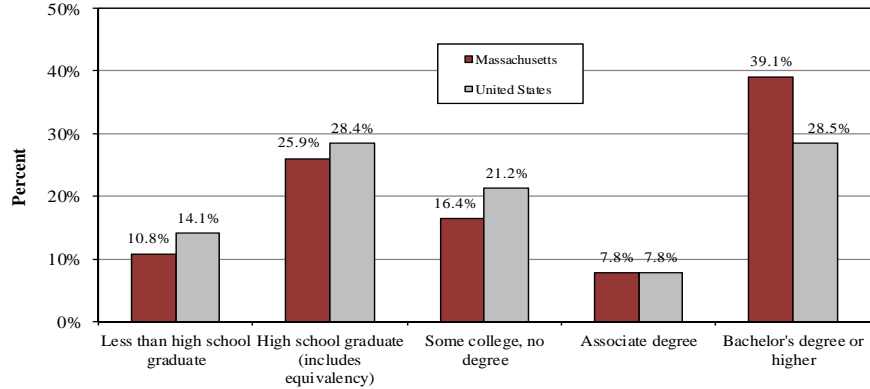


SOURCE: MA Division of Unemployment Assistance, United States Department of Labor, Bureau of Labor Statistics.

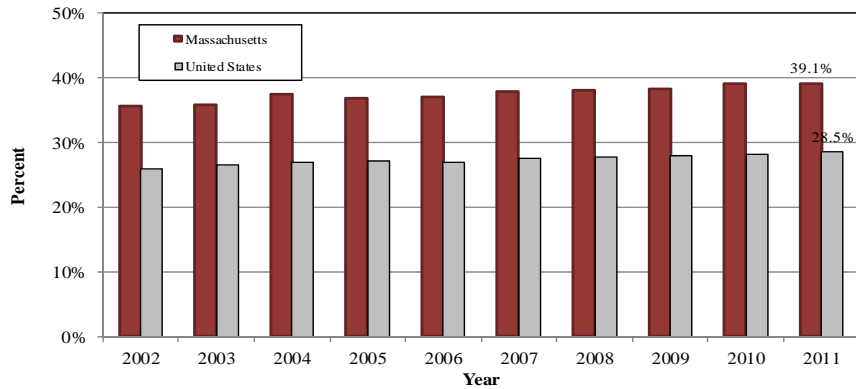
EDUCATION AND TECHNOLOGY

Educational Attainment. The availability of a skilled and well-educated population is an important resource for the Commonwealth. Only the District of Columbia had a higher percentage of adults with a bachelor's degree or higher in 2011, 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, 10.8 percent, than the national average of 14.1. 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.

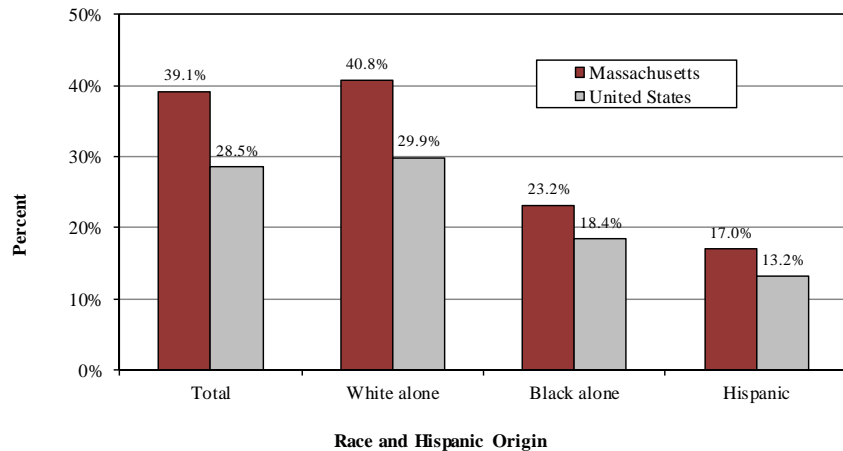
Educational Attainment of Persons 25 Years and Older in 2011



Percent of Population with a Bachelor's Degree or Higher



Persons 25 Years and Older with a Bachelor's Degree or Higher in 2011



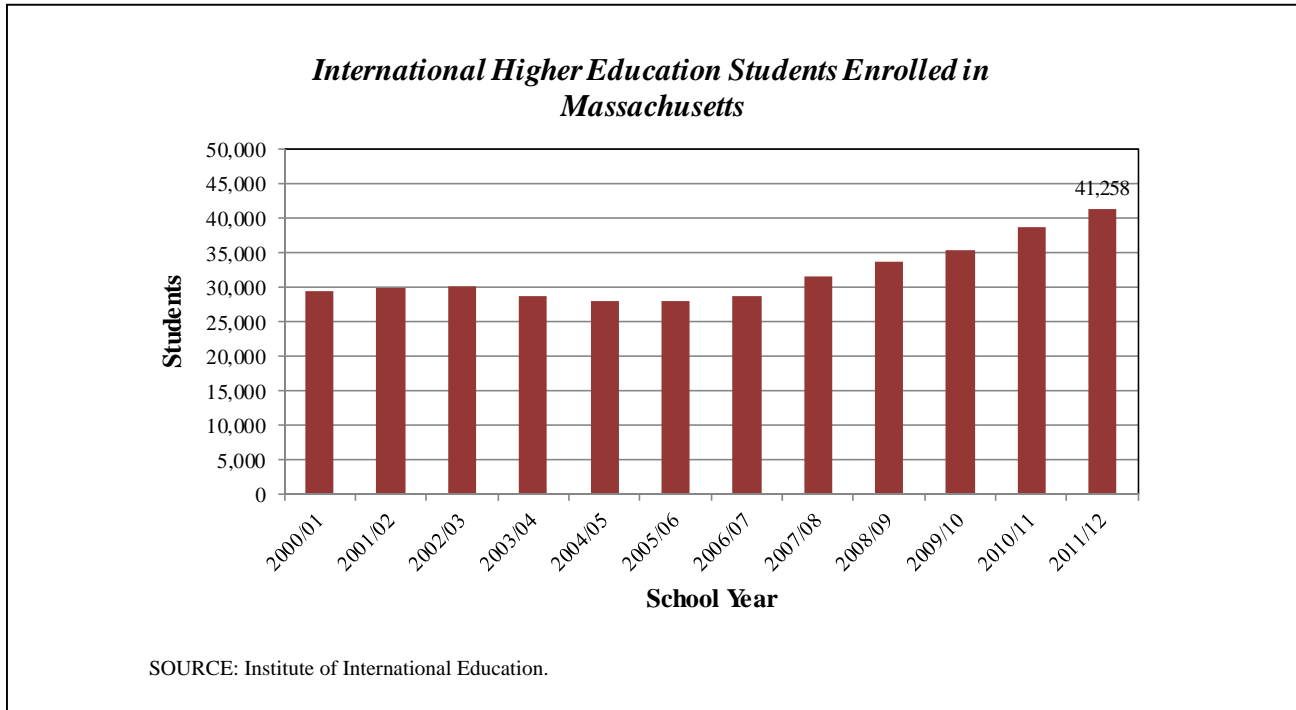
SOURCE: U.S. Census Bureau, ACS Estimates.

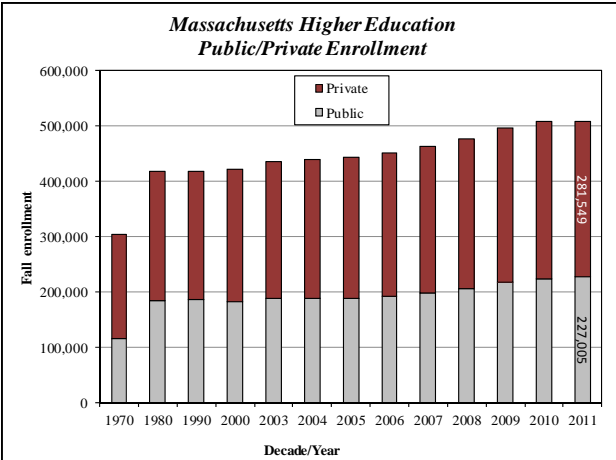
Higher Education Data. Minorities residing in Massachusetts have a greater representation in higher education institutions than their overall percent of the 18 and older population. The table below compares higher education enrollment by race and Hispanic origin to the general 18 and older population in the state and the U.S.

| <i>Higher Education Enrollment by Race and Hispanic Origin in 2011</i> | | | White alone | Black alone | Asian alone | Other race | Hispanic or Latino |
|--|--------------------|-------------|-------------|-------------|-------------|------------|--------------------|
| United States | Enrollment | 23,864,830 | 69.3% | 15.3% | 7.4% | 8.0% | 14.5% |
| | Population 18 yrs+ | 237,681,218 | 75.9% | 12.0% | 5.0% | 7.1% | 14.5% |
| Massachusetts | Enrollment | 592,754 | 74.8% | 9.1% | 9.5% | 6.6% | 9.3% |
| | Population 18 yrs+ | 5,182,429 | 82.2% | 6.4% | 5.5% | 5.9% | 8.4% |

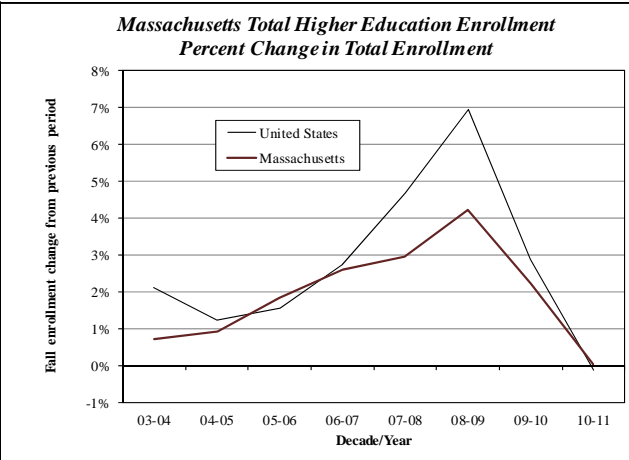
SOURCE: U.S. Census Bureau, American Community Survey estimates.

Survey data released by the Institute of International Education state that 41,258 foreign students were enrolled in Massachusetts colleges and universities in the 2011/2012 school year. This was an increase of 6.6 percent from the previous year. The national enrollment increased 6.5 percent. Massachusetts remains fourth ranked among states for foreign student enrollment.

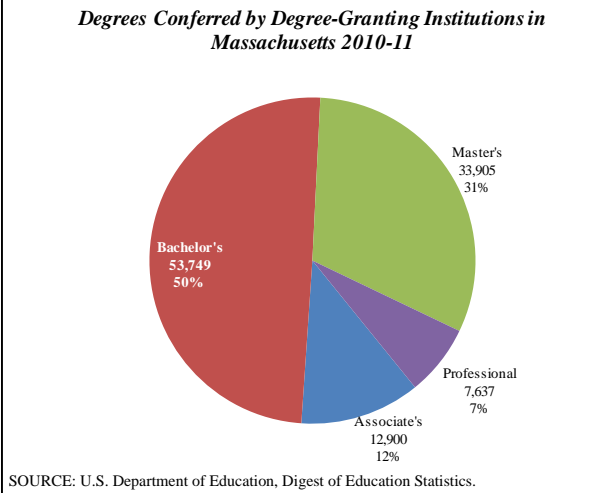




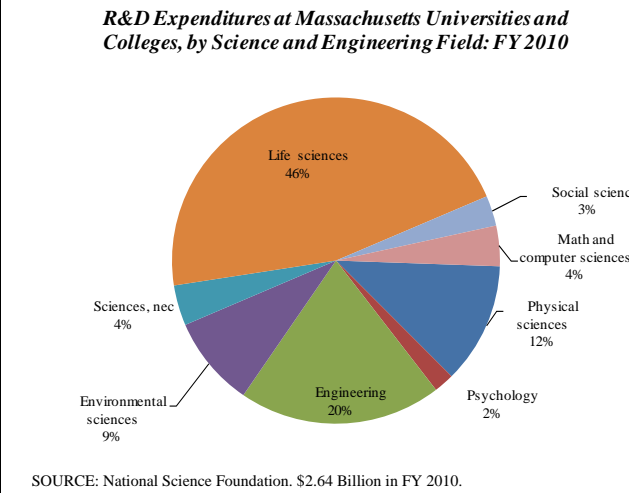
SOURCE: U.S. Department of Education, Digest of Education Statistics.



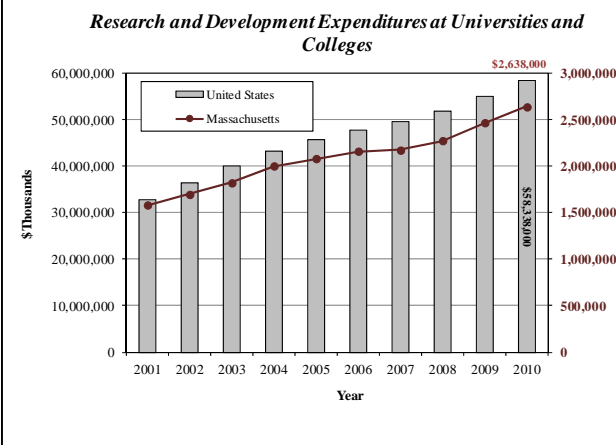
SOURCE: U.S. Department of Education, Digest of Education Statistics.



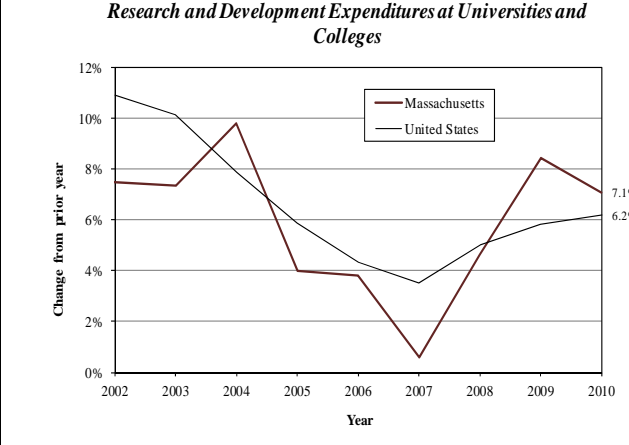
SOURCE: U.S. Department of Education, Digest of Education Statistics.



SOURCE: National Science Foundation. \$2.64 Billion in FY 2010.



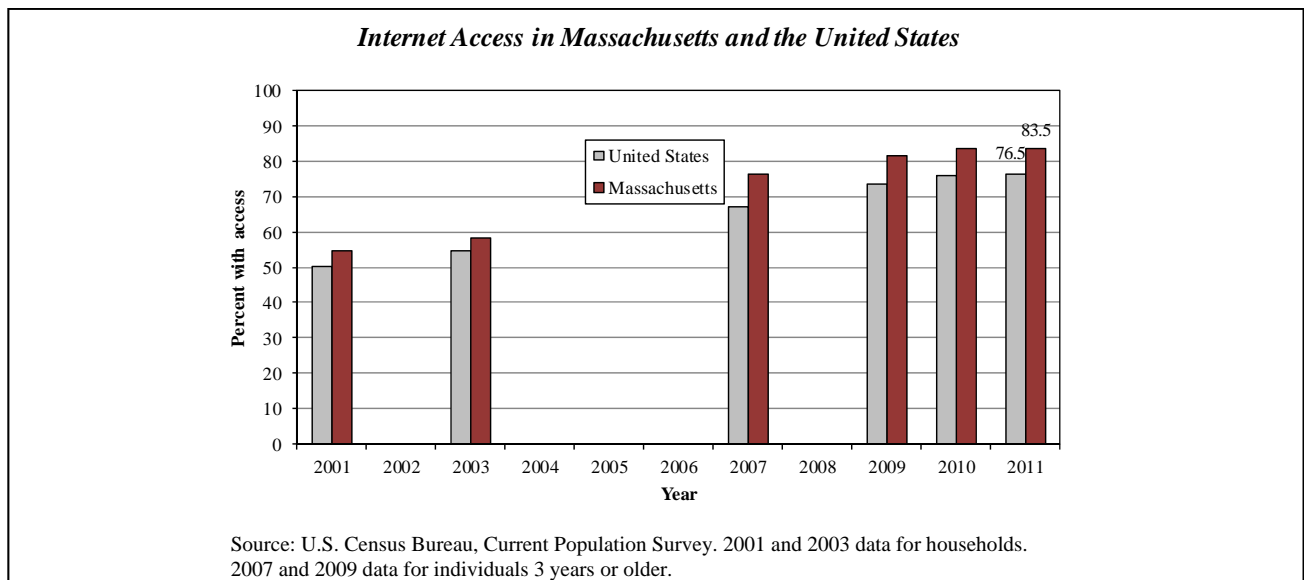
SOURCE: National Science Foundation.



SOURCE: National Science Foundation.

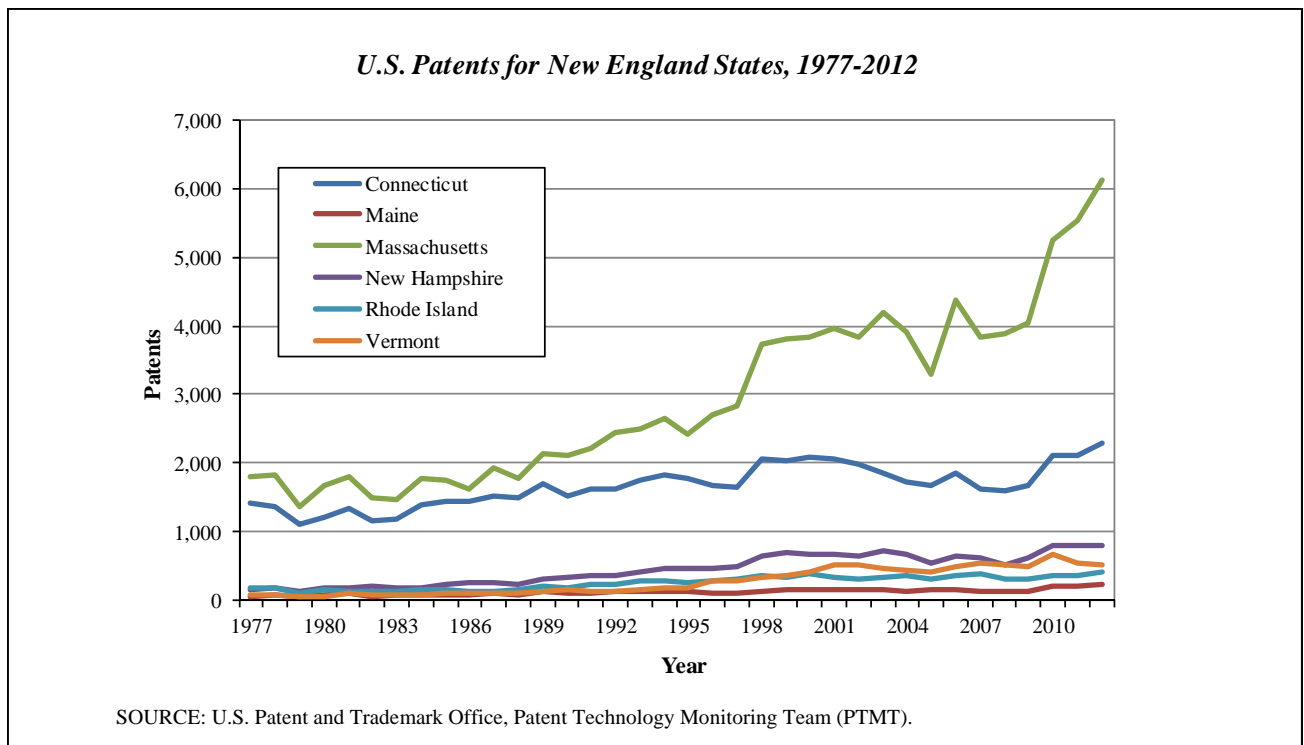
| Enrollment - Fall 2011 | | Degrees Awarded - 2010-11 | | Research & Development - FY2009 | |
|------------------------|---------|---------------------------|---------|---------------------------------|---------|
| | MA Rank | | MA Rank | | MA Rank |
| Total | 13 | Total | 10 | Total (FY2010) | 6 |
| Public | 24 | Associate's | 23 | Environmental sciences | 3 |
| Private | 7 | Bachelor's | 9 | Life sciences | 8 |
| | | Master's | 7 | Math/computer sciences | 7 |
| | | Professional/Doctorate | 7 | Physical sciences | 3 |
| | | | | 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 2011. Massachusetts ranked sixth among states and the District of Columbia when comparing the percent (83.5) of individuals who had access to the internet in their household.



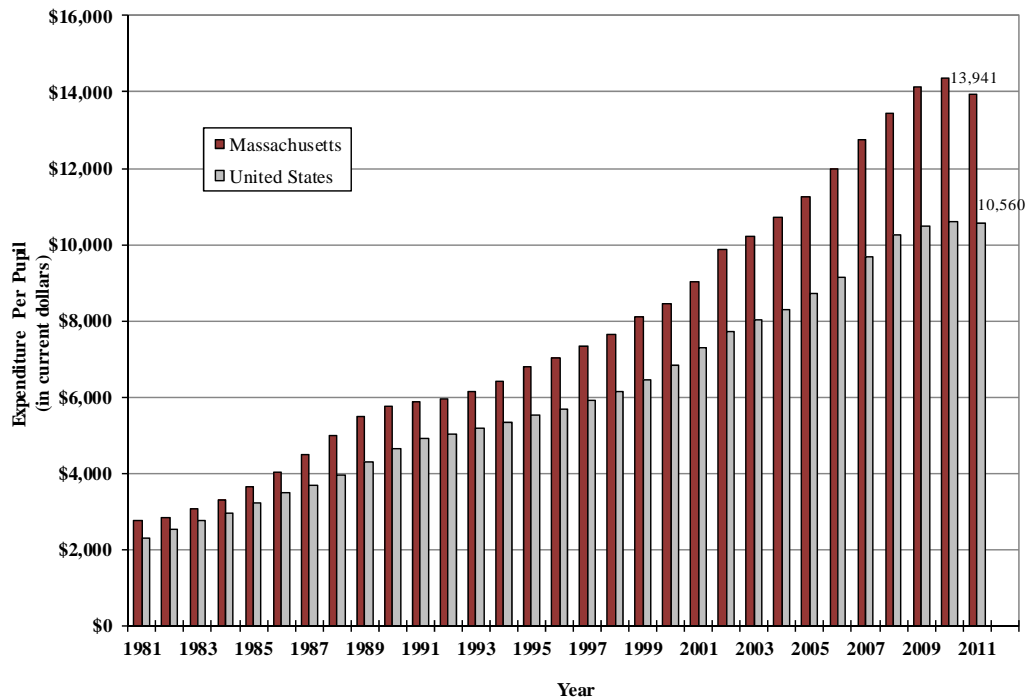
Patents. The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country of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

In 2012, Massachusetts was fourth 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 6119 new patents in 2012, up 11 percent from 2011, Massachusetts innovators were responsible for over twice as many patents as Connecticut, which originated 2,297 patents in 2012.



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 2010-2011 school year, the average Massachusetts per student expenditures decreased 2.9 percent to \$13,941. Massachusetts is ranked 8th in the nation among states and the District of Columbia. The table and chart below show expenditures per pupil for Massachusetts and the U.S. since fiscal 1981.

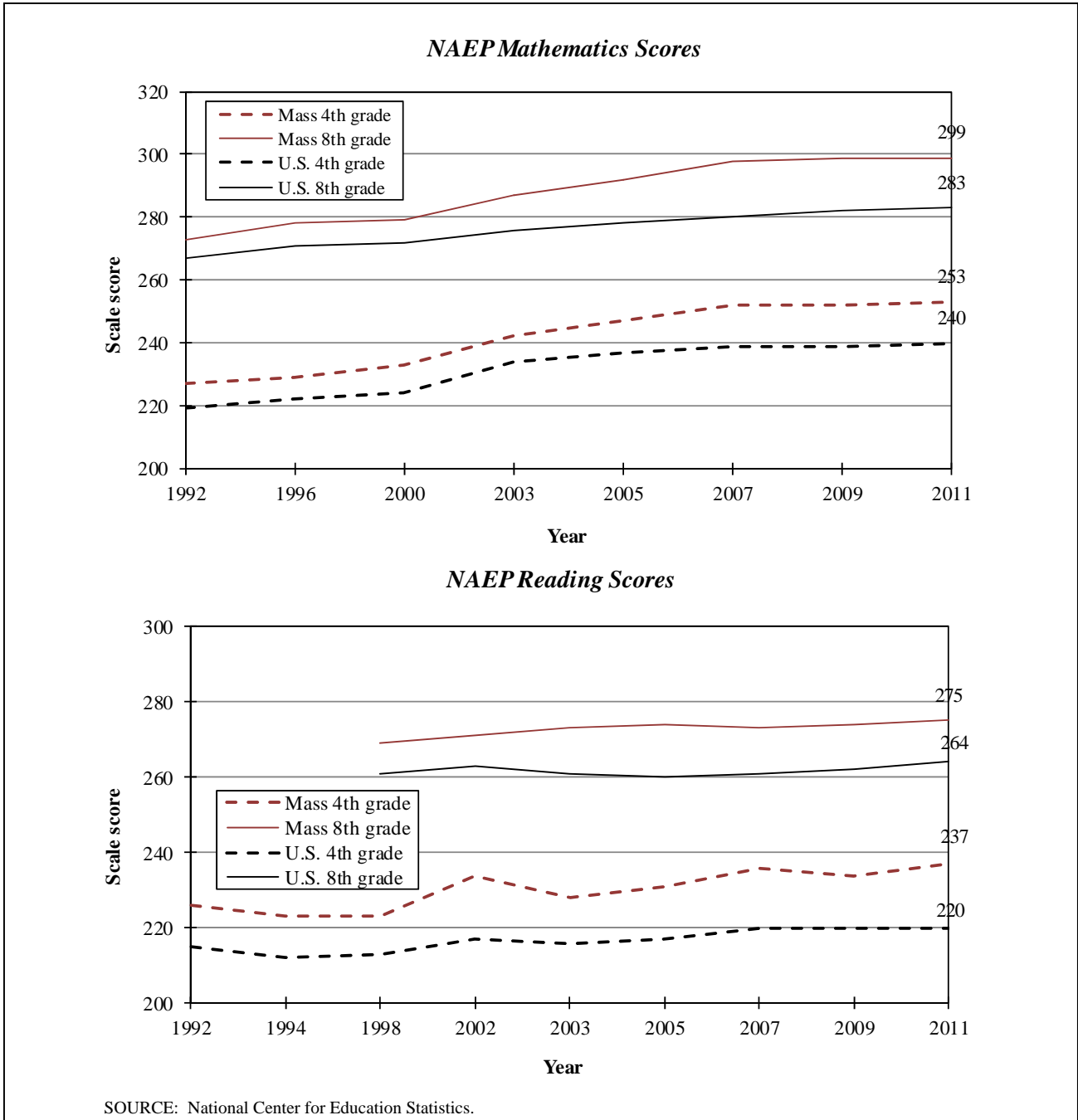
| <i>Per Pupil Expenditure in Public Elementary and Secondary Schools</i> (in current, unadjusted dollars) | | | | |
|---|---------------|---------------|-----------------|------------------------------|
| Fiscal Year | Massachusetts | United States | Ratio (MA/U.S.) | MA change from previous year |
| 1981 | \$2,735 | \$2,307 | 1.19 | |
| 1982 | 2,823 | 2,525 | 1.12 | 3.2% |
| 1983 | 3,072 | 2,736 | 1.12 | 8.8% |
| 1984 | 3,298 | 2,940 | 1.12 | 7.4% |
| 1985 | 3,653 | 3,222 | 1.13 | 10.8% |
| 1986 | 4,031 | 3,479 | 1.16 | 10.3% |
| 1987 | 4,491 | 3,682 | 1.22 | 11.4% |
| 1988 | 4,965 | 3,927 | 1.26 | 10.6% |
| 1989 | 5,485 | 4,307 | 1.27 | 10.5% |
| 1990 | 5,766 | 4,643 | 1.24 | 5.1% |
| 1991 | 5,881 | 4,902 | 1.20 | 2.0% |
| 1992 | 5,952 | 5,023 | 1.18 | 1.2% |
| 1993 | 6,141 | 5,160 | 1.19 | 3.2% |
| 1994 | 6,423 | 5,327 | 1.21 | 4.6% |
| 1995 | 6,783 | 5,529 | 1.23 | 5.6% |
| 1996 | 7,033 | 5,689 | 1.24 | 3.7% |
| 1997 | 7,331 | 5,923 | 1.24 | 4.2% |
| 1998 | 7,651 | 6,137 | 1.25 | 4.4% |
| 1999 | 8,106 | 6,458 | 1.26 | 5.9% |
| 2000 | 8,444 | 6,836 | 1.24 | 4.2% |
| 2001 | 9,038 | 7,284 | 1.24 | 7.0% |
| 2002 | 9,856 | 7,701 | 1.28 | 9.1% |
| 2003 | 10,223 | 8,019 | 1.27 | 3.7% |
| 2004 | 10,693 | 8,287 | 1.29 | 4.6% |
| 2005 | 11,267 | 8,701 | 1.29 | 5.4% |
| 2006 | 11,981 | 9,138 | 1.31 | 6.3% |
| 2007 | 12,738 | 9,666 | 1.32 | 6.3% |
| 2008 | 13,454 | 10,259 | 1.31 | 5.6% |
| 2009 | 14,118 | 10,499 | 1.34 | 4.9% |
| 2010 | 14,350 | 10,615 | 1.35 | 1.6% |
| 2011 | 13,941 | 10,560 | 1.32 | -2.9% |



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.



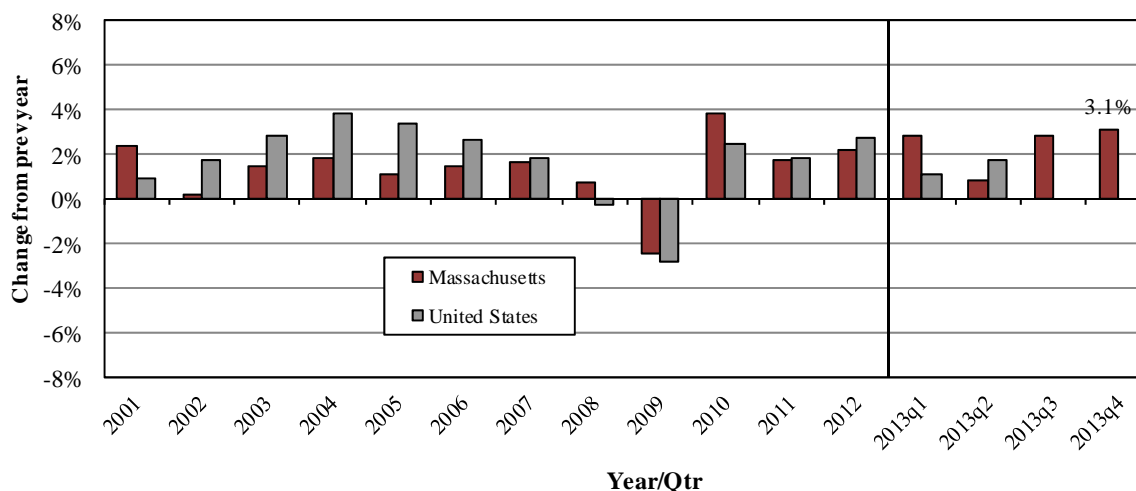
ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

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 | |
| 2000 | \$302 | | \$635 | | \$12,565 | | |
| 2001 | \$309 | 2.4% | \$647 | 1.8% | \$12,684 | 0.9% | |
| 2002 | \$309 | 0.2% | \$649 | 0.3% | \$12,910 | 1.8% | |
| 2003 | \$314 | 1.5% | \$659 | 1.6% | \$13,270 | 2.8% | |
| 2004 | \$320 | 1.9% | \$679 | 3.0% | \$13,774 | 3.8% | |
| 2005 | \$323 | 1.1% | \$686 | 1.0% | \$14,236 | 3.4% | |
| 2006 | \$328 | 1.4% | \$700 | 2.1% | \$14,615 | 2.7% | |
| 2007 | \$333 | 1.6% | \$710 | 1.5% | \$14,877 | 1.8% | |
| 2008 | \$336 | 0.7% | \$704 | -0.8% | \$14,834 | -0.3% | |
| 2009 | \$328 | -2.4% | \$686 | -2.6% | \$14,418 | -2.8% | |
| 2010 | \$340 | 3.8% | \$705 | 2.8% | \$14,779 | 2.5% | |
| 2011 | \$346 | 1.7% | \$712 | 1.0% | \$15,052 | 1.8% | |
| 2012 | \$354 | 2.2% | \$721 | 1.2% | \$15,471 | 2.8% | |

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



SOURCE: U.S. Bureau of Economic Analysis and <http://www.MassBenchmarks.org>.
Note: Massachusetts quarterly data are estimates. *U.S. data are chained 2009 dollars as of July 31, 2013.

ECONOMIC BASE AND PERFORMANCE—ECONOMIC INDICATORS

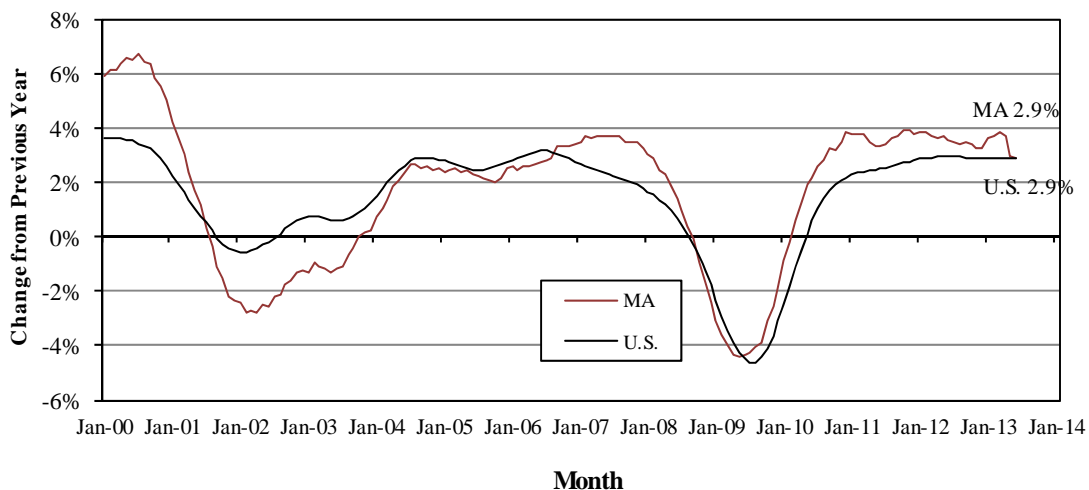
State Coincident Indexes. To track more recent changes in the state and national economies, we use the Federal Reserve Bank of Philadelphia’s Coincident Indexes. It “produces a monthly coincident index for each of the 50 states. The indexes are released a few days after the Bureau of Labor Statistics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

| Area | June 2013 | 1-Month Change | 3-Month Change | 12-Month Change |
|---------------|-----------|----------------|----------------|-----------------|
| U.S. | 155.3 | 0.2% | 0.7% | 2.9% |
| Massachusetts | 178.6 | 0.0% | -0.6% | 2.9% |
| Connecticut | 155.8 | 0.2% | 0.6% | 3.2% |
| Maine | 137.6 | 0.2% | 1.0% | 1.5% |
| New Hampshire | 195.6 | 0.6% | 1.7% | 4.2% |
| Rhode Island | 149.5 | -0.1% | 0.1% | 2.3% |
| Vermont | 149.5 | -0.2% | 0.0% | 2.3% |

Comparing the U.S. and Massachusetts Coincident Indexes

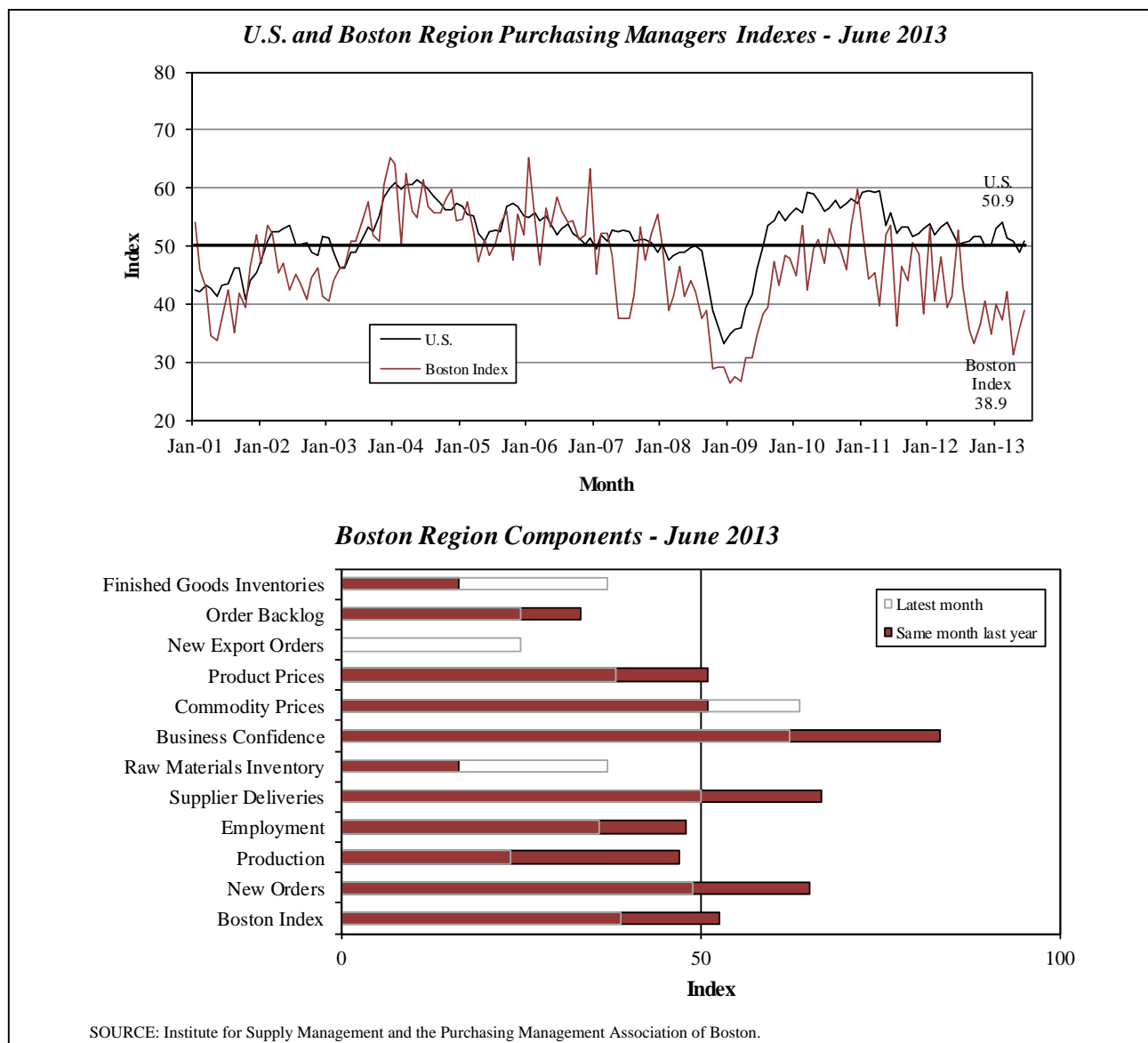


SOURCE: Federal Reserve Bank of Philadelphia.
 Note: Indexes are set to 100 at July 1992.

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 2013 national index indicated that the manufacturing sector has been expanding since May 2009. The Boston region's March 2013 index indicated that overall business conditions were contracting since July 2012. For the last five years, the average Boston business confidence, commodity prices, employment, new orders and the supplier deliveries indexes have been greater than 50. All other component indexes have been less than 50.

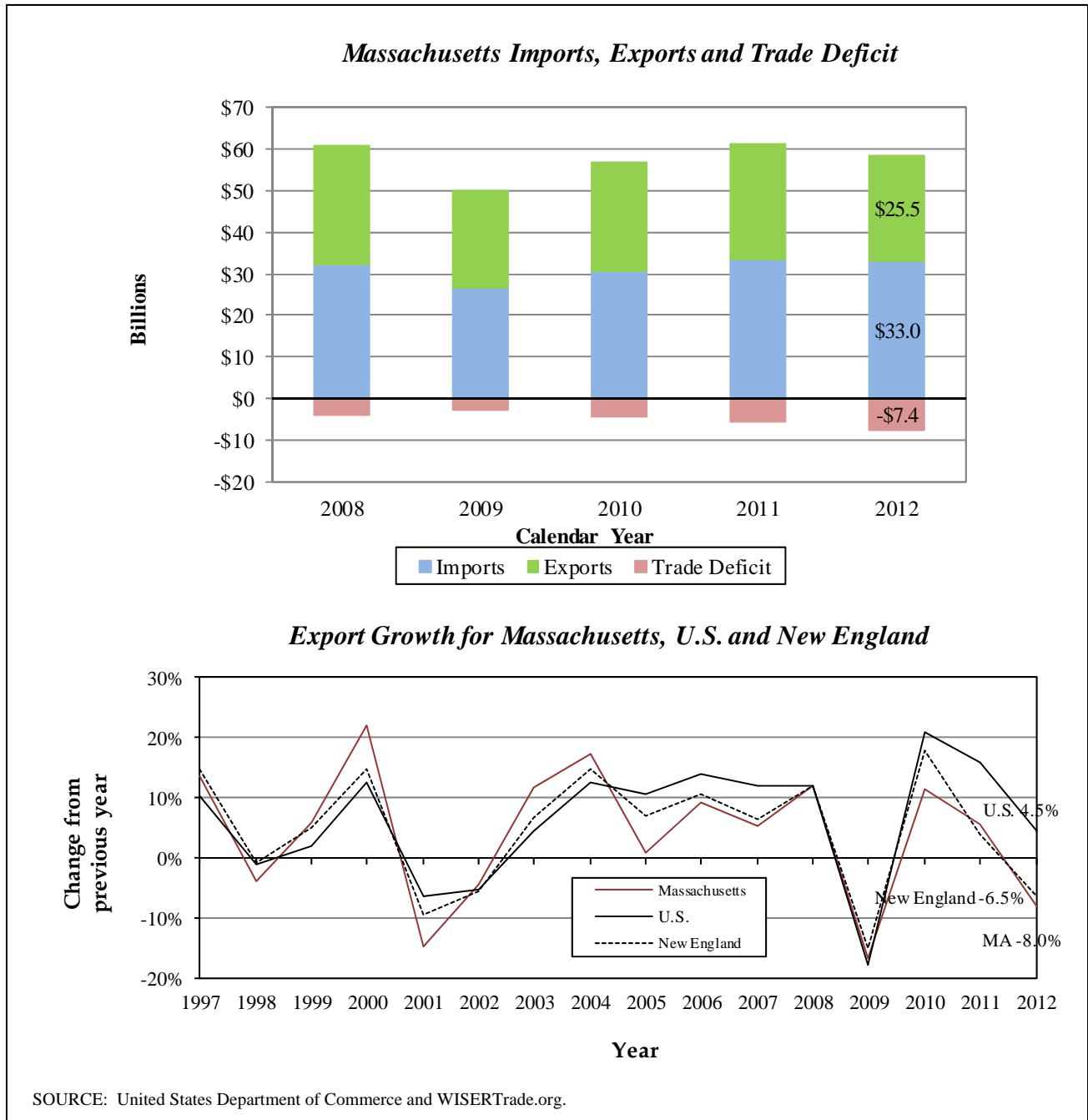


ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

Total Trade Volume. Total trade volume, exports and imports, decreased 4.2 percent from 2011 to \$58.5 billion in 2012. Canada trade volume was \$11.1 billion and 18.9 percent of the total state trade and was by far our most valuable trading partner. Massachusetts trade deficit, \$7.4 billion, grew 32.6 percent in 2012. See the appendix for more trade data.

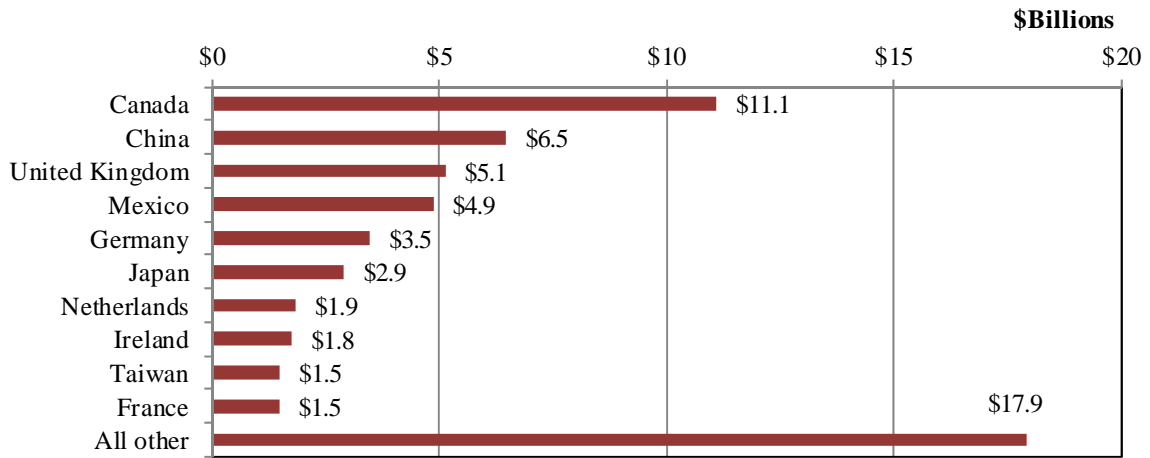
Exports. Massachusetts ranked 18th in the United States in 2012 and first in New England with \$25.5 billion in exports. This was a 8.0 percent decrease from the previous year's export value from the Commonwealth while national exports increased by 4.5 percent. Total exports from New England also fell by 6.5 percent. Canada was our top export destination again with \$3.7 billion in 2012.

Imports. Imports fell to \$33.0 billion in 2012 after expanding 8.8 percent in 2011. Canada was also the largest source for Massachusetts imports in 2012, where we imported \$7.7 billion or 23.3 percent of our total.

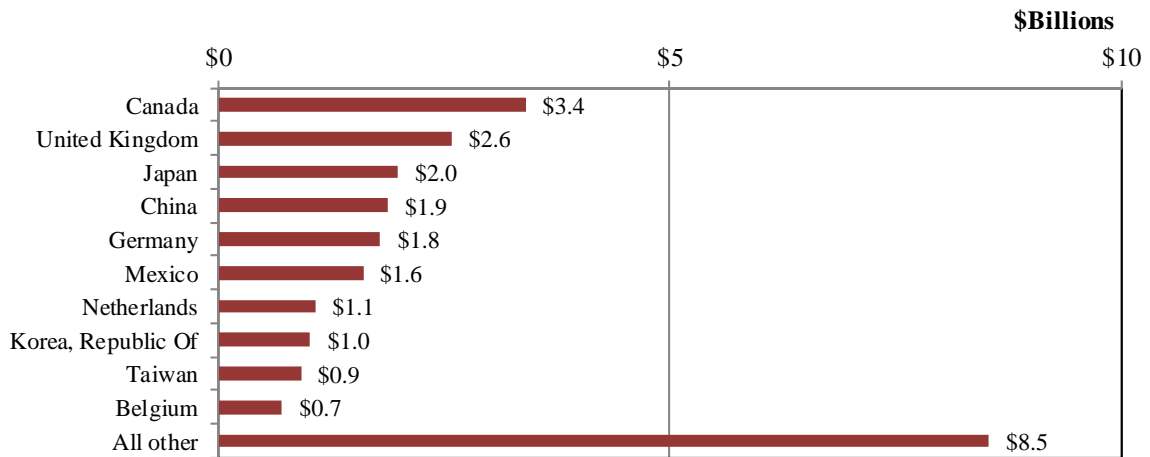


Top Ten Trade Partners by Trade Type.

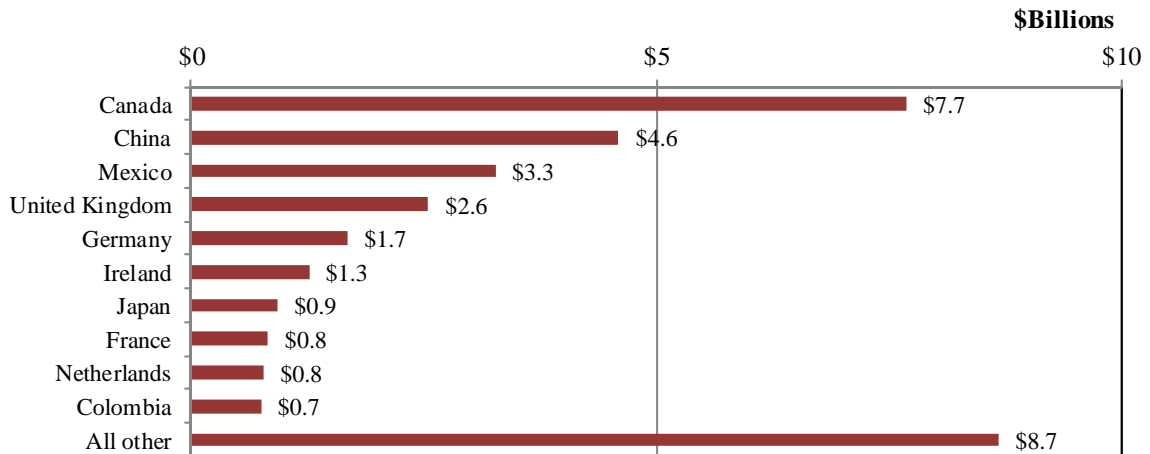
Massachusetts 2012 Top Ten Trade Partners



Massachusetts 2012 Top Ten Export Partners

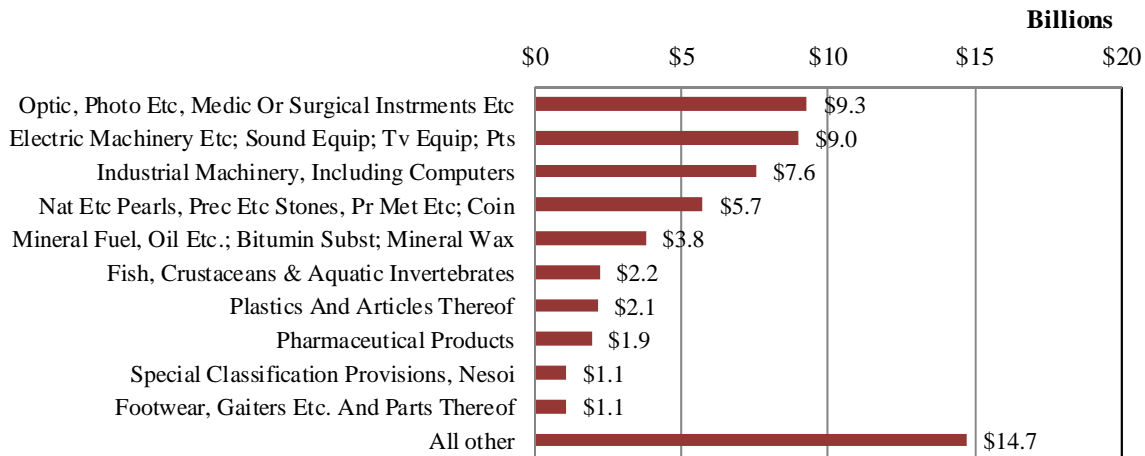


Massachusetts 2012 Top Ten Import Partners

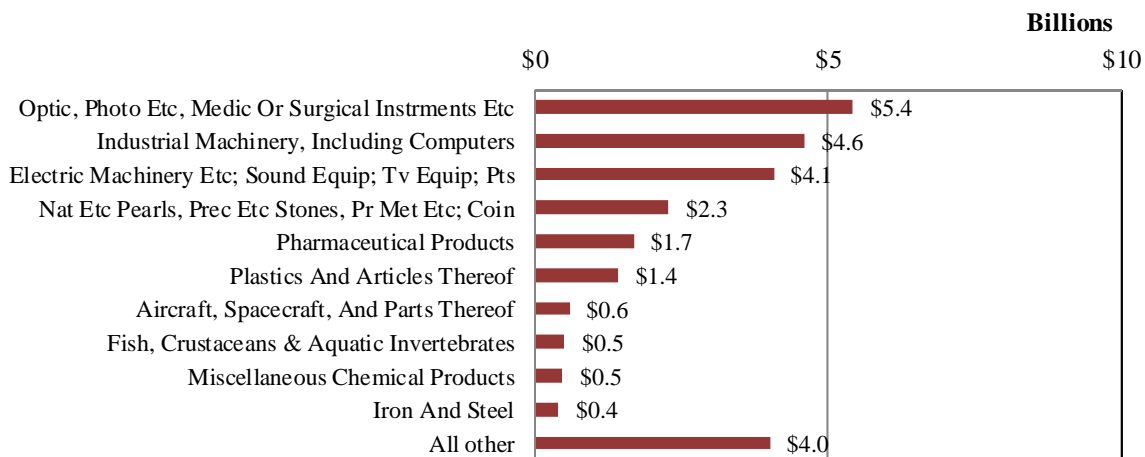


Top Ten Commodities Traded by Trade Type.

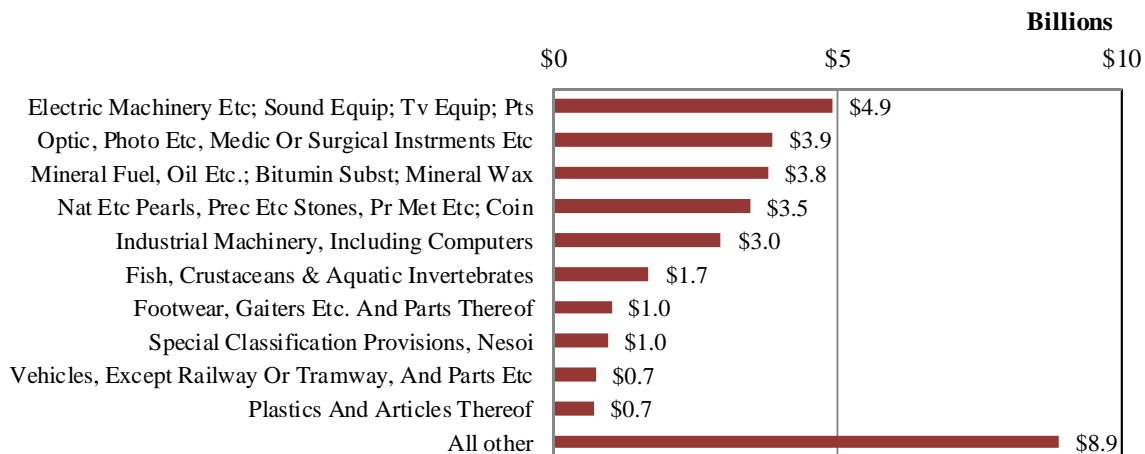
Massachusetts 2012 Top Commodities Imported and Exported



Massachusetts 2012 Top Ten Commodities Exported

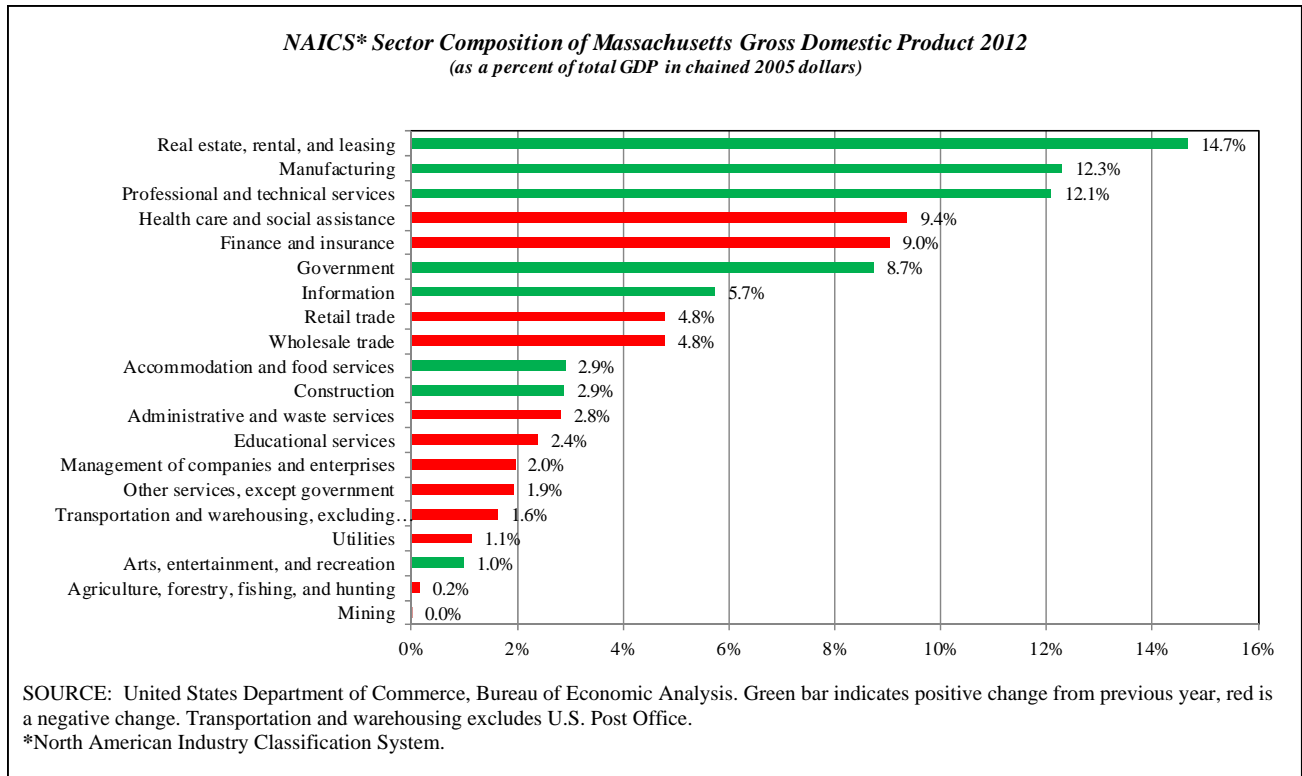


Massachusetts 2012 Top Ten Commodities Imported



ECONOMIC BASE AND PERFORMANCE—INDUSTRY SECTOR DETAIL (NAICS BASIS)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy, real estate, rental and leasing, manufacturing, professional and technical services and finance and health care and social assistance, contributed 48.4 percent of the GDP in 2012. The real estate, rental and leasing sector returned in 2012 as the 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 10.2 percent between 2003 and 2011. Between 2003 and 2011 (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 2003-2011 |
|---|--------------------------|
| Computer and electronic product manufacturing | 278.9% |
| Computer systems design and related services | 106.1% |
| Publishing industries, except Internet | 47.4% |
| Broadcasting and telecommunications | 43.3% |
| Ambulatory health care services | 43.2% |
| Legal services | -12.5% |
| Miscellaneous manufacturing | -16.4% |
| Securities, commodity contracts, investments | -22.1% |

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Updated June 2013.
*North American Industry Classification System.
Note: Subsector represents at least a half percent of Massachusetts GDP in the latest year.

Gross Domestic Product by Industry in Massachusetts

(as a percent of total GDP chained 2005 dollars)

| NAICS* Industry Sector | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 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 | 90.8% | 91.0% | 91.0% | 91.3% | 91.5% | 91.4% | 91.0% | 91.2% | 91.4% | 91.3% |
| 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% | 0.0% | 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% | 1.3% | 1.2% | 1.3% | 1.3% | 1.1% |
| Construction | 4.9% | 4.6% | 4.3% | 3.9% | 3.5% | 3.2% | 2.8% | 2.8% | 2.8% | 2.9% |
| Manufacturing | 10.0% | 9.9% | 10.1% | 10.7% | 11.3% | 11.3% | 10.9% | 12.3% | 11.9% | 12.3% |
| Wholesale trade | 5.8% | 5.9% | 5.5% | 5.6% | 5.7% | 5.7% | 5.1% | 5.0% | 5.0% | 4.8% |
| Retail trade | 5.6% | 5.5% | 5.4% | 5.2% | 5.0% | 4.7% | 4.8% | 5.0% | 4.8% | 4.8% |
| Transportation and warehousing, excluding Postal Service | 1.6% | 1.6% | 1.7% | 1.7% | 1.7% | 1.7% | 1.6% | 1.6% | 1.7% | 1.6% |
| Information | 4.2% | 4.6% | 5.0% | 4.8% | 5.1% | 5.3% | 5.0% | 5.4% | 5.5% | 5.7% |
| Finance and insurance | 10.7% | 10.5% | 10.3% | 10.5% | 10.0% | 9.4% | 10.4% | 9.5% | 9.3% | 9.0% |
| Real estate, rental, and leasing | 14.5% | 14.4% | 14.4% | 14.0% | 14.0% | 14.2% | 14.4% | 14.3% | 14.2% | 14.7% |
| Professional and technical services | 9.8% | 10.4% | 10.7% | 11.0% | 11.3% | 12.0% | 11.6% | 11.7% | 12.1% | 12.1% |
| Management of companies and enterprises | 2.5% | 2.3% | 2.3% | 2.2% | 2.2% | 2.2% | 2.3% | 2.0% | 2.2% | 2.0% |
| Administrative and waste services | 2.7% | 2.6% | 2.8% | 2.8% | 3.0% | 3.0% | 2.7% | 2.7% | 2.9% | 2.8% |
| Educational services | 2.7% | 2.7% | 2.5% | 2.5% | 2.5% | 2.5% | 2.6% | 2.5% | 2.5% | 2.4% |
| Health care and social assistance | 8.3% | 8.4% | 8.5% | 8.8% | 8.9% | 9.3% | 9.7% | 9.6% | 9.6% | 9.4% |
| Arts, entertainment, and recreation | 0.9% | 0.9% | 0.9% | 0.9% | 1.0% | 0.9% | 0.9% | 1.0% | 1.0% | 1.0% |
| Accommodation and food services | 2.8% | 2.8% | 2.8% | 2.8% | 2.8% | 2.6% | 2.6% | 2.7% | 2.9% | 2.9% |
| Other services, except government | 2.4% | 2.4% | 2.3% | 2.3% | 2.3% | 2.1% | 2.1% | 2.0% | 2.0% | 1.9% |
| Government | 9.2% | 9.0% | 9.0% | 8.7% | 8.5% | 8.6% | 9.0% | 8.8% | 8.6% | 8.7% |

Rank of Industry Contribution to GDP in Massachusetts

(millions of chained 2005 dollars)

| NAICS* Industry Sector | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------|------|------|------|------|------|------|------|------|------|
| 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 | 10 | 10 | 10 | 10 | 10 | 10 | 12 | 11 |
| Manufacturing | 3 | 4 | 4 | 3 | 2 | 3 | 3 | 2 | 3 | 2 |
| Wholesale trade | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 8 | 8 | 9 |
| Retail trade | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 8 |
| Transportation and warehousing, excluding Postal Service | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 |
| Information | 10 | 10 | 9 | 9 | 8 | 8 | 8 | 7 | 7 | 7 |
| Finance and insurance | 2 | 2 | 3 | 4 | 4 | 4 | 4 | 5 | 5 | 5 |
| Real estate, rental, and leasing | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Professional and technical services | 4 | 3 | 2 | 2 | 3 | 2 | 2 | 3 | 2 | 3 |
| Management of companies and enterprises | 14 | 15 | 15 | 15 | 15 | 14 | 14 | 14 | 14 | 14 |
| Administrative and waste services | 13 | 13 | 11 | 11 | 11 | 11 | 11 | 12 | 11 | 12 |
| Educational services | 12 | 12 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| Health care and social assistance | 6 | 6 | 6 | 5 | 5 | 5 | 5 | 4 | 4 | 4 |
| Arts, entertainment, and recreation | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| Accommodation and food services | 11 | 11 | 12 | 12 | 12 | 12 | 12 | 11 | 10 | 10 |
| Other services, except government | 15 | 14 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 15 |
| Government | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |

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

* North American Industry Classification System.

Industry Sector Analysis. The following section contains a summary for each of the twenty major NAICS sectors. The data series start in 2001, the last time the state experienced a downturn, commonly referred to as “The Telecom Bubble.” We report the latest quarterly data at an annual rate where available. This may skew sectors that experience seasonal trends, such as construction. Graphs include data value labels for the latest annual and quarterly annualized points.

Not all datasets are reported for all of the major NAICS sectors. The Massachusetts Department of Workforce and Labor Development’s Employment and Wages (ES-202) data series are available for every sector and contain the number of establishments, average monthly employment, total annual wages and average weekly wages for the establishments with employees. The data are reported 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.

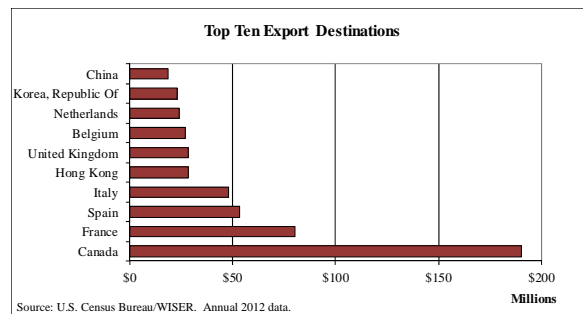
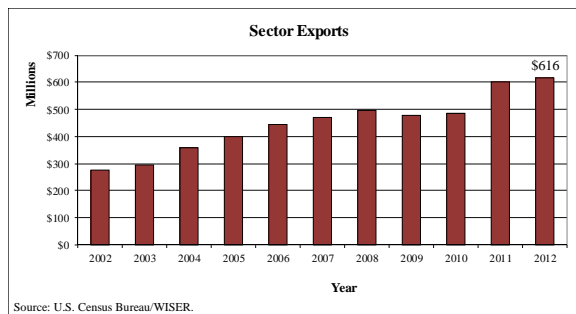
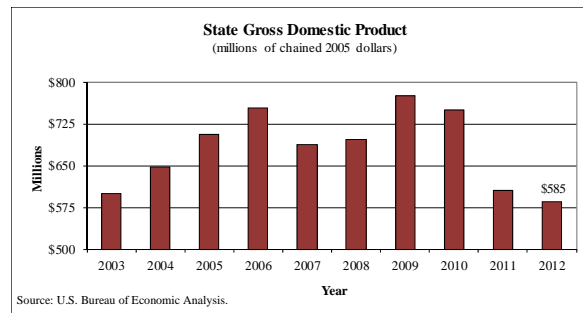
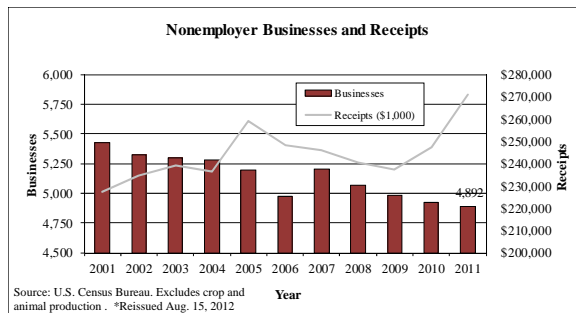
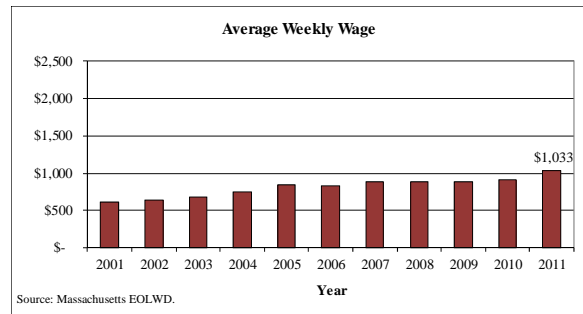
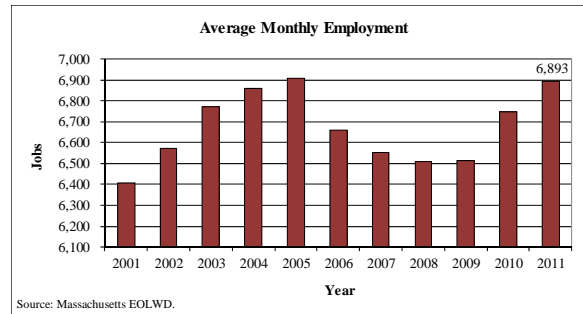
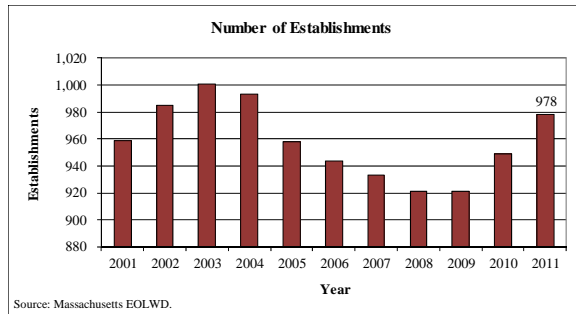
State Gross Domestic Product is an annual series from the U.S. Bureau of Economic Analysis’s Regional Economic Accounts. U.S. and state GDP is inflation adjusted to 2005. U.S. GDP is available quarterly.

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: **0.17%**

GDP rank: **19 of 20**

Nonemployer to employer establishment ratio: **5.0 to 1**

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

Establishments with employees: **Fishing**

Nonemployer establishments: **Fishing**

Employees: **Fishing and greenhouse and nursery production**

Annual wages: **Fishing**

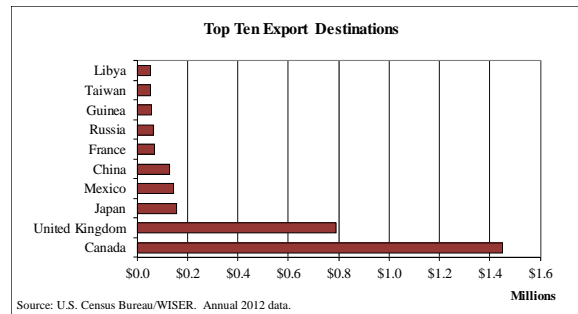
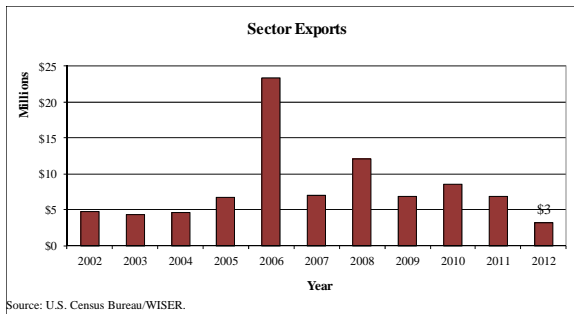
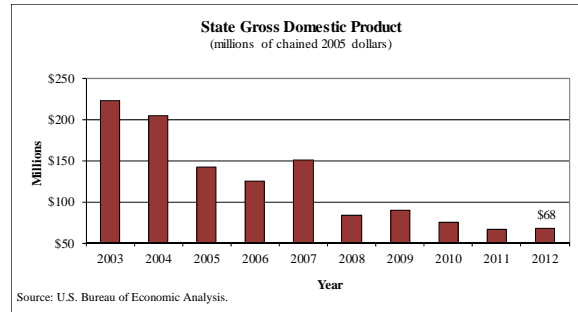
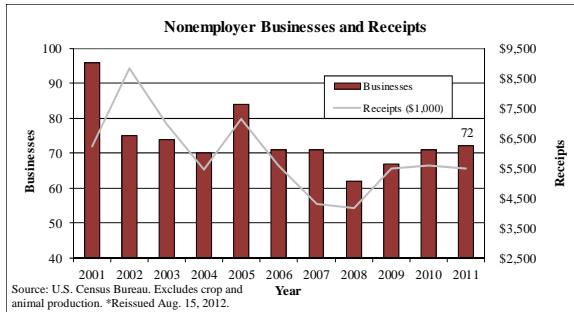
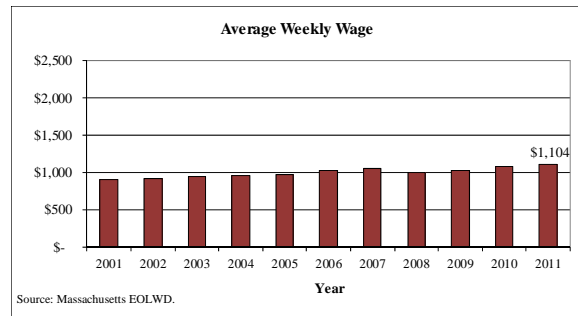
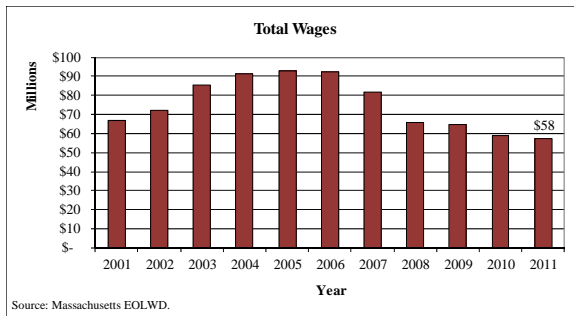
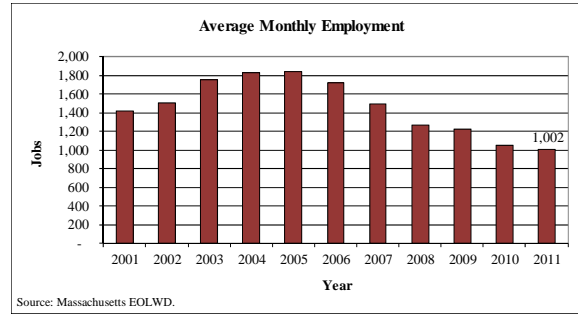
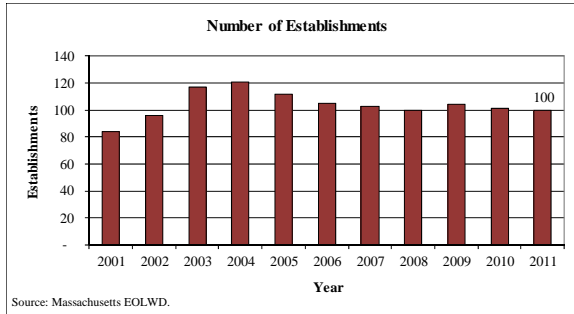
Average weekly wage: **Fishing**

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: **0.02%**

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.72 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**

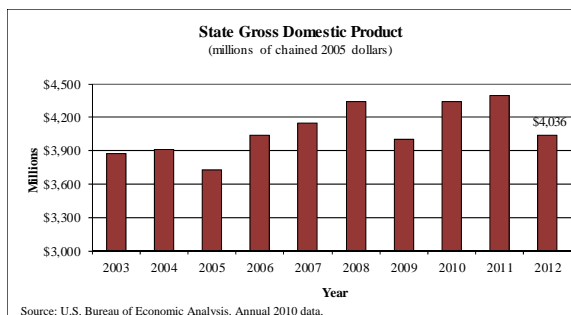
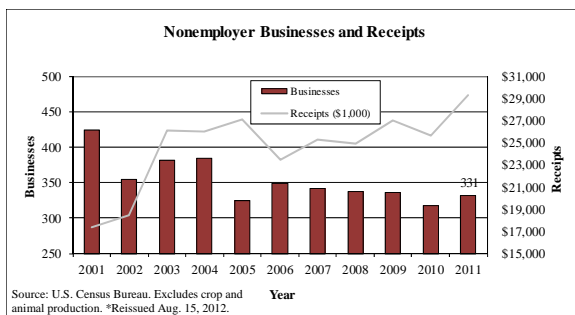
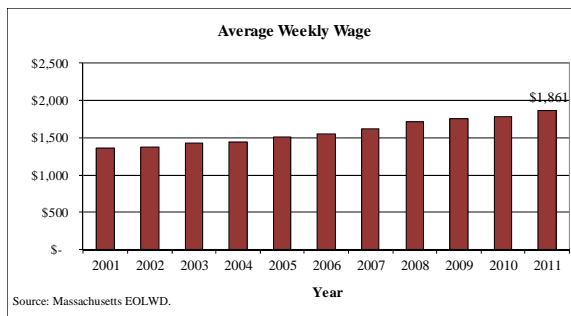
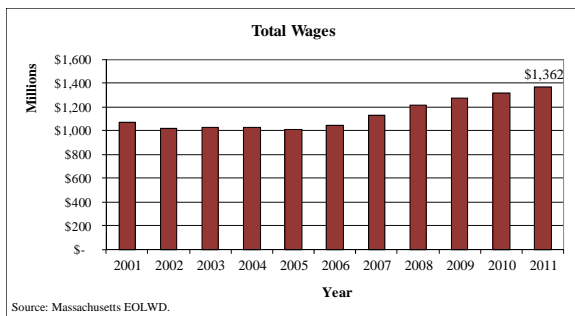
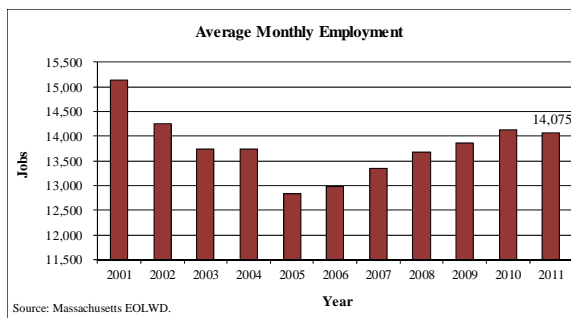
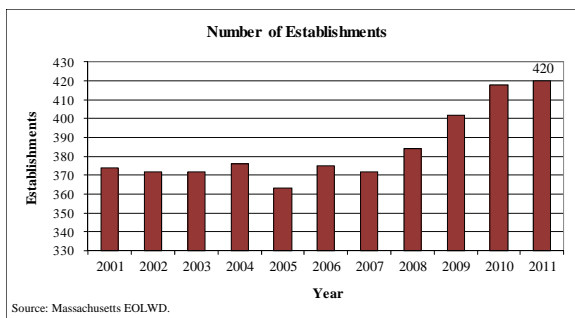
Average weekly wage: **Support activities for mining**

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

Most valuable export: **Minerals and ores**

Large employers in Massachusetts: **S. M. Larusso and Sons Inc., Hyannis Sand and Gravel Inc.**

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: **1.14%**

GDP rank: **17 of 20**

Nonemployer to employer establishment ratio: **0.78 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**

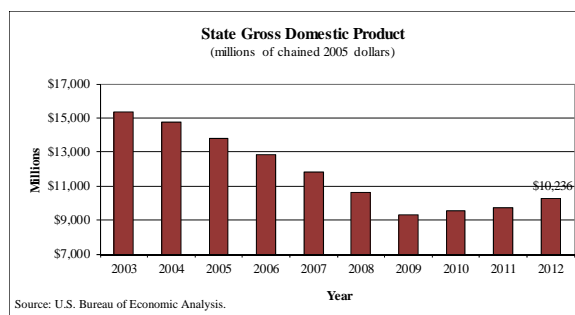
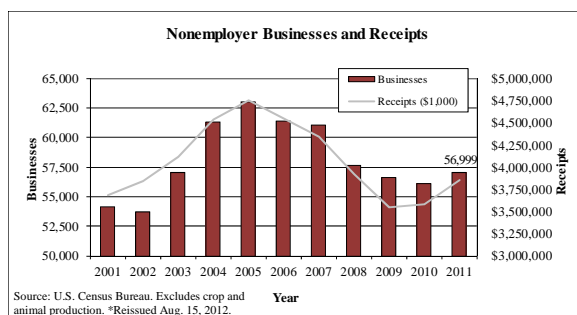
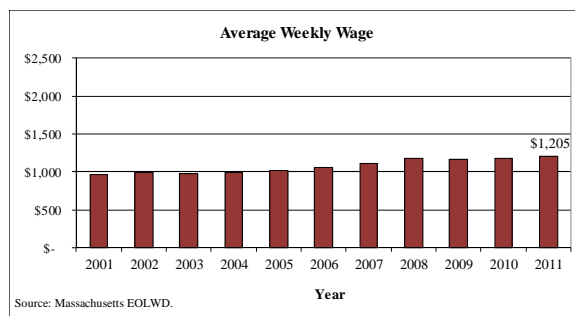
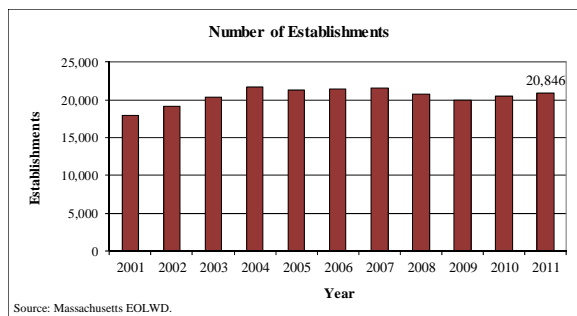
Annual wages: **Power generation and supply**

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

Annual receipts at nonemployer establishments: Subsector detail N/A

Large employers in Massachusetts: **Columbia Gas of Massachusetts, Pilgrim Nuclear Power Station, Boston Water Commission.**

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: **2.89%**

GDP rank: **11 of 20**

Nonemployer to employer establishment ratio: **2.73 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**

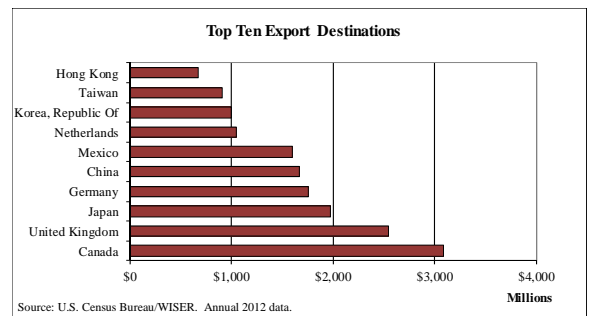
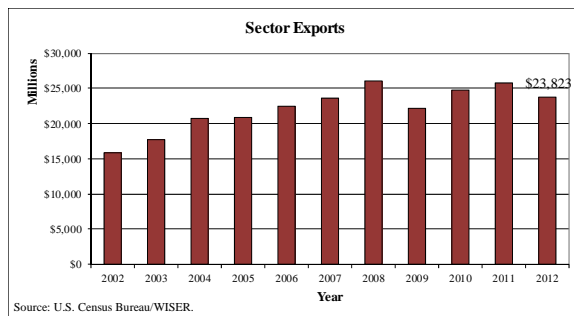
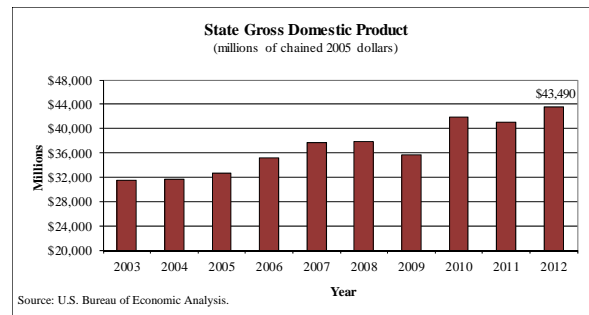
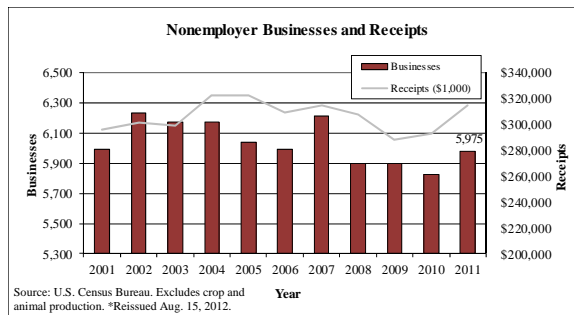
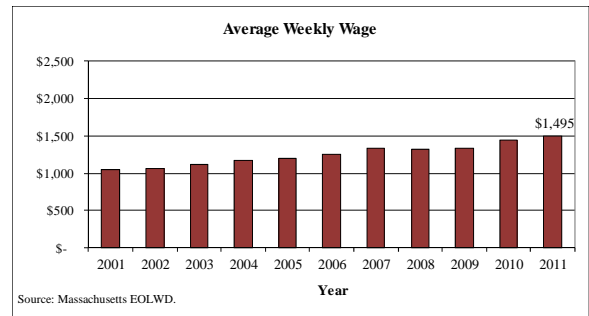
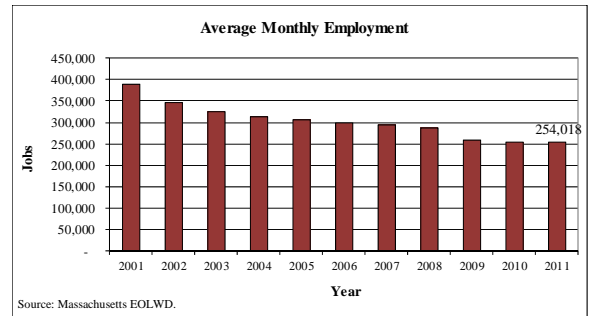
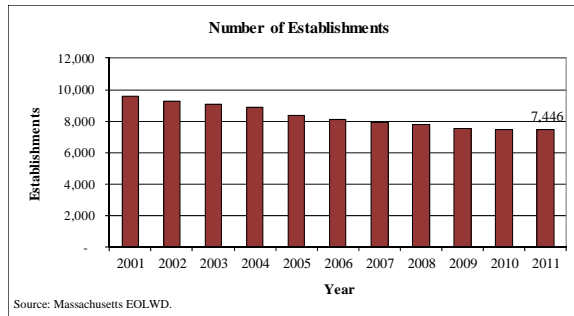
Annual wages: **Building equipment contractors**

Average weekly wage: **Utility system construction**

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

Large employers in Massachusetts: **Suffolk Construction Company, J&S Electric Company, R.H. White Company and Interstate Electrical Services Group.**

NAICS 31-33 – Manufacturing. The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is considered manufacturing, except in cases where the activity is appropriately classified in Sector 23, Construction.



Summary.

GDP contribution to state total: **12.30%**

GDP rank: **2 of 20**

Nonemployer to employer establishment ratio: **0.80 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**

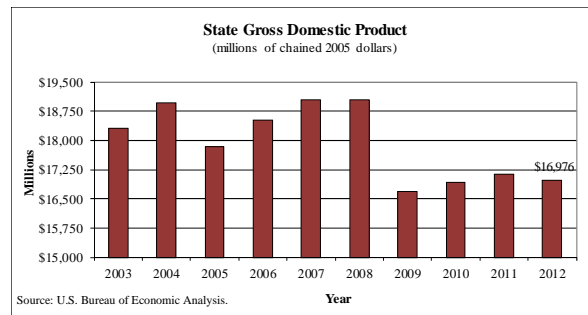
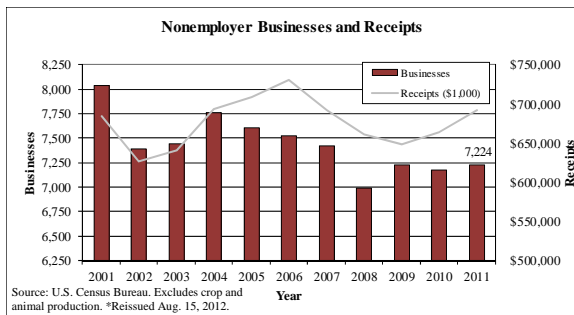
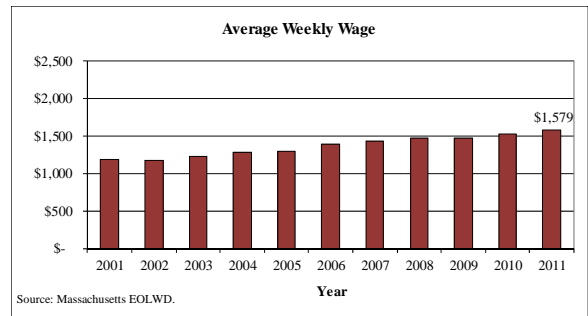
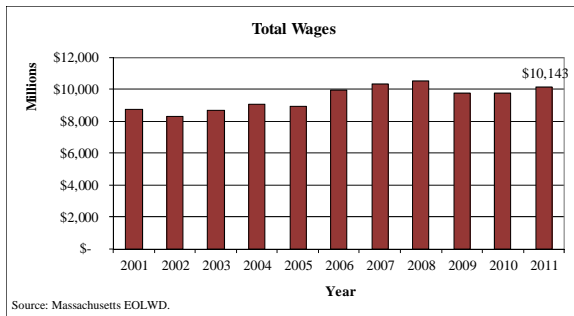
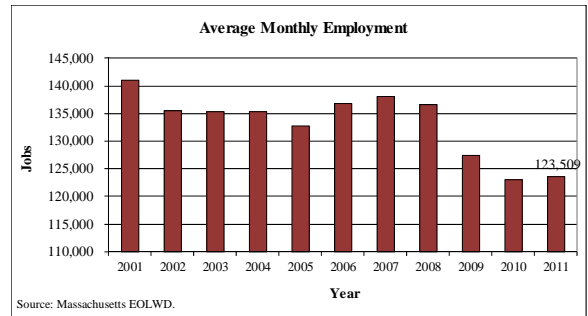
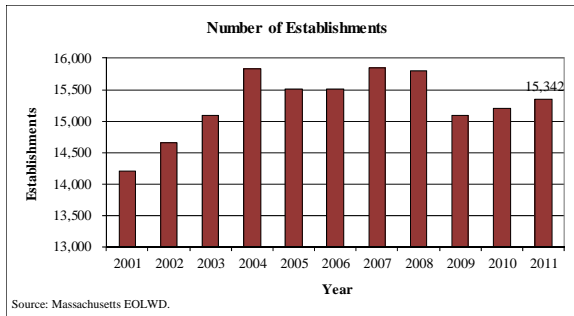
Average weekly wage: **Computers and peripheral equipment**

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

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

Large employers in Massachusetts: **Boston Scientific, GE, Genzyme, Gillette, Kronos, Raytheon, Saint-Gobain, Textron, Waters.**

NAICS 42 - Wholesale Trade. The sector comprises establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The merchandise described in this sector includes the outputs of agriculture, mining, manufacturing, and certain information industries, such as publishing. The wholesaling process is an intermediate step in the distribution of merchandise.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **4.80%**

GDP rank: **9 of 20**

Nonemployer to employer establishment ratio: **0.47 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**

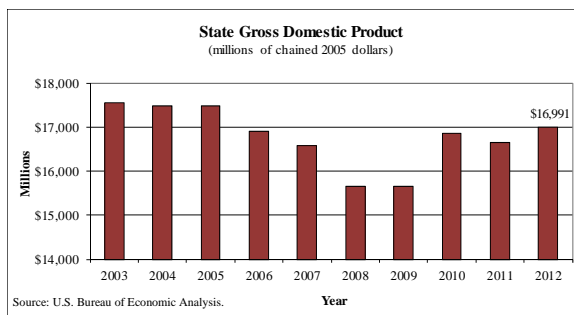
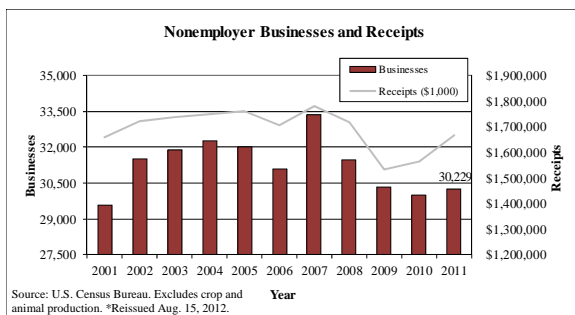
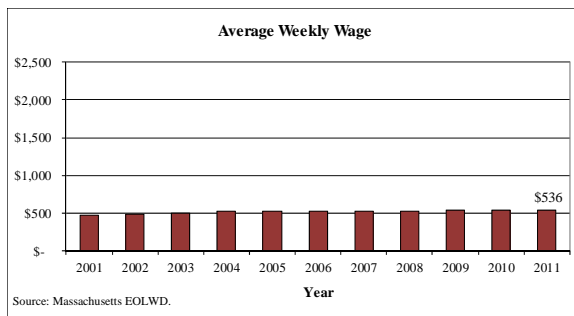
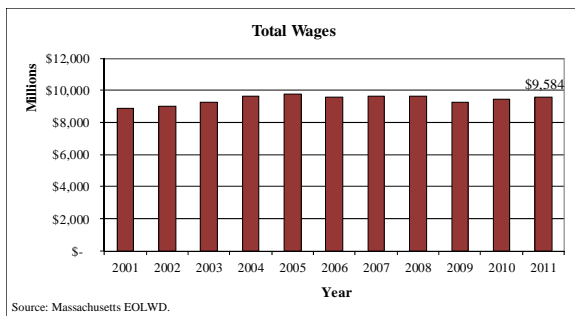
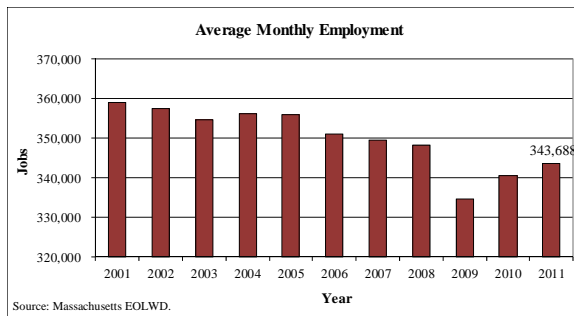
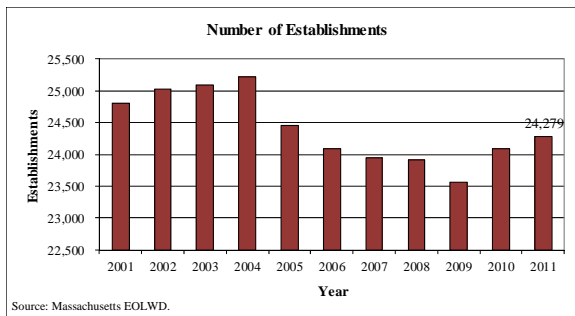
Annual wages: **Electronic markets and agents/brokers**

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

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

Large employers in Massachusetts: **C&S Wholesalers, Pfizer, Philips Healthcare, Teradyne, Vertex Pharmaceuticals.**

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: **4.80%**

GDP rank: **8 of 20**

Nonemployer to employer establishment ratio: **1.25 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**

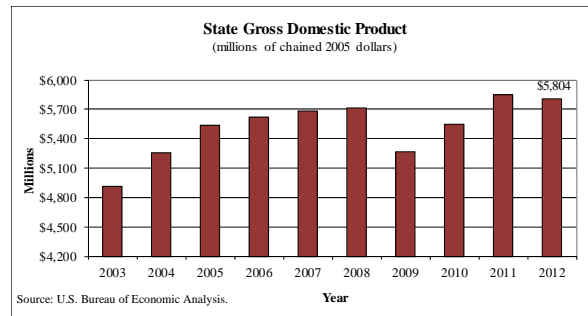
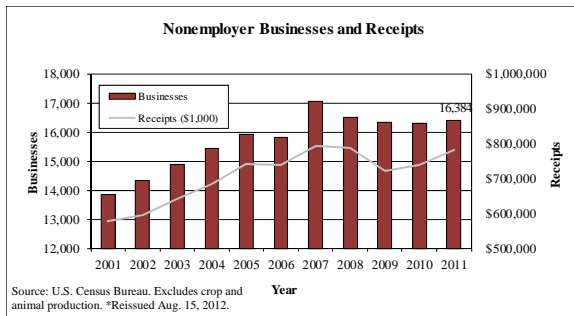
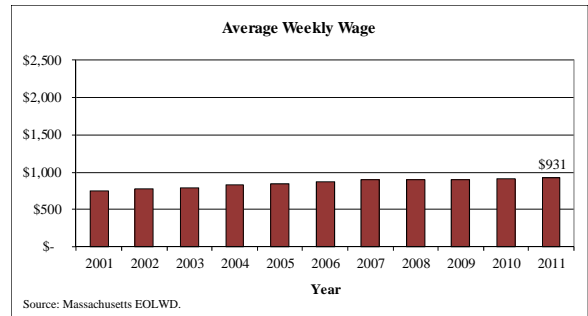
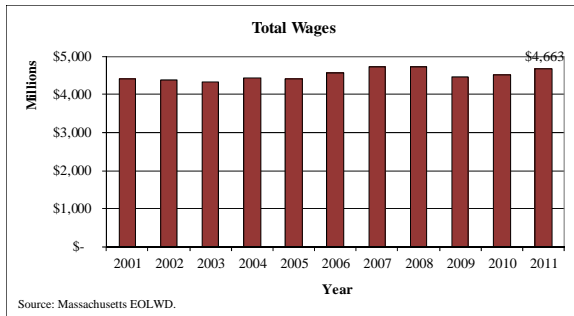
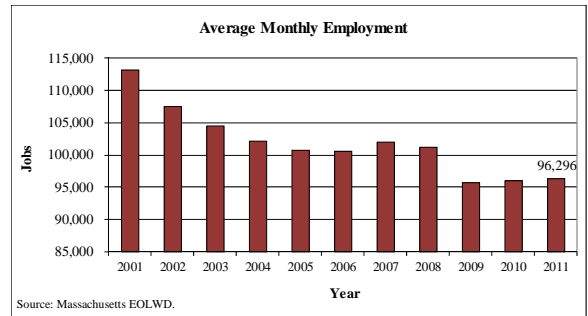
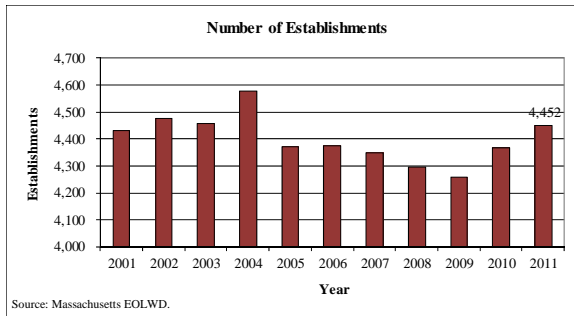
Annual wages: **Grocery stores**

Average weekly wage: **Automobile dealers**

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

Large employers in Massachusetts: **ARAMARK, B Mango & Bird, Bose, Foodmaster, Marmaxx Group, Sleepy's, Staples, Stop & Shop, Talbots, TJX, Yankee Candle.**

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: **1.64%**

GDP rank: **16 of 20**

Nonemployer to employer establishment ratio: **3.68 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**

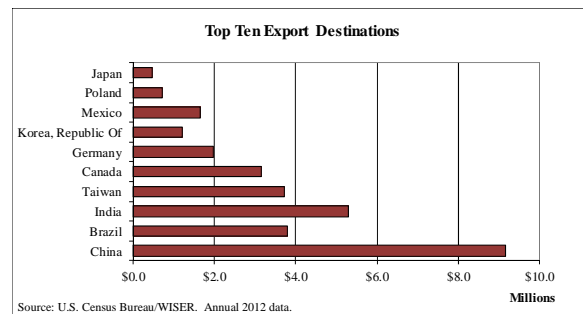
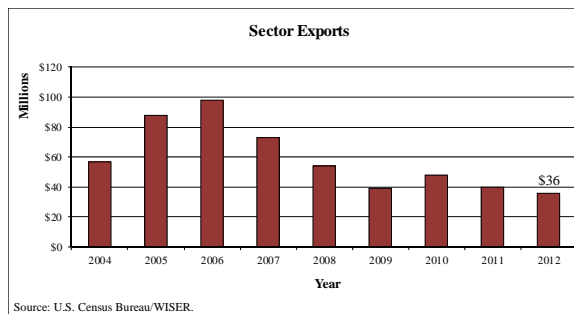
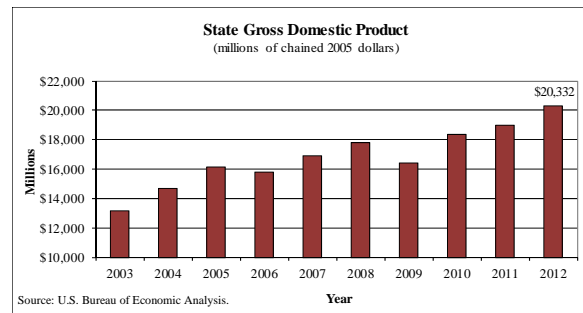
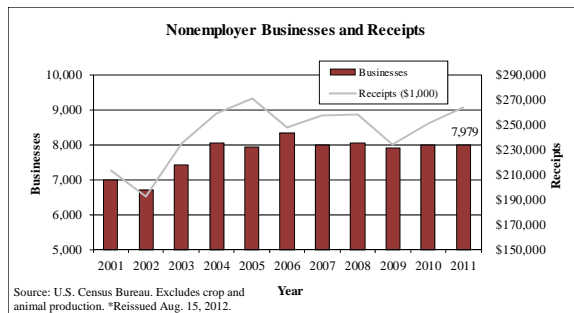
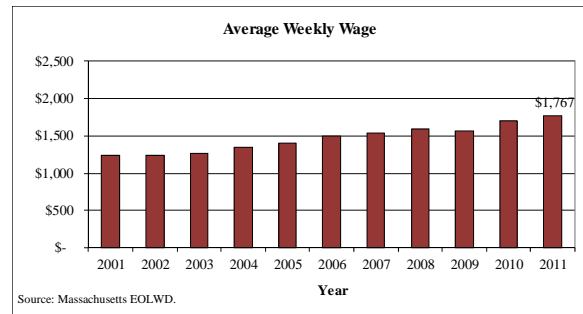
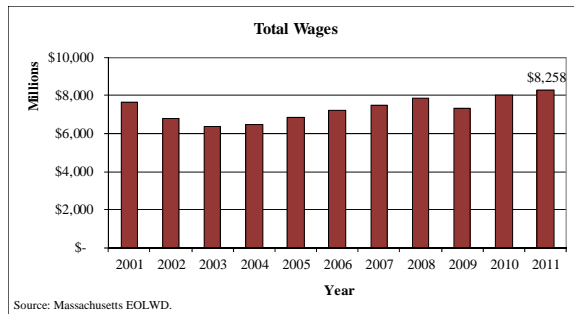
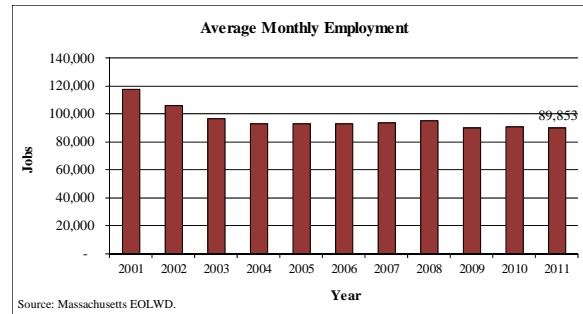
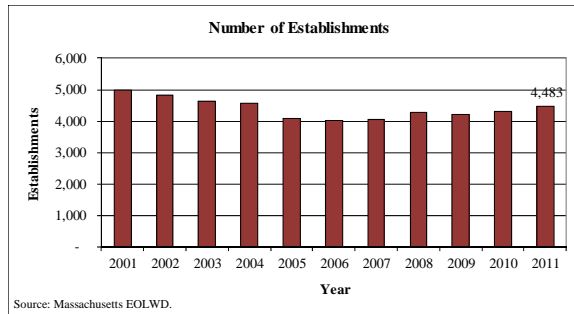
Annual wages: **General freight trucking**

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

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

Large employers in Massachusetts: **Maine Central Railroad, United Vision Logistics, U.S. Post Office.**

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: **5.75%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **1.78 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**

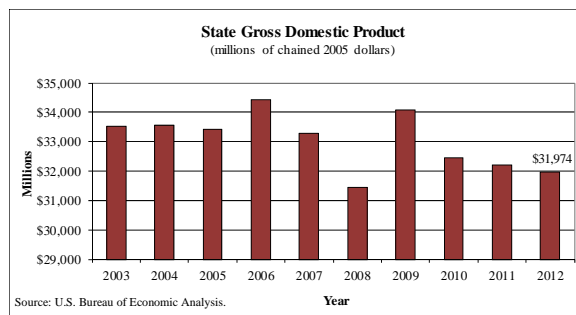
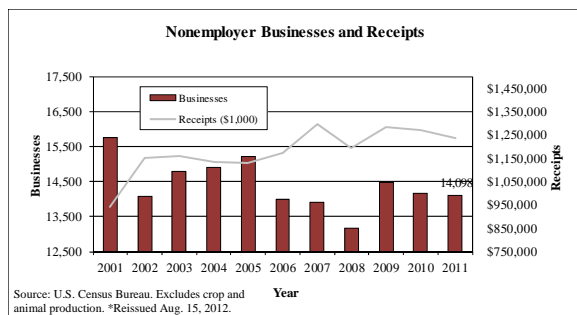
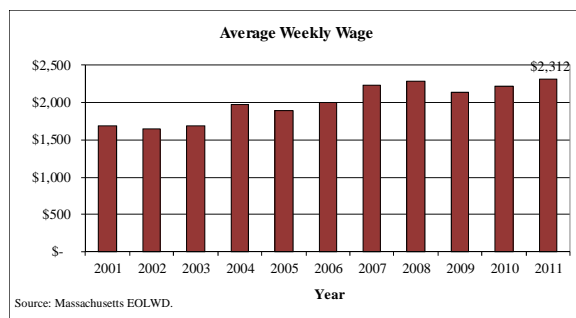
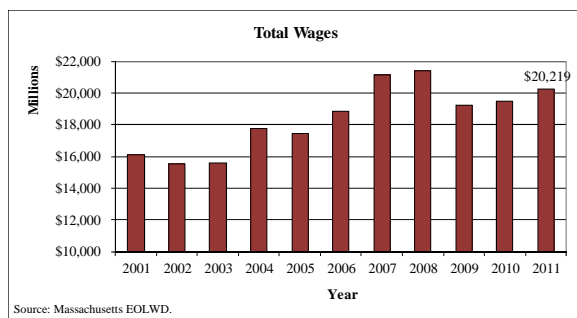
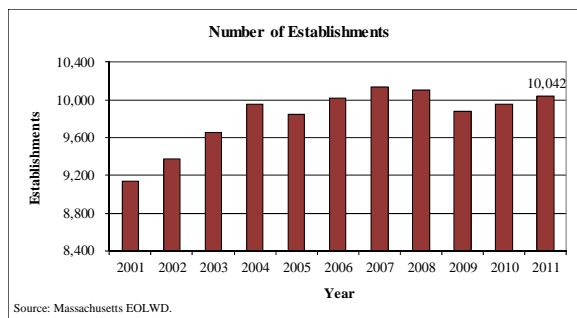
Average weekly wage: **Software publishers**

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

Most valuable export: **Prepackaged software**

Large employers in Massachusetts: **Globe, Houghton Mifflin Harcourt, Pearson Education, Thompson Research, Super Media, WGBH.**

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: **9.04%**

GDP rank: **5 of 20**

Nonemployer to employer establishment ratio: **1.40 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**

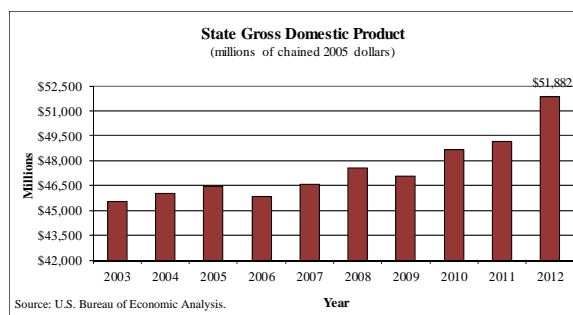
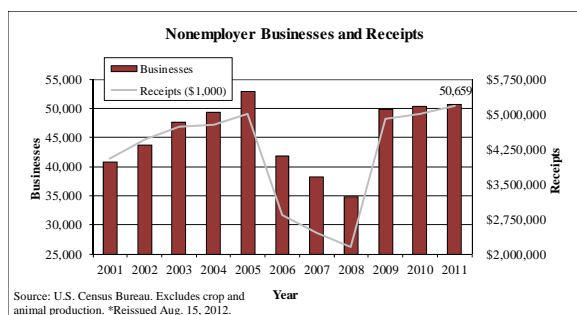
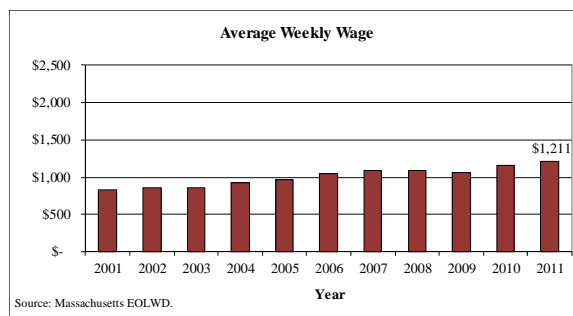
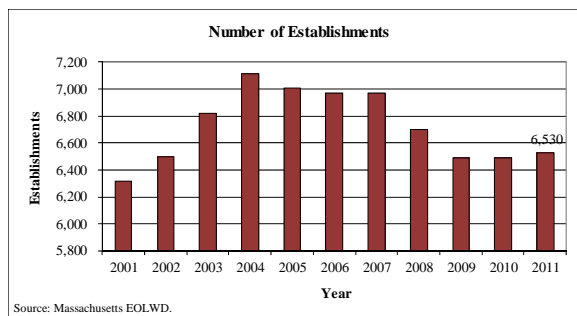
Annual wages: **Other financial investment activities**

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

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

Large employers in Massachusetts: **John Hancock, Liberty Mutual.**

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: **14.67%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **7.76 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**

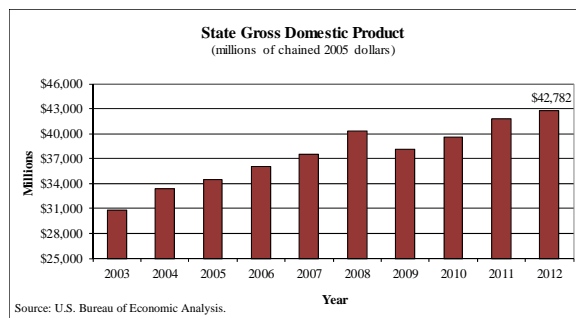
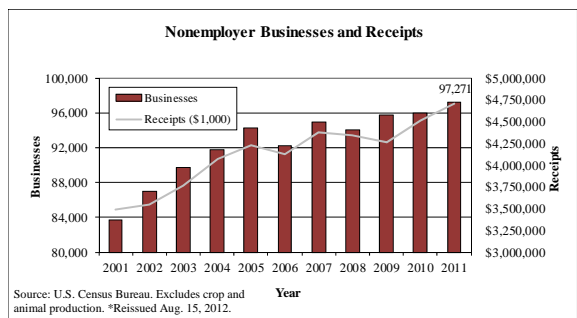
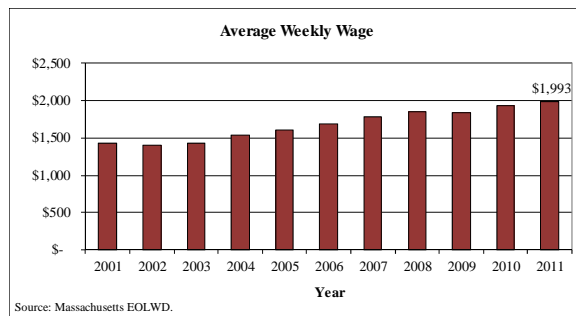
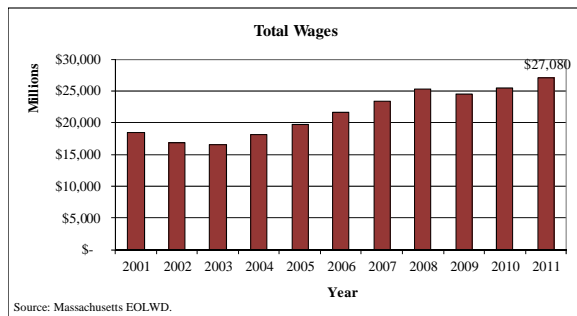
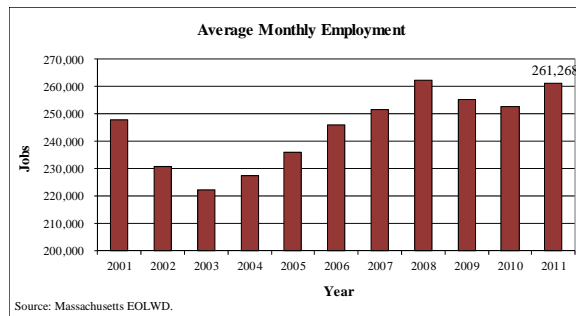
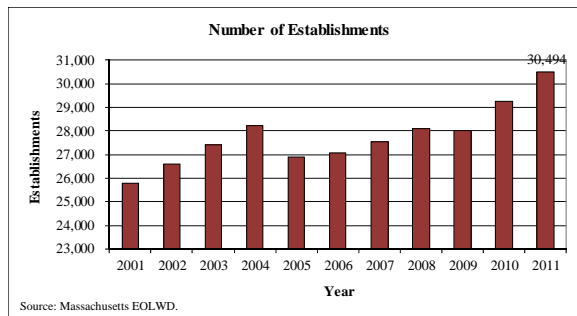
Annual wages: **Activities related to real estate**

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

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

Large employers in Massachusetts: **Boston Housing Authority, REIT Management and Research, Milton Medical Office Building**

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: **12.09%**

GDP rank: **3 of 20**

Nonemployer to employer establishment ratio: **3.19 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**

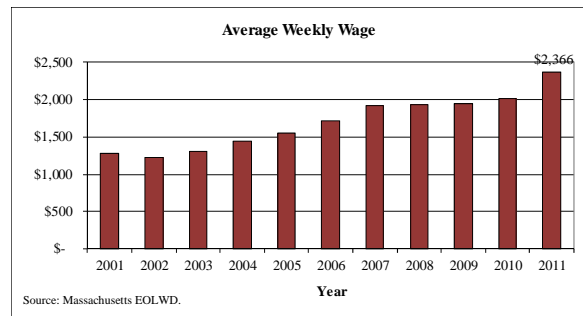
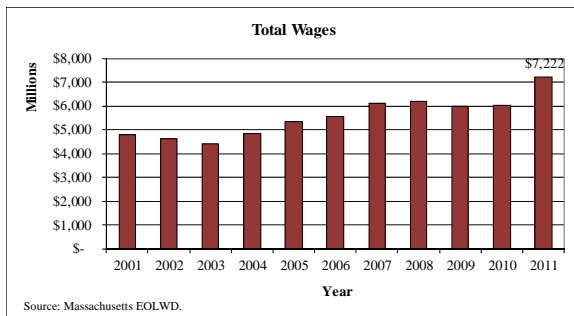
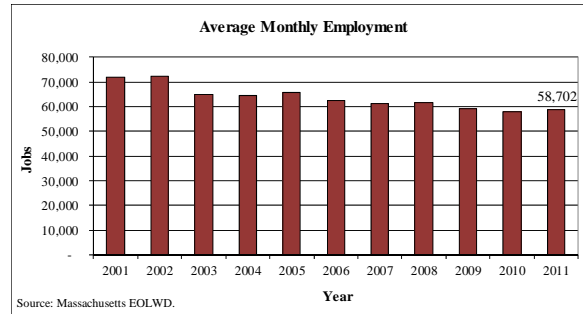
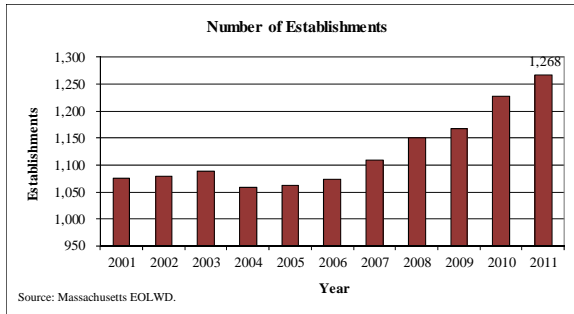
Annual wages: **Computer systems design and related services**

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

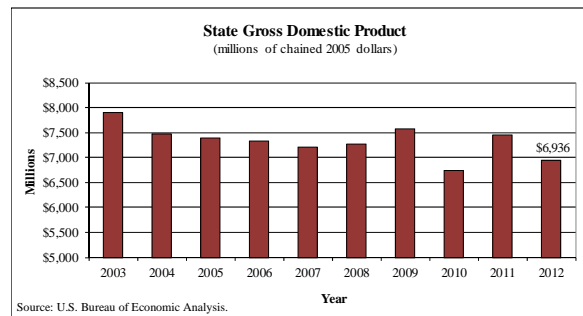
Annual receipts at nonemployer establishments: **Management, scientific, and technical consulting services**

Large employers in Massachusetts: **Research Lab Electronics at Massachusetts Institute of Technology, EMC Corp.**

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: **1.96%**

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**

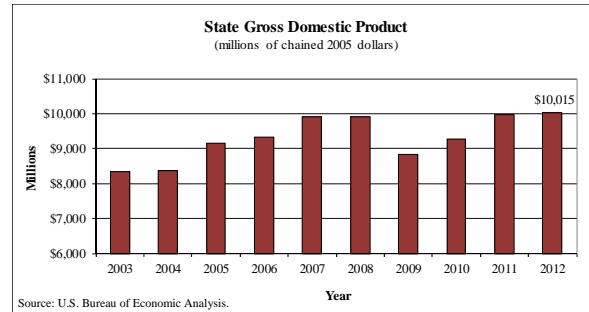
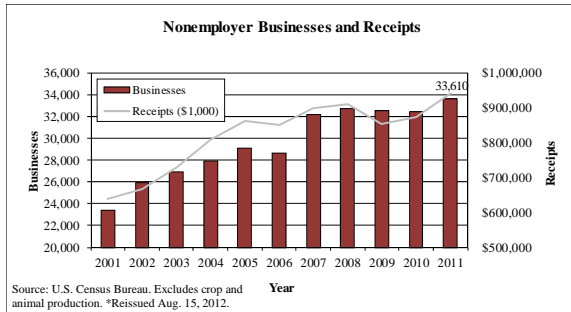
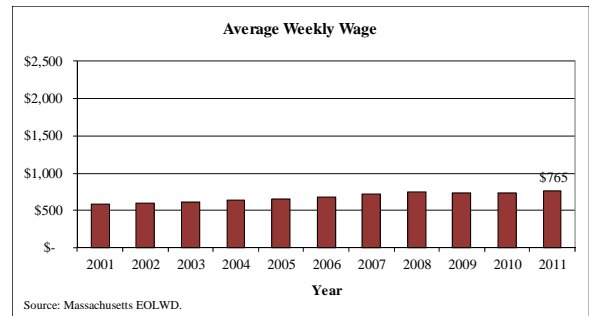
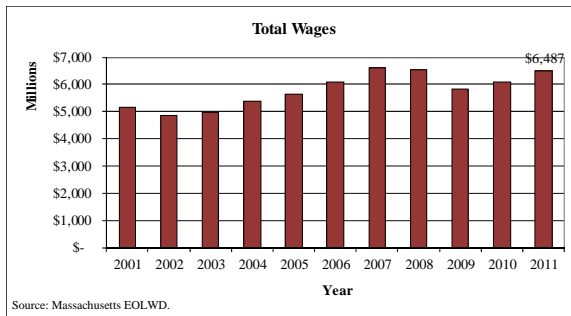
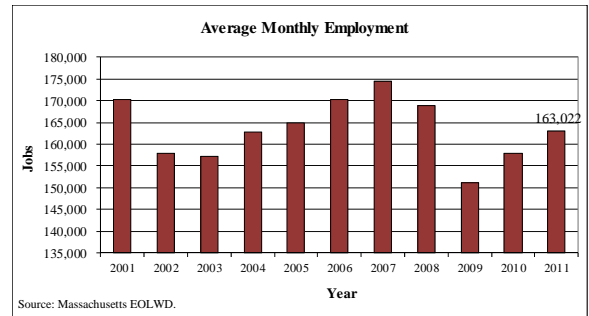
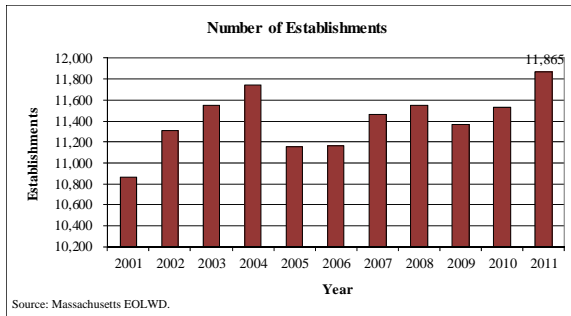
Annual wages: Subsector detail **N/A**

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

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

Large employers in Massachusetts: **State Street Corp. and Liberty International 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: **2.83%**

GDP rank: **12 of 20**

Nonemployer to employer establishment ratio: **2.83 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**

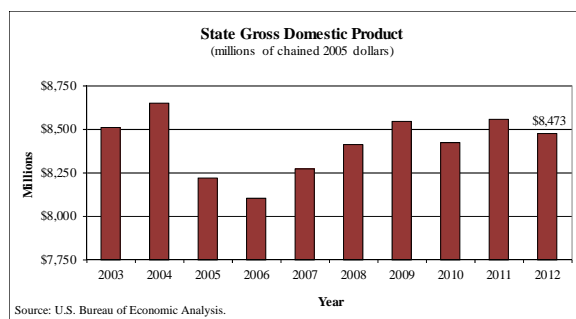
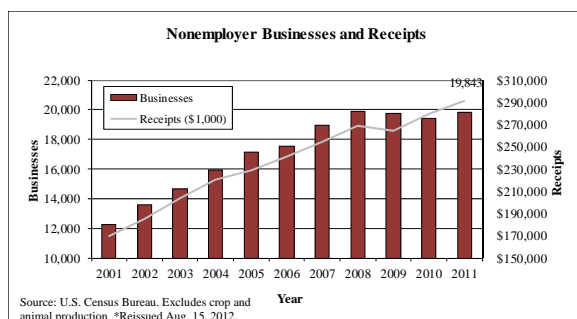
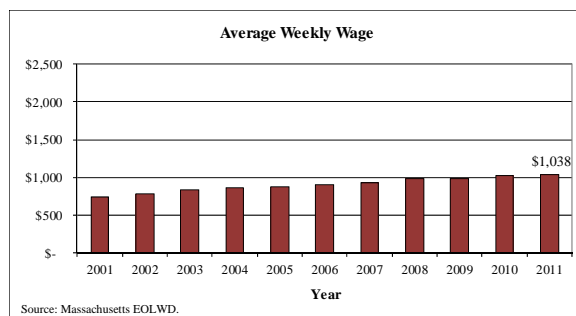
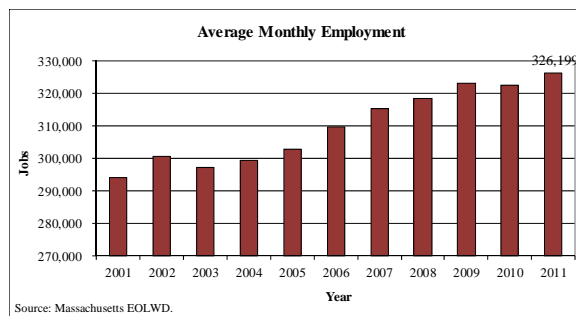
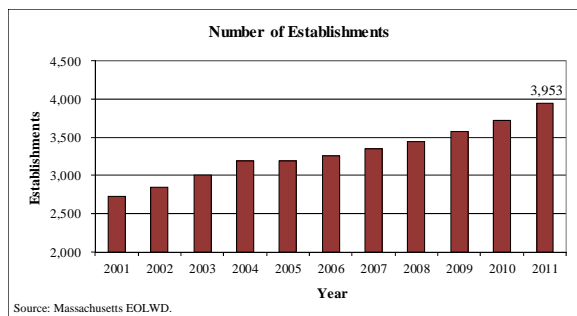
Annual wages: **Employment services**

Average weekly wage: **Office administrative services**

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

Large employers in Massachusetts: **Seacoast Lock and Safe Company, Nantucket Pest Control, Genesis Consolidated Services.**

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: **2.40%**

GDP rank: **13 of 20**

Nonemployer to employer establishment ratio: **5.02 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**

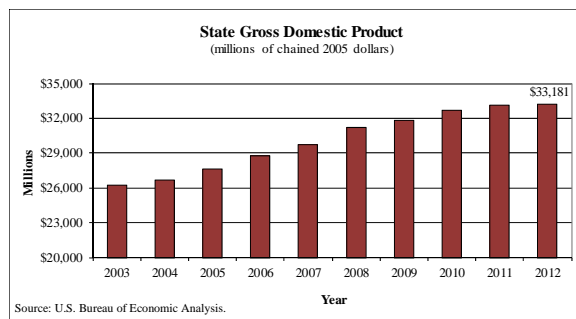
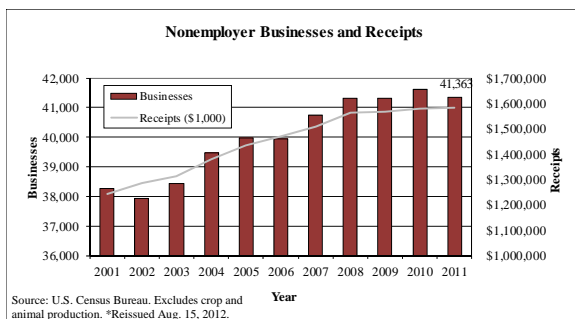
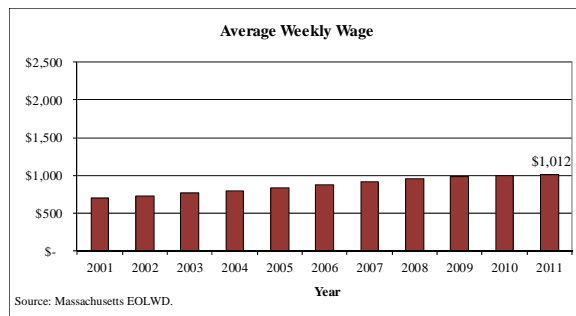
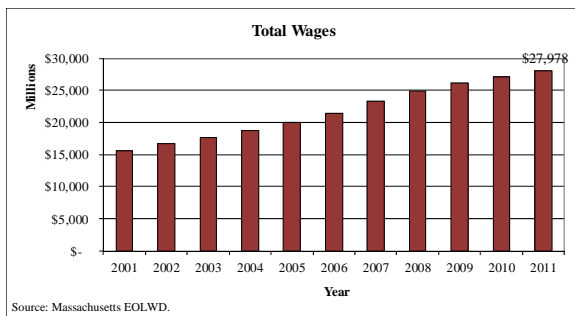
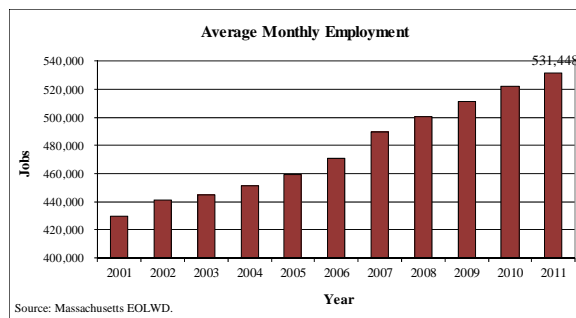
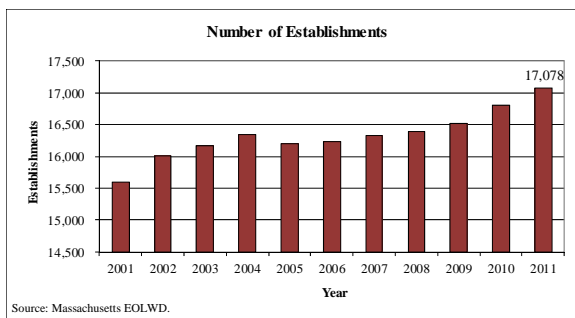
Annual wages: **Elementary and secondary schools**

Average weekly wage: **Colleges and universities**

Annual receipts at nonemployer establishments: Subsector detail N/A

Large employers in Massachusetts: **Harvard University, Boston University**

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: **9.38%**

GDP rank: **4 of 20**

Nonemployer to employer establishment ratio: **2.42 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**

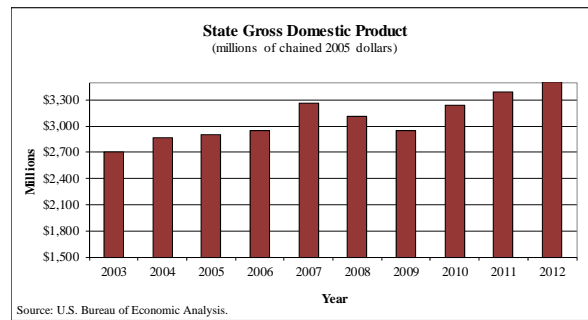
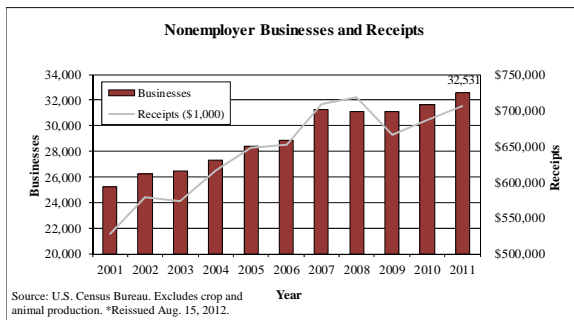
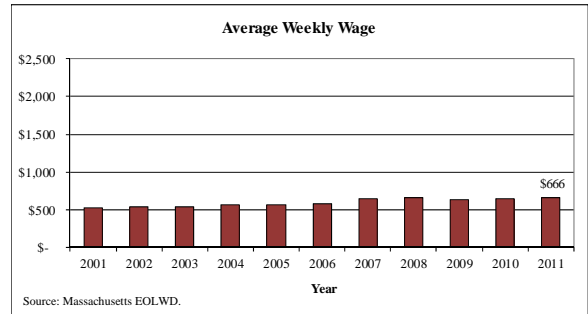
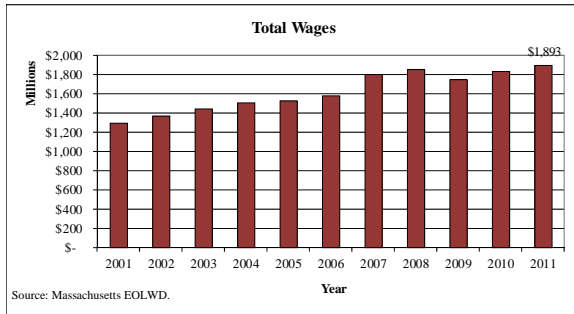
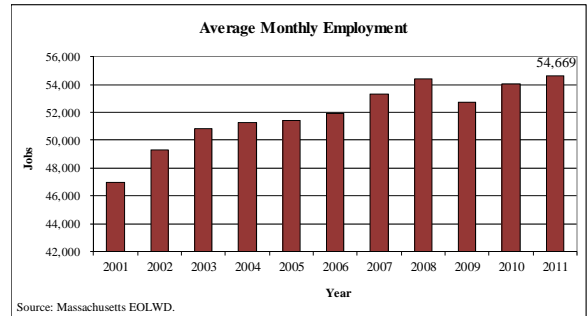
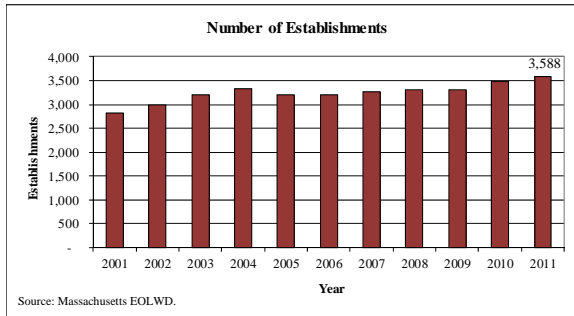
Annual wages: **General medical and surgical hospitals**

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: **0.99%**

GDP rank: **18 of 20**

Nonemployer to employer establishment ratio: **9.07 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**

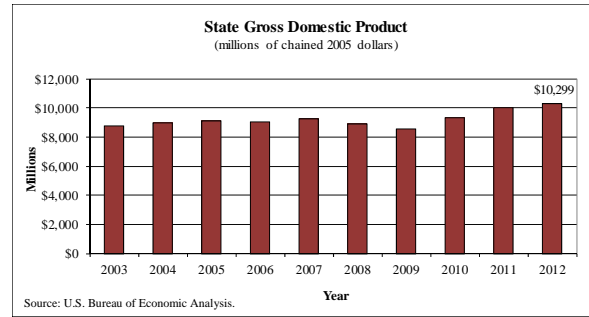
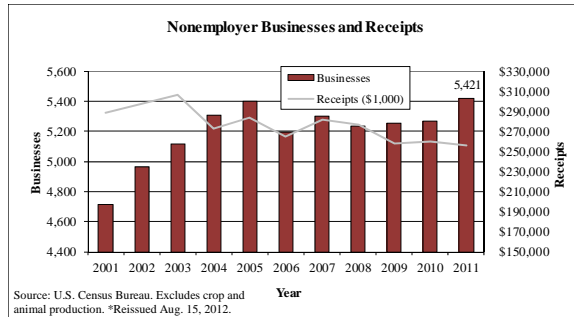
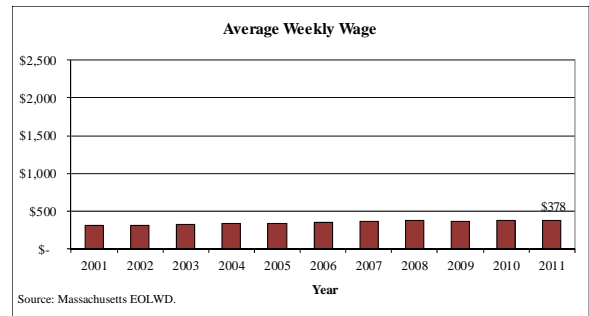
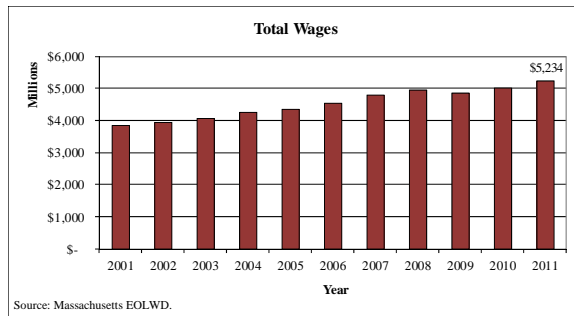
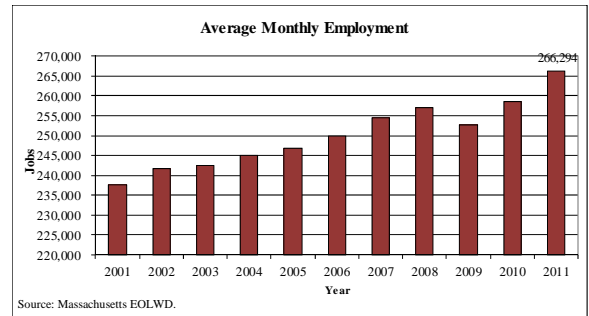
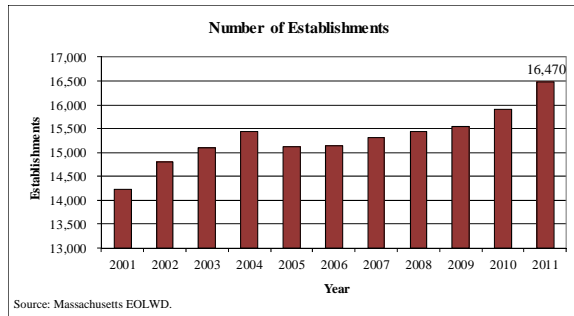
Annual wages: **Other amusement & recreation industries**

Average weekly wage: **Spectator sports**

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

Large employers in Massachusetts: **Museum of Fine Arts, Suffolk Downs, Raynham Park, Peabody Essex Museum, Comcast Center**

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: **2.91%**

GDP rank: **10 of 20**

Nonemployer to employer establishment ratio: **0.33 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**

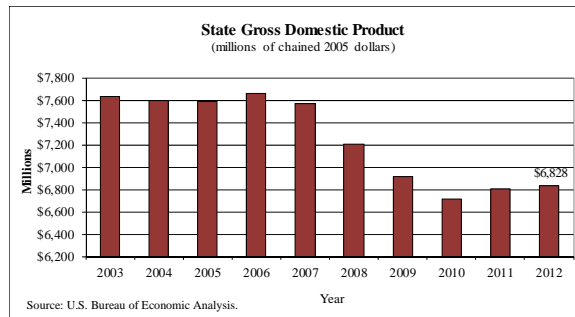
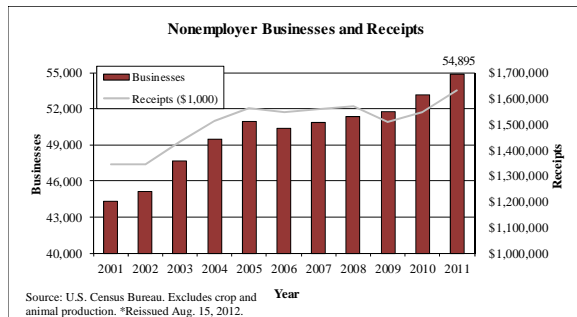
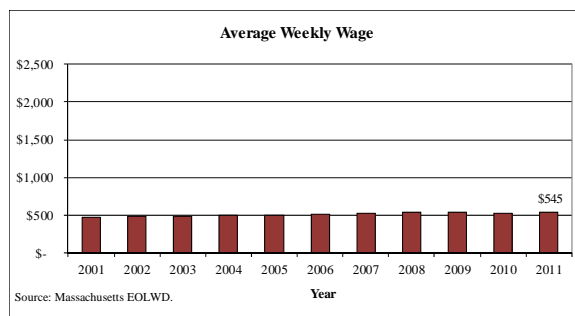
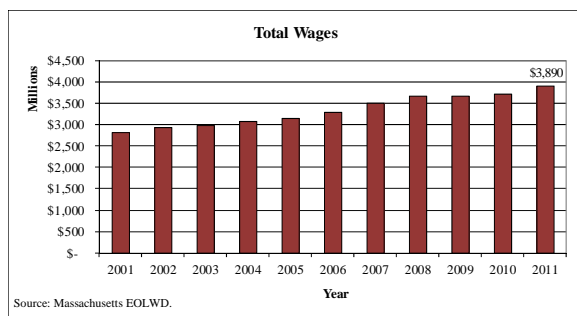
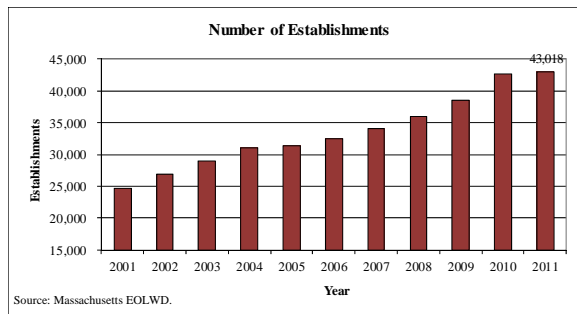
Annual wages: **Full-service restaurants**

Average weekly wage: **Traveler accommodation**

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

Large employers in Massachusetts: **Wachusett Mountain, Hawthorne Motel, Westin Copley Place, Sheraton Boston.**

NAICS 81 - Other Services, Except Public Administration. The Other Services (except Public Administration) sector comprises establishments engaged in providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities such as equipment and machinery repairing, promoting or administering religious activities, grant making, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **1.93%**

GDP rank: **15 of 20**

Nonemployer to employer establishment ratio: **1.28 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**

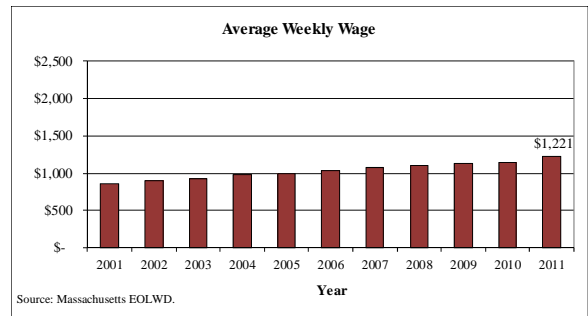
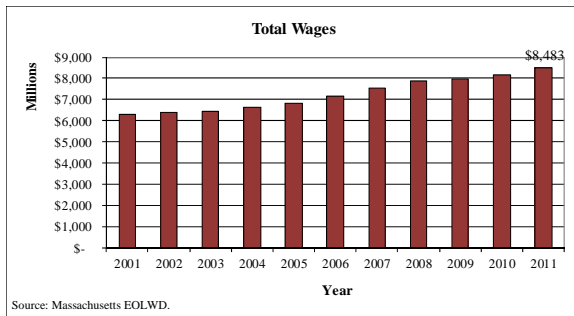
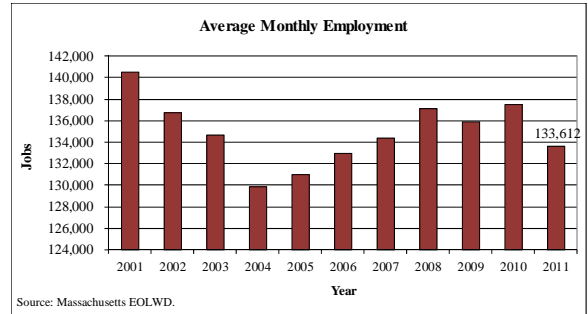
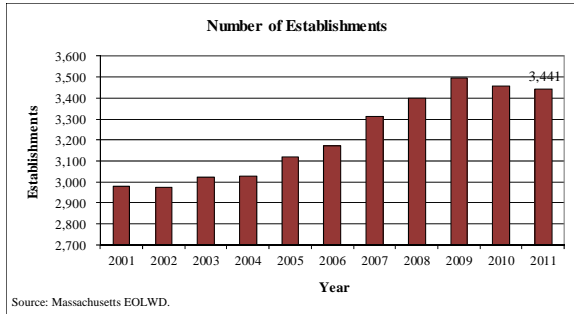
Annual wages: **Automotive repair and maintenance**

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

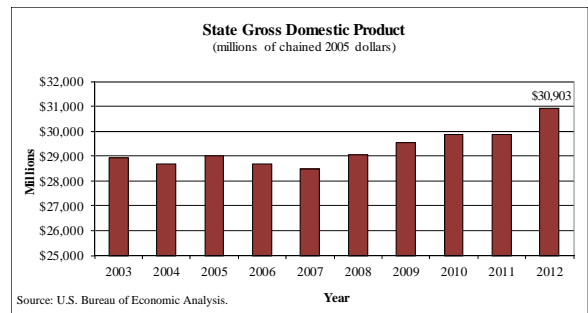
Annual receipts at nonemployer establishments: **Other personal services**

Large employers in Massachusetts: **MITRECorp, VNA Care Network, Christian Science Publishing.**

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: **8.74%**

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**

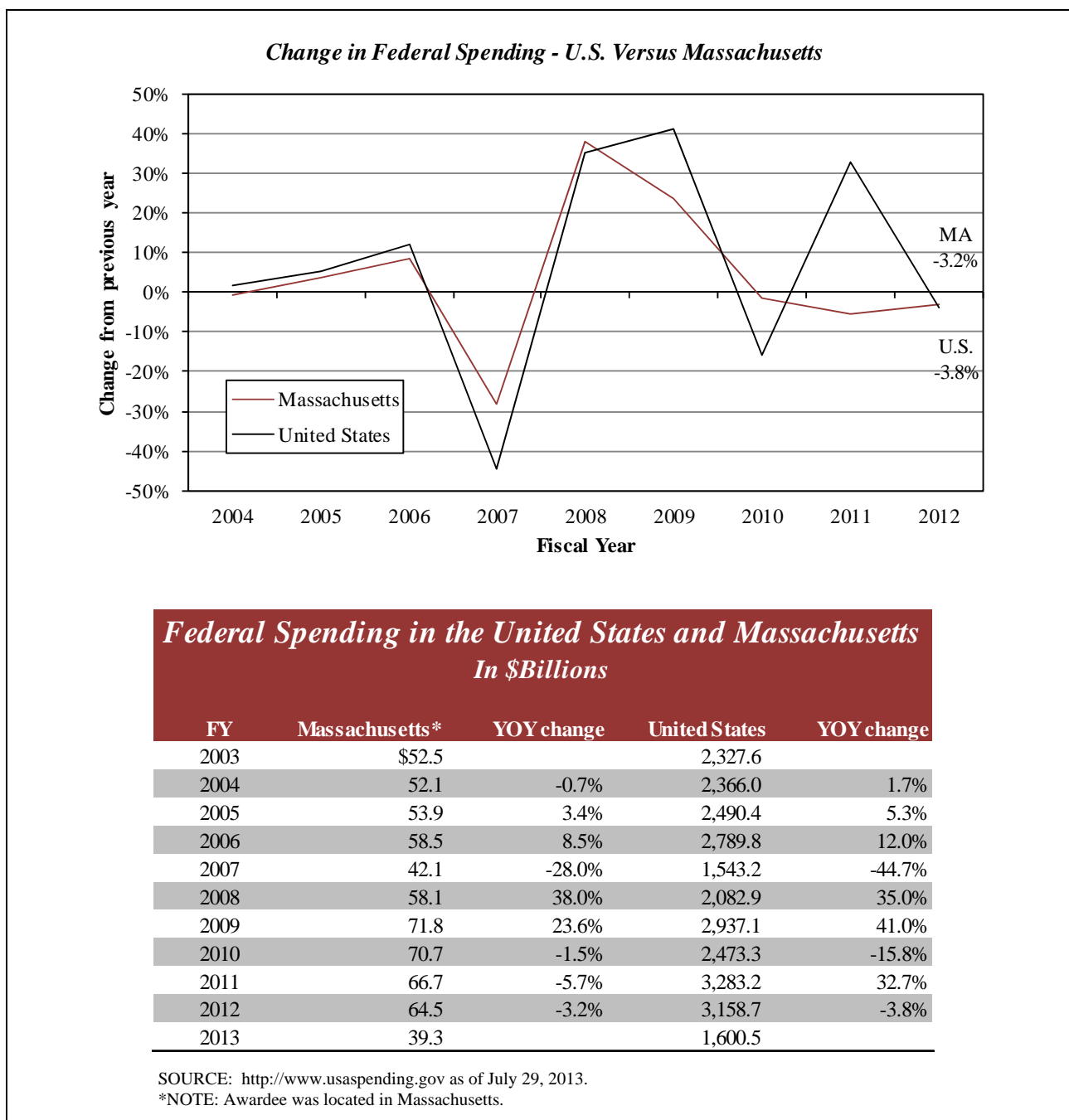
Annual receipts at nonemployer establishments: **N/A**

Large employers in Massachusetts: **Massachusetts Water Resource Authority, Massachusetts Department of Mental Retardation, Massachusetts Department of Transitional Assistance.**

ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING

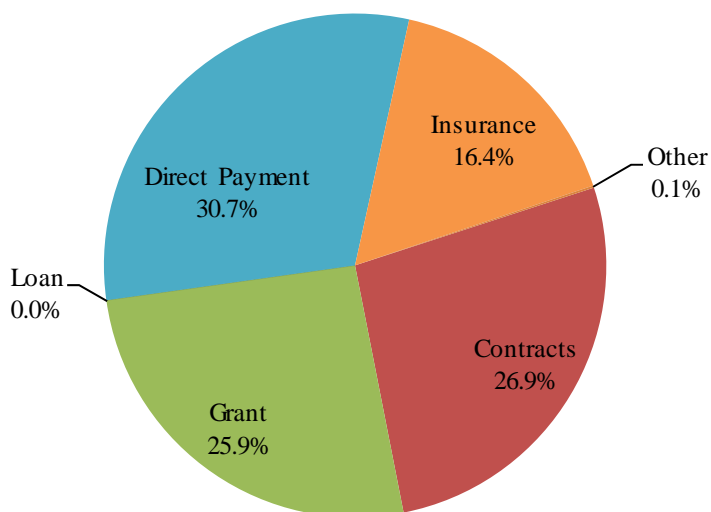
Federal Spending in Massachusetts. Massachusetts received approximately \$64.5 billion in contracts, grants, direct payments, insurance, loans and guarantees, and other spending from the federal government in federal FY2012, the last complete year of federal spending data. Since 2003, Massachusetts received an average of 2.3 percent of the federal government's prime award dollars. In FY 2012 it was 2.0 percent and \$9.1 billion less than its 2.3 percent average.

Note: Due to budget cuts, the U.S. Census Bureau has discontinued the CFFR data series, the previous 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.

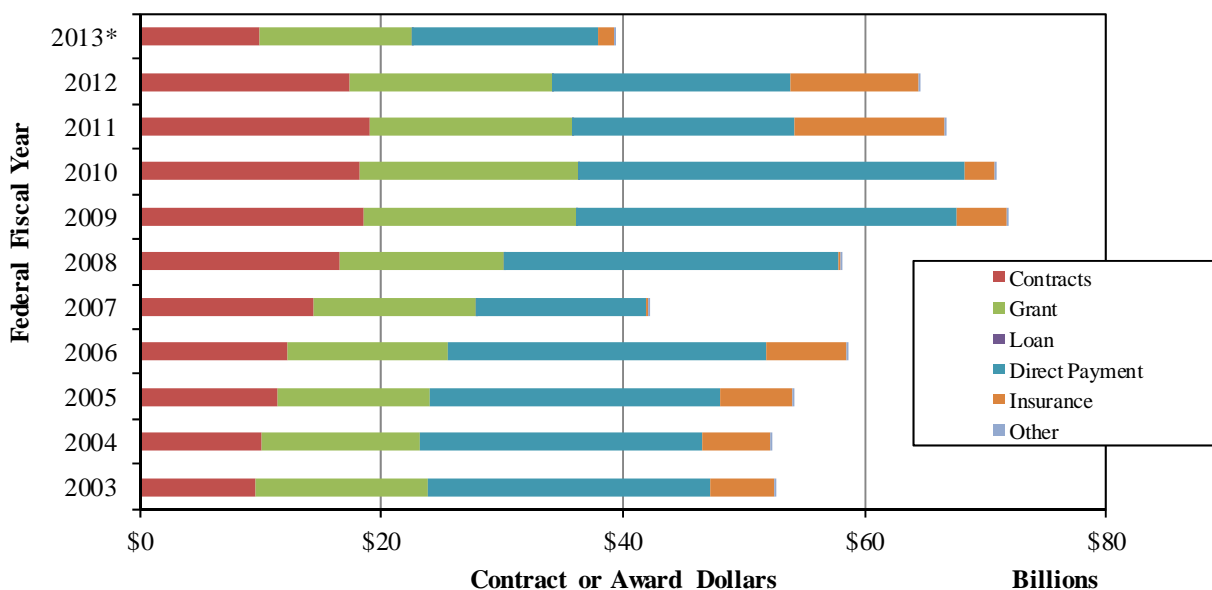


In federal fiscal year 2012, the majority of federal government spending in Massachusetts was for contracted goods and services. Over the past ten years, 2003-2012, the majority (47.1 percent) of federal spending in Massachusetts has been for direct payments such as Social Security, Unemployment Insurance, Housing Choice Vouchers and Federal Pell Grants. The graphs below describe the most recent complete fiscal year and the last ten years of federal spending in Massachusetts as reported by USASpending.gov.

Federal Spending in Massachusetts - Federal Fiscal Year 2012



Composition of Federal Spending Awards to Massachusetts Recipients



SOURCE: USASpending.gov as of July 29, 2013.

*Partial year.

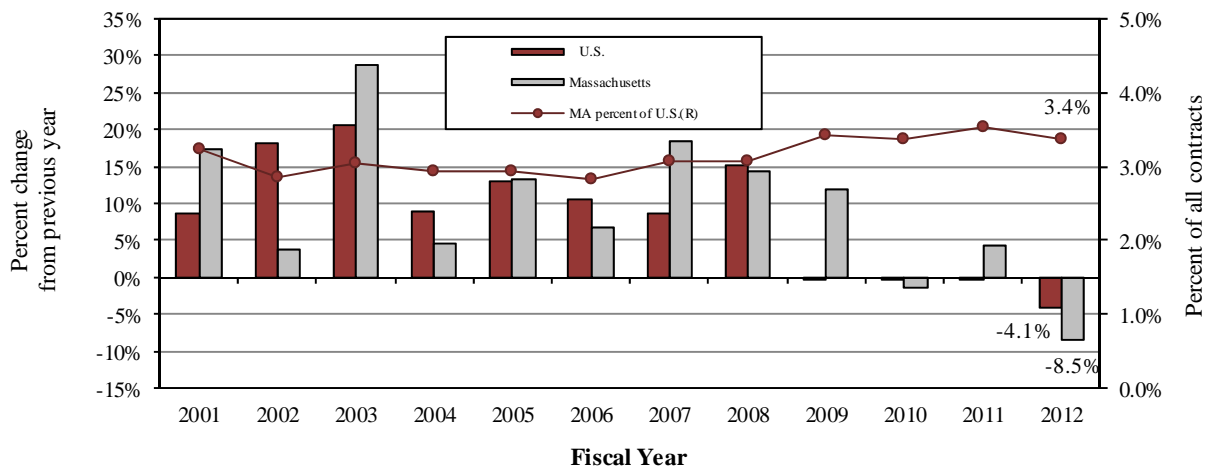
Federal Contracts. The total dollar value of all federal contracts received by Massachusetts contractors increased an average of 16.4 percent per year from 2000 to 2012, 2.8 percent faster than the 13.6 percent U.S. average. The following two pages compare Massachusetts federal contract dollars received and work primarily performed in Massachusetts to the U.S. total and summarize the fiscal year periods from 2000 to 2012 as of April 17, 2013.

Federal Contracts Received by Massachusetts Companies as a Percent all Federal Contracts

(millions of dollars)

| 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 | 9,670 | 28.7% | 3.0% | 318,025 | 20.7% |
| 2004 | 10,113 | 4.6% | 2.9% | 346,163 | 8.8% |
| 2005 | 11,442 | 13.1% | 2.9% | 391,164 | 13.0% |
| 2006 | 12,210 | 6.7% | 2.8% | 431,967 | 10.4% |
| 2007 | 14,456 | 18.4% | 3.1% | 469,200 | 8.6% |
| 2008 | 16,532 | 14.4% | 3.1% | 540,871 | 15.3% |
| 2009 | 18,477 | 11.8% | 3.4% | 540,061 | -0.1% |
| 2010 | 18,192 | -1.5% | 3.4% | 539,680 | -0.1% |
| 2011 | 18,973 | 4.3% | 3.5% | 539,107 | -0.1% |
| 2012 | 17,355 | -8.5% | 3.4% | 517,018 | -4.1% |
| 2013* | 9,895 | | | 253,263 | |
| Total | 178,244 | | 3.2% | 5,578,786 | |

Massachusetts Federal Contracts FY 2001-2012



SOURCE: <http://www.usaspending.gov>. Federal Fiscal Year Oct 1-Sept 30.

NOTE: Reported as of July 29, 2013.

*Partial year.

Summary of Federal Contracts Performed in Massachusetts

FY 2000 To 2013*

Total Dollars: \$153,256,272,970

Number of Transactions: 1,026,835

Top 5 Products or Services Sold

| | |
|-------------------------------------|------------------|
| Gas Turbines & Jet Engines Aircraft | \$13,100,685,175 |
| Precious Metals Primary Forms | \$6,302,890,558 |
| Engineering (Advanced) | \$5,455,176,067 |
| R&D-Electronics & Comm Eq-B Res | \$4,812,288,221 |
| Misc Communication Eq | \$4,656,990,124 |

Top 5 Prime Award Major Agencies

| | |
|---|-------------------|
| Department Of Defense | \$123,138,849,831 |
| Department Of Treasury | \$7,136,064,935 |
| Department Of Veterans Affairs | \$4,080,693,516 |
| Department Of Transportation | \$3,511,567,496 |
| Department Of Health And Human Services | \$3,338,167,221 |

Top 5 Prime Award Sub Agencies

| | |
|-----------------------------|------------------|
| Department Of The Army | \$41,278,776,444 |
| Department Of The Navy | \$38,820,500,453 |
| Department Of The Air Force | \$29,531,917,156 |
| United States Mint | \$6,342,718,322 |
| Defense Logistics Agency | \$4,766,483,429 |

Top 5 Prime Award Contractors

| | |
|---------------------------------------|------------------|
| Raytheon Company | \$36,456,543,089 |
| General Dynamics Corporation | \$17,774,637,174 |
| General Electric Company | \$16,986,797,087 |
| Massachusetts Institute of Technology | \$9,474,855,524 |
| Coins 'N Things Inc. | \$4,892,993,101 |

Top 5 Contract Sub-Awardees

| | |
|---|--------------|
| BAE Systems Information and Electronic Systems Integration Inc. | \$67,769,329 |
| BAE Systems Plc | \$56,627,438 |
| Winchester Systems Inc. | \$55,547,262 |
| Keyw Corporation | \$52,465,475 |
| General Dynamics C4 Systems, Inc. | \$37,099,582 |

SOURCE: <http://www.usaspending.gov>, Federal Fiscal Year Oct 1-Sept 30.

Note: Reported as of July 29, 2013.

*Partial year.

Federal Contracts Performed in Massachusetts

Fiscal Year: 2013*

Total Dollars: \$8,868,213,331

This amount is 2.93% of all awarded dollars for the fiscal year.

Massachusetts is ranked 8th among states, D.C. and territories for this year.

Number of Transactions: 26,154

Top 5 Products or Services Sold

| | |
|---|-----------------|
| Precious Metals Primary Forms | \$1,820,784,240 |
| Gas Turbines And Jet Engines, Aircraft, Prime Moving; And Components | \$823,512,839 |
| Miscellaneous Communication Equipment | \$531,011,683 |
| Support- Professional: Engineering/Technical | \$485,975,395 |
| R&D- Defense System: Electronics/Communication Equipment (Basic Research) | \$458,889,299 |

Top 5 Prime Award Major Agencies

| | |
|---|-----------------|
| Department of Defense | \$5,786,367,215 |
| Department of Treasury | \$1,829,198,300 |
| Department of Transportation | \$272,304,374 |
| Department of Veterans Affairs | \$268,633,956 |
| Department of Health and Human Services | \$157,375,946 |

Top 5 Prime Award Sub Agencies

| | |
|------------------------------|-----------------|
| United States Mint | \$1,820,770,354 |
| Department of the Navy | \$1,782,420,037 |
| Department of the Air Force | \$1,620,886,655 |
| Department of the Army | \$1,598,487,692 |
| Missile Defense Agency (MDA) | \$472,973,376 |

Top 5 Prime Award Contractors

| | |
|------------------------------|-----------------|
| Raytheon Company | \$2,244,973,052 |
| Coins 'N Things Inc. | \$1,356,883,532 |
| General Electric Company | \$830,100,592 |
| General Dynamics Corporation | \$720,038,917 |
| Berkshire Hathaway Inc. | \$463,895,775 |

Top 5 Contract Sub-Awardees

| | |
|-----------------------------------|--------------|
| Keyw Corporation | \$51,976,873 |
| Cobham Electronic Systems Inc. | \$14,690,238 |
| General Dynamics C4 Systems, Inc. | \$9,398,150 |
| Rolls-Royce Naval Marine Inc | \$6,650,202 |
| IPG Photonics Corporation | \$4,530,000 |

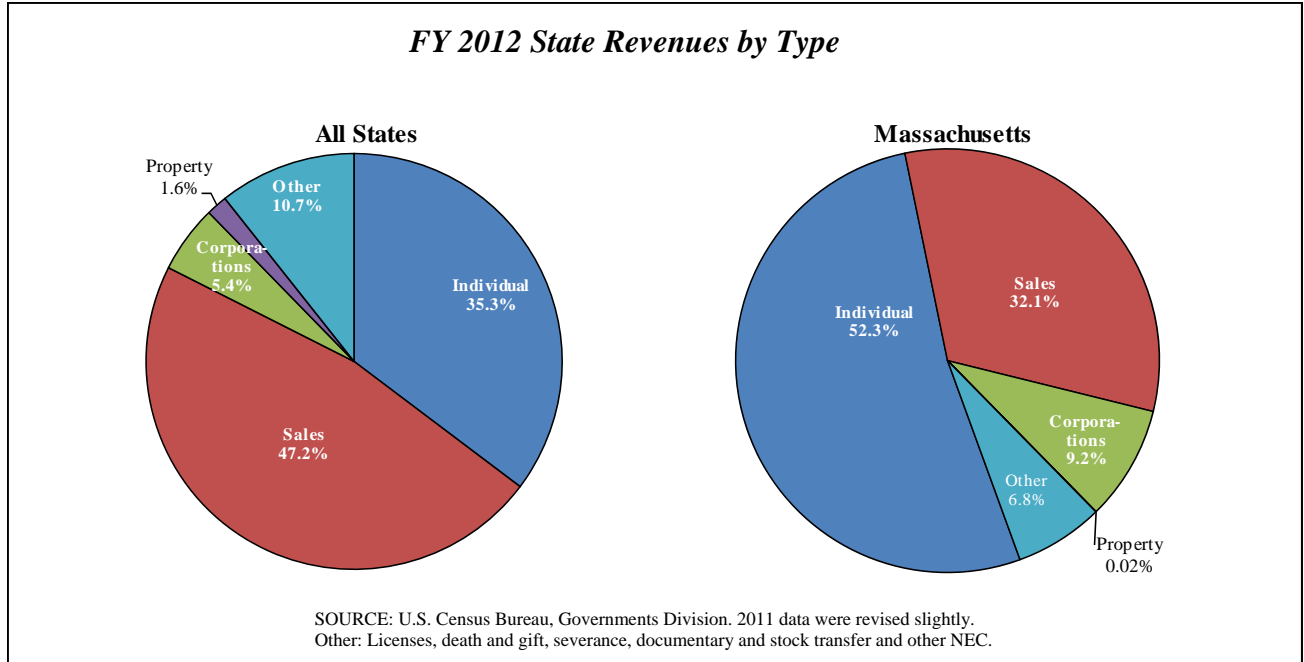
SOURCE: <http://www.usaspending.gov>, Federal Fiscal Year Oct 1-Sept 30.

NOTE: Reported as of July 29, 2013.

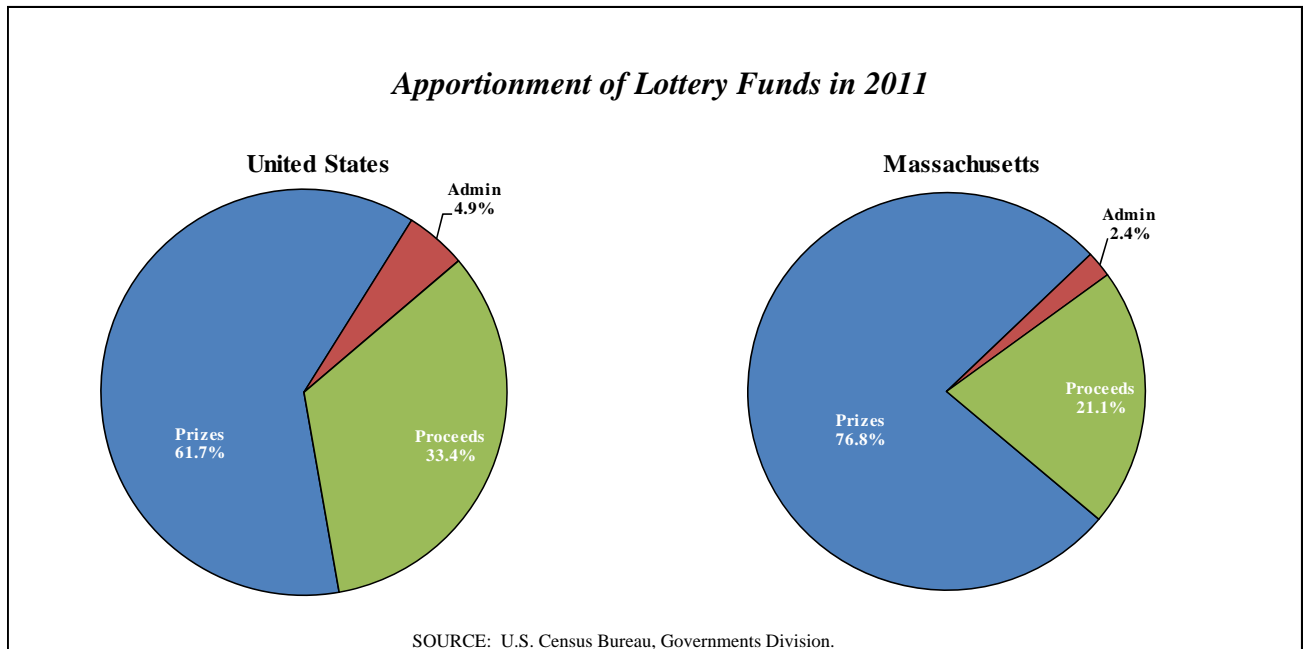
*Partial year.

State Revenues. Taxes collected by all states in FY 2012 totaled \$794.6 billion, 4.5 percent more than FY 2011. Massachusetts collected \$22.8 billion in FY 2012, 3.3 percent more than it did in FY 2011. Massachusetts' revenues grew more than any other New England state with the exception of Connecticut that collected 15% more. Massachusetts ranked 10th in total taxes collected in 2012, up from 11th in 2009-2011.

In fiscal year 2012, Massachusetts collected 52.3 percent of its revenue from individual income tax. Overall, states received 35.3 percent of all revenues from individual income taxes and seven states did not have the tax in 2012. In FY 2012, the state of Massachusetts collected 2.9 percent more individual income taxes than it did in FY 2011.



State Lottery Proceeds. Massachusetts ranked second in revenue, \$4.17 billion, and prize money awarded, \$3.2 billion, among the 42 states with lotteries in FY 2011.



State Expenditures. The following table and graph depict fiscal 2011 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 9th in the nation in per capita expenditures, \$7,954 in 2011, while it ranked 8th and spent \$7,901 in 2010. This represents a 0.7 percent increase in per capita expenditures from 2010 to 2011 with the largest per capita dollar increase in the Public Welfare function.

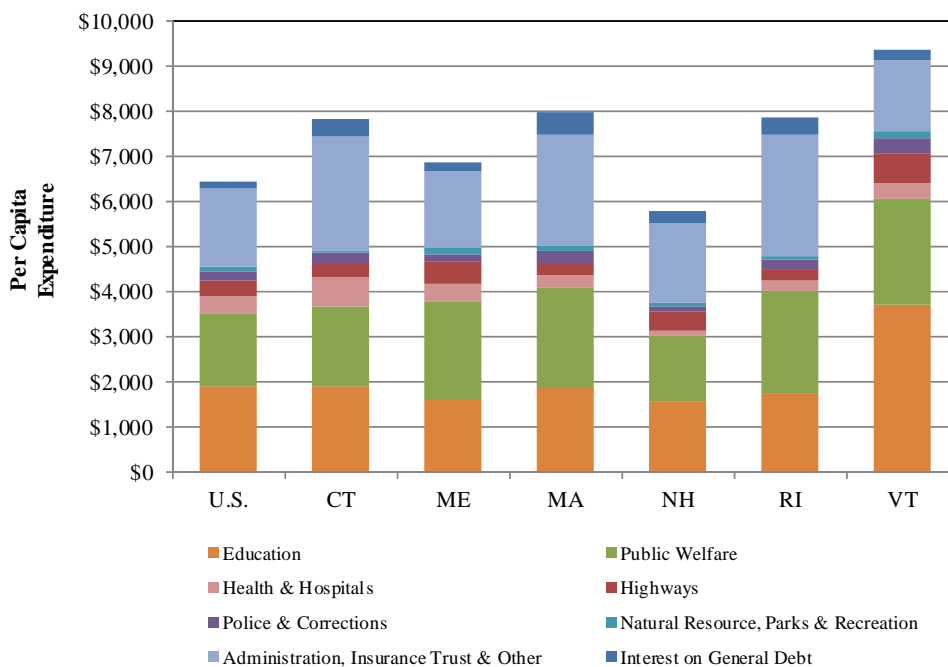
Massachusetts Per Capita State Government General Expenditures, by Type

| General expenditures, by function | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Education | \$1,020 | \$1,055 | \$1,183 | \$1,346 | \$1,401 | \$1,640 | \$1,649 | \$1,735 | \$1,814 | \$1,867 |
| Public Welfare | \$932 | \$824 | \$1,647 | \$1,719 | \$1,843 | \$1,877 | \$1,952 | \$2,030 | \$2,103 | \$2,227 |
| Health & Hospitals | \$377 | \$372 | \$172 | \$177 | \$187 | \$227 | \$236 | \$237 | \$235 | \$246 |
| Highways | \$427 | \$378 | \$471 | \$276 | \$261 | \$267 | \$346 | \$294 | \$298 | \$289 |
| Police & Corrections | \$223 | \$230 | \$215 | \$222 | \$248 | \$274 | \$293 | \$294 | \$279 | \$274 |
| Natural Resource, Parks & Recreation | \$86 | \$95 | \$90 | \$76 | \$81 | \$87 | \$89 | \$96 | \$91 | \$89 |
| Administration, Insurance Trust & Other | \$1,630 | \$1,755 | \$1,815 | \$1,660 | \$1,690 | \$1,890 | \$1,901 | \$2,126 | \$2,558 | \$2,488 |
| Interest on General Debt | \$418 | \$386 | \$401 | \$435 | \$487 | \$518 | \$558 | \$561 | \$522 | \$474 |
| Total | \$5,115 | \$5,095 | \$5,994 | \$5,911 | \$6,198 | \$6,779 | \$7,023 | \$7,373 | \$7,901 | \$7,954 |

Fiscal 2011 Per Capita State Government General Expenditures, by Type
(for the U.S. and the New England States)

| General expenditures, by function | U.S. | CT | ME | MA | NH | RI | VT |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Education | \$1,901 | \$1,881 | \$1,597 | \$1,867 | \$1,530 | \$1,728 | \$3,707 |
| Public Welfare | \$1,594 | \$1,774 | \$2,187 | \$2,227 | \$1,476 | \$2,287 | \$2,335 |
| Health & Hospitals | \$403 | \$672 | \$377 | \$246 | \$105 | \$219 | \$337 |
| Highways | \$351 | \$283 | \$487 | \$289 | \$419 | \$242 | \$669 |
| Police & Corrections | \$197 | \$251 | \$161 | \$274 | \$128 | \$241 | \$349 |
| Natural Resource, Parks & Recreation | \$89 | \$50 | \$146 | \$89 | \$78 | \$47 | \$155 |
| Administration, Insurance Trust & Other | \$1,742 | \$2,509 | \$1,707 | \$2,488 | \$1,762 | \$2,701 | \$1,590 |
| Interest on General Debt | \$150 | \$414 | \$188 | \$474 | \$298 | \$407 | \$201 |
| Total | \$6,427 | \$7,833 | \$6,849 | \$7,954 | \$5,796 | \$7,872 | \$9,342 |
| State's rank of total per capita expenditures | | 11 | 22 | 9 | 36 | 10 | 4 |

Fiscal 2011 Per Capita State Government General Expenditures, by Type
U.S. and the New England States

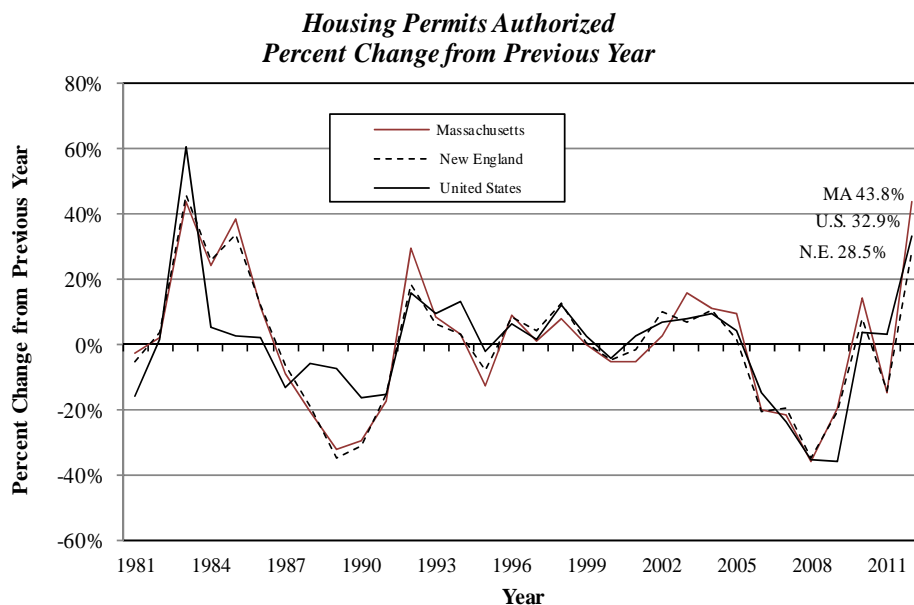


SOURCE: U.S. Census Bureau, Governments Division.

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.

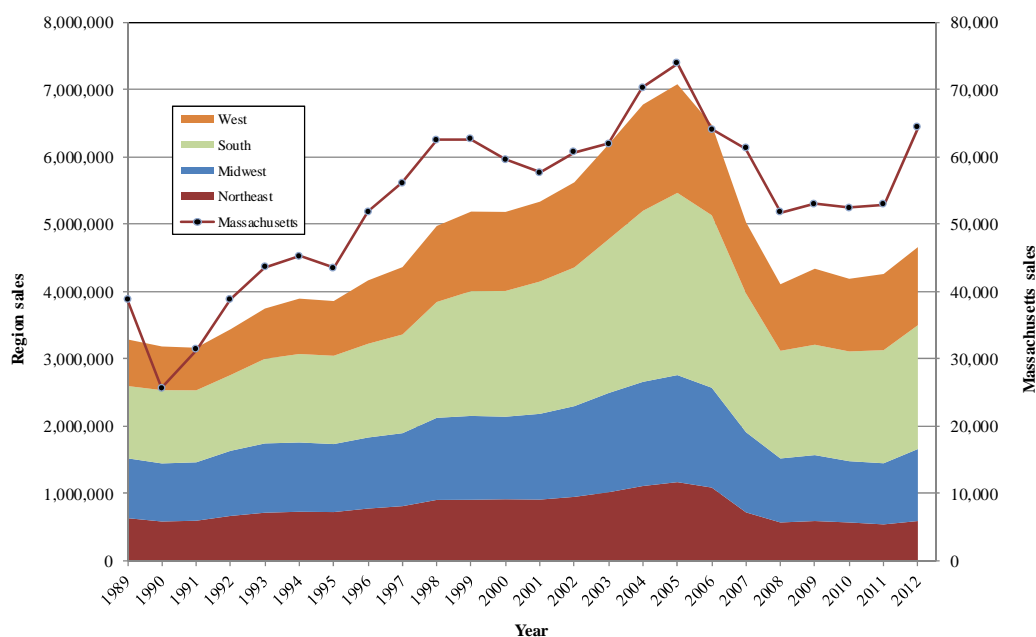
| <i>Housing Permits Authorized</i> | | | | | | |
|-----------------------------------|---------------|------------------------------|-------------|------------------------------|---------------|------------------------------|
| Year | Massachusetts | | New England | | United States | |
| | Total Units | 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% |
| 2012 | 11,111 | 43.8% | 23,109 | 28.5% | 829,658 | 32.9% |
| June 2012 YTD | 4,963 | | 10,581 | | 381,291 | |
| June 2013 YTD | 7,173 | 44.5% | 14,141 | 33.6% | 477,444 | 25.2% |



SOURCES: United States Census Bureau. July 2013. 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.

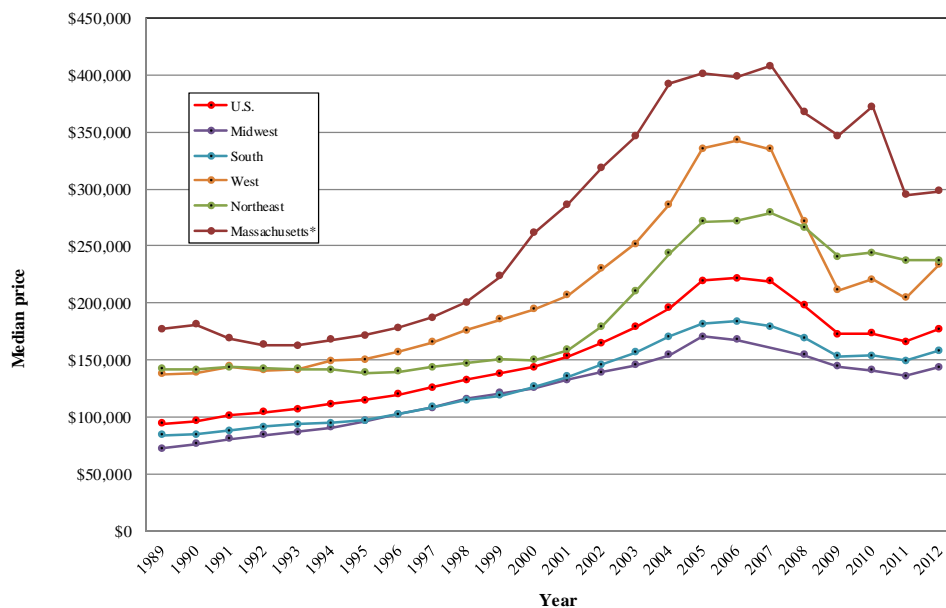
| <i>Sales of Existing Homes United States, National Regions and Massachusetts</i> | | | | | | |
|--|-------------|------------------|----------------|--------------|-------------|----------------------|
| Year | U.S. | Northeast | Midwest | South | West | Massachusetts |
| 1989 | 3,290,000 | 635,000 | 889,000 | 1,073,000 | 693,000 | 38,789 |
| 1990 | 3,184,000 | 583,000 | 864,000 | 1,088,000 | 649,000 | 25,691 |
| 1991 | 3,146,000 | 596,000 | 867,000 | 1,070,000 | 633,000 | 31,379 |
| 1992 | 3,431,000 | 667,000 | 967,000 | 1,127,000 | 680,000 | 38,847 |
| 1993 | 3,737,000 | 714,000 | 1,031,000 | 1,257,000 | 745,000 | 43,588 |
| 1994 | 3,884,000 | 728,000 | 1,031,000 | 1,313,000 | 822,000 | 45,238 |
| 1995 | 3,849,000 | 725,000 | 1,010,000 | 1,312,000 | 812,000 | 43,509 |
| 1996 | 4,167,000 | 776,000 | 1,056,000 | 1,393,000 | 942,000 | 51,857 |
| 1997 | 4,374,000 | 813,000 | 1,084,000 | 1,466,000 | 1,001,000 | 56,107 |
| 1998 | 4,965,000 | 905,000 | 1,219,000 | 1,722,000 | 1,129,000 | 62,549 |
| 1999 | 5,179,000 | 908,000 | 1,245,000 | 1,854,000 | 1,182,000 | 62,662 |
| 2000 | 5,173,000 | 915,000 | 1,226,000 | 1,867,000 | 1,175,000 | 59,602 |
| 2001 | 5,335,000 | 910,000 | 1,274,000 | 1,965,000 | 1,186,000 | 57,665 |
| 2002 | 5,634,000 | 950,000 | 1,347,000 | 2,062,000 | 1,265,000 | 60,661 |
| 2003 | 6,176,000 | 1,020,000 | 1,473,000 | 2,283,000 | 1,410,000 | 61,979 |
| 2004 | 6,778,000 | 1,111,000 | 1,549,000 | 2,540,000 | 1,578,000 | 70,342 |
| 2005 | 7,080,000 | 1,168,000 | 1,591,000 | 2,707,000 | 1,614,000 | 73,887 |
| 2006 | 6,477,000 | 1,087,000 | 1,484,000 | 2,562,000 | 1,344,000 | 64,126 |
| 2007 | 5,030,000 | 720,000 | 1,190,000 | 2,060,000 | 1,060,000 | 61,299 |
| 2008 | 4,110,000 | 570,000 | 950,000 | 1,600,000 | 990,000 | 51,766 |
| 2009 | 4,340,000 | 590,000 | 980,000 | 1,640,000 | 1,130,000 | 52,992 |
| 2010 | 4,190,000 | 570,000 | 910,000 | 1,630,000 | 1,080,000 | 52,413 |
| 2011 | 4,260,000 | 540,000 | 910,000 | 1,680,000 | 1,130,000 | 52,902 |
| 2012 | 4,660,000 | 590,000 | 1,070,000 | 1,840,000 | 1,160,000 | 64,357 |



SOURCES: National Association of Realtors. p=preliminary.

Home prices. Massachusetts sales prices are much higher than the national median but they are 27% less than the 2007 peak.

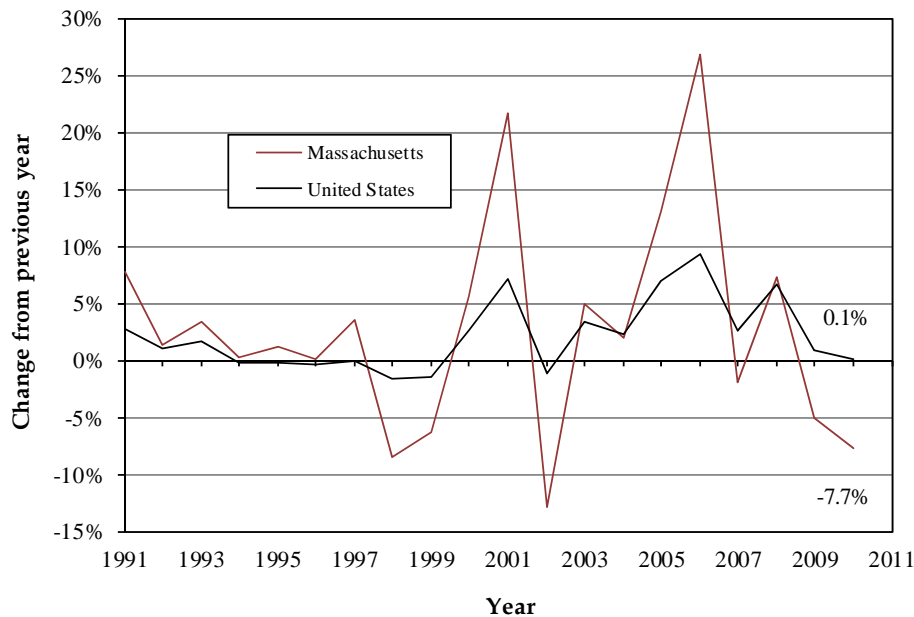
| <i>Median Sales Price of Existing Homes United States, National Regions and Massachusetts</i> | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|----------------|
| Year | U.S. | Northeast | Midwest | South | West | Massachusetts* |
| 1989 | \$94,000 | \$142,100 | \$72,600 | \$84,300 | \$137,600 | \$177,001 |
| 1990 | \$96,400 | \$141,400 | \$76,300 | \$84,700 | \$138,600 | \$181,225 |
| 1991 | \$101,400 | \$143,600 | \$80,500 | \$88,100 | \$144,500 | \$168,895 |
| 1992 | \$104,000 | \$142,600 | \$84,200 | \$91,100 | \$141,200 | \$163,291 |
| 1993 | \$107,200 | \$142,100 | \$87,000 | \$93,700 | \$141,800 | \$162,854 |
| 1994 | \$111,300 | \$141,500 | \$90,600 | \$94,900 | \$149,200 | \$167,475 |
| 1995 | \$114,600 | \$138,500 | \$96,100 | \$96,900 | \$150,600 | \$171,702 |
| 1996 | \$119,900 | \$139,600 | \$102,300 | \$102,400 | \$157,100 | \$178,536 |
| 1997 | \$126,100 | \$143,600 | \$108,200 | \$108,400 | \$165,700 | \$187,213 |
| 1998 | \$132,800 | \$147,300 | \$115,600 | \$115,000 | \$175,900 | \$200,870 |
| 1999 | \$138,000 | \$150,500 | \$121,000 | \$118,900 | \$185,400 | \$223,593 |
| 2000 | \$143,600 | \$149,800 | \$125,300 | \$126,300 | \$194,600 | \$261,293 |
| 2001 | \$153,100 | \$158,700 | \$132,500 | \$135,500 | \$207,000 | \$286,277 |
| 2002 | \$164,900 | \$179,300 | \$139,300 | \$146,000 | \$230,000 | \$318,649 |
| 2003 | \$178,800 | \$210,000 | \$145,600 | \$156,700 | \$251,800 | \$346,210 |
| 2004 | \$195,400 | \$243,800 | \$154,600 | \$170,400 | \$286,400 | \$392,241 |
| 2005 | \$219,600 | \$271,300 | \$170,600 | \$181,700 | \$335,300 | \$401,548 |
| 2006 | \$221,900 | \$271,900 | \$167,800 | \$183,700 | \$342,700 | \$398,753 |
| 2007 | \$219,000 | \$279,100 | #N/A | \$179,300 | \$335,100 | \$407,826 |
| 2008 | \$198,100 | \$266,400 | \$154,100 | \$169,200 | \$271,500 | \$367,182 |
| 2009 | \$172,500 | \$240,500 | \$144,100 | \$153,000 | \$211,100 | \$346,921 |
| 2010 | \$173,100 | \$243,900 | \$140,800 | \$153,700 | \$220,700 | \$372,439 |
| 2011 | \$166,200 | \$237,500 | \$135,800 | \$149,300 | \$204,500 | \$295,000 |
| 2012 | \$177,200 | \$237,200 | \$143,700 | \$158,400 | \$234,300 | \$298,000 |



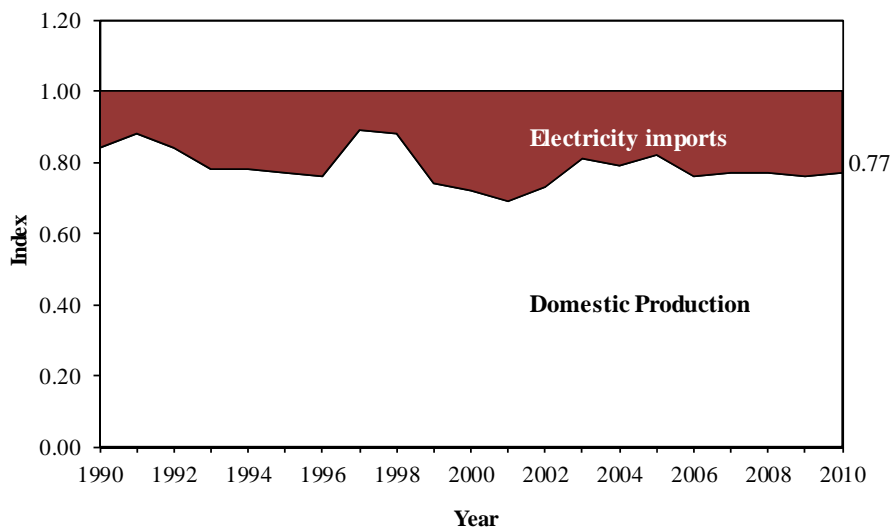
SOURCES: National Association of Realtors. *Note: Massachusetts 2011 and 2012 are for single family only. p= preliminary.

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' latest reported average combined electric rate, year-to-date May 2013, is virtually unchanged at 14.06 cents per kilowatt hour compared to 13.95 for the same period last year. 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.

Change in Average Retail Price of Electricity, in Cents/kWh

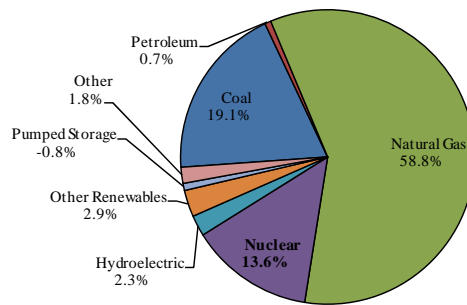


The Massachusetts Electricity Supply - Net Trade Index
(Massachusetts currently imports a quarter of its electricity)

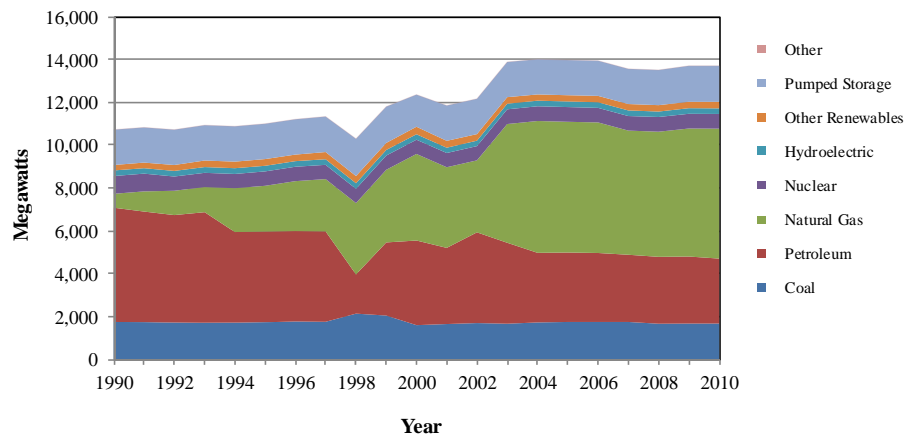


SOURCE: U.S. Dept. of Energy, <http://www.eia.doe.gov/>: state electricity profiles.

**Electric Power Generated in Massachusetts
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 24.7% percent decrease in museum and attraction attendance, 1.04 million visitors, through February 2013, compared to the same two months in 2012. For FY 2013 March 2013 year-to-date net room occupancy tax collections totaled \$117.3 million, a 7.0% increase from the same period in FY2012.

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 2012 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 June 2013 year-to-date, total airport flight operations were down 1.9 percent and total airport passengers were up 1.1 percent from the same period in 2012. According to the FAA, in calendar year 2012, Logan Airport ranked 30th in the nation in total air cargo volume. In 2012, Massport reported the airport handled 525 million pounds of cargo; a 0.8 percent decrease from 2011. Massport reported that as of June 2013 year-to-date, the combined cargo volume was up 0.3 percent and total express mail was up 1.4 percent from the same period in 2012. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, total containerized cargo processed fell 4.0 percent in 2012 to 155,421 full TEUs compared to calendar year 2011. It processed 41,120 automobiles, 10.4 percent more, and 380,054 cruise passengers, 22.5 percent more, than in calendar year 2011.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2011 decreased by 32.0 percent to 15.4 million short tons from 2010. Waterborne cargo in New England decreased 14.5 percent while the U.S. increased 1.4 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts' Primary Airports

| Passenger Boardings | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Logan International | 12,758,020 | 13,214,923 | 13,544,552 | 13,783,297 | 12,820,489 | 12,566,797 | 13,561,814 | 14,180,730 | 14,293,675 |
| Nantucket Memorial | 243,313 | 252,757 | 276,866 | 282,197 | 258,214 | 204,981 | 201,390 | 169,352 | 178,918 |
| Barnstable Municipal | 167,522 | 177,761 | 206,980 | 204,152 | 191,906 | 138,858 | 124,560 | 100,596 | 95,693 |
| Marthas Vineyard | 49,480 | 48,977 | 45,881 | 49,205 | 45,002 | 42,248 | 43,904 | 49,095 | 50,464 |
| New Bedford Regional | 19,686 | 17,960 | 15,211 | 14,567 | 13,908 | 11,680 | 12,363 | 11,152 | 12,254 |
| Provincetown Municipal | 11,424 | 10,236 | 11,375 | 12,459 | 11,468 | 10,747 | 11,450 | 10,967 | 11,577 |
| Worcester Regional | 1,274 | 2,036 | 14,823 | 460 | 3,182 | 17,241 | 35,833 | 53,541 | 10,746 |
| Hanscom Field | 17,049 | 13,887 | 14,560 | 16,568 | 8,385 | 7,350 | 7,952 | 10,893 | 9,963 |
| Total | 13,267,768 | 13,738,537 | 14,130,248 | 14,362,905 | 13,352,554 | 12,999,902 | 13,806,666 | 14,586,326 | 14,663,290 |

| Cargo - Gross Landed Weight | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|---------------|---------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|
| 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 | 780,913,850 |

Change in Aviation Activity at Massachusetts' Primary Airports

| Passenger Boardings | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|------------------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|
| Logan International | -10.7% | 3.6% | 2.5% | 1.8% | -7.0% | -2.0% | 7.9% | 4.6% | 0.8% |
| Nantucket Memorial | 36.0% | 3.9% | 9.5% | 1.9% | -8.5% | -20.6% | -1.8% | -15.9% | 5.6% |
| Barnstable Municipal | 75.1% | 6.1% | 16.4% | -1.4% | -6.0% | -27.6% | -10.3% | -19.2% | -4.9% |
| Marthas Vineyard | -1.9% | -1.0% | -6.3% | 7.2% | -8.5% | -6.1% | 3.9% | 11.8% | 2.8% |
| New Bedford Regional | 60.6% | -8.8% | -15.3% | -4.2% | -4.5% | -16.0% | 5.8% | -9.8% | 9.9% |
| Provincetown Municipal | -1.3% | -10.4% | 11.1% | 9.5% | -8.0% | -6.3% | 6.5% | -4.2% | 5.6% |
| Worcester Regional | -88.1% | 59.8% | 628.0% | -96.9% | 591.7% | 441.8% | 107.8% | 49.4% | -79.9% |
| Hanscom Field | 71.1% | -18.5% | 4.8% | 13.8% | -49.4% | -12.3% | 8.2% | 37.0% | -8.5% |
| Total | -9.5% | 3.5% | 2.9% | 1.6% | -7.0% | -2.6% | 6.2% | 5.6% | 0.5% |

| Cargo | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Logan International | 50.1% | -2.0% | -4.2% | -3.7% | -7.1% | -15.1% | -2.2% | 0.3% | -4.8% |

SOURCE: Federal Aviation Administration July 8, 2013.

http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/

Waterborne Tonnage by State (In Units of 1,000 Tons)

| State | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| U.S. total | 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 | 2,367,484 |
| Massachusetts | 26,117 | 30,655 | 31,787 | 28,812 | 27,411 | 28,043 | 25,993 | 25,018 | 22,661 | 15,411 |
| Maine | 29,140 | 31,698 | 32,447 | 32,353 | 28,103 | 26,839 | 24,747 | 22,996 | 20,907 | 20,646 |
| Connecticut | 17,610 | 18,579 | 20,075 | 19,617 | 19,340 | 20,148 | 18,196 | 16,767 | 16,229 | 12,977 |
| Rhode Island | 8,437 | 9,417 | 9,764 | 10,972 | 11,016 | 11,184 | 10,517 | 8,404 | 8,315 | 8,378 |
| New Hampshire | 4,108 | 4,971 | 4,795 | 5,254 | 4,823 | 4,026 | 3,833 | 3,583 | 2,964 | 3,347 |
| Vermont | - | - | - | - | - | - | - | - | - | - |
| New England | 85,412 | 95,320 | 98,868 | 97,008 | 90,693 | 90,240 | 83,286 | 76,768 | 71,076 | 60,759 |

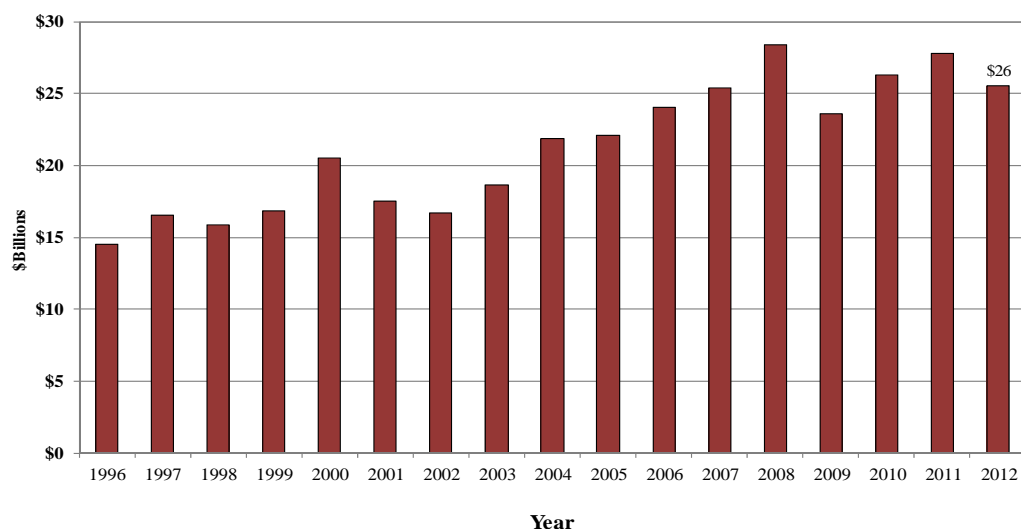
Waterborne Tonnage by State - Percent Change from Previous Year

| State | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| U.S. total | -1.9% | 2.3% | 6.6% | -1.0% | 2.4% | -0.9% | -3.4% | -10.8% | 5.6% | 1.4% |
| Massachusetts | -1.2% | 17.4% | 3.7% | -9.4% | -4.9% | 2.3% | -7.3% | -3.8% | -9.4% | -32.0% |
| Maine | -4.7% | 8.8% | 2.4% | -0.3% | -13.1% | -4.5% | -7.8% | -7.1% | -9.1% | -1.2% |
| Connecticut | -3.6% | 5.5% | 8.1% | -2.3% | -1.4% | 4.2% | -9.7% | -7.9% | -3.2% | -20.0% |
| Rhode Island | -8.0% | 11.6% | 3.7% | 12.4% | 0.4% | 1.5% | -6.0% | -20.1% | -1.1% | 0.8% |
| New Hampshire | -7.6% | 21.0% | -3.5% | 9.6% | -8.2% | -16.5% | -4.8% | -6.5% | -17.3% | 12.9% |
| Vermont | - | - | - | - | - | - | - | - | - | - |
| New England | -3.9% | 11.6% | 3.7% | -1.9% | -6.5% | -0.5% | -7.7% | -7.8% | -7.4% | -14.5% |

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC) April 2013.

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

Massachusetts's Annual Exports



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

Massachusetts Top Export Partners

(top ten export destinations ranked by value of 2012 exports, in millions)

| Country | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Canada | \$2,646 | \$2,917 | \$2,927 | \$3,166 | \$3,480 | \$3,907 | \$3,086 | \$3,242 | \$3,797 | \$3,404 |
| United Kingdom | \$1,430 | \$1,508 | \$1,628 | \$1,972 | \$2,306 | \$3,504 | \$4,049 | \$3,213 | \$3,225 | \$2,588 |
| Japan | \$1,635 | \$1,814 | \$1,893 | \$2,287 | \$2,166 | \$2,427 | \$1,717 | \$2,045 | \$2,034 | \$1,993 |
| China | \$572 | \$894 | \$884 | \$1,291 | \$1,375 | \$1,563 | \$1,372 | \$2,194 | \$2,084 | \$1,882 |
| Germany | \$1,599 | \$2,516 | \$2,151 | \$2,515 | \$2,370 | \$2,489 | \$1,750 | \$1,872 | \$2,051 | \$1,802 |
| Mexico | \$702 | \$755 | \$782 | \$824 | \$996 | \$1,163 | \$902 | \$1,272 | \$1,434 | \$1,608 |
| Netherlands | \$1,759 | \$2,505 | \$3,000 | \$2,696 | \$2,215 | \$2,675 | \$1,982 | \$1,695 | \$1,104 | \$1,079 |
| Korea, Republic Of | \$558 | \$650 | \$803 | \$875 | \$821 | \$666 | \$624 | \$893 | \$1,026 | \$1,027 |
| Taiwan | \$528 | \$951 | \$798 | \$749 | \$1,018 | \$709 | \$619 | \$906 | \$956 | \$918 |
| Belgium | \$265 | \$335 | \$336 | \$290 | \$330 | \$331 | \$316 | \$465 | \$621 | \$715 |
| Total Exports, Top Destinations | \$11,695 | \$14,846 | \$15,200 | \$16,667 | \$17,077 | \$19,434 | \$16,416 | \$17,797 | \$18,333 | \$17,015 |
| All other countries | \$6,957 | \$7,054 | \$6,852 | \$7,390 | \$8,274 | \$8,935 | \$7,177 | \$8,507 | \$9,428 | \$8,534 |
| Total Exports | \$18,652 | \$21,899 | \$22,052 | \$24,057 | \$25,351 | \$28,369 | \$23,593 | \$26,304 | \$27,761 | \$25,549 |
| Change from Prior Year | 6.6% | 17.4% | 0.7% | 9.1% | 5.4% | 11.9% | -16.8% | 11.5% | 5.5% | -8.0% |

Value of International Shipments from Massachusetts

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

| Major Industry Group/3-Digit NAICS | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Computer And Electronic Products | \$7,688 | \$7,519 | \$7,012 | \$7,513 | \$7,711 | \$7,821 | \$6,600 | \$7,488 | \$7,685 | \$7,310 |
| Machinery, Except Electrical | \$1,672 | \$2,447 | \$2,311 | \$2,739 | \$2,881 | \$2,615 | \$2,008 | \$3,462 | \$3,628 | \$3,386 |
| Chemicals | \$3,216 | \$4,910 | \$5,285 | \$5,189 | \$5,258 | \$5,515 | \$3,863 | \$3,620 | \$3,361 | \$3,416 |
| Miscellaneous Manufactured Commodities | \$1,571 | \$1,930 | \$2,114 | \$2,240 | \$2,319 | \$3,120 | \$2,737 | \$3,046 | \$3,190 | \$3,053 |
| Primary Metal Manufacturing | \$425 | \$423 | \$405 | \$647 | \$982 | \$2,052 | \$2,735 | \$2,398 | \$2,736 | \$1,946 |
| Waste And Scrap | \$184 | \$326 | \$330 | \$597 | \$849 | \$1,373 | \$666 | \$654 | \$1,099 | \$784 |
| Transportation Equipment | \$379 | \$461 | \$485 | \$557 | \$932 | \$1,237 | \$1,107 | \$1,059 | \$1,115 | \$1,079 |
| Fabricated Metal Products, Nesoi | \$534 | \$621 | \$664 | \$679 | \$615 | \$721 | \$605 | \$809 | \$863 | \$734 |
| Plastics And Rubber Products | \$375 | \$404 | \$470 | \$530 | \$582 | \$587 | \$563 | \$748 | \$809 | \$675 |
| Electrical Equipment, Appliances, And Component | \$592 | \$752 | \$810 | \$871 | \$769 | \$624 | \$508 | \$557 | \$677 | \$718 |
| Total Exports, Top Massachusetts Industries | \$16,636 | \$19,792 | \$19,884 | \$21,563 | \$22,899 | \$25,664 | \$21,392 | \$23,841 | \$25,164 | \$23,101 |
| All other exports | \$2,016 | \$2,107 | \$2,168 | \$2,494 | \$2,453 | \$2,705 | \$2,202 | \$2,463 | \$2,597 | \$2,448 |
| Total Exports | \$18,652 | \$21,899 | \$22,052 | \$24,057 | \$25,351 | \$28,369 | \$23,593 | \$26,304 | \$27,761 | \$25,549 |

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 Research group Tel: 413-577-2415 Email: di.epr@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/

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

<http://www.realtor.org/>

<http://www.marealtor.com/content/>

Massachusetts Office of Travel and Tourism

<http://www.massvacation.com>

U.S. Census Bureau, Governments Division

<http://www.census.gov/govs/www/statetax.html>

<http://www.census.gov/govs/www/state.html>

U.S. Department of Commerce, Bureau of the Census, Consolidated Federal Funds Report

<http://www.census.gov/govs/www/cffr.html>

Federal Spending - contract, grant, and other award data

<http://www.usaspending.gov>

Large employers by sector

<http://www.referenceusa.com/Home/Home>

Human Resources and Infrastructure

U.S. Census Bureau

<http://www.census.gov/acs/www/>

Massachusetts Department of Higher Education

<http://www.mass.edu/campuses/facts.asp>

New England Board of Higher Education

<http://www.nebhe.org.connection.html>

National Science Foundation

<http://www.nsf.gov/statistics>

U.S. Department of Education, National Center for

Education Statistics

<http://nces.ed.gov>

Institute of International Education

<http://www.iese.org>

U.S. Patent Office

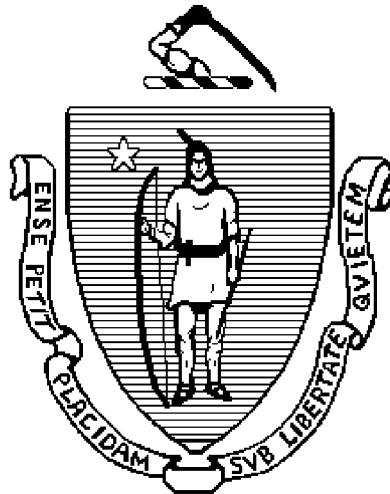
<http://www.uspto.gov>

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Exhibit B

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Commonwealth of Massachusetts



Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2012

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

Cranberry Harvest, Nantucket, MA

Photography courtesy of Massachusetts Office of Travel & Tourism.

Photographer, Michael Galvin

Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2012

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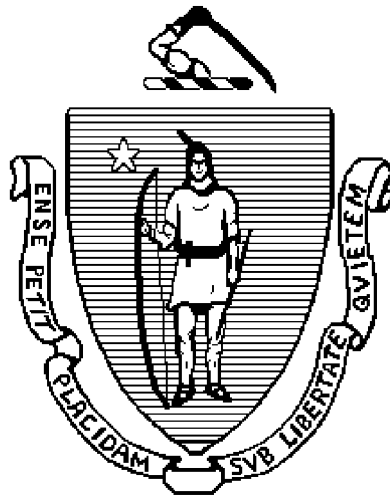
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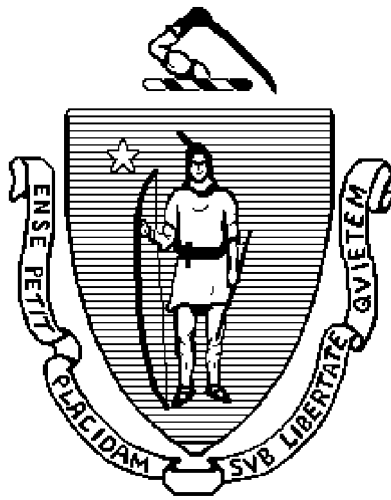
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Introductory Section



Comptroller's Letter of Transmittal
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*Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108*

October 23, 2012

*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, 2012 (FY12).

As of June 30, 2012, the Commonwealth had a budgeted fund balance of approximately \$1.990 billion and completed the fiscal year with a consolidated net surplus of \$301 million, sufficient to meet statutory requirements, as set out in the FY12 final supplemental appropriations bill, for \$147 million to be carried forward as an undesignated balance in the General Fund in FY13 (1/2 of 1% of FY12 tax revenue collections plus \$40 million), a total deposit of approximately \$117 million to the Stabilization Fund (also known as the “Rainy Day Fund”), and \$15 million to be transferred to the Massachusetts Life Sciences Investment Fund, \$20 million to be transferred to the Health Care Workforce Transformation Trust Fund and \$3 million to be distributed to the City of New Bedford Public Schools. The total budgeted fund balance of \$1.990 billion reflects a budgetary gain (a surplus of revenues and other financing sources over expenditures and other financing uses) of approximately \$89 million, added to the FY12 beginning balance of \$1.901 billion. Of the total budgeted fund balance, \$1.652 billion is reserved in the Stabilization Fund, compared to \$1.379 billion at the end of FY11. At the end of FY12, \$170 million is reserved for continuing appropriations and debt service into fiscal year 2013. The remaining undesignated balance of \$167 million is made up of the \$147 million statutorily required carryforward in the General Fund and other smaller fund balances.

In FY12, the Commonwealth used \$486 million in funds it received from the federal American Recovery and Reinvestment Act (ARRA) (virtually none of it in the budgeted funds); in FY13, ARRA funds are expected to total \$175 million to \$200 million.

During FY12, budgeted fund tax revenues increased by \$549 million, or 2.9% from FY11, as the economy continued its moderate recovery. Income taxes increased by \$335 million, or 2.9%, from FY11, and sales and use taxes increased by \$159 million, or 3.2%. Total budgeted fund revenues and other financing sources decreased by \$529 million, or 1.6%.

In FY12, there were approximately \$669 million in one-time revenues used to balance the Commonwealth’s budget, down from

approximately \$2.0 billion in one-time FY11 solutions. Significant FY12 use of one-time resources included:

- \$202 million in FY11 resources (prior appropriations continued) used to support ongoing FY12 costs;
- \$200 million in Stabilization Fund reserves;
- \$85 million in one-time unclaimed property transfers;
- \$46 million in additional revenues from a delay in the implementation of the so-called FAS 109 corporate tax deduction;
- \$43 million in one-time transfers from Commonwealth trust accounts;
- \$37 million from the use of Commonwealth Care Reserves;
- \$26 million in one-time contributions from quasi-public entities;
- \$29 million in tax settlements that were used to make FY12 one-time Medicaid payments to certain Massachusetts hospitals;
- \$1 million generated from the sale of assets.

An additional \$375 million in one-time tax settlements was also received in FY12, but these settlements were deposited directly to the Stabilization Fund (and not used to balance the FY12 budget), in accordance with legislation requiring that individual settlements in excess of \$10 million be transferred to the “Rainy Day Fund”.

During FY12, the Commonwealth also transferred \$10 million in investment income earned by the Stabilization Fund to the General Fund.

As the Commonwealth continued its emergence from a recession that ended nationally in June 2009, employment in the Commonwealth continued to grow in FY12. Between June 2011 and June 2012, on a seasonally adjusted basis, Massachusetts employment grew by 38,500, or 1.2%, compared to employment growth of 1.3% for the United States as a whole over the same period. (Updated information from economists at Northeastern University and the Federal Reserve Bank of Boston indicate that the official numbers for both U.S. and Massachusetts employment understate employment growth significantly. Employment numbers using the updated information will be revised by the federal Bureau of Labor Statistics in the spring of 2013.) In June 2012, the Massachusetts unemployment rate was 6.0%, compared to 8.2% nationally.

The General Appropriation Act for FY13 is based on a consensus tax revenue estimate of approximately \$21.950 billion, of which approximately \$18.902 billion represents taxes available for budget after adjusting for \$3.048 billion in tax revenue that is allocated to state pension contributions (\$1.552 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$787 million) and the Massachusetts School Building Authority (\$689 million, subsequently adjusted to \$703 million) and revenue transferred to the non-budgetary

fund Workforce Training Fund (\$20 million). FY13 revenues available for budget were further adjusted to \$18.962 billion as result of several tax law changes included in the enacted FY13 budget or enacted soon after that budget was passed.

As of September 30, 2012, FY13 tax collections were \$95 million below the year-to-date benchmark based on the \$18.962 billion estimate. On October 15, 2012 the Executive Office for Administration and Finance reaffirmed the FY13 tax revenue estimate of taxes available for budget of \$18.962 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 FY12 activity in the Commonwealth's funds. The report contains computations required by state finance law, including the certification of transfers to and balances in the Stabilization Fund and Tax Reduction Fund.

Basis of Accounting

The statutory basis of accounting, defined in Massachusetts law, is used to budget and control fiscal operations. The statutory basis of accounting is not in conformity with accounting principles generally accepted in the United States of America (GAAP) as defined for governments by the Governmental Accounting Standards Board (GASB). Fiduciary Funds are not included in this presentation. I will report the Commonwealth's financial position on a GAAP basis in December, in the state's Comprehensive Annual Financial Report (CAFR). That report, which will be prepared in accordance with GAAP, provides a basis for comparison with other governments. There are significant differences between what is contained in the SBFR and what will be presented in the December CAFR according to GAAP. The major differences are that the CAFR reflects capital assets and depreciation expense, all types of long-term obligations – including debt – and that in the CAFR the financial statements are presented in an all-encompassing, net 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 is required to transmit the SBFR by October 31st. The SBFR for the fiscal year ended June 30, 2012 herein is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth's books for the fiscal year.

American Recovery and Reinvestment Act Expenditures of Federal Award Activity for FY2011 and FY2012
(Amounts in thousands)

| By Funding Category | FY2011 | FY2012 |
|--|---------------------|------------------|
| Agriculture..... | \$ 4,980 | \$ 2,608 |
| Department of defense..... | 531 | - |
| Housing and urban development..... | 48,790 | 10,632 |
| Justice..... | 7,496 | 2,987 |
| Labor..... | 145,393 | 6,488 |
| Transportation..... | 167,051 | 74,768 |
| US Treasury..... | 58,802 | 9,945 |
| National institute for arts & humanities.. | 9 | - |
| National science foundation..... | 225 | 161 |
| EPA..... | 9,838 | 969 |
| Energy..... | 75,230 | 53,229 |
| Education..... | 533,090 | 201,010 |
| Health and human services..... | 1,308,647 | 123,435 |
| Homeland security..... | 685 | - |
| Total by funding category..... | \$ 2,360,767 | \$486,232 |

| By Fund Type | FY2011 | FY2012 |
|--------------------------------------|---------------------|------------------|
| Budgeted funds..... | \$ 1,268,817 | \$ 22 |
| Non-budgeted special revenue funds * | 808,544 | 395,978 |
| Capital projects funds..... | 1,370 | 456 |
| Agency funds**..... | 3,204 | - |
| Unemployment benefits**..... | 107,832 | - |
| MassDOT..... | 171,000 | 89,776 |
| Total by fund type..... | \$ 2,360,767 | \$486,232 |

* Resulted in expenditure reduction in the general fund in FY2011

** Not included in this report

American Recovery and Reinvestment Act (ARRA)

For the year ended June 30, 2012 ARRA funds received by the Commonwealth totaled \$486 million, virtually all of it in the non-budgetary funds.

In many respects ARRA has triggered 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 has exceeded 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 FY12 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 FY12, the Commonwealth transferred approximately \$834 million to municipalities in so-called Unrestricted General Government Aid (formerly called Lottery Aid) from Lottery profits. In addition, \$65 million in non-education local aid was distributed to municipalities in FY12 in accordance with the FY11 final supplemental appropriations bill. The total of \$899 million in non-education local aid was equal to FY11 Unrestricted General Government Aid.

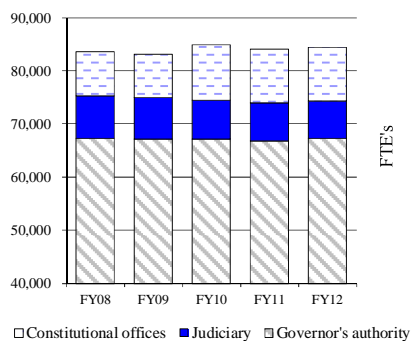
Gross Lottery revenues (including the Arts Lottery) increased from \$4.633 billion in FY11 to \$4.942 billion in FY12, or 6.7%. Lottery profits, after deducting administrative expenses and fringe benefit charges reimbursed to the Commonwealth's General Fund, totaled \$984 million, an increase of \$96 million, or 10.8%, from FY11.

The FY13 General Appropriation Act contains provisions for \$899 million in unrestricted general government aid, equal to the amount distributed in FY12.

Full-Time Equivalent Employment

The chart to the left shows the Commonwealth's full-time equivalent employment (including MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY12, the number of Commonwealth FTEs increased by approximately 400, to a total of 84,462. However, since FY08 the number of FTEs on the Commonwealth's payroll has dropped significantly after adjusting for shifts in the way certain FTEs are accounted for and for entities that were absorbed by the state in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth's payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to the Massachusetts Department of Transportation (MassDOT). Also in FY10, the sheriff departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with approximately 2,770 employees. These increases

Full Time Equivalent Workforce Including Higher Education June 2008 – June 2012

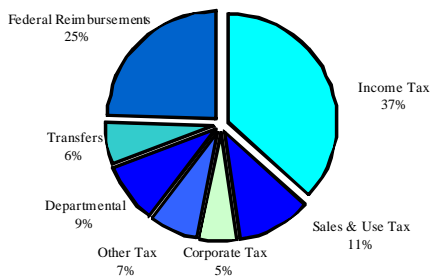


were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. Adjusting for the 6,600 employees brought onto the state payroll system as a result of these accounting changes and reorganizations, state employment levels dropped by a total of approximately 5,800 FTEs between June 30, 2008 and June 30, 2012.

The Budgeted Funds

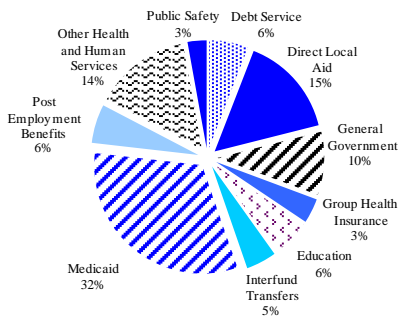
The FY12 General Appropriation Act (GAA) authorized approximately \$30.044 billion in spending, exclusive of approximately \$1.478 billion in required pension contributions and \$381 million in FY11 spending authorized to be continued into FY12 as part of FY11 end of year supplemental budgets.

Budgeted Revenues and Other Sources



The FY12 budget as enacted by the Legislature was based on a FY12 consensus tax revenue estimate of \$20.525 billion, of which approximately \$17.569 billion represented taxes available for budget after adjusting for \$2.956 billion in tax revenue allocated to the Massachusetts Bay Transportation Authority (\$779 million), the School Modernization And Reconstruction Trust Fund (\$678 million), the Pension Reserves Investment Trust Fund (\$1.478 billion) and the Workforce Training Fund (\$20 million), which was converted from a budgetary to non-budgetary fund effective July 1, 2011. FY12 revenues available for budget were further adjusted to \$17.682 billion as a result of several tax law changes that were part of the FY12 budget. The FY12 tax revenue estimate was revised upward to \$21.010 billion (with \$18.167 billion available for budget) in October 2011 as tax revenues had performed above benchmark in the first quarter of FY12. Tax revenues ended the year \$105 million above the final FY12 tax estimate.

Budgeted Expenditures and Other Uses



Approximately \$493 million in supplemental appropriations were authorized during FY12 prior to June 30, 2012. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$47 million in new FY12 appropriations, all of which were continued to FY13 and reappropriated. The year’s significant supplemental appropriation activity included approximately:

- \$187 million for the Delivery System Transformation Initiative, which will provide funding to safety net hospitals carrying out delivery-of-care transformation initiatives;
- \$40 million for family shelters;
- \$35 million for MassHealth (Medicaid) senior care;
- \$30 million for information technology consolidation in the executive branch;
- \$28 million for additional private counsel compensation for indigent clients;
- \$27 million for short term housing transitional programs;
- \$26 million to pay for the cleanup costs of Hurricane Irene and the October 2011 snow storm;

- \$21 million for home heating assistance;
- \$11 million for MassHealth fee for service programs;
- \$11 million for providing Supplemental Security Income.

Budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue, and thus have no effect on fund balances) declined by \$529 million, or 1.6%, in FY12. While tax revenue grew by \$549 million, or 2.9%, as a result of continuing growth in the economy, federal reimbursements declined by \$1.328 billion, or 14.3%, as the American Recovery and Reinvestment Act wound down and budgeted revenues under that program dropped by more than \$1.269 billion. Interfund transfers from non-budgeted funds increased by \$241 million, or 13.6%, due primarily to transfers of increased Lottery profits to the General Fund.

Budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) increased by \$380 million, or 1.2%, from FY11, much slower growth than in recent years, as health care spending, which is one of the most important drivers of the Commonwealth budget, slowed.

Spending on programs and services grew by \$644 million, or 2.4%. Medicaid expenditures grew by \$194 million, or only 1.9%, from \$10.237 billion in FY11 to \$10.431 billion in FY12, the slowest percentage growth since FY97, as the Commonwealth implemented savings initiatives, including reduced rates for providers, reprocurement of services for behavioral health services, revised capitation rates for contracted managed care organizations, a change in hospital readmissions payment policies, increased co-payments slightly and enhanced program integrity measures to ensure that members are eligible for services and using them in proper settings.

Debt service grew by \$259 million, or 15.6%, as FY11 savings from a debt restructuring were not repeated in FY12. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) fell by \$577 million or 28.0%, as FY11 one-time universal healthcare-related expenditures were not repeated in FY12. Post-employment benefits grew by \$53 million, or 2.9%, with pension contributions growing by 2.5% from FY11 and state employee and retiree health insurance costs increasing by 3.8%. Spending for direct local aid (both education aid and unrestricted aid), at \$4.929 billion, was up \$145 million, or 3.0%, from FY11.

The Budgeted Funds – Operations table on page 7 displays the FY12 summary of budgeted funds compared to FY11. The FY12 financial statements for each of the ten active individual budgeted funds are included in the financial section of this report.

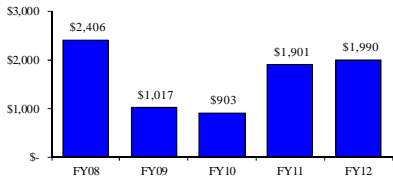
In conducting the budget process, the Commonwealth excludes from its forecast those “interfund” transactions within the budgeted funds that are included in this report; these transactions by their nature have no impact on the combined fund balance of the budgeted funds. The table Budgeted Funds – Operations isolates this “interfund” activity

from the budgeted sources and uses to align forecasts prepared during the budget process to actual amounts in this report. In FY12, transfers among the Budgeted Funds decreased, primarily as a result of a reduction in transfers to and from the Temporary Holding Fund and Stabilization Fund. A detailed list of these interfund transfers is included in Note 3 of the financial statements and Schedule C of the Supplemental Information section of this report.

Budgeted Funds - Operations
(Amounts in thousands)

| | 2011 | 2012 |
|--|--------------|--------------|
| Beginning fund balances: | | |
| Reserved and designated..... | \$ 121,959 | \$ 400,061 |
| Reserved for stabilization fund..... | 669,803 | 1,379,071 |
| Undesignated..... | 111,316 | 121,687 |
| Total..... | 903,078 | 1,900,819 |
| Revenues and other financing sources: | | |
| Taxes..... | 19,094,935 | 19,643,721 |
| Federal reimbursements..... | 9,299,546 | 7,971,705 |
| Departmental and other revenues..... | 2,912,270 | 2,921,388 |
| Interfund transfers from non-budgeted funds and other financing sources.. | 1,768,582 | 2,009,733 |
| Budgeted revenues and other financing sources..... | 33,075,333 | 32,546,547 |
| Intragovernmental service fund revenues..... | 286,079 | 295,794 |
| Interfund transfers among budgeted funds and other financing sources..... | 3,174,854 | 736,512 |
| Total revenues and other financing sources..... | 36,536,266 | 33,578,853 |
| Expenditures and other financing uses: | | |
| Programs and services..... | 26,515,830 | 27,159,830 |
| Debt service..... | 1,663,876 | 1,923,154 |
| Post employment benefits..... | 1,838,857 | 1,892,326 |
| Interfund transfers to non-budgeted funds and other financing uses..... | 2,059,019 | 1,482,330 |
| Budgeted expenditures and other financing uses..... | 32,077,582 | 32,457,640 |
| Intragovernmental service fund expenditures..... | 286,079 | 295,794 |
| Interfund transfers among budgeted funds and other financing uses..... | 3,174,854 | 736,512 |
| Total expenditures and other financing uses..... | 35,538,515 | 33,489,946 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..... | 997,751 | 88,907 |
| Ending fund balances: | | |
| Reserved and designated..... | 400,061 | 170,467 |
| Reserved for stabilization fund..... | 1,379,071 | 1,652,118 |
| Undesignated..... | 121,687 | 167,141 |
| Total..... | \$ 1,900,819 | \$ 1,989,726 |

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



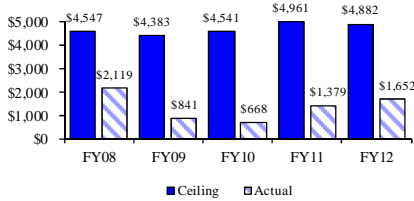
The graph of Budgeted Funds – Fund Balance on the left portrays the combined fund balance in the budgeted funds for the past five years.

At June 30, 2012, 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, \$170 million of the total budgeted fund balance, exclusive of the Stabilization Fund, is reserved for appropriations and debt service in FY13. The remainder is undesignated.

The Stabilization Fund

As states around the country continue to struggle with ongoing fiscal challenges, the importance of the Stabilization Fund cannot be overstated. State fiscal conditions improved during FY12, according to the National Association of State Budget Officers’ (NASBO) publication *The Fiscal Survey of the States: Spring 2012*, with only eight states reporting a total of \$1.7 billion in enacted mid-year budget cuts for fiscal 2012, compared with 19 states enacting \$7.4 billion in mid-year budget cuts in fiscal 2011 and 39 states enacting \$18.3 billion in cuts in fiscal 2010. As ARRA revenues were phased out and tax revenue growth slowed in the Commonwealth during FY12, Massachusetts drew on \$200 million in Stabilization Fund transfers to maintain budget balance. In addition, \$10 million of investment income was transferred from the Stabilization Fund to the General Fund per the FY12 budget, and per legislation that authorized expanded gaming in the Commonwealth, \$20 million was transferred from the Stabilization Fund to the General Fund and newly established Gaming Fund to finance the startup of the Commonwealth’s new Gaming Commission and the negotiation of a gaming compact with Native American tribes. However, these FY12 transfers from the Stabilization Fund were more than offset by \$375 million in transfers to the Stabilization Fund from the General Fund in accordance with a new statutory requirement enacted in the FY12 budget which mandated that any settlements in excess of \$10 million be deposited directly to the Stabilization Fund.

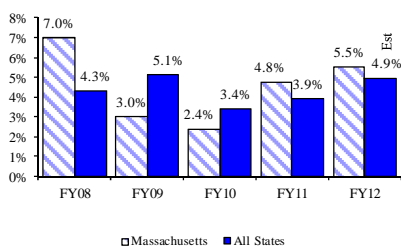
**Stabilization Fund Balance
(Amounts in Millions)**



In addition, the FY12 final supplemental appropriations bill mandated that prior to making the FY12 end of year Stabilization Fund deposit, the Comptroller transfer \$15 million to the Massachusetts Life Sciences Investment Fund, \$20 million to the Health Care Workforce Transformation Trust Fund, \$3 million to City of New Bedford Public Schools and carry forward \$40 million in the General Fund for use in FY13. After those transfers, a residual balance of \$117 million was deposited in the Stabilization Fund, bringing its balance to \$1.652 billion, meaning that the Stabilization Fund balance grew by \$273 million in FY12. For FY13, the General Appropriation Act authorizes that \$350 million be drawn from the Stabilization Fund and mandates that all investment income earned by the Stabilization Fund be transferred to the General Fund.

The chart on the left shows that the Stabilization Fund balance declined rapidly between FY08 through FY10 as the recession caused reductions in revenues and increased costs for safety net programs, but increased by more than \$709 million in FY11 and an additional \$273 million in

Stabilization Fund Percentage of Budget Compared To Other States



FY12. *The Fiscal Survey of the States* ranked the Commonwealth third in the nation at the end of FY11 (the most recent year for which final stabilization fund balances were available for all states) in terms of the total balance in the Stabilization Fund. Fourteen states had no stabilization fund balance at the end of FY11. Of the states with over \$10 billion in General Fund expenditures for FY11, the Commonwealth's Stabilization Fund balance as a percentage of General Fund expenditures ranked third in the nation. The FY12 estimates released by NASBO in June 2012, together with the results reported in this SBFR, indicate that Massachusetts's Stabilization Fund balance of \$1.652 billion, or 5.5% of General Fund expenditures, will rank second in the nation in absolute size as well as second in the nation as a percentage of expenditures for states with over \$10 billion in expenditures (behind only Texas by both measures). The chart on the left shows that Stabilization Fund balances as a percentage of total expenditures in the Commonwealth is now higher than the 4.9% estimated 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 FY12), Massachusetts's relative Stabilization Fund balance compared to other states is even 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 5.5% of General Fund expenditures was higher than the estimated national median of 1.9% 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 FY12, the Commonwealth maintained 75 non-budgeted funds, while another 16 were inactive.

The largest non-budgeted funds in terms of revenues include the Lottery Fund, the Federal Grants Fund and the Commonwealth Care Trust Fund. Other funds that show large inflows include the MBTA State and Local Contribution Trust Fund, the School Modernization Trust Fund and the Grant Anticipation Notes Trust Fund, which are financed by transfers of tax revenues and grant receipts.

The table Non-Budgeted Funds – Operations on page 10 includes a summary of the FY12 non-budgeted funds. A Statement of Revenues, Expenditures and Changes in Fund Balance is presented in a table within this report for each of the individual non-budgeted funds in the financial section of this report.

As previously discussed, the State Lottery Funds ended the year with a profit of \$978 million, with \$834 million of that amount transferred to cities and towns as unrestricted local aid and the remaining \$144 million transferred to the General Fund. (An additional \$65 million was allocated to non-education local aid from the General Fund as part of the FY11 final supplemental appropriations bill, but paid in FY12.)

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

| | 2011* | 2012* |
|--|---------------------|---------------------|
| Beginning fund balance (restated)..... | \$ 1,813,232 | \$ 1,799,478 |
| Revenues and other financing sources: | | |
| Taxes..... | 1,680,656 | 1,739,826 |
| Assessments..... | 517,048 | 526,540 |
| Federal grants and reimbursements..... | 3,779,789 | 3,534,718 |
| Tobacco settlement revenue..... | 248,741 | 253,628 |
| Departmental and miscellaneous..... | 5,587,101 | 5,983,708 |
| Transfers and other financing sources..... | 2,564,908 | 1,602,304 |
| Total revenues and other financing sources..... | <u>14,378,243</u> | <u>13,640,724</u> |
| Expenditures and other financing uses: | | |
| Programs and services..... | 11,753,930 | 10,941,810 |
| Debt service..... | 456,797 | 230,357 |
| Transfers and other financing uses..... | 2,181,270 | 2,208,574 |
| Total expenditures and other financing uses..... | <u>14,391,997</u> | <u>13,380,741</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..... | <u>(13,754)</u> | <u>259,983</u> |
| Ending fund balance (restated)..... | <u>\$ 1,799,478</u> | <u>\$ 2,059,461</u> |

*as restated, and more fully disclosed in footnote 20

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

- Commonwealth Care Trust Fund – a \$28 million operating deficit;
- Central Artery / Tunnel Project Maintenance Trust Fund – a \$17 million operating deficit.

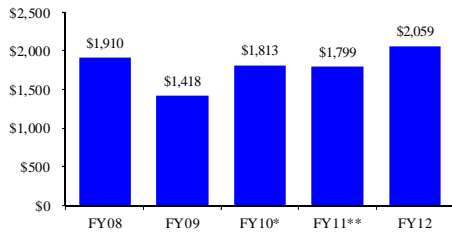
The Health Care Security Trust (HST) continues to report all revenues received from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover healthcare costs for tobacco-related illnesses. The MSA provides for three sets of payments to the states: Initial Payments 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 \$8.962 billion, including Strategic Contribution Payments. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. In FY12, the Commonwealth received \$254 million, an increase of \$5 million from FY11. The \$254 million represented approximately 68.5% of the estimated amounts shown in the MSA. The FY12 General Appropriation Act directed all MSA receipts to the General Fund. Beginning in FY13, 10.0% of tobacco settlement payments will be deposited in the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care. The portion of the

annual tobacco settlement payments dedicated to the SRBTF will increase 10% per year until it reaches 100% in FY23.

Again in FY12, \$156 million of the Commonwealth’s federal transportation funds were dedicated to paying off prior year expenditures of the Central Artery/Tunnel Project (CA/T), which were temporarily financed through Federal Grant Anticipation Notes (GANS). In addition, \$32 million in interest payments for the GANS was funded by a General Fund appropriation.

For the Universal Health Care funds, including the Commonwealth Care Trust Fund, Medical Assistance Trust Fund, Health Safety Net Trust Fund, Delivery System Transformation Initiatives Trust Fund, Money Follows the Person Rebalancing Demonstration Grant Trust Fund, Medical Security Trust Fund and Catastrophic Illness in Children Relief Fund, all of which are largely related to health care reform, revenues and other financing sources were nearly \$1.953 billion in FY12, a decrease of approximately \$515 million from FY11. This decline was due primarily to decreased transfers of \$124 million to the Commonwealth Care Trust Fund and \$665 million to the Medical Assistance Trust Fund. In addition, Chapter 118, Section 2E, Acts of 2012, authorized a transfer of \$187 million to the Delivery System Transformation Initiatives Trust Fund.

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



*FY10 balances were restated to include operations of three MassDOT funds as reported on MMARS
 **FY11 as restated, and more fully disclosed in footnote 20

The graph Non-Budgeted Funds - Fund Balance at left shows the combined fund balance in the Non-Budgeted funds for the past five years.

As noted in previous years’ reports, the Government Land Bank Fund has a chronic structural fund deficit. The FY12 deficit balance of approximately \$35 million remains an unbudgeted drain on the Commonwealth’s General Fund. While steps have been taken to stop the growth in this deficit, the Fund should be abolished and the deficit transferred to the General Fund. As explained in previous years’ financial reports, more consolidation and elimination is needed for the non-budgeted special revenue funds generally.

The Capital Projects Funds

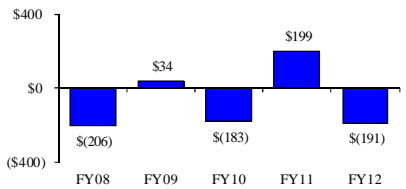
The purpose of these funds is to account for the construction or acquisition of capital assets. The Governor may propose capital outlay budgets, which, upon enactment by the Legislature and approval by the Governor, become capital outlay acts. Capital outlay acts financed through the sale of debt require a two-thirds vote of the Legislature. Numerous acts may be combined for reporting in an individual Capital Projects Fund, but each act is accounted for separately within the fund. These accounts record authorizations for expenditures in itemized capital appropriation accounts and equivalent authorizations to issue bonds or notes.

The structure of these funds is such that each capital outlay authorization is in balance, creating authorization for inflows (which may be from sales of bonds, federal reimbursements or other revenues) 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 FY12 capital budget, the Commonwealth borrowed by issuing \$1.760 billion in long-term bonds, \$1.340 billion of which was general obligation debt and \$419 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$480 million in debt to refund already existing debt (\$91 million of which was issued by the Massachusetts Department of Transportation to refund debt originally issued by the Massachusetts Turnpike Authority), taking advantage of continued low interest rates in FY12.

**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 FY12, the Capital Projects Funds had a \$191 million deficit balance, as at the end of the fiscal year the Commonwealth had not yet reimbursed itself for capital spending that it typically funds in arrears through subsequent bond issues.

The Capital Projects Funds – Operations table below includes the FY12 Capital Projects Funds, summarized and compared to FY11. Financial statements for each of the individual funds are included in the financial section of this report.

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

| | 2011 | 2012 |
|--|--------------|--------------|
| Beginning fund balance (deficit)..... | \$ (182,560) | \$ 199,238 |
| Revenues and other financing sources: | | |
| Federal grants and reimbursements..... | 168,912 | 79,732 |
| Departmental and miscellaneous..... | 697 | 3,294 |
| Proceeds of general and special obligation bonds..... | 2,305,638 | 1,921,201 |
| Proceeds of refunding bonds..... | 540,200 | 479,564 |
| Transfer for federal reimbursements..... | 458,410 | 481,145 |
| Transfers and other financing sources..... | 57,856 | 153,933 |
| Total revenues and other financing sources..... | 3,531,713 | 3,118,869 |
| Expenditures and other financing uses: | | |
| Acquisition and maintenance of capital assets..... | 2,503,311 | 2,833,457 |
| Payments to advance refunding escrow agent/principal repayment..... | 540,200 | 497,049 |
| Transfers and other financing uses..... | 106,404 | 178,250 |
| Total expenditures and other financing uses..... | 3,149,915 | 3,508,756 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..... | 381,798 | (389,887) |
| Ending fund balance (deficit)..... | \$ 199,238 | \$ (190,649) |

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 FY12, significant capital spending included:

- \$297 million in bridge repair projects under the Commonwealth’s Accelerated Bridge Program;
- \$222 million invested in new academic buildings and improvements to existing buildings on several state university and University of Massachusetts campuses. The Commonwealth spending leveraged an additional \$54 million in university investments in FY12;
- \$200 million in Chapter 90 municipal road and bridge projects;
- \$90 million in capital repairs to public housing;
- \$58 million to fund the final stages of construction of a new psychiatric facility in Worcester;
- \$39 million for open-space land protection;
- \$26 million spent for the Broadband Initiative, which invests capital funds to promote broadband expansion to unserved and underserved areas of Massachusetts.

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 \$200 million in bond authorizations. There were no de-authorizations of previously issued capital appropriations in FY11.

The Non-Appropriated Funds of Higher Education

The statistical section of this SBFR includes data on the financial operations of the non-appropriated funds of the 25 institutions of higher education as reported on MMARS. Each institution of higher education is authorized and directed in its enabling statute to collect, retain and expend certain fees, rents, sales, donations, federal financial participation and other types of revenue through campus-based systems. These financial resources are integral parts of the total financial activity of each campus. They also represent resources in addition to amounts made available from Commonwealth appropriations. Over the past few years, significant efforts have been made by our office and the institutions to improve the accuracy and timeliness of higher education reporting through the issuance of audited financial statements. As budgeted resources are constrained, the Comptroller’s Office recommends that the requirement for MMARS reporting by the

institutions of higher education be eliminated and that interested parties rely entirely on the audited financial statements.

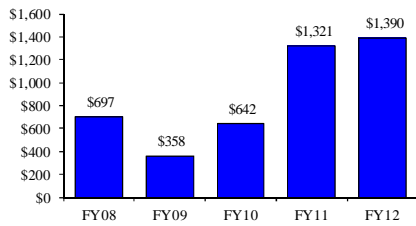
Non-Appropriated Funds Of Higher Education - Operations
(Amounts in thousands)

| | 2011* | 2012 |
|---|--------------|--------------|
| Beginning fund balance (restated)..... | \$ 1,198,102 | \$ 1,321,270 |
| Revenues and other financing sources: | | |
| Federal grants and reimbursements..... | 627,346 | 638,698 |
| Departmental revenues..... | 1,695,310 | 1,821,568 |
| Transfers and other financing sources | 1,618,646 | 1,636,751 |
| Total revenues and other financing sources..... | 3,941,302 | 4,097,017 |
| Expenditures and other financing uses: | | |
| Programs and services..... | 3,818,134 | 4,028,048 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..... | 123,168 | 68,969 |
| Ending fund balance..... | \$ 1,321,270 | \$ 1,390,239 |

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

The Non-Appropriated Funds of Higher Education – Operations table above includes the FY12 activity in Higher Education funds, summarized and compared to FY11. 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 \$808 million fund balance for the University of Massachusetts, an approximate \$309 million fund balance for the State University (formerly the State College) system and an approximate \$273 million fund balance for the Community Colleges.

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

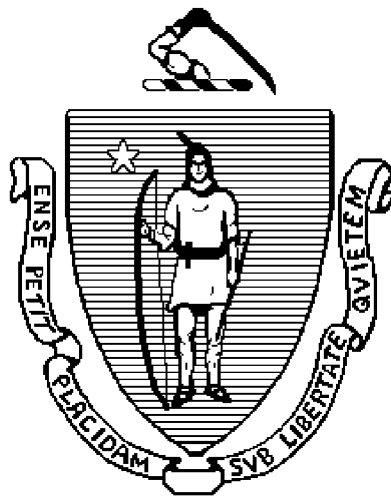


As we close the books for FY12, I again would like to express my thanks to the many dedicated employees within the Office of the Comptroller. I am proud to have all the employees of the Comptroller’s Office on my team to help tackle these and other difficult issues as we prepare for the year ahead.

I would also like to express my appreciation to the Governor and Legislature for enacting year-end budget legislation soon after June 30, 2012, which allowed the Comptroller’s Office to close the books on FY12 expeditiously.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth



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CONSTITUTIONAL OFFICERS

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Lieutenant Governor

William F. Galvin
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Martha Coakley
Attorney General

Steven Grossman
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Suzanne Bump
Auditor

LEGISLATIVE OFFICERS

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President of the Senate

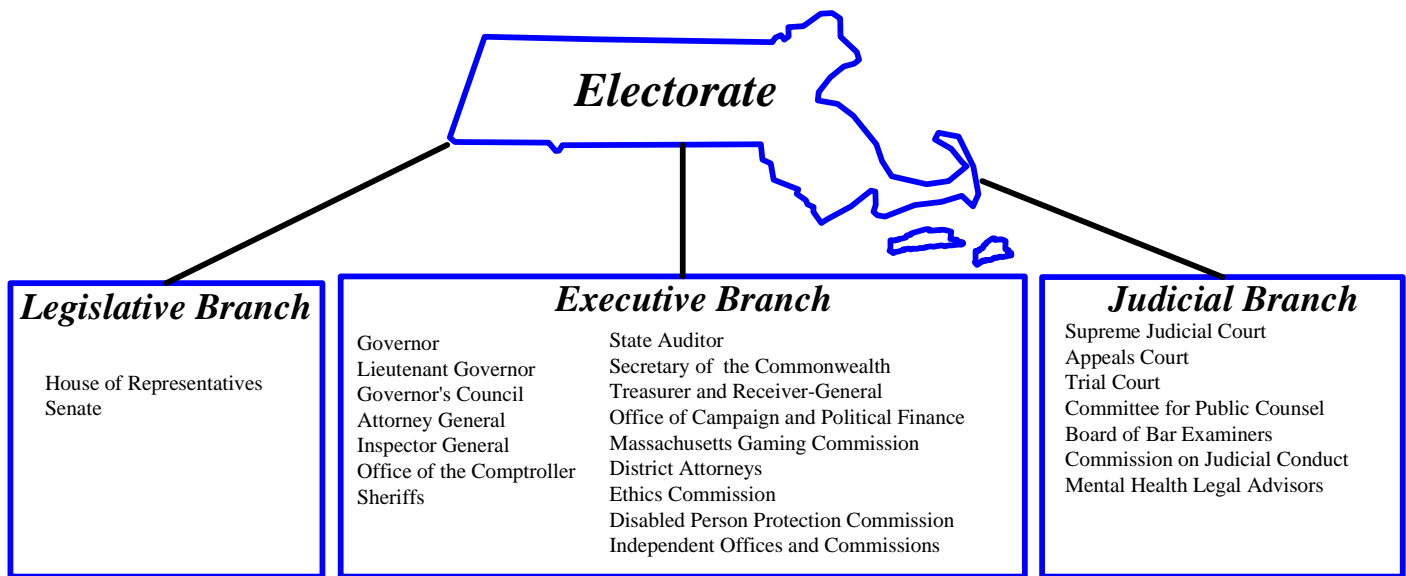
Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

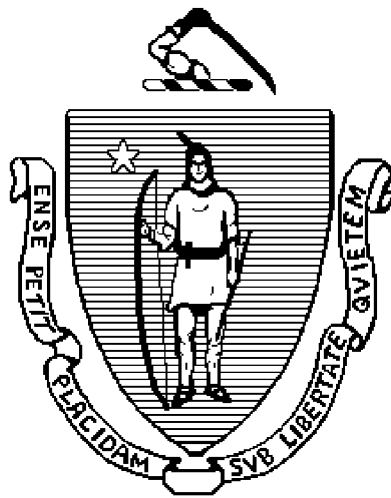
Roderick L. Ireland
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Lewis H. Spence
Court Administrator, Trial Court



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



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Program Coordinator

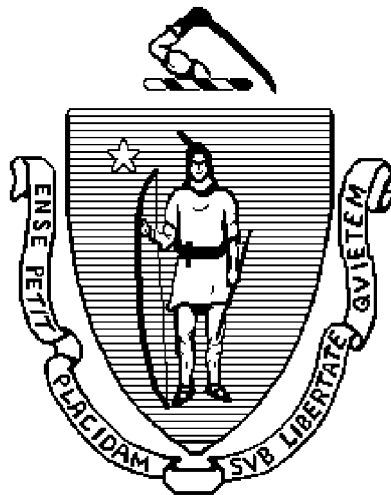
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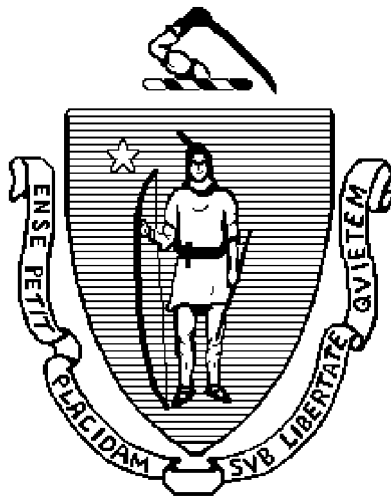
Art Direction

Scott Olsen
Vinh Nguyen
Patricia McKenna

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, 2012, as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements – statutory basis as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the combined financial statements – statutory basis in accordance with Massachusetts General Laws and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the combined financial statements – statutory basis.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the combined financial statements – statutory basis. We believe that the results of our procedures provide a reasonable basis for our report.

As described in 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 a conclusion 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 did not become aware of any material modifications that should be made to such information. The introductory and statistical sections have not been subjected to the inquiry and analytical procedures applied in the review of the combined financial statements – statutory basis, but 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

October 23, 2012

Combined Financial Statements - Statutory Basis

Budgeted Funds
Combined Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | Totals (Memorandum only) | |
|---|-----------------------------|---------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Cash and short-term investments..... | \$ 1,926,174 | \$ 1,803,282 |
| Cash with fiscal agent..... | 7,581 | 19,239 |
| Investments..... | 260,058 | 255,903 |
| Receivables, net of allowance for uncollectibles: | | |
| Due from federal government..... | 550,072 | 481,297 |
| Other receivables..... | 17,307 | 21,104 |
| Due from cities and towns..... | 10,915 | 7,780 |
| Total assets..... | <u>\$ 2,772,107</u> | <u>\$ 2,588,605</u> |
| LIABILITIES AND FUND EQUITY | | |
| Liabilities: | | |
| Accounts payable..... | \$ 640,327 | \$ 551,464 |
| Accrued payroll..... | 142,054 | 136,322 |
| Total liabilities..... | <u>782,381</u> | <u>687,786</u> |
| Fund equity: | | |
| Combined fund balance: | | |
| Reserved for: | | |
| Continuing appropriations..... | 162,886 | 380,822 |
| Commonwealth Stabilization..... | 1,652,118 | 1,379,071 |
| Debt service..... | 7,581 | 19,239 |
| Unreserved: | | |
| Undesignated..... | 167,141 | 121,687 |
| Total fund equity..... | <u>1,989,726</u> | <u>1,900,819</u> |
| Total liabilities fund equity..... | <u>\$ 2,772,107</u> | <u>\$ 2,588,605</u> |

See accompanying notes to financial statements and accountants' review report

Budgeted Funds

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--|-------------------|---------------------|--|
| REVENUES AND OTHER FINANCING SOURCES | | | |
| Revenues: | | | |
| Taxes..... | \$ 19,159,700 | \$ 19,643,721 | \$ 484,021 |
| Assessments..... | - | 459,911 | 459,911 |
| Federal grants and reimbursements..... | 7,883,300 | 7,971,705 | 88,405 |
| Departmental..... | 2,890,173 | 2,511,978 | (378,195) |
| Miscellaneous..... | 9,427 | 245,293 | 235,866 |
| Total revenues..... | 29,942,600 | 30,832,608 | 890,008 |
| Other financing sources: | | | |
| Fringe benefit cost recovery..... | - | 369,083 | 369,083 |
| Lottery reimbursements..... | 97,654 | 88,658 | (8,996) |
| Lottery distributions..... | 887,923 | 977,553 | 89,630 |
| Operating transfers in..... | 687,786 | 350,221 | (337,565) |
| Stabilization transfer..... | 194,000 | 707,102 | 513,102 |
| Tobacco settlement transfer..... | 286,737 | 253,628 | (33,109) |
| Total other financing sources..... | 2,154,100 | 2,746,245 | 592,145 |
| Total revenues and other financing sources..... | 32,096,700 | 33,578,853 | 1,482,153 |
| EXPENDITURES AND OTHER FINANCING USES | | | |
| Expenditures: | | | |
| Legislature..... | 63,901 | 58,337 | 5,564 |
| Judiciary..... | 773,447 | 757,507 | 15,940 |
| Inspector General..... | 3,541 | 2,818 | 723 |
| Governor and Lieutenant Governor..... | 10,199 | 6,543 | 3,656 |
| Secretary of the Commonwealth..... | 36,293 | 35,996 | 297 |
| Treasurer and Receiver-General..... | 209,319 | 187,115 | 22,204 |
| Auditor of the Commonwealth..... | 17,624 | 17,052 | 572 |
| Attorney General..... | 43,867 | 42,624 | 1,243 |
| Ethics Commission..... | 1,838 | 1,729 | 109 |
| District Attorney..... | 99,520 | 99,031 | 489 |
| Office of Campaign & Political Finance..... | 1,270 | 1,196 | 74 |
| Sheriff's Departments..... | 521,610 | 515,153 | 6,457 |
| Disabled Persons Protection Commission..... | 2,211 | 2,210 | 1 |
| Board of Library Commissioners..... | 21,461 | 21,441 | 20 |
| Comptroller..... | 11,898 | 11,512 | 386 |
| Administration and finance..... | 1,996,386 | 1,882,078 | 114,308 |
| Energy and environmental affairs..... | 199,586 | 188,058 | 11,528 |
| Health and human services..... | 4,879,823 | 4,793,301 | 86,522 |
| Massachusetts department of transportation..... | 160,000 | 160,000 | - |
| Executive office of education..... | 1,890,522 | 1,867,271 | 23,251 |
| Public safety and homeland security..... | 1,002,508 | 968,625 | 33,883 |
| Housing and economic development..... | 451,002 | 437,598 | 13,404 |
| Labor and workforce development..... | 65,074 | 37,832 | 27,242 |
| Direct local aid..... | 4,929,556 | 4,929,489 | 67 |
| Medicaid..... | 10,445,850 | 10,431,108 | 14,742 |
| Post employment benefits..... | 1,892,326 | 1,892,326 | - |
| Debt service: | | | |
| Principal retirement..... | 1,086,502 | 1,043,636 | 42,866 |
| Interest and fiscal charges..... | 938,773 | 879,518 | 59,255 |
| Total expenditures..... | 31,755,907 | 31,271,104 | 484,803 |
| Other financing uses: | | | |
| Fringe benefit cost assessment..... | 1,900 | 2,663 | (763) |
| Operating transfers out..... | 406,038 | 471,359 | (65,321) |
| Stabilization transfer..... | 194,000 | 722,102 | (528,102) |
| Commonwealth care trust transfer..... | 728,012 | 614,910 | 113,102 |
| Medical assistance transfer..... | 394,025 | 220,900 | 173,125 |
| Delivery system transformation initiatives trust transfer..... | 186,908 | 186,908 | - |
| Total other financing uses..... | 1,910,883 | 2,218,842 | (307,959) |
| Total expenditures and other financing uses..... | 33,666,790 | 33,489,946 | 176,844 |
| Excess (deficiency) of revenues and other financing sources | | | |
| over / (under) expenditures and other financing uses..... | (1,570,090) | 88,907 | 1,658,997 |
| Fund balance (deficit) at beginning of year..... | 1,900,819 | 1,900,819 | - |
| Fund balance (deficit) at end of year..... | \$ 330,729 | \$ 1,989,726 | \$ 1,658,997 |

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, 2012

(Amounts in thousands)

| | Non-Budgeted Special Revenue | Capital Projects | Totals (Memorandum only) | |
|--|---------------------------------|---------------------|-----------------------------|---------------------|
| | | | 2012 | 2011 |
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 1,739,826 | \$ - | \$ 1,739,826 | \$ 1,680,656 |
| Assessments..... | 526,540 | - | 526,540 | 517,048 |
| Federal grants and reimbursements..... | 3,534,718 | 79,732 | 3,614,450 | 3,948,701 |
| Tobacco settlement revenue..... | 253,628 | - | 253,628 | 248,741 |
| Departmental..... | 5,846,922 | 214 | 5,847,136 | 5,497,272 |
| Miscellaneous..... | 136,786 | 3,080 | 139,866 | 90,526 |
| Total revenues..... | <u>12,038,420</u> | <u>83,026</u> | <u>12,121,446</u> | <u>11,982,944</u> |
| Other financing sources: | | | | |
| Proceeds of general obligation bonds..... | - | 1,340,367 | 1,340,367 | 1,633,051 |
| Proceeds of special obligation bonds..... | - | 419,260 | 419,260 | 672,587 |
| Bonds premiums (discounts)..... | - | 161,574 | 161,574 | - |
| Proceeds of refunding bonds..... | - | 479,564 | 479,564 | 946,653 |
| Operating transfers in..... | 534,586 | 32,252 | 566,838 | 503,389 |
| Stabilization transfer..... | 15,000 | - | 15,000 | - |
| Commonwealth care trust transfer..... | 614,910 | - | 614,910 | 739,012 |
| Health safety net trust transfer..... | 30,000 | - | 30,000 | 30,000 |
| Medical assistance transfer..... | 220,900 | - | 220,900 | 886,101 |
| Federal reimbursement transfer in..... | - | 481,145 | 481,145 | 458,410 |
| State share of federal highway construction..... | - | 121,681 | 121,681 | 57,809 |
| Delivery system transformation initiatives trust transfer..... | 186,908 | - | 186,908 | - |
| Total other financing sources..... | <u>1,602,304</u> | <u>3,035,843</u> | <u>4,638,147</u> | <u>5,927,012</u> |
| Total revenues and other financing sources..... | <u>13,640,724</u> | <u>3,118,869</u> | <u>16,759,593</u> | <u>17,909,956</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Judiciary..... | 1,439 | 20,688 | 22,127 | 20,207 |
| Inspector General..... | 298 | - | 298 | 281 |
| Governor and Lieutenant Governor..... | 98 | - | 98 | 98 |
| Secretary of the Commonwealth..... | 5,321 | 1,572 | 6,893 | 6,791 |
| Treasurer and Receiver-General..... | 5,509,177 | 150,640 | 5,659,817 | 5,405,810 |
| Auditor of the Commonwealth..... | - | 489 | 489 | - |
| Attorney General..... | 9,560 | 1,263 | 10,823 | 10,007 |
| District Attorney..... | 2,336 | - | 2,336 | 3,330 |
| Office of Campaign & Political Finance..... | - | - | - | 1,390 |
| Sheriff's Departments..... | 12,369 | 4,329 | 16,698 | 8,313 |
| Disabled Persons Protection Commission..... | - | - | - | 106 |
| Board of Library Commissioners..... | 2,833 | 9,841 | 12,674 | 12,295 |
| Massachusetts Gaming Commission..... | 791 | - | 791 | - |
| Comptroller..... | 1,818 | 243 | 2,061 | 3,216 |
| Administration and finance..... | 105,171 | 578,575 | 683,746 | 654,948 |
| Energy and environmental affairs..... | 125,620 | 141,995 | 267,615 | 293,533 |
| Health and human services..... | 2,343,685 | 24,657 | 2,368,342 | 2,774,938 |
| Massachusetts department of transportation..... | 600,940 | 1,562,546 | 2,163,486 | 2,117,652 |
| Executive office of education..... | 1,104,611 | 58,095 | 1,162,706 | 1,417,230 |
| Public safety and homeland security..... | 230,850 | 36,411 | 267,261 | 229,678 |
| Housing and economic development..... | 533,684 | 230,991 | 764,675 | 918,431 |
| Labor and workforce development..... | 351,209 | 1,454 | 352,663 | 371,907 |
| Debt service: | | | | |
| Principal retirement..... | 158,459 | 497,049 | 655,508 | 380,395 |
| Interest and fiscal charges..... | 71,898 | 9,668 | 81,566 | 83,482 |
| Total expenditures..... | <u>11,172,167</u> | <u>3,330,506</u> | <u>14,502,673</u> | <u>14,714,038</u> |
| Other financing uses: | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | 724,638 |
| Fringe benefit cost assessment..... | 127,306 | 56,569 | 183,875 | 180,170 |
| Lottery operating reimbursements..... | 88,658 | - | 88,658 | 86,391 |
| Lottery distributions..... | 977,553 | - | 977,553 | 881,817 |
| Operating transfers out..... | 250,284 | - | 250,284 | 159,898 |
| Tobacco settlement transfer..... | 253,628 | - | 253,628 | 248,741 |
| Health safety net trust transfer..... | 30,000 | - | 30,000 | 30,000 |
| Federal reimbursement transfer out..... | 481,145 | - | 481,145 | 458,410 |
| State share of federal highway construction..... | - | 121,681 | 121,681 | 57,809 |
| Total other financing uses..... | <u>2,208,574</u> | <u>178,250</u> | <u>2,386,824</u> | <u>2,827,874</u> |
| Total expenditures and other financing uses..... | <u>13,380,741</u> | <u>3,508,756</u> | <u>16,889,497</u> | <u>17,541,912</u> |
| Excess (deficiency) of revenues and other financing sources | | | | |
| over / (under) expenditures and other financing uses..... | 259,983 | (389,887) | (129,904) | 368,044 |
| Fund balance (deficit) at beginning of year (restated)..... | 1,799,478 | 199,238 | 1,998,716 | 1,630,672 |
| Fund balance (deficit) at end of year..... | <u>\$ 2,059,461</u> | <u>\$ (190,649)</u> | <u>\$ 1,868,812</u> | <u>\$ 1,998,716</u> |

See accompanying notes to financial statements and accountants' review report

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1. FINANCIAL STATEMENT PRESENTATION

A. INTRODUCTION

The accompanying combined financial statements (Statutory Basis Financial Report) of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A as amended by Section 4 of Chapter 88 of the Acts of 1997 of the Massachusetts General Laws, as amended most recently by Chapter 26, Section 4 of the Acts of 2009. The Office of the Comptroller also publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR) which is prepared in accordance with 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 SBFR's Financial Statements are not intended to include independent authorities, non-appropriated funds of higher education or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

B. GOVERNMENTAL FUND TYPES

The Fund types are organized as follows:

Governmental Fund Types account for the general governmental activities of the Commonwealth.

Budgeted Funds – are the primary operating funds of the Commonwealth. They account for all budgeted governmental transactions. Major budgeted funds include the General, Stabilization and Commonwealth Transportation 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the Treasurer's Cash Management Department, at 617-367-9333 ext. 553.

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 bond programs in which bonds are secured by a pledge of dedicated revenues provided to bondholders, pursuant to trust agreements, as well as pledges of revenue for general operations. Like the Commonwealth, certain state authorities have also issued special obligation bonds secured by specific Commonwealth revenues. These other authorities' debts are not included in the SBFR, but are included in the CAFR.

All federal government reimbursements for the Commonwealth's highway spending are dedicated to the repayment of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in FY03 and FY11. All GANs issued prior to 2010 are scheduled to be repaid and retired in FY15. The Commonwealth will begin repayment of principal of the new-money notes issued in 2010 beginning in FY16, after the original and refunded federal grant anticipation notes have been paid in full. As of June 30, 2012, total principal remaining to be paid on outstanding GANs is approximately \$610 million, with maturities ranging from FY13 through FY23. Principal paid during FY12 was approximately \$156 million and came from federal reimbursements. Interest paid in FY12 was funded by the Commonwealth.

During FY12, the Commonwealth issued an additional \$419 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. As of June 30, 2012, approximately \$995 million in principal was outstanding on these and other previously issued Accelerated Bridge Program (ABP) special obligation bonds and approximately \$733 million of interest was expected to be paid through maturity. The ABP program projected interest costs are net of federal subsidies under the Build America Bond (BABs) a temporary program under which the Commonwealth and other state and local governments issued taxable bonds in calendar 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the bonds. The ABP bonds mature from FY13 to FY41.

Other special obligation bonds for highway construction purposes issued prior to FY12 are secured by a pledge of 6.86 cents of the 21 cents per gallon gasoline tax. As of June 30, 2012, this pledge funds approximately \$338 million of principal and approximately \$91 million in interest on the outstanding debt. These bonds mature from FY13 to FY23 and were sold in

various series issued prior to FY12. Principal and interest paid during FY12 amounted to approximately \$40 million and \$20 million, respectively. The lien on these bonds has been closed, meaning that no new additional new-money bonds will be issued against these revenues under this trust agreement.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The MBTA receives sales tax revenues equal to 1% of applicable sales, subject to an annual floor set in statute. In FY12, total dedicated sales tax revenue that was directed to the MBTA was approximately \$779 million, \$109 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY12 the MBTA received from the Commonwealth sales tax revenues equal to 1.16% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1.0% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY12, approximately \$670 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, 2012, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$492 million of interest on debts related to these Convention Centers. Taxes collected in FY12 were approximately \$94 million, while debt service on the bonds was approximately \$36 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 sales 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 1st of the following fiscal year. In FY12, approximately \$312 million in sales tax revenue was transferred to MassDOT, \$37 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.

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 million due to higher education non-appropriated fund activity, which is not included in the combined statements – statutory basis.

E. CURRENT EMPLOYEE BENEFITS

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay (not accrued on a statutory basis).

F. FRINGE BENEFIT COST RECOVERY

The Commonwealth pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation, and other costs necessary to support the state work force. As directed by Chapter 29, Sections 5D and 6B(f) of the Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments.

Since these fringe benefit costs and pensions are not appropriated in the budget, the required assessment creates a variance between budget and actual expenditures at year-end. The fringe benefit cost recoveries of approximately \$369 million into the General Fund results from cost assessments of approximately \$186 million from the other budgeted funds, non-budgeted special revenue funds and capital funds. The remainder of approximately \$183 million was assessed to the non-appropriated activities of higher education, expendable trust and agency funds.

G. LOTTERY REVENUE AND PRIZES

Ticket revenues are recognized when sold and prizes awarded by the Massachusetts State Lottery Commission are recognized as drawings are held. Games expenditures are accrued at year-end only for open jackpots for Mega Millions, Powerball and Megabucks.

H. RECEIVABLES

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Due from federal government." Other receivables include reimbursement of fringe benefit assessments from authorities and the institutions of higher education along with other departmental receivables.

I. DUE FROM CITIES AND TOWNS

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

J. RISK MANAGEMENT

The Commonwealth is self-insured for state employees' workers' compensation, casualty, theft, tort claims and other losses. Such liabilities are not recognized in the governmental funds on the statutory basis until encumbered and/or processed for payment. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division.

For personal injury or property damages, Chapter 258 of the Massachusetts General Laws limits the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

The Group Insurance Commission administers contributory health care and other insurance programs for the Commonwealth's employees and retirees.

K. ENCUMBRANCES

Encumbrance accounting is utilized in the Governmental Funds as a significant aspect of budgetary control. The full amounts of purchase orders, contracts and other commitments of appropriated resources are encumbered and recorded as deductions from appropriations prior to actual expenditure, ensuring that such commitments do not exceed appropriations. Encumbrances outstanding at year-end for goods or services received on or before June 30, but paid after, are reported as expenditures and statutory basis liabilities as a component of accounts payable.

L. FUND BALANCES

Fund balance has been reserved as follows:

"Reserved for continuing appropriations" – are unexpended amounts in appropriations, which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for Commonwealth Stabilization" – are amounts set aside in the Commonwealth Stabilization Fund in accordance with Section 5C of Chapter 29 of the Massachusetts General Laws.

"Reserved for debt service" – are amounts held by fiscal agents or the Commonwealth to fund future debt service obligations.

The remainder of fund balance is unreserved and undesignated and consists of cumulative surplus or deficits of the fund not otherwise designated.

M. TOTAL COLUMN – MEMORANDUM ONLY

Total and subtotal columns on the combined financial statements – statutory basis are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated

financial position, results of operations or changes in financial position. Interfund eliminations have not been made in the aggregation of these data.

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth's financial statements for the year ended June 30, 2011, 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. BEGINNING OF YEAR FUND BALANCE

The beginning fund balance of the grant anticipation note trust fund and the combined non-budgeted special revenue funds were adjusted to reflect payments to bond escrow agents related to debt refunding transactions that occurred during fiscal year 2011.

3. BUDGETARY CONTROL

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 FY12 (amounts in thousands):

| | Revenues | Expenditures |
|--|----------------------|----------------------|
| General Appropriation Act, Chapter 68 of the Acts of 2011: | | |
| Direct appropriations..... | \$ 30,422,800 | \$ 30,044,948 |
| Estimated revenues, transfers, direct appropriations, retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2011..... | - | 1,406,492 |
| Total original budget..... | <u>30,422,800</u> | <u>31,451,440</u> |
| Supplemental Acts of 2011: | | |
| Chapter 68..... | - | 10,000 |
| Chapter 142..... | - | 16,845 |
| Chapter 171..... | - | 51,966 |
| Chapter 194..... | - | 5,500 |
| Supplemental Acts of 2012: | | |
| Chapter 36..... | - | 124,110 |
| Chapter 96..... | - | 71,713 |
| Chapter 118..... | - | 213,265 |
| Total as of June 30, 2012..... | <u>30,422,800</u> | <u>31,944,839</u> |
| Supplemental Acts of 2012, passed after June 30: | | |
| Chapter 238..... | - | 3,750 |
| Chapter 239..... | - | 43,250 |
| Subtotal..... | <u>-</u> | <u>47,000</u> |
| Total budgeted revenues and expenditures per Legislative action..... | 30,422,800 | 31,991,839 |
| Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending..... | <u>1,673,900</u> | <u>1,674,951</u> |
| Budgeted revenues and expenditures as reported..... | <u>\$ 32,096,700</u> | <u>\$ 33,666,790</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..... | \$33,578,853 | \$33,489,946 |
| Adjustments to revenues and expenditures | | |
| Transfer of revenues to the intragovernmental service fund..... | (295,794) | (295,794) |
| Adjustments to other financing sources and uses: | | |
| Fringe benefit cost assessments..... | (2,663) | (2,663) |
| Transfer of expenditures from the intragovernmental service fund to the general fund... | (611) | (611) |
| RMV license plates..... | (3,075) | (3,075) |
| Transfers from stabilization fund to general fund..... | (215,408) | (215,408) |
| Transfers from budgeted funds to stabilization fund..... | (375,021) | (375,021) |
| Year end stabilization fund transfer..... | (116,673) | (116,673) |
| Transfer to fund general fund consolidated net surplus calculation..... | (22,257) | (22,257) |
| Other..... | (804) | (804) |
| Actual as presented on budgetary documents..... | <u>\$32,546,547</u> | <u>\$32,457,640</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 the SBFR, MassDOT is treated as an agency or department of the Commonwealth, as specified in Massachusetts General Laws. However, for GAAP reporting purposes, as reflected in the Commonwealth’s CAFR, MassDOT will be included as a discretely presented component unit of the Commonwealth.

5. INDIVIDUAL FUND DEFICITS

The following Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2012, as follows (amounts in thousands) (excludes MassDOT):

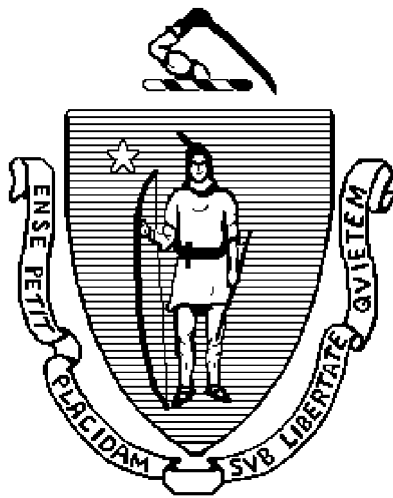
| | |
|--|---------------------|
| Non-Budgeted Special Revenue: | |
| Universal Health: | |
| Medical security trust fund..... | \$ (77,031) |
| Other: | |
| Government land bank fund..... | <u>(35,033)</u> |
| Total Non - Budgeted Funds..... | <u>(112,064)</u> |
| Capital Projects: | |
| General capital projects fund..... | (188,684) |
| Capital improvement and investment trust fund..... | (135) |
| Highway capital projects fund..... | <u>(64,221)</u> |
| Total Capital Projects Funds..... | <u>(253,040)</u> |
| Total | <u>\$ (365,104)</u> |

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

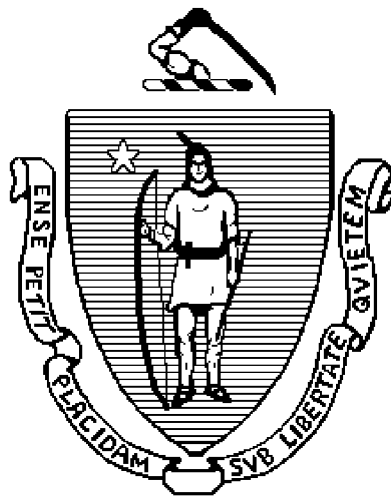
The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, typically receives 50.0% 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 61.6%. For FY11 less funding was available due to a decrease in the average reimbursement rate to 59.7% (a 61.6% reimbursement rate in the first half of FY11, a 58.8% reimbursement rate in the third quarter of FY11, and a 56.9% reimbursement rate in the fourth quarter of FY11). This rate decrease was effective through June 30, 2011, and reverted to the standard 50.0% reimbursement rate after that date.

Approximately 38.4% of the Commonwealth's budgeted fund spending for programs and services is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. For the fiscal year ended June 30, 2012, the General Fund includes approximately \$10.431 billion in expenditures for Medicaid claims. The combined financial statements – statutory basis include Medicaid claims processed but unpaid at June 30, 2012 of approximately \$16 million as accounts payable.



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Combining and Individual Fund Financial Statements - Statutory Basis



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Individual Budgeted Funds

MAJOR BUDGETED FUNDS:

The General Fund – The General Fund is the Commonwealth’s primary Governmental Fund. All governmental activities not specifically directed to another fund are accounted for in the General Fund. As a result, most budgeted expenditures of the Executive secretariats, the Legislature, constitutional offices, Judiciary, institutions of higher education and independent commissions are paid from the General Fund. It similarly receives a significant portion of sales, individual income and corporate taxes and the full amount of most other governmental taxes.

Commonwealth Transportation Fund – to account for certain revenues of the recently 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 from the Highway Fund, as well as for amounts, subject to appropriation, to fund the programs and services of the Massachusetts Department of Transportation. This fund also includes activity of the Infrastructure Fund, which was a sub fund of the Highway Fund.

The Commonwealth Stabilization Fund – to account for amounts calculated in accordance with state finance law and to maintain a reserve to enhance the Commonwealth’s fiscal stability. 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:

These funds account for the revenues generated by certain administrative functions of government, for which the Legislature has required that separate funds be established.

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. This fund was closed and set up as non-budgeted in FY12, per Section 39 of Chapter 68 of the Acts of 2011.

Substance Abuse Prevention and Treatment Fund – to account for sales tax revenues (non-dedicated) collected from the sale of alcoholic beverages under Chapter 64H; used for substance abuse treatment and prevention services. In November 2010, the sales tax on alcoholic beverages was repealed via referendum, effective January 1, 2011. As of that date, no monthly sales tax revenue has been deposited in the Substance Abuse Fund.

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 had no activity in FY12 and are not presented in this report:

Collective Bargaining Reserve Fund – to account for transfers from the General Fund, which may be used to fund negotiated contracts for state employees.

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

Dam Safety Trust Fund – to account for all receipts and revenues generated through agreements executed between the department of environmental management and public or private entities for dam safety purposes, and all fines, costs, expenses and interest imposed.

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.

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.

Gaming Local Aid Fund – to account for monies transferred under Section 59 of Chapter 23K of the General Laws and all monies credited or transferred to the fund from any other fund or source. Monies from the fund shall be used in addition to the balance of the State Lottery Fund for distribution to cities and towns in accordance with Section 35 of Chapter 10 of the General Laws and any monies so distributed shall be considered part of general revenue sharing aid for purposes of annual aid and contribution requirements established pursuant to Chapter 70 of the General Laws or Section 3 of the FY2011 General Appropriation Act.

Education Fund – to account for monies transferred under Section 59 of Chapter 23K of the General Laws and all monies credited to or transferred to the fund from any other fund or source. 35% of the funds received shall be appropriated for the purposes of both K-12 and higher education to supplement, not offset, any reduction in the General Appropriation Act from the previous fiscal year.

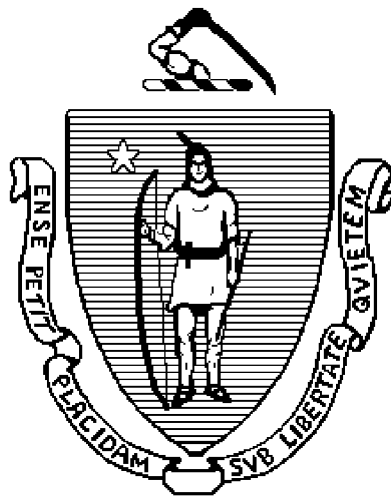
Local Aid Stabilization Fund – to account for monies transferred from the Gaming Revenue Fund established in Section 59 of Chapter 23K of the General Laws, all other monies credited or transferred to it from any other fund or source and proceeds from the investment of such funds. Monies shall be distributed to cities and towns as a supplement to other sources of local aid distributions, but shall not be subject to Section 5C of Chapter 29 of the General Laws.

Gaming Economic Development Fund – to account for monies transferred from the Gaming Revenue Fund established in Section 59 of Chapter 23K of the General Laws. Expenditures from the fund shall be used to support economic development and job growth including, but not limited to: (1) workforce training, including transfers to the Workforce Competitiveness Trust Fund; (2) tourism promotion, including regional tourism promotion agencies and cultural and recreational attraction promotion; (3) summer jobs; (4) the Massachusetts marketing partnership; (5) higher education scholarships; (6) regional economic development initiatives; (7) support for small businesses, including small business lending; (8) green jobs promotion; (9) science, technology, engineering and mathematics career pipeline initiatives; and (10) agricultural development programs, including youth agricultural education.

Manufacturing Fund – to account for monies transferred in accordance with Section 93 of Chapter 194 of the Acts of 2011 and any monies credited or transferred to the fund from any other fund or source.

Community College Fund – to account for monies transferred in accordance with Section 93 of Chapter 194 of the Acts of 2011 and any monies credited or transferred to the fund from any other fund or source.

Healthcare Payment Reform Fund – to account for monies transferred in accordance with Section 93 of Chapter 194 of the Acts of 2011 and any monies credited or transferred to the fund from any other fund or source.



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Budgeted Funds
Combining Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | Administrative Control | | | | |
|---|------------------------|-----------------------------|----------------------------|-------------------|---------------------------|
| | General | Commonwealth Transportation | Commonwealth Stabilization | Temporary Holding | Intragovernmental Service |
| ASSETS | | | | | |
| Cash and short-term investments..... | \$ 478,176 | \$ 855 | \$ 1,392,060 | \$ - | \$ 33,911 |
| Cash with fiscal agent..... | - | 7,581 | - | - | - |
| Investments..... | - | - | 260,058 | - | - |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Due from federal government..... | 550,072 | - | - | - | - |
| Other receivables..... | 17,307 | - | - | - | - |
| Due from cities and towns..... | 10,915 | - | - | - | - |
| Total assets..... | <u>\$ 1,056,470</u> | <u>\$ 8,436</u> | <u>\$ 1,652,118</u> | <u>\$ -</u> | <u>\$ 33,911</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable..... | \$ 616,625 | \$ 855 | \$ - | \$ - | \$ 22,239 |
| Accrued payroll..... | 138,196 | - | - | - | 3,517 |
| Total liabilities..... | <u>754,821</u> | <u>855</u> | <u>-</u> | <u>-</u> | <u>25,756</u> |
| Fund balance: | | | | | |
| Reserved for: | | | | | |
| Continuing appropriations..... | 154,731 | - | - | - | 8,155 |
| Commonwealth Stabilization..... | - | - | 1,652,118 | - | - |
| Debt service..... | - | 7,581 | - | - | - |
| Unreserved: | | | | | |
| Undesignated..... | 146,918 | - | - | - | - |
| Total fund equity..... | <u>301,649</u> | <u>7,581</u> | <u>1,652,118</u> | <u>-</u> | <u>8,155</u> |
| Total liabilities and fund equity..... | <u>\$ 1,056,470</u> | <u>\$ 8,436</u> | <u>\$ 1,652,118</u> | <u>\$ -</u> | <u>\$ 33,911</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 | 2012 | 2011 |
| \$ 19,427 | \$ 1,578 | \$ - | \$ - | \$ 167 | \$ 1,926,174 | \$ 1,803,282 |
| - | - | - | - | - | 7,581 | 19,239 |
| - | - | - | - | - | 260,058 | 255,903 |
| - | - | - | - | - | 550,072 | 481,297 |
| - | - | - | - | - | 17,307 | 21,104 |
| - | - | - | - | - | 10,915 | 7,780 |
| <u>\$ 19,427</u> | <u>\$ 1,578</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 167</u> | <u>\$ 2,772,107</u> | <u>\$ 2,588,605</u> |
| | | | | | | |
| \$ 481 | \$ 8 | \$ - | \$ - | \$ 119 | \$ 640,327 | \$ 551,464 |
| <u>282</u> | <u>11</u> | <u>-</u> | <u>-</u> | <u>48</u> | <u>142,054</u> | <u>136,322</u> |
| <u>763</u> | <u>19</u> | <u>-</u> | <u>-</u> | <u>167</u> | <u>782,381</u> | <u>687,786</u> |
| | | | | | | |
| - | - | - | - | - | 162,886 | 380,822 |
| - | - | - | - | - | 1,652,118 | 1,379,071 |
| - | - | - | - | - | 7,581 | 19,239 |
| <u>18,664</u> | <u>1,559</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>167,141</u> | <u>121,687</u> |
| <u>18,664</u> | <u>1,559</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,989,726</u> | <u>1,900,819</u> |
| <u>\$ 19,427</u> | <u>\$ 1,578</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 167</u> | <u>\$ 2,772,107</u> | <u>\$ 2,588,605</u> |

Budgeted Funds

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | General | Commonwealth Transportation | Commonwealth Stabilization | Administrative Control | |
|--|-------------------|--------------------------------|-------------------------------|---------------------------|------------------------------|
| | | | | Temporary Holding | Intragovernmental Service |
| REVENUES AND OTHER FINANCING SOURCES | | | | | |
| Revenues: | | | | | |
| Taxes..... | \$ 18,626,161 | \$ 972,760 | \$ 1,353 | \$ - | \$ - |
| Assessments..... | 438,400 | 21,511 | - | - | - |
| Federal grants and reimbursements..... | 7,966,393 | - | - | - | - |
| Departmental..... | 1,697,875 | 498,522 | - | - | 306,628 |
| Miscellaneous..... | 234,486 | 369 | 10,408 | - | - |
| Total revenues..... | <u>28,963,315</u> | <u>1,493,162</u> | <u>11,761</u> | <u>-</u> | <u>306,628</u> |
| Other financing sources: | | | | | |
| Fringe benefit cost recovery..... | 369,083 | - | - | - | - |
| Lottery reimbursements..... | 88,658 | - | - | - | - |
| Lottery distributions..... | 977,553 | - | - | - | - |
| Operating transfers in..... | 337,103 | 12,314 | - | - | 14 |
| Stabilization transfer..... | 215,408 | - | 491,694 | - | - |
| Tobacco settlement transfer..... | 253,628 | - | - | - | - |
| Excess permissible tax revenue..... | - | - | - | - | - |
| Total other financing sources..... | <u>2,241,433</u> | <u>12,314</u> | <u>491,694</u> | <u>-</u> | <u>14</u> |
| Total revenues and other financing sources..... | <u>31,204,748</u> | <u>1,505,476</u> | <u>503,455</u> | <u>-</u> | <u>306,642</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | | |
| Expenditures: | | | | | |
| Legislature..... | 58,337 | - | - | - | - |
| Judiciary..... | 757,507 | - | - | - | - |
| Inspector General..... | 2,818 | - | - | - | - |
| Governor and Lieutenant Governor..... | 6,466 | - | - | - | 60 |
| Secretary of the Commonwealth..... | 35,880 | - | - | - | 116 |
| Treasurer and Receiver-General..... | 187,115 | - | - | - | - |
| Auditor of the Commonwealth..... | 17,052 | - | - | - | - |
| Attorney General..... | 42,624 | - | - | - | - |
| Ethics Commission..... | 1,729 | - | - | - | - |
| District Attorney..... | 99,031 | - | - | - | - |
| Office of Campaign & Political Finance..... | 1,196 | - | - | - | - |
| Sheriff's Departments..... | 515,153 | - | - | - | - |
| Disabled Persons Protection Commission..... | 2,210 | - | - | - | - |
| Board of Library Commissioners..... | 21,441 | - | - | - | - |
| Comptroller..... | 7,867 | - | - | - | 3,645 |
| Administration and finance..... | 1,702,381 | 5,396 | - | - | 174,301 |
| Energy and environmental affairs..... | 175,432 | - | - | - | 1,250 |
| Health and human services..... | 4,710,533 | - | - | - | 82,768 |
| Massachusetts department of transportation..... | - | 160,000 | - | - | - |
| Executive office of education..... | 1,867,271 | - | - | - | - |
| Public safety and homeland security..... | 929,682 | - | - | - | 38,943 |
| Housing and economic development..... | 425,066 | - | - | - | 910 |
| Labor and workforce development..... | 37,832 | - | - | - | - |
| Direct local aid..... | 4,929,489 | - | - | - | - |
| Medicaid..... | 10,431,108 | - | - | - | - |
| Post employment benefits..... | 1,892,326 | - | - | - | - |
| Debt service: | | | | | |
| Principal retirement..... | 583,991 | 459,645 | - | - | - |
| Interest and fiscal charges..... | 436,232 | 443,286 | - | - | - |
| Total expenditures..... | <u>29,877,769</u> | <u>1,068,327</u> | <u>-</u> | <u>-</u> | <u>301,993</u> |
| Other financing uses: | | | | | |
| Fringe benefit cost assessment..... | - | - | - | - | - |
| Operating transfers out..... | 78,488 | 375,740 | - | - | 611 |
| Stabilization transfer..... | 375,021 | 84,987 | 230,408 | - | - |
| Commonwealth care transfer..... | 614,910 | - | - | - | - |
| Medical assistance transfer..... | 220,900 | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | 186,908 | - | - | - | - |
| Excess permissible tax revenue..... | - | - | - | - | - |
| Total other financing uses..... | <u>1,476,227</u> | <u>460,727</u> | <u>230,408</u> | <u>-</u> | <u>611</u> |
| Total expenditures and other financing uses..... | <u>31,353,996</u> | <u>1,529,054</u> | <u>230,408</u> | <u>-</u> | <u>302,604</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | | | | | |
| | (149,248) | (23,578) | 273,047 | - | 4,038 |
| Fund balance (deficit) at beginning of year..... | 450,897 | 31,159 | 1,379,071 | - | 4,117 |
| Fund balance (deficit) at end of year..... | <u>\$ 301,649</u> | <u>\$ 7,581</u> | <u>\$ 1,652,118</u> | <u>\$ -</u> | <u>\$ 8,155</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 | 2012 | 2011 | |
| \$ 873 | \$ - | \$ - | \$ - | \$ 42,574 | \$ 19,643,721 | \$ 19,094,935 | |
| - | - | - | - | - | 459,911 | 443,403 | |
| 5,312 | - | - | - | - | 7,971,705 | 9,299,546 | |
| 7,719 | 1,234 | - | - | - | 2,511,978 | 2,398,338 | |
| 30 | - | - | - | - | 245,293 | 356,608 | |
| 13,934 | 1,234 | - | - | 42,574 | 30,832,608 | 31,592,830 | |
| - | - | - | - | - | 369,083 | 355,811 | |
| - | - | - | - | - | 88,658 | 86,391 | |
| - | - | - | - | - | 977,553 | 881,817 | |
| 177 | 613 | - | - | - | 350,221 | 288,239 | |
| - | - | - | - | - | 707,102 | 707,649 | |
| - | - | - | - | - | 253,628 | 248,741 | |
| - | - | - | - | - | - | 2,374,788 | |
| 177 | 613 | - | - | - | 2,746,245 | 4,943,436 | |
| 14,111 | 1,847 | - | - | 42,574 | 33,578,853 | 36,536,266 | |
| - | - | - | - | - | 58,337 | 57,895 | |
| - | - | - | - | - | 757,507 | 767,635 | |
| - | - | - | - | - | 2,818 | 2,798 | |
| - | - | - | - | 17 | 6,543 | 5,122 | |
| - | - | - | - | - | 35,996 | 39,475 | |
| - | - | - | - | - | 187,115 | 204,397 | |
| - | - | - | - | - | 17,052 | 17,015 | |
| - | - | - | - | - | 42,624 | 41,029 | |
| - | - | - | - | - | 1,729 | 1,660 | |
| - | - | - | - | - | 99,031 | 93,699 | |
| - | - | - | - | - | 1,196 | 1,170 | |
| - | - | - | - | - | 515,153 | 503,053 | |
| - | - | - | - | - | 2,210 | 2,174 | |
| - | - | - | - | - | 21,441 | 21,439 | |
| - | - | - | - | - | 11,512 | 11,245 | |
| - | - | - | - | - | 1,882,078 | 1,800,623 | |
| 11,055 | 321 | - | - | - | 188,058 | 188,114 | |
| - | - | - | - | - | 4,793,301 | 4,691,213 | |
| - | - | - | - | - | 160,000 | 160,000 | |
| - | - | - | - | - | 1,867,271 | 1,807,528 | |
| - | - | - | - | - | 968,625 | 942,172 | |
| - | - | - | - | 11,622 | 437,598 | 363,877 | |
| - | - | - | - | - | 37,832 | 56,533 | |
| - | - | - | - | - | 4,929,489 | 4,784,717 | |
| - | - | - | - | - | 10,431,108 | 10,237,326 | |
| - | - | - | - | - | 1,892,326 | 1,838,857 | |
| - | - | - | - | - | 1,043,636 | 815,390 | |
| - | - | - | - | - | 879,518 | 848,486 | |
| 11,055 | 321 | - | - | 11,639 | 31,271,104 | 30,304,642 | |
| 2,201 | 30 | - | - | 432 | 2,663 | 4,326 | |
| - | - | 10,475 | - | 6,045 | 471,359 | 521,997 | |
| - | - | - | - | 31,686 | 722,102 | 707,649 | |
| - | - | - | - | - | 614,910 | 739,012 | |
| - | - | - | - | - | 220,900 | 886,101 | |
| - | - | - | - | - | 186,908 | - | |
| - | - | - | - | - | - | 2,374,788 | |
| 2,201 | 30 | 10,475 | - | 38,163 | 2,218,842 | 5,233,873 | |
| 13,256 | 351 | 10,475 | - | 49,802 | 33,489,946 | 35,538,515 | |
| 855 | 1,496 | (10,475) | - | (7,228) | 88,907 | 997,751 | |
| 17,809 | 63 | 10,475 | - | 7,228 | 1,900,819 | 903,068 | |
| \$ 18,664 | \$ 1,559 | \$ - | \$ - | \$ - | \$ 1,989,726 | \$ 1,900,819 | |

Budgeted Funds

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

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | General | | | Commonwealth Transportation | | |
|--|---------------------|-------------------|--|-----------------------------|------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | |
| Revenues: | | | | | | |
| Taxes..... | \$ 18,116,200 | \$ 18,626,161 | \$ 509,961 | \$ 1,000,800 | \$ 972,760 | \$ (28,040) |
| Assessments..... | - | 438,400 | 438,400 | - | 21,511 | 21,511 |
| Federal grants and reimbursements..... | 7,877,100 | 7,966,393 | 89,293 | - | - | - |
| Departmental..... | 2,358,800 | 1,697,875 | (660,925) | 524,400 | 498,522 | (25,878) |
| Miscellaneous..... | - | 234,486 | 234,486 | - | 369 | 369 |
| Total revenues..... | 28,352,100 | 28,963,315 | 611,215 | 1,525,200 | 1,493,162 | (32,038) |
| Other financing sources: | | | | | | |
| Fringe benefit cost recovery..... | - | 369,083 | 369,083 | - | - | - |
| Lottery reimbursements..... | 97,654 | 88,658 | (8,996) | - | - | - |
| Lottery distributions..... | 887,923 | 977,553 | 89,630 | - | - | - |
| Operating transfers in..... | 687,686 | 337,103 | (350,583) | - | 12,314 | 12,314 |
| Stabilization transfer..... | 194,000 | 215,408 | 21,408 | - | - | - |
| Tobacco settlement transfer..... | 286,737 | 253,628 | (33,109) | - | - | - |
| Total other financing sources..... | 2,154,000 | 2,241,433 | 87,433 | - | 12,314 | 12,314 |
| Total revenues and other financing sources..... | 30,506,100 | 31,204,748 | 698,648 | 1,525,200 | 1,505,476 | (19,724) |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | |
| Expenditures: | | | | | | |
| Legislature..... | 63,901 | 58,337 | 5,564 | - | - | - |
| Judiciary..... | 773,447 | 757,507 | 15,940 | - | - | - |
| Inspector General..... | 3,541 | 2,818 | 723 | - | - | - |
| Governor and Lieutenant Governor..... | 10,121 | 6,466 | 3,655 | - | - | - |
| Secretary of the Commonwealth..... | 36,177 | 35,880 | 297 | - | - | - |
| Treasurer and Receiver-General..... | 203,101 | 187,115 | 15,986 | - | - | - |
| Auditor of the Commonwealth..... | 17,624 | 17,052 | 572 | - | - | - |
| Attorney General..... | 43,867 | 42,624 | 1,243 | - | - | - |
| Ethics Commission..... | 1,838 | 1,729 | 109 | - | - | - |
| District Attorney..... | 99,520 | 99,031 | 489 | - | - | - |
| Office of Campaign and Political Finance..... | 1,270 | 1,196 | 74 | - | - | - |
| Sheriff's Departments..... | 521,610 | 515,153 | 6,457 | - | - | - |
| Disabled Persons Protection Commission..... | 2,211 | 2,210 | 1 | - | - | - |
| Board of Library Commissioners..... | 21,461 | 21,441 | 20 | - | - | - |
| Comptroller..... | 7,899 | 7,867 | 32 | - | - | - |
| Administration and finance..... | 1,743,418 | 1,702,381 | 41,037 | 5,409 | 5,396 | 13 |
| Energy and environmental affairs..... | 182,848 | 175,432 | 7,416 | - | - | - |
| Health and human services..... | 4,761,790 | 4,710,533 | 51,257 | - | - | - |
| Massachusetts department of transportation..... | - | - | - | 160,000 | 160,000 | - |
| Executive office of education..... | 1,888,685 | 1,867,271 | 21,414 | - | - | - |
| Public safety and homeland security..... | 951,536 | 929,682 | 21,854 | - | - | - |
| Housing and economic development..... | 435,729 | 425,066 | 10,663 | - | - | - |
| Labor and workforce development..... | 46,033 | 37,832 | 8,201 | - | - | - |
| Direct local aid..... | 4,929,556 | 4,929,489 | 67 | - | - | - |
| Medicaid..... | 10,445,850 | 10,431,108 | 14,742 | - | - | - |
| Post employment benefits..... | 1,892,326 | 1,892,326 | - | - | - | - |
| Debt service: | | | | | | |
| Principal retirement..... | 604,409 | 583,991 | 20,418 | 482,093 | 459,645 | 22,448 |
| Interest and fiscal charges..... | 465,817 | 436,232 | 29,585 | 472,956 | 443,286 | 29,670 |
| Total expenditures..... | 30,155,585 | 29,877,769 | 277,816 | 1,120,458 | 1,068,327 | 52,131 |
| Other financing uses: | | | | | | |
| Fringe benefit cost assessment..... | - | - | - | - | - | - |
| Operating transfers out..... | 49,585 | 78,488 | (28,903) | 356,453 | 375,740 | (19,287) |
| Stabilization transfer..... | - | 375,021 | (375,021) | - | 84,987 | (84,987) |
| Commonwealth care transfer..... | 728,012 | 614,910 | 113,102 | - | - | - |
| Medical assistance transfer..... | 394,025 | 220,900 | 173,125 | - | - | - |
| Delivery system transformation initiatives trust transfer..... | 186,908 | 186,908 | - | - | - | - |
| Total other financing uses..... | 1,358,530 | 1,476,227 | (117,697) | 356,453 | 460,727 | (104,274) |
| Total expenditures and other financing uses..... | 31,514,115 | 31,353,996 | 160,119 | 1,476,911 | 1,529,054 | (52,143) |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | (1,008,015) | (149,248) | 858,767 | 48,289 | (23,578) | (71,867) |
| Fund balances (deficit) at beginning of year..... | 450,897 | 450,897 | - | 31,159 | 31,159 | - |
| Fund balances (deficit) at end of year..... | \$ (557,118) | \$ 301,649 | \$ 858,767 | \$ 79,448 | \$ 7,581 | \$ (71,867) |

See accountants' review report

Budgeted Funds

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

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | Environmental | | | | | |
|--|---------------------------|------------------|--|---|-----------------|--|
| | Inland Fisheries and Game | | | Marine Recreational Fisheries Development | | |
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | |
| Revenues: | | | | | | |
| Taxes..... | \$ 900 | \$ 873 | \$ (27) | \$ - | \$ - | \$ - |
| Assessments..... | - | - | - | - | - | - |
| Federal grants and reimbursements..... | 6,200 | 5,312 | (888) | - | - | - |
| Departmental..... | 6,417 | 7,719 | 1,302 | 556 | 1,234 | 678 |
| Miscellaneous..... | - | 30 | 30 | - | - | - |
| Total revenues..... | <u>13,517</u> | <u>13,934</u> | <u>417</u> | <u>556</u> | <u>1,234</u> | <u>678</u> |
| Other financing sources: | | | | | | |
| Fringe benefit cost recovery..... | - | - | - | - | - | - |
| Lottery reimbursements..... | - | - | - | - | - | - |
| Lottery distributions..... | - | - | - | - | - | - |
| Operating transfers in..... | 100 | 177 | 77 | - | 613 | 613 |
| Stabilization transfer..... | - | - | - | - | - | - |
| Tobacco settlement transfer..... | - | - | - | - | - | - |
| Total other financing sources..... | <u>100</u> | <u>177</u> | <u>77</u> | <u>-</u> | <u>613</u> | <u>613</u> |
| Total revenues and other financing sources..... | <u>13,617</u> | <u>14,111</u> | <u>494</u> | <u>556</u> | <u>1,847</u> | <u>1,291</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | |
| 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..... | 11,457 | 11,055 | 402 | 492 | 321 | 171 |
| 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..... | - | - | - | - | - | - |
| Total expenditures..... | <u>11,457</u> | <u>11,055</u> | <u>402</u> | <u>492</u> | <u>321</u> | <u>171</u> |
| Other financing uses: | | | | | | |
| Fringe benefit cost assessment..... | 1,600 | 2,201 | (601) | - | 30 | (30) |
| Operating transfers out..... | - | - | - | - | - | - |
| Stabilization transfer..... | - | - | - | - | - | - |
| Commonwealth care transfer..... | - | - | - | - | - | - |
| Medical assistance transfer..... | - | - | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - |
| Total other financing uses..... | <u>1,600</u> | <u>2,201</u> | <u>(601)</u> | <u>-</u> | <u>30</u> | <u>(30)</u> |
| Total expenditures and other financing uses..... | <u>13,057</u> | <u>13,256</u> | <u>(199)</u> | <u>492</u> | <u>351</u> | <u>141</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | 560 | 855 | 295 | 64 | 1,496 | 1,432 |
| Fund balances (deficit) at beginning of year..... | 17,809 | 17,809 | - | 63 | 63 | - |
| Fund balances (deficit) at end of year..... | <u>\$ 18,369</u> | <u>\$ 18,664</u> | <u>\$ 295</u> | <u>\$ 127</u> | <u>\$ 1,559</u> | <u>\$ 1,432</u> |

See accountants' review report

Budgeted Funds

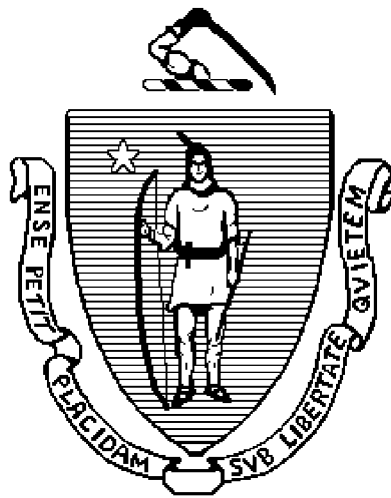
Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | Totals | | |
|--|-------------------|---------------------|--|
| | (Memorandum only) | | |
| | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES AND OTHER FINANCING SOURCES | | | |
| Revenues: | | | |
| Taxes..... | \$ 19,159,700 | \$ 19,643,721 | \$ 484,021 |
| Assessments..... | - | 459,911 | 459,911 |
| Federal grants and reimbursements..... | 7,883,300 | 7,971,705 | 88,405 |
| Departmental..... | 2,890,173 | 2,511,978 | (378,195) |
| Miscellaneous..... | 9,427 | 245,293 | 235,866 |
| Total revenues..... | 29,942,600 | 30,832,608 | 890,008 |
| Other financing sources: | | | |
| Fringe benefit cost recovery..... | - | 369,083 | 369,083 |
| Lottery reimbursements..... | 97,654 | 88,658 | (8,996) |
| Lottery distributions..... | 887,923 | 977,553 | 89,630 |
| Operating transfers in..... | 687,786 | 350,221 | (337,565) |
| Stabilization transfer..... | 194,000 | 707,102 | 513,102 |
| Tobacco settlement transfer..... | 286,737 | 253,628 | (33,109) |
| Total other financing sources..... | 2,154,100 | 2,746,245 | 592,145 |
| Total revenues and other financing sources..... | 32,096,700 | 33,578,853 | 1,482,153 |
| EXPENDITURES AND OTHER FINANCING USES | | | |
| Expenditures: | | | |
| Legislature..... | 63,901 | 58,337 | 5,564 |
| Judiciary..... | 773,447 | 757,507 | 15,940 |
| Inspector General..... | 3,541 | 2,818 | 723 |
| Governor and Lieutenant Governor..... | 10,199 | 6,543 | 3,656 |
| Secretary of the Commonwealth..... | 36,293 | 35,996 | 297 |
| Treasurer and Receiver-General..... | 209,319 | 187,115 | 22,204 |
| Auditor of the Commonwealth..... | 17,624 | 17,052 | 572 |
| Attorney General..... | 43,867 | 42,624 | 1,243 |
| Ethics Commission..... | 1,838 | 1,729 | 109 |
| District Attorney..... | 99,520 | 99,031 | 489 |
| Office of Campaign and Political Finance..... | 1,270 | 1,196 | 74 |
| Sheriff's Departments..... | 521,610 | 515,153 | 6,457 |
| Disabled Persons Protection Commission..... | 2,211 | 2,210 | 1 |
| Board of Library Commissioners..... | 21,461 | 21,441 | 20 |
| Comptroller..... | 11,898 | 11,512 | 386 |
| Administration and finance..... | 1,996,386 | 1,882,078 | 114,308 |
| Energy and environmental affairs..... | 199,586 | 188,058 | 11,528 |
| Health and human services..... | 4,879,823 | 4,793,301 | 86,522 |
| Massachusetts department of transportation..... | 160,000 | 160,000 | - |
| Executive office of education..... | 1,890,522 | 1,867,271 | 23,251 |
| Public safety and homeland security..... | 1,002,508 | 968,625 | 33,883 |
| Housing and economic development..... | 451,002 | 437,598 | 13,404 |
| Labor and workforce development..... | 65,074 | 37,832 | 27,242 |
| Direct local aid..... | 4,929,556 | 4,929,489 | 67 |
| Medicaid..... | 10,445,850 | 10,431,108 | 14,742 |
| Post employment benefits..... | 1,892,326 | 1,892,326 | - |
| Debt service: | | | |
| Principal retirement..... | 1,086,502 | 1,043,636 | 42,866 |
| Interest and fiscal charges..... | 938,773 | 879,518 | 59,255 |
| Total expenditures..... | 31,755,907 | 31,271,104 | 484,803 |
| Other financing uses: | | | |
| Fringe benefit cost assessment..... | 1,900 | 2,663 | (763) |
| Operating transfers out..... | 406,038 | 471,359 | (65,321) |
| Stabilization transfer..... | 194,000 | 722,102 | (528,102) |
| Commonwealth care transfer..... | 728,012 | 614,910 | 113,102 |
| Medical assistance transfer..... | 394,025 | 220,900 | 173,125 |
| Delivery system transformation initiatives trust transfer..... | 186,908 | 186,908 | - |
| Total other financing uses..... | 1,910,883 | 2,218,842 | (307,959) |
| Total expenditures and other financing uses..... | 33,666,790 | 33,489,946 | 176,844 |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | (1,570,090) | 88,907 | 1,658,997 |
| Fund balances (deficit) at beginning of year..... | 1,900,819 | 1,900,819 | - |
| Fund balances (deficit) at end of year..... | \$ 330,729 | \$ 1,989,726 | \$ 1,658,997 |

See accountants' review report



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General Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 478,176 | \$ 590,074 |
| Receivables, net of allowance for uncollectibles: | | |
| Due from federal government..... | 550,072 | 481,297 |
| Other receivables..... | 17,307 | 21,104 |
| Due from cities and towns..... | 10,915 | 7,780 |
| Total assets..... | \$ 1,056,470 | \$ 1,100,255 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 616,625 | \$ 524,629 |
| Accrued payroll..... | 138,196 | 124,729 |
| Total liabilities..... | 754,821 | 649,358 |
| Fund balance: | | |
| Reserved fund balance: | | |
| Reserved for continuing appropriations..... | 154,731 | 366,985 |
| Unreserved fund balance: | | |
| Undesignated..... | 146,918 | 83,912 |
| Total fund balance..... | 301,649 | 450,897 |
| Total liabilities and fund balance..... | \$ 1,056,470 | \$ 1,100,255 |

See accountants' review report

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|---|-------------------|-------------------|--|-------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 18,116,200 | \$ 18,626,161 | \$ 509,961 | \$ 18,028,165 |
| Assessments..... | - | 438,400 | 438,400 | 430,033 |
| Federal grants and reimbursements..... | 7,877,100 | 7,966,393 | 89,293 | 9,295,310 |
| Departmental..... | 2,358,800 | 1,697,875 | (660,925) | 1,607,910 |
| Miscellaneous..... | - | 234,486 | 234,486 | 347,511 |
| Total revenues..... | <u>28,352,100</u> | <u>28,963,315</u> | <u>611,215</u> | <u>29,708,929</u> |
| Other financing sources: | | | | |
| Fringe benefit cost recovery..... | - | 369,083 | 369,083 | 355,811 |
| Lottery reimbursements..... | 97,654 | 88,658 | (8,996) | 86,391 |
| Lottery distributions..... | 887,923 | 977,553 | 89,630 | 881,817 |
| Operating transfers in..... | 687,686 | 337,103 | (350,583) | 217,928 |
| Stabilization transfer..... | 194,000 | 215,408 | 21,408 | 9,044 |
| Tobacco settlement transfer..... | 286,737 | 253,628 | (33,109) | 248,741 |
| Excess permissible tax revenue..... | - | - | - | 1,178,350 |
| Total other financing sources..... | <u>2,154,000</u> | <u>2,241,433</u> | <u>87,433</u> | <u>2,978,082</u> |
| Total revenues and other financing sources..... | <u>30,506,100</u> | <u>31,204,748</u> | <u>698,648</u> | <u>32,687,011</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Legislature..... | 63,901 | 58,337 | 5,564 | 57,895 |
| Judiciary..... | 773,447 | 757,507 | 15,940 | 767,635 |
| Inspector General..... | 3,541 | 2,818 | 723 | 2,798 |
| Governor and Lieutenant Governor..... | 10,121 | 6,466 | 3,655 | 5,046 |
| Secretary of the Commonwealth..... | 36,177 | 35,880 | 297 | 39,360 |
| Treasurer and Receiver-General..... | 203,101 | 187,115 | 15,986 | 204,397 |
| Auditor of the Commonwealth..... | 17,624 | 17,052 | 572 | 17,015 |
| Attorney General..... | 43,867 | 42,624 | 1,243 | 41,020 |
| Ethics Commission..... | 1,838 | 1,729 | 109 | 1,660 |
| District Attorney..... | 99,520 | 99,031 | 489 | 93,699 |
| Office of Campaign and Political Finance..... | 1,270 | 1,196 | 74 | 1,170 |
| Sheriff's Departments..... | 521,610 | 515,153 | 6,457 | 502,556 |
| Disabled Persons Protection Commission..... | 2,211 | 2,210 | 1 | 2,174 |
| Board of Library Commissioners..... | 21,461 | 21,441 | 20 | 21,439 |
| Comptroller..... | 7,899 | 7,867 | 32 | 7,739 |

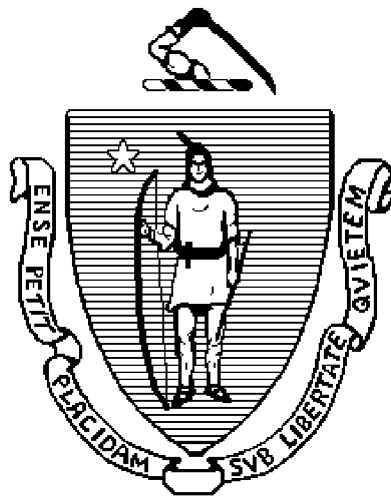
continued

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|---------------------|-------------------|--|-------------------|
| Expenditures (continued): | | | | |
| Administration and finance..... | 1,743,418 | 1,702,381 | 41,037 | 1,618,057 |
| Energy and environmental affairs..... | 182,848 | 175,432 | 7,416 | 175,477 |
| Health and human services..... | 4,761,790 | 4,710,533 | 51,257 | 4,516,250 |
| Executive office of education..... | 1,888,685 | 1,867,271 | 21,414 | 1,807,528 |
| Public safety and homeland security..... | 951,536 | 929,682 | 21,854 | 897,819 |
| Housing and economic development..... | 435,729 | 425,066 | 10,663 | 360,949 |
| Labor and workforce development..... | 46,033 | 37,832 | 8,201 | 37,236 |
| Direct local aid..... | 4,929,556 | 4,929,489 | 67 | 4,784,717 |
| Medicaid..... | 10,445,850 | 10,431,108 | 14,742 | 10,237,326 |
| Post employment benefits..... | 1,892,326 | 1,892,326 | - | 1,838,857 |
| Debt service: | | | | |
| Principal retirement..... | 604,409 | 583,991 | 20,418 | 428,607 |
| Interest and fiscal charges..... | 465,817 | 436,232 | 29,585 | 431,507 |
| Total expenditures..... | <u>30,155,585</u> | <u>29,877,769</u> | <u>277,816</u> | <u>28,899,933</u> |
| Other financing uses: | | | | |
| Operating transfers out..... | 49,585 | 78,488 | (28,903) | 127,283 |
| Stabilization transfer..... | - | 375,021 | (375,021) | 553,044 |
| Commonwealth care transfer..... | 728,012 | 614,910 | 113,102 | 739,012 |
| Medical assistance transfer..... | 394,025 | 220,900 | 173,125 | 886,101 |
| Delivery system transformation initiatives trust transfer..... | 186,908 | 186,908 | - | - |
| Excess permissible tax revenue..... | - | - | - | 1,187,394 |
| Total other financing uses..... | <u>1,358,530</u> | <u>1,476,227</u> | <u>(117,697)</u> | <u>3,492,834</u> |
| Total expenditures and other financing uses..... | <u>31,514,115</u> | <u>31,353,996</u> | <u>160,119</u> | <u>32,392,767</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | | | | |
| | (1,008,015) | (149,248) | 858,767 | 294,244 |
| Fund balance (deficit) at beginning of year..... | 450,897 | 450,897 | - | 156,653 |
| Fund balance (deficit) at end of year..... | <u>\$ (557,118)</u> | <u>\$ 301,649</u> | <u>\$ 858,767</u> | <u>\$ 450,897</u> |

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Commonwealth Transportation Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|----------|-----------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 855 | \$ 24,603 |
| Cash with fiscal agent..... | 7,581 | 19,239 |
| Total assets..... | \$ 8,436 | \$ 43,842 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 855 | \$ 4,411 |
| Accrued payroll..... | - | 8,272 |
| Total liabilities..... | 855 | 12,683 |
| Fund balance: | | |
| Reserved fund balance: | | |
| Reserved for debt service..... | 7,581 | 19,239 |
| Unreserved fund balance: | | |
| Undesignated..... | - | 11,920 |
| Total fund balance..... | 7,581 | 31,159 |
| Total liabilities and fund balance..... | \$ 8,436 | \$ 43,842 |

See accountants' review report

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|------------------|------------------|--|------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 1,000,800 | \$ 972,760 | \$ (28,040) | \$ 962,090 |
| Assessments..... | - | 21,511 | 21,511 | 13,370 |
| Departmental..... | 524,400 | 498,522 | (25,878) | 485,839 |
| Miscellaneous..... | - | 369 | 369 | 32 |
| Total revenues..... | <u>1,525,200</u> | <u>1,493,162</u> | <u>(32,038)</u> | <u>1,461,331</u> |
| Other financing sources: | | | | |
| Operating transfers in..... | - | 12,314 | 12,314 | 5,405 |
| Total other financing sources..... | <u>-</u> | <u>12,314</u> | <u>12,314</u> | <u>5,405</u> |
| Total revenues and other financing sources..... | <u>1,525,200</u> | <u>1,505,476</u> | <u>(19,724)</u> | <u>1,466,736</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Administration and finance..... | 5,409 | 5,396 | 13 | 9,618 |
| Massachusetts department of transportation..... | 160,000 | 160,000 | - | 160,000 |
| Debt service: | | | | |
| Principal retirement..... | 482,093 | 459,645 | 22,448 | 386,783 |
| Interest and fiscal charges..... | 472,956 | 443,286 | 29,670 | 416,979 |
| Total expenditures..... | <u>1,120,458</u> | <u>1,068,327</u> | <u>52,131</u> | <u>973,380</u> |
| Other financing uses: | | | | |
| Operating transfers out..... | 356,453 | 375,740 | (19,287) | 386,143 |
| Stabilization transfer..... | - | 84,987 | (84,987) | 86,901 |
| Total other financing uses..... | <u>356,453</u> | <u>460,727</u> | <u>(104,274)</u> | <u>473,044</u> |
| Total expenditures and other financing uses..... | <u>1,476,911</u> | <u>1,529,054</u> | <u>(52,143)</u> | <u>1,446,424</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | 48,289 | (23,578) | (71,867) | 20,312 |
| Fund balance (deficit) at beginning of year..... | 31,159 | 31,159 | - | 10,847 |
| Fund balance (deficit) at end of year..... | <u>\$ 79,448</u> | <u>\$ 7,581</u> | <u>\$ (71,867)</u> | <u>\$ 31,159</u> |

See accountants' review report

Commonwealth Stabilization Fund
Balance Sheet- Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|--|--------------|--------------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 1,392,060 | \$ 1,123,168 |
| Investments..... | 260,058 | 255,903 |
| Total assets..... | \$ 1,652,118 | \$ 1,379,071 |
| LIABILITIES AND FUND EQUITY | | |
| Liabilities: | | |
| Accounts payable..... | \$ - | \$ - |
| Total liabilities..... | - | - |
| Fund balance: | | |
| Reserved fund balance: | | |
| Reserved for Commonwealth Stabilization..... | 1,652,118 | 1,379,071 |
| Total fund balance..... | 1,652,118 | 1,379,071 |
| Total liabilities and fund balance..... | \$ 1,652,118 | \$ 1,379,071 |

See accountants' review report

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|---------------------|---------------------|--|---------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ - | \$ 1,353 | \$ 1,353 | \$ 1,619 |
| Miscellaneous..... | 9,427 | 10,408 | 981 | 9,044 |
| Total revenues..... | <u>9,427</u> | <u>11,761</u> | <u>2,334</u> | <u>10,663</u> |
| Other financing sources: | | | | |
| Stabilization transfer..... | - | 491,694 | 491,694 | 698,605 |
| Excess permissible tax revenue..... | - | - | - | 9,044 |
| Total other financing sources..... | <u>-</u> | <u>491,694</u> | <u>491,694</u> | <u>707,649</u> |
| Total revenues and other financing sources..... | <u>9,427</u> | <u>503,455</u> | <u>494,028</u> | <u>718,312</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Administration and finance..... | - | - | - | - |
| Total expenditures..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other financing uses: | | | | |
| Stabilization transfer..... | 194,000 | 230,408 | (36,408) | 9,044 |
| Total other financing uses..... | <u>194,000</u> | <u>230,408</u> | <u>(36,408)</u> | <u>9,044</u> |
| Total expenditures and other financing uses..... | <u>194,000</u> | <u>230,408</u> | <u>(36,408)</u> | <u>9,044</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | (184,573) | 273,047 | 457,620 | 709,268 |
| Fund balance (deficit) at beginning of year..... | 1,379,071 | 1,379,071 | - | 669,803 |
| Fund balance (deficit) at end of year..... | <u>\$ 1,194,498</u> | <u>\$ 1,652,118</u> | <u>\$ 457,620</u> | <u>\$ 1,379,071</u> |

See accountants' review report

Temporary Holding Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|------|------|
| ASSETS | | |
| Cash and short-term investments..... | \$ - | \$ - |
| Total assets..... | \$ - | \$ - |
| LIABILITIES AND FUND BALANCE | | |
| 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, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Miscellaneous..... | \$ - | \$ - | \$ - | \$ - |
| Total revenues..... | - | - | - | - |
| Other financing sources: | | | | |
| Excess permissible tax revenue..... | - | - | - | 1,187,394 |
| Total other financing sources..... | - | - | - | 1,187,394 |
| Total revenues and other financing sources..... | - | - | - | 1,187,394 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Administration and finance..... | - | - | - | - |
| Total expenditures..... | - | - | - | - |
| Other financing uses: | | | | |
| Excess permissible tax revenue..... | - | - | - | 1,187,394 |
| Total other financing uses..... | - | - | - | 1,187,394 |
| Total expenditures and other financing uses..... | - | - | - | 1,187,394 |
| Excess (deficiency) of revenues and other financing sources over / (under) 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, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|-----------|-----------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 33,911 | \$ 28,410 |
| Total assets..... | \$ 33,911 | \$ 28,410 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 22,239 | \$ 21,325 |
| Accrued payroll..... | 3,517 | 2,968 |
| Total liabilities..... | 25,756 | 24,293 |
| Fund balance: | | |
| Reserved fund balance: | | |
| Reserved for continuing appropriations..... | 8,155 | 4,117 |
| Total fund balance | 8,155 | 4,117 |
| Total liabilities and fund balance..... | \$ 33,911 | \$ 28,410 |

See accountants' review report

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

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Departmental..... | \$ - | \$ 306,628 | \$ 306,628 | \$ 296,666 |
| Total revenues..... | - | 306,628 | 306,628 | 296,666 |
| Other financing sources: | | | | |
| Operating transfers in..... | - | 14 | 14 | 36 |
| Total other financing sources..... | - | 14 | 14 | 36 |
| Total revenues and other financing sources..... | - | 306,642 | 306,642 | 296,702 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Governor and Lieutenant Governor..... | 61 | 60 | 1 | 59 |
| Secretary of the Commonwealth..... | 116 | 116 | - | 115 |
| Treasurer and Receiver-General..... | 6,218 | - | 6,218 | - |
| Attorney General..... | - | - | - | 9 |
| Comptroller..... | 3,999 | 3,645 | 354 | 3,506 |
| Administration and finance..... | 247,559 | 174,301 | 73,258 | 172,948 |
| Energy and environmental affairs..... | 4,789 | 1,250 | 3,539 | 2,528 |
| Health and human services..... | 118,033 | 82,768 | 35,265 | 76,366 |
| Executive office of education..... | 1,837 | - | 1,837 | - |
| Public safety and homeland security..... | 50,972 | 38,943 | 12,029 | 37,123 |
| Housing and economic development..... | 3,650 | 910 | 2,740 | 932 |
| Labor and workforce development..... | 19,041 | - | 19,041 | 16 |
| Total expenditures..... | 456,275 | 301,993 | 154,282 | 293,602 |
| Other financing uses: | | | | |
| Operating transfers out..... | - | 611 | (611) | 3,073 |
| Total other financing uses..... | - | 611 | (611) | 3,073 |
| Total expenditures and other financing uses..... | 456,275 | 302,604 | 153,671 | 296,675 |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | | | | |
| | (456,275) | 4,038 | 460,313 | 27 |
| Fund balance (deficit) at beginning of year..... | 4,117 | 4,117 | - | 4,090 |
| Fund balance (deficit) at end of year..... | \$ (452,158) | \$ 8,155 | \$ 460,313 | \$ 4,117 |

See accountants' review report

Inland Fisheries And Game Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|-----------|-----------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 19,427 | \$ 18,326 |
| Total assets..... | \$ 19,427 | \$ 18,326 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 481 | \$ 319 |
| Accrued payroll..... | 282 | 198 |
| Total liabilities..... | 763 | 517 |
| Fund balance: | | |
| Unreserved fund balance: | | |
| Undesignated..... | 18,664 | 17,809 |
| Total fund balance..... | 18,664 | 17,809 |
| Total liabilities and fund balance..... | \$ 19,427 | \$ 18,326 |

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, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|------------------|------------------|--|------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 900 | \$ 873 | \$ (27) | \$ 871 |
| Federal grants and reimbursements..... | 6,200 | 5,312 | (888) | 4,236 |
| Departmental..... | 6,417 | 7,719 | 1,302 | 7,206 |
| Miscellaneous..... | - | 30 | 30 | 21 |
| Total revenues..... | <u>13,517</u> | <u>13,934</u> | <u>417</u> | <u>12,334</u> |
| Other financing sources: | | | | |
| Operating transfers in..... | <u>100</u> | <u>177</u> | <u>77</u> | <u>138</u> |
| Total other financing sources..... | <u>100</u> | <u>177</u> | <u>77</u> | <u>138</u> |
| Total revenues and other financing sources..... | <u>13,617</u> | <u>14,111</u> | <u>494</u> | <u>12,472</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Energy and environmental affairs..... | <u>11,457</u> | <u>11,055</u> | <u>402</u> | <u>10,068</u> |
| Total expenditures..... | <u>11,457</u> | <u>11,055</u> | <u>402</u> | <u>10,068</u> |
| Other financing uses | | | | |
| Fringe benefit cost assessment..... | <u>1,600</u> | <u>2,201</u> | <u>(601)</u> | <u>1,939</u> |
| Total other financing uses..... | <u>1,600</u> | <u>2,201</u> | <u>(601)</u> | <u>1,939</u> |
| Total expenditures and other financing uses..... | <u>13,057</u> | <u>13,256</u> | <u>(199)</u> | <u>12,007</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | 560 | 855 | 295 | 465 |
| Fund balance (deficit) at beginning of year..... | <u>17,809</u> | <u>17,809</u> | <u>-</u> | <u>17,344</u> |
| Fund balance (deficit) at end of year..... | <u>\$ 18,369</u> | <u>\$ 18,664</u> | <u>\$ 295</u> | <u>\$ 17,809</u> |

See accountants' review report

Marine Recreational Fisheries Development Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|----------|-------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 1,578 | \$ 67 |
| Total assets..... | \$ 1,578 | \$ 67 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 8 | \$ 4 |
| Accrued payroll..... | 11 | - |
| Total liabilities..... | 19 | 4 |
| Fund balance: | | |
| Unreserved fund balance: | | |
| Undesignated..... | 1,559 | 63 |
| Total fund balance..... | 1,559 | 63 |
| Total liabilities and fund balance..... | \$ 1,578 | \$ 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, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Departmental..... | \$ 556 | \$ 1,234 | \$ 678 | \$ 717 |
| Total revenues..... | 556 | 1,234 | 678 | 717 |
| Other financing sources: | | | | |
| Operating transfers in..... | - | 613 | 613 | - |
| Total other financing sources..... | - | 613 | 613 | - |
| Total revenues and other financing sources..... | 556 | 1,847 | 1,291 | 717 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Energy and environmental affairs..... | 492 | 321 | 171 | 41 |
| Total expenditures..... | 492 | 321 | 171 | 41 |
| Other financing uses | | | | |
| Fringe benefit cost assessment..... | - | 30 | (30) | - |
| Operating transfers out..... | - | - | - | 155 |
| Stabilization transfer..... | - | - | - | 458 |
| Total other financing uses..... | - | 30 | (30) | 613 |
| Total expenditures and other financing uses..... | 492 | 351 | 141 | 654 |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | 64 | 1,496 | 1,432 | 63 |
| Fund balance (deficit) at beginning of year..... | 63 | 63 | - | - |
| Fund balance (deficit) at end of year..... | \$ 127 | \$ 1,559 | \$ 1,432 | \$ 63 |

See accountants' review report

Workforce Training Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|------|-----------|
| ASSETS | | |
| Cash and short-term investments..... | \$ - | \$ 11,345 |
| Total assets..... | \$ - | \$ 11,345 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ - | \$ 752 |
| Accrued payroll..... | - | 118 |
| Total liabilities..... | - | 870 |
| Fund balance: | | |
| Reserved fund balance: | | |
| Reserved for continuing appropriations..... | - | 9,720 |
| Unreserved fund balance: | | |
| Undesignated..... | - | 755 |
| Total fund balance..... | - | 10,475 |
| Total liabilities and fund balance..... | \$ - | \$ 11,345 |

See accountants' review report

Workforce Training Fund
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ - | \$ - | \$ - | \$ 20,448 |
| Total revenues..... | - | - | - | 20,448 |
| Other financing sources: | | | | |
| Operating transfers in..... | - | - | - | - |
| Total other financing sources..... | - | - | - | - |
| Total revenues and other financing sources..... | - | - | - | 20,448 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Labor and workforce development..... | - | - | - | 19,281 |
| Total expenditures..... | - | - | - | 19,281 |
| Other financing uses: | | | | |
| Fringe benefit cost assessment..... | - | - | - | 521 |
| Operating transfers out..... | - | 10,475 | (10,475) | 816 |
| Stabilization transfer..... | - | - | - | 5,508 |
| Total other financing uses..... | - | 10,475 | (10,475) | 6,845 |
| Total expenditures and other financing uses..... | - | 10,475 | (10,475) | 26,126 |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | - | (10,475) | (10,475) | (5,678) |
| Fund balance (deficit) at beginning of year..... | 10,475 | 10,475 | - | 16,153 |
| Fund balance (deficit) at end of year..... | \$ 10,475 | \$ - | \$ (10,475) | \$ 10,475 |

See accountants' review report

Substance Abuse Prevention & Treatment Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|--|------|------|
| ASSETS | | |
| Cash and short-term investments..... | \$ - | \$ - |
| Total assets..... | \$ - | \$ - |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Deficiency in cash and short-term investments..... | \$ - | \$ - |
| Total liabilities..... | - | - |
| Fund balance: | | |
| Unreserved fund balance: | | |
| Undesignated..... | - | - |
| Total fund balance..... | - | - |
| Total liabilities and fund balance..... | \$ - | \$ - |

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, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ - | \$ - | \$ - | \$ 43,102 |
| Total revenues..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>43,102</u> |
| Other financing sources: | | | | |
| Operating transfers in..... | - | - | - | 64,732 |
| Total other financing sources..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>64,732</u> |
| Total revenues and other financing sources..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>107,834</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Sheriff's Departments..... | - | - | - | 497 |
| Health and human services..... | - | - | - | 98,597 |
| Public safety and homeland security..... | - | - | - | 7,230 |
| Total expenditures..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>106,324</u> |
| Other financing uses: | | | | |
| Fringe benefit cost assessment..... | - | - | - | 1,510 |
| Total other financing uses..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,510</u> |
| Total expenditures and other financing uses..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>107,834</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | - | - | - | - |
| Fund balance (deficit) at beginning of year..... | - | - | - | - |
| Fund balance (deficit) at end of year..... | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

See accountants' review report

Massachusetts Tourism Fund
Balance Sheet - Statutory Basis

June 30, 2012
(Amounts in thousands)

| | 2012 | 2011 |
|---|--------|----------|
| ASSETS | | |
| Cash and short-term investments..... | \$ 167 | \$ 7,289 |
| Total assets..... | \$ 167 | \$ 7,289 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable..... | \$ 119 | \$ 24 |
| Accrued payroll..... | 48 | 37 |
| Total liabilities..... | 167 | 61 |
| Fund balance: | | |
| Unreserved fund balance: | | |
| Undesignated..... | - | 7,228 |
| Total fund balance..... | - | 7,228 |
| Total liabilities and fund balance..... | \$ 167 | \$ 7,289 |

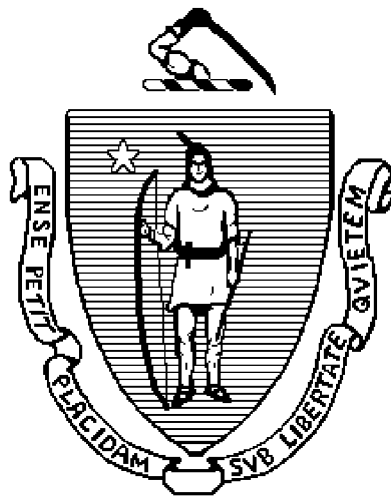
See accountants' review report

Massachusetts Tourism Fund
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | 2012 Budget | 2012 Actual | Variance Favorable (Unfavorable) | 2011 Actual |
|--|----------------|----------------|--|----------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 41,800 | \$ 42,574 | \$ 774 | \$ 38,640 |
| Total revenues..... | 41,800 | 42,574 | 774 | 38,640 |
| Other financing sources: | | | | |
| Operating transfers in..... | - | - | - | - |
| Total other financing sources..... | - | - | - | - |
| Total revenues and other financing sources..... | 41,800 | 42,574 | 774 | 38,640 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Governor and Lieutenant Governor..... | 17 | 17 | - | 17 |
| Housing and economic development..... | 11,623 | 11,622 | 1 | 1,996 |
| Total expenditures..... | 11,640 | 11,639 | 1 | 2,013 |
| Other financing uses: | | | | |
| Fringe benefit cost assessment..... | 300 | 432 | (132) | 356 |
| Operating transfers out..... | - | 6,045 | (6,045) | 4,527 |
| Stabilization transfer..... | - | 31,686 | (31,686) | 52,694 |
| Total other financing uses..... | 300 | 38,163 | (37,863) | 57,577 |
| Total expenditures and other financing uses..... | 11,940 | 49,802 | (37,862) | 59,590 |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | 29,860 | (7,228) | (37,088) | (20,950) |
| Fund balance (deficit) at beginning of year..... | 7,228 | 7,228 | - | 28,178 |
| Fund balance (deficit) at end of year..... | \$ 37,088 | \$ - | \$ (37,088) | \$ 7,228 |

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 the sale of lottery tickets and for the payment of prizes, expenses of the State Lottery Commission and the distribution to municipalities and school districts. Transfers are made from Lottery Profits to the General Fund.

Arts Lottery Fund – to account for revenues from the sale of lottery tickets, for payment of prizes and the expenses of the State Lottery Commission, and for the administration of the Arts Lottery Council. Transfers are made to the General Fund at the end of the fiscal year.

GAMING:

This fund accounts for the operations of the Massachusetts Gaming Commission (MGC).

Massachusetts Gaming Control Fund – to account for all gaming fees and assessments not recorded in other funds by legislative mandate and other monies authorized by the general court. Expenditures are to finance the activities of the Massachusetts Gaming Commission (MGC).

UNIVERSAL HEALTH CARE FUNDS:

The seven 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 and 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 Chapter 58 of the Acts of 2006.

Medical Assistance Trust Fund – to account for any funds directed to the Commonwealth from public entities and federal revenues related to medical assistance; to be used for medical assistance payments to entities authorized by the general court.

Health Safety Net Trust Fund – to account for reimbursing hospitals and community health centers for a portion of the cost of reimbursable health services provided to low-income, uninsured or underinsured residents of the Commonwealth.

Delivery System Transformation Initiatives Trust Fund – to account for funds expended for delivery system transformation initiatives payments to qualifying providers under an approved federal waiver.

Money Follows the Person Rebalancing Demonstration Grant Trust Fund – to account for funds used for expenses that primarily benefit individuals who have disabilities or long-term illnesses or who are elders. The funds shall be used to fund slots for participants in the two new “money follows the person” home and community-based waiver programs established to support the commonwealth’s rebalancing initiative. Monies equal to the amount of federal financial participation collected from the previous quarter shall be transferred to the fund. Expenses may be incurred, after written approval from the Secretary of Administration and Finance, and the comptroller shall certify for payment, amounts not to exceed the most recent revenue estimate as certified by the MassHealth director.

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.

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 dedicated sales tax revenue and MBTA service area assessments from the Commonwealth to the MBTA as set forth in Massachusetts General Laws, Chapter 10, Section 35T.

MBTA Infrastructure Renovation Fund – to account for supplemental appropriations beyond the MBTA State and Local Contribution Fund for certain MBTA infrastructure improvements. Funds are to be used for, but not limited to, compliance with the American with Disabilities Act, elevator and escalator improvements, waterproofing, fare gates, signage, lighting and structural improvements. No rolling stock is to be acquired through the fund.

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 purposes. 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. Expenditures are for emergency hazardous materials response and mitigation costs.

Registers Technological Fund – to account for funds received from deed surcharges for the benefit of abolished counties. Expenditures are for technological improvements at the registries of deeds in those counties.

County Registers Technological Fund – to account for monies received from deed surcharges for Barnstable, Bristol, Dukes, Norfolk, Plymouth and Nantucket Counties. Expenditures are for technical improvements at those counties.

State Election Campaign Fund – to account for the costs of quadrennial statewide elections provided for through contributions from citizens.

Enhanced 911 Fund – to account for expenditures by the state 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 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 climate change.

School Modernization and Reconstruction Trust Fund – to account for dedicated sales tax revenues in support of the School Building Assistance Program.

Roche Community Rink Fund – to account for 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 statewide permitting model. Technical assistance services funded by these grants shall include services for zoning, land use planning, conservation, public safety planning, information technology and statistical trend modeling. Expenditures from this fund may not exceed \$2.8 million in any fiscal year.

Educational Rewards Grant Program Fund – to account for grants to students in accredited post-secondary certificate or vocational technology programs or associate degrees in targeted high-demand occupations.

Massachusetts Nursing and Allied Health Workforce Development Trust Fund – to account for funds appropriated, grants, loans or private donations received to increase the number of public and private higher education faculty and students who participate in programs that support careers in fields related to nursing and allied health.

Health Information Technology Trust Fund – to account for federal reimbursements received under the Health Information Technology for Economic and Clinical Health Act and other revenues received from or in support of the health care provider incentive payment program for incentive payments to eligible Massachusetts Medicaid health care providers and for the promotion of electronic health record adoption and health information exchange in the Commonwealth. This fund may incur a deficit, after approval from the Secretary of Administration and Finance, in an amount not to exceed the most recent revenue estimate as certified by the MassHealth Director.

Build America Bonds Subsidy Trust Fund – to account for subsidies from the United States Treasury related to taxable Build America bonds issued by the Commonwealth. Expenditures are used to pay debt service related to these types of bonds.

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 participate in programs that support careers in fields related to mathematics, science, technology and engineering. The grants also support curriculum development in those fields.

Commonwealth Covenant Fund – to support programs that provide accessible tuition loan repayments to students who attend public universities or colleges in Massachusetts and remain in the Commonwealth to pursue careers in the STEM (science, technology, engineering and mathematics) fields.

Massachusetts Alternative and Clean Energy Investment Trust Fund – to account for any funds invested in clean energy technology research and issued as seed grants to companies, universities and nonprofits to encourage the creation of clean technology ventures and the training of workers to perform associated green jobs.

Regional Greenhouse Gas 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 electricity-generating stations.

Mosquito and Greenhead Fly Control Fund – to account for assessments to cities and towns of various mosquito control districts; to support activities designed to control mosquitoes and/or “greenhead” flies.

Ocean Resources and Waterways Trust Fund – to account for funds appropriated, investment income, grants or ocean development mitigation fees received; 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.

Workforce Training Trust Fund – to account for revenues from the unemployment surcharge on taxable wages on employers. Expenditures are used to provide grants to employers, employer groups, labor organizations and training providers for projects to provide education and training to existing employees and newly hired workers.

Oil Overcharge Fund – to account for the fines and penalties collected under federal litigation from certain oil companies; used to provide fuel assistance and home insulation for low-income residents.

Infrastructure Development Fund – to create jobs and stimulate economic development through infrastructure-related investments. The fund may be used for shovel-ready infrastructure projects including, but not limited to, transit and highway projects, business expansion and redevelopment use and other related projects to create economic opportunity and jobs. Funds may be used to support matching funds for certain capital expenditures which are sponsored by higher educational institutions for scientific or technology research and development. This fund shall remain in effect until June 30, 2013.

Substance Abuse Services Fund – to account for funds used to expand inpatient treatment facilities and ongoing case management for individuals civilly committed under Section 35 of Chapter 123 of the General Laws. \$10 million will be transferred from the General Fund upon

submission of an approved spending plan. This fund shall remain in effect until June 30, 2013.

State Low Income Housing Tax Credit Fund – to account for funds used to offset general fund costs associated with the state low income housing tax credit claimed annually by eligible taxpayers. The aggregate amount of transferred funds for all fiscal years during which the fund is effective shall not exceed \$9.5 million. The fund shall remain in effect until June 30, 2014.

Human Service Salary Reserve Fund – to account for funds transferred from the general fund to provide a one-time subsidy to personnel earning less than \$40,000 in annual compensation who are employed by private human service providers that deliver human and social services under contracts with departments within the Executive Office of Health and Human Services and the Executive Office of Elder Affairs.

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 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 revenues received from the sale of “Invest in Children” distinctive registration plates issues by the Registrar of Motor Vehicles and the expenditures by the commissioner of the Office for Children for providing grants for not-for-profit childcare organizations for the purpose of improving childcare services.

Convention and Exhibition Center Fund – to account for certain rooms and sales and use taxes, surcharges imposed on tourist tickets, including cruises and land-based sightseeing located in the Commonwealth, to finance the construction 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 Inspection 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 were inactive in FY12 and are not presented in this report:

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.

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.

Health Care Workforce Transformation Fund – to account for all revenue received under Section 28 of Chapter 224 of the Acts of 2012. Expenditures of not more than 10% of the amount held in the fund in any one year shall be used by the Secretary of Health and Human Services for the combined cost of program administration, technical assistance to grantees and program evaluation. Funds of not less than 20% may be transferred to the Department of Public Health and up to 10% may be transferred to the Massachusetts Nursing and Allied Health Workforce Development Trust Fund, established in Section 33 of Chapter 30S of the Acts of 2008. Funds remaining shall be expended by the Executive Office of Labor and Workforce Development in accordance with Section 28 of Chapter 224 of the Acts of 2012.

Natural Resources Damages Trust Fund – to account for gifts, grants and other contributions received to fund natural resources restoration projects.

Commonwealth Sewer Rate Relief Fund – to account for transfers of amounts from the General Fund or other funds; used for the purpose of mitigating sewer rate increases and making sewer rate relief grants to municipalities.

Regional Transit Authorities Forward Funding Trust Fund – to account for revenues allocated to support capital or other eligible activities for regional transit authorities.

County Correction Fund – to account for approximately 7.5% of the deeds excise tax distributed to counties for the operation of county correctional facilities. With consolidation of counties into the Commonwealth in FY10, this fund became inactive in FY11.

Public Health Trust Fund – to account for the collection of fees assessed under Section 56 of Chapter 23K of the General Laws and all other monies credited or transferred to the fund from any other source under law. Funds shall be expended to assist social service and public health programs dedicated to addressing problems associated with compulsive gambling including, but not limited to, gambling prevention and addiction services, substance abuse services, educational campaigns to mitigate the potential addictive nature of gambling and any studies and evaluations necessary.

Gaming Revenue Fund – to account for revenues collected from taxes on gross gaming revenue received from gaming licenses. The revenues shall be transferred to other funds in accordance with Section 59 of Chapter 23K of the General Laws.

Race Horse Development Fund – to account for the daily assessment of 9% of gross gaming revenues collected by slot machine-only venues, in accordance with Section 55c of Chapter 23K of the General Laws. Expenditures from this fund shall be made to each licensee under Chapter 128A of the General Laws.

Community Mitigation Fund – to account for monies transferred under Section 59 of Chapter 23K of the General Laws and all other monies credited or transferred to the fund from any other fund or source. Funds shall be expended to assist the host community and surrounding communities in offsetting costs related to the construction and operation of a gaming establishment including, but not limited to, communities and water and sewer districts in the vicinity of a gaming establishment, local and regional education, transportation, infrastructure, housing, environmental issues and public safety, including the office of the county district attorney, police, fire and emergency services.

Transportation Infrastructure and Development Fund – to account for monies transferred from the Gaming Revenue Fund and all other monies credited or transferred to the fund from any other fund or source and proceeds from the investment of such funds. Expenditures shall not be made until the Secretary of Administration and Finance has provided written approval annually of a proposed spending plan. Any expenditures from this fund shall be solely for the purpose of transportation and related infrastructure projects including but not limited to,

transit expansion and maintenance. Not less than 50% of such expenditures shall be dedicated for the purpose of supplementing, and not offsetting, any expenditures made for the construction and reconstruction of municipal ways as described in Section 4 of Chapter 6C of the General Laws.

Local Capital Projects Fund – to account for funds transferred from the Gaming Revenue Fund established in Section 59 of Chapter 23K of the General Laws and any monies credited to or transferred to the fund from any other fund or source.

Gaming Licensing Fund – to account for the collection of all gaming establishment licensing fees established under Chapter 23K of the General Laws and excluding initial application fees. Monies from this fund shall be transferred to various funds in accordance with Section 93 of Chapter 194 of the Acts of 2011.

Victims of Human Trafficking Trust Fund – to account for the proceeds of assets seized and forfeited and fines and assessments collected along with any interest earned. Funds shall be transferred to the Victim and Witness Assistance Board to administer grants to public, private non-profit or community-based programs in the Commonwealth.

Department of Public Utilities Storm Trust Fund – to account for all amounts collected under Section 18 of Chapter 25 of the General Laws and any income derived from the investment of amounts credited to the Fund. Monies from this fund shall be used in investigating the preparation for and response to storm and other emergency events by electric companies in the Commonwealth.

Non-Budgeted Special Revenue Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | Lotteries | | | Gaming | Universal Health Care Funds | | |
|--|------------------|------------------|----------------|------------------------------|-----------------------------|--------------------------|-------------------------|
| | Federal Grants | State Lottery | Arts Lottery | Massachusetts Gaming Control | Commonwealth Care Trust | Medical Assistance Trust | Health Safety Net Trust |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | | |
| Revenues: | | | | | | | |
| Taxes..... | \$ - | \$ 759 | \$ - | \$ - | \$ 144,811 | \$ - | \$ - |
| Assessments..... | - | - | - | - | - | - | 340,675 |
| Federal grants and reimbursements..... | 2,655,140 | - | - | - | - | - | - |
| Tobacco settlement revenue..... | - | - | - | - | - | - | - |
| Departmental..... | - | 4,847,606 | 92,230 | - | 19,500 | 140,000 | 944 |
| Miscellaneous..... | - | 1,299 | 76 | - | 63,613 | - | 307 |
| Total revenues..... | 2,655,140 | 4,849,664 | 92,306 | - | 227,924 | 140,000 | 341,926 |
| Other financing sources: | | | | | | | |
| Proceeds of refunding bonds..... | - | - | - | - | - | - | - |
| Operating transfers in..... | - | - | 70,960 | - | - | - | - |
| Stabilization transfer..... | - | - | - | 15,000 | - | - | - |
| Commonwealth care trust transfer..... | - | - | - | - | 614,910 | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | 30,000 |
| Medical assistance transfer..... | - | - | - | - | - | 220,900 | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - | - |
| Total other financing sources..... | - | - | 70,960 | 15,000 | 614,910 | 220,900 | 30,000 |
| Total revenues and other financing sources..... | 2,655,140 | 4,849,664 | 163,266 | 15,000 | 842,834 | 360,900 | 371,926 |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | |
| Expenditures: | | | | | | | |
| Judiciary..... | 1,147 | - | - | - | - | - | - |
| Inspector General..... | - | - | - | - | - | - | 298 |
| Governor and Lieutenant Governor..... | - | - | - | - | - | - | - |
| Secretary of the Commonwealth..... | 1,709 | - | - | - | - | - | - |
| Treasurer and Receiver-General..... | 2,754 | 3,788,586 | 78,454 | - | - | - | - |
| Attorney General..... | 9,022 | - | - | - | - | - | - |
| District Attorney..... | 2,106 | - | - | - | - | - | - |
| Office of Campaign and Political Finance..... | - | - | - | - | - | - | - |
| Sheriff's Departments..... | 4,348 | - | - | - | - | - | - |
| Disabled Persons Protection Commission..... | - | - | - | - | - | - | - |
| Board of Library Commissioners..... | 2,833 | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | 791 | - | - | - |
| Comptroller..... | - | - | - | - | - | - | - |
| Administration and finance..... | 5,500 | - | - | - | - | - | - |
| Energy and environmental affairs..... | 79,500 | - | - | - | - | - | - |
| Health and human services..... | 437,769 | - | - | - | 841,264 | 359,718 | 370,075 |
| Massachusetts department of transportation..... | 7,652 | - | - | - | - | - | - |
| Executive office of education..... | 1,102,903 | - | - | - | - | - | - |
| Public safety and homeland security..... | 171,829 | - | - | - | - | - | - |
| Housing and economic development..... | 516,251 | - | - | - | - | - | - |
| Labor and workforce development..... | 170,018 | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement..... | - | - | - | - | - | - | - |
| Interest and fiscal charges..... | - | - | - | - | - | - | - |
| Total expenditures..... | 2,515,341 | 3,788,586 | 78,454 | 791 | 841,264 | 359,718 | 370,373 |
| Other financing uses: | | | | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - | - | - | - |
| Fringe benefit cost assessment..... | 64,087 | 8,719 | - | 64 | - | - | 52 |
| Lottery operating reimbursements..... | - | 82,460 | 6,198 | - | - | - | - |
| Lottery distributions..... | - | 898,939 | 78,614 | - | - | - | - |
| Operating transfers out..... | 51,583 | 70,960 | - | - | - | - | 16 |
| Tobacco settlement transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | 30,000 | - | - |
| Federal reimbursement transfer out..... | - | - | - | - | - | - | - |
| Total other financing uses..... | 115,670 | 1,061,078 | 84,812 | 64 | 30,000 | - | 68 |
| Total expenditures and other financing uses..... | 2,631,011 | 4,849,664 | 163,266 | 855 | 871,264 | 359,718 | 370,441 |
| Excess (deficiency) of revenues and other financing sources | | | | | | | |
| over / (under) expenditures and other financing uses..... | 24,129 | - | - | 14,145 | (28,430) | 1,182 | 1,485 |
| Fund balance (deficit) at beginning of year (restated)..... | 59,584 | - | - | - | 82,064 | 211 | 100,530 |
| Fund balance (deficit) at end of year..... | \$ 83,713 | \$ - | \$ - | \$ 14,145 | \$ 53,634 | \$ 1,393 | \$ 102,015 |

See accountants' review report

| Universal Health Care Funds | | | | Non-Budgeted Other Funds | | | | |
|--|--|------------------------|---|--|------------------------------------|----------------------------|--|-----------------------------------|
| Delivery System Transformation Initiatives Trust | Money Follows the Person Rebalancing Demonstration Grant Trust | 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 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 779,091 |
| - | - | - | - | 5,306 | - | - | - | 152,100 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 253,628 | - | - |
| - | - | 167,788 | - | - | 1,901 | - | 643 | - |
| 22,426 | - | - | 2 | - | 3 | - | - | - |
| 22,426 | - | 167,788 | 2 | 5,306 | 1,904 | 253,628 | 643 | 931,191 |
| - | - | - | - | - | - | - | - | - |
| - | 177 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 186,908 | - | - | - | - | - | - | - | - |
| 186,908 | 177 | - | - | - | - | - | - | - |
| 209,334 | 177 | 167,788 | 2 | 5,306 | 1,904 | 253,628 | 643 | 931,191 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 931,191 |
| - | - | - | - | - | 82 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | 1,818 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | 3,482 | - | - | - | - |
| 209,252 | - | - | 550 | - | - | - | 152 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 163,185 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 209,252 | - | 163,185 | 550 | 3,482 | 1,900 | - | 152 | 931,191 |
| - | - | - | - | - | - | - | - | - |
| - | - | 889 | 61 | 792 | 24 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 63 | 29 | 304 | - | - | - | - |
| - | - | - | - | - | - | 253,628 | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 952 | 90 | 1,096 | 24 | 253,628 | - | - |
| 209,252 | - | 164,137 | 640 | 4,578 | 1,924 | 253,628 | 152 | 931,191 |
| 82 | 177 | 3,651 | (638) | 728 | (20) | - | 491 | - |
| - | - | (80,682) | 882 | 631 | 2,968 | - | 881 | - |
| \$ 82 | \$ 177 | \$ (77,031) | \$ 244 | \$ 1,359 | \$ 2,948 | \$ - | \$ 1,372 | \$ - |

continued

Non-Budgeted Special Revenue Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | Non-Budgeted Other Funds | | | | | | |
|--|--------------------------------------|------------------------------------|---|-----------------|---|---|---------------------------------|
| | MBTA Infrastructure Renovation | Community Preservation Trust | Health Insurance Portability and Accountability Act | State Racing | Division of Professional Licensure Trust | Victims of Drunk Driving Trust | State Athletic Commission |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | | |
| Revenues: | | | | | | | |
| Taxes..... | \$ - | \$ 27,363 | \$ - | \$ 1,635 | \$ - | \$ - | \$ 53 |
| Assessments..... | - | - | - | 770 | - | - | - |
| Federal grants and reimbursements..... | - | - | 13,471 | - | - | - | - |
| Tobacco settlement revenue..... | - | - | - | - | - | - | - |
| Departmental..... | - | - | - | 517 | 8,683 | 700 | 44 |
| Miscellaneous..... | - | 29 | - | 504 | - | 3 | - |
| Total revenues..... | - | 27,392 | 13,471 | 3,426 | 8,683 | 703 | 97 |
| Other financing sources: | | | | | | | |
| Proceeds of refunding bonds..... | - | - | - | - | - | - | - |
| Operating transfers in..... | - | - | - | - | - | - | - |
| Stabilization transfer..... | - | - | - | - | - | - | - |
| Commonwealth care trust transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Medical assistance transfer..... | - | - | - | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - | - |
| Total other financing sources..... | - | - | - | - | - | - | - |
| Total revenues and other financing sources..... | - | 27,392 | 13,471 | 3,426 | 8,683 | 703 | 97 |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | |
| Expenditures: | | | | | | | |
| Judiciary..... | - | - | - | - | - | 251 | - |
| Inspector General..... | - | - | - | - | - | - | - |
| Governor and Lieutenant Governor..... | - | - | - | - | - | - | - |
| Secretary of the Commonwealth..... | - | - | - | - | - | - | - |
| Treasurer and Receiver-General..... | 1,104 | - | - | - | - | - | - |
| Attorney General..... | - | - | - | - | - | 456 | - |
| District Attorney..... | - | - | - | - | - | - | - |
| Office of Campaign and Political Finance..... | - | - | - | - | - | - | - |
| Sheriff's Departments..... | - | - | - | - | - | - | - |
| Disabled Persons Protection Commission..... | - | - | - | - | - | - | - |
| Board of Library Commissioners..... | - | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | - | - | - | - |
| Comptroller..... | - | - | - | - | - | - | - |
| Administration and finance..... | - | 26,309 | - | - | - | - | - |
| Energy and environmental affairs..... | - | - | - | - | - | - | - |
| Health and human services..... | - | - | 12,400 | 58 | - | - | - |
| Massachusetts department of transportation..... | - | - | - | - | - | - | - |
| Executive office of education..... | - | - | - | - | - | - | - |
| Public safety and homeland security..... | - | - | - | - | - | - | 46 |
| Housing and economic development..... | - | - | - | 765 | 7,277 | - | - |
| Labor and workforce development..... | - | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement..... | - | - | - | - | - | - | - |
| Interest and fiscal charges..... | - | - | - | - | - | - | - |
| Total expenditures..... | 1,104 | 26,309 | 12,400 | 823 | 7,277 | 707 | 46 |
| Other financing uses: | | | | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - | - | - | - |
| Fringe benefit cost assessment..... | - | 41 | 55 | - | 1,338 | 2 | 11 |
| Lottery operating reimbursements..... | - | - | - | - | - | - | - |
| Lottery distributions..... | - | - | - | - | - | - | - |
| Operating transfers out..... | - | 18 | 167 | 2,123 | 467 | 2 | 4 |
| Tobacco settlement transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Federal reimbursement transfer out..... | - | - | - | - | - | - | - |
| Total other financing uses..... | - | 59 | 222 | 2,123 | 1,805 | 4 | 15 |
| Total expenditures and other financing uses..... | 1,104 | 26,368 | 12,622 | 2,946 | 9,082 | 711 | 61 |
| Excess (deficiency) of revenues and other financing sources | | | | | | | |
| over / (under) expenditures and other financing uses..... | (1,104) | 1,024 | 849 | 480 | (399) | (8) | 36 |
| Fund balance (deficit) at beginning of year (restated)..... | 4,429 | 26,372 | 7,850 | 268 | 2,058 | 2,396 | 157 |
| Fund balance (deficit) at end of year..... | \$ 3,325 | \$ 27,396 | \$ 8,699 | \$ 748 | \$ 1,659 | \$ 2,388 | \$ 193 |

See accountants' review report

Non-Budgeted Other Funds

| Organ And Tissues Donor Registration | Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust | Registers Technological | County Registers Technological | State Election Campaign | Enhanced 911 | Counsel for Indigent Salary Enhancement Trust | Smart Growth Housing Trust | Special Projects Permitting and Oversight |
|---|--|----------------------------|--------------------------------------|-------------------------------|-------------------|---|-------------------------------------|---|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 120 | 154 | 4,999 | 2,553 | - | 73,337 | 86 | - | 4,561 |
| - | - | - | - | 268 | 130 | - | - | - |
| <u>120</u> | <u>154</u> | <u>4,999</u> | <u>2,553</u> | <u>268</u> | <u>73,467</u> | <u>86</u> | <u>-</u> | <u>4,561</u> |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| <u>120</u> | <u>154</u> | <u>4,999</u> | <u>2,553</u> | <u>268</u> | <u>73,467</u> | <u>86</u> | <u>-</u> | <u>4,561</u> |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 3,612 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | 7,329 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 983 | - | 1,780 | - | - | - |
| - | - | - | - | - | 75 | - | - | 1,767 |
| - | - | - | - | - | - | - | - | - |
| - | 37 | - | - | - | 56,687 | - | - | - |
| - | - | - | - | - | - | - | 465 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| <u>-</u> | <u>37</u> | <u>3,612</u> | <u>983</u> | <u>-</u> | <u>65,871</u> | <u>-</u> | <u>465</u> | <u>1,767</u> |
| - | - | - | - | - | - | - | - | - |
| - | - | 399 | - | - | 1,864 | - | - | 554 |
| - | - | - | - | - | - | - | - | - |
| - | - | 171 | - | - | 1,833 | - | - | 277 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>570</u> | <u>-</u> | <u>-</u> | <u>3,697</u> | <u>-</u> | <u>-</u> | <u>831</u> |
| <u>-</u> | <u>37</u> | <u>4,182</u> | <u>983</u> | <u>-</u> | <u>69,568</u> | <u>-</u> | <u>465</u> | <u>2,598</u> |
| 120 | 117 | 817 | 1,570 | 268 | 3,899 | 86 | (465) | 1,963 |
| 40 | 101 | 2,409 | 3,338 | 480 | 97,651 | 135 | 1,500 | 412 |
| <u>\$ 160</u> | <u>\$ 218</u> | <u>\$ 3,226</u> | <u>\$ 4,908</u> | <u>\$ 748</u> | <u>\$ 101,550</u> | <u>\$ 221</u> | <u>\$ 1,035</u> | <u>\$ 2,375</u> |

continued

Non-Budgeted Special Revenue Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | Non-Budgeted Other Funds | | | | | | |
|---|---|---|----------------------|---------------------------------|-----------------------------------|--|--|
| | Division of Energy Resources Credit Trust | School Modernization and Reconstruction Trust | Roche Community Rink | Workforce Competitiveness Trust | Fire Prevention and Public Safety | Cigarette Fire Safety Firefighter Protection Act Enforcement | Massachusetts Board of Higher Education Scholar-Internship Match |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | | |
| Revenues: | | | | | | | |
| Taxes..... | \$ - | \$ 670,494 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Assessments..... | - | - | - | - | - | - | - |
| Federal grants and reimbursements..... | - | - | - | - | - | - | - |
| Tobacco settlement revenue..... | - | - | - | - | - | - | - |
| Departmental..... | - | - | 47 | - | 6 | 180 | - |
| Miscellaneous..... | - | - | - | - | - | - | - |
| Total revenues..... | - | 670,494 | 47 | - | 6 | 180 | - |
| Other financing sources: | | | | | | | |
| Proceeds of refunding bonds..... | - | - | - | - | - | - | - |
| Operating transfers in..... | - | - | - | - | - | - | - |
| Stabilization transfer..... | - | - | - | - | - | - | - |
| Commonwealth care trust transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Medical assistance transfer..... | - | - | - | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - | - |
| Total other financing sources..... | - | - | - | - | - | - | - |
| Total revenues and other financing sources..... | - | 670,494 | 47 | - | 6 | 180 | - |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | |
| Expenditures: | | | | | | | |
| Judiciary..... | - | - | - | - | - | - | - |
| Inspector General..... | - | - | - | - | - | - | - |
| Governor and Lieutenant Governor..... | - | - | - | - | - | - | - |
| Secretary of the Commonwealth..... | - | - | - | - | - | - | - |
| Treasurer and Receiver-General..... | - | 670,494 | - | - | - | - | - |
| Attorney General..... | - | - | - | - | - | - | - |
| District Attorney..... | - | - | - | - | - | - | - |
| Office of Campaign and Political Finance..... | - | - | - | - | - | - | - |
| Sheriff's Departments..... | - | - | - | - | - | - | - |
| Disabled Persons Protection Commission..... | - | - | - | - | - | - | - |
| Board of Library Commissioners..... | - | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | - | - | - | - |
| Comptroller..... | - | - | - | - | - | - | - |
| Administration and finance..... | - | - | - | - | - | - | - |
| Energy and environmental affairs..... | 231 | - | - | - | - | - | - |
| Health and human services..... | - | - | - | - | - | - | - |
| Massachusetts department of transportation..... | - | - | - | - | - | - | - |
| Executive office of education..... | - | - | - | - | - | - | - |
| Public safety and homeland security..... | - | - | - | - | 10 | 599 | - |
| Housing and economic development..... | - | - | - | - | - | - | - |
| Labor and workforce development..... | - | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement..... | - | - | - | - | - | - | - |
| Interest and fiscal charges..... | - | - | - | - | - | - | - |
| Total expenditures..... | 231 | 670,494 | - | - | 10 | 599 | - |
| Other financing uses: | | | | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - | - | - | - |
| Fringe benefit cost assessment..... | - | - | - | - | - | 53 | - |
| Lottery operating reimbursements..... | - | - | - | - | - | - | - |
| Lottery distributions..... | - | - | - | - | - | - | - |
| Operating transfers out..... | - | - | - | - | - | 73 | - |
| Tobacco settlement transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Federal reimbursement transfer out..... | - | - | - | - | - | - | - |
| Total other financing uses..... | - | - | - | - | - | 126 | - |
| Total expenditures and other financing uses..... | 231 | 670,494 | - | - | 10 | 725 | - |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | | | | | | | |
| | (231) | - | 47 | - | (4) | (545) | - |
| Fund balance (deficit) at beginning of year (restated)..... | 2,349 | - | 256 | 38 | 17 | 3,283 | 221 |
| Fund balance (deficit) at end of year..... | \$ 2,118 | \$ - | \$ 303 | \$ 38 | \$ 13 | \$ 2,738 | \$ 221 |

See accountants' review report

Non-Budgeted Other Funds

| District Local Technical Assistance | Educational Rewards Grant Program | Massachusetts Nursing & Allied Health Workforce Development Trust | Health Information Technology Trust | Build America Bond Subsidy Trust | Government Land Bank | Natural Heritage and Endangered Species | Massachusetts Mathematics, Science, Technology and Engineering Grant | Commonwealth Covenant |
|--|--|---|--|--|----------------------------|---|--|--------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | 108,489 | 59,111 | - | 1,005 | - | - |
| - | - | - | - | - | - | 486 | - | - |
| - | - | 2 | - | - | - | 641 | 50 | - |
| - | - | 2 | 108,489 | 59,111 | - | 2,132 | 50 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 635 | 500 | - | 5,350 | - | 1,000 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 635 | 500 | - | 5,350 | - | 1,000 | - |
| - | - | 637 | 108,989 | 59,111 | 5,350 | 2,132 | 1,050 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | 36,225 | - | - | - | 178 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 1,523 | - | - |
| - | - | - | 89,650 | - | - | - | - | - |
| - | - | 558 | - | - | - | - | 753 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | 2,054 | - | - | - |
| - | - | - | - | - | 3,296 | - | - | - |
| - | - | 558 | 89,650 | 36,225 | 5,350 | 1,523 | 753 | 178 |
| - | - | - | - | - | - | - | - | - |
| - | - | 24 | 7 | - | - | 148 | 45 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 9 | 17 | 13,806 | - | - | 22 | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 33 | 24 | 13,806 | - | 148 | 67 | - |
| - | - | 591 | 89,674 | 50,031 | 5,350 | 1,671 | 820 | 178 |
| - | - | 46 | 19,315 | 9,080 | - | 461 | 230 | (178) |
| 144 | 48 | 458 | - | - | (35,033) | 666 | 411 | 279 |
| \$ 144 | \$ 48 | \$ 504 | \$ 19,315 | \$ 9,080 | \$ (35,033) | \$ 1,127 | \$ 641 | \$ 101 |

continued

Non-Budgeted Special Revenue Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | Non-Budgeted Other Funds | | | | | | |
|--|---|---|--|--|--------------------------------------|-------------------------------------|-------------------|
| | 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 | Workforce Training Trust Fund | Oil Overcharge |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | | |
| Revenues: | | | | | | | |
| Taxes..... | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 21,386 | \$ - |
| Assessments..... | - | - | 9,559 | - | - | - | - |
| Federal grants and reimbursements..... | - | - | - | - | - | - | - |
| Tobacco settlement revenue..... | - | - | - | - | - | - | - |
| Departmental..... | - | 24,472 | 676 | - | 572 | - | - |
| Miscellaneous..... | - | - | - | - | - | - | - |
| Total revenues..... | - | 24,472 | 10,235 | - | 572 | 21,386 | - |
| Other financing sources: | | | | | | | |
| Proceeds of refunding bonds..... | - | - | - | - | - | - | - |
| Operating transfers in..... | - | - | - | - | - | 10,475 | - |
| Stabilization transfer..... | - | - | - | - | - | - | - |
| Commonwealth care trust transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Medical assistance transfer..... | - | - | - | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - | - |
| Total other financing sources..... | - | - | - | - | - | 10,475 | - |
| Total revenues and other financing sources..... | - | 24,472 | 10,235 | - | 572 | 31,861 | - |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | |
| 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..... | - | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | - | - | - | - |
| Comptroller..... | - | - | - | - | - | - | - |
| Administration and finance..... | - | - | - | - | - | - | - |
| Energy and environmental affairs..... | - | 19,776 | 8,632 | 142 | 519 | - | - |
| Health and human services..... | - | - | 93 | - | - | - | - |
| Massachusetts department of transportation..... | - | - | - | - | - | - | - |
| Executive office of education..... | - | - | - | - | - | - | - |
| Public safety and homeland security..... | - | - | - | - | - | - | - |
| Housing and economic development..... | - | - | - | - | - | - | - |
| Labor and workforce development..... | - | - | - | - | - | 17,963 | - |
| Debt service: | | | | | | | |
| Principal retirement..... | - | - | - | - | - | - | - |
| Interest and fiscal charges..... | - | - | - | - | - | - | - |
| Total expenditures..... | - | 19,776 | 8,725 | 142 | 519 | 17,963 | - |
| Other financing uses: | | | | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - | - | - | - |
| Fringe benefit cost assessment..... | - | - | 1,338 | - | 28 | 326 | - |
| Lottery operating reimbursements..... | - | - | - | - | - | - | - |
| Lottery distributions..... | - | - | - | - | - | - | - |
| Operating transfers out..... | - | - | 5 | 25 | 17 | 22 | - |
| Tobacco settlement transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Federal reimbursement transfer out..... | - | - | - | - | - | - | - |
| Total other financing uses..... | - | - | 1,343 | 25 | 45 | 348 | - |
| Total expenditures and other financing uses..... | - | 19,776 | 10,068 | 167 | 564 | 18,311 | - |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | | | | | | | |
| | - | 4,696 | 167 | (167) | 8 | 13,550 | - |
| Fund balance (deficit) at beginning of year (restated)..... | 24 | 22,033 | 877 | 922 | 626 | - | 427 |
| Fund balance (deficit) at end of year..... | \$ 24 | \$ 26,729 | \$ 1,044 | \$ 755 | \$ 634 | \$ 13,550 | \$ 427 |

See accountants' review report

Non-Budgeted Other Funds

| Infrastructure Development | Substance Abuse Services | State Low Income Housing Tax Credit | Human Services Salary Reserve | Environmental Trust | Children's Trust | Child Support Enforcement | Massachusetts Military Family Relief | Department of Industrial Accidents Special |
|----------------------------|--------------------------|-------------------------------------|-------------------------------|---------------------|------------------|---------------------------|--------------------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | 15,938 | - | 18,130 |
| - | - | - | - | 833 | - | 9,276 | - | 5,673 |
| - | - | - | - | 12 | 1 | 11 | 325 | 7 |
| - | - | - | - | 845 | 1 | 25,225 | 325 | 23,810 |
| - | - | - | - | - | - | - | - | - |
| 37,950 | 10,000 | 9,500 | 10,000 | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 37,950 | 10,000 | 9,500 | 10,000 | - | - | - | - | - |
| 37,950 | 10,000 | 9,500 | 10,000 | 845 | 1 | 25,225 | 325 | 23,810 |
| - | - | - | - | - | - | 41 | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 8 | - | - |
| - | - | - | - | - | - | 230 | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 21,809 | - | - |
| 19 | - | - | 9,973 | 1,143 | - | - | - | - |
| - | - | - | - | 32 | 24 | - | - | - |
| - | - | - | - | - | - | - | 250 | - |
| 8,899 | - | - | - | - | - | 43 | - | - |
| - | - | - | - | - | - | - | - | - |
| 8,918 | - | - | 9,973 | 1,175 | 24 | 22,131 | 250 | - |
| - | - | - | - | 66 | 4 | 946 | - | 4,264 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | 41 | 2 | 426 | - | 17,394 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | 107 | 6 | 1,372 | - | 21,658 |
| 8,918 | - | - | 9,973 | 1,282 | 30 | 23,503 | 250 | 21,658 |
| 29,032 | 10,000 | 9,500 | 27 | (437) | (29) | 1,722 | 75 | 2,152 |
| - | - | - | - | 4,566 | 260 | 52,206 | 774 | 12,142 |
| \$ 29,032 | \$ 10,000 | \$ 9,500 | \$ 27 | \$ 4,129 | \$ 231 | \$ 53,928 | \$ 849 | \$ 14,294 |

continued

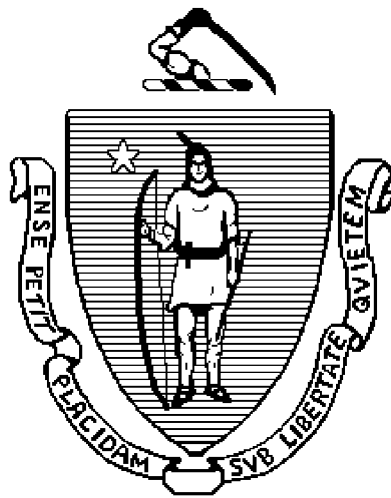
Non-Budgeted Special Revenue Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | Non-Budgeted Other Funds | | | | | | |
|--|--------------------------|---|---|---|--------------------------|---|--|
| | Massachusetts AIDS | Trust Fund for the Head Injury Treatment Services | Board of Registration in Medicine | Water Pollution Abatement Projects Administration | Child Care Quality | Convention and Exhibition Center | Firearms Fingerprint Identity Verification Trust |
| REVENUES AND OTHER FINANCING SOURCES | | | | | | | |
| Revenues: | | | | | | | |
| Taxes..... | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 94,234 | \$ - |
| Assessments..... | - | - | - | - | - | - | - |
| Federal grants and reimbursements..... | - | - | - | - | - | - | - |
| Tobacco settlement revenue..... | - | - | - | - | - | - | - |
| Departmental..... | - | 6,257 | 8,131 | - | 267 | - | 1,386 |
| Miscellaneous..... | 120 | 1 | - | 11,257 | - | 2,342 | - |
| Total revenues..... | 120 | 6,258 | 8,131 | 11,257 | 267 | 96,576 | 1,386 |
| Other financing sources: | | | | | | | |
| Proceeds of refunding bonds..... | - | - | - | - | - | - | - |
| Operating transfers in..... | - | - | - | - | - | - | - |
| Stabilization transfer..... | - | - | - | - | - | - | - |
| Commonwealth care trust transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Medical assistance transfer..... | - | - | - | - | - | - | - |
| Delivery system transformation initiatives trust transfer..... | - | - | - | - | - | - | - |
| Total other financing sources..... | - | - | - | - | - | - | - |
| Total revenues and other financing sources..... | 120 | 6,258 | 8,131 | 11,257 | 267 | 96,576 | 1,386 |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | |
| 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..... | - | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | - | - | - | - |
| Comptroller..... | - | - | - | - | - | - | - |
| Administration and finance..... | - | - | - | - | - | 48,790 | - |
| Energy and environmental affairs..... | - | - | - | 6,782 | - | - | - |
| Health and human services..... | 162 | 6,371 | 6,038 | - | - | - | - |
| Massachusetts department of transportation..... | - | - | - | - | - | - | - |
| Executive office of education..... | - | - | - | - | 341 | - | - |
| Public safety and homeland security..... | - | - | - | - | - | - | 1,077 |
| Housing and economic development..... | - | - | - | - | - | - | - |
| Labor and workforce development..... | - | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement..... | - | - | - | - | - | - | - |
| Interest and fiscal charges..... | - | - | - | - | - | 36,345 | - |
| Total expenditures..... | 162 | 6,371 | 6,038 | 6,782 | 341 | 85,135 | 1,077 |
| Other financing uses: | | | | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - | - | - | - |
| Fringe benefit cost assessment..... | - | 184 | 1,246 | 1,744 | - | - | - |
| Lottery operating reimbursements..... | - | - | - | - | - | - | - |
| Lottery distributions..... | - | - | - | - | - | - | - |
| Operating transfers out..... | - | 47 | 559 | 2,185 | - | - | - |
| Tobacco settlement transfer..... | - | - | - | - | - | - | - |
| Health safety net trust transfer..... | - | - | - | - | - | - | - |
| Federal reimbursement transfer out..... | - | - | - | - | - | - | - |
| Total other financing uses..... | - | 231 | 1,805 | 3,929 | - | - | - |
| Total expenditures and other financing uses..... | 162 | 6,602 | 7,843 | 10,711 | 341 | 85,135 | 1,077 |
| Excess (deficiency) of revenues and other financing sources | | | | | | | |
| over / (under) expenditures and other financing uses..... | (42) | (344) | 288 | 546 | (74) | 11,441 | 309 |
| Fund balance (deficit) at beginning of year (restated)..... | 161 | 3,076 | 4,317 | 496 | 957 | 105,311 | 2,319 |
| Fund balance (deficit) at end of year..... | \$ 119 | \$ 2,732 | \$ 4,605 | \$ 1,042 | \$ 883 | \$ 116,752 | \$ 2,628 |

See accountants' review report

| Non-Budgeted Other | MassDOT | | | | | |
|--------------------|-------------------------------|------------------------------------|--|---------------------------------------|-------------------|------|
| | Grant Anticipation Note Trust | Massachusetts Transportation Trust | Central Artery/ Tunnel Project Maintenance Trust | Motor Vehicle Safety Inspection Trust | Totals | |
| | | | | | (Memorandum only) | |
| | | | | | 2012 | 2011 |
| \$ - | \$ - | \$ - | \$ - | \$ 1,739,826 | \$ 1,680,656 | |
| - | - | - | - | 526,540 | 517,048 | |
| 642,430 | 39,134 | - | - | 3,534,718 | 3,779,789 | |
| - | - | - | - | 253,628 | 248,741 | |
| - | 390,991 | - | 31,303 | 5,846,922 | 5,496,462 | |
| 245 | 26,491 | 6,578 | 43 | 136,786 | 90,639 | |
| 642,675 | 456,616 | 6,578 | 31,346 | 12,038,420 | 11,813,335 | |
| - | - | - | - | - | 406,453 | |
| 29,010 | 328,960 | - | 20,069 | 534,586 | 503,342 | |
| - | - | - | - | 15,000 | - | |
| - | - | - | - | 614,910 | 739,012 | |
| - | - | - | - | 30,000 | 30,000 | |
| - | - | - | - | 220,900 | 886,101 | |
| - | - | - | - | 186,908 | - | |
| 29,010 | 328,960 | - | 20,069 | 1,602,304 | 2,564,908 | |
| 671,685 | 785,576 | 6,578 | 51,415 | 13,640,724 | 14,378,243 | |
| - | - | - | - | 1,439 | 1,257 | |
| - | - | - | - | 298 | 281 | |
| - | 98 | - | - | 98 | 98 | |
| - | - | - | - | 5,321 | 5,238 | |
| - | 183 | - | - | 5,509,177 | 5,395,164 | |
| - | - | - | - | 9,560 | 8,547 | |
| - | - | - | - | 2,336 | 3,330 | |
| - | - | - | - | - | 1,390 | |
| - | 692 | - | - | 12,369 | 7,008 | |
| - | - | - | - | - | 106 | |
| - | - | - | - | 2,833 | 3,229 | |
| - | - | - | - | 791 | - | |
| - | - | - | - | 1,818 | 2,067 | |
| - | - | - | - | 105,171 | 128,690 | |
| - | 1,045 | - | 1,059 | 125,620 | 143,938 | |
| - | 85 | - | - | 2,343,685 | 2,750,463 | |
| - | 569,286 | 12,742 | 11,260 | 600,940 | 648,957 | |
| - | - | - | - | 1,104,611 | 1,399,350 | |
| - | 315 | - | - | 230,850 | 197,631 | |
| - | 27 | - | - | 533,684 | 693,014 | |
| - | - | - | - | 351,209 | 364,172 | |
| 156,405 | - | - | - | 158,459 | 380,395 | |
| 32,257 | - | - | - | 71,898 | 76,402 | |
| 188,662 | 571,731 | 12,742 | 12,319 | 11,172,167 | 12,210,727 | |
| - | - | - | - | - | 184,438 | |
| - | 36,681 | - | 1,250 | 127,306 | 132,188 | |
| - | - | - | - | 88,658 | 86,391 | |
| - | - | - | - | 977,553 | 881,817 | |
| - | 76,505 | 10,868 | 244 | 250,284 | 159,285 | |
| - | - | - | - | 253,628 | 248,741 | |
| - | - | - | - | 30,000 | 30,000 | |
| 481,145 | - | - | - | 481,145 | 458,410 | |
| 481,145 | 113,186 | 10,868 | 1,494 | 2,208,574 | 2,181,270 | |
| 669,807 | 684,917 | 23,610 | 13,813 | 13,380,741 | 14,391,997 | |
| 1,878 | 100,659 | (17,032) | 37,602 | 259,983 | (13,754) | |
| 203,177 | 684,998 | 402,656 | 7,351 | 1,799,478 | 1,813,232 | |
| \$ 205,055 | \$ 785,657 | \$ 385,624 | \$ 44,953 | \$ 2,059,461 | \$ 1,799,478 | |



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Capital Projects Funds

The Capital Projects Funds are used to account for the financial resources used to acquire or construct major capital assets of the Commonwealth and to finance local governmental capital projects.

General Capital Projects Fund – to account for proceeds of bonds sold to fund the construction or acquisition of capital assets for general Commonwealth purposes, excluding highway construction and projects targeted for specific localities or purposes. Effective September 1, 2009, this fund includes reimbursements to MassDOT for capital projects activity.

Convention and Exhibition Center Capital Fund – to account for proceeds of bonds to finance the construction of a convention center in Boston.

Capital Improvements and Investment Trust Fund – to account for the Commonwealth's reimbursement to cities and towns for expenses incurred for projects for construction and reconstruction of town and county ways.

Highway Capital Projects Fund – to account for the proceeds of bonds sold to finance construction of state highways and to fund the Commonwealth's share of Federally sponsored highway construction.

Federal Highway Construction Program – to account for federal highway construction grants which, with the Commonwealth's required share of matching funds, finance interstate highways and similar projects within Massachusetts to promote a nationwide highway system.

OTHER FUNDS:

This fund accounts for the proceeds of bonds used to finance land and transportation equipment for economic development.

Government Land Bank Capital Projects Fund – to account for proceeds of bonds used to finance the acquisition, holding, protection, maintenance, repair or use of lands and for personnel and the administrative costs of the Massachusetts Development Finance Agency.

LOCAL AID FUND:

Local Aid Capital Projects Fund – to account for the proceeds of bonds sold to finance the construction of correctional facilities, water pollution abatement projects and other local projects in specific localities of the Commonwealth. The fund accounts for the proceeds of bonds to finance improvements to lockup facilities, state police lockup facilities and to finance improvements to County Correctional Facilities, and other monies received by the Department of Conservation and Recreation pertaining to state parks, reservations and recreation areas outside the metropolitan parks district; used for purposes of state parks, reservations and recreation areas outside the metropolitan parks district.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUND:

Central Artery Statewide Road and Bridge Infrastructure Fund – to account for bond proceeds, certain revenues from Registry of Motor Vehicle fees, (net of debt service expenditures) and payments from authorities. The purpose of expenditures of the fund is to meet the estimated additional costs associated with the Central Artery/Ted Williams Tunnel Project and for costs of the statewide road and bridge program.

The following fund has been enacted in legislation but was inactive in FY12 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.

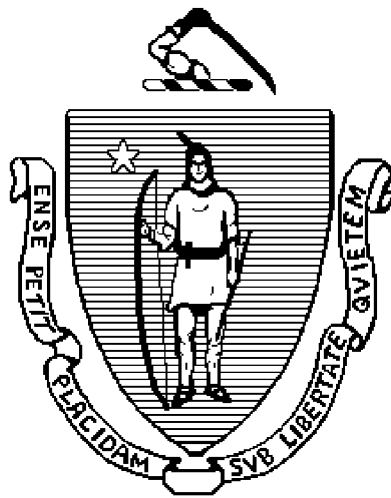
Capital Projects Funds
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2012
 (Amounts in thousands)

| | General Capital Projects | Convention and Exhibition Center Capital | Capital Improvements and Investment Trust | Highway Capital Projects |
|--|--------------------------------|---|--|--------------------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Federal grants and reimbursements..... | \$ 10,959 | \$ - | \$ - | \$ - |
| Departmental..... | - | - | - | - |
| Miscellaneous..... | - | - | - | 2,897 |
| Total revenues..... | <u>10,959</u> | <u>-</u> | <u>-</u> | <u>2,897</u> |
| Other financing sources: | | | | |
| Proceeds of general obligation bonds..... | 738,363 | - | - | 600,087 |
| Proceeds of special obligation bonds..... | - | - | - | 419,260 |
| Bonds premiums (discounts)..... | 92,344 | - | (5) | 69,357 |
| Proceeds of refunding bonds..... | 83,107 | - | 1,690 | 303,727 |
| Operating transfers in..... | - | - | - | 21,384 |
| Federal reimbursement transfer in..... | - | - | - | - |
| State share of federal highway construction..... | - | - | - | - |
| Total other financing sources..... | <u>913,814</u> | <u>-</u> | <u>1,685</u> | <u>1,413,815</u> |
| Total revenues and other financing sources..... | <u>924,773</u> | <u>-</u> | <u>1,685</u> | <u>1,416,712</u> |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Judiciary..... | 20,688 | - | - | - |
| Secretary of the Commonwealth..... | 1,538 | - | - | - |
| Treasurer and Receiver-General..... | 14,690 | - | - | 135,950 |
| Auditor of the Commonwealth..... | 489 | - | - | - |
| Attorney General..... | 901 | - | - | 337 |
| Sheriff's Departments..... | 4,329 | - | - | - |
| Board of Library Commissioners..... | 9,841 | - | - | - |
| Comptroller..... | 243 | - | - | - |
| Administration and finance..... | 577,190 | - | - | - |
| Energy and environmental affairs..... | 137,490 | - | 14 | 4,345 |
| Health and human services..... | 24,657 | - | - | - |
| Massachusetts department of transportation..... | 23,995 | - | - | 851,249 |
| Executive office of education..... | 58,095 | - | - | - |
| Public safety and homeland security..... | 36,411 | - | - | - |
| Housing and economic development..... | 197,611 | - | - | 33,380 |
| Labor and workforce development..... | 1,454 | - | - | - |
| Debt service: | | | | |
| Principal retirement..... | 82,979 | - | 1,685 | 321,467 |
| Interest and fiscal charges..... | - | - | - | 9,668 |
| Total expenditures..... | <u>1,192,601</u> | <u>-</u> | <u>1,699</u> | <u>1,356,396</u> |
| Other financing uses: | | | | |
| Payments to advance refunding escrow agent..... | - | - | - | - |
| Fringe benefit cost assessment..... | 12,231 | - | - | 34,433 |
| Operating transfers out..... | - | - | - | - |
| State share of federal highway construction..... | - | - | - | 121,681 |
| Total other financing uses..... | <u>12,231</u> | <u>-</u> | <u>-</u> | <u>156,114</u> |
| Total expenditures and other financing uses..... | <u>1,204,832</u> | <u>-</u> | <u>1,699</u> | <u>1,512,510</u> |
| Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..... | (280,059) | - | (14) | (95,798) |
| Fund balance (deficit) at beginning of year..... | 91,375 | 8,393 | (121) | 31,577 |
| Fund balance (deficit) at end of year..... | <u>\$ (188,684)</u> | <u>\$ 8,393</u> | <u>\$ (135)</u> | <u>\$ (64,221)</u> |

See accountants' review report

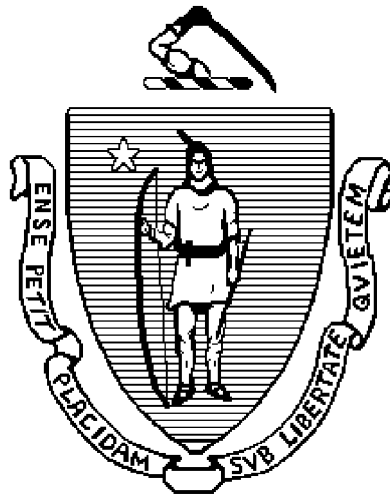
| Federal Highway Construction Program | Government Land Bank Capital Projects | Local Aid Capital Projects | MassDOT | Totals | |
|--------------------------------------|---------------------------------------|----------------------------|---|---------------------|-------------------|
| | | | Central Artery Statewide Road and Bridge Infrastructure | (Memorandum only) | |
| | | | | 2012 | 2011 |
| \$ 68,773 | \$ - | \$ - | \$ - | \$ 79,732 | \$ 168,912 |
| 204 | - | - | 10 | 214 | 810 |
| - | - | - | 183 | 3,080 | (113) |
| <u>68,977</u> | <u>-</u> | <u>-</u> | <u>193</u> | <u>83,026</u> | <u>169,609</u> |
| - | 1,868 | 49 | - | 1,340,367 | 1,633,051 |
| - | - | - | - | 419,260 | 672,587 |
| - | - | (4) | (118) | 161,574 | - |
| - | 89 | 46,501 | 44,450 | 479,564 | 540,200 |
| - | - | - | 10,868 | 32,252 | 47 |
| 481,145 | - | - | - | 481,145 | 458,410 |
| 121,681 | - | - | - | 121,681 | 57,809 |
| <u>602,826</u> | <u>1,957</u> | <u>46,546</u> | <u>55,200</u> | <u>3,035,843</u> | <u>3,362,104</u> |
| <u>671,803</u> | <u>1,957</u> | <u>46,546</u> | <u>55,393</u> | <u>3,118,869</u> | <u>3,531,713</u> |
| - | - | - | - | 20,688 | 18,950 |
| 34 | - | - | - | 1,572 | 1,553 |
| - | - | - | - | 150,640 | 10,646 |
| - | - | - | - | 489 | - |
| 25 | - | - | - | 1,263 | 1,460 |
| - | - | - | - | 4,329 | 1,305 |
| - | - | - | - | 9,841 | 9,066 |
| - | - | - | - | 243 | 1,149 |
| 372 | 1,013 | - | - | 578,575 | 526,258 |
| 21 | - | 43 | 82 | 141,995 | 149,595 |
| - | - | - | - | 24,657 | 24,475 |
| 661,060 | - | - | 26,242 | 1,562,546 | 1,468,695 |
| - | - | - | - | 58,095 | 17,880 |
| - | - | - | - | 36,411 | 32,047 |
| - | - | - | - | 230,991 | 225,417 |
| - | - | - | - | 1,454 | 7,735 |
| - | 89 | 46,497 | 44,332 | 497,049 | - |
| - | - | - | - | 9,668 | 7,080 |
| <u>661,512</u> | <u>1,102</u> | <u>46,540</u> | <u>70,656</u> | <u>3,330,506</u> | <u>2,503,311</u> |
| - | - | - | - | - | 540,200 |
| 9,905 | - | - | - | 56,569 | 47,982 |
| - | - | - | - | - | 613 |
| - | - | - | - | 121,681 | 57,809 |
| <u>9,905</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>178,250</u> | <u>646,604</u> |
| <u>671,417</u> | <u>1,102</u> | <u>46,540</u> | <u>70,656</u> | <u>3,508,756</u> | <u>3,149,915</u> |
| 386 | 855 | 6 | (15,263) | (389,887) | 381,798 |
| (386) | (855) | 6 | 69,249 | 199,238 | (182,560) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12</u> | <u>\$ 53,986</u> | <u>\$ (190,649)</u> | <u>\$ 199,238</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

See review report

Calculation of Transfers: Stabilization Fund

June 30, 2012
(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 41 of Chapter 239 of the Acts of 2012, which superseded certain parts of Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

| | <u>General</u> | <u>Commonwealth Transportation</u> | <u>Massachusetts Tourism</u> | <u>Total</u> |
|---|----------------|--|----------------------------------|--------------|
| Undesignated Budgeted Fund Balances Before Transfers | \$ 162,364 | \$ 101,199 | \$ 37,731 | \$ 301,294 |
| Fund Balance Deficit Elimination Transfers Per Sec. 41 of Ch. 239 of the Acts of 2012 | - | - | - | - |
| Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus) | 162,364 | 101,199 | 37,731 | 301,294 |
| Statutory Carryforwards and Transfers per Sec. 41 of Ch. 239 of the Acts of 2012 | | | | |
| 1/2 of 1% of Tax Revenue Carryforward to FY13 | (106,918) | | | (106,918) |
| \$15 Million Transfer from General Fund to Massachusetts Life Sciences Investment Fund | (15,000) | | | (15,000) |
| \$20 million Transfer from General Fund to Health Care Workforce Transformation Trust Fund | (20,000) | | | (20,000) |
| Distribution of \$2,703,119 from General Fund to City of New Bedford Public Schools | (2,703) | | | (2,703) |
| Transfers to General Fund to Enable \$40 Million General Fund Carryforward to FY13 | 22,257 | (16,212) | (6,045) | - |
| \$40 million General Fund Carryforward to FY13 | (40,000) | | | (40,000) |
| Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 41 of Ch. 239 of the Acts of 2012 | - | 84,987 | 31,686 | 116,673 |
| Stabilization Balance Reconciliation: | | | | |
| Balance as of July 1, 2011 | | | \$ 1,379,071 | |
| Capital Gains Tax Transfers to Stabilization Fund during FY 2012 per Chapter 29, Section 5G | | | | - |
| Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H | | | | 375,021 |
| Investment income, certain tax revenues and other recoveries | | | | 11,761 |
| Less: Transfers from Stabilization Fund | | | | |
| Investment Income to General Fund per Sec.155 of Ch. 68 of the Acts of 2011 | | | (6,986) | |
| Change in Market Value to General Fund per Sec. 155 of Ch. 68 of the Acts of 2011 | | | (3,422) | |
| To General Fund and Gaming Fund per Sec. 94 of Ch. 194 of the Acts of 2011 | | | (20,000) | |
| To General Fund Per Sec. 155 of Ch. 68 of the Acts of 2011 | | | (200,000) | |
| Total Transfers from Stabilization Fund during FY 2012 | | | (230,408) | |
| Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A | | | | - |
| Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above | | | | 116,673 |
| Stabilization Fund Balance as of June 30, 2012 | | | \$ 1,652,118 | |

Calculation Of Transfers: Tax Reduction Fund

June 30, 2012
(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..... | \$ 1,652,118 |
| Allowable Stabilization Fund balance (per Schedule B)..... | <u>4,881,982</u> |
| Stabilization Fund excess, if any, transferable to Tax Reduction Fund..... | <u>\$ -</u> |

Part 2: Status of Stabilization Fund after transfers:

| | |
|--|---------------------|
| Stabilization Fund balance..... | \$ 1,652,118 |
| Transfer to Tax Reduction Fund..... | <u>-</u> |
| Stabilization Fund balance after transfer to Tax Reduction Fund..... | <u>\$ 1,652,118</u> |

Part 3: Status of Tax Reduction Fund after transfers:

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

Schedule A
FY2012 Tax Revenues By Revenue Class and
Calculation of Allowable Net Surplus

June 30, 2012
(Amounts in thousands)

| | | |
|---|--------|----------------|
| Alcoholic beverages..... | \$ | 76,059 |
| Banks: financial institutions..... | | 266,612 |
| Cigarette..... | | 451,002 |
| Cigarette excise - Commonwealth Care..... | | 122,757 |
| Corporations..... | | 1,771,113 |
| Deeds..... | | 158,839 |
| Estate and inheritance..... | | 293,269 |
| Health care coverage penalty - Commonwealth Care..... | | 22,053 |
| Income..... | | 11,911,399 |
| Insurance..... | | 318,061 |
| Motor and special fuels..... | | 661,974 |
| Public utilities*..... | | (35,945) |
| Room occupancy..... | | 182,529 |
| Sales and use..... | | 5,079,105 |
| Club alcoholic beverages..... | | 901 |
| Motor vehicle excise..... | | 67 |
| Convention center surcharges..... | | 13,642 |
| Community preservation..... | | 27,363 |
| Satellite..... | | 12,504 |
| State racing..... | | 1,635 |
| Beano..... | | 1,898 |
| Raffles and bazaars..... | | 1,131 |
| Boxing..... | | 53 |
| DOI excess and surplus lines..... | | 24,140 |
| UI surcharge..... | | 21,386 |
| | | 21,386 |
| FY 2012 state tax revenue..... | \$ | 21,383,547 |
| | | 106,918 |
| 0.5% of total tax revenue..... | | 106,918 |
| | | 106,918 |
| Allowable consolidated net surplus..... | \$ | 106,918 |

This schedule is prepared on the statutory basis of accounting. It presents tax revenues as reported in the governmental funds of the Commonwealth. It differs from the schedule of tax collections prepared by the Comptroller, Commissioner of Revenue and State Auditor for calculations in accordance with Chapter 62F, of the General Laws as amended. The differences are due to 2/5ths of Beano revenue and the health care coverage penalty in the Commonwealth Care Fund, both of which are recognized on the statutory basis of accounting but are not accounted for on the schedule of tax collections prepared by DOR.

*Negative amount in public utilities tax primarily due to a change in corporate tax law, which resulted in some taxes in this category being paid under the Corporations Tax.

Schedule B
Calculation of Cap on Stabilization Fund

June 30, 2012
(Amounts in thousands)

| | | |
|---|----|-------------------------|
| Total budgeted revenues and other financial resources pertaining to the budgeted funds..... | \$ | 33,578,853 |
| Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C)..... | | <u>(1,032,306)</u> |
| Budgeted revenues and other financial resources pertaining to the budgeted funds..... | | <u>32,546,547</u> |
| Allowable Stabilization Fund balance, 15% of budgeted revenue..... | \$ | <u><u>4,881,982</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, 2012
(Amounts in thousands)

| | |
|---|-----------------------|
| Adjustments to revenues : | |
| Transfer to the Intragovernmental Service Fund Revenues..... | \$ (295,794) |
| Adjustments to other financing sources and uses: | |
| Fringe benefit cost assessments..... | (2,663) |
| Transfer from the Intragovernmental Service Fund to the General Fund..... | (611) |
| RMV license -plates..... | (3,075) |
| Transfer from Stabilization Fund to General Fund..... | (215,408) |
| Transfer from Budgeted Funds to Stabilization Fund..... | (375,021) |
| Year end Stabilization Fund Transfer..... | (116,673) |
| Transfer to General Fund consolidated net surplus calculation..... | (22,257) |
| Other | <u>(804)</u> |
| Elimination of budgetary interfund activity | <u>\$ (1,032,306)</u> |

Schedule D Calculation of Transfers: Temporary Holding Fund

June 30, 2012
(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.

| Period Ending: | September 30, 2011 | December 31, 2011 | March 31, 2012 | June 30, 2012 |
|---|--------------------|-------------------|----------------|---------------|
| Cumulative net state tax revenues, 2012 | \$ 5,136,829 | \$ 9,986,749 | \$ 14,900,137 | \$ 21,384,339 |
| Cumulative net state tax revenues, 2011..... | 4,819,581 | 9,732,050 | 14,550,178 | 20,776,223 |
| Permissible growth rate defined as inflation plus 2%, but not less than 0% *..... | 4.72% | 5.14% | 5.30% | 5.25% |
| Permissible state tax revenues defined as cumulative net state tax revenues, 2011 multiplied by 1 plus the permissible growth rate..... | 5,047,065 | 10,232,277 | 15,321,337 | 21,866,986 |
| Cumulative net state tax revenues 2012 in excess of permissible state tax revenues..... | \$ 89,764 | \$ - | \$ - | \$ - |

* 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, 2012
(Amounts in thousands)

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

I. Debt Collection:

Pursuant to Massachusetts General Laws Chapter 29, Section D, Chapter 7A Section 8, allows private debt collection agencies to engage in debt collection for the Commonwealth. The fees paid are contingency based from the proceeds collected. Collections and fees paid during FY12 were (amounts in thousands):

| <u>Department Collectors</u> | <u>Collections</u> | <u>Fees</u> |
|------------------------------|--------------------|---------------|
| Allen Daniels..... | \$ 2,179 | \$ 363 |
| Collecto, Inc..... | 954 | 163 |
| Delta..... | 452 | 54 |
| Glenn Associates, Inc..... | 899 | 150 |
| NCO..... | 425 | 46 |
| Windham Professionals..... | <u>662</u> | <u>140</u> |
| Total..... | <u>\$ 5,571</u> | <u>\$ 916</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> |
|------------------------------|--------------------|---------------|
| Allen Daniels..... | \$ 540 | \$ 90 |
| Collecto, Inc..... | 801 | 136 |
| Delta..... | 415 | 48 |
| Glenn Associates, Inc..... | 893 | 149 |
| NCO..... | 283 | 23 |
| Windham Professionals..... | <u>662</u> | <u>140</u> |
| Total..... | <u>\$ 3,594</u> | <u>\$ 586</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 FY12, the following amounts were generated (amounts in thousands):

| | |
|--|-------------------|
| Gross revenue maximization realized..... | \$ 820,392 |
| Contractor payments..... | <u>(27,117)</u> |
| Net revenue maximization realized..... | <u>\$ 793,275</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 FY12, the following amounts were generated (amounts in thousands):

| | |
|-----------------------------------|-------------------|
| State expenditures avoided..... | \$ 277,344 |
| Contractor payments..... | <u>(18,600)</u> |
| Net cost savings / avoidance..... | <u>\$ 258,744</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. FY12 activity (amounts in thousands):

| | |
|---|-----------|
| Total Commonwealth intercepts..... | \$ 10,875 |
| Amounts included above that were intercepted on behalf of the Institutions of Higher Education..... | \$ 5,289 |

Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

Pension Funding Progress for the last six fiscal years

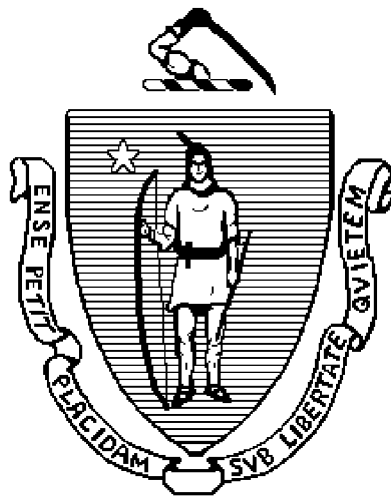
| | Actuarial Value of Plan Assets | Actuarial Accrued Liability | Unfunded Actuarial Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a % of Covered Payroll |
|---|-----------------------------------|--------------------------------|--|-----------------|---------------------------|--------------------------------------|
| State Employees' Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012.... | \$ 20,507,644 | \$ 27,784,731 | \$ 7,277,087 | 73.8% | \$ 4,922,388 | 147.8% |
| Actuarial Valuation as of January 1, 2011.... | 21,244,900 | 26,242,776 | 4,997,876 | 81.0% | 4,808,250 | 103.9% |
| Actuarial Valuation as of January 1, 2010.... | 19,019,062 | 24,862,421 | 5,843,359 | 76.5% | 4,711,563 | 124.0% |
| Actuarial Valuation as of January 1, 2009.... | 16,992,214 | 23,723,240 | 6,731,026 | 71.6% | 4,712,655 | 142.8% |
| 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% |
| Teachers' Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012.... | \$ 22,141,475 | \$ 36,483,027 | \$ 14,341,552 | 60.7% | \$ 5,655,353 | 253.6% |
| Actuarial Valuation as of January 1, 2011.... | 23,117,952 | 34,890,991 | 11,773,039 | 66.3% | 5,558,311 | 211.8% |
| Actuarial Valuation as of January 1, 2010.... | 21,262,462 | 33,738,966 | 12,476,504 | 63.0% | 5,509,698 | 226.4% |
| Actuarial Valuation as of January 1, 2009.... | 18,927,731 | 32,543,782 | 13,616,051 | 58.2% | 5,389,895 | 252.6% |
| Actuarial Valuation as of January 1, 2008.... | 22,883,553 | 30,955,504 | 8,071,951 | 73.9% | 5,163,498 | 156.3% |
| Actuarial Valuation as of January 1, 2007.... | 20,820,392 | 29,320,714 | 8,500,322 | 71.0% | 4,969,092 | 171.1% |

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2012commonwealth.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, 2012.... | \$ 360,500 | \$ 16,659,400 | \$ 16,298,900 | 2.2% | \$ 4,922,388 | 331.1% |
| Actuarial Valuation as of January 1, 2011.... | 350,500 | 16,568,600 | 16,218,100 | 2.1% | 4,808,250 | 337.3% |
| Actuarial Valuation as of January 1, 2010.... | 310,000 | 15,166,000 | 14,856,000 | 2.0% | 4,711,563 | 315.3% |
| Actuarial Valuation as of January 1, 2009.... | 273,500 | 15,305,000 | 15,031,500 | 1.8% | 4,712,655 | 319.0% |
| 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% |

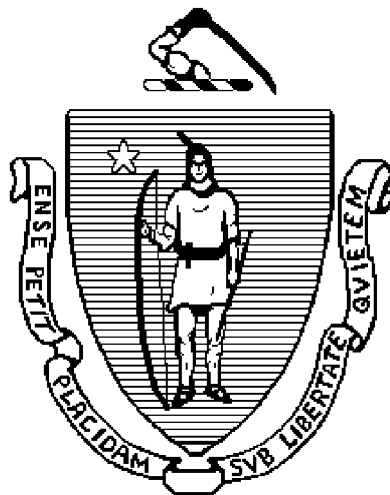
For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.



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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, 2012
(Amounts in millions)

| | 2012 | % | 2011 | % | 2010 | % | 2009 | % |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | | Total | | Total | | Total | | Total |
| Taxes..... | \$ 21,384 | 42.5 | \$ 20,776 | 38.2 | \$ 18,792 | 40.3 | \$ 18,513 | 38.8 |
| Federal reimbursements..... | 8,931 | 17.7 | 10,151 | 18.6 | 9,374 | 20.1 | 9,139 | 19.1 |
| Federal grants..... | 2,655 | 5.3 | 3,097 | 5.7 | 3,134 | 6.7 | 2,646 | 5.5 |
| Lotteries..... | 4,941 | 9.8 | 4,632 | 8.5 | 4,629 | 9.9 | 4,649 | 9.7 |
| Assessments..... | 986 | 2.0 | 960 | 1.8 | 971 | 2.1 | 894 | 1.9 |
| Motor vehicle licenses and registrations..... | 474 | 0.9 | 497 | 0.9 | 463 | 1.0 | 383 | 0.8 |
| Fees, investment earnings, etc..... | 3,582 | 7.1 | 3,462 | 6.4 | 2,830 | 6.0 | 2,800 | 5.9 |
| Proceeds of general and special obligation bonds and related premiums..... | 1,921 | 3.8 | 2,306 | 4.2 | 1,672 | 3.6 | 2,141 | 4.5 |
| Proceeds of refunding bonds..... | 480 | 1.0 | 947 | 1.7 | 538 | 1.2 | 390 | 0.8 |
| Other interfund transfers..... | 4,984 | 9.9 | 7,618 | 14.0 | 4,233 | 9.1 | 6,197 | 13.0 |
| Total revenues and other financing sources..... | <u>\$ 50,338</u> | <u>100.0</u> | <u>\$ 54,446</u> | <u>100.0</u> | <u>\$ 46,636</u> | <u>100.0</u> | <u>\$ 47,752</u> | <u>100.0</u> |

For fiscal years 2009 to 2012, this schedule reflects Budgeted, Non-Budgeted and Capital Projects revenues and other financing sources only.

| 2008 | % Total | 2007 | % Total | 2006 | % Total | 2005 | % Total | 2004 | % Total | 2003 | % Total |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 21,009 | 44.6 | \$ 19,849 | 44.4 | \$ 18,593 | 43.9 | \$ 17,192 | 40.7 | \$ 16,055 | 36.8 | \$ 15,032 | 36.2 |
| 6,937 | 14.7 | 6,830 | 15.3 | 6,307 | 14.9 | 6,018 | 14.3 | 6,331 | 14.5 | 5,528 | 13.3 |
| 2,065 | 4.4 | 1,989 | 4.5 | 2,046 | 4.8 | 1,996 | 4.7 | 2,024 | 4.6 | 1,852 | 4.5 |
| 4,915 | 10.4 | 4,670 | 10.4 | 4,739 | 11.2 | 4,705 | 11.2 | 4,605 | 10.6 | 4,425 | 10.7 |
| 806 | 1.7 | 794 | 1.8 | 793 | 1.9 | 785 | 1.9 | 746 | 1.7 | 634 | 1.5 |
| 376 | 0.8 | 374 | 0.8 | 361 | 0.9 | 401 | 1.0 | 376 | 0.9 | 383 | 0.9 |
| 3,200 | 6.8 | 2,450 | 5.6 | 2,891 | 6.8 | 2,945 | 6.8 | 2,556 | 5.9 | 2,140 | 5.2 |
| 1,306 | 2.8 | 1,604 | 3.6 | 1,838 | 4.3 | 1,354 | 3.2 | 1,993 | 4.6 | 1,911 | 4.6 |
| - | 0.0 | 1,531 | 3.4 | 633 | 1.5 | 1,385 | 3.3 | 3,302 | 7.6 | 3,398 | 8.2 |
| 6,538 | 13.9 | 4,605 | 10.3 | 4,145 | 9.8 | 5,409 | 12.8 | 5,629 | 12.9 | 6,173 | 14.9 |
| <u>\$ 47,152</u> | <u>100.0</u> | <u>\$ 44,696</u> | <u>100.0</u> | <u>\$ 42,346</u> | <u>100.0</u> | <u>\$ 42,190</u> | <u>100.0</u> | <u>\$ 43,617</u> | <u>100.0</u> | <u>\$ 41,476</u> | <u>100.0</u> |

Ten-Year Schedule Of Tax Revenues By Source
All Governmental Fund Types - Statutory Basis

June 30, 2012
(Amounts in millions)

| | 2012 | % Total | 2011 | % Total | 2010 | % Total | 2009 | % Total |
|--------------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Income..... | \$ 11,911 | 55.7 | \$ 11,576 | 55.7 | \$ 10,110 | 53.8 | \$ 10,584 | 57.2 |
| Sales and use..... | 5,079 | 23.8 | 4,921 | 23.7 | 4,626 | 24.6 | 3,880 | 21.0 |
| Corporations..... | 1,771 | 8.3 | 1,951 | 9.4 | 1,600 | 8.5 | 1,549 | 8.4 |
| Motor fuels..... | 662 | 3.1 | 661 | 3.2 | 655 | 3.5 | 654 | 3.5 |
| Cigarette..... | 451 | 2.1 | 454 | 2.2 | 456 | 2.4 | 457 | 2.5 |
| Insurance..... | 318 | 1.5 | 296 | 1.4 | 285 | 1.5 | 309 | 1.7 |
| Estate and inheritance..... | 293 | 1.4 | 310 | 1.5 | 221 | 1.2 | 260 | 1.4 |
| Banks: Financial Institutions *..... | 267 | 1.2 | (11) | -0.1 | 235 | 1.3 | 243 | 1.3 |
| Alcoholic beverages..... | 77 | 0.4 | 73 | 0.4 | 72 | 0.4 | 73 | 0.4 |
| Other..... | 555 | 2.5 | 545 | 2.6 | 532 | 2.8 | 504 | 2.6 |
| Total taxes..... | \$ 21,384 | 100.0 | \$ 20,776 | 100.0 | \$ 18,792 | 100.0 | \$ 18,513 | 100.0 |

For fiscal years 2009 to 2012, this schedule reflects Budgeted, Non-Budgeted and Capital Projects tax revenues only.

*Negative amounts in FY11 are primarily due to changes in corporate tax laws, which resulted in some financial institutions tax being classified as corporation tax.

| | 2008 | % Total | 2007 | % Total | 2006 | % Total | 2005 | % Total | 2004 | % Total | 2003 | % Total |
|----|---------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ | 12,484 | 59.4 | \$ 11,400 | 57.4 | \$ 10,483 | 56.4 | \$ 9,690 | 56.4 | \$ 8,830 | 55.0 | \$ 8,026 | 53.4 |
| | 4,098 | 19.5 | 4,076 | 20.5 | 4,009 | 21.6 | 3,891 | 22.6 | 3,743 | 23.3 | 3,708 | 24.7 |
| | 1,512 | 7.2 | 1,588 | 8.0 | 1,391 | 7.5 | 1,063 | 6.2 | 998 | 6.2 | 875 | 5.8 |
| | 673 | 3.2 | 676 | 3.4 | 672 | 3.6 | 685 | 4.0 | 684 | 4.3 | 676 | 4.5 |
| | 437 | 2.1 | 438 | 2.2 | 435 | 2.3 | 424 | 2.5 | 425 | 2.6 | 451 | 3.0 |
| | 369 | 1.8 | 369 | 1.9 | 397 | 2.1 | 373 | 2.2 | 374 | 2.3 | 345 | 2.3 |
| | 254 | 1.2 | 250 | 1.3 | 196 | 1.1 | 255 | 1.5 | 195 | 1.2 | 181 | 1.2 |
| | 548 | 2.6 | 341 | 1.7 | 350 | 1.9 | 199 | 1.2 | 239 | 1.5 | 269 | 1.8 |
| | 72 | 0.3 | 71 | 0.4 | 70 | 0.4 | 69 | 0.4 | 69 | 0.4 | 67 | 0.5 |
| | 562 | 2.7 | 640 | 3.2 | 590 | 3.1 | 543 | 3.3 | 498 | 3.2 | 434 | 2.9 |
| \$ | <u>21,009</u> | <u>100.0</u> | \$ <u>19,849</u> | <u>100.0</u> | \$ <u>18,593</u> | <u>100.0</u> | \$ <u>17,192</u> | <u>100.0</u> | \$ <u>16,055</u> | <u>100.0</u> | \$ <u>15,032</u> | <u>100.0</u> |

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

June 30, 2012
(Amounts in millions)

| | 2012 | % | 2011 | % | 2010 | % | 2009 | % |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | | Total | | Total | | Total | | Total |
| Legislature..... | \$ 58 | 0.1 | \$ 58 | 0.1 | \$ 59 | 0.1 | \$ 60 | 0.1 |
| Judiciary..... | 780 | 1.5 | 788 | 1.5 | 788 | 1.7 | 814 | 1.6 |
| Inspector General..... | 3 | - | 3 | - | 4 | - | 3 | - |
| Governor and Lieutenant Governor..... | 7 | - | 5 | - | 5 | - | 8 | - |
| Secretary of the Commonwealth..... | 43 | 0.1 | 46 | 0.1 | 54 | 0.1 | 53 | 0.1 |
| Treasurer and Receiver-General..... | 5,847 | 11.6 | 5,610 | 10.6 | 5,483 | 11.5 | 6,043 | 12.2 |
| Auditor of the Commonwealth..... | 18 | - | 17 | - | 17 | - | 20 | - |
| Attorney General..... | 53 | 0.1 | 51 | 0.1 | 53 | 0.1 | 57 | 0.1 |
| Ethics Commission..... | 2 | - | 2 | - | 2 | - | 2 | - |
| District attorney..... | 101 | 0.2 | 97 | 0.2 | 96 | 0.2 | 104 | 0.2 |
| Office of Campaign and Political Finance..... | 1 | - | 3 | - | 1 | - | 1 | - |
| Sheriff's Departments..... | 532 | 1.1 | 511 | 1.0 | 378 | 0.8 | 295 | 0.6 |
| Disabled Persons Protection Commission..... | 2 | - | 2 | - | 2 | - | 3 | - |
| Board of Library Commissioners..... | 34 | 0.1 | 34 | 0.1 | 34 | 0.1 | 48 | 0.1 |
| Comptroller..... | 1 | - | 14 | - | 15 | - | 14 | - |
| Administration and finance..... | 13 | - | 7,206 | 13.7 | 7,040 | 14.9 | 6,892 | 14.2 |
| Energy and environmental affairs..... | 7,456 | 14.8 | 482 | 0.9 | 529 | 1.1 | 526 | 1.1 |
| Housing and community development..... | 456 | 0.9 | - | - | - | - | - | - |
| Health and human services..... | 17,632 | 35.0 | 17,737 | 33.5 | 16,044 | 33.8 | 16,468 | 33.3 |
| Transportation and public works..... | - | - | - | - | 509 | 1.1 | 1,689 | 3.4 |
| Massachusetts department of transportation.... | 2,323 | 4.6 | 2,278 | 4.3 | 1,542 | 3.2 | - | - |
| Executive office of education..... | 3,030 | 6.0 | 3,225 | 6.1 | 3,184 | 6.7 | 3,390 | 6.9 |
| Public safety and homeland security..... | 1,236 | 2.5 | 1,172 | 2.2 | 1,308 | 2.7 | 1,456 | 2.9 |
| Housing and economic development | 1,203 | 2.4 | 1,283 | 2.4 | 1,245 | 2.6 | 981 | 2.0 |
| Labor and workforce development..... | 390 | 0.8 | 428 | 0.8 | 403 | 0.8 | 331 | 0.7 |
| Elder affairs..... | - | - | - | - | - | - | - | - |
| Consumer affairs..... | - | - | - | - | - | - | - | - |
| Labor..... | - | - | - | - | - | - | - | - |
| Post employment benefits..... | 1,892 | 3.8 | 1,839 | 3.5 | 1,749 | 3.7 | 1,314 | 2.7 |
| Debt service..... | 2,660 | 5.3 | 2,128 | 4.0 | 2,117 | 4.5 | 2,145 | 4.3 |
| Payments to advance refunding | | | | | | | | |
| escrow agent..... | - | - | 540 | 1.0 | 538 | 1.1 | - | - |
| Other fund deficit support..... | - | - | - | - | - | - | 220 | 0.4 |
| Other interfund transfers..... | 4,606 | 9.1 | 7,337 | 13.9 | 4,373 | 9.2 | 6,456 | 13.1 |
| Total expenditures and other financing uses.... | <u>\$ 50,379</u> | <u>100.0</u> | <u>\$ 52,896</u> | <u>100.0</u> | <u>\$ 47,572</u> | <u>100.0</u> | <u>\$ 49,393</u> | <u>100.0</u> |

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 fiscal years 2009 to 2012, this schedule reflects Budgeted, Non-Budgeted and Capital Projects expenditures and other financing uses only.

| 2008 | % Total | 2007 | % Total | 2006 | % Total | 2005 | % Total | 2004 | % Total | 2003 | % Total |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 58 | 0.1 | \$ 59 | 0.2 | \$ 55 | 0.1 | \$ 54 | 0.1 | \$ 51 | 0.1 | \$ 55 | 0.1 |
| 831 | 1.7 | 788 | 1.8 | 672 | 1.6 | 634 | 1.5 | 599 | 1.4 | 589 | 1.4 |
| 3 | - | 3 | - | 3 | - | 4 | - | 2 | - | 2 | - |
| 9 | - | 5 | - | 5 | - | 5 | - | 5 | - | 5 | - |
| 53 | 0.1 | 55 | 0.1 | 45 | 0.1 | 50 | 0.1 | 45 | 0.1 | 49 | 0.1 |
| 5,640 | 11.8 | 5,267 | 11.7 | 5,635 | 13.6 | 5,760 | 13.7 | 4,600 | 11.1 | 4,416 | 10.5 |
| 19 | - | 18 | - | 19 | - | 18 | - | 16 | - | 17 | - |
| 56 | 0.1 | 52 | 0.1 | 49 | 0.1 | 45 | 0.1 | 44 | 0.1 | 45 | 0.1 |
| 2 | - | 2 | - | 1 | - | 2 | - | 1 | - | 1 | - |
| 104 | 0.2 | 96 | 0.2 | 88 | 0.2 | 82 | 0.2 | 81 | 0.2 | 79 | 0.2 |
| 1 | - | 2 | - | 1 | - | 1 | - | 1 | - | 1 | - |
| 296 | 0.7 | 275 | 0.6 | 251 | 0.6 | 226 | 0.5 | 218 | 0.5 | 216 | 0.5 |
| 2 | - | 2 | - | 2 | - | 2 | - | 2 | - | 2 | - |
| 46 | 0.1 | 42 | 0.1 | 49 | 0.1 | 47 | 0.1 | 48 | 0.1 | 46 | 0.1 |
| 14 | - | 14 | - | 14 | 0.0 | 21 | - | 35 | 0.1 | 21 | - |
| 7,059 | 14.8 | 7,043 | 15.7 | 6,601 | 16.1 | 6,235 | 14.8 | 6,184 | 15.0 | 6,241 | 14.9 |
| 473 | 1.0 | 450 | 1.0 | 390 | 0.9 | 346 | 0.8 | 336 | 0.8 | 357 | 0.9 |
| - | - | 509 | 1.1 | 659 | 1.6 | 597 | 1.4 | 589 | 1.4 | 568 | 1.4 |
| 15,504 | 32.5 | 14,456 | 32.2 | 13,539 | 32.6 | 13,383 | 31.8 | 12,504 | 30.1 | 11,338 | 27.0 |
| 1,378 | 2.9 | 1,404 | 3.1 | 1,376 | 3.3 | 1,569 | 3.7 | 1,586 | 3.8 | 1,844 | 4.4 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| 2,989 | 6.3 | 2,936 | 6.5 | 2,726 | 6.6 | 2,250 | 5.4 | 2,481 | 6.0 | 2,589 | 6.2 |
| 1,381 | 2.9 | 1,253 | 2.8 | 1,180 | 2.8 | 1,111 | 2.6 | 1,160 | 2.8 | 1,156 | 2.8 |
| 857 | 1.8 | 508 | 1.1 | 323 | 0.8 | 299 | 0.7 | 326 | 0.8 | 31 | 0.1 |
| 274 | 0.6 | 67 | 0.1 | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | 315 | 0.8 |
| - | - | - | - | - | - | - | - | - | - | 55 | 0.1 |
| - | - | - | - | - | - | - | - | - | - | 282 | 0.7 |
| 1,399 | 2.9 | 1,335 | 3.0 | 1,275 | 3.1 | 1,217 | 2.9 | 702 | 1.7 | 813 | 1.9 |
| 2,239 | 4.7 | 2,352 | 5.2 | 2,028 | 4.9 | 1,719 | 4.1 | 1,605 | 3.9 | 1,467 | 3.5 |
| - | - | 1,531 | 3.4 | 633 | 1.5 | 1,153 | 2.7 | 2,833 | 6.8 | 3,398 | 8.1 |
| 1,593 | 3.3 | - | - | - | - | - | - | - | - | - | - |
| 5,403 | 11.3 | 4,383 | 9.8 | 3,887 | 9.4 | 5,197 | 12.4 | 5,503 | 13.2 | 5,963 | 14.2 |
| <u>\$ 47,683</u> | <u>100.0</u> | <u>\$ 44,907</u> | <u>100.0</u> | <u>\$ 41,506</u> | <u>100.0</u> | <u>\$ 42,027</u> | <u>100.0</u> | <u>\$ 41,556</u> | <u>100.0</u> | <u>\$ 41,961</u> | <u>100.0</u> |

**Ten-Year Schedule Of Budgeted Funds Expenditures and Other Financing Uses By
Major Program Category**
June 30, 2012
(Amounts in millions)

| | 2012 | 2011 | 2010 | 2009 | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Direct local aid..... | \$ 4,929 | \$ 4,785 | \$ 4,837 | \$ 4,724 | \$ 5,040 | \$ 5,033 | \$ 4,619 | \$ 4,477 | \$ 4,784 | \$ 5,069 |
| Medicaid**..... | 10,431 | 10,237 | 9,287 | 8,537 | 8,104 | 7,413 | 6,726 | 5,857 | 5,742 | 5,485 |
| Other health and human services..... | 4,711 | 4,615 | 4,616 | 4,970 | 5,014 | - | - | - | - | - |
| Public assistance..... | - | - | - | - | - | 1,258 | 1,129 | 1,095 | 1,019 | 1,019 |
| Elementary and secondary education..... | 436 | 349 | 358 | 496 | 486 | - | - | - | - | - |
| Higher education..... | 937 | 943 | 846 | 1,036 | 1,085 | 1,116 | 988 | 915 | 831 | 969 |
| Early education and care..... | 494 | 515 | 513 | 560 | 550 | - | - | - | - | - |
| Public safety..... | 930 | 905 | 1,053 | 1,224 | 1,265 | - | - | - | - | - |
| Energy and environment..... | 187 | 186 | 202 | 216 | 227 | - | - | - | - | - |
| MBTA and regional transit authorities..... | - | - | - | - | - | 52 | 50 | 49 | 53 | 42 |
| Post employment benefits..... | 1,892 | 1,839 | 1,749 | 1,314 | 1,399 | 1,335 | 1,275 | 1,217 | 702 | 813 |
| Group health insurance..... | 1,206 | 1,130 | 1,064 | 973 | 853 | 1,022 | 964 | 846 | 788 | 739 |
| Debt service..... | 1,923 | 1,664 | 1,860 | 1,891 | 1,868 | 2,085 | 1,666 | 1,581 | 1,420 | 1,374 |
| Major programs..... | 28,076 | 27,168 | 26,385 | 25,941 | 25,891 | 19,314 | 17,417 | 16,037 | 15,339 | 15,510 |
| Other program expenditures..... | 2,899 | 2,851 | 2,999 | 2,762 | 2,739 | 8,343 | 7,777 | 7,247 | 6,819 | 6,700 |
| Interfund transfers and other financing uses.. | 2,515 | 5,520 | 1,810 | 3,867 | 4,405 | 1,819 | 1,749 | 2,726 | 2,749 | 3,540 |
| Total expenditures and other financing uses.. | \$ 33,490 | \$ 35,539 | \$ 31,194 | \$ 32,570 | \$ 33,035 | \$ 29,476 | \$ 26,943 | \$ 26,010 | \$ 24,907 | \$ 25,750 |

* Current presentation aligned with Bond Official Statements - Commonwealth Expenditures - Budgeted Operating Funds

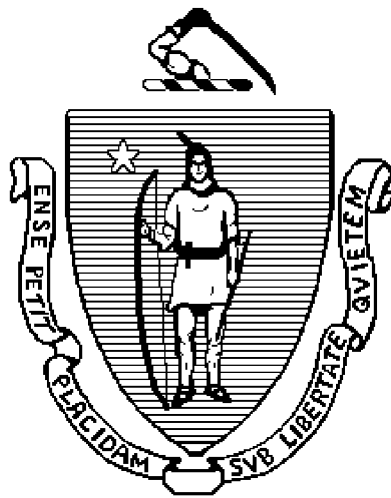
** Exclusive of Non-Budgeted Medicaid spending from FY03 through FY2007 within the Health Care Quality Improvement Fund totalling \$201 million, \$288 million, \$292 million, \$292 million and \$290 million in FY03 through FY07 respectively.

Ten-Year Schedule Of Long-Term Bonds And Notes Outstanding

Fiscal Year Ended June 30, 2012
(Amounts in millions)

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| General obligation bonds..... | \$18,852 | \$18,517 | \$17,683 | \$17,052 | \$16,085 | \$16,033 | \$15,393 | \$14,492 | \$14,143 | \$13,651 |
| Grant anticipation notes*..... | 610 | 766 | 991 | 1,134 | 1,536 | 1,666 | 1,789 | 1,907 | 1,907 | 1,499 |
| Special obligation bonds..... | 1,972 | 1,592 | 1,053 | 1,079 | 1,113 | 1,249 | 1,279 | 1,458 | 1,332 | 813 |
| Commonwealth long-term bonds... | \$ 21,434 | \$ 20,875 | \$ 19,727 | \$ 19,265 | \$ 18,734 | \$ 18,948 | \$ 18,461 | \$ 17,857 | \$ 17,382 | \$ 15,963 |

*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, 2012
(Amounts in thousands)

| | University of Massachusetts | State Universities and Colleges | Community Colleges | TOTALS | |
|--|-----------------------------------|---------------------------------------|-----------------------|--------------|--------------|
| | | | | 2012 | 2011* |
| Revenues and other financing sources | | | | | |
| Federal grants and reimbursements..... | \$ 404,707 | \$ 49,182 | \$ 184,809 | \$ 638,698 | \$ 627,346 |
| Departmental revenue..... | 1,061,880 | 392,689 | 366,999 | 1,821,568 | 1,695,310 |
| Miscellaneous revenue..... | 1,015,762 | 336,813 | 284,176 | 1,636,751 | 1,618,646 |
| Total revenues and other financing sources..... | 2,482,349 | 778,684 | 835,984 | 4,097,017 | 3,941,302 |
| Expenditures and other financing uses (by MMARS subsidiary): | | | | | |
| AA Regular employee compensation..... | 612,273 | 143,177 | 175,189 | 930,639 | 801,352 |
| BB Regular employee related expenses..... | 22,529 | 4,621 | 3,693 | 30,843 | 28,827 |
| CC Special employees and contracted services..... | 228,776 | 115,910 | 202,358 | 547,044 | 508,716 |
| DD Pension and insurance..... | 201,411 | 42,413 | 42,520 | 286,344 | 240,763 |
| EE Administrative expenditures..... | 224,678 | 62,007 | 76,700 | 363,385 | 195,833 |
| FF Facility operational supplies..... | 190,713 | 13,183 | 21,699 | 225,595 | 207,708 |
| GG Energy costs and space rental..... | 130,107 | 29,302 | 24,184 | 183,593 | 183,123 |
| HH Consultant services..... | 198,014 | 12,259 | 9,722 | 219,995 | 228,089 |
| JJ Operational services..... | 39,118 | 30,037 | 7,738 | 76,893 | 71,919 |
| KK Equipment purchase..... | 25,443 | 6,792 | 9,272 | 41,507 | 40,512 |
| LL Equipment leases, maintenance and repair..... | 22,818 | 7,812 | 5,711 | 36,341 | 38,316 |
| MM Purchased client services and programs..... | 18,352 | 3,066 | 3,998 | 25,416 | 26,199 |
| NN Construction and improvements..... | 98,858 | 31,927 | 19,238 | 150,023 | 173,313 |
| PP Aid to local governments..... | - | 93 | 323 | 416 | 489 |
| RR Benefit programs..... | 174,080 | 80,808 | 168,858 | 423,746 | 517,600 |
| SS Debt payment..... | 362 | 7,623 | 1,824 | 9,809 | 8,553 |
| TT Loans and special payments..... | 176,505 | 141,038 | 28,346 | 345,889 | 427,366 |
| UU Information technology (IT) expenses | 77,821 | 19,298 | 33,451 | 130,570 | 119,456 |
| Total expenditures and other financing uses..... | 2,441,858 | 751,366 | 834,824 | 4,028,048 | 3,818,134 |
| Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses..... | 40,491 | 27,318 | 1,160 | 68,969 | 123,168 |
| Fund balance at beginning of year..... | 767,598 | 281,359 | 272,313 | 1,321,270 | 1,198,102 |
| Fund balance at end of year..... | \$ 808,089 | \$ 308,677 | \$ 273,473 | \$ 1,390,239 | \$ 1,321,270 |

* Fund balances restated

University Of Massachusetts
Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | <u>2012</u> | <u>2011*</u> |
|--|-------------------|-------------------|
| Revenues and other financing sources | | |
| Federal grants and reimbursements..... | \$ 404,707 | \$ 401,416 |
| Departmental revenue..... | 1,061,880 | 978,739 |
| Miscellaneous revenue..... | <u>1,015,762</u> | <u>1,030,766</u> |
| Total revenues and other financing sources..... | <u>2,482,349</u> | <u>2,410,921</u> |
| Expenditures and other financing uses | | |
| (by MMARS subsidiary): | | |
| AA Regular employee compensation..... | 612,273 | 561,660 |
| BB Regular employee related expenses..... | 22,529 | 21,729 |
| CC Special employees and contracted services..... | 228,776 | 219,923 |
| DD Pension and insurance..... | 201,411 | 174,804 |
| EE Administrative expenditures..... | 224,678 | 90,283 |
| FF Facility operational supplies..... | 190,713 | 171,378 |
| GG Energy costs and space rental..... | 130,107 | 130,688 |
| HH Consultant services..... | 198,014 | 208,171 |
| JJ Operational services..... | 39,118 | 36,440 |
| KK Equipment purchase..... | 25,443 | 20,193 |
| LL Equipment leases, maintenance and repair..... | 22,818 | 22,632 |
| MM Purchased client services and programs..... | 18,352 | 18,804 |
| NN Construction and improvements..... | 98,858 | 118,334 |
| RR Benefit programs..... | 174,080 | 256,436 |
| SS Debt payment..... | 362 | - |
| TT Loans and special payments..... | 176,505 | 279,797 |
| UU Information technology (IT) expenses | <u>77,821</u> | <u>79,173</u> |
| Total expenditures and other financing uses..... | <u>2,441,858</u> | <u>2,410,445</u> |
| Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses..... | 40,491 | 476 |
| Fund balance at beginning of year..... | <u>767,598</u> | <u>767,122</u> |
| Fund balance at end of year..... | <u>\$ 808,089</u> | <u>\$ 767,598</u> |

* Fund balances restated

State University and College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | Bridgewater State University | Framingham State University | Fitchburg State University | Massachusetts College of Art |
|--|------------------------------------|-----------------------------------|----------------------------------|------------------------------------|
| Revenues and other financing sources | | | | |
| Federal grants and reimbursements..... | \$ 12,805 | \$ 4,299 | \$ 6,047 | \$ 2,512 |
| Departmental revenue..... | 103,097 | 41,906 | 46,320 | 19,808 |
| Miscellaneous revenue..... | 65,104 | 43,658 | 20,992 | 16,754 |
| Total revenues and other financing sources..... | <u>181,006</u> | <u>89,863</u> | <u>73,359</u> | <u>39,074</u> |
| Expenditures and other financing uses (by MMARS subsidiary): | | | | |
| AA Regular employee compensation..... | 51,425 | 7,870 | 15,467 | 9,808 |
| BB Regular employee related expenses..... | 1,158 | 301 | 284 | 445 |
| CC Special employees and contracted services..... | 35,916 | 9,162 | 10,824 | 5,766 |
| DD Pension and insurance..... | 16,829 | 2,567 | 4,484 | 1,200 |
| EE Administrative expenditures..... | 9,981 | 29,483 | 2,509 | 2,009 |
| FF Facility operational supplies..... | 2,314 | 1,482 | 1,084 | 1,159 |
| GG Energy costs and space rental..... | 5,323 | 3,487 | 3,722 | 1,551 |
| HH Consultant services..... | 3,262 | 1,674 | 633 | 1,334 |
| JJ Operational services..... | 9,520 | 5,554 | 39 | 1,469 |
| KK Equipment purchase..... | 2,297 | 837 | 810 | 589 |
| LL Equipment leases, maintenance and repair..... | 3,409 | 645 | 688 | 232 |
| MM Purchased client services and programs..... | 1,160 | 600 | 127 | - |
| NN Construction and improvements..... | 4,742 | 1,992 | 2,477 | 4,169 |
| PP Aid to local governments..... | - | 93 | - | - |
| RR Benefit programs..... | 19,060 | 6,176 | 8,435 | 5,530 |
| SS Debt payment..... | - | 429 | - | - |
| TT Loans and special payments..... | 13,424 | 11,079 | 19,633 | 2,799 |
| UU Information technology (IT) expenses..... | 145 | 3,237 | 3,001 | 1,629 |
| Total expenditures and other financing uses..... | <u>179,965</u> | <u>86,668</u> | <u>74,217</u> | <u>39,689</u> |
| Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses... | 1,041 | 3,195 | (858) | (615) |
| Fund balance at beginning of year..... | 34,873 | 38,014 | 49,288 | 15,778 |
| Fund balance at end of year..... | <u>\$ 35,914</u> | <u>\$ 41,209</u> | <u>\$ 48,430</u> | <u>\$ 15,163</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 | |
|--------------------------------------|---|------------------------------|----------------------------------|----------------------------------|-------------------|-------------------|
| | | | | | 2012 | 2011 |
| \$ 1,114 | \$ 3,347 | \$ 11,533 | \$ 354 | \$ 7,171 | \$ 49,182 | \$ 48,137 |
| 26,528 | 21,389 | 19,950 | 48,630 | 65,061 | 392,689 | 377,283 |
| 11,459 | 15,174 | 114,557 | 16,983 | 32,132 | 336,813 | 332,871 |
| <u>39,101</u> | <u>39,910</u> | <u>146,040</u> | <u>65,967</u> | <u>104,364</u> | <u>778,684</u> | <u>758,291</u> |
| 6,421 | 8,925 | 23,100 | 2,564 | 17,597 | 143,177 | 101,034 |
| 555 | 405 | 228 | 660 | 585 | 4,621 | 3,730 |
| 5,439 | 8,238 | 16,580 | 7,024 | 16,961 | 115,910 | 103,632 |
| 1,072 | 1,177 | 7,949 | 534 | 6,601 | 42,413 | 30,495 |
| 1,342 | 2,010 | 9,193 | 2,777 | 2,703 | 62,007 | 46,092 |
| 1,031 | 419 | 3,010 | 1,523 | 1,161 | 13,183 | 13,705 |
| 2,032 | 1,287 | 4,853 | 2,043 | 5,004 | 29,302 | 30,716 |
| 719 | 914 | 1,271 | 1,404 | 1,048 | 12,259 | 11,759 |
| 6,384 | 3,665 | 1,602 | 705 | 1,099 | 30,037 | 28,637 |
| 311 | 305 | 620 | 446 | 577 | 6,792 | 8,066 |
| 483 | 303 | 599 | 774 | 679 | 7,812 | 8,058 |
| - | - | 669 | - | 510 | 3,066 | 3,025 |
| 1,289 | 5,049 | 5,083 | 2,163 | 4,963 | 31,927 | 35,075 |
| - | - | - | - | - | 93 | 93 |
| 1,079 | 5,463 | 17,495 | 8,866 | 8,704 | 80,808 | 108,530 |
| - | 47 | - | - | 7,147 | 7,623 | 6,777 |
| 3,797 | 2,917 | 57,991 | 5,984 | 23,414 | 141,038 | 121,125 |
| 1,652 | 685 | 4,801 | 1,503 | 2,645 | 19,298 | 19,116 |
| <u>33,606</u> | <u>41,809</u> | <u>155,044</u> | <u>38,970</u> | <u>101,398</u> | <u>751,366</u> | <u>679,665</u> |
| 5,495 | (1,899) | (9,004) | 26,997 | 2,966 | 27,318 | 78,626 |
| 12,669 | 16,947 | 42,855 | 36,152 | 34,784 | 281,359 | 202,733 |
| <u>\$ 18,164</u> | <u>\$ 15,048</u> | <u>\$ 33,851</u> | <u>\$ 63,149</u> | <u>\$ 37,750</u> | <u>\$ 308,677</u> | <u>\$ 281,359</u> |

Community College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

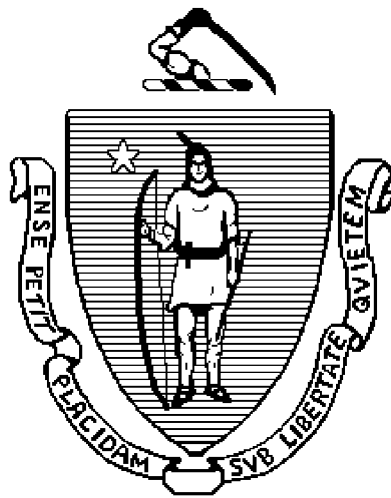
Fiscal Year Ended June 30, 2012

(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 |
|--|-----------------------------------|-------------------------------------|---------------------------------|----------------------------------|------------------------------------|---------------------------------|-----------------------------------|
| Revenues and other financing sources | | | | | | | |
| Federal grants and reimbursements..... | \$ 4,943 | \$ 26,153 | \$ 17,420 | \$ 5,316 | \$ 5,008 | \$ 14,100 | \$ 16,175 |
| Departmental revenue..... | 7,048 | 44,919 | 14,053 | 12,798 | 12,155 | 14,101 | 29,657 |
| Miscellaneous revenue..... | 6,491 | 26,783 | 46,399 | 13,136 | 7,597 | 18,096 | 18,746 |
| Total revenues and other financing sources..... | <u>18,482</u> | <u>97,855</u> | <u>77,872</u> | <u>31,250</u> | <u>24,760</u> | <u>46,297</u> | <u>64,578</u> |
| Expenditures and other financing uses | | | | | | | |
| (by MMARS subsidiary): | | | | | | | |
| AA Regular employee compensation..... | 3,475 | 33,911 | 14,354 | 4,931 | 6,927 | 7,028 | 11,034 |
| BB Regular employee related expenses..... | 83 | 166 | 315 | 158 | 484 | 385 | 64 |
| CC Special employees and contracted services..... | 5,956 | 15,226 | 28,056 | 10,186 | 4,822 | 8,703 | 17,481 |
| DD Pension and insurance..... | 1,347 | 2,940 | 5,734 | 2,035 | 2,507 | 2,368 | 4,254 |
| EE Administrative expenditures..... | 1,009 | 2,578 | 1,846 | 1,281 | 643 | 1,646 | 2,206 |
| FF Facility operational supplies..... | 400 | 1,134 | 881 | 395 | 891 | 3,350 | 1,232 |
| GG Energy costs and space rental..... | 789 | 1,677 | 2,104 | 1,497 | 1,132 | 1,065 | 1,252 |
| HH Consultant services..... | 335 | 559 | 697 | 461 | 704 | 294 | 281 |
| JJ Operational services..... | 547 | 1,684 | 583 | 236 | 591 | 891 | 262 |
| KK Equipment purchase..... | 313 | 768 | 966 | 91 | 282 | 635 | 598 |
| LL Equipment leases, maintenance and repair..... | 166 | 742 | 220 | 82 | 161 | 173 | 587 |
| MM Purchased client services and programs..... | 29 | 465 | 753 | - | 14 | 42 | 606 |
| NN Construction and improvements..... | 898 | 2,351 | 2,357 | 912 | 523 | 1,679 | 3,455 |
| PP Aid to local governments..... | - | - | 294 | - | 5 | - | - |
| RR Benefit programs..... | 2,407 | 26,823 | 18,179 | 6,930 | 5,273 | 15,694 | 12,079 |
| SS Debt payment..... | 25 | - | - | - | - | 150 | 171 |
| TT Loans and special payments..... | 299 | - | 260 | 96 | 76 | - | 5,423 |
| UU Information technology (IT) expenses..... | 744 | 3,479 | 1,843 | 1,070 | 763 | 2,431 | 1,754 |
| Total expenditures and other financing uses..... | <u>18,822</u> | <u>94,503</u> | <u>79,442</u> | <u>30,361</u> | <u>25,798</u> | <u>46,534</u> | <u>62,739</u> |
| Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses..... | (340) | 3,352 | (1,570) | 889 | (1,038) | (237) | 1,839 |
| Fund balance at beginning of year..... | 3,575 | 20,564 | 16,955 | 16,854 | 1,716 | 11,408 | 17,123 |
| Fund balance at end of year..... | <u>\$ 3,235</u> | <u>\$ 23,916</u> | <u>\$ 15,385</u> | <u>\$ 17,743</u> | <u>\$ 678</u> | <u>\$ 11,171</u> | <u>\$ 18,962</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 | |
|--|-----------------------------------|--|---|--|--------------------------------------|---------------------------------|--|-------------------|-------------------|
| | | | | | | | | 2012 | 2011 |
| \$ 6,700 | \$ 20,824 | \$ 570 | \$ 13,289 | \$ 16,548 | \$ 15,080 | \$ 8,013 | \$ 14,670 | \$ 184,809 | \$ 177,793 |
| 21,248 | 32,839 | 29,797 | 41,421 | 31,608 | 46,498 | 1,905 | 26,952 | 366,999 | 339,288 |
| 13,447 | 29,230 | 19,472 | 26,781 | 18,005 | 925 | 26,362 | 12,706 | 284,176 | 255,009 |
| <u>41,395</u> | <u>82,893</u> | <u>49,839</u> | <u>81,491</u> | <u>66,161</u> | <u>62,503</u> | <u>36,280</u> | <u>54,328</u> | <u>835,984</u> | <u>772,090</u> |
| 4,154 | 18,931 | 23,723 | 6,034 | 26,453 | 10,475 | 1,484 | 2,275 | 175,189 | 138,658 |
| 176 | 552 | 279 | 35 | 161 | 498 | 79 | 258 | 3,693 | 3,368 |
| 12,515 | 25,824 | 8,452 | 7,088 | 8,176 | 13,260 | 28,017 | 8,596 | 202,358 | 185,161 |
| 2,456 | 7,177 | 2,126 | 1,967 | 2,497 | 3,595 | 567 | 950 | 42,520 | 35,464 |
| 10,384 | 2,891 | 1,596 | 42,733 | 2,205 | 2,402 | 620 | 2,660 | 76,700 | 59,458 |
| 526 | 1,287 | 1,401 | 29 | 3,929 | 4,446 | 580 | 1,218 | 21,699 | 22,625 |
| 2,100 | 5,702 | 1,988 | 103 | 1,363 | 1,176 | 634 | 1,602 | 24,184 | 21,719 |
| - | 2 | 558 | 19 | 1,066 | 1,846 | 597 | 2,303 | 9,722 | 8,159 |
| - | - | 244 | 56 | 275 | 223 | 643 | 1,503 | 7,738 | 6,842 |
| - | 894 | 977 | 56 | 1,112 | 704 | 154 | 1,722 | 9,272 | 12,253 |
| - | 508 | 890 | 10 | 111 | 631 | 142 | 1,288 | 5,711 | 7,626 |
| 278 | - | 591 | - | 190 | - | 11 | 1,019 | 3,998 | 4,370 |
| 2,189 | 4 | 482 | 591 | 1,178 | 569 | 333 | 1,717 | 19,238 | 19,904 |
| - | - | 24 | - | - | - | - | - | 323 | 396 |
| 3,064 | 115 | 4,063 | 23,508 | 14,518 | 16,744 | 1,241 | 18,220 | 168,858 | 152,634 |
| 10 | - | 117 | - | 1,318 | 33 | - | - | 1,824 | 1,776 |
| - | 20,291 | 1,718 | - | - | 183 | - | - | 28,346 | 26,444 |
| 11,320 | 69 | 46 | 73 | 2,502 | 6,256 | 1,047 | 54 | 33,451 | 21,167 |
| <u>49,172</u> | <u>84,247</u> | <u>49,275</u> | <u>82,302</u> | <u>67,054</u> | <u>63,041</u> | <u>36,149</u> | <u>45,385</u> | <u>834,824</u> | <u>728,024</u> |
| (7,777) | (1,354) | 564 | (811) | (893) | (538) | 131 | 8,943 | 1,160 | 44,066 |
| <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> |
| <u>\$ 42,750</u> | <u>\$ 8,597</u> | <u>\$ 7,519</u> | <u>\$ 8,588</u> | <u>\$ 12,179</u> | <u>\$ 3,568</u> | <u>\$ 16,053</u> | <u>\$ 83,130</u> | <u>\$ 273,473</u> | <u>\$ 272,313</u> |



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Exhibit C

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Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

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

Cranberry Harvest, Nantucket, MA

Photography courtesy of Massachusetts Office of Travel & Tourism.

Photographer, Michael Galvin

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

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Introductory Section

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

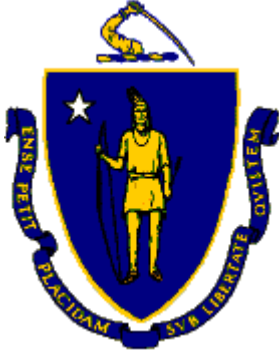


Apple Barrel, Davis Farm and MegaMaze, Sterling
Credit: Davis Farmland

Seventh generation family-run animal farm encourages interaction with pets and livestock; pony and hay rides. Corn stalk maze with three miles of pathways and bridges, covers eight acres.



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

December 19, 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 2012 (FY12) 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 FY12 are found in the Statutory Basis Financial Report (SBFR) issued separately this past October. 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, and is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

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

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

| | |
|---|-----------------------------|
| Governmental Funds - Statutory Basis, June 30, 2012: | |
| Budgeted Fund Balance..... | \$ 1,989.7 |
| Non Budgeted Special Revenue Fund Balance..... | 2,059.5 |
| Capital Projects Fund Balance..... | <u>(190.6)</u> |
| Governmental Fund Balance - Statutory Basis, June 30, 2012..... | \$ 3,858.6 |
| Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes..... | 545.4 |
| Less: Massachusetts Department of Transportation Funds..... | <u>(1,270.2)</u> |
| Adjusted Statutory Governmental Fund Balance..... | 3,133.8 |
| Short term accruals, net of allowances and deferrals for increases /(decreases): | |
| Taxes, net of refunds and abatements..... | \$ 1,893.2 |
| Tobacco Settlement Agreement receivable..... | 126.8 |
| Medicaid..... | (247.1) |
| Other short term accruals: | |
| Assessments and other receivables..... | 216.4 |
| Amounts due to authorities and municipalities, net..... | (508.8) |
| Amounts due to health care providers and insurers..... | (106.6) |
| Workers' compensation and group insurance..... | (128.4) |
| Other accruals, net..... | <u>175.0</u> |
| Net increase to governmental fund balances..... | <u>1,420.5</u> |
| Massachusetts School Building Authority fund balance..... | <u>1,764.7</u> |
| Total changes to governmental funds..... | <u>3,185.2</u> |
| Governmental fund balance (fund perspective)..... | \$ 6,319.0 |
| Plus: Capital assets including infrastructure, net of accumulated depreciation..... | 4,259.9 |
| Deferred revenue, net of other eliminations..... | 889.4 |
| Long term accruals: | |
| Pension Benefits cumulative over / (under) funding..... | (1,418.9) |
| Post employment benefits other than pensions cumulative over / (under) funding..... | (3,446.0) |
| Environmental Remediation Liability..... | (240.8) |
| Massachusetts School Building Authority debt and school construction payables..... | (7,574.7) |
| Long term debt, unamortized premiums and deferred losses on debt refundings..... | (21,870.6) |
| Compensated Absences..... | (504.0) |
| Capital leases..... | (60.5) |
| Accrued interest on bonds..... | (363.6) |
| Other Long term liabilities..... | <u>(287.0)</u> |
| Total governmental net assets (entity wide perspective)..... | <u>\$ (24,297.8)</u> |

The deficit of \$24.3 billion in governmental net assets is largely attributable to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during FY10 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY12, MassDOT held \$22.1 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay

Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$5.9 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. Finally, the Commonwealth has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts' cities and towns, and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY12 the Commonwealth's capital spending on Higher Education capital projects exceeded \$700 million, capital spending for transportation-related financial assistance to local governments totaled almost \$1.4 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded \$2.4 billion. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns and entities such as local housing authorities and quasi-governmental authorities.

Since MassDOT ended FY12 with positive net assets of \$23.7 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

The net deficit in governmental activities grew by almost \$1.5 billion in FY12. While tax revenue grew modestly in FY12, this growth was offset by other revenue declines and 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 \$337 million, or 1.6%, from FY11, mainly due to higher sales, corporate and income taxes as the economy continued to recover from the recession, but total revenues declined by \$146 million, as federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) was phased out. At the same time, FY12 operating spending increased modestly;
- The phased-in recognition of declines in the asset value of the Commonwealth's pension fund due to stock market losses during the recession of 2008-2009 resulted in an increased accrual of \$220 million due to growth in the underfunding of the Commonwealth's pension obligations;
- 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 \$755 million in FY12, 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 FY12, almost \$800 million of MassDOT capital spending was funded through debt issued by the Commonwealth. In addition, the Commonwealth's FY12 capital spending included more than \$250 million for Institutions of Higher Education, approximately \$265 million in transportation-related and approximately \$325 million in non-transportation-related capital grants and other financial assistance to local governments and non-governmental entities. While the assets created by this spending are recorded on the books of MassDOT and other non-Commonwealth entities, the liability for the debt remains with the Commonwealth;
- As a result of the large amount of Commonwealth debt that funded non-Commonwealth assets, total Commonwealth debt-related liabilities grew by \$707 million (not including new debt issued by the Massachusetts School Building Authority (MSBA)), while governmental fixed assets net of depreciation grew by only \$132 million.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$908 million in FY12, as FY12 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, the financial statements include 15 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The MSBA is blended into the Commonwealth's operations.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2012. The independent auditors' report is presented in the Financial Section.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction

with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

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

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth



Lavender Bud Hannahbells, Shy Brothers Farm, Westport, MA

Hannahbells are tiny artisanal cheeses hand made by the very shy Santos brothers from their third-generation dairy farm in Westport, Massachusetts. Some folks call them thimbles. The French call them “boutons de coulottes”, or “trouser buttons.” The brothers call them Hannahbells, after their mom!

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

Lewis H. Spence
Court Administrator, Trial Court

Electorate

Legislative Branch

House of Representatives
Senate

Executive Branch

| | |
|---------------------------|--|
| Governor | State Auditor |
| Lieutenant Governor | Secretary of the Commonwealth |
| Governor's Council | Treasurer and Receiver-General |
| Attorney General | Office of Campaign and Political Finance |
| Inspector General | Massachusetts Gaming Commission |
| Office of the Comptroller | District Attorneys |
| Sheriffs | Ethics Commission |
| | Disabled Person Protection Commission |
| | Independent Offices and Commissions |

Judicial Branch

Supreme Judicial Court
Appeals Court
Trial Court
Committee for Public Counsel
Board of Bar Examiners
Commission on Judicial Conduct
Mental Health Legal Advisors

State Agencies

Administration and Finance

Executive Office for Administration and Finance
Appellate Tax Board
Bureau of State Office Buildings
Civil Service Commission
Department of Revenue
Developmental Disabilities Council
Division of Administrative Law Appeals
Division of Capital Asset Management and Maintenance
George Fingold Library
Group Insurance Commission
Human Resource Division
Information Technology Division
Massachusetts Office on Disability
Massachusetts Teachers' Retirement System
Operational Services Division
Public Employee Retirement Administration Commission

Public Safety

Executive Office of Public Safety and Security
Chief Medical Examiner
Department of Criminal Justice Information Services
Department of Correction
Department of Fire Services
Department of Public Safety
Department of State Police
Massachusetts Emergency Management Agency
Military Division/ Massachusetts National Guard
Municipal Police Training Committee
Parole Board
Sex Offender Registry

Housing and Economic Development

Executive Office of Housing and Economic Development
Department of Business Development
Office of Consumer Affairs & Business Regulations
Massachusetts Marketing Partnership
Department of Housing & Community Development
Department of Telecommunications and Cable
Division of Banks
Division of Insurance
Division of Professional Licensure
Division of Standards

Energy and Environmental Affairs

Executive Office of Energy and Environmental Affairs
Department of Agricultural Resources
Department of Conservation and Recreation
Department of Environmental Protection
Department of Fish and Game
Department of Public Utilities
Division of Energy Resources
State Reclamation Board

Transportation and Public Works

Department of Transportation

Executive Office of Labor and Workforce Development

Health and Human Services

Executive Office of Health and Human Services
Executive Office of Elder Affairs
Department of Children and Families
Department of Developmental Services
Department of Mental Health
Department of Public Health
Department of Transitional Assistance
Department of Veterans' Services
Department of Youth Services
Division of Health Care Finance & Policy
Massachusetts Commission for the Blind
Massachusetts Commission for the Deaf and Hard of Hearing
Massachusetts Rehabilitation Commission
Office for Refugees and Immigrants
Soldiers' Home, Holyoke
Soldiers' Home, Massachusetts

Education

Executive Office of Education
Department of Early Education and Care
Department of Elementary and Secondary Education
Department of Higher Education
State Universities
Community Colleges
University of Massachusetts System

Health Care Security Trust

Board of Library Commissioners

Commission Against Discrimination

ADVISORY BOARD TO THE COMPTROLLER

Jay Gonzalez
Secretary for Administration and Finance

Suzanne Bump
Auditor

Steven Grossman
Treasurer and Receiver-General

Lewis H. Spence
Chief Administrator, Trial Court

Martha Coakley
Attorney General

Matthew J. Gorzkowicz
Gubernatorial Appointee

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Accountant

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Program Coordinator

Accounting Bureau
Julia P. Burns, CGFM
Director

Art Direction
Scott Olsen
Vinh Nguyen
Patricia McKenna



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morrell

President

Jeffrey R. Emery

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



The Big E, the largest fair in the Northeast
West Springfield, Massachusetts



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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, 2012, 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 63% 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, 2012, 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.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 19, 2012



Fireplace Feast, Salem Cross Inn, West Brookfield, MA



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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, 2012 (FY12). 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 FY12 by almost \$19.386 billion, an increase of \$908 million in the net deficit from FY11.

Of the \$19.386 billion deficit amount, “unrestricted net assets” has a deficit of \$23.936 billion, and there is an \$849 million deficit attributable to the investment in capital assets net of related debt for governmental activities. There are three primary reasons for negative unrestricted net assets: first, the Commonwealth has a net liability of \$5.870 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA) and 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 \$15.521 billion, as of the date of the transfer, 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. Third, a large portion of the Commonwealth's FY11 and FY12 capital spending was for transportation-related assets which are owned by MassDOT but the debt for which is retained by the Commonwealth, as well as for other capital assets not owned by the Commonwealth, particularly assets held by Higher Education, local governments and local housing authorities.

The Commonwealth also holds \$3.034 billion in “restricted net assets”, assets that are restricted primarily for payment of debt service and unemployment insurance benefits.

At the end of FY12, approximately \$830 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$1.086 billion was restricted for debt retirement, of which \$773 million is restricted for MSBA debt retirement.

The Commonwealth's governmental activities net deficit increased by \$1.465 billion and its governmental activities unrestricted net deficit increased by approximately \$1.274 billion in FY12. Tax revenue grew modestly in FY12, as did state spending, but accruals increased for underfunding related to pensions and retiree health care. In addition, as mentioned earlier, the Commonwealth continues to issue debt to fund capital spending where the assets are owned not by the Commonwealth,

one of its component units or local government entities, which results in growth in the Commonwealth's net deficit.

Total revenues of the primary government decreased by \$1.550 billion or 2.9% in FY12 compared to FY11. Tax revenues increased modestly by \$337 million, or 1.6%, primarily the result of growth in the sales, corporate and individual income taxes. Among non-tax revenue sources, primary government operating grants and reimbursements decreased by \$2.282 billion, or 12.9%, in FY12, due to a \$1.328 billion decrease in Medicaid reimbursements and a \$937 million decrease in Unemployment Compensation as federal stimulus funding wound down and unemployment declined in the Commonwealth. Charges for services increased by \$402 million, or 3.2%, as cities and towns continue to join the Commonwealth's health insurance program and the result of increased charges to beneficiaries under the state's group health insurance plan for current and retired state employees. Capital grants and contributions fell by \$89 million, or 52.8%, due to lower grants for transportation projects, and other revenues increased by \$83 million, or 4.9%.

Total expenses of the primary government decreased by \$494 million, or approximately 0.9%, from FY11 to FY12, with the largest single decrease being approximately \$922 million, or 21.0%, decline in unemployment insurance compensation expenses.

Net assets of business-type activities showed an increase of \$557 million, due to net surpluses of \$196 million in the Unemployment Insurance Trust Fund and \$361 million for Higher Education activity.

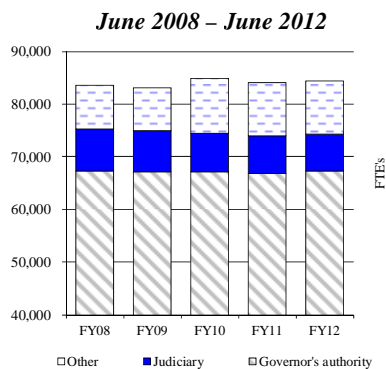
Governmental Funds-Fund Balances. At June 30, 2012, the Commonwealth's governmental funds reported a combined ending fund balance of about \$6.319 billion, an increase of \$1.051 billion from June 30, 2011. Of the ending balances:

- \$914,000 is nonspendable, \$2.195 billion is restricted, \$2.404 billion is committed, \$575 million is assigned and \$1.144 billion is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements.)
- The MSBA's fund balance of approximately \$1.765 billion is blended into the Commonwealth. Within this fund balance is over \$1.675 billion in cash and restricted investments which were funded by bond proceeds in FY12 and previous fiscal years, and other assets, less approximately \$90 million in liabilities. In FY12, over \$671 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued \$1.142 billion in long-term debt.
- Lottery revenues for FY12 increased by 6.8% from FY11 at approximately \$4.944 billion. Prizes were approximately \$3.869 billion and operating expenses and mandated transfers to the governmental funds were \$1.075 billion.

Other highlights of FY12 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$242 million on a GAAP basis, all of which were used to support current operations, a decrease of \$12 million from the prior year. Approximately \$127 million has been reported as a receivable in the governmental funds related to half of the anticipated tobacco settlement proceeds to be received in FY13. The Master Settlement Agreement (MSA) with the tobacco manufacturers estimates Commonwealth revenues for the first 25 years of the settlement to be approximately \$8.960 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 68.5% of the estimated amounts shown in the MSA were received in FY12. The Commonwealth continued to receive Strategic Contribution Fund payments in FY12 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. Beginning in FY13, 10.0% of tobacco settlement payments (approximately \$25 million) will be deposited in the State Retiree Benefits Trust Fund (SRBT) to fund the Commonwealth's liability for retiree health care. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase 10% per year until it reaches 100% in FY23.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$200 million in bond authorizations, also approximately \$27 million in de-authorizations of previously issued capital appropriations. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five-year capital plan.

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



Full-Time Equivalent Employment

The chart to the left shows the Commonwealth's full-time equivalent employment for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY12, the number of Commonwealth FTEs increased by approximately 400 compared to FY11. However, since FY08 the number of FTEs on the Commonwealth's payroll has dropped significantly after adjusting for shifts in the way certain FTEs are accounted for and for entities that were absorbed by the state in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth's payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to the Massachusetts Department of Transportation (MassDOT). Also in FY10, the sheriff departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with approximately 2,770 employees. These increases were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. 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 5,800 FTEs between June 30, 2008 and June 30, 2012.

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. 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. Business-type activities 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. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the authority’s operations are reported within a governmental fund in this report and on the government-wide financial statements. Therefore, its operations are reported as a “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 Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures 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**

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

| | |
|--|----------------------|
| Massachusetts School Building Authority net deficit..... | \$ 5,869,624 |
| Outstanding bonds issued to fund the MBTA..... | 207 |
| Debt related to MDOT assets..... | <u>9,632,405</u> |
| Effect on unrestricted net assets of items unique to the Commonwealth..... | <u>\$ 15,502,236</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 \$19.386 billion at the end of FY12, a decrease in net assets of \$908 million. Governmental activities unrestricted net assets are negative by over \$24.905 billion. As explained previously, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance,

construction of new assets owned by MassDOT and by institutions of higher education, local governments and local authorities. In FY12, MassDOT reports these capital assets on their financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

The Commonwealth's FY12 capital spending included more than \$250 million for Institutions of Higher Education and approximately \$265 million and \$325 million in transportation and non-transportation, respectively, related capital grants and other financial assistance to local governments and quasi-public entities. Between FY05 and FY12 the Commonwealth's capital spending on Higher Education capital projects exceeded \$700 million, capital spending for transportation-related financial assistance to local governments totaled almost \$1.4 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded \$2.4 billion.

As alluded to previously, another reason that government-wide net assets are negative is that the Commonwealth funds school construction through debt issued by the MSBA, and includes the MSBA's debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns and school districts.

Exclusive of fiduciary assets, the Commonwealth's government-wide current cash and investments increased by over \$517 million between June 30, 2011 and June 30, 2012 and total current assets increased by \$818 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 FY12 the Commonwealth issued \$1.200 billion in revenue anticipation notes (RANS). The RANS were retired in April and May 2012.

The primary government's non-current assets increased by \$1.040 billion. This increase was due mainly to an \$847 million increase in capital assets, most of which occurred in the business-type activity funds, i.e., the Institutions of Higher Education and the Unemployment Insurance Trust Fund.

The Commonwealth holds nearly \$9.136 billion in traditional capital assets such as land, construction in progress, 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, 2012, the Commonwealth's current assets were almost \$11.210 billion, while its current liabilities were over \$8.089 billion. Restricted net assets represent resources that are subject to external constraints.

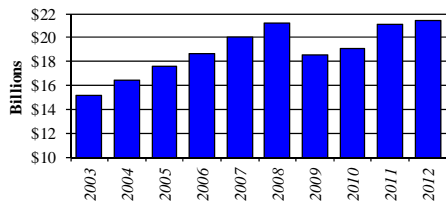
The tables below show the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business-type activities.

Net Assets as of June 30, 2012 and 2011
(in thousands of dollars)

| | Governmental Activities | | Business - Type Activities | | Total Primary Government | |
|---|-------------------------|------------------------|----------------------------|---------------------|--------------------------|------------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Current assets..... | \$ 9,468,600 | \$ 8,725,341 | \$ 1,740,922 | \$ 1,666,464 | \$ 11,209,522 | \$ 10,391,805 |
| Non-capital non-current assets..... | 3,437,342 | 3,482,538 | 2,783,206 | 2,824,112 | 6,220,548 | 6,306,650 |
| Capital assets..... | 4,259,869 | 4,127,414 | 4,876,356 | 4,161,373 | 9,136,225 | 8,288,787 |
| Deferred outflows of derivative investments..... | 564,287 | 375,870 | 110,092 | 19,510 | 674,379 | 395,380 |
| Total assets and deferred outflows..... | 17,730,098 | 16,711,163 | 9,510,576 | 8,671,459 | 27,240,674 | 25,382,622 |
| Current liabilities..... | 7,134,569 | 6,909,682 | 954,232 | 850,799 | 8,088,801 | 7,760,481 |
| Long term liabilities..... | 34,893,317 | 32,634,346 | 3,644,132 | 3,451,748 | 38,537,449 | 36,086,094 |
| Total liabilities..... | 42,027,886 | 39,544,028 | 4,598,364 | 4,302,547 | 46,626,250 | 43,846,575 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt..... | (849,338) | (722,469) | 2,366,038 | 2,026,223 | 1,516,700 | 1,303,754 |
| Restricted..... | 1,456,715 | 1,520,702 | 1,576,865 | 1,364,646 | 3,033,580 | 2,885,348 |
| Unrestricted..... | (24,905,165) | (23,631,098) | 969,309 | 978,043 | (23,935,856) | (22,653,055) |
| Total net assets (deficits)..... | \$ (24,297,788) | \$ (22,832,865) | \$ 4,912,212 | \$ 4,368,912 | (19,385,576) | \$ (18,463,953) |

Changes in Net Assets

**Revenue from Taxation
FY03-FY12**



As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$908 million between FY11 and FY12. In FY12, approximately 41.5% 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 decreased by \$1.550 billion or 2.9%, with tax revenue increasing by \$337 million, or 1.6%, but federal revenues declining by 9.6%, due to the winding down of federal stimulus funding to the states. The increase in tax revenue was attributable to growth of \$90 million in the personal income tax, sales tax revenue growth of \$162 million and an increase of \$109 million in corporate excise taxes.

Operating and capital grant contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by \$2.372 billion, or 13.3% in FY12, as growth in the Medicaid expenditures declined, federal stimulus funding was phased out, and unemployment insurance benefit reimbursements from the federal government declined as the unemployment rate fell in the Commonwealth and the extended unemployment benefits program expired. On a statutory basis, American Recovery and Reinvestment Act (ARRA) funds received by the Commonwealth during FY12 were approximately

**American Recovery and
Reinvestment Act Funds Drawn in
FY11 – FY12, Statutory Basis
(amounts in thousands)**

| Funding Category | FY2012 | FY2011 |
|---|-------------------|---------------------|
| Agriculture..... | \$ 2,608 | \$ 4,980 |
| Department of defense..... | - | 531 |
| Housing and urban development..... | 10,632 | 48,790 |
| Justice..... | 2,987 | 7,496 |
| Labor..... | 6,488 | 145,393 |
| Transportation..... | 74,768 | 167,051 |
| US Treasury..... | 9,945 | 58,802 |
| National institute for arts & humanities..... | - | 9 |
| National science foundation..... | 161 | 225 |
| EPA..... | 969 | 9,838 |
| Energy..... | 53,229 | 75,230 |
| Education..... | 201,010 | 533,090 |
| Health and human services..... | 123,435 | 1,308,647 |
| Homeland security..... | - | 685 |
| Total by funding category..... | \$ 486,232 | \$ 2,360,767 |
| By Fund Type | | |
| Budgeted funds..... | \$ 22 | \$ 1,268,817 |
| Non-budgeted special revenue funds*..... | 395,978 | 808,544 |
| Capital projects funds..... | 456 | 1,370 |
| Agency funds..... | - | 3,204 |
| Unemployment benefits..... | - | 107,832 |
| MassDOT..... | 89,776 | 171,000 |
| Total by fund type..... | \$ 486,232 | \$ 2,360,767 |

* Resulted in expenditure reduction in the general fund

\$486 million, \$201 million for education programs, \$75 million for transportation programs, approximately \$123 million for health and human services programs and \$53 million for energy programs. ARRA revenues in FY12 declined by approximately \$1.875 billion from FY11. FY13 ARRA revenues are expected to decline to less than \$200 million as the ARRA program continues to wind down.

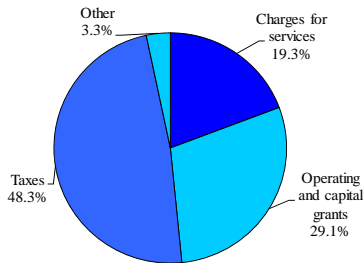
Total charges for services increased by approximately \$402 million, or 3.2%, due to an increase of \$310 million in Lottery charges, a \$37 million increase in unemployment insurance charges, a \$25 million increase in charges at community colleges. Charges for services also increased by \$40 million in the Medicaid program and charges for group health insurance services rose by approximately \$64 million. Government-wide restricted net assets increased by \$148 million due to a \$196 million increase in net assets restricted for unemployment compensation, and an increase of \$93 million in restricted net assets for higher education institutions, offset a decrease of \$141 million in net assets restricted for debt service.

Total primary government spending decreased by \$494 million, or 0.9% from FY11, with Medicaid expenses declining by \$416 million, or 3.4%, as certain FY11 one-time costs for universal health insurance were not repeated in FY12. Unemployment insurance compensation declined by \$922 million, or 21.0%, as unemployment declined in the Commonwealth. Other significant changes occurred in health and human services, which grew by \$519 million or 7.3%, the Lottery, which grew by \$215 million, or 5.9%, education, which grew by \$610 million, or 16.7%, direct local aid, which increased by \$146 million, or 3.0% and other expenses, which decreased by \$510 million or 4.0%.

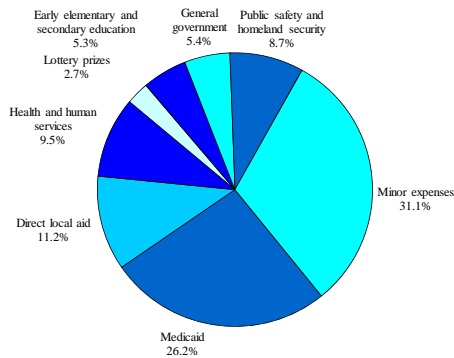
**Changes in Net Assets during the Fiscal Years Ended June 30, 2012 and 2011
(in thousands of dollars except percentages)**

| | Governmental Activities | | Business - Type Activities | | Total Primary Government | | Total Primary Government | | |
|--|-------------------------|------------------------|----------------------------|---------------------|--------------------------|------------------------|-------------------------------|-------------------------------|------------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 Distribution | June 30, 2011 Distribution | '12 to '11 % Change |
| Revenues | | | | | | | | | |
| Program Revenues: | | | | | | | | | |
| Charges for services..... | \$ 8,549,722 | \$ 8,038,003 | \$ 4,301,855 | \$ 4,411,606 | \$ 12,851,577 | \$ 12,449,609 | 24.9% | 23.5% | 3.2% |
| Operating grants and contributions..... | 12,909,908 | 14,217,481 | 2,525,342 | 3,500,210 | 15,435,250 | 17,717,691 | 29.9% | 33.4% | -12.9% |
| Capital grants and contributions..... | 79,733 | 168,912 | - | - | 79,733 | 168,912 | 0.2% | 0.3% | -52.8% |
| General Revenues: | | | | | | | | | |
| Taxes..... | 21,403,426 | 21,066,430 | - | - | 21,403,426 | 21,066,430 | 41.5% | 39.7% | 1.6% |
| Other..... | 1,393,094 | 991,231 | 376,327 | 695,308 | 1,769,421 | 1,686,539 | 3.5% | 3.1% | 4.9% |
| Total Revenues..... | 44,335,883 | 44,482,057 | 7,203,524 | 8,607,124 | 51,539,407 | 53,089,181 | 100.0% | 100.0% | -2.9% |
| Expenses | | | | | | | | | |
| Medicaid..... | 11,708,397 | 12,124,261 | - | - | 11,708,397 | 12,124,261 | 22.3% | 22.9% | -3.4% |
| Direct local aid..... | 4,991,532 | 4,845,738 | - | - | 4,991,532 | 4,845,738 | 9.5% | 9.2% | 3.0% |
| Health and human services..... | 7,643,950 | 7,124,856 | - | - | 7,643,950 | 7,124,856 | 14.6% | 13.5% | 7.3% |
| Lottery..... | 3,877,305 | 3,661,834 | - | - | 3,877,305 | 3,661,834 | 7.4% | 6.9% | 5.9% |
| Higher education..... | - | - | 4,336,195 | 4,472,351 | 4,336,195 | 4,472,351 | 8.3% | 8.4% | -3.0% |
| Early elementary and secondary education.... | 4,259,568 | 3,649,543 | - | - | 4,259,568 | 3,649,543 | 8.1% | 6.9% | 16.7% |
| Unemployment compensation..... | - | - | 3,466,500 | 4,388,360 | 3,466,500 | 4,388,360 | 6.6% | 8.3% | -21.0% |
| Other..... | 12,164,099 | 12,674,442 | - | - | 12,164,099 | 12,674,442 | 23.2% | 23.9% | -4.0% |
| Total Expenses..... | 44,644,851 | 44,080,674 | 7,802,695 | 8,860,711 | 52,447,546 | 52,941,385 | 100.0% | 100.0% | -0.9% |
| Excess/(Deficiency) | | | | | | | | | |
| before transfers..... | (308,968) | 401,383 | (599,171) | (253,587) | (908,139) | 147,796 | | | |
| Other losses..... | - | - | - | (10,746) | - | (10,746) | | | |
| Transfers..... | (1,155,955) | (860,904) | 1,155,955 | 860,904 | - | - | | | |
| Change in Net assets (deficits)..... | (1,464,923) | (459,521) | 556,784 | 596,571 | (908,139) | 137,050 | | | |
| Net assets - beginning, as restated..... | (22,832,865) | (22,373,344) | 4,355,428 | 3,772,341 | (18,477,437) | (18,601,003) | | | |
| Net assets (deficits)- ending..... | \$ (24,297,788) | \$ (22,832,865) | \$ 4,912,212 | \$ 4,368,912 | \$ (19,385,576) | \$ (18,463,953) | | | |

Revenue—Governmental Activities
Fiscal Year Ending June 30, 2012

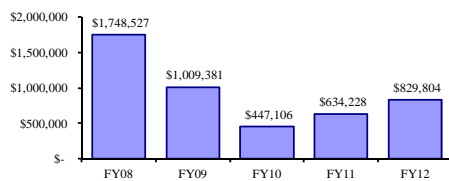


Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2012



Business—Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Years 2008 - 2012
(Amounts in Thousands)



The largest category of tax revenue is income taxes. Of the more than \$21.403 billion in tax revenue within governmental activities, \$11.952 billion, or 55.8% of total taxes, was from income taxes, \$5.087 billion, or 23.8% of total taxes, was from sales taxes, \$2.029 billion, or 9.5% of total taxes, was from corporate taxes, \$662 million was from motor fuels taxes and \$1.673 billion was from other forms of taxation. The largest operating grants are federal Medicaid subsidies, which totaled \$6.952 billion. The largest capital grants were for transportation, namely grants for highway construction. Finally, Lottery revenues made up approximately 57.8% of the Commonwealth’s governmental charges for services. In FY12 Lottery revenues increased by 6.7% from FY11.

Medicaid expenses of \$11.708 billion accounted for 26.2% 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. 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 \$7.644 billion, pre-Kindergarten through secondary education costs of approximately \$4.260 billion and public safety and homeland security costs of approximately \$2.347 billion. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.775 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.

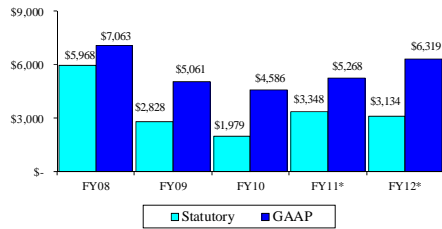
Business-type activities increased the Commonwealth’s net assets by over \$557 million. Operating grants and contributions dropped by \$975 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth. Charges for services declined by \$110 million, due largely to reduced sales and service revenue from the University of Massachusetts. As a result, total revenues of business-type activities dropped by \$1.109 billion, but this decline was offset by a decline in unemployment insurance benefit spending, which dropped by \$922 million as the economy recovered. As a result, net assets of the Unemployment Compensation Trust Fund increased by \$196 million. Including an increase in transfers from the Commonwealth of \$295 million, net assets of the schools of higher education increased by \$361 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
(Amounts in Millions)*



*Statutory basis excludes MassDOT

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. 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 FY12 added \$2.016 billion in revenues and other financing sources, including \$1.142 billion of new bond issues, offset by approximately \$1.344 billion due to expenditures to fund local school construction.

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, and claims and judgments.

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

| | FY12 | FY11 | FY10 | FY09 | FY08 |
|--|--------------|--------------|--------------|--------------|--------------|
| Beginning fund balances..... | \$ 5,267,628 | \$ 4,585,715 | \$ 5,061,342 | \$ 7,062,663 | \$ 7,735,859 |
| Revenues and other financing sources..... | 54,370,101 | 53,898,404 | 49,853,115 | 49,787,963 | 50,136,830 |
| Expenditures and other financing uses..... | 53,318,771 | 53,216,491 | 50,328,742 | 51,789,284 | 50,810,026 |
| Excess/(deficiency)..... | 1,051,330 | 681,913 | (475,627) | (2,001,321) | (673,196) |
| Ending fund balances..... | \$ 6,318,958 | \$ 5,267,628 | \$ 4,585,715 | \$ 5,061,342 | \$ 7,062,663 |

Governmental fund tax revenues increased by \$679 million, or 3.3%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements decreased by \$1.392 billion, or 9.7%, due to a phasing out of federal stimulus funding. Assessments, fees and investment earnings combined increased by \$946 million, or 10.2%, due primarily to an increase in revenues received by the Lottery and expendable trusts. Coupled with other financing sources,

largely from bonds and transfers, overall revenues increased by \$471 million, or approximately 0.9%.

During FY12, governmental fund expenditures and other financing uses increased by \$102 million, or 0.2%, with Medicaid expenditures decreasing by \$416 million, or 3.4%. Debt service expenditures grew by \$285 million, or 12.8%, primarily due to the fact that FY11 debt service expenditures were reduced by one-time savings that were not repeated in FY12. Lottery revenues were up \$313 million from FY11, while Lottery expenditures rose by \$311 million, as increased Lottery profits were distributed to the Commonwealth's General Fund. The other governmental funds as a whole increased in fund balance, largely due to the issuance of new debt by the MSBA, which had a surplus of \$671 million.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. Between FY09 and FY11, this fund saw a significant increase in activity as a result of ARRA, with annual ARRA revenues in excess of \$2 billion, but in FY12 ARRA revenues declined to less than \$500 million and are expected to be below \$200 million as the program winds down and expenditures and related federal revenues will return to historic levels in FY13 as the ARRA program winds down. (Also reported in this fund is almost \$1.352 billion in food stamp benefit payments, which do not actually flow through the Commonwealth but are included in this report under governmental accounting rules.) Most other non-major funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY12, the Commonwealth's governmental funds reported combined ending fund balances of \$6.319 billion, an increase of \$1.051 billion from the previous year. Of the \$6.319 billion balance, the following amounts are classified as nonspendable, restricted, and unrestricted under GASB 54 definitions.

Governmental Funds - Fund Balance Classification
(Amounts in thousands)

| | 2012 | 2011 | Change | Percentage Change |
|---|---------------------|---------------------|---------------------|----------------------|
| <u>Nonspendable/Restricted:</u> | | | | |
| Nonspendable..... | \$ 914 | \$ 914 | \$ - | 0.0% |
| Restricted..... | 2,195,287 | 1,675,055 | 520,232 | 31.1% |
| Total Nonspendable/Restricted..... | 2,196,201 | 1,675,969 | 520,232 | 31.0% |
| <u>Unrestricted</u> | | | | |
| Committed..... | 2,404,158 | 2,020,009 | 384,149 | 19.0% |
| Assigned..... | 574,621 | 750,462 | (175,841) | -23.4% |
| Unassigned..... | 1,143,978 | 821,188 | 322,790 | 39.3% |
| Total Unrestricted..... | 4,122,757 | 3,591,659 | 531,098 | 14.8% |
| Total fund balances..... | \$ 6,318,958 | \$ 5,267,628 | \$ 1,051,330 | 20.0% |

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

During FY12 the General Fund was the primary operating fund of the Commonwealth. At the end of FY12, the fund balance of the General Fund was \$3.347 billion. Of this amount, \$1.652 billion represents the balance in the Commonwealth's Stabilization Fund. \$163 million was also assigned for continuing appropriations from FY11 into FY12, a significant decline from FY11's continuing appropriations of \$371 million in the General Fund.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY12, the MSBA received approximately \$671 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 \$557 million.

BUDGETARY HIGHLIGHTS

The FY12 General Appropriation Act (GAA) authorized approximately \$30.044 billion in spending, exclusive of approximately \$1.478 billion in required pension contributions and \$381 million in FY11 spending authorized to be continued into FY12 as part of FY11 end of year supplemental budgets.

The FY12 budget as enacted by the Legislature was based on a FY12 consensus tax revenue estimate of \$20.525 billion, of which approximately \$17.57 billion represented taxes available for budget after adjusting for \$2.956 billion in tax revenue allocated to the Massachusetts Bay Transportation Authority (\$780 million), the School Modernization And Reconstruction Trust Fund (\$678 million), the Pension Reserves Investment Trust Fund (\$1.478 billion) and \$20 million to the Workforce Training Fund, which was converted from a budgetary to non-budgetary fund effective July 1, 2011. FY12 revenues available for budget were further adjusted to \$17.682 billion as a result of several tax law changes that were part of FY12 budget. The FY12 tax revenue estimate was revised upward to \$21.010 billion in October

2012 as tax revenues had performed above benchmark in the first quarter of FY12.

Approximately \$484 million in supplemental appropriations were authorized during FY12 prior to June 30, 2012. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$47 million in new FY12 appropriations, all of which were continued to FY13 and reappropriated. The year's significant supplemental appropriation activity included approximately:

- \$187 million for the Delivery System Transformation Initiative, which will provide funding to safety net hospitals carrying out delivery-of-care transformation initiatives;
- \$40 million for family shelters;
- \$35 million for MassHealth (Medicaid) senior care;
- \$30 million for information technology consolidation in the executive branch;
- \$27 million for additional private counsel compensation for indigent clients;
- \$27 million for short term housing transitional programs;
- \$25 million to pay for the cleanup costs of Hurricane Irene and the October 2011 snow storm;
- \$21 million for home heating assistance;
- \$11 million for MassHealth fee for service programs;
- \$11 million for providing Supplemental Security Income.

On a statutory (not GAAP) basis, budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue, and thus have no effect on fund balances) declined by \$529 million, or 1.6%, in FY12. While tax revenue grew by \$549 million, or 2.9%, as a result of continuing growth in the economy, federal reimbursements declined by \$1.328 billion, or 14.3%, as the American Recovery and Reinvestment Act wound down and budgeted revenues under that program dropped by more than \$1.269 billion. Interfund transfers from non-budgeted funds increased by \$241 million, or 13.6%, due primarily to transfers of increased Lottery profits to the General Fund.

Budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) increased by \$380 million, or 1.2%, from FY11, much slower growth than in recent years, as health care spending, which is one of the most important drivers of the Commonwealth budget, slowed.

Spending on programs and services grew by \$644 million, or 2.4%. Medicaid expenditures grew by \$194 million, or only 1.9%, from \$10.237 billion in FY11 to \$10.431 billion in FY12, the slowest percentage growth since FY97, as the Commonwealth implemented savings initiatives, including reduced rates for providers, procurement of services for behavioral health services, revised capitation rates for

contracted managed care organizations, a change in hospital readmissions payment policies, increased co-payments slightly and enhanced program integrity measures to ensure that members are eligible for services and using them in proper settings. (Budgetary Fund Medicaid expenditures exclude spending in the Universal Health Care Funds which fell in FY12, and are included in the Governmental Fund analysis.)

Debt service grew by \$259 million, or 15.6%, as FY11 savings from a debt restructuring were not repeated in FY12. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) fell by \$577 million or 28.0%, as FY11 one-time universal healthcare-related expenditures were not repeated in FY12. Post-employment benefits grew by \$53 million, or 2.9%, with pension contributions growing by 2.5% from FY11 and state employee and retiree health insurance costs increasing by 3.8%. Spending for direct local aid (both education aid and unrestricted aid), at \$4.929 billion, was up \$145 million, or 3.0%, from FY11.

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, 2012 amounts to approximately \$16.122 billion, with accumulated depreciation of approximately \$6.986 billion, leaving a net book value of more than \$9.136 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 2011 to 2012 was approximately \$847 million, with more than \$132 million in governmental activities and almost \$715 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, FY12 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 | |
|---|-------------------------|---------------------|----------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land, including central artery..... | \$ 801,836 | \$ 766,834 | \$ 117,192 | \$ 117,138 | \$ 919,028 | \$ 883,972 |
| Historical treasures..... | - | - | 878 | 863 | 878 | 863 |
| Construction in process..... | 533,963 | 737,232 | 1,172,513 | 709,843 | 1,706,476 | 1,447,075 |
| Buildings..... | 2,556,024 | 2,261,394 | 3,230,743 | 2,953,685 | 5,786,767 | 5,215,079 |
| Machinery and equipment..... | 279,007 | 294,961 | 253,171 | 269,119 | 532,178 | 564,080 |
| Infrastructure, excluding central artery..... | 89,039 | 66,993 | - | - | 89,039 | 66,993 |
| Library collections..... | - | - | 101,859 | 110,725 | 101,859 | 110,725 |
| Total | \$ 4,259,869 | \$ 4,127,414 | \$ 4,876,356 | \$ 4,161,373 | \$ 9,136,225 | \$ 8,288,787 |

Additional detail on the Commonwealth's FY12 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 FY12 capital budget, the Commonwealth borrowed by issuing \$1.728 billion in long-term bonds for new capital spending needs, \$1.340 billion of which was general obligation debt and \$419 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$388 million in debt to refund already existing debt, taking advantage of continued low interest rates.

Approximately 19.1% percent of the Commonwealth's \$18.851 billion in general obligation debt outstanding as of June 30, 2012 has been issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2.1% of all general obligation debt) as of June 30, 2012.

Approximately \$1.340 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 \$419 million in new issues were for highway and other infrastructure construction.

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

Additional detail on the Commonwealth's short-term debt can be found in Note 6 ("Short-Term Financing and Credit Arrangements") and Note 7 ("Long-Term Obligations") to the basic financial statements.

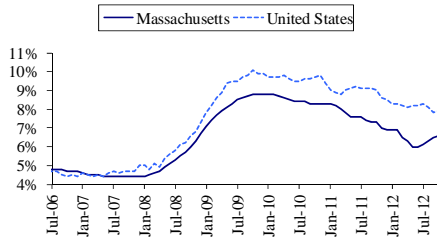
Long - Term Debt Obligations at Year - End

(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)
(Amounts in thousands)

| | Governmental Activities | | Business - Type Activities | | Total | |
|--|-------------------------|----------------------|----------------------------|---------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General obligation bonds..... | \$ 18,851,538 | \$ 18,516,760 | \$ - | \$ - | \$ 18,851,538 | \$ 18,516,760 |
| Special obligation bonds (excluding GANs)..... | 1,971,630 | 1,691,505 | - | - | 1,971,630 | 1,691,505 |
| Revenue obligation bonds..... | - | - | 3,370,389 | 3,277,413 | 3,370,389 | 3,277,413 |
| Grant anticipation notes..... | 610,385 | 666,790 | - | - | 610,385 | 666,790 |
| Subtotal..... | 21,433,553 | 20,875,055 | 3,370,389 | 3,277,413 | 24,803,942 | 24,152,468 |
| Massachusetts School Building Authority..... | 5,443,265 | 4,395,390 | - | - | 5,443,265 | 4,395,390 |
| Total..... | \$ 26,876,818 | \$ 25,270,445 | \$ 3,370,389 | \$ 3,277,413 | \$ 30,247,207 | \$ 28,547,858 |

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

*Unemployment Rate
July 2006 – October 2012*



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

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation’s gross domestic product has fallen and unemployment hit the highest levels in decades, and, while the national recession ended in June 2009, recovery has been slow. Although the Dow Jones Industrial Average has risen from a low of 6,547 in March of 2009 to over 13,000 by December 2012, it is still well below the 14,200 historical high of two years ago. 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. Home prices fell in Massachusetts by approximately 18% compared at their lowest point during the recession, compared to 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, but since then has declined, to a low of 6.0% in June 2012, though it has since risen to 6.6% as of October 2012. This decline in unemployment 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 2.2%, to 7.9% as of October 2012.

At the time of its enactment, the Commonwealth’s FY13 statutory-based budget assumed estimated revenues of \$33.575 billion (net of tax revenues dedicated to funding the Massachusetts Bay Transit Authority and Massachusetts School Building Authority), an increase of \$1.261 billion, or 3.9% from FY12, and expenditures of \$34.083 billion, an increase of 1.644 billion, or 5.1% from FY12. Tax revenues were projected to total \$20.500 billion, representing growth of \$852 million, or 4.3% from FY12. Based on below-forecast tax revenue collections through November 2012, the Secretary for Administration and Finance reduced the FY13 tax revenue by \$540 million, and in order to maintain a balanced budget, proposed increased withdrawals from the Commonwealth’s Stabilization Fund, (which require legislative approval) and implemented savings measures across state government.

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 or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.



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Basic Financial Statements

Government-wide Financial Statements
Statement of Net Assets
Statement of Activities



Clambake at Town Beach, Sandwich
Credit: William DeSousa-Mauk

Statement of Net Assets

June 30, 2012

(Amounts in thousands)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Government Wide Total | |
| ASSETS AND DEFERRED OUTFLOWS | | | | |
| Current assets: | | | | |
| Cash, cash equivalents and short-term investments..... | \$ 4,166,786 | \$ 958,050 | \$ 5,124,836 | \$ 2,327,892 |
| Cash with fiscal agent..... | 304,202 | - | 304,202 | - |
| Assets held in trust..... | - | - | - | 118,301 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Taxes..... | 2,789,504 | - | 2,789,504 | - |
| Federal grants and reimbursements receivable..... | 1,824,894 | 87,822 | 1,912,716 | 118,053 |
| Loans..... | 7,378 | 44,237 | 51,615 | 300,832 |
| Other receivables..... | 326,393 | 603,224 | 929,617 | 207,469 |
| Due from cities and towns..... | 13,680 | - | 13,680 | - |
| Due from component units..... | 438 | - | 438 | - |
| Due from primary government..... | - | - | - | 513,172 |
| Due from affiliates..... | - | 6,545 | 6,545 | - |
| Other current assets..... | 35,325 | 41,044 | 76,369 | 107,006 |
| Total current assets..... | 9,468,600 | 1,740,922 | 11,209,522 | 3,692,725 |
| Noncurrent assets: | | | | |
| Cash and cash equivalents - restricted..... | - | 875,937 | 875,937 | 1,024,312 |
| Investments, restricted investments and annuity contracts..... | 2,418,459 | 1,301,178 | 3,719,637 | 1,625,901 |
| Accounts receivable, net..... | 889,417 | 57,474 | 946,891 | 4,768 |
| Loans receivable, net..... | 114,793 | 12,630 | 127,423 | 4,193,296 |
| Due from component units..... | 14,673 | - | 14,673 | - |
| Non-depreciable capital assets..... | 1,335,799 | 1,290,583 | 2,626,382 | 5,247,547 |
| Depreciable capital assets, net..... | 2,924,070 | 3,585,773 | 6,509,843 | 26,516,581 |
| Other noncurrent assets..... | - | 44,674 | 44,674 | 136,910 |
| Other noncurrent assets - restricted..... | - | 491,313 | 491,313 | - |
| Total noncurrent assets..... | 7,697,211 | 7,659,562 | 15,356,773 | 38,749,315 |
| Deferred outflows of derivative investments..... | 564,287 | 110,092 | 674,379 | 384,463 |
| Total assets and deferred outflows..... | 17,730,098 | 9,510,576 | 27,240,674 | 42,826,503 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and other liabilities..... | 2,726,202 | 373,890 | 3,100,092 | 725,293 |
| Accrued payroll..... | 157,941 | 164,908 | 322,849 | 477 |
| Compensated absences..... | 327,581 | 131,373 | 458,954 | 26,461 |
| Accrued interest payable..... | 363,637 | 20,572 | 384,209 | 228,389 |
| Tax refunds and abatements payable..... | 846,797 | 36,310 | 883,107 | - |
| Due to component units..... | 475,266 | - | 475,266 | - |
| Due to primary government..... | - | - | - | 438 |
| Due to federal government..... | 25,354 | - | 25,354 | - |
| Deferred revenue..... | - | 27,480 | 27,480 | 231,497 |
| Deposits and unearned revenue..... | - | 73,153 | 73,153 | - |
| Due to affiliates..... | - | 18,523 | 18,523 | - |
| School construction grants payable..... | 410,736 | - | 410,736 | - |
| Capital leases..... | 10,248 | 6,950 | 17,198 | 24,407 |
| Massachusetts School Building Authority bonds and unamortized premiums..... | 126,800 | - | 126,800 | - |
| Unamortized deferred loss on refunding..... | (6,585) | - | (6,585) | - |
| Bonds payable and unamortized premiums..... | 1,662,312 | 101,073 | 1,763,385 | 788,473 |
| Environmental remediation liability..... | 8,280 | - | 8,280 | - |
| Total current liabilities..... | 7,134,569 | 954,232 | 8,088,801 | 2,025,435 |

Statement of Net Assets

June 30, 2012

(Amounts in thousands)

| | Primary Government | | Government | Component Units |
|---|----------------------------|-----------------------------|------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Wide Total | |
| Noncurrent liabilities: | | | | |
| Compensated absences..... | 176,393 | 61,258 | 237,651 | 22,327 |
| Accrued interest payable..... | - | - | - | 165,184 |
| Due to primary government..... | - | - | - | 14,673 |
| Due to federal government - grants..... | - | 12,631 | 12,631 | - |
| Claims and judgments..... | 40,000 | - | 40,000 | - |
| Deferred revenue..... | - | 101,606 | 101,606 | 32,627 |
| Prizes payable..... | 1,385,875 | - | 1,385,875 | - |
| Capital leases..... | 50,209 | 16,377 | 66,586 | 124,760 |
| Bonds payable and unamortized premiums..... | 20,245,371 | 3,269,316 | 23,514,687 | 11,543,983 |
| Unamortized deferred loss on refunding..... | (30,449) | - | (30,449) | - |
| Massachusetts School Building Authority bonds and unamortized premiums..... | 5,593,135 | - | 5,593,135 | - |
| School construction grants payable..... | 1,482,910 | - | 1,482,910 | - |
| Retirement system net pension obligations..... | 1,418,894 | - | 1,418,894 | - |
| Post - employment benefits obligations..... | 3,446,000 | - | 3,446,000 | 587,072 |
| Environmental remediation liability..... | 232,481 | 1,470 | 233,951 | - |
| Liability for derivative instruments..... | 564,287 | 108,215 | 672,502 | 638,380 |
| Other noncurrent liabilities..... | 288,211 | 73,259 | 361,470 | 319,610 |
| Total noncurrent liabilities..... | 34,893,317 | 3,644,132 | 38,537,449 | 13,448,616 |
| Total liabilities..... | 42,027,886 | 4,598,364 | 46,626,250 | 15,474,051 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt..... | (849,338) | 2,366,038 | 1,516,700 | 24,611,314 |
| Restricted for: | | | | |
| Unemployment benefits..... | - | 829,804 | 829,804 | - |
| Retirement of indebtedness..... | 1,085,808 | - | 1,085,808 | - |
| Other purposes..... | 370,907 | 747,061 | 1,117,968 | 2,992,278 |
| Unrestricted (deficits)..... | (24,905,165) | 969,309 | (23,935,856) | (251,140) |
| Total net assets (deficits)..... | \$ (24,297,788) | \$ 4,912,212 | \$ (19,385,576) | \$ 27,352,452 |

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

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2012
(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 | |
| Primary government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General government..... | \$ 2,391,694 | \$ 458,320 | \$ 794,579 | \$ - | \$ (1,138,795) | \$ - | \$ (1,138,795) | \$ - |
| Judiciary..... | 945,457 | 114,170 | 1,370 | - | (829,917) | - | (829,917) | - |
| Direct local aid..... | 4,991,532 | - | - | - | (4,991,532) | - | (4,991,532) | - |
| Medicaid..... | 11,708,397 | 297,566 | 6,951,770 | 2,241 | (4,456,820) | - | (4,456,820) | - |
| Group health insurance..... | 1,218,079 | 495,377 | - | - | (722,702) | - | (722,702) | - |
| Energy and environmental affairs..... | 572,632 | 214,340 | 102,554 | - | (255,738) | - | (255,738) | - |
| Housing and economic development..... | 1,247,310 | 142,320 | 557,227 | - | (547,763) | - | (547,763) | - |
| Health and human services..... | 7,643,950 | 931,535 | 2,737,777 | 8,718 | (3,965,920) | - | (3,965,920) | - |
| Transportation and public works..... | 1,765,101 | 505,842 | 7,783 | 68,773 | (1,182,703) | - | (1,182,703) | - |
| Early elementary and secondary education..... | 4,259,568 | 6,783 | 1,313,896 | - | (2,938,889) | - | (2,938,889) | - |
| Public safety and homeland security..... | 2,346,958 | 205,546 | 251,598 | - | (1,889,814) | - | (1,889,814) | - |
| Labor and workforce development..... | 474,096 | 237,772 | 191,354 | - | (44,970) | - | (44,970) | - |
| Lottery..... | 3,877,305 | 4,940,151 | - | - | 1,062,846 | - | 1,062,846 | - |
| Interest (unallocated)..... | 1,202,772 | - | - | - | (1,202,772) | - | (1,202,772) | - |
| Total governmental activities..... | 44,644,851 | 8,549,722 | 12,909,908 | 79,733 | (23,105,488) | - | (23,105,488) | - |
| Business-Type Activities: | | | | | | | | |
| Unemployment Compensation..... | 3,466,500 | 1,982,602 | 1,679,474 | - | - | 195,576 | 195,576 | - |
| Higher Education: | | | | | | | | |
| University of Massachusetts..... | 2,684,039 | 1,519,496 | 542,886 | - | - | (621,657) | (621,657) | - |
| State Universities..... | 851,118 | 523,979 | 66,258 | - | - | (260,881) | (260,881) | - |
| Community Colleges..... | 801,038 | 275,778 | 236,724 | - | - | (288,536) | (288,536) | - |
| Total business-type activities..... | 7,802,695 | 4,301,855 | 2,525,342 | - | - | (975,498) | (975,498) | - |
| Total primary government..... | \$ 52,447,546 | \$ 12,851,577 | \$ 15,435,250 | \$ 79,733 | (23,105,488) | (975,498) | (24,080,986) | - |
| Component Units: | | | | | | | | |
| Massachusetts Department of Transportation..... | \$ 4,831,766 | \$ 1,150,539 | \$ 507,146 | \$ 1,899,994 | - | - | - | (1,274,087) |
| Commonwealth Health Insurance Connector..... | 850,646 | 848,607 | 3,181 | - | - | - | - | 1,142 |
| Massachusetts Water Pollution Abatement Trust..... | 233,452 | 221,384 | 36,700 | 83,077 | - | - | - | 107,709 |
| Other nonmajor component units..... | 402,359 | 286,582 | 98,208 | 5,865 | - | - | - | (11,704) |
| Total component units..... | \$ 6,318,223 | \$ 2,507,112 | \$ 645,235 | \$ 1,988,936 | - | - | - | (1,176,940) |

(continued)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| General revenues: | | | | |
| Taxes: | | | | |
| Income..... | 11,952,019 | - | 11,952,019 | - |
| Sales taxes..... | 5,086,908 | - | 5,086,908 | 779,092 |
| Corporate taxes..... | 2,028,624 | - | 2,028,624 | - |
| Motor and special fuel taxes..... | 662,932 | - | 662,932 | - |
| Other taxes..... | 1,672,943 | - | 1,672,943 | 312,125 |
| Miscellaneous: | | | | |
| Investment earnings..... | 40,422 | 36,112 | 76,534 | 49,756 |
| Tobacco settlement..... | 242,515 | - | 242,515 | - |
| Contribution from municipalities..... | 55,905 | - | 55,905 | - |
| Other revenue..... | 1,054,252 | 340,215 | 1,394,467 | 33,642 |
| Other losses..... | - | - | - | (3,640) |
| Transfers..... | (1,155,955) | 1,155,955 | - | - |
| Total general revenues and transfers..... | 21,640,565 | 1,532,282 | 23,172,847 | 1,170,975 |
| Change in net assets..... | (1,464,923) | 556,784 | (908,139) | (5,965) |
| Net assets (deficits) - beginning, as restated..... | (22,832,865) | 4,355,428 | (18,477,437) | 27,358,417 |
| Net assets (deficits) - ending..... | \$ (24,297,788) | \$ 4,912,212 | \$ (19,385,576) | \$ 27,352,452 |

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

(concluded)



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Governmental Fund Financial Statements



Chocolate Dipped Strawberries, Richardson's Candy Kitchen, Deerfield, MA
Credit: Paul Franz

These luscious strawberries are waiting for hungry visitors to select them, among other chocolates and candies, at Richardson's Candy Kitchen.

Balance Sheet
Governmental Funds
June 30, 2012
(Amounts in thousands)

| | General | Lotteries | Massachusetts School Building Authority | Federal Grants | Other Governmental Funds | Total |
|--|---------------------|------------------|--|-------------------|--------------------------------|----------------------|
| ASSETS | | | | | | |
| Cash, cash equivalents and short-term investments..... | \$ 1,803,109 | \$ 53,896 | \$ 902,130 | \$ - | \$ 1,407,651 | \$ 4,166,786 |
| Cash with fiscal agent..... | - | - | - | - | 304,202 | 304,202 |
| Investments and restricted investments..... | 260,058 | - | 772,526 | - | - | 1,032,584 |
| Receivables, net of allowance for uncollectibles: | | | | | | |
| Taxes..... | 3,343,667 | - | 49,724 | - | 166,420 | 3,559,811 |
| Due from federal government..... | 1,333,817 | - | - | 435,823 | 123,807 | 1,893,447 |
| Loan receivable..... | - | - | 121,257 | - | 914 | 122,171 |
| Other receivables..... | 122,353 | 5,833 | 9,449 | - | 235,903 | 373,538 |
| Due from cities and towns..... | 13,680 | - | - | - | - | 13,680 |
| Due from other funds..... | 111,933 | - | - | - | 92,742 | 204,675 |
| Due from component units..... | 438 | - | - | - | - | 438 |
| Total assets..... | \$ 6,989,055 | \$ 59,729 | \$ 1,855,086 | \$ 435,823 | \$ 2,331,639 | \$ 11,671,332 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable..... | \$ 1,719,078 | \$ 52,970 | \$ 51,309 | \$ 325,315 | \$ 470,952 | \$ 2,619,624 |
| Accrued payroll..... | 141,713 | - | - | 9,209 | 7,019 | 157,941 |
| Tax refunds and abatements payable..... | 846,229 | - | 238 | - | 330 | 846,797 |
| Due to other funds..... | - | - | - | 17,586 | 174,938 | 192,524 |
| Due to component units..... | 44,904 | - | - | - | 430,362 | 475,266 |
| Due to federal government..... | 25,354 | - | - | - | - | 25,354 |
| Deferred revenue..... | 864,432 | 4,337 | - | - | 20,648 | 889,417 |
| School construction grants payable..... | - | - | 38,873 | - | - | 38,873 |
| Other accrued liabilities..... | - | - | - | - | 106,578 | 106,578 |
| Total liabilities..... | 3,641,710 | 57,307 | 90,420 | 352,110 | 1,210,827 | 5,352,374 |
| Fund balances (deficits): | | | | | | |
| Nonspendable..... | - | - | - | - | 914 | 914 |
| Restricted..... | - | - | 1,355,353 | 83,713 | 756,221 | 2,195,287 |
| Committed..... | 1,652,118 | - | - | - | 752,040 | 2,404,158 |
| Assigned..... | 162,886 | 2,422 | 409,313 | - | - | 574,621 |
| Unassigned..... | 1,532,341 | - | - | - | (388,363) | 1,143,978 |
| Fund balances (deficits)..... | 3,347,345 | 2,422 | 1,764,666 | 83,713 | 1,120,812 | 6,318,958 |
| Total liabilities and fund balances..... | \$ 6,989,055 | \$ 59,729 | \$ 1,855,086 | \$ 435,823 | \$ 2,331,639 | \$ 11,671,332 |

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

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

June 30, 2012
(Amounts in thousands)

| | | | |
|---|----|------------------|-------------------------------|
| Total fund balances - governmental funds | | \$ | 6,318,958 |
| 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..... | \$ | 1,335,799 | |
| Capital assets being depreciated, net..... | | <u>2,924,070</u> | |
| Capital assets, net of accumulated depreciation..... | | | 4,259,869 |
| Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different basis of accounting..... | | | |
| Massachusetts School Building Authority assets..... | | | 889,417 |
| | | | 38,737 |
| Lottery annuity contracts..... | | | 1,385,875 |
| Due from component units..... | | | 14,673 |
| Elimination of due from / due to activity between state departments within primary government and business-type activities..... | | | (12,151) |
| 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..... | | | |
| | | (1,418,894) | |
| Net post - employment benefits obligations..... | | (3,446,000) | |
| Commonwealth bonded debt..... | | (21,433,553) | |
| Unamortized bond premiums..... | | (474,130) | |
| Unamortized deferred loss on refunding..... | | 37,034 | |
| Accrued interest on bonds..... | | (363,637) | |
| Massachusetts School Building Authority bonded debt..... | | (5,719,935) | |
| Massachusetts School Building Authority grants to municipalities..... | | (1,854,773) | |
| Lottery prizes payable..... | | (1,385,875) | |
| Capital leases..... | | (60,457) | |
| Environmental remediation liability..... | | (240,761) | |
| Claims and judgments..... | | (40,000) | |
| Employee benefits, including compensated absences, health insurance benefits and other compensation claims..... | | <u>(792,185)</u> | |
| Long - term liabilities (including current portions)..... | | | <u>(37,193,166)</u> |
| Total net assets (deficits) - governmental activities | | | <u>\$ (24,297,788)</u> |

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, 2012
(Amounts in thousands)

| | General | Lotteries | Massachusetts School Building Authority | Federal Grants | Other Governmental Funds | Total |
|---|---------------------|--------------------|--|-------------------|--------------------------------|---------------------|
| REVENUES | | | | | | |
| Taxes..... | \$ 18,772,659 | \$ 759 | \$ 670,693 | \$ - | \$ 2,089,105 | \$ 21,533,216 |
| Assessments..... | 429,266 | - | - | - | 594,637 | 1,023,903 |
| Federal grants and reimbursements..... | 7,987,250 | - | - | 4,051,218 | 947,037 | 12,985,505 |
| Departmental..... | 1,951,285 | 4,942,137 | - | - | 1,068,909 | 7,962,331 |
| Miscellaneous..... | 291,276 | 1,376 | 103,794 | - | 881,338 | 1,277,784 |
| Total revenues..... | 29,431,736 | 4,944,272 | 774,487 | 4,051,218 | 5,581,026 | 44,782,739 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Legislature..... | 58,337 | - | - | - | - | 58,337 |
| Judiciary..... | 754,834 | - | - | 1,147 | 630 | 756,611 |
| Inspector General..... | 2,818 | - | - | - | 335 | 3,153 |
| Governor and Lieutenant Governor..... | 6,526 | - | - | - | 89 | 6,615 |
| Secretary of the Commonwealth..... | 35,996 | - | - | 1,709 | 3,612 | 41,317 |
| Treasurer and Receiver-General..... | 180,046 | 3,869,026 | 25,283 | 2,754 | 1,204,919 | 5,282,028 |
| Auditor of the Commonwealth..... | 17,100 | - | - | - | 68 | 17,168 |
| Attorney General..... | 42,756 | - | - | 9,022 | 2,885 | 54,663 |
| Ethics Commission..... | 1,729 | - | - | - | - | 1,729 |
| District Attorney..... | 99,031 | - | - | 2,106 | 8,689 | 109,826 |
| Office of Campaign and Political Finance..... | 1,196 | - | - | - | - | 1,196 |
| Sheriff's Departments..... | 515,153 | - | - | 4,348 | 9,334 | 528,835 |
| Disabled Persons Protection Commission..... | 2,210 | - | - | - | - | 2,210 |
| Board of Library Commissioners..... | 21,441 | - | - | 2,833 | 78 | 24,352 |
| Massachusetts Gaming Commission..... | - | - | - | - | 791 | 791 |
| Comptroller..... | 11,512 | - | - | - | 2,301 | 13,813 |
| Administration and finance..... | 1,693,186 | - | - | 5,500 | 250,500 | 1,949,186 |
| Energy and environmental affairs..... | 176,682 | - | - | 79,500 | 95,249 | 351,431 |
| Health and human services..... | 4,710,917 | - | - | 1,850,844 | 738,745 | 7,300,506 |
| Executive office of education..... | 1,968,449 | - | - | 1,085,906 | 15,100 | 3,069,455 |
| Massachusetts department of transportation..... | - | - | - | 7,652 | 1,671,073 | 1,678,725 |
| Massachusetts school building assistance..... | - | - | 975,473 | - | - | 975,473 |
| Public safety and homeland security..... | 968,625 | - | - | 171,829 | 67,370 | 1,207,824 |
| Housing and economic development..... | 425,978 | - | - | 516,251 | 57,181 | 999,410 |
| Labor and workforce development..... | 42,851 | - | - | 170,018 | 242,121 | 454,990 |
| Medicaid..... | 10,495,014 | - | - | - | 1,213,383 | 11,708,397 |
| Post employment benefits..... | 800,800 | - | - | - | - | 800,800 |
| Direct local aid..... | 4,991,489 | - | - | - | - | 4,991,489 |
| Capital outlay: | | | | | | |
| Local aid..... | - | - | - | - | 43 | 43 |
| Capital acquisition and construction..... | - | - | - | - | 847,484 | 847,484 |
| Debt service..... | - | - | 343,664 | - | 2,160,589 | 2,504,253 |
| Total expenditures..... | 28,024,676 | 3,869,026 | 1,344,420 | 3,911,419 | 8,592,569 | 45,742,110 |
| Excess (deficiency) of revenues over (under) expenditures..... | 1,407,060 | 1,075,246 | (569,933) | 139,799 | (3,011,543) | (959,371) |
| OTHER FINANCING SOURCES | | | | | | |
| Bonds premium..... | - | - | 98,634 | - | 161,575 | 260,209 |
| Issuance of general and special obligation bonds..... | - | - | 1,142,380 | - | 1,759,627 | 2,902,007 |
| Issuance of refunding bonds..... | - | - | - | - | 388,375 | 388,375 |
| Proceeds of capital leases..... | 4,115 | - | - | - | - | 4,115 |
| Transfers in for debt service..... | - | - | - | - | 2,153,511 | 2,153,511 |
| Transfers in..... | 2,068,886 | - | - | - | 1,810,259 | 3,879,145 |
| Total other financing sources..... | 2,073,001 | - | 1,241,014 | - | 6,273,347 | 9,587,362 |
| OTHER FINANCING USES | | | | | | |
| Principal on current refundings..... | - | - | - | - | 388,050 | 388,050 |
| Transfers out..... | 1,116,192 | 1,074,930 | - | 115,670 | 1,398,526 | 3,705,318 |
| Transfers of appropriations..... | 1,048,937 | - | - | - | 1,192 | 1,050,129 |
| Transfers of bond proceeds..... | - | - | - | - | 279,653 | 279,653 |
| Transfers out for debt service..... | 1,020,223 | - | - | - | 1,133,288 | 2,153,511 |
| Total other financing uses..... | 3,185,352 | 1,074,930 | - | 115,670 | 3,200,709 | 7,576,661 |
| Total other financing sources and uses..... | (1,112,351) | (1,074,930) | 1,241,014 | (115,670) | 3,072,638 | 2,010,701 |
| Net change in fund balances..... | 294,709 | 316 | 671,081 | 24,129 | 61,095 | 1,051,330 |
| Fund balances (deficits) at beginning of year..... | 3,052,636 | 2,106 | 1,093,585 | 59,584 | 1,059,717 | 5,267,628 |
| Fund balances (deficits) at end of year..... | \$ 3,347,345 | \$ 2,422 | \$ 1,764,666 | \$ 83,713 | \$ 1,120,812 | \$ 6,318,958 |

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, 2012

(Amounts in thousands)

| | | |
|---|-----------|------------------|
| Net change in fund balances - total governmental funds | \$ | 1,051,330 |
|---|-----------|------------------|

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.....

327,285

Current year depreciation expense.....

(194,830)

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.....

(147,119)

Elimination of due from / due to activity between state departments within government and business-type activities.....

(105)

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.....

(706,658)

Decrease in capital leases.....

518

Massachusetts School Building Authority.....

(727,484)

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

(974,533)

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.....

(93,327)

Change in net assets of governmental activities.....

\$ (1,464,923)

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



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Proprietary Fund Financial Statements



Collecting Apples, Clarkdale Fruit Farms, Deerfield,
Credit: Paul Franz

Employees sort through apples at Clarkdale Fruit Farms where one can find over 40 varieties of apples, peaches, plums, nectarines and pears from August through November.

Statement of Net Assets

Proprietary Funds

June 30, 2012

(Amounts in thousands)

| | Unemployment Compensation Trust Fund | University of Massachusetts | State Universities | Community Colleges | Total |
|--|--|--------------------------------|-----------------------|-----------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 15,570 | \$ 78,936 | \$ 315,012 | \$ 112,070 | \$ 521,588 |
| Short-term investments..... | - | 268,600 | 93,433 | 74,429 | 436,462 |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Federal grants and reimbursements receivable..... | - | 79,908 | 1,423 | 6,491 | 87,822 |
| Loans..... | - | 42,629 | 1,346 | 262 | 44,237 |
| Other receivables..... | 440,596 | 105,203 | 20,163 | 26,302 | 592,264 |
| Contribution receivables, net..... | - | 5,847 | 4,020 | 1,093 | 10,960 |
| Due from affiliates..... | - | 5,808 | - | 737 | 6,545 |
| Other current assets..... | - | 32,044 | 4,721 | 4,279 | 41,044 |
| Total current assets..... | 456,166 | 618,975 | 440,118 | 225,663 | 1,740,922 |
| Noncurrent assets: | | | | | |
| Cash and cash equivalents - restricted..... | - | 832,446 | 39,873 | 3,618 | 875,937 |
| Long-term investments..... | - | 964,330 | 255,667 | 81,181 | 1,301,178 |
| Accounts receivable, net..... | - | 50,580 | 6,101 | 793 | 57,474 |
| Loans receivable, net..... | - | - | 12,079 | 551 | 12,630 |
| Non-depreciable capital assets..... | - | 927,725 | 270,306 | 92,552 | 1,290,583 |
| Depreciable capital assets, net..... | - | 2,179,283 | 1,068,733 | 337,757 | 3,585,773 |
| Other noncurrent assets..... | - | 35,664 | 8,738 | 272 | 44,674 |
| Other noncurrent assets - restricted..... | 491,313 | - | - | - | 491,313 |
| Total noncurrent assets..... | 491,313 | 4,990,028 | 1,661,497 | 516,724 | 7,659,562 |
| Deferred outflows of derivative investments..... | - | 75,635 | 32,352 | 2,105 | 110,092 |
| Total assets and deferred outflows..... | 947,479 | 5,684,638 | 2,133,967 | 744,492 | 9,510,576 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and other liabilities..... | 81,365 | 222,723 | 42,819 | 26,983 | 373,890 |
| Accrued payroll..... | - | 93,555 | 39,506 | 31,847 | 164,908 |
| Compensated absences..... | - | 71,892 | 28,559 | 30,922 | 131,373 |
| Accrued interest payable..... | - | 20,218 | 112 | 242 | 20,572 |
| Tax refunds and abatements payable..... | 36,310 | - | - | - | 36,310 |
| Deferred revenue..... | - | 2,412 | 23,463 | 1,605 | 27,480 |
| Student deposits and unearned revenues..... | - | 46,248 | 10,096 | 16,809 | 73,153 |
| Due to affiliates..... | - | 15,591 | 1,374 | 1,558 | 18,523 |
| Capital leases..... | - | 5,502 | 780 | 668 | 6,950 |
| Bonds, notes payable and other obligations..... | - | 70,846 | 27,607 | 2,620 | 101,073 |
| Total current liabilities..... | 117,675 | 548,987 | 174,316 | 113,254 | 954,232 |
| Noncurrent liabilities: | | | | | |
| Compensated absences..... | - | 30,820 | 14,463 | 15,975 | 61,258 |
| Due to federal government - grants..... | - | - | 12,496 | 135 | 12,631 |
| Deferred revenue..... | - | 16,501 | 84,703 | 402 | 101,606 |
| Capital leases..... | - | 6,539 | 7,834 | 2,004 | 16,377 |
| Environmental remediation liability..... | - | - | 1,470 | - | 1,470 |
| Bonds, notes payable and other obligations..... | - | 2,169,488 | 1,050,648 | 49,180 | 3,269,316 |
| Liability for derivative instruments..... | - | 106,110 | - | 2,105 | 108,215 |
| Other noncurrent liabilities..... | - | 58,982 | 9,583 | 4,694 | 73,259 |
| Total noncurrent liabilities..... | - | 2,388,440 | 1,181,197 | 74,495 | 3,644,132 |
| Total liabilities..... | 117,675 | 2,937,427 | 1,355,513 | 187,749 | 4,598,364 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt..... | - | 1,512,924 | 476,707 | 376,407 | 2,366,038 |
| Restricted for: | | | | | |
| Unemployment benefits..... | 829,804 | - | - | - | 829,804 |
| Higher education endowment funds..... | - | 291,768 | 31,490 | 22,380 | 345,638 |
| Higher education academic support and programs..... | - | - | 670 | 4,943 | 5,613 |
| Higher education scholarships and fellowships: | | | | | |
| Nonexpendable..... | - | - | 11,186 | 3,956 | 15,142 |
| Expendable..... | - | - | 20,795 | 18,405 | 39,200 |
| Other nonexpendable purposes..... | - | - | 26,678 | 2,966 | 29,644 |
| Capital projects - expendable purposes..... | - | - | 11,355 | 1,096 | 12,451 |
| Other purposes..... | - | 248,361 | 34,724 | 16,288 | 299,373 |
| Unrestricted..... | - | 694,158 | 164,849 | 110,302 | 969,309 |
| Total net assets..... | \$ 829,804 | \$ 2,747,211 | \$ 778,454 | \$ 556,743 | \$ 4,912,212 |

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, 2012

(Amounts in thousands)

| | Unemployment Compensation Trust Fund | University of Massachusetts | State Universities | Community Colleges | Total |
|--|--|--------------------------------|-----------------------|-----------------------|---------------------|
| Operating revenues: | | | | | |
| Unemployment compensation contribution..... | \$ 1,932,561 | \$ - | \$ - | \$ - | \$ 1,932,561 |
| Net tuition and fees..... | - | 659,180 | 326,188 | 210,056 | 1,195,424 |
| Federal grants and reimbursements..... | - | 536,031 | 66,258 | 236,724 | 839,013 |
| Auxiliary enterprises..... | - | 297,956 | 89,684 | 15,908 | 403,548 |
| Sales & services..... | - | 464,253 | 87,092 | 2,390 | 553,735 |
| Miscellaneous..... | 50,041 | 98,107 | 21,015 | 47,424 | 216,587 |
| Total operating revenues..... | 1,982,602 | 2,055,527 | 590,237 | 512,502 | 5,140,868 |
| Operating expenses: | | | | | |
| Unemployment compensation..... | 3,466,500 | - | - | - | 3,466,500 |
| Instruction..... | - | 633,481 | 264,366 | 295,503 | 1,193,350 |
| Research..... | - | 417,124 | 36 | 23 | 417,183 |
| Academic support..... | - | 147,767 | 74,355 | 88,642 | 310,764 |
| Student services..... | - | 107,246 | 82,977 | 105,660 | 295,883 |
| Scholarships and fellowships..... | - | 48,088 | 20,821 | 81,785 | 150,694 |
| Public service..... | - | 90,905 | 6,292 | 7,640 | 104,837 |
| Operation and maintenance of plant..... | - | 215,292 | 81,475 | 69,482 | 366,249 |
| Institutional support..... | - | 198,941 | 97,790 | 101,085 | 397,816 |
| Other operating expenses..... | - | 347,685 | 7,486 | 5,132 | 360,303 |
| Depreciation..... | - | 163,369 | 62,087 | 26,273 | 251,729 |
| Auxiliary operations..... | - | 235,633 | 109,204 | 15,726 | 360,563 |
| Total operating expenses..... | 3,466,500 | 2,605,531 | 806,889 | 796,951 | 7,675,871 |
| Operating income (loss)..... | (1,483,898) | (550,004) | (216,652) | (284,449) | (2,535,003) |
| Nonoperating revenues (expenses): | | | | | |
| Other federal revenues..... | 1,648,615 | 6,855 | - | - | 1,655,470 |
| Other revenues..... | - | 240,071 | 77,203 | 22,941 | 340,215 |
| Other expenses..... | - | (78,508) | (44,229) | (4,087) | (126,824) |
| Investment income (loss)..... | 30,859 | 21,937 | 12,223 | 1,952 | 66,971 |
| Total nonoperating revenues (expenses)..... | 1,679,474 | 190,355 | 45,197 | 20,806 | 1,935,832 |
| Income (loss) before transfers..... | 195,576 | (359,649) | (171,455) | (263,643) | (599,171) |
| Transfers in..... | - | 615,049 | 254,857 | 286,049 | 1,155,955 |
| Change in net assets..... | 195,576 | 255,400 | 83,402 | 22,406 | 556,784 |
| Total net assets - beginning, as restated..... | 634,228 | 2,491,811 | 695,052 | 534,337 | 4,355,428 |
| Total net assets - ending..... | \$ 829,804 | \$ 2,747,211 | \$ 778,454 | \$ 556,743 | \$ 4,912,212 |

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

Statement of Cash Flows

Proprietary Funds

June 30, 2012

(Amounts in thousands)

| | Unemployment Compensation Trust Fund | University of Massachusetts | State Universities | Community Colleges | Total |
|--|--|--------------------------------|---------------------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Collection of unemployment contributions..... | \$ 1,688,701 | \$ - | \$ - | \$ - | \$ 1,688,701 |
| Tuition, residence, dining and other student fees..... | - | 730,873 | 335,212 | 223,364 | 1,289,449 |
| Research grants and contracts..... | - | 667,310 | 137,045 | 262,568 | 1,066,923 |
| Payments to suppliers..... | - | (989,163) | (206,632) | (194,083) | (1,389,878) |
| Payments to employees..... | - | (1,539,116) | (403,787) | (422,909) | (2,365,812) |
| Payments to students..... | - | (54,390) | (19,376) | (79,557) | (153,323) |
| Payments for unemployment benefits..... | (3,398,913) | - | - | - | (3,398,913) |
| Collection of loans to students and employees..... | - | 5,353 | 1,159 | 1,181 | 7,693 |
| Income from contract services..... | - | - | 11,606 | 1,189 | 12,795 |
| Maintenance costs..... | - | - | (841) | 893 | 52 |
| Auxiliary enterprise charges..... | - | 301,266 | 53,536 | (4,887) | 349,915 |
| Other receipts..... | 50,041 | 501,469 | 14,823 | 29,996 | 596,329 |
| Net cash used by operating activities..... | (1,660,171) | (376,398) | (77,255) | (182,245) | (2,296,069) |
| CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | |
| State appropriations..... | - | 543,590 | 195,995 | 210,960 | 950,545 |
| Grants and contracts..... | 1,648,615 | 73,908 | 1,657 | 1,231 | 1,725,411 |
| Student organizations agency transactions..... | - | (40) | - | (1,290) | (1,330) |
| Other receipts (payments)..... | (3,733) | 31,639 | 3,501 | (522) | 30,885 |
| Net cash provided by non-capital financing activities..... | 1,644,882 | 649,097 | 201,153 | 210,379 | 2,705,511 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Capital appropriations..... | - | 133,653 | 18,401 | 10,217 | 162,271 |
| Purchases of capital assets..... | - | (664,156) | (159,545) | (37,797) | (861,498) |
| Proceeds from sales of capital assets..... | - | - | - | (2,196) | (2,196) |
| Proceeds from revenue obligation debt issuance..... | - | - | 380,126 | 8,301 | 388,427 |
| Other capital asset activity..... | - | 46,163 | (185,920) | 5 | (139,752) |
| Investments held by bond trustee, net..... | - | - | 5 | (9) | (4) |
| Principal paid on capital debt and leases..... | - | (72,885) | (24,641) | (5,355) | (102,881) |
| Interest paid on capital debt and leases..... | - | (54,929) | (42,743) | (2,478) | (100,150) |
| Net cash provided by (used in) capital financing activities..... | - | (612,154) | (14,317) | (29,312) | (655,783) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from sales and maturities of investments..... | - | 1,379,520 | 189,168 | 72,722 | 1,641,410 |
| Purchases of investments..... | - | (1,409,649) | (299,279) | (78,879) | (1,787,807) |
| Investment earnings..... | 30,859 | 33,668 | (2,069) | 891 | 63,349 |
| Net cash provided by (used by) investing activities..... | 30,859 | 3,539 | (112,180) | (5,266) | (83,048) |
| Net increase (decrease) in cash and cash equivalents..... | 15,570 | (335,916) | (2,599) | (6,444) | (329,389) |
| Cash and cash equivalents at the beginning of the fiscal year..... | - | 1,247,298 | 357,484 | 122,132 | 1,726,914 |
| Cash and cash equivalents at the end of the fiscal year..... | \$ 15,570 | \$ 911,382 | \$ 354,885 | \$ 115,688 | \$ 1,397,525 |
| Reconciliation of net operating revenues and expenses to cash used by operating activities: | | | | | |
| Operating loss..... | \$ (1,483,898) | \$ (550,004) | \$ (216,652) | \$ (284,449) | \$ (2,535,003) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | | | | |
| Depreciation expense..... | - | 163,369 | 62,087 | 26,273 | 251,729 |
| Fringe benefits paid by the Commonwealth..... | - | - | 58,190 | 70,451 | 128,641 |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable, prepaids and other assets..... | (14,903) | (15,026) | (293) | (1,619) | (31,841) |
| Accounts payable, accrued liabilities and benefits..... | 67,587 | 26,702 | 17,052 | 5,358 | 116,699 |
| Student deposits and other unearned and deferred revenues..... | - | (867) | 1,371 | (792) | (288) |
| Other noncurrent assets - restricted and liabilities..... | (228,957) | (572) | 990 | 2,533 | (226,006) |
| Net cash used by operating activities..... | \$ (1,660,171) | \$ (376,398) | \$ (77,255) | \$ (182,245) | \$ (2,296,069) |

Non-cash investing, capital and financing activities:

The University System had approximately \$64 million of non-cash activities, and the State and Community Colleges had approximately \$244 million of non-cash activities, including new capital leases.

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

Fiduciary Fund Financial Statements



Crow Farm, Sandwich

Credit: William DeSousa-Mauk

Statement of Net Assets

Fiduciary Funds

June 30, 2012

(Amounts in thousands)

| | Post - Employment Benefits Trust Funds | External Investment Trust Funds | Private Purpose Funds | Agency Funds |
|---|--|---------------------------------------|-----------------------------|---------------------|
| ASSETS | | | | |
| Cash and short-term investments..... | \$ - | \$ - | \$ 819 | \$ 406,397 |
| Assets held in trust for post-employment benefits: | | | | |
| Cash and short-term investments..... | 286,805 | 28,206 | - | - |
| Investments at fair value..... | 40,397,152 | 8,301,896 | - | - |
| Assets held in trust for pool participants: | | | | |
| Cash and short-term investments..... | - | 3,079,693 | - | - |
| Investments, restricted investments and annuity contracts..... | - | - | - | 1,385,875 |
| Assets held in trust..... | - | - | - | 720,120 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Taxes..... | - | - | - | 2,477 |
| Other receivables..... | 681,009 | 143,211 | - | 117,624 |
| Total assets..... | 41,364,966 | 11,553,006 | 819 | 2,632,493 |
| LIABILITIES | | | | |
| Accounts payable..... | 682,584 | 140,804 | - | 72,422 |
| Due to cities and towns..... | - | - | - | 28,016 |
| Lottery prizes payable..... | - | - | - | 1,385,875 |
| Agency liabilities..... | - | - | - | 1,146,180 |
| Other accrued liabilities..... | - | 285 | - | - |
| Total liabilities..... | 682,584 | 141,089 | - | \$ 2,632,493 |
| NET ASSETS | | | | |
| Restricted for employees' post-employment benefits..... | 40,682,382 | - | - | |
| Restricted for external investment trust fund participants..... | - | 11,411,917 | - | |
| Restricted for private purposes..... | - | - | 819 | |
| Total net assets..... | \$ 40,682,382 | \$ 11,411,917 | \$ 819 | |

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, 2012

(Amounts in thousands)

| | Post - Employment Benefits Trust Funds | External Investment Trust Funds | Private Purpose Funds |
|---|--|---------------------------------------|-----------------------------|
| ADDITIONS | | | |
| Contribution: | | | |
| Employer contributions..... | \$ 1,892,713 | \$ - | \$ - |
| Employee contributions..... | 1,184,614 | - | - |
| Proceeds from sale of units..... | - | 18,222,794 | - |
| Total contributions..... | 3,077,327 | 18,222,794 | - |
| Net investment gain (loss): | | | |
| Investment gain (loss)..... | (166,100) | (10,296) | - |
| Less: investment expense..... | (57,356) | (13,361) | - |
| Net investment gain (loss)..... | (223,456) | (23,657) | - |
| Total additions..... | 2,853,871 | 18,199,137 | - |
| DEDUCTIONS | | | |
| Administration..... | 38,922 | - | 15 |
| Retirement benefits and refunds..... | 4,387,722 | - | - |
| Payments to State Boston Retirement System..... | 90,399 | - | - |
| Cost of units redeemed..... | - | 18,054,827 | - |
| Distribution to unit holders..... | - | 8,361 | - |
| Total deductions..... | 4,517,043 | 18,063,188 | 15 |
| Net increase (decrease) | (1,663,172) | 135,949 | (15) |
| Net assets - beginning..... | 42,345,554 | 11,275,968 | 834 |
| Net assets - ending..... | \$ 40,682,382 | \$ 11,411,917 | \$ 819 |

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



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Discretely Presented Component Unit Financial Statements



Lobster Bake at Gloucester House Restaurant, Gloucester, MA

Statement of Net Assets
Component Units
June 30, 2012
(Amounts in thousands)

| | Massachusetts Department of Transportation | Commonwealth Health Insurance Connector | Massachusetts Water Pollution Abatement Trust | Nonmajor Component Units | Total |
|---|---|--|---|--------------------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 259,451 | \$ 28,007 | \$ 357,127 | \$ 182,517 | \$ 827,102 |
| Short-term investments..... | - | - | 3,584 | 195,128 | 198,712 |
| Restricted cash and investments..... | 1,264,326 | 6,056 | - | 31,696 | 1,302,078 |
| Assets held in trust..... | - | - | - | 118,301 | 118,301 |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Federal grants and reimbursement receivable..... | 59,631 | - | 56,960 | 1,462 | 118,053 |
| Loans..... | - | - | 249,177 | 51,655 | 300,832 |
| Other receivables..... | 106,129 | 2,975 | 63,068 | 35,297 | 207,469 |
| Due from primary government..... | 468,268 | - | 2,313 | 42,591 | 513,172 |
| Inventory..... | - | - | - | 202 | 202 |
| Other current assets..... | 102,399 | 191 | - | 4,214 | 106,804 |
| Total current assets..... | 2,260,204 | 37,229 | 732,229 | 663,063 | 3,692,725 |
| Noncurrent assets: | | | | | |
| Cash and cash equivalents - restricted..... | 947,681 | - | - | 76,631 | 1,024,312 |
| Long - term investments..... | - | - | 1,428,695 | 73,419 | 1,502,114 |
| Restricted investments and annuity contracts..... | - | - | - | 123,787 | 123,787 |
| Accounts receivables, net..... | - | - | - | 4,768 | 4,768 |
| Loans receivables, net..... | - | - | 3,674,409 | 518,887 | 4,193,296 |
| Non-depreciable capital assets..... | 5,140,748 | - | - | 106,799 | 5,247,547 |
| Depreciable capital assets, net..... | 25,523,502 | 133 | - | 992,946 | 26,516,581 |
| Other noncurrent assets..... | 105,055 | - | 9,766 | 22,089 | 136,910 |
| Total noncurrent assets..... | 31,716,986 | 133 | 5,112,870 | 1,919,326 | 38,749,315 |
| Deferred outflows from derivative instruments..... | 360,753 | - | 2,067 | 21,643 | 384,463 |
| Total assets and deferred outflows..... | 34,337,943 | 37,362 | 5,847,166 | 2,604,032 | 42,826,503 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and other liabilities..... | 646,252 | 1,040 | 1,303 | 76,698 | 725,293 |
| Accrued payroll..... | - | 401 | - | 76 | 477 |
| Compensated absences..... | 23,898 | - | - | 2,563 | 26,461 |
| Accrued interest payable..... | 158,758 | - | 68,314 | 1,317 | 228,389 |
| Due to primary government..... | - | - | - | 438 | 438 |
| Deferred revenue..... | 51,320 | 183 | 29,797 | 150,197 | 231,497 |
| Capital leases..... | 24,407 | - | - | - | 24,407 |
| Bonds, notes payable and other obligations..... | 587,396 | - | 172,305 | 28,772 | 788,473 |
| Total current liabilities..... | 1,492,031 | 1,624 | 271,719 | 260,061 | 2,025,435 |
| Noncurrent liabilities: | | | | | |
| Compensated absences..... | 21,070 | - | - | 1,257 | 22,327 |
| Accrued interest payable..... | 162,499 | - | - | 2,685 | 165,184 |
| Due to primary government..... | - | - | - | 14,673 | 14,673 |
| Deferred revenue..... | - | - | - | 32,627 | 32,627 |
| Capital leases..... | 124,760 | - | - | - | 124,760 |
| Bonds, notes payable and other obligations..... | 7,480,098 | - | 3,468,098 | 595,787 | 11,543,983 |
| Post - employment benefits obligations..... | 581,526 | 2,037 | - | 3,509 | 587,072 |
| Liability for derivative instruments..... | 614,670 | - | 2,067 | 21,643 | 638,380 |
| Other noncurrent liabilities..... | 206,464 | 7,783 | 92,415 | 12,948 | 319,610 |
| Total noncurrent liabilities..... | 9,191,087 | 9,820 | 3,562,580 | 685,129 | 13,448,616 |
| Total liabilities..... | 10,683,118 | 11,444 | 3,834,299 | 945,190 | 15,474,051 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt..... | 23,676,181 | 133 | - | 935,000 | 24,611,314 |
| Restricted for: | | | | | |
| Clean energy trusts..... | - | - | - | 183,463 | 183,463 |
| Economic development financing..... | - | - | - | 170,435 | 170,435 |
| Financial assistance to local communities and agencies..... | - | - | 1,746,043 | - | 1,746,043 |
| Other purposes..... | 792,007 | - | - | 100,330 | 892,337 |
| Unrestricted..... | (813,363) | 25,785 | 266,824 | 269,614 | (251,140) |
| Total net assets..... | \$ 23,654,825 | \$ 25,918 | \$ 2,012,867 | \$ 1,658,842 | \$ 27,352,452 |

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, 2012
(Amounts in thousands)

| | Massachusetts Department of Transportation | Commonwealth Health Insurance Connector | Massachusetts Water Pollution Abatement Trust | Nonmajor Component Units | Total |
|---|---|--|---|--------------------------------|----------------------|
| Operating revenues: | | | | | |
| Charges for services..... | \$ 1,087,388 | \$ 848,607 | \$ 5,345 | \$ 149,789 | \$ 2,091,129 |
| Other..... | 63,151 | - | 216,039 | 136,793 | 415,983 |
| Total operating revenues..... | 1,150,539 | 848,607 | 221,384 | 286,582 | 2,507,112 |
| Operating expenses: | | | | | |
| Cost of services | 2,971,366 | 848,646 | 229,892 | 239,860 | 4,289,764 |
| Administration costs..... | 786,912 | - | 3,560 | 101,289 | 891,761 |
| Depreciation..... | 1,073,488 | - | - | 55,706 | 1,129,194 |
| Total operating expenses..... | 4,831,766 | 848,646 | 233,452 | 396,855 | 6,310,719 |
| Operating income (loss)..... | (3,681,227) | (39) | (12,068) | (110,273) | (3,803,607) |
| Nonoperating revenues (expenses): | | | | | |
| Operating grants..... | 3,498,357 | 3,181 | 36,700 | 98,208 | 3,636,446 |
| Interest income..... | 46,792 | 100 | - | 2,864 | 49,756 |
| Other nonoperating revenues (expenses)..... | 33,642 | (2,000) | - | (5,504) | 26,138 |
| Nonoperating revenues (expenses), net..... | 3,578,791 | 1,281 | 36,700 | 95,568 | 3,712,340 |
| Income (loss) before contributions..... | (102,436) | 1,242 | 24,632 | (14,705) | (91,267) |
| Capital contributions..... | - | - | 83,077 | 5,865 | 88,942 |
| Other losses..... | - | - | - | (3,640) | (3,640) |
| Change in net assets..... | (102,436) | 1,242 | 107,709 | (12,480) | (5,965) |
| Net assets - beginning, as restated..... | 23,757,261 | 24,676 | 1,905,158 | 1,671,322 | 27,358,417 |
| Net assets - ending..... | \$ 23,654,825 | \$ 25,918 | \$ 2,012,867 | \$ 1,658,842 | \$ 27,352,452 |



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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

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

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 15 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 are presented for the Massachusetts School Building Authority (MSBA), as a major governmental fund, and for the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) as external investment trusts.

Entity Audited Separately from the Commonwealth but is not legally separate from the Commonwealth – this includes the Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Receiver-General.

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 universities and 15 community colleges as well as the Massachusetts State College Building Authority (MSCBA), 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 ten 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. In June of 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT).

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the State

Single Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office 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.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39; *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*: 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 from the various entities, or contact the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net 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.

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

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

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

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

Proprietary Fund Types:

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

The proprietary funds include the following:

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

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

Fiduciary Fund Types:

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

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

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

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

Fund Balances:

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

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

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

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

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

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

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

Detail of FY12 ending fund balances is shown in the table below.

Governmental Fund Balances at June 30, 2012
(amounts in thousands)

| | Nonspendable Purposes | Restricted Purposes | Committed Purposes | Assigned Purposes | Unassigned Purposes | Totals |
|---|--------------------------|------------------------|-----------------------|----------------------|------------------------|---------------------|
| General Fund | | | | | | |
| General Government..... | \$ - | \$ - | \$ - | \$ - | \$ 1,532,341 | \$ 1,532,341 |
| Stabilization Fund..... | - | - | 1,652,118 | - | - | 1,652,118 |
| FY 13 Appropriations..... | - | - | - | 162,886 | - | 162,886 |
| Subtotals, General Fund..... | - | - | 1,652,118 | 162,886 | 1,532,341 | 3,347,345 |
| Lottery Funds | | | | | | |
| Lottery Operations..... | - | - | - | 2,422 | - | 2,422 |
| Subtotals, Lottery Funds..... | - | - | - | 2,422 | - | 2,422 |
| Massachusetts School Building Authority (MSBA) | | | | | | |
| Debt Service..... | - | 772,526 | - | - | - | 772,526 |
| Grants to Cities, Towns and Local School Districts..... | - | 582,827 | - | 409,313 | - | 992,140 |
| Subtotals, MSBA..... | - | 1,355,353 | - | 409,313 | - | 1,764,666 |
| Federal Grants Fund | | | | | | |
| Restricted by Federal Grantors..... | - | 83,713 | - | - | - | 83,713 |
| Subtotals, Federal Grants Fund..... | - | 83,713 | - | - | - | 83,713 |
| Other Governmental Funds | | | | | | |
| Environmental..... | - | - | 58,471 | - | - | 58,471 |
| Public Safety..... | - | - | 104,178 | - | - | 104,178 |
| Health Care..... | - | - | 190,832 | - | - | 190,832 |
| Child Support..... | - | 57,495 | - | - | - | 57,495 |
| Workforce Training..... | - | - | 18,621 | - | - | 18,621 |
| Convention Centers..... | - | 94,152 | 43,908 | - | - | 138,060 |
| General Government Capital Projects..... | - | - | 29,044 | - | (191,075) | (162,031) |
| General Government Debt Service..... | - | 21,031 | - | - | - | 21,031 |
| Transportation (GANS*/Commonwealth Transportation Fund).... | - | 212,636 | 14,727 | - | - | 227,363 |
| Gaming..... | - | - | 14,145 | - | - | 14,145 |
| Expendable Trusts..... | 914 | 370,907 | 185,454 | - | - | 557,275 |
| Other..... | - | - | 92,660 | - | (197,288) | (104,628) |
| Subtotals, Other Governmental Funds..... | 914 | 756,221 | 752,040 | - | (388,363) | 1,120,812 |
| Totals..... | \$ 914 | \$ 2,195,287 | \$ 2,404,158 | \$ 574,621 | \$ 1,143,978 | \$ 6,318,958 |

*Federal Grant Anticipation Notes

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

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) ½ 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, ½ 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 FY12 with a balance of \$1.652 billion. For the fiscal year ending June 30, 2012, the Stabilization Fund's balance increased by \$273 million as a result of almost \$117 million in surplus transfers, over \$375 million in judgement and settlement receipts and \$1 million in statutorily mandated transfers of withholding taxes on certain Lottery proceeds, offset by \$220 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

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, SHORT-TERM INVESTMENTS AND INVESTMENTS

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

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Fund. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Fund investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333.

General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

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', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT), formerly the Health Care Security Trust (HST), are required to invest in the PRIT Fund and comprise approximately 39.6%, 42.6% and, 0.8% 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 are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 33.6% of the total assets of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

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

E. RECEIVABLES

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

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net 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 FY12 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for approximately \$127 million, representing 50% of the actual amounts received during FY12 and is included as part of other non-major governmental fund activity.

F. DUE FROM CITIES AND TOWNS

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

The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in the fiscal year 2041. 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, 2012 were \$121 million, of which \$7 million is due in FY13. During FY12, the MSBA executed \$6 million of new loans and collected \$6 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> | Estimated Useful Life (in years) |
|--|---|
| Buildings..... | 40 |
| Infrastructure - roads, bridges and tunnels..... | 40 |
| Infrastructure - beaches, boardwalks, bikeways, etc..... | 20 |
| Infrastructure - dams, water and sewer systems..... | 50 |
| Furniture..... | 10 |
| Library collections that are not historical treasures..... | 15 |
| Equipment, office equipment and life safety equipment..... | 10 |
| Computer hardware and software..... | 3 to 7 |
| Vehicles..... | 5 |

Road and Bridge Assets

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

Construction in process

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

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 \$84 million and is anticipated to be funded under the progress payment method. The MSBA has recorded a liability of \$137 million for the reimbursements due for these projects. New Program projects that are not currently recognized as a liability are considered commitments of the MSBA. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement. As of June 30, 2012, MSBA had \$14 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 30th but paid for after year-end, the largest of which is Medicaid for \$944 million.

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, 2012 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 FY12, total dedicated sales tax revenue that was directed to the MBTA was approximately \$779 million, \$109 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY12 the MBTA received from the Commonwealth sales tax revenues equal to 1.16% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or 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 FY12, approximately \$670 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, 2012, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$492 million of interest on debts related to these Convention Centers. Taxes collected in FY12 were approximately \$96 million, while debt service on the bonds was approximately \$36.3 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 1st of the following fiscal year. In FY12, approximately \$312 million in sales tax revenue was transferred to MassDOT, \$37 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 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, 2012, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

| | Governmental Activities | Business-Type Activities | Government Wide Total |
|---|----------------------------|-----------------------------|-----------------------------|
| Restricted for: | | | |
| Unemployment benefits..... | \$ - | \$ 829,804 | \$ 829,804 |
| Retirement of indebtedness..... | 1,085,808 | - | 1,085,808 |
| Restricted for other purposes including: | | | |
| Higher education endowment funds..... | - | 345,638 | 345,638 |
| Higher education academic support and programs..... | - | 5,613 | 5,613 |
| Higher education scholarships and fellowships: | | | |
| Nonexpendable..... | - | 15,142 | 15,142 |
| Expendable..... | - | 39,200 | 39,200 |
| Other nonexpendable purposes..... | - | 29,644 | 29,644 |
| Capital projects - expendable trusts..... | - | 12,451 | 12,451 |
| Other purposes..... | 370,907 | 299,373 | 670,280 |
| Total restricted net assets..... | \$ 1,456,715 | \$ 1,576,865 | \$ 3,033,580 |

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

P. RECLASSIFICATIONS

Certain amounts in the separately issued component units’ financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. 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 universities and non-major economic development entities to reflect the early implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

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

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

| | Governmental Activities | Business-Type Activities | Government Wide Total |
|--------------------------------|----------------------------|-----------------------------|--------------------------|
| Cash and cash equivalents..... | \$ 3,870,369 | \$ 521,588 | \$ 4,391,957 |
| Short-term investments..... | 296,417 | 436,462 | 732,879 |
| Cash with fiscal agent..... | 304,202 | - | 304,202 |
| Total..... | <u>\$ 4,470,988</u> | <u>\$ 958,050</u> | <u>\$ 5,429,038</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, 2012, the Commonwealth held these investments with a maturity value of approximately \$1.813 billion and with a carrying value of approximately \$1.386 billion. Over 87.8% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 2.8% 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.

The assets of the MSBA's OPEB Trust Fund are invested in the SRBT, which is part of the Massachusetts Pension Reserves Investment Trust Fund and follows the investment policy of the Massachusetts Pension Reserves Investment Management Board.

As of June 30, 2012, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

| | | |
|--|----|------------------|
| Cash and cash equivalents..... | \$ | 843,654 |
| Cash and cash equivalents held in pooled cash..... | | 58,476 |
| Restricted investments..... | | <u>772,526</u> |
| Total..... | \$ | <u>1,674,656</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 – 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, 2012, the bank balances of uninsured deposits totaled approximately \$287 million.

Custodial Credit Risk – MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as deposits that are fully collateralized. As of June 30, 2012, 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 Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

During the fiscal year, the MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 31 to 54 days.

Investments in the MMDT Short Term Bond Fund (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.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 2.9 to 3.0 years. As of June 30, 2012, investments in the MMDT Short Term Bond Fund had a fair value of \$296 million and investment maturities ranging from less than one year to more than ten years and with approximately 6.2% of the investment's fair values maturing in less than 1 year, approximately 75.5% from one to five years, approximately 4.9% from six to ten years and approximately 13.4% more than ten years.

Interest Rate Risk – Business - Type Activities

As of June 30, 2012, the Institutions of Higher Education and their blended component units had debt investments stated at fair value of approximately \$833 million and had investment maturities ranging from less than one year to more than ten years, with approximately 57.5% of the investment's fair values maturing in less than 1 year, approximately 21.1% from one to five years, approximately 9.3% from six to ten years, and approximately 12.1% 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, 2012, the MSBA had approximately \$226 million invested in a collateralized guaranteed investment contract and approximately \$343 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted cash and investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2040. These investments exceed 5% of the MSBA's total investments.

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 Treasury cash portfolio is 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 the MMDT Cash Portfolio ranged from P1 to P2, with approximately 91% rated P1 and approximately 9% rated P2 at fair value.

For the Short Term Bond Fund, investments were approximately 17.9% at AAA, approximately 22.5% from A to AA, approximately 16.1% BBB or below or unrated and approximately 43.5% 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 \$445 million at AAA, approximately \$228 million from AA+ to A- and approximately \$160 million either unrated or BBB+ or less.

Credit Risk - MSBA

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

As of June 30, 2012, the guaranteed investment contracts were not rated; however, the issuer was rated AA+ or equivalent. As of June 30, 2012, the MSBA's investments in municipal bonds were rated AA+ or above.

Interest Rate Risk – PRIT Funds

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

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

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately \$12.136 billion at fair value with an effective weighted average duration range from 0.08 to 10.37 years at June 30, 2012.

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, 2012.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.158 billion, BBB+ to B- investments with a fair value of approximately \$2.326 billion, \$173 million rated CCC+ to D, \$3.980 billion are unrated and the remaining \$2.499 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, 2012 were approximately \$198 million in cash and investments, \$10.123 billion in equities, \$1.491 billion in fixed income investments and \$1.136 billion in private equity investments. An additional \$2.564 billion is invested in international investments denominated in U. S. dollars.

Concentration of Credit Risk – PRIT

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

MMDT and PRIT have no investments at fair value that exceed 5% of PRIT's net assets held in trust for pool participants as of June 30, 2012.

A. DERIVATIVE INSTRUMENTS

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

Forward Currency Contracts

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

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

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

As of June 30, 2012, PRIT had open foreign exchange contracts with combined net unrealized gains of approximately \$14 million with various delivery dates.

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

Futures Contracts

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

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

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

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

PRIT held contracts outstanding at June 30, 2012 with various expirations from FY13 to FY16. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2012 was approximately \$1.303 billion with a fair value of \$1.342 billion, yielding an unrealized net gain of approximately \$39 million.

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

Swaps – PRIT

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

As of June 30, 2012, PRIT had contracts in effect with an aggregated notional amount of approximately \$620 million to

various investment banks that had maturity dates from FY13 to FY46. The contracts have an aggregate fair value gain of approximately \$3 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRITs counterparty exposure was with various major investment companies with ratings ranging from AA- to A- and various other banks with other ratings. Open swap contracts as of June 30, 2012 were as follows (amounts in thousands):

| Counterparty | Credit Ratings | 2012 | | | | | |
|----------------------------------|----------------|---------------------|-----------------|----------------------|-----------------|--------------------|---------------|
| | | 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- | \$ - | \$ - | \$ 18,240 | \$ (216) | \$ - | \$ - |
| Chicago Mercantile Exchange Inc. | AA- | 157,950 | (564) | 107,852 | 2,722 | - | - |
| Deutsche Bank Securities Inc. | A+ | 41,900 | (155) | 47,394 | 669 | 23,310 | 469 |
| Bank of America Corp | A- | - | - | 19,108 | (1,400) | - | - |
| Citibank | A- | - | - | 42,920 | 482 | - | - |
| Barclays Global Investors | A | 6,480 | 61 | 36,788 | 563 | - | - |
| Morgan Stanley Capital | A- | 980 | 21 | 29,600 | 192 | - | - |
| UBS Financial Services, Inc. | A | 1,734 | 58 | 29,945 | (136) | - | - |
| All others | Various | 1,631 | 322 | 53,866 | (108) | - | - |
| | | <u>\$ 210,675</u> | <u>\$ (257)</u> | <u>\$ 385,713</u> | <u>\$ 2,768</u> | <u>\$ 23,310</u> | <u>\$ 469</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.

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 Receivable | Federal Grants and Reimbursements | Loans | Other Receivables | Total |
|---|-------------------|-----------------------------------|-------------------|-------------------|---------------------|
| Governmental activities: | | | | | |
| Gross receivables..... | \$ 5,691,771 | \$ 1,921,909 | \$ 122,171 | \$ 1,704,138 | \$ 9,439,989 |
| Less: allowance for uncollectibles..... | (2,131,960) | (28,462) | - | (1,327,188) | (3,487,610) |
| Receivables, net of allowance for uncollectibles..... | 3,559,811 | 1,893,447 | 122,171 | 376,950 | 5,952,379 |
| Less: current portion..... | (2,789,504) | (1,824,894) | (7,378) | (326,393) | (4,948,169) |
| Noncurrent receivables..... | <u>\$ 770,307</u> | <u>\$ 68,553</u> | <u>\$ 114,793</u> | <u>\$ 50,557</u> | <u>\$ 1,004,210</u> |
| Business-Type activities: | | | | | |
| Gross receivables..... | \$ - | \$ 88,951 | \$ 59,394 | \$ 710,503 | \$ 858,848 |
| Less: allowance for uncollectibles..... | - | (1,129) | (2,527) | (49,805) | (53,461) |
| Receivables, net of allowance for uncollectibles..... | - | 87,822 | 56,867 | 660,698 | 805,387 |
| Less: current portion..... | - | (87,822) | (44,237) | (603,224) | (735,283) |
| Noncurrent receivables..... | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,630</u> | <u>\$ 57,474</u> | <u>\$ 70,104</u> |

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from 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 | Lotteries | Federal Grants | Other Governmental Funds | Total |
|---|-----------------------------|-----------------------|---------------------|--------------------------|-----------------------|
| Governmental funds: | | | | | |
| <u>Transfers in:</u> | | | | | |
| Debt service..... | \$ - | \$ - | \$ - | \$ 2,153,511 | \$ 2,153,511 |
| Transfers in..... | 2,068,886 | - | - | 1,810,259 | 3,879,145 |
| Subtotal..... | 2,068,886 | - | - | 3,963,770 | 6,032,656 |
| <u>Transfers out:</u> | | | | | |
| Appropriations..... | (1,048,937) | - | - | (1,192) | (1,050,129) |
| Transfer of bond proceeds..... | - | - | - | (279,653) | (279,653) |
| Debt service..... | (1,020,223) | - | - | (1,133,288) | (2,153,511) |
| Transfers out..... | (1,116,192) | (1,074,930) | (115,670) | (1,398,526) | (3,705,318) |
| Subtotal..... | (3,185,352) | (1,074,930) | (115,670) | (2,812,659) | (7,188,611) |
| Total governmental funds..... | \$ (1,116,466) | \$ (1,074,930) | \$ (115,670) | \$ 1,151,111 | \$ (1,155,955) |
| Proprietary funds: | | | | | |
| | University of Massachusetts | State Universities | Community Colleges | | Total |
| <u>Transfers in:</u> | | | | | |
| Transfers in from the general fund and other governmental funds.... | \$ 722,995 | \$ 287,822 | \$ 318,965 | | \$ 1,329,782 |
| <u>Transfers out:</u> | | | | | |
| Transfers out to the general fund..... | (107,946) | (32,965) | (32,916) | | (173,827) |
| Total proprietary funds..... | 615,049 | 254,857 | 286,049 | | 1,155,955 |
| Net transfers in / (out) between funds.. | \$ (501,417) | \$ (820,073) | \$ 170,379 | \$ 1,151,111 | \$ - |

Due to/from component units on the Statement of Net Assets reflects a timing difference for a payment of approximately \$38 million at year end.

Remaining receivables and payables between funds as of June 30, 2012 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2012. 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, 2012 (amounts in thousands):

| Receivable Fund | Payable Fund | Amount |
|--------------------------------------|----------------------------------|-------------------|
| Governmental Funds: | | |
| General | Federal Grants..... | \$ 17,586 |
| | Nonmajor Governmental Funds..... | 82,196 |
| Non-major Governmental Funds | Nonmajor Governmental Funds..... | 92,742 |
| Total Governmental Funds..... | | 192,524 |
| Proprietary Funds: | | |
| General | University of Massachusetts..... | 12,151 |
| Total amounts due..... | | \$ 204,675 |

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2012 were as follows (amounts in thousands):

| <i>Primary Government Governmental Activities</i> | July 1, 2011 Beginning Balance | Increases | Decreases and Reclassifications | June 30, 2012 Ending Balance |
|--|--------------------------------------|----------------------------|---------------------------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land..... | \$ 766,834 | \$ 39,183 | \$ (4,181) | \$ 801,836 |
| Construction in process..... | <u>737,232</u> | <u>171,708</u> | <u>(374,977)</u> | <u>533,963</u> |
| Total capital assets not being depreciated..... | <u>1,504,066</u> | <u>210,891</u> | <u>(379,158)</u> | <u>1,335,799</u> |
| Capital assets being depreciated: | | | | |
| Buildings..... | 4,978,095 | 452,504 | (72,298) | 5,358,301 |
| Machinery and equipment..... | 948,008 | 87,461 | (36,207) | 999,262 |
| Infrastructure non - central artery/tunnel project..... | <u>279,791</u> | <u>28,641</u> | <u>-</u> | <u>308,432</u> |
| Total capital assets being depreciated..... | <u>6,205,894</u> | <u>568,606</u> | <u>(108,505)</u> | <u>6,665,995</u> |
| Less, accumulated depreciation: | | | | |
| Buildings..... | (2,716,701) | (106,657) | 21,081 | (2,802,277) |
| Machinery and equipment..... | (653,047) | (81,578) | 14,370 | (720,255) |
| Infrastructure non - central artery/tunnel project..... | <u>(212,798)</u> | <u>(6,595)</u> | <u>-</u> | <u>(219,393)</u> |
| Total accumulated depreciation..... | <u>(3,582,546)</u> | <u>(194,830)</u> | <u>35,451</u> | <u>(3,741,925)</u> |
| Total capital assets being depreciated, net..... | <u>2,623,348</u> | <u>373,776</u> | <u>(73,054)</u> | <u>2,924,070</u> |
| Governmental activity capital assets, net..... | <u>\$ 4,127,414</u> | <u>\$ 584,667</u> | <u>\$ (452,212)</u> | <u>\$ 4,259,869</u> |
| | | | | |
| <i>Business - Type Activities</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land..... | \$ 117,138 | \$ 2,536 | \$ (2,482) | \$ 117,192 |
| Construction in process..... | 709,843 | 762,496 | (299,826) | 1,172,513 |
| Historical treasures..... | <u>863</u> | <u>15</u> | <u>-</u> | <u>878</u> |
| Total capital assets not being depreciated..... | <u>827,844</u> | <u>765,047</u> | <u>(302,308)</u> | <u>1,290,583</u> |
| Capital assets being depreciated: | | | | |
| Buildings..... | 5,260,087 | 471,567 | (12,181) | 5,719,473 |
| Machinery and equipment..... | 978,889 | 51,823 | (42,307) | 988,405 |
| Library collections, not including historical treasures..... | <u>130,910</u> | <u>776</u> | <u>(9,512)</u> | <u>122,174</u> |
| Total capital assets being depreciated..... | <u>6,369,886</u> | <u>524,166</u> | <u>(64,000)</u> | <u>6,830,052</u> |
| Less, accumulated depreciation: | | | | |
| Buildings..... | (2,306,402) | (187,018) | 4,690 | (2,488,730) |
| Machinery and equipment..... | (709,770) | (64,236) | 38,772 | (735,234) |
| Library collections, not including historical treasures..... | <u>(20,185)</u> | <u>(475)</u> | <u>345</u> | <u>(20,315)</u> |
| Total accumulated depreciation..... | <u>(3,036,357)</u> | <u>(251,729)</u> | <u>43,807</u> | <u>(3,244,279)</u> |
| Total capital assets being depreciated, net..... | <u>3,333,529</u> | <u>272,437</u> | <u>(20,193)</u> | <u>3,585,773</u> |
| Business - type activity capital assets, net..... | <u>\$ 4,161,373</u> | <u>\$ 1,037,484</u> | <u>\$ (322,501)</u> | <u>\$ 4,876,356</u> |
| Total Primary Government capital assets, net..... | <u>\$ 8,288,787</u> | <u>\$ 1,622,151</u> | <u>\$ (774,713)</u> | <u>\$ 9,136,225</u> |

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

| <u>Function:</u> | <u>Amount</u> |
|---|-------------------|
| General government..... | \$ 42,725 |
| Judiciary..... | 30,062 |
| Energy and environmental..... | 16,850 |
| Health and human services..... | 49,234 |
| Early elementary and secondary education..... | 86 |
| Public safety and homeland security..... | 53,679 |
| Housing and economic development..... | 55 |
| Labor and workforce development..... | 2,139 |
| Total depreciation, governmental activities..... | <u>\$ 194,830</u> |
| University of Massachusetts..... | \$ 163,369 |
| State universities..... | 62,087 |
| Community colleges..... | 26,273 |
| Total depreciation, business-type activities..... | <u>\$ 251,729</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. GENERAL FUND

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY12, the Commonwealth issued no commercial paper. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.2 billion by selling RANs in November 2011. All of the \$1.2 billion in RANs were retired in April and May of 2012.

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

| | Beginning Balance July 1, 2011 | Issued / Drawn | Redeemed / Repaid | Ending Balance June 30, 2012 |
|---------------------------------|--------------------------------------|-------------------|----------------------|------------------------------------|
| General Fund: | | | | |
| Revenue anticipation notes..... | \$ - | \$ 1,200,000 | \$ (1,200,000) | \$ - |

B. CREDIT FACILITIES

During FY12, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY12 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 Variable Rate Demand Bonds sold from FY97 through FY06. As of June 30, 2012, these agreements totaled \$1.740 billion.

7. LONG-TERM OBLIGATIONS

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

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

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

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

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

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

As of June 30, 2012, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

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

| <u>Type of Bond</u> | <u>Amount Outstanding</u> |
|---|-------------------------------|
| General obligation bonds | \$ 19,257,484 |
| Special obligation bonds, including GANs | 2,650,199 |
| Outstanding Commonwealth bonds | 21,907,683 |
| MSBA debt | 5,719,935 |
| Total governmental activity debt | 27,627,618 |
| Less: | |
| Unamortized premiums and bond issuance costs on general obligation bonds ... | (405,946) |
| Unamortized premiums and bond issuance costs on special obligation bonds | (68,184) |
| Unamortized premiums on MSBA debt | (276,670) |
| Total governmental activity net of unamortized premiums debt | \$ 26,876,818 |

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, as well as debt assumed from former counties. The special obligation bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise tax and Registry of Motor Vehicle fees, and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2012, there were five different special obligation bond programs with bonds outstanding. It should be noted that two of the five bond programs have closed liens, meaning, no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of outstanding GO bonds, net of unamortized premiums and bond issuance costs by interest rate structure, that are outstanding as of June 30, 2012, (amounts in thousands):

| <u>General Obligation Bonds</u> | <u>Amount Outstanding</u> | <u>Percent of Total GO</u> |
|---------------------------------|-------------------------------|------------------------------------|
| Fixed rate bonds | \$ 15,244,263 | 80.9% |
| Variable rate bonds | 3,607,275 | 19.1% |
| Total | <u>\$ 18,851,538</u> | <u>100.0%</u> |

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

| <u>Variable Rate GO Bonds</u> | <u>Amount Outstanding</u> | <u>Percent of Total GO</u> |
|----------------------------------|-------------------------------|--------------------------------|
| Variable rate demand bonds | \$ 1,340,275 | 7.1% |
| Auction rate securities | 401,500 | 2.1% |
| CPI-index bonds | 197,455 | 1.0% |
| LIBOR index bonds | 845,795 | 4.5% |
| SIFMA index bonds | 822,250 | 4.4% |
| Total | <u>\$ 3,607,275</u> | |

The following is a table of outstanding SO bonds, net of unamortized premiums and bond issuance costs by rate structure that are outstanding as of June 30, 2012, (amounts in thousands):

| <u>Special Obligation Bonds</u> | <u>Amount Outstanding</u> | <u>Percent of Total SO</u> |
|---------------------------------|-------------------------------|------------------------------------|
| Fixed rate bonds..... | \$ 2,398,935 | 92.9% |
| Variable rate bonds..... | 183,080 | 7.1% |
| Total..... | <u>\$ 2,582,015</u> | <u>100.0%</u> |

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

| <u>Special Obligation Bonds</u> | <u>Amount Outstanding</u> |
|--|-------------------------------|
| Special obligation dedicated tax revenue bonds: | |
| 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..... | 245,845 |
| CPI variable rate gas tax bonds..... | 96,490 |
| Total Gas Tax Bonds..... | 342,335 |
| Special obligation revenue bonds: | |
| Accelerated bridge program..... | 1,035,859 |
| Special obligation federal highway grant anticipation notes and accelerated bridge program..... | 628,290 |
| Total special obligation bonds..... | 2,650,199 |
| Less: unamortized premiums and bond issuance costs, net..... | (68,184) |
| Outstanding special obligation principal..... | <u>\$ 2,582,015</u> |

A. GENERAL OBLIGATION BONDS

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

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U. Plan". As of June 30, 2012, the Commonwealth had approximately \$139 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds, Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2012, approximately 80.9% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 19.1% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. For

example, most of the Commonwealth's outstanding variable rate debt are in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2012, the Commonwealth had approximately \$1.340 billion in outstanding VRDBs. This accounts for approximately 7% of total GO debt and approximately 37.2% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2012, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the bank liquidity facilities.

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 from a commercial bank. The Commonwealth's outstanding auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008, however, and continuing through FY12, all of the Commonwealth's outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401 million in total outstanding debt obligations, including Commonwealth of Massachusetts General Obligation Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2012, 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 \$822 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 4.5% and 4.4% of total outstanding general obligation indebtedness, respectively.

To fund the FY12 capital budget, the Commonwealth borrowed by issuing \$1.728 billion in long-term general obligation bonds, \$1.340 billion of which was for new-money needs, with the remainder for refunding already existing debt in two separate current fiscal year refunding transactions. The present value savings of these refunding transactions is immaterial to these financial statements.

MSBA Debt

As of June 30, 2012, the MSBA had outstanding approximately \$5.720 billion of Dedicated Sales Tax bonds, plus approximately \$277 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 3.2% to 5.7% and each series is payable semiannually with the latest maturity occurring in fiscal year 2042. The MSBA elected to issue the 2009 Series B Bonds as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). As a result, the MSBA is eligible to receive interest subsidy payments from the United States Treasury equal to 35.0% of the interest payable on the 2009 Series B Bonds. The MSBA elected to issue the 2010 Series A Bonds and 2011 Series A Bonds as "Qualified School Construction Bonds". As a result, the MSBA is eligible to receive interest subsidy payments from the United States Treasury equal to 100.0% of the interest payable on the 2010 Series A Bonds and the 2011 Series A Bonds.

B. SPECIAL OBLIGATION BONDS

Commonwealth Transportation Fund (CTF)

During FY12, the Commonwealth issued an additional \$419 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.

As of June 30, 2012, approximately \$995 million in principal was outstanding on the Accelerated Bridge Program bonds and approximately \$733 million of interest (net of the federal subsidy) was expected to be paid through maturity. The bonds mature from FY13 to FY41.

Other special obligation bonds for highway construction purposes issued prior to FY12 are secured by a pledge of 6.86 cents of the 21 cents per gallon gasoline tax. As of June 30, 2012, bonds secured by these pledged funds totaled approximately \$337 million of principal and approximately \$91 million in interest. These bonds mature from FY13 to FY23 and were sold in various series issued prior to FY12. Principal and interest paid during FY12 amounted to approximately \$40 million and \$20 million, respectively.

Convention Center Fund

Chapter 152 of the Acts of 1997, as amended, authorizes \$694 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609 million), the Springfield Civic Center (\$66 million) and the Worcester Convention Center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2012, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$492 million of interest on debts related to these Convention Centers. Taxes collected in FY12 were approximately \$96 million, while debt service on the bonds was approximately \$34 million.

C. FEDERAL GRANT ANTICIPATION NOTES

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in fiscal 2003 and fiscal 2011. As of June 30, 2012, total principal remaining to be paid on (GANs) is approximately \$610 million. Maturities are from FY13 through FY23. Debt service paid during FY12 was approximately \$193 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. THE BUILD AMERICA BOND PROGRAM

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program, issuers including the Commonwealth issued taxable bonds in calendar

2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the bonds. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as “direct pay to issuer”, meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2012, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$962 million. The Commonwealth’s repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds’ debt service is budgeted at the net-of-interest-rate- subsidy rate.

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

E. INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth’s variable-rate debt outstanding of approximately \$3.607 billion, approximately \$3.306 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of approximately \$300 million, or approximately 1.6% 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, counterparties to the hedge agreements are obligated to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense on the Commonwealth’s basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable rate bondholders.

Objective of the Interest Rate Swap Agreements

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

The intended effect of these agreements is essentially to fix the Commonwealth’s interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth’s exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2012, all of the Commonwealth’s interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

Terms of the Interest Rate Swap Agreements

The variable rate bonds and their related swap agreements have final maturities ranging from 2013 to 2037. The swaps' total notional value of approximately \$3.306 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 3.412% to 5.250% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to Libor, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

Credit Risk of the Interest Rate Swap Agreements

As of June 30, 2012, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

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

| Associated Bond Issue | Notional Amounts Outstanding (thousands) | Effective Date | Fixed Rate Paid (Range) | Terms Variable Rate Received | Fair value at June 30 | | Change in Fair Value | Final Termination Date | Counterparty | Counterparty Credit Rating |
|--|--|----------------|-------------------------|-------------------------------------|-----------------------|--------------------|----------------------|------------------------|-----------------------------------|----------------------------|
| | | | | | 2012 | 2011 | | | | |
| <i>General Obligation Bonds:</i> | | | | | | | | | | |
| Series 1997B | \$ 131,076 | 8/12/1997 | 4.659% | Cost of Funds | \$ (7,941) | \$ (12,344) | \$ 4,403 | 8/1/2015 | Goldman Sachs Mit Mar Der Prod | Aa2 / AAA / NA |
| Series 1997B | 87,384 | 9/1/2010 | 4.659% | SIFMA | (5,209) | (8,080) | 2,871 | 8/1/2015 | Sumitomo Mitsui Banking Corp | Aa3 / A+ / A |
| Series 1998A | 152,958 | 9/17/1998 | 4.174% | Cost of Funds | (12,125) | (14,812) | 2,687 | 9/1/2016 | Citi Swapco, Inc | Aa2 / AAA / NR |
| Series 1998A, Series 2006A, Series 2000A, & Series 2000B | 229,437 | 11/17/2008 | 4.174% | 60% 1-Month LIBOR + 25 basis points | (17,577) | (22,466) | 4,889 | 9/1/2016 | Deutsche Bank AG | A2 / A+ / A+ |
| Series 2000A | 106,675 | 8/16/2007 | 3.942% | SIFMA - 3 basis points | (15,181) | (12,401) | (2,780) | 8/1/2018 | Merrill Lynch Cap Svcs | Baa3 / A- / A |
| Series 2000A | 53,575 | 8/16/2007 | 3.942% | SIFMA - 3 basis points | (7,636) | (6,069) | (1,567) | 8/1/2018 | Bear Stearns Fin Prod / JP Morgan | Aa3 / A+ / A+ |
| Series 2001B & C | 496,225 | 2/20/2001 | 4.150% | Cost of Funds | (93,759) | (65,765) | (27,994) | 1/1/2021 | Morgan Stanley Capital Services | A2 / AAA / NA |
| Series 2003B | 87,455 | 3/12/2003 | 4.500% | CPI-based formula | (1,946) | (1,068) | (878) | 12/1/2014 | Goldman Sachs Mit Mar Der Prod | A2 / AAA / NA |
| Series 2003B | 10,000 | 10/8/2008 | 4.500% | CPI-based formula | (193) | (84) | (109) | 12/1/2013 | Deutsche Bank AG | A2 / A+ / A+ |
| Series 2006B, Series 2000D | 294,000 | 4/2/2009 | 4.515% | 67% 3-Month LIBOR | (113,553) | (70,852) | (42,701) | 6/15/2033 | Barclays Bank PLC | A2 / A+ / A |
| Series 2006C | 100,000 | 1/1/2007 | 3.73%-3.85% | CPI-based formula | (4,596) | (646) | (3,950) | 11/1/2020 | Citibank N.A. | A3 / A / A |
| Series 2007A | 400,000 | 10/8/2008 | 4.420% | 67% 3-Month LIBOR + 0.57% | (58,805) | (39,950) | (18,855) | 5/1/2037 | Barclays Bank PLC | A2 / A+ / A |
| Series 2007A (refunding) | 414,130 | 10/8/2008 | 4.083% | 67% 3-Month LIBOR + 0.55% | (95,773) | (53,448) | (42,325) | 11/1/2025 | Bank of NY Mellon | Aa1 / AA- / AA- |
| Series 2007A (refunding) | 31,665 | 10/8/2008 | 3.936% | 67% 3-Month LIBOR + 0.46% | (6,250) | (3,896) | (2,354) | 11/1/2020 | Deutsche Bank AG | A2 / A+ / A+ |
| Series 2010A, 2011A & 2012A(refunding) | 528,205 | 3/15/2005 | 3.412% - 4.004% | SIFMA | (113,203) | (57,029) | (56,174) | 2/1/2028 | Citibank N.A. | A3 / A / A |
| Subtotal | <u>3,122,785</u> | | | | <u>(553,747)</u> | <u>(368,910)</u> | <u>(184,837)</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 | (1,895) | (1,281) | (614) | 1/1/2018 | Goldman Sachs Cap Markets | A2 / A- / A |
| Series 2004 (Convention Ctr) | 28,863 | 6/29/2004 | 4.45% - 5.25% | CPI-based formula | (1,938) | (550) | (1,388) | 1/1/2018 | JPMorgan Chase Bank | Aa3 / A+ / A+ |
| Series 2004 (Convention Ctr) | 28,864 | 6/29/2004 | 4.45% - 5.25% | CPI-based formula | (1,897) | (1,527) | (370) | 1/1/2018 | Bear Stearns / JP Morgan | A2 / A / A+ |
| Series 2005A (Gas Tax) | 96,490 | 1/12/2005 | 4.771% - 5.059% | CPI-based formula | (4,810) | (3,602) | (1,208) | 6/1/2022 | Merrill Lynch Cap Serv | Baa2 / A- / A |
| Subtotal | <u>183,080</u> | | | | <u>(10,540)</u> | <u>(6,960)</u> | <u>(3,580)</u> | | | |
| Total | <u>\$ 3,305,865</u> | | | | <u>\$(564,287)</u> | <u>\$(375,870)</u> | <u>\$(188,417)</u> | | | |

Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2012 is negative \$564 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, 2012 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 FY12, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

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

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

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bonds being hedged by the \$294 million hedge agreement with Barclays and the 2010A bonds being hedged by the \$528 million swap with Citibank NA. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

Termination Risk of the Interest Rate Swap Agreements

The swap agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap agreements require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above, well above the current credit rating of 'AA+' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market

index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

F. OUTSTANDING SWAPPED DEBT

Security for Interest Rate Swap Agreements

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

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2012 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, 2012. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indices. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting.

Debt service requirements to maturity for variable-rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2012 are provided below (amounts in thousands):

| Fiscal Year Ending June 30 | Variable-Rate Bonds | | Interest Rate Swaps, Net | Total |
|-------------------------------|---------------------|-------------------|-----------------------------|---------------------|
| | Principal | Interest | | |
| 2013 | \$ 195,640 | \$ 26,817 | \$ 107,286 | \$ 329,743 |
| 2014 | 152,430 | 25,323 | 101,815 | 279,568 |
| 2015 | 240,930 | 22,435 | 95,126 | 358,491 |
| 2016 | 252,485 | 19,898 | 87,702 | 360,085 |
| 2017 | 349,585 | 18,326 | 78,851 | 446,762 |
| 2018-2022 | 963,665 | 61,402 | 290,353 | 1,315,420 |
| 2023-2027 | 772,340 | 23,311 | 135,465 | 931,116 |
| 2028-2032 | 219,615 | 10,269 | 50,365 | 280,249 |
| 2033-2037 | 159,175 | 3,281 | 12,577 | 175,033 |
| Total | <u>\$ 3,305,865</u> | <u>\$ 211,062</u> | <u>\$ 959,540</u> | <u>\$ 4,476,467</u> |

Business - Type Activities – Swapped Debt

The University System has various swaps. At June 30, 2012, the fair value liability of the universities' outstanding interest rate swaps was \$106 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, 2012, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$615 million. For complete details, see separate MassDOT financial statements.

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

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. 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, 2012 is as follows (amounts in thousands):

| <u>Purpose</u> | <u>Bonds Outstanding</u> | <u>Fiscal Year Maturities</u> | <u>Authorized and Unissued</u> |
|--|------------------------------|-----------------------------------|------------------------------------|
| GANs..... | \$ 610,385 | 2013-2023 | \$ - |
| Capital projects: | | | |
| General..... | 8,355,581 | 2013-2042 | 8,536,427 |
| Highway..... | 10,313,368 | 2013-2042 | 5,337,958 |
| Local aid..... | 1,515,519 | 2013-2038 | 19,084 |
| Other..... | 638,700 | 2015-2034 | - |
| Subtotal..... | <u>20,823,168</u> | | <u>13,893,469</u> |
| Subtotal - governmental activities debt (exclusive of MSBA)..... | \$ 21,433,553 | | <u>\$ 13,893,469</u> |
| MSBA debt..... | <u>5,443,265</u> | | |
| Governmental activities debt..... | <u>\$ 26,876,818</u> | | |

Interest rates on the Commonwealth's debt outstanding at the end of FY12 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, 2012 are as follows (amounts in thousands):

| | Governmental Funds | | Governmental | |
|---|------------------------------|---------------------|----------------------|------------------------|
| | Debt - Primary Government | MSBA | Funds Bonded Debt | Authorized Unissued |
| Balance July 1, 2011..... | \$ 20,875,055 | \$ 4,395,390 | \$ 25,270,445 | \$ 15,870,432 |
| Plus: Increases in bonds authorized..... | - | - | - | 200,135 |
| Less: Authorizations deauthorized..... | - | - | - | (26,502) |
| General and special obligation bonds: | | | | |
| Proceeds, as defined as principal, premium less discount and issuance costs..... | 2,309,577 | 1,234,562 | 3,544,139 | (2,150,596) |
| Less: Net premium..... | (161,575) | (92,182) | (253,757) | - |
| Less: Principal on refunded bonds..... | (387,410) | - | (387,410) | - |
| Less: Bonds retired..... | <u>(1,202,094)</u> | <u>(94,505)</u> | <u>(1,296,599)</u> | <u>-</u> |
| Outstanding debt June 30, 2012..... | <u>\$ 21,433,553</u> | <u>\$ 5,443,265</u> | <u>\$ 26,876,818</u> | <u>\$ 13,893,469</u> |

Business - Type Activities – Colleges and University Debt

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

At June 30, 2012, 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 | | Interest subsidies | Revenue Obligation | |
| | Principal | Interest * | Principal | Interest | | Principal | Interest |
| 2013..... | \$ 1,621,527 | \$ 916,103 | \$ 108,165 | \$ 268,982 | \$ (24,213) | \$ 101,073 | \$ 95,959 |
| 2014..... | 1,525,387 | 864,580 | 118,490 | 263,923 | (24,213) | 110,314 | 93,020 |
| 2015..... | 1,442,269 | 802,006 | 131,140 | 258,579 | (24,213) | 110,920 | 89,351 |
| 2016..... | 1,401,031 | 740,357 | 115,375 | 252,040 | (24,213) | 117,019 | 85,624 |
| 2017..... | 1,023,931 | 684,567 | 133,920 | 246,254 | (24,213) | 118,286 | 81,733 |
| 2018 - 2022..... | 5,196,458 | 2,703,027 | 746,845 | 1,125,529 | (121,065) | 645,461 | 345,737 |
| 2023 - 2027..... | 4,072,038 | 1,558,773 | 915,460 | 935,470 | (121,065) | 677,817 | 246,910 |
| 2028 - 2032..... | 3,037,897 | 755,218 | 1,320,740 | 639,587 | (55,009) | 660,357 | 151,632 |
| 2033 - 2037..... | 1,354,565 | 305,507 | 1,077,260 | 341,607 | (29,065) | 521,443 | 68,837 |
| 2038 - 2042..... | 758,450 | 64,452 | 775,870 | 66,389 | (5,093) | 278,801 | 11,903 |
| 2043 - 2047..... | - | - | - | - | - | 23,183 | - |
| 2048 - 2052..... | - | - | - | - | - | 5,715 | - |
| Total long - term debt..... | 21,433,553 | 9,394,590 | 5,443,265 | 4,398,360 | (452,362) | 3,370,389 | 1,270,706 |
| Less: current portion..... | (1,621,527) | (916,103) | (108,165) | (268,982) | 24,213 | (101,073) | (95,959) |
| Long - term debt..... | \$ 19,812,026 | \$ 8,478,487 | \$ 5,335,100 | \$ 4,129,378 | \$ (428,149) | \$ 3,269,316 | \$ 1,174,747 |

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

H. PRIOR DEFEASANCE

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus operating funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2012, approximately \$4.4 billion of bonds outstanding from advance refunding activities in prior fiscal years is considered defeased.

I. 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. 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 year’s limit. Outstanding debt subject to the limit at June 30, 2012 was approximately \$16.713 billion.

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):

| | Debt Outstanding |
|-----------------------------------|------------------|
| Statutory debt June 30, 2012..... | \$ 21,907,683 |
| Less amounts excluded: | |
| Premium and issuance cost..... | (474,130) |
| Special obligation principal..... | (976,245) |
| Accelerated bridge program..... | (995,385) |
| GANs principal..... | (610,385) |
| County debt assumed..... | (75) |
| MBTA forward funding..... | (207) |
| SMART bonds..... | (795,009) |
| Central artery/tunnel..... | (1,342,841) |
| Outstanding direct debt..... | \$ 16,713,406 |

J. 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 debt service as a percentage of budgeted revenues.

Bond Cap (in thousands except for percentages)

| | |
|---|--------------|
| | Fiscal |
| | 2012 |
| | <hr/> |
| Bond cap as approved by the Governor..... | \$ 1,898,165 |
| Total annual debt service obligations | 2,128,670 |
| Budgeted revenue..... | 33,578,853 |
| Debt service as % of budgeted revenues..... | 6.3% |

K. CHANGES IN LONG-TERM LIABILITIES

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

| <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..... | \$ 809,958 | \$ 846,797 | \$ 809,958 | \$ 846,797 | \$ 846,797 |
| Other long-term obligations: | | | | | |
| Compensated absences..... | 479,874 | 503,974 | 479,874 | 503,974 | 327,581 |
| Claims and judgments..... | 40,000 | 40,000 | 40,000 | 40,000 | - |
| Prizes payable..... | 1,463,048 | 200,641 | 277,814 | 1,385,875 | - |
| School construction grants payable..... | 2,324,917 | 137,447 | 568,718 | 1,893,646 | 410,736 |
| Retirement system pension obligations..... | 1,199,361 | 1,587,947 | 1,368,414 | 1,418,894 | - |
| Post employment benefit obligations..... | 2,691,000 | 1,313,000 | 558,000 | 3,446,000 | - |
| Environmental remediation liability..... | 174,213 | 79,090 | 12,542 | 240,761 | 8,280 |
| Other liabilities..... | 4,169,910 | 41,067,869 | 41,201,168 | 4,036,611 | 3,748,400 |
| Total other long-term obligations..... | 12,542,323 | 44,929,968 | 44,506,530 | 12,965,761 | 4,494,997 |
| Liability for derivative instruments..... | 375,870 | 564,287 | 375,870 | 564,287 | - |
| Bonded Debt: | | | | | |
| Bonds and notes payable - non MSBA..... | 20,875,055 | 2,148,002 | 1,589,504 | 21,433,553 | 1,621,527 |
| Unamortized bond and note premiums - non MSBA..... | 335,078 | 157,890 | 18,838 | 474,130 | 40,785 |
| Deferred loss on refunding..... | (46,142) | 5,008 | (4,100) | (37,034) | (6,585) |
| MSBA Bonds and notes payable excluding premium..... | 4,395,390 | 1,142,380 | 94,505 | 5,443,265 | 108,165 |
| Unamortized bond and note premiums - MSBA..... | 195,522 | 98,634 | 17,486 | 276,670 | 18,635 |
| Other financing arrangements: | | | | | |
| Capital leases..... | 60,975 | 4,115 | 4,633 | 60,457 | 10,248 |
| Total bonded debt and other financing arrangements..... | 25,815,878 | 3,556,029 | 1,720,866 | 27,651,041 | 1,792,775 |
| Long-term liabilities, governmental activities..... | \$ 39,544,029 | \$ 49,897,081 | \$ 47,413,224 | \$ 42,027,886 | \$ 7,134,569 |
| <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..... | \$ 186,762 | \$ 26,737 | \$ 20,868 | \$ 192,631 | \$ 131,373 |
| Environmental remediation liability..... | 1,644 | - | 174 | 1,470 | - |
| Total other long-term obligations..... | 188,406 | 26,737 | 21,042 | 194,101 | 131,373 |
| Bonded Debt: | | | | | |
| Bonds and notes payable, including Foundations and MSCBA..... | 3,265,973 | 388,427 | 284,011 | 3,370,389 | 101,073 |
| Other financing arrangements: | | | | | |
| Capital leases..... | 31,105 | 767 | 8,545 | 23,327 | 6,950 |
| Total bonded debt and other financing arrangements..... | 3,297,078 | 389,194 | 292,556 | 3,393,716 | 108,023 |
| Long-term liabilities, business - type activities..... | \$ 3,485,484 | \$ 415,931 | \$ 313,598 | \$ 3,587,817 | \$ 239,396 |

*as restated

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

Discretely Presented Component Units – The change in bonds and notes outstanding at June 30, 2012, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

| <i>Discretely Presented Component Units</i> | | | July 1, 2011 | | | | June 30, 2012 | | |
|---|-----------------------|-------------------|----------------------|--------------|--------------|-------------------|---------------------------|---------------|--|
| | <u>Interest Rates</u> | <u>Maturities</u> | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year | Long Term | |
| Major component units: | | | | | | | | | |
| MassDOT..... | 0.00 - 7.00% | 2011-2041 | \$ 8,010,853 | \$ 595,894 | \$ 539,253 | \$ 8,067,494 | \$ 587,396 | \$ 7,480,098 | |
| MWPAT..... | 1.00 - 6.375% | 2000-2040 | 3,688,009 | 415,444 | 463,050 | 3,640,403 | 172,305 | 3,468,098 | |
| Nonmajor component units..... | 1.00 - 6.50% | 2008-2034 | 571,179 | 73,519 | 20,139 | 624,559 | 28,772 | 595,787 | |
| Total bonds and notes payable..... | | | 12,270,041 | 1,084,857 | 1,022,442 | 12,332,456 | 788,473 | 11,543,983 | |
| Compensated absences, net..... | | | 44,623 | 6,960 | 2,795 | 48,788 | 26,461 | 22,327 | |
| Total long term liabilities..... | | | \$ 12,314,664 | \$ 1,091,817 | \$ 1,025,237 | \$ 12,381,244 | \$ 814,934 | \$ 11,566,310 | |

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, 2012. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

| <u>Other Governmental Funds</u> | <u>Amount</u> |
|---|---------------|
| Other Special Revenue Funds: | |
| Medical security trust fund..... | \$ 33,673 |
| Government land bank fund..... | 35,033 |
| General capital projects fund..... | 190,940 |
| Highway capital projects fund..... | 120,453 |
| Other Capital Project Funds: | |
| Federal highway construction program capital projects fund..... | 41,802 |
| Capital improvement and investment trust fund..... | 135 |

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, 2012, the date of the most recent valuation, is as follows:

| | SERS | MTRS | BTRS |
|--|----------------|----------------|--------------|
| Retirees and beneficiaries | | | |
| currently receiving benefits..... | 54,544 | 57,406 | 4,189 |
| Terminated employees entitled to | | | |
| benefits but not yet receiving them..... | 4,129 | N/A | 201 |
| Subtotal..... | <u>58,673</u> | <u>57,406</u> | <u>4,390</u> |
| Current members..... | <u>85,935</u> | <u>86,860</u> | <u>5,428</u> |
| Total..... | <u>144,608</u> | <u>144,266</u> | <u>9,818</u> |

Legally Required Reserves Accounts - The balances of legally required reserves at December 31, 2011 (most recent available information) were as follows (amounts in thousands):

| | SERS | MTRS | Purpose |
|--------------------------------|----------------------|---------------------|---|
| Annuity Savings Fund..... | \$ 5,163,896 | \$ 5,385,103 | Active members' contribution balance |
| Annuity Reserve Fund..... | 1,411,635 | 2,591,962 | Retired members' contribution account |
| Special Military Service Fund. | 48 | 367 | Members' contribution account while on military leave |
| Pension Reserve Fund..... | <u>11,916,359</u> | <u>12,232,567</u> | Amounts appropriated to fund future retirement benefits |
| Total | <u>\$ 18,491,938</u> | <u>\$20,209,999</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, 2012, the Commonwealth contributed \$90 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.

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, 2012 was \$263 million.

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

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

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

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

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

Schedule of Annual Required Contributions and Calculation Methodology

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary’s direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current

schedule adopted in 2011, the amortization payments are designed to eliminate the unfunded liability by 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 \$1.478 billion were made during the fiscal year ended June 30, 2012. Of this amount \$19 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$90 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 88% of its annual required contributions in FY12.

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

| | SERS | MTRS | Total |
|--|-------------------|---------------------|---------------------|
| <u>2012</u> | | | |
| Annual required contribution..... | \$ 620,274 | \$ 941,918 | \$ 1,562,192 |
| Interest on net pension obligation..... | 15,917 | 67,899 | 83,816 |
| Adjustment to annual required contribution..... | (11,026) | (47,035) | (58,061) |
| Annual pension cost..... | 625,165 | 962,782 | 1,587,947 |
| Less: Contributions made, excluding COLAs..... | (518,918) | (849,496) | (1,368,414) |
| Increase in net pension obligation..... | 106,247 | 113,286 | 219,533 |
| Net pension obligation beginning of year..... | 273,350 | 926,011 | 1,199,361 |
| Net pension obligation end of year..... | <u>\$ 379,597</u> | <u>\$ 1,039,297</u> | <u>\$ 1,418,894</u> |
| <u>2011</u> | | | |
| Annual pension cost..... | \$ 476,874 | \$ 790,721 | \$ 1,267,595 |
| Percentage of annual pension cost contributed | 90.4% | 108.2% | 101.5% |
| Net pension obligation end of year..... | \$ 273,350 | \$ 926,011 | \$ 1,199,361 |
| <u>2010</u> | | | |
| Annual pension cost..... | \$ 646,913 | \$ 1,107,284 | \$ 1,754,197 |
| Percentage of annual pension cost contributed..... | 63.5% | 62.4% | 62.8% |
| Net pension obligation end of year..... | \$ 227,642 | \$ 990,491 | \$ 1,218,133 |

E. FUNDED STATUS AND FUNDING PROCESS

The funded status of SERS and MTRS as of January 1, 2012, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages)

| | Actuarial Value of Plan Assets | Actuarial Accrued Liability | Unfunded Actuarial Liability (UAAL) | Funded Ratio | Annual Covered Payroll * | UAAL as a % of Covered Payroll * |
|--|-----------------------------------|--------------------------------|--|-----------------|-----------------------------|--|
| State Employees Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012. | \$ 20,507,644 | \$ 27,784,731 | \$ 7,277,087 | 73.8% | \$ 4,922,388 | 147.8% |
| Teachers' Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012. | \$ 22,141,475 | \$ 36,483,027 | \$ 14,341,552 | 60.7% | \$ 5,655,353 | 253.6% |

* The covered payroll amount approximates the employer payroll

The following table displays the Schedule of Net Assets and the Schedule of Changes in Net Assets for the SERS, the MTRS and the SRBT as of June 30, 2012, (amounts in thousands):

| | Pension Trust Funds | | OPEB Trust Fund | Total |
|--|-----------------------|----------------------|------------------------|----------------------|
| | State Employees' PERS | Teachers' PERS | State Retiree Benefits | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 128,550 | \$ 156,993 | \$ 1,262 | \$ 286,805 |
| Investments at fair value: | | | | |
| Short-term..... | 330,181 | 355,736 | 6,366 | 692,283 |
| Domestic Equity..... | 3,406,453 | 3,670,104 | 65,674 | 7,142,231 |
| Fixed Income..... | 4,471,269 | 4,817,335 | 86,203 | 9,374,807 |
| International Equity..... | 4,426,153 | 4,768,725 | 85,333 | 9,280,211 |
| Private Equity..... | 2,409,906 | 2,596,426 | 46,461 | 5,052,793 |
| Hedge fund-of-funds..... | 1,879,297 | 2,024,749 | 36,231 | 3,940,277 |
| Real Estate..... | 1,870,274 | 2,015,028 | 36,057 | 3,921,359 |
| Timber and Other Natural Resources..... | 473,698 | 510,360 | 9,133 | 993,191 |
| Total investments at fair value..... | 19,267,231 | 20,758,463 | 371,458 | 40,397,152 |
| Other receivables..... | 324,797 | 349,952 | 6,260 | 681,009 |
| Total assets..... | 19,720,578 | 21,265,408 | 378,980 | 41,364,966 |
| LIABILITIES | | | | |
| Accounts payable..... | 324,565 | 351,784 | 6,235 | 682,584 |
| Net assets available for post - employment benefits..... | \$ 19,396,013 | \$ 20,913,624 | \$ 372,745 | \$ 40,682,382 |
| | State Employees' PERS | Teachers' PERS | State Retiree Benefits | Total |
| ADDITIONS | | | | |
| Contribution: | | | | |
| Employer contributions..... | \$ 538,292 | \$ 939,945 | \$ 414,476 | \$ 1,892,713 |
| Employee contributions..... | 544,558 | 640,056 | - | 1,184,614 |
| Total contributions..... | 1,082,850 | 1,580,001 | 414,476 | 3,077,327 |
| Net investment gain (loss): | | | | |
| Investment gain (loss)..... | (85,987) | (97,495) | 17,382 | (166,100) |
| Less: investment expense..... | (26,979) | (29,065) | (1,312) | (57,356) |
| Net investment gain (loss)..... | (112,966) | (126,560) | 16,070 | (223,456) |
| Total additions..... | 969,884 | 1,453,441 | 430,546 | 2,853,871 |
| DEDUCTIONS | | | | |
| Administration..... | 8,657 | 14,958 | 15,307 | 38,922 |
| Retirement benefits and refunds..... | 1,646,861 | 2,330,836 | 410,025 | 4,387,722 |
| Payments to State Boston Retirement System..... | - | 90,399 | - | 90,399 |
| Total deductions..... | 1,655,518 | 2,436,193 | 425,332 | 4,517,043 |
| Net increase(decrease)..... | (685,634) | (982,752) | 5,214 | (1,663,172) |
| Net assets available for post - employment benefits at beginning of year..... | 20,081,647 | 21,896,376 | 367,531 | 42,345,554 |
| Net assets available for post - employment benefits at end of year..... | \$ 19,396,013 | \$ 20,913,624 | \$ 372,745 | \$ 40,682,382 |

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 2012 was determined as part of the January 1, 2012 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 8.25% investment rate of return, (b) 3.25% interest rate credited to the annuity savings fund and (c) 3% cost of living increase per year. The 2012 actuarial valuation report issued by PERAC 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.
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.
5. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased-in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc, so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
6. Normal costs are amortized using level percentage of payroll, closed.
7. The remaining amortization period for the unfunded pension liability at January 1, 2012 was 29 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 (SRBT).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The liability for 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 approximately \$61 million as of June 30, 2012. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit

payments, while the Trustees are responsible for investment decisions. The FY12 General Appropriation Act transferred approximately \$414 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, 2009 and as of the valuation date (January 1, 2012), Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY12 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY12 totaled approximately \$558 million. There are approximately 151,304 participants eligible to receive benefits at June 30, 2012.

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 GASB Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2012, the Commonwealth’s annual OPEB contribution of approximately \$558 million for retiree benefits was less than the ARC. The Commonwealth’s annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBT and the net OPEB obligation for the Commonwealth for FY12 are as follows from the valuation calculated as of January 1, 2012 (amounts in millions except percentages):

| | |
|---|-----------------|
| <u>2012</u> | <u>SRBT</u> |
| Annual required contribution (ARC)..... | \$ 1,286 |
| Interest on net OPEB obligation..... | 121 |
| Adjustment to annual required contribution..... | (94) |
| | <hr/> |
| Annual OPEB cost (AOC)..... | 1,313 |
| Less: Contributions made*..... | (558) |
| | <hr/> |
| Increase in net OPEB obligation..... | 755 |
| Net OPEB obligation as reported at beginning of year..... | <u>2,691</u> |
| Net OPEB obligation - end of year..... | <u>\$ 3,446</u> |
| | |
| <u>2011</u> | |
| Annual OPEB cost..... | \$ 1,295 |
| Percentage of annual OPEB cost contributed..... | 43.0% |
| Net OPEB obligation - end of year..... | \$ 2,691 |
| | |
| <u>2010</u> | |
| Annual OPEB cost..... | \$ 1,176 |
| Percentage of annual OPEB cost contributed..... | 31.6% |
| Net OPEB obligation - end of year..... | \$ 1,953 |

*Includes approximately \$28 million in Medicare Part D Retiree Drug Subsidy Payments

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

| | <u>Actuarial Value of</u> | <u>Actuarial Accrued</u> | <u>Unfunded Actuarial</u> | <u>Funded</u> | <u>Annual</u> | <u>UAAL</u> |
|--|---------------------------|--------------------------|---------------------------|---------------|------------------------|------------------------|
| | <u>Plan Assets</u> | <u>Liability</u> | <u>Liability (UAAL)</u> | <u>Ratio</u> | <u>Covered Payroll</u> | <u>as a % of</u> |
| | | | | | | <u>Covered Payroll</u> |
| Actuarial Valuation as of January 1, 2012... | \$ 360,500 | \$ 16,659,400 | \$ 16,298,900 | 2.2% | \$ 4,922,388 | 331.1% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBT and the annual required

contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in 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), a 4.5% inflation rate and an annual healthcare cost trend rate of 7.5%, decreasing by 0.5% for five years to an ultimate rate of 5.0%.

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

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

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

MSBA

The MSBA's ARC for FY12 was approximately \$2 million. The MSBA did not have a net OPEB obligation at June 30, 2012 and made contributions of approximately \$2 million during FY12. Based on an actuarial valuation as of January 1, 2009, which was updated on June 30, 2012, the MSBA had plan assets of \$2 million and no actuarial accrued liability. Covered payroll of active plan members was approximately \$4 million.

During fiscal year 2012, the MSBA established an irrevocable trust to accumulate assets to pay for future other post-employment benefits. In June, 2012, the MSBA transferred approximately \$2 million to the SRBT to fully fund it.

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 FY12, these additions are approximately \$4 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, 2012 (amounts in thousands):

| Fiscal Year Ended June 30 | Governmental Activities | | | | MSBA Operating Leases | Governmental Activities Total | Business - Type Activities | | | Business - Type Activities Total |
|-----------------------------------|-------------------------|-----------|---------------------|---------------------|-----------------------------|-------------------------------------|----------------------------|-----------|---------------------|--|
| | Capital Leases | | Operating Leases | Operating Leases | | | Capital Leases | | Operating Leases | |
| | Principal | Interest | | | | | Principal | Interest | | |
| 2013..... | \$ 10,248 | \$ 2,863 | \$ 144,757 | \$ 744,578 | \$ 902,446 | \$ 6,950 | \$ 797 | \$ 10,246 | \$ 17,993 | |
| 2014..... | 7,947 | 2,219 | 112,101 | 762,235 | 884,502 | 5,858 | 574 | 7,426 | 13,858 | |
| 2015..... | 6,972 | 1,947 | 93,614 | 451,388 | 553,921 | 3,510 | 380 | 7,359 | 11,249 | |
| 2016..... | 6,031 | 1,686 | 77,511 | - | 85,228 | 1,186 | 304 | 5,167 | 6,657 | |
| 2017..... | 4,631 | 1,294 | 60,540 | - | 66,465 | 820 | 272 | 4,977 | 6,069 | |
| 2018 - 2022..... | 14,862 | 4,149 | 169,821 | - | 188,832 | 2,461 | 1,019 | 9,991 | 13,471 | |
| 2023 - 2027..... | 9,646 | 2,694 | 55,238 | - | 67,578 | 2,530 | 345 | 1,868 | 4,743 | |
| 2028 - 2032..... | 120 | 34 | 53,163 | - | 53,317 | 12 | - | 419 | 431 | |
| 2033 - 2037..... | - | - | 8,562 | - | 8,562 | - | - | - | - | |
| Total lease obligations..... | 60,457 | 16,886 | 775,307 | 1,958,201 | 2,810,851 | 23,327 | 3,691 | 47,453 | 74,471 | |
| Less: current portion..... | (10,248) | (2,863) | (144,757) | (744,578) | (902,446) | (6,950) | (797) | (10,246) | (17,993) | |
| Long - term lease obligations.... | \$ 50,209 | \$ 14,023 | \$ 630,550 | \$ 1,213,623 | \$ 1,908,405 | \$ 16,377 | \$ 2,894 | \$ 37,207 | \$ 56,478 | |

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

| Asset type: | Primary Government | |
|-------------------------------------|----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities |
| Buildings..... | \$ - | \$ 14,634 |
| Machinery and equipment..... | 77,555 | 13,582 |
| Total assets..... | 77,555 | 28,216 |
| Less: accumulated depreciation..... | (16,447) | (16,417) |
| Total..... | \$ 61,108 | \$ 11,799 |

11. COMMITMENTS

A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2012, totaling approximately \$495 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, 2012, the University of Massachusetts Building Authority has committed debt of approximately \$2.240 billion, of which approximately \$169 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.031 billion of outstanding debt, of which approximately \$14 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, 2012, the Commonwealth had commitments of approximately \$619 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 commitments and New Program commitments at June 30, 2012 to be \$84 million and \$1.4 billion, respectively.

12. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. 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 no liability is due within a year.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2012 is estimated to be \$276 million of which approximately \$38 million is expected to be paid during FY13.

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 FY12 totaled approximately \$184 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor 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. The Attorney General has called for the appointment of an independent investigator to probe malfeasance at the laboratory. There likely will 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 fully estimate these additional state costs at this time. However, on November 1, 2012, the Governor filed with the Legislature a supplemental appropriations bill that will create a \$30 million reserve fund to reimburse agencies and cities for costs associated with potentially mishandled drug tests.

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 FY12, the Commonwealth received approximately \$254 million or 68.5% of the estimated amounts shown in the MSA. The FY12 General Appropriation Act directed all MSA receipts to the General Fund. Beginning in FY13, 10.0% of tobacco settlement payments will be deposited in the State Retiree Benefits Trust Fund (SRBT) to fund the Commonwealth's liability for retiree health care. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase to 10.0% per year until it reaches 100.0% in FY23. 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 2012, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$276 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY12 and FY11 were (amounts in thousands):

| | <u>FY12</u> | <u>FY11</u> |
|---|-------------------|-------------------|
| Claim liability, beginning of year..... | \$ 285,400 | \$ 293,400 |
| Increase in liability estimate..... | 43,188 | 45,734 |
| Payments and decreases in liability estimate..... | <u>(52,456)</u> | <u>(53,734)</u> |
| Claims liability, end of year..... | <u>\$ 276,132</u> | <u>\$ 285,400</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 \$138 million, net of the employees' reserve of \$72 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY12 and FY11 were (amounts in thousands):

| | <u>FY12</u> | <u>FY11</u> |
|---|--------------------|--------------------|
| Claim liability, beginning of year..... | \$ 80,327 | \$ 97,100 |
| Increase in liability estimate..... | 1,218,079 | 1,113,566 |
| Payments and decreases in liability estimate..... | <u>(1,206,230)</u> | <u>(1,130,339)</u> |
| Claims liability, end of year..... | <u>\$ 92,176</u> | <u>\$ 80,327</u> |

C. OTHER CLAIMS & JUDGMENTS

The following amounts were recognized for claims and judgments in FY12 and FY11 (amounts in thousands):

| | <u>FY12</u> | <u>FY11</u> |
|---------------------------------------|------------------|------------------|
| Unpaid claims, beginning of year..... | \$ 40,000 | \$ 60,000 |
| Incurred claims..... | 11,925 | 11,140 |
| Claim payments and reductions..... | <u>(11,925)</u> | <u>(31,140)</u> |
| Unpaid claims end of year..... | <u>\$ 40,000</u> | <u>\$ 40,000</u> |

D. ENVIRONMENTAL REMEDIATION

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

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;

- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

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

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform 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 thousands):

| | Governmental Activities | Business-Type Activities | Government-Wide Total |
|--|----------------------------|-----------------------------|--------------------------|
| Environmental remediation liability, beginning of year..... | \$ 174,213 | \$ 1,644 | \$ 175,857 |
| Expected additional future outlays, increasing liability estimates.. | 79,090 | (174) | 78,916 |
| FY12 outlays for environmental remediation | (10,782) | - | (10,782) |
| Estimated recoveries from third parties | (1,760) | - | (1,760) |
| Environmental remediation liability, end of year..... | <u>\$ 240,761</u> | <u>\$ 1,470</u> | <u>\$ 242,231</u> |

The Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, e.g., *United States v. Metropolitan District Commission; Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) costs, has been approximately \$3.8 billion. The MWRA has also spent approximately \$810 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 \$4.61 billion. Going forward, the MWRA anticipates spending an additional \$64 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

Massachusetts Military Reservation. The Commonwealth through 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.

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

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 15 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, 2012 fiscal year end) (entities marked with an * are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

Entities Audited by KPMG LLP:

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

***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.
The Massachusetts State College Building Authority

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 Growth Capital Corporation (MGCC)
- 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, 2012, 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 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.

14. SUBSEQUENT EVENTS

A. SUBSEQUENT BOND ISSUANCES

On September 25, 2012, the Commonwealth issued \$400 million in General Obligation Bonds, Consolidated Loan of 2012, Series C.

On September 27, 2012, the Commonwealth issued revenue anticipation notes (RANs) in the amount of \$1.200 billion (\$600 million RANs, 2012 Series A and \$600 million RANs, 2012 Series B). These notes carry an interest rate of 2% and mature on April 25, 2013 and May 23, 2013 for the 2012 Series A and 2012 Series B, respectively.

In December 2012, the Commonwealth sold \$381 million in bonds (\$231 million in General Obligation Refunding Bonds, 2012 Series B and \$150 million in General Obligation Bonds Consolidated Loan of 2012, Series D).

On August 16, 2012, the MSBA refunded \$808 million of 2005 Dedicated Sales Tax Bonds by issuing \$766 million of Senior Sales Tax Refunding Bonds (2012 Series A Bonds). The Bonds mature at various dates through August 15, 2030 and the interest on the bonds is due semi-annually each August 15th and February 15th. The interest rates on the bonds range from 3.0% to 5.0%. The refunding resulted in reduced debt service of \$77 million and a present value savings of \$57 million over the life of the debt.

All debt issues were sold as tax exempt.



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Required Supplementary Information Other Than Management Discussion and Analysis



Vegetables, Farmer's Market, Northampton,
Credit: Paul Schnaittacher

*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 Six Fiscal Years

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

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

Budgeted Funds
Fiscal Year Ended June 30, 2012
(Amounts in thousands)

| | Original Budget | Final Budget | Actual | Variance over/(under) |
|--|---------------------|--------------------|---------------------|--------------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| Revenues: | | | | |
| Taxes..... | \$ 19,159,700 | \$ 19,159,700 | \$ 19,643,721 | \$ 484,021 |
| Assessments..... | - | - | 459,911 | 459,911 |
| Federal grants and reimbursements..... | 7,883,300 | 7,883,300 | 7,971,705 | 88,405 |
| Departmental..... | 2,890,173 | 2,890,173 | 2,511,978 | (378,195) |
| Miscellaneous..... | 9,427 | 9,427 | 245,293 | 235,866 |
| Total revenues..... | 29,942,600 | 29,942,600 | 30,832,608 | 890,008 |
| Other financing sources: | | | | |
| Fringe benefit cost recovery..... | - | - | 369,083 | 369,083 |
| Lottery reimbursements..... | - | 97,654 | 88,658 | (8,996) |
| Lottery distributions..... | - | 887,923 | 977,553 | 89,630 |
| Tobacco settlement transfer..... | - | 286,737 | 253,628 | (33,109) |
| Operating transfers in..... | 2,154,100 | 687,786 | 350,221 | (337,565) |
| Stabilization transfer..... | - | 194,000 | 707,102 | 513,102 |
| Total other financing sources..... | 2,154,100 | 2,154,100 | 2,746,245 | 592,145 |
| Total revenues and other financing sources..... | 32,096,700 | 32,096,700 | 33,578,853 | 1,482,153 |
| EXPENDITURES AND OTHER FINANCING USES | | | | |
| Expenditures: | | | | |
| Legislature..... | 63,901 | 63,901 | 58,337 | 5,564 |
| Judiciary..... | 729,031 | 773,447 | 757,507 | 15,940 |
| Inspector General..... | 3,541 | 3,541 | 2,818 | 723 |
| Governor and Lieutenant Governor..... | 4,537 | 10,199 | 6,543 | 3,656 |
| Secretary of the Commonwealth..... | 35,947 | 36,293 | 35,996 | 297 |
| Treasurer and Receiver-General..... | 152,686 | 209,319 | 187,115 | 22,204 |
| Auditor of the Commonwealth..... | 17,624 | 17,624 | 17,052 | 572 |
| Attorney General..... | 39,098 | 43,867 | 42,624 | 1,243 |
| Ethics Commission..... | 1,796 | 1,838 | 1,729 | 109 |
| District Attorney..... | 98,705 | 99,520 | 99,031 | 489 |
| Office of Campaign & Political Finance..... | 1,270 | 1,270 | 1,196 | 74 |
| Sheriff's Departments..... | 473,122 | 521,610 | 515,153 | 6,457 |
| Disabled Persons Protection Commission..... | 2,211 | 2,211 | 2,210 | 1 |
| Board of Library Commissioners..... | 21,461 | 21,461 | 21,441 | 20 |
| Comptroller..... | 11,600 | 11,898 | 11,512 | 386 |
| Administration and finance..... | 4,061,902 | 1,996,386 | 1,882,078 | 114,308 |
| Energy and environmental affairs..... | 194,172 | 199,586 | 188,058 | 11,528 |
| Health and human services..... | 4,837,185 | 4,879,823 | 4,793,301 | 86,522 |
| Massachusetts department of transportation..... | - | 160,000 | 160,000 | - |
| Executive office of education..... | 1,945,621 | 1,890,522 | 1,867,271 | 23,251 |
| Public safety and homeland security..... | 978,273 | 1,002,508 | 968,625 | 33,883 |
| Housing and economic development..... | 357,578 | 451,002 | 437,598 | 13,404 |
| Labor and workforce development..... | 67,248 | 65,074 | 37,832 | 27,242 |
| Direct local aid..... | 4,929,923 | 4,929,556 | 4,929,489 | 67 |
| Medicaid..... | 10,399,807 | 10,445,850 | 10,431,108 | 14,742 |
| Post employment benefits..... | - | 1,892,326 | 1,892,326 | - |
| Debt service: | | | | |
| Principal retirement..... | 1,063,241 | 1,086,502 | 1,043,636 | 42,866 |
| Interest and fiscal charges..... | 959,960 | 938,773 | 879,518 | 59,255 |
| Total expenditures..... | 31,451,440 | 31,755,907 | 31,271,104 | 484,803 |
| Other financing uses: | | | | |
| Fringe benefit cost assessment..... | - | 1,900 | 2,663 | (763) |
| Operating transfers out..... | - | 406,038 | 471,359 | (65,321) |
| Commonwealth care transfer..... | - | 728,012 | 614,910 | 113,102 |
| Medical assistance transfer..... | - | 394,025 | 220,900 | 173,125 |
| Stabilization transfer..... | - | 194,000 | 722,102 | (528,102) |
| Excess permissible tax revenue..... | - | 186,908 | 186,908 | - |
| Total other financing uses..... | - | 1,910,883 | 2,218,842 | (307,959) |
| Total expenditures and other financing uses..... | 31,451,440 | 33,666,790 | 33,489,946 | 176,844 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..... | 645,260 | (1,570,090) | 88,907 | 1,658,997 |
| Fund balances (deficit) at beginning of year..... | 1,900,819 | 1,900,819 | 1,900,819 | - |
| Fund balances (deficits) at end of year..... | \$ 2,546,079 | \$ 330,729 | \$ 1,989,726 | \$ 1,658,997 |

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

**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> |
|---|-----------------------------|
| REVENUES | |
| Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules..... | \$ 28,963,315 |
| Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis: | |
| Tax revenue | 145,145 |
| Federal reimbursements and other receivables..... | 84,632 |
| Reclassifications: | |
| Higher education revenue is reclassified for GAAP reporting..... | (79,745) |
| Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting..... | 318,389 |
| Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | <u>\$ 29,431,736</u> |
| EXPENDITURES | |
| Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule..... | \$ 29,877,769 |
| Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis: | |
| Medicaid payments..... | (20,400) |
| Compensated absences and other accrued liabilities..... | 14,219 |
| Reclassifications: | |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting..... | 301,993 |
| Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund..... | (1,020,223) |
| Higher education expenditures are reclassified for GAAP reporting..... | (1,128,682) |
| Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | <u>\$ 28,024,676</u> |
| OTHER FINANCING SOURCES | |
| Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule..... | \$ 2,241,433 |
| Reclassifications: | |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting..... | 491,708 |
| Adjustments: | |
| Consolidation of transfers between funds..... | (591,054) |
| Inflows from component units and other miscellaneous financing sources..... | (69,086) |
| Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | <u>\$ 2,073,001</u> |
| OTHER FINANCING USES | |
| Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule..... | \$ 1,476,227 |
| Adjustments and Reclassifications: | |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting..... | 231,019 |
| Consolidation of transfers between funds..... | (591,054) |
| Budgetary higher education amounts are reclassified to transfers under the modified accrual basis..... | 1,048,937 |
| Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund..... | 1,020,223 |
| Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | <u>\$ 3,185,352</u> |

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

Note to Required Supplementary Information – Budgetary Reporting

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

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 FY12 (amounts in thousands):

| | <u>Revenues</u> | <u>Expenditures</u> |
|--|----------------------|----------------------|
| General Appropriation Act, Chapter 68 of the Acts of 2011: | | |
| Direct appropriations..... | \$ 30,422,800 | \$ 30,044,948 |
| Estimated revenues, transfers, direct appropriations, retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2011..... | - | 1,406,492 |
| Total original budget..... | <u>30,422,800</u> | <u>31,451,440</u> |
| Supplemental Acts of 2011: | | |
| Chapter 68..... | - | 10,000 |
| Chapter 142..... | - | 16,845 |
| Chapter 171..... | - | 51,966 |
| Chapter 194..... | - | 5,500 |
| Supplemental Acts of 2012: | | |
| Chapter 36..... | - | 124,110 |
| Chapter 96..... | - | 71,713 |
| Chapter 118..... | - | 213,265 |
| Total as of June 30, 2012..... | <u>30,422,800</u> | <u>31,944,839</u> |
| Supplemental Acts of 2012, passed after June 30: | | |
| Chapter 238..... | - | 3,750 |
| Chapter 239..... | - | 43,250 |
| Subtotal..... | <u>-</u> | <u>47,000</u> |
| Total budgeted revenues and expenditures per Legislative action..... | 30,422,800 | 31,991,839 |
| Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending..... | <u>1,673,900</u> | <u>1,674,951</u> |
| Budgeted revenues and expenditures as reported..... | <u>\$ 32,096,700</u> | <u>\$ 33,666,790</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 |
|---|-----------------------------------|--------------------------------|--|-----------------|---------------------------|--------------------------------------|
| State Employees' Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012.... | \$ 20,507,644 | \$ 27,784,731 | \$ 7,277,087 | 73.8% | \$ 4,922,388 | 147.8% |
| Actuarial Valuation as of January 1, 2011.... | 21,244,900 | 26,224,776 | 4,979,876 | 81.0% | 4,808,250 | 103.6% |
| Actuarial Valuation as of January 1, 2010.... | 19,019,062 | 24,862,421 | 5,843,359 | 76.5% | 4,711,563 | 124.0% |
| Actuarial Valuation as of January 1, 2009.... | 16,992,214 | 23,723,240 | 6,731,026 | 71.6% | 4,712,655 | 142.8% |
| Actuarial Valuation as of January 1, 2008.... | 20,400,656 | 22,820,502 | 2,419,846 | 89.4% | 4,574,233 | 52.9% |
| Actuarial Valuation as of January 1, 2007.... | 18,445,225 | 21,670,810 | 3,225,585 | 85.1% | 4,391,891 | 73.4% |
| Teachers' Retirement System | | | | | | |
| Actuarial Valuation as of January 1, 2012.... | \$ 22,141,475 | \$ 36,483,027 | \$ 14,341,552 | 60.7% | \$ 5,655,353 | 253.6% |
| Actuarial Valuation as of January 1, 2011.... | 23,117,952 | 34,890,991 | 11,773,039 | 66.3% | 5,558,311 | 211.8% |
| Actuarial Valuation as of January 1, 2010.... | 21,262,462 | 33,738,966 | 12,476,504 | 63.0% | 5,509,698 | 226.4% |
| Actuarial Valuation as of January 1, 2009.... | 18,927,731 | 32,543,782 | 13,616,051 | 58.2% | 5,389,895 | 252.6% |
| Actuarial Valuation as of January 1, 2008.... | 22,883,553 | 30,955,504 | 8,071,951 | 73.9% | 5,163,498 | 156.3% |
| Actuarial Valuation as of January 1, 2007.... | 20,820,392 | 29,320,714 | 8,500,322 | 71.0% | 4,969,092 | 171.1% |

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, 2012.... | \$ 360,500 | \$ 16,659,400 | \$ 16,298,900 | 2.2% | \$ 4,922,388 | 331.1% |
| Actuarial Valuation as of January 1, 2011.... | 350,500 | 16,568,600 | 16,218,100 | 2.1% | 4,808,250 | 337.3% |
| Actuarial Valuation as of January 1, 2010.... | 309,800 | 15,166,300 | 14,856,500 | 2.0% | 4,711,563 | 315.3% |
| Actuarial Valuation as of January 1, 2009.... | 273,500 | 15,305,100 | 15,031,600 | 1.8% | 4,712,655 | 319.0% |

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

See Independent Auditor's Report

Schedule of Post Employment Benefit Contributions

(Amounts in thousands except for percentages)

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

| Fiscal Year Ended 6/30 | SERS | | MTRS | | Total | |
|---------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|
| | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed |
| 2012 | \$620,274 | 83.7% | \$941,918 | 90.2% | \$1,562,192 | 87.6% |
| 2011 | 471,096 | 91.5% | 767,960 | 111.4% | 1,239,056 | 103.8% |
| 2010 | 646,932 | 63.5% | 1,106,052 | 62.4% | 1,752,984 | 62.8% |
| 2009 | 697,340 | 57.0% | 781,026 | 67.9% | 1,178,508 | 63.8% |
| 2008 | 369,866 | 124.6% | 749,853 | 107.9% | 1,119,719 | 113.4% |
| 2007 | 432,219 | 100.8% | 763,798 | 97.8% | 1,196,017 | 98.9% |

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

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



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Other Supplementary Information



Grower in Cranberry Bog

Photo courtesy of Massachusetts Office of Travel and Tourism

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

Combined Balance Sheet

Other Governmental Funds

June 30, 2012

(Amounts in thousands)

| | Special Revenue | | | | | | | |
|---|--------------------------------|--------------------------|------------------|----------------------------------|---------------------------------------|--|-------------------|-------------------|
| | Commonwealth Transportation | Universal Health Care | Environmental | Health Care Security Trust | MBTA State & Local Contribution | Convention and Exhibition Center | Gaming Control | Enhanced 911 |
| ASSETS | | | | | | | | |
| Cash and short-term investments..... | \$ 855 | \$ 260,711 | 21,005 | \$ - | \$ 82,466 | \$ 34,899 | \$ 14,181 | \$ 116,235 |
| Cash with fiscal agent..... | 7,581 | - | - | - | - | 94,152 | - | - |
| Receivables, net of allowance for uncollectibles: | | | | | | | | |
| Taxes..... | 81,063 | 12,846 | 76 | - | 49,724 | 12,915 | - | - |
| Due from federal government..... | - | - | 563 | - | - | - | - | - |
| Loans receivable..... | - | - | - | - | - | - | - | - |
| Other receivables..... | 1,279 | 72,666 | 120 | 126,814 | - | - | - | - |
| Due from other funds..... | - | - | - | - | - | - | - | - |
| Total assets..... | \$ 90,778 | \$ 346,223 | \$ 21,764 | \$ 126,814 | \$ 132,190 | \$ 141,966 | \$ 14,181 | \$ 116,235 |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable..... | \$ 855 | \$ 128,482 | \$ 489 | \$ - | \$ 49,673 | \$ 12,299 | \$ 4 | \$ 14,572 |
| Accrued payroll..... | - | 113 | 293 | - | - | - | 32 | 113 |
| Tax refunds and abatements payable..... | 92 | - | - | - | 238 | - | - | - |
| Due to other funds..... | - | 62,815 | - | - | - | - | - | - |
| Due to component units..... | 67,523 | - | - | - | 82,279 | - | - | - |
| Deferred revenue..... | - | 13,532 | - | - | - | - | - | - |
| Other accrued liabilities..... | - | 106,578 | - | - | - | - | - | - |
| Total liabilities..... | 68,470 | 311,520 | 782 | - | 132,190 | 12,299 | 36 | 14,685 |
| Fund balances (deficits): | | | | | | | | |
| Nonspendable..... | - | - | - | - | - | - | - | - |
| Restricted..... | 7,581 | - | - | - | - | 94,152 | - | - |
| Committed..... | 14,727 | 34,703 | 20,982 | 126,814 | - | 35,515 | 14,145 | 101,550 |
| Assigned..... | - | - | - | - | - | - | - | - |
| Unassigned..... | - | - | - | - | - | - | - | - |
| Fund balances (deficits)..... | 22,308 | 34,703 | 20,982 | 126,814 | - | 129,667 | 14,145 | 101,550 |
| Total liabilities and fund balances..... | \$ 90,778 | \$ 346,223 | \$ 21,764 | \$ 126,814 | \$ 132,190 | \$ 141,966 | \$ 14,181 | \$ 116,235 |

See Independent Auditor's Report

| Special Revenue | | | | Capital Projects | | | | | | Total |
|-------------------------------------|-------------------------------|-------------------|-------------------|------------------|--------------------------|----------------------------------|--------------------------|-------------------|---------------------|-------|
| Health Information Technology Trust | Grant Anticipation Note Trust | Expendable Trust | Other | Debt Service | General Capital Projects | Convention and Exhibition Center | Highway Capital Projects | Other | Total | |
| \$ 4,396 | \$ 14,537 | \$ 571,271 | \$ 235,815 | \$ - | \$ 9,104 | \$ 8,393 | \$ 33,762 | \$ 21 | \$ 1,407,651 | |
| - | 190,518 | - | - | 11,951 | - | - | - | - | 304,202 | |
| - | - | - | 9,796 | - | - | - | - | - | 166,420 | |
| 16,375 | 92,742 | 646 | 3,157 | - | 1,588 | - | - | 8,736 | 123,807 | |
| - | - | 914 | - | - | - | - | - | - | 914 | |
| - | - | 17,886 | 17,069 | - | - | - | - | 69 | 235,903 | |
| - | - | - | - | - | - | - | - | 92,742 | 92,742 | |
| \$ 20,771 | \$ 297,797 | \$ 590,717 | \$ 265,837 | \$ 11,951 | \$ 10,692 | \$ 8,393 | \$ 33,762 | \$ 101,568 | \$ 2,331,639 | |
| \$ 1,451 | \$ - | \$ 23,241 | \$ 42,238 | \$ - | \$ 197,625 | \$ - | \$ - | \$ 23 | \$ 470,952 | |
| 5 | - | 3,085 | 1,627 | - | 1,751 | - | - | - | 7,019 | |
| - | - | - | - | - | - | - | - | - | 330 | |
| - | 92,742 | - | - | - | - | - | - | 19,381 | 174,938 | |
| - | - | - | - | - | 2,256 | - | 154,215 | 124,089 | 430,362 | |
| - | - | 7,116 | - | - | - | - | - | - | 20,648 | |
| - | - | - | - | - | - | - | - | - | 106,578 | |
| 1,456 | 92,742 | 33,442 | 43,865 | - | 201,632 | - | 154,215 | 143,493 | 1,210,827 | |
| - | - | 914 | - | - | - | - | - | - | 914 | |
| - | 205,055 | 370,907 | 66,575 | 11,951 | - | - | - | - | 756,221 | |
| 19,315 | - | 185,454 | 190,430 | - | - | 8,393 | - | 12 | 752,040 | |
| - | - | - | - | - | - | - | - | - | - | |
| - | - | - | (35,033) | - | (190,940) | - | (120,453) | (41,937) | (388,363) | |
| 19,315 | 205,055 | 557,275 | 221,972 | 11,951 | (190,940) | 8,393 | (120,453) | (41,925) | 1,120,812 | |
| \$ 20,771 | \$ 297,797 | \$ 590,717 | \$ 265,837 | \$ 11,951 | \$ 10,692 | \$ 8,393 | \$ 33,762 | \$ 101,568 | \$ 2,331,639 | |

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | Special Revenue | | | | | | | |
|---|--------------------------------|--------------------------|------------------|----------------------------------|---------------------------------------|--|-------------------|-------------------|
| | Commonwealth Transportation | Universal Health Care | Environmental | Health Care Security Trust | MBTA State & Local Contribution | Convention and Exhibition Center | Gaming Control | Enhanced 911 |
| REVENUES | | | | | | | | |
| Taxes..... | \$ 974,196 | \$ 145,541 | \$ 875 | \$ - | \$ 779,290 | \$ 95,770 | \$ - | \$ - |
| Assessments..... | 21,511 | 354,398 | - | - | 152,100 | - | - | - |
| Federal grants and reimbursements..... | - | - | 5,103 | - | - | - | - | - |
| Departmental..... | 498,588 | 340,993 | 8,583 | - | - | - | - | 73,337 |
| Miscellaneous..... | 444 | 86,730 | 30 | 242,515 | - | 2,342 | - | 130 |
| Total revenues..... | 1,494,739 | 927,662 | 14,591 | 242,515 | 931,390 | 98,112 | - | 73,467 |
| OTHER FINANCING SOURCES | | | | | | | | |
| Bonds premium..... | - | - | - | - | - | - | - | - |
| Issuance of general and special obligation bonds..... | - | - | - | - | - | - | - | - |
| Issuance of refunding bonds..... | - | - | - | - | - | - | - | - |
| Transfers in for debt service..... | - | - | - | - | - | - | - | - |
| Transfers in..... | 12,314 | 1,052,895 | 790 | - | - | - | 15,000 | - |
| Total other financing sources..... | 12,314 | 1,052,895 | 790 | - | - | - | 15,000 | - |
| Total revenues and other financing sources..... | 1,507,053 | 1,980,557 | 15,381 | 242,515 | 931,390 | 98,112 | 15,000 | 73,467 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| Judiciary..... | - | - | - | - | - | - | - | - |
| Inspector General..... | - | 298 | - | - | - | - | - | - |
| Governor and Lieutenant Governor..... | - | - | - | - | - | - | - | - |
| Secretary of the Commonwealth..... | - | - | - | - | - | - | - | - |
| Treasurer and Receiver-General..... | - | - | - | - | 931,390 | - | - | - |
| Auditor of the Commonwealth..... | - | - | - | - | - | - | - | - |
| Attorney General..... | - | - | - | - | - | - | - | - |
| District Attorney..... | - | - | - | - | - | - | - | - |
| Sheriff's Departments..... | - | - | - | - | - | - | - | 7,329 |
| Board of Library Commissioners..... | - | - | - | - | - | - | - | - |
| Massachusetts Gaming Commission..... | - | - | - | - | - | - | 791 | - |
| Comptroller..... | - | - | - | - | - | - | - | - |
| Administration and finance..... | 130,396 | - | - | - | - | 48,790 | - | 1,780 |
| Energy and environmental affairs..... | - | - | 11,376 | - | - | - | - | - |
| Health and human services..... | - | 595,084 | - | - | - | - | - | 75 |
| Massachusetts department of transportation..... | 371,408 | - | - | - | - | - | - | - |
| Executive office of education..... | - | - | - | - | - | - | - | - |
| Public safety and homeland security..... | - | - | - | - | - | - | - | 56,687 |
| Housing and economic development..... | - | - | - | - | - | - | - | - |
| Labor and workforce development..... | - | 163,185 | - | - | - | - | - | - |
| Medicaid..... | - | 1,200,983 | - | - | - | - | - | - |
| Capital outlay: | | | | | | | | |
| Local aid..... | - | - | - | - | - | - | - | - |
| Capital acquisition and construction..... | - | - | - | - | - | - | - | - |
| Debt service..... | - | - | - | - | - | - | - | - |
| Total expenditures..... | 501,804 | 1,959,550 | 11,376 | - | 931,390 | 48,790 | 791 | 65,871 |
| OTHER FINANCING USES | | | | | | | | |
| Principal on current refundings..... | - | - | - | - | - | - | - | - |
| Transfers out..... | 131,792 | 31,110 | 2,231 | 253,628 | - | - | 64 | 3,697 |
| Transfers of appropriations..... | - | - | - | - | - | - | - | - |
| Transfers of bond proceeds..... | - | - | - | - | - | - | - | - |
| Transfers out for debt service..... | 902,931 | - | - | - | - | 36,345 | - | - |
| Total other financing uses..... | 1,034,723 | 31,110 | 2,231 | 253,628 | - | 36,345 | 64 | 3,697 |
| Total expenditures and other financing uses..... | 1,536,527 | 1,990,660 | 13,607 | 253,628 | 931,390 | 85,135 | 855 | 69,568 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.... | (29,474) | (10,103) | 1,774 | (11,113) | - | 12,977 | 14,145 | 3,899 |
| Fund balances (deficits) at beginning of year..... | 51,782 | 44,806 | 19,208 | 137,927 | - | 116,690 | - | 97,651 |
| Fund balances (deficits) at end of year..... | \$ 22,308 | \$ 34,703 | \$ 20,982 | \$ 126,814 | \$ - | \$ 129,667 | \$ 14,145 | \$ 101,550 |

See Independent Auditor's Report

| Special Revenue | | | | Capital Projects | | | | | Total |
|-------------------------------------|-------------------------------|-------------------|-------------------|------------------|--------------------------|----------------------------------|--------------------------|--------------------|---------------------|
| Health Information Technology Trust | Grant Anticipation Note Trust | Expendable Trust | Other | Debt Service | General Capital Projects | Convention and Exhibition Center | Highway Capital Projects | Other | Total |
| \$ - | \$ - | \$ - | \$ 93,433 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,089,105 |
| - | - | 20,829 | 45,799 | - | - | - | - | - | 594,637 |
| 108,489 | 642,430 | 21,402 | 89,881 | - | 10,959 | - | - | 68,773 | 947,037 |
| - | - | 62,562 | 84,595 | - | - | - | - | 251 | 1,068,909 |
| - | 245 | 532,773 | 13,234 | 2,703 | - | - | 192 | - | 881,338 |
| 108,489 | 642,675 | 637,566 | 326,942 | 2,703 | 10,959 | - | 192 | 69,024 | 5,581,026 |
| - | - | - | - | (325) | 92,472 | - | 69,428 | - | 161,575 |
| - | - | - | - | - | 738,363 | - | 1,019,347 | 1,917 | 1,759,627 |
| - | - | - | - | 388,375 | - | - | - | - | 388,375 |
| - | - | - | - | 2,153,511 | - | - | - | - | 2,153,511 |
| 500 | 29,010 | 12,014 | 84,910 | - | - | - | - | 602,826 | 1,810,259 |
| 500 | 29,010 | 12,014 | 84,910 | 2,541,561 | 830,835 | - | 1,088,775 | 604,743 | 6,273,347 |
| 108,989 | 671,685 | 649,580 | 411,852 | 2,544,264 | 841,794 | - | 1,088,967 | 673,767 | 11,854,373 |
| - | - | 338 | 292 | - | - | - | - | - | 630 |
| - | - | 37 | - | - | - | - | - | - | 335 |
| - | - | 72 | 17 | - | - | - | - | - | 89 |
| - | - | - | 3,612 | - | - | - | - | - | 3,612 |
| - | - | 100,064 | 37,515 | 135,950 | - | - | - | - | 1,204,919 |
| - | - | 68 | - | - | - | - | - | - | 68 |
| - | - | 2,347 | 538 | - | - | - | - | - | 2,885 |
| - | - | 8,459 | 230 | - | - | - | - | - | 8,689 |
| - | - | 2,005 | - | - | - | - | - | - | 9,334 |
| - | - | 78 | - | - | - | - | - | - | 78 |
| - | - | - | - | - | - | - | - | - | 791 |
| - | - | 483 | 1,818 | - | - | - | - | - | 2,301 |
| - | - | 19,219 | 50,315 | - | - | - | - | - | 250,500 |
| - | - | 39,857 | 44,016 | - | - | - | - | - | 95,249 |
| 89,650 | - | 31,089 | 22,847 | - | - | - | - | - | 738,745 |
| - | - | - | - | - | 26,238 | - | 688,938 | 584,489 | 1,671,073 |
| - | - | 13,392 | 1,708 | - | - | - | - | - | 15,100 |
| - | - | 8,710 | 1,973 | - | - | - | - | - | 67,370 |
| - | - | 28,107 | 29,074 | - | - | - | - | - | 57,181 |
| - | - | 60,894 | 18,042 | - | - | - | - | - | 242,121 |
| - | - | - | 12,400 | - | - | - | - | - | 1,213,383 |
| - | - | - | - | - | - | - | - | 43 | 43 |
| - | - | - | - | - | 807,943 | - | 38,062 | 1,479 | 847,484 |
| - | - | - | - | 2,160,589 | - | - | - | - | 2,160,589 |
| 89,650 | - | 315,219 | 224,397 | 2,296,539 | 834,181 | - | 727,000 | 586,011 | 8,592,569 |
| - | - | - | - | 388,050 | - | - | - | - | 388,050 |
| 24 | 481,145 | 218,118 | 100,436 | - | 10,262 | - | 156,114 | 9,905 | 1,398,526 |
| - | - | 1,192 | - | - | - | - | - | - | 1,192 |
| - | - | - | - | - | 279,653 | - | - | - | 279,653 |
| - | 188,662 | - | 5,350 | - | - | - | - | - | 1,133,288 |
| 24 | 669,807 | 219,310 | 105,786 | 388,050 | 289,915 | - | 156,114 | 9,905 | 3,200,709 |
| 89,674 | 669,807 | 534,529 | 330,183 | 2,684,589 | 1,124,096 | - | 883,114 | 595,916 | 11,793,278 |
| 19,315 | 1,878 | 115,051 | 81,669 | (140,325) | (282,302) | - | 205,853 | 77,851 | 61,095 |
| - | 203,177 | 442,224 | 140,303 | 152,276 | 91,362 | 8,393 | (326,306) | (119,776) | 1,059,717 |
| \$ 19,315 | \$ 205,055 | \$ 557,275 | \$ 221,972 | \$ 11,951 | \$ (190,940) | \$ 8,393 | \$ (120,453) | \$ (41,925) | \$ 1,120,812 |

Combining Statement of Net Assets Available for Post - Employment Benefits

Pension Trust Funds

June 30, 2012

(Amounts in thousands)

| | Pension Trust Funds | | OPEB Trust Fund | Total |
|---|-----------------------------|----------------------|------------------------------|----------------------|
| | State Employees' PERS | Teachers' PERS | State Retiree Benefits | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 128,550 | \$ 156,993 | \$ 1,262 | \$ 286,805 |
| Investments at fair value..... | 19,267,231 | 20,758,463 | 371,458 | 40,397,152 |
| Other receivables..... | 324,797 | 349,952 | 6,260 | 681,009 |
| Total assets..... | 19,720,578 | 21,265,408 | 378,980 | 41,364,966 |
| LIABILITIES | | | | |
| Accounts payable..... | 324,565 | 351,784 | 6,235 | 682,584 |
| Total liabilities..... | 324,565 | 351,784 | 6,235 | 682,584 |
| Net assets available for post - employment benefits..... | \$ 19,396,013 | \$ 20,913,624 | \$ 372,745 | \$ 40,682,382 |

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, 2012
(Amounts in thousands)

| | Pension Trust Funds | | OPEB Trust Fund | |
|--|-----------------------------|----------------------|---------------------------|----------------------|
| | State Employees' PERS | Teachers' PERS | State Retiree Benefits | Total |
| ADDITIONS | | | | |
| Contribution: | | | | |
| Employer contributions..... | \$ 538,292 | \$ 939,945 | \$ 414,476 | \$ 1,892,713 |
| Employee contributions..... | 544,558 | 640,056 | - | 1,184,614 |
| Total contributions..... | 1,082,850 | 1,580,001 | 414,476 | 3,077,327 |
| Net investment gain (loss): | | | | |
| Investment gain (loss) | (85,987) | (97,495) | 17,382 | (166,100) |
| Less: investment expense..... | (26,979) | (29,065) | (1,312) | (57,356) |
| Net investment gain (loss)..... | (112,966) | (126,560) | 16,070 | (223,456) |
| Total additions..... | 969,884 | 1,453,441 | 430,546 | 2,853,871 |
| DEDUCTIONS | | | | |
| Administration..... | 8,657 | 14,958 | 15,307 | 38,922 |
| Retirement benefits and refunds..... | 1,646,861 | 2,330,836 | 410,025 | 4,387,722 |
| Payments to State Boston Retirement System..... | - | 90,399 | - | 90,399 |
| Total deductions..... | 1,655,518 | 2,436,193 | 425,332 | 4,517,043 |
| Net increase(decrease)..... | (685,634) | (982,752) | 5,214 | (1,663,172) |
| Net assets available for post - employment benefits at beginning of year..... | 20,081,647 | 21,896,376 | 367,531 | 42,345,554 |
| Net assets available for post - employment benefits at end of year..... | \$ 19,396,013 | \$ 20,913,624 | \$ 372,745 | \$ 40,682,382 |

See Independent Auditor's Report

Combining Statement of Net Assets Held in Trust for Pool Participants
 External Investment Trust Funds
 June 30, 2012
 (Amounts in thousands)

| | Massachusetts Municipal Depository Trust | Pension Reserves Investment Trust | Total |
|--|---|--|----------------------|
| ASSETS | | | |
| Assets held in trust for pension benefits: | | | |
| Cash and short-term investments..... | \$ - | \$ 28,206 | \$ 28,206 |
| Investments at fair value..... | - | 8,301,896 | 8,301,896 |
| Assets held in trust for pool participants: | | | |
| Cash and short-term investments..... | 3,079,693 | - | 3,079,693 |
| Other receivables..... | 3,293 | 139,918 | 143,211 |
| Total assets..... | 3,082,986 | 8,470,020 | 11,553,006 |
| LIABILITIES | | | |
| Liabilities: | | | |
| Accounts payable..... | 1,449 | 139,355 | 140,804 |
| Other accrued liabilities..... | 285 | - | 285 |
| Total liabilities..... | 1,734 | 139,355 | 141,089 |
| Net assets held in trust for pool / pension participants..... | \$ 3,081,252 | \$ 8,330,665 | \$ 11,411,917 |

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, 2012

(Amounts in thousands)

| | Massachusetts Municipal Depository Trust | Pension Reserves Investment Trust | Total |
|--|---|--|----------------------|
| ADDITIONS | | | |
| Contribution: | | | |
| Proceeds from sale of units..... | \$ 17,738,825 | \$ 483,969 | \$ 18,222,794 |
| Total contributions..... | 17,738,825 | 483,969 | 18,222,794 |
| Net investment gain (loss): | | | |
| Investment gain (loss) | 11,370 | (21,666) | (10,296) |
| Less: Investment expense..... | (2,528) | (10,833) | (13,361) |
| Net investment gain (loss)..... | 8,842 | (32,499) | (23,657) |
| Total additions..... | 17,747,667 | 451,470 | 18,199,137 |
| DEDUCTIONS | | | |
| Cost of units redeemed..... | 17,596,285 | 458,542 | 18,054,827 |
| Distributions to unit holders from net interest income..... | 8,361 | - | 8,361 |
| Total deductions..... | 17,604,646 | 458,542 | 18,063,188 |
| Net increase (decrease)..... | 143,021 | (7,072) | 135,949 |
| Net assets held in trust for pool / pensions participants at beginning of year..... | 2,938,231 | 8,337,737 | 11,275,968 |
| Net assets held in trust for pool / pensions participants at end of year..... | \$ 3,081,252 | \$ 8,330,665 | \$ 11,411,917 |

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| <u>Central Agency Funds</u> | | | | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 267,968 | \$ 8,270,023 | \$ 8,238,389 | \$ 299,602 |
| Investments, restricted investments and annuity contracts.... | 1,463,048 | 200,641 | 277,814 | 1,385,875 |
| Taxes receivable..... | 2,340 | 2,477 | 2,340 | 2,477 |
| Total assets..... | \$ 1,733,356 | \$ 8,473,141 | \$ 8,518,543 | \$ 1,687,954 |
| LIABILITIES | | | | |
| Accounts payable..... | \$ 52,186 | \$ 3,360,399 | \$ 3,350,910 | \$ 61,675 |
| Due to cities and towns..... | 27,671 | 477,206 | 476,861 | 28,016 |
| Due to federal government..... | - | 48 | 48 | - |
| Lottery prizes payable..... | 1,463,048 | 200,641 | 277,814 | 1,385,875 |
| Other liabilities..... | 190,451 | 3,869,075 | 3,847,138 | 212,388 |
| Total liabilities..... | \$ 1,733,356 | \$ 7,907,369 | \$ 7,952,771 | \$ 1,687,954 |
| <u>Court Escrow and Client Accounts</u> | | | | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 94,827 | \$ 1,318,222 | \$ 1,306,340 | \$ 106,709 |
| Assets held in trust..... | 55,360 | 398,679 | 401,512 | 52,527 |
| Other receivables..... | 115,399 | 117,624 | 115,399 | 117,624 |
| Total assets..... | \$ 265,586 | \$ 1,834,525 | \$ 1,823,251 | \$ 276,860 |
| LIABILITIES | | | | |
| Accounts payable..... | \$ 237 | \$ 1,271,621 | \$ 1,261,111 | \$ 10,747 |
| Agency liabilities..... | 265,349 | 1,176,478 | 1,175,714 | 266,113 |
| Total liabilities..... | \$ 265,586 | \$ 2,448,099 | \$ 2,436,825 | \$ 276,860 |
| <u>Statutory Bonds and Deposits</u> | | | | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 86 | \$ - | \$ - | \$ 86 |
| Assets held in trust..... | 641,129 | 459,087 | 432,623 | 667,593 |
| Total assets..... | \$ 641,215 | \$ 459,087 | \$ 432,623 | \$ 667,679 |
| LIABILITIES | | | | |
| Other liabilities..... | \$ 641,215 | \$ 459,087 | \$ 432,623 | \$ 667,679 |
| Total liabilities..... | \$ 641,215 | \$ 459,087 | \$ 432,623 | \$ 667,679 |

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|--|----------------------------|-----------------------------|-----------------------------|----------------------------|
| <u>Total Agency Funds</u> | | | | |
| ASSETS | | | | |
| Cash and short-term investments..... | \$ 362,881 | \$ 9,588,245 | \$ 9,544,729 | \$ 406,397 |
| Investments, restricted investments and annuity contracts..... | 1,463,048 | 200,641 | 277,814 | 1,385,875 |
| Assets held in trust..... | 696,489 | 857,766 | 834,135 | 720,120 |
| Taxes receivable..... | 2,340 | 2,477 | 2,340 | 2,477 |
| Other receivables..... | 115,399 | 117,624 | 115,399 | 117,624 |
| Total assets..... | <u>\$ 2,640,157</u> | <u>\$ 10,766,753</u> | <u>\$ 10,774,417</u> | <u>\$ 2,632,493</u> |
| LIABILITIES | | | | |
| Accounts payable..... | \$ 52,423 | \$ 4,632,020 | \$ 4,612,021 | \$ 72,422 |
| Due to cities and towns..... | 27,671 | 477,206 | 476,861 | 28,016 |
| Due to federal government..... | - | 48 | 48 | - |
| Lottery prizes payable..... | 1,463,048 | 200,641 | 277,814 | 1,385,875 |
| Other liabilities..... | 1,097,015 | 5,504,640 | 5,455,475 | 1,146,180 |
| Total liabilities..... | <u>\$ 2,640,157</u> | <u>\$ 10,814,555</u> | <u>\$ 10,822,219</u> | <u>\$ 2,632,493</u> |

See Independent Auditor's Report

Combining Statement of Net Assets
Nonmajor Component Units
June 30, 2012
(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 |
|--|--|---|--|--|---|-------------------------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents..... | \$ 27,454 | \$ 16,326 | \$ 8,921 | \$ 694 | \$ 54,834 | \$ 74,288 | \$ 182,517 |
| Short-term investments..... | - | 121,216 | - | 29,355 | 15,223 | 29,334 | 195,128 |
| Restricted cash and investment..... | 3,257 | 13,695 | - | 11,803 | - | 2,941 | 31,696 |
| Assets held in trust..... | - | - | 118,301 | - | - | - | 118,301 |
| Receivables, net of allowance for uncollectibles: | | | | | | | |
| Federal grants and reimbursement receivable..... | 1,300 | - | - | - | - | 162 | 1,462 |
| Loans..... | 248 | 13,174 | 7,057 | - | 20,458 | 10,718 | 51,655 |
| Other receivables..... | 4,585 | 12,489 | 2,606 | 11,905 | 1,488 | 2,224 | 35,297 |
| Due from primary government..... | 10,999 | 493 | - | 4,746 | - | 26,353 | 42,591 |
| Inventory..... | - | 139 | - | - | - | 63 | 202 |
| Other current assets..... | 1,269 | 2,114 | 208 | 223 | - | 400 | 4,214 |
| Total current assets..... | 49,112 | 179,646 | 137,093 | 58,726 | 92,003 | 146,483 | 663,063 |
| Noncurrent assets: | | | | | | | |
| Cash and cash equivalents - restricted..... | - | 30,586 | 46,045 | - | - | - | 76,631 |
| Long - term investments..... | - | 64,696 | 7,179 | - | - | 1,544 | 73,419 |
| Restricted investments..... | - | - | 123,787 | - | - | - | 123,787 |
| Accounts receivables, net..... | - | 4,229 | - | - | - | 539 | 4,768 |
| Loans receivables, net..... | 15,047 | 82,026 | - | - | 385,582 | 36,232 | 518,887 |
| Non-depreciable capital assets..... | 96,951 | 9,551 | - | - | - | 297 | 106,799 |
| Depreciable capital assets, net..... | 663,541 | 228,087 | 32,618 | 56,106 | - | 12,594 | 992,946 |
| Other noncurrent assets..... | - | 21,861 | - | - | 228 | - | 22,089 |
| Total noncurrent assets..... | 775,539 | 441,036 | 209,629 | 56,106 | 385,810 | 51,206 | 1,919,326 |
| Deferred outflows from derivative instruments..... | - | 21,643 | - | - | - | - | 21,643 |
| Total assets and deferred outflows..... | 824,651 | 642,325 | 346,722 | 114,832 | 477,813 | 197,689 | 2,604,032 |
| LIABILITIES | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and other liabilities..... | 11,855 | 5,581 | 15,001 | 16,599 | 1,211 | 26,451 | 76,698 |
| Accrued payroll..... | - | - | 76 | - | - | - | 76 |
| Compensated absences..... | 967 | 858 | - | - | - | 738 | 2,563 |
| Accrued interest payable..... | - | - | - | - | 1,317 | - | 1,317 |
| Due to primary government..... | - | 438 | - | - | - | - | 438 |
| Deferred revenue..... | 10,224 | - | 118,271 | - | - | 21,702 | 150,197 |
| Bonds, notes payable and other obligations..... | - | 3,240 | - | - | 19,658 | 5,874 | 28,772 |
| Total current liabilities..... | 23,046 | 10,117 | 133,348 | 16,599 | 22,186 | 54,765 | 260,061 |
| Noncurrent liabilities: | | | | | | | |
| Compensated absences..... | 1,150 | - | - | - | - | 107 | 1,257 |
| Accrued interest payable..... | - | 2,685 | - | - | - | - | 2,685 |
| Due to primary government..... | - | 14,673 | - | - | - | - | 14,673 |
| Deferred revenue..... | - | 4,592 | - | - | 27,309 | 726 | 32,627 |
| Bonds, notes payable and other obligations..... | - | 169,168 | - | - | 385,724 | 40,895 | 595,787 |
| Post - employment obligations..... | 3,509 | - | - | - | - | - | 3,509 |
| Liability for derivative instruments..... | - | 21,643 | - | - | - | - | 21,643 |
| Other noncurrent liabilities..... | 6,205 | 2,131 | - | 2,919 | - | 1,693 | 12,948 |
| Total noncurrent liabilities..... | 10,864 | 214,892 | - | 2,919 | 413,033 | 43,421 | 685,129 |
| Total liabilities..... | 33,910 | 225,009 | 133,348 | 19,518 | 435,219 | 98,186 | 945,190 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt..... | 760,493 | 72,880 | 32,618 | 56,106 | 205 | 12,698 | 935,000 |
| Restricted for: | | | | | | | |
| Clean energy trusts..... | 2,707 | - | 180,756 | - | - | - | 183,463 |
| Economic development financing..... | - | 165,657 | - | - | - | 4,778 | 170,435 |
| Other purposes..... | 1,850 | - | - | 29,064 | 23,855 | 45,561 | 100,330 |
| Unrestricted..... | 25,691 | 178,779 | - | 10,144 | 18,534 | 36,466 | 269,614 |
| Total net assets..... | \$ 790,741 | \$ 417,316 | \$ 213,374 | \$ 95,314 | \$ 42,594 | \$ 99,503 | \$ 1,658,842 |

See Independent Auditor's Report

Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units
Fiscal Year Ended June 30, 2012
(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 |
|---|--|---|--|--|---|-------------------------------------|---------------------|
| Operating revenues: | | | | | | | |
| Charges for services..... | \$ 49,338 | \$ 45,914 | \$ - | \$ - | \$ 6,802 | \$ 47,735 | \$ 149,789 |
| Other..... | 816 | 31,035 | 24,298 | 68,345 | 4,086 | 8,213 | 136,793 |
| Total operating revenues..... | 50,154 | 76,949 | 24,298 | 68,345 | 10,888 | 55,948 | 286,582 |
| Operating expenses: | | | | | | | |
| Cost of services | 48,538 | 17,808 | 26,109 | 41,035 | 5,332 | 101,038 | 239,860 |
| Administration costs..... | 26,225 | 57,869 | 6,745 | 103 | 5,065 | 5,282 | 101,289 |
| Depreciation..... | 40,265 | 12,418 | 1,402 | 559 | 123 | 939 | 55,706 |
| Total operating expenses..... | 115,028 | 88,095 | 34,256 | 41,697 | 10,520 | 107,259 | 396,855 |
| Operating income (loss)..... | (64,874) | (11,146) | (9,958) | 26,648 | 368 | (51,311) | (110,273) |
| Nonoperating revenues (expenses): | | | | | | | |
| Operating grants..... | 48,911 | 457 | 7,883 | - | - | 40,957 | 98,208 |
| Interest income..... | 453 | 2,160 | - | 139 | - | 112 | 2,864 |
| Other nonoperating revenue (expense)..... | - | (912) | (4,531) | - | - | (61) | (5,504) |
| Nonoperating revenues (expenses), net..... | 49,364 | 1,705 | 3,352 | 139 | - | 41,008 | 95,568 |
| Income (loss) before contributions..... | (15,510) | (9,441) | (6,606) | 26,787 | 368 | (10,303) | (14,705) |
| Capital contributions..... | - | (10,199) | - | - | - | 16,064 | 5,865 |
| Other losses..... | - | - | - | - | - | (3,640) | (3,640) |
| Change in net assets..... | (15,510) | (19,640) | (6,606) | 26,787 | 368 | 2,121 | (12,480) |
| Net assets - beginning, as restated..... | 806,251 | 436,956 | 219,980 | 68,527 | 42,226 | 97,382 | 1,671,322 |
| Net assets - ending..... | \$ 790,741 | \$ 417,316 | \$ 213,374 | \$ 95,314 | \$ 42,594 | \$ 99,503 | \$ 1,658,842 |

See Independent Auditor's Report



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Statistical Section

Schedule of Net Assets by Component – Last Ten Fiscal Years
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Massachusetts General Information



Bucket of Clams

*Photo courtesy of Massachusetts Office of Travel and Tourism,
Credit: Bob Schellhammer*

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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These schedules contain information to help the reader assess the Commonwealth’s most significant revenue source, income taxation. Schedules included are:

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

(Amounts in thousands)

| | 2012 | 2011 | 2010* | 2009* | 2008* |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|
| Governmental activities | | | | | |
| Invested in capital assets, net of related debt... | \$ (849,338) | \$ (722,469) | \$ (885,593) | \$ 189,913 | \$ 446,666 |
| Restricted..... | 1,456,715 | 1,520,702 | 1,403,877 | 1,377,951 | 1,413,968 |
| Unrestricted..... | <u>(24,905,165)</u> | <u>(23,631,098)</u> | <u>(22,891,629)</u> | <u>(13,721,519)</u> | <u>(11,022,084)</u> |
| Total governmental activities net assets..... | <u>\$ (24,297,788)</u> | <u>\$ (22,832,865)</u> | <u>\$ (22,373,344)</u> | <u>\$ (12,153,655)</u> | <u>\$ (9,161,450)</u> |
| Business-type activities | | | | | |
| Invested in capital assets, net of related debt... | \$ 2,366,038 | \$ 2,026,223 | \$ 1,767,434 | \$ 1,698,825 | \$ 1,562,002 |
| Restricted..... | 1,576,865 | 1,364,646 | 1,148,751 | 1,609,145 | 2,390,206 |
| Unrestricted..... | <u>969,309</u> | <u>978,043</u> | <u>857,263</u> | <u>621,952</u> | <u>644,363</u> |
| Total business-type activities net assets..... | <u>\$ 4,912,212</u> | <u>\$ 4,368,912</u> | <u>\$ 3,773,448</u> | <u>\$ 3,929,922</u> | <u>\$ 4,596,571</u> |
| Commonwealth net assets | | | | | |
| Invested in capital assets, net of related debt... | \$ 1,516,700 | \$ 1,303,754 | \$ 881,841 | \$ 1,888,738 | \$ 2,008,668 |
| Restricted..... | 3,033,580 | 2,885,348 | 2,552,628 | 2,987,096 | 3,804,174 |
| Unrestricted..... | <u>(23,935,856)</u> | <u>(22,653,055)</u> | <u>(22,034,366)</u> | <u>(13,099,567)</u> | <u>(10,377,721)</u> |
| Total Commonwealth net assets..... | <u>\$ (19,385,576)</u> | <u>\$ (18,463,953)</u> | <u>\$ (18,599,896)</u> | <u>\$ (8,223,733)</u> | <u>\$ (4,564,879)</u> |

* Restated

| 2007* | 2006* | 2005* | 2004* | 2003* |
|-----------------------|------------------------|------------------------|-----------------------|-----------------------|
| \$ 489,432 | \$ 101,510 | \$ 196,765 | \$ 2,032,958 | \$ 3,901,007 |
| 1,271,051 | 2,010,373 | 1,526,576 | 776,401 | 517,115 |
| (11,357,260) | (12,409,269) | (13,267,433) | (9,150,810) | (12,523,663) |
| \$ (9,596,777) | \$ (10,297,385) | \$ (11,544,092) | \$ (6,341,451) | \$ (8,105,541) |
| \$ 1,392,363 | \$ 1,283,570 | \$ 1,149,352 | \$ 1,132,637 | \$ 1,073,152 |
| 2,295,507 | 1,816,066 | 1,331,053 | 915,583 | 946,704 |
| 645,211 | 548,774 | 562,777 | 434,007 | 321,523 |
| \$ 4,333,081 | \$ 3,648,410 | \$ 3,043,182 | \$ 2,482,227 | \$ 2,341,379 |
| \$ 1,881,795 | \$ 1,385,080 | \$ 1,346,117 | \$ 3,165,595 | \$ 4,974,159 |
| 3,566,558 | 3,826,439 | 2,857,629 | 1,691,984 | 1,463,819 |
| (10,712,049) | (11,860,495) | (12,704,656) | (8,716,803) | (12,202,140) |
| \$ (5,263,696) | \$ (6,648,975) | \$ (8,500,910) | \$ (3,859,224) | \$ (5,764,162) |

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

(Amounts in thousands)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|----------------------|----------------------|------------------------|-----------------------|----------------------|
| EXPENSES | | | | | |
| Governmental Activities: | | | | | |
| General government..... | \$ 2,391,694 | \$ 2,305,783 | \$ 2,358,706 | \$ 2,630,554 | \$ 2,321,251 |
| Judiciary..... | 945,457 | 992,990 | 1,043,004 | 1,138,179 | 993,424 |
| Direct local aid..... | 4,991,532 | 4,845,738 | 5,030,363 | 5,210,451 | 5,118,858 |
| Medicaid..... | 11,708,397 | 12,124,261 | 10,677,999 | 10,842,549 | 9,769,893 |
| Group health insurance..... | 1,218,079 | 1,113,544 | 1,092,178 | 977,565 | 828,297 |
| Energy and environmental..... | 572,632 | 685,032 | 326,128 | 426,808 | 537,691 |
| Housing and economic development*..... | 1,247,310 | 1,362,822 | 1,297,143 | 1,042,084 | 899,474 |
| Health and human services*..... | 7,643,950 | 7,124,856 | 7,244,968 | 7,452,418 | 6,726,961 |
| Transportation and public works..... | 1,765,101 | 2,262,374 | 2,088,354 | 1,336,257 | 1,199,103 |
| Early elementary and secondary education*..... | 4,259,568 | 3,649,543 | 3,395,360 | 3,210,200 | 2,932,143 |
| Public safety and homeland security..... | 2,346,958 | 2,276,402 | 2,409,557 | 2,561,607 | 2,097,076 |
| Labor and workforce development*..... | 474,096 | 497,927 | 483,091 | 474,438 | 340,668 |
| Lottery..... | 3,877,305 | 3,661,834 | 3,649,396 | 3,693,318 | 3,910,362 |
| Interest (unallocated)..... | 1,202,772 | 1,177,569 | 1,090,471 | 1,116,278 | 1,152,162 |
| Total governmental activities..... | 44,644,851 | 44,080,674 | 42,186,717 | 42,112,704 | 38,827,362 |
| Business-type Activities: | | | | | |
| Unemployment compensation..... | 3,466,500 | 4,388,360 | 5,435,611 | 3,475,027 | 1,554,885 |
| Higher Education: | | | | | |
| University of Massachusetts..... | 2,684,039 | 2,865,015 | 2,640,134 | 2,474,797 | 2,274,312 |
| State Universities..... | 851,118 | 834,453 | 762,043 | 736,972 | 733,842 |
| Community Colleges..... | 801,038 | 772,883 | 716,526 | 671,923 | 685,235 |
| Total business -type activities..... | 7,802,695 | 8,860,711 | 9,554,314 | 7,358,719 | 5,248,274 |
| Total Commonwealth expenses..... | \$ 52,447,546 | \$ 52,941,385 | \$ 51,741,031 | \$ 49,471,424 | \$ 44,075,636 |
| REVENUES | | | | | |
| Program Revenues: | | | | | |
| Governmental Activities: | | | | | |
| Charges for services: | | | | | |
| General government..... | \$ 458,320 | \$ 443,869 | \$ 464,592 | \$ 436,344 | \$ 414,614 |
| Judiciary..... | 114,170 | 120,293 | 128,198 | 123,819 | 124,542 |
| Medicaid..... | 297,566 | 258,032 | 185,463 | 180,380 | 176,471 |
| Group health insurance..... | 495,377 | 431,078 | 349,870 | 230,456 | 209,008 |
| Energy and environmental..... | 214,340 | 270,449 | 214,269 | 226,754 | 162,639 |
| Housing and economic development*..... | 142,320 | 142,387 | 221,340 | 178,011 | 185,019 |
| Health and human services*..... | 931,535 | 896,328 | 797,929 | 718,628 | 601,483 |
| Transportation and public works..... | 505,842 | 502,004 | 517,045 | 494,733 | 477,420 |
| Early elementary and secondary education*..... | 6,783 | 6,645 | 9,661 | 15,728 | 10,766 |
| Public safety and homeland security..... | 205,546 | 193,983 | 202,427 | 175,069 | 153,641 |
| Labor and workforce development*..... | 237,772 | 142,731 | 38,319 | 37,728 | 31,758 |
| Lottery..... | 4,940,151 | 4,630,205 | 4,626,777 | 4,643,592 | 4,905,509 |
| Total Charges for services..... | 8,549,722 | 8,038,003 | 7,755,891 | 7,461,243 | 7,452,873 |
| Operating grants and contributions..... | 12,909,908 | 14,217,481 | 12,771,164 | 12,059,019 | 9,271,936 |
| Capital grants and contributions..... | 79,733 | 168,912 | 779,403 | 853,221 | 484,172 |
| Total governmental activities..... | 21,539,363 | 22,424,397 | 21,306,458 | 20,373,482 | 17,208,980 |
| Business-type Activities: | | | | | |
| Charges for services: | | | | | |
| Unemployment Compensation..... | 1,982,602 | 1,945,801 | 1,727,964 | 1,671,098 | 1,587,543 |
| Higher Education: | | | | | |
| University of Massachusetts..... | 1,519,496 | 1,685,386 | 1,527,880 | 1,419,932 | 1,160,513 |
| State Universities..... | 523,979 | 530,078 | 479,900 | 442,685 | 400,369 |
| Community Colleges..... | 275,778 | 250,341 | 235,865 | 219,986 | 204,190 |
| Operating grants and contributions..... | 2,525,342 | 3,500,210 | 4,020,351 | 1,721,199 | 710,974 |
| Total business-type activities..... | 6,827,197 | 7,911,816 | 7,991,960 | 5,474,900 | 4,063,589 |
| Total Commonwealth program revenues..... | \$ 28,366,560 | \$ 30,336,213 | \$ 29,298,418 | \$ 25,848,382 | \$ 21,272,569 |
| General Revenues and Other Changes in Net Assets (all types consolidated): | | | | | |
| Governmental Activities: | | | | | |
| Taxes (all types)..... | \$ 21,403,426 | \$ 21,066,430 | \$ 19,034,227 | \$ 18,499,273 | \$ 21,174,430 |
| Investment earnings and miscellaneous..... | 1,393,094 | 991,230 | 1,474,995 | 1,489,018 | 2,057,309 |
| Gain on sale of capital assets..... | - | - | - | - | - |
| Transfers..... | (1,155,955) | (860,904) | (864,697) | (1,070,652) | (1,178,030) |
| Transfers to \ from MassDOT..... | - | - | (8,983,955) | - | - |
| Total governmental activities..... | 21,640,565 | 21,196,756 | 10,660,570 | 18,917,639 | 22,053,709 |
| Business-type Activities: | | | | | |
| Investment earnings and miscellaneous..... | \$ 376,327 | \$ 695,308 | \$ 553,088 | \$ 140,227 | \$ 270,145 |
| Other losses..... | - | (10,746) | (12,125) | (11,530) | - |
| Transfers..... | 1,155,955 | 860,904 | 864,697 | 1,070,652 | 1,178,030 |
| Total business -type activities..... | 1,532,282 | 1,545,466 | 1,405,660 | 1,199,349 | 1,448,175 |
| Total Commonwealth general revenues..... | \$ 23,172,847 | \$ 22,742,222 | \$ 12,066,230 | \$ 20,116,988 | \$ 23,501,884 |
| CHANGES IN NET ASSETS | | | | | |
| Governmental activities..... | \$ (1,464,923) | \$ (459,521) | \$ (10,219,688) | \$ (2,821,583) | \$ 435,327 |
| Business-type activities..... | 556,784 | 596,571 | (156,694) | (684,470) | 263,490 |
| Current year restatements..... | - | - | - | (152,800) | - |
| Total changes in net assets including restatements..... | \$ (908,139) | \$ 137,050 | \$ (10,376,382) | \$ (3,658,854) | \$ 698,817 |

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

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------|-------------------|----------------------|-----------------------|----------------------|-----------------------|
| \$ | 2,198,999 | \$ 2,043,365 | \$ 1,861,827 | \$ 2,084,482 | \$ 1,870,365 |
| | 852,124 | 731,931 | 694,245 | 570,228 | 641,227 |
| | 5,081,359 | 4,682,027 | 4,525,847 | 4,877,089 | 5,118,711 |
| | 9,044,420 | 8,150,576 | 7,705,717 | 6,909,412 | 6,177,280 |
| | 1,033,796 | 970,150 | 872,970 | 778,072 | 732,252 |
| | 488,883 | 438,731 | 419,329 | 379,710 | 395,713 |
| | 519,399 | 670,518 | 609,409 | 593,000 | 590,246 |
| | 6,414,249 | 6,585,029 | 6,441,959 | 5,940,586 | 5,778,186 |
| | 1,271,608 | 1,286,857 | 1,566,773 | 1,569,678 | 2,053,939 |
| | 1,870,250 | 1,948,769 | 8,226,508 | 1,251,618 | 1,427,482 |
| | 1,763,191 | 1,768,924 | 1,638,434 | 1,477,469 | 1,384,537 |
| | 641,134 | 387,132 | 358,839 | 387,590 | 430,982 |
| | 3,689,221 | 3,708,713 | 3,692,520 | 3,606,608 | 3,470,046 |
| | 1,079,551 | 985,474 | 861,265 | 788,908 | 739,463 |
| | 35,948,184 | 34,358,196 | 39,488,186 | 31,214,448 | 30,810,430 |
| | 1,430,130 | 1,337,565 | 1,662,955 | 2,461,293 | 2,589,107 |
| | 2,233,634 | 2,116,226 | 1,977,546 | 1,597,676 | 1,531,381 |
| | 624,470 | 568,592 | 514,122 | 456,022 | 425,154 |
| | 627,400 | 592,310 | 548,017 | 525,179 | 523,403 |
| | 4,915,634 | 4,614,693 | 4,702,640 | 5,040,170 | 5,069,045 |
| \$ | 40,863,818 | \$ 38,972,889 | \$ 44,190,826 | \$ 36,254,618 | \$ 35,879,475 |
| \$ | 564,347 | \$ 451,753 | \$ 492,750 | \$ 463,132 | \$ 233,135 |
| | 118,652 | 115,443 | 105,072 | 101,994 | 74,412 |
| | 172,136 | 702,104 | 937,422 | 687,535 | 26,772 |
| | 151,604 | 131,611 | 111,342 | 98,598 | 93,529 |
| | 168,789 | 156,074 | 138,854 | 152,632 | 132,531 |
| | 1,892 | 6,245 | 3,515 | 1,446 | 1,373 |
| | 538,543 | 613,780 | 756,469 | 861,899 | 966,813 |
| | 461,217 | 448,349 | 478,154 | 13,687 | 7,813 |
| | 8,042 | 6,346 | 5,583 | 11,644 | 5,073 |
| | 126,962 | 135,846 | 112,350 | 564,023 | 520,496 |
| | 187,256 | 213,078 | 199,817 | 179,794 | 168,471 |
| | 4,656,110 | 4,726,339 | 4,698,935 | 4,603,204 | 4,421,621 |
| | 7,155,550 | 7,706,968 | 8,040,263 | 7,739,588 | 6,652,039 |
| | 8,849,046 | 8,347,822 | 7,961,904 | 8,017,469 | 7,129,712 |
| | 487,365 | 481,780 | 461,371 | 602,449 | 508,235 |
| | 16,491,961 | 16,536,570 | 16,463,538 | 16,359,506 | 14,289,986 |
| | 1,698,249 | 1,741,101 | 242,769 | 1,481,803 | 940,475 |
| | 1,194,393 | 1,076,875 | 424,184 | 822,668 | 678,812 |
| | 287,195 | 272,918 | 64,872 | 222,740 | 182,428 |
| | 190,808 | 175,418 | 122,828 | 165,257 | 141,480 |
| | 746,385 | 684,108 | 854,653 | 1,376,666 | 1,249,768 |
| | 4,117,030 | 3,950,420 | 4,108,237 | 4,069,134 | 3,192,962 |
| \$ | 20,608,991 | \$ 20,486,988 | \$ 20,571,775 | \$ 20,428,640 | \$ 17,482,948 |
| \$ | 20,001,189 | \$ 18,668,322 | \$ 17,580,271 | \$ 16,406,781 | \$ 15,161,687 |
| | 1,318,008 | 1,396,033 | 1,168,540 | 1,042,704 | 1,179,686 |
| | - | 26,300 | - | - | - |
| | (1,167,367) | (1,022,320) | (926,715) | (830,453) | (950,217) |
| | - | - | - | - | - |
| | 20,151,830 | 19,068,335 | 17,822,096 | 16,619,032 | 15,391,156 |
| \$ | 315,908 | \$ 247,181 | \$ 228,643 | \$ 181,719 | \$ 207,296 |
| | - | - | - | - | - |
| | 1,167,367 | 1,022,320 | 926,715 | 830,453 | 950,217 |
| | 1,483,275 | 1,269,501 | 1,155,358 | 1,012,172 | 1,157,513 |
| \$ | 21,635,105 | \$ 20,337,836 | \$ 18,977,454 | \$ 17,631,205 | \$ 16,548,670 |
| \$ | 695,608 | \$ 1,246,707 | \$ (5,202,551) | \$ 1,764,090 | \$ (1,129,287) |
| | 684,671 | 605,228 | 560,955 | 41,136 | (718,570) |
| | - | - | - | - | - |
| \$ | 1,380,279 | \$ 1,851,935 | \$ (4,641,596) | \$ 1,805,226 | \$ (1,847,857) |

Fund Balances, Governmental Funds Last Ten Fiscal Years

(Modified accrual basis of accounting)

(Amounts in thousands)

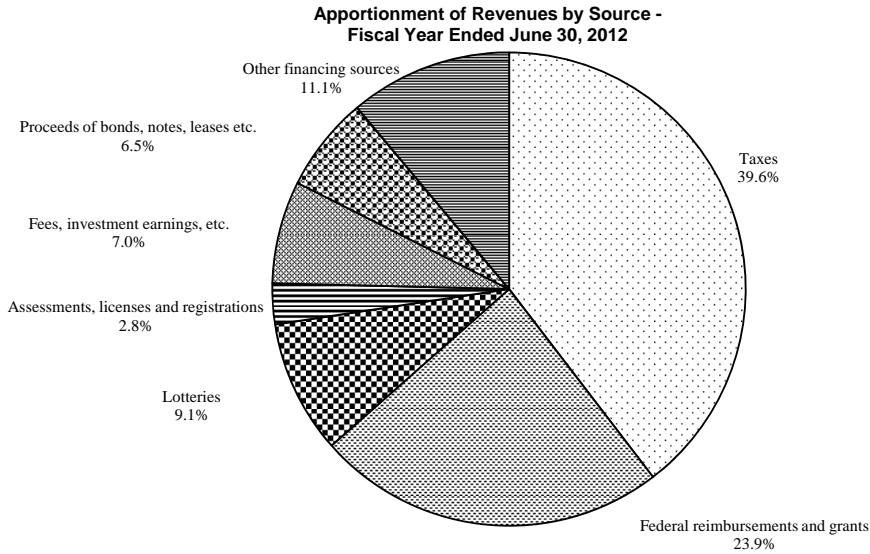
| | 2012 | 2011 | 2010* | 2009* | 2008* |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Unreserved general fund..... | \$ - | \$ - | \$ - | \$ 1,734,822 | \$ 3,171,278 |
| All Other Governmental Funds | | | | | |
| Reserved..... | - | - | - | 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 |
| Total Unreserved..... | - | - | - | 1,924,535 | 2,082,327 |
| Total all other governmental funds..... | - | - | - | 3,326,520 | 3,891,385 |
| Total governmental fund balances..... | \$ - | \$ - | \$ - | \$ 5,061,342 | \$ 7,062,663 |
| * 2010 has been restated for GASB 54 presentation. Years prior have not been restated. | | | | | |
| Fund balances (deficits) GASB54 : | | | | | |
| Nonspendable..... | \$ 914 | \$ 914 | \$ 5,914 | | |
| Restricted..... | 2,195,287 | 1,675,055 | 1,905,749 | | |
| Committed..... | 2,404,158 | 2,020,009 | 2,166,175 | | |
| Assigned..... | 574,621 | 750,462 | 156,483 | | |
| Unassigned..... | 1,143,978 | 821,188 | 351,395 | | |
| Total governmental fund balances..... | \$ 6,318,958 | \$ 5,267,628 | \$ 4,585,716 | | |

| 2007* | 2006* | 2005* | 2004* | 2003* |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 4,899,154 | \$ 4,922,074 | \$ 4,067,885 | \$ 2,497,447 | \$ 1,309,917 |
| 1,496,094 | 1,361,980 | 1,392,209 | 2,204,552 | 1,680,261 |
| 1,587,596 | 1,476,440 | 91,913 | 330,353 | 234,754 |
| (251,985) | (497,300) | (503,441) | (607,946) | (1,203,914) |
| 5,000 | - | - | - | - |
| 1,340,611 | 979,140 | (411,528) | (277,593) | (969,160) |
| 2,836,705 | 2,341,120 | 980,681 | 1,926,959 | 711,101 |
| \$ 7,735,859 | \$ 7,263,194 | \$ 5,048,566 | \$ 4,424,406 | \$ 2,021,018 |

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

(Amounts in millions)

| | 2012 | % Total | 2011 | % Total | 2010 | % Total | 2009 | % Total | 2008 | % Total |
|--|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Taxes..... | \$ 21,533 | 39.6 | \$ 20,854 | 38.7 | \$ 18,991 | 37.3 | \$ 18,354 | 36.9 | \$ 21,120 | 42.1 |
| Federal reimbursements..... | 8,934 | 16.4 | 10,066 | 18.8 | 9,453 | 18.5 | 9,392 | 18.9 | 7,037 | 14.0 |
| Federal grants..... | 4,051 | 7.5 | 4,311 | 8.0 | 4,097 | 8.0 | 3,510 | 7.0 | 2,681 | 5.4 |
| Lotteries..... | 4,944 | 9.1 | 4,631 | 8.6 | 4,628 | 9.1 | 4,650 | 9.3 | 4,915 | 9.8 |
| Assessments..... | 1,024 | 1.9 | 980 | 1.8 | 965 | 1.9 | 929 | 1.9 | 858 | 1.7 |
| Motor vehicle licenses and registrations..... | 474 | 0.9 | 461 | 0.9 | 463 | 0.9 | 383 | 0.8 | 376 | 0.7 |
| Fees, investment earnings, etc..... | 3,823 | 7.0 | 3,246 | 6.0 | 3,365 | 6.6 | 3,204 | 6.4 | 3,546 | 7.1 |
| Proceeds of general and special obligation bonds..... | 3,162 | 5.8 | 2,233 | 4.1 | 2,419 | 4.7 | 2,042 | 4.1 | 1,281 | 2.6 |
| Proceeds of refunding bonds..... | 388 | 0.7 | 888 | 1.6 | 538 | 1.1 | 390 | 0.8 | - | - |
| Proceeds of capital lease..... | 4 | - | 12 | - | 17 | - | 18 | - | 17 | - |
| Other financing sources..... | 6,033 | 11.1 | 6,216 | 11.5 | 6,043 | 11.9 | 6,916 | 13.9 | 8,305 | 16.6 |
| Total revenues and other financing sources..... | \$ 54,370 | 100.0 | \$ 53,898 | 100.0 | \$ 50,979 | 100.0 | \$ 49,788 | 100.0 | \$ 50,136 | 100.0 |



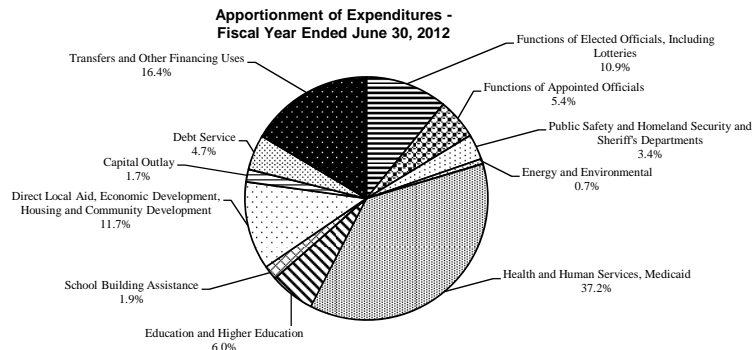
| 2007 | % Total | 2006 | % Total | 2005 | % Total | 2004 | % Total | 2003 | % Total |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 19,985 | 40.5 | \$ 18,754 | 39.7 | \$ 17,671 | 40.6 | \$ 16,133 | 36.4 | \$ 15,091 | 35.3 |
| 6,847 | 13.9 | 6,350 | 13.5 | 6,053 | 13.9 | 6,284 | 14.2 | 5,522 | 12.9 |
| 2,489 | 5.0 | 2,479 | 5.3 | 2,369 | 5.4 | 2,336 | 5.3 | 2,112 | 4.9 |
| 4,670 | 9.5 | 4,739 | 10.0 | 4,705 | 10.8 | 4,605 | 10.4 | 4,423 | 10.3 |
| 860 | 1.7 | 850 | 1.8 | 831 | 1.9 | 773 | 1.7 | 645 | 1.5 |
| 380 | 0.8 | 361 | 0.8 | 401 | 0.9 | 376 | 0.8 | 383 | 0.9 |
| 2,875 | 5.8 | 3,270 | 7.0 | 3,213 | 7.5 | 3,028 | 6.8 | 2,331 | 5.4 |
| 3,181 | 6.4 | 4,492 | 9.5 | 1,354 | 3.1 | 1,993 | 4.5 | 1,911 | 4.5 |
| 1,428 | 2.9 | 633 | 1.3 | 1,385 | 3.2 | 3,302 | 7.4 | 3,398 | 7.9 |
| 21 | - | 30 | 0.1 | 58 | 0.1 | 11 | - | - | - |
| 6,666 | 13.5 | 5,232 | 11.1 | 5,493 | 12.6 | 5,531 | 12.5 | 6,981 | 16.3 |
| <u>\$ 49,402</u> | <u>100.0</u> | <u>\$ 47,190</u> | <u>100.0</u> | <u>\$ 43,533</u> | <u>100.0</u> | <u>\$ 44,372</u> | <u>100.0</u> | <u>\$ 42,796</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)

| | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | |
|--|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | \$ | % Total | \$ | % Total | \$ | % Total | \$ | % Total | \$ | % Total |
| Legislature..... | \$ 58 | 0.1 | \$ 58 | 0.1 | \$ 59 | 0.1 | \$ 60 | 0.1 | \$ 58 | 0.1 |
| Judiciary..... | 757 | 1.4 | 771 | 1.4 | 769 | 1.5 | 797 | 1.5 | 796 | 1.6 |
| Inspector General..... | 3 | - | 4 | 0.0 | 4 | 0.0 | 3 | 0.0 | 3 | 0.0 |
| Governor and Lieutenant Governor..... | 7 | - | 5 | 0.0 | 5 | 0.0 | 8 | 0.0 | 9 | 0.0 |
| Secretary of the Commonwealth..... | 41 | 0.1 | 45 | 0.1 | 52 | 0.1 | 51 | 0.1 | 51 | 0.1 |
| Treasurer and Receiver-General..... | 5,282 | 9.9 | 5,084 | 9.6 | 4,862 | 9.4 | 5,097 | 9.8 | 5,089 | 10.0 |
| Auditor of the Commonwealth..... | 17 | - | 18 | 0.0 | 18 | 0.0 | 19 | 0.0 | 19 | 0.0 |
| Attorney General..... | 55 | 0.1 | 34 | 0.1 | 52 | 0.1 | 53 | 0.1 | 45 | 0.1 |
| Ethics Commission..... | 2 | - | 2 | 0.0 | 2 | 0.0 | 2 | - | 2 | - |
| District Attorney..... | 110 | 0.2 | 104 | 0.2 | 102 | 0.2 | 112 | 0.2 | 111 | 0.2 |
| Office of Campaign and Political Finance..... | 1 | - | 3 | 0.0 | 1 | 0.0 | 1 | - | 1 | - |
| Sheriff's Department..... | 529 | 1.0 | 514 | 1.0 | 394 | 0.8 | 296 | 0.6 | 295 | 0.6 |
| Disabled Persons Protection Commission..... | 2 | - | 2 | 0.0 | 2 | 0.0 | 3 | - | 2 | - |
| Board of Library Commissioners..... | 24 | - | 25 | 0.0 | 28 | 0.1 | 37 | 0.1 | 36 | 0.1 |
| Massachusetts Gaming Commission..... | 1 | - | - | - | - | - | - | - | - | - |
| Comptroller..... | 14 | - | 14 | 0.0 | 13 | 0.0 | 14 | 0.0 | 14 | 0.0 |
| Administration and finance..... | 1,949 | 3.7 | 1,852 | 3.3 | 1,686 | 3.3 | 1,709 | 3.4 | 1,528 | 3.1 |
| Energy and environmental..... | 351 | 0.7 | 368 | 0.7 | 403 | 0.8 | 352 | 0.7 | 312 | 0.6 |
| Housing and communities development..... | - | - | - | - | - | - | - | - | - | - |
| Early education and care..... | - | - | - | - | - | - | - | - | 560 | 1.1 |
| Health and human services..... | 7,301 | 13.6 | 6,791 | 12.8 | 6,655 | 12.9 | 6,684 | 12.9 | 6,423 | 12.6 |
| Transportation and public works..... | - | - | - | - | 474 | 0.9 | 389 | 0.8 | 347 | 0.7 |
| Massachusetts department of transportation..... | 1,679 | 3.1 | 2,086 | 3.9 | 1,209 | 2.3 | - | - | - | - |
| Executive office of education*..... | 3,069 | 5.8 | 3,232 | 6.1 | 2,968 | 5.8 | 2,920 | 5.6 | 2,205 | 4.3 |
| Massachusetts school building assistance..... | 975 | 1.8 | 791 | 1.5 | 973 | 1.9 | 657 | 1.3 | 765 | 1.5 |
| Higher education..... | - | - | - | - | - | - | - | - | 131 | 0.3 |
| Public safety and homeland security..... | 1,208 | 2.3 | 1,146 | 2.2 | 1,282 | 2.5 | 1,416 | 2.7 | 1,407 | 2.8 |
| Housing and economic development*..... | 999 | 1.9 | 1,082 | 2.0 | 1,060 | 2.1 | 793 | 1.5 | 710 | 1.4 |
| Labor and workforce development*..... | 455 | 0.9 | 478 | 0.9 | 447 | 0.9 | 398 | 0.8 | 308 | 0.6 |
| Elder affairs*..... | - | - | - | - | - | - | - | - | - | - |
| Consumer affairs*..... | - | - | - | - | - | - | - | - | - | - |
| Labor*..... | - | - | - | - | - | - | - | - | - | - |
| Medicaid..... | 11,708 | 22.0 | 12,124 | 22.8 | 10,678 | 20.8 | 10,843 | 20.9 | 9,770 | 19.2 |
| Pension..... | 801 | 1.5 | 744 | 1.4 | 587 | 1.1 | 647 | 1.2 | 368 | 0.7 |
| Direct local aid..... | 4,991 | 9.4 | 4,846 | 9.1 | 5,030 | 9.8 | 5,208 | 10.1 | 5,108 | 10.1 |
| Capital outlay: | | | | | | | | | | |
| Local aid..... | - | - | - | - | 1 | - | 3 | 0.0 | 10 | 0.0 |
| Capital acquisition and construction..... | 847 | 1.6 | 885 | 1.7 | 1,300 | 2.5 | 2,514 | 4.9 | 1,698 | 3.3 |
| Debt service..... | 2,504 | 4.7 | 2,220 | 4.2 | 2,407 | 4.7 | 2,410 | 4.7 | 2,486 | 4.9 |
| Other financing uses: | | | | | | | | | | |
| Payments to refunded bond escrow agent/principal on current refunding..... | 388 | 0.7 | 945 | 1.8 | 537 | 1.0 | 410 | 0.8 | - | - |
| Transfers..... | 7,189 | 13.5 | 6,947 | 13.1 | 7,395 | 14.4 | 7,887 | 15.2 | 10,141 | 20.0 |
| Total expenditures and other financing uses..... | \$ 53,319 | 100.0 | \$ 52,217 | 100.0 | \$ 51,455 | 100.0 | \$ 51,789 | 100.0 | \$ 50,810 | 100.0 |
| Change in Governmental Fund Balance..... | \$ 1,051 | | \$ 681 | | \$ (476) | | \$ (2,001) | | \$ (674) | |

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



| | 2007 | % Total | 2006 | % Total | 2005 | % Total | 2004 | % Total | 2003 | % Total |
|-----------|---------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ | 59 | 0.1 | \$ 55 | 0.1 | \$ 50 | 0.1 | \$ 51 | 0.1 | \$ 53 | 0.1 |
| | 799 | 1.6 | 660 | 1.5 | 580 | 1.4 | 577 | 1.4 | 568 | 1.3 |
| | 3 | 0.0 | 3 | 0.0 | 3 | - | 2 | - | 2 | - |
| | 5 | 0.0 | 5 | 0.0 | 5 | - | 5 | - | 5 | - |
| | 52 | 0.1 | 44 | 0.1 | 46 | 0.1 | 43 | 0.1 | 39 | 0.1 |
| | 4,712 | 9.6 | 4,803 | 10.7 | 4,706 | 11.0 | 4,535 | 10.8 | 4,446 | 10.3 |
| | 18 | 0.0 | 18 | 0.0 | 16 | - | 16 | - | 16 | - |
| | 62 | 0.1 | 52 | 0.1 | 70 | 0.2 | 52 | 0.1 | 55 | 0.1 |
| | 2 | - | 1 | - | 1 | - | 1 | - | 1 | - |
| | 102 | 0.2 | 94 | 0.2 | 84 | 0.2 | 86 | 0.2 | 85 | 0.2 |
| | 2 | - | 1 | - | 1 | - | 1 | - | 1 | 0.0 |
| | 272 | 0.6 | 247 | 0.5 | 216 | 0.5 | 218 | 0.5 | 215 | 0.5 |
| | 2 | - | 2 | - | 2 | - | 2 | - | 2 | 0.0 |
| | 10 | 0.0 | 8 | 0.0 | 7 | - | 6 | - | 6 | - |
| | - | - | - | - | - | - | - | - | - | - |
| | 14 | 0.0 | 14 | 0.0 | 12 | - | 8 | - | 8 | - |
| | 1,849 | 3.9 | 1,651 | 3.9 | 1,536 | 3.5 | 1,508 | 3.6 | 1,202 | 2.9 |
| | 318 | 0.6 | 282 | 0.6 | 238 | 0.6 | 225 | 0.5 | 236 | 0.5 |
| | 402 | 0.8 | 536 | 1.2 | 483 | 1.1 | 470 | 1.1 | 476 | 1.1 |
| | 518 | 1.1 | 482 | 1.1 | - | - | - | - | - | - |
| | 5,907 | 12.1 | 5,865 | 13.0 | 6,208 | 14.5 | 5,868 | 14.0 | 5,327 | 12.3 |
| | 350 | 0.7 | 282 | 0.6 | 316 | 0.7 | 189 | 0.5 | 218 | 0.5 |
| | - | - | - | - | - | - | - | - | - | - |
| | 2,048 | 4.2 | 1,978 | 4.4 | 2,990 | 7.0 | 1,587 | 3.8 | 1,546 | 3.6 |
| | 1,411 | 2.9 | 2,330 | 5.2 | - | - | - | - | - | - |
| | 126 | 0.3 | 106 | 0.2 | 114 | 0.3 | 99 | 0.2 | 111 | 0.3 |
| | 1,238 | 2.5 | 1,165 | 2.6 | 1,053 | 2.5 | 1,039 | 2.5 | 991 | 2.3 |
| | 512 | 1.0 | 384 | 0.9 | 346 | 0.8 | 376 | 0.9 | 29 | 0.1 |
| | 81 | 0.2 | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | 315 | 0.7 |
| | - | - | - | - | - | - | - | - | 55 | 0.1 |
| | - | - | - | - | - | - | - | - | 330 | 0.8 |
| | 9,044 | 18.5 | 8,151 | 18.1 | 7,706 | 18.0 | 6,909 | 16.5 | 6,177 | 14.3 |
| | 373 | 0.8 | 346 | 0.8 | 439 | 1.0 | 212 | 0.5 | 290 | 0.7 |
| | 5,072 | 10.4 | 4,674 | 10.4 | 4,515 | 10.5 | 4,861 | 11.6 | 5,103 | 11.8 |
| | 9 | 0.0 | 8 | 0.0 | 11 | - | 16 | - | 15 | - |
| | 1,724 | 3.5 | 1,754 | 3.9 | 1,863 | 4.3 | 2,120 | 5.1 | 2,526 | 5.8 |
| | 2,538 | 5.2 | 2,088 | 4.6 | 1,719 | 4.0 | 1,605 | 3.8 | 1,467 | 3.4 |
| | 1,520 | 3.1 | 633 | 1.4 | 1,153 | 2.7 | 2,833 | 6.8 | 3,398 | 7.9 |
| | 7,781 | 15.9 | 6,253 | 13.9 | 6,419 | 15.0 | 6,448 | 15.4 | 7,931 | 18.3 |
| <u>\$</u> | <u>48,935</u> | <u>100.0</u> | <u>\$ 44,975</u> | <u>100.0</u> | <u>\$ 42,908</u> | <u>100.0</u> | <u>\$ 41,968</u> | <u>100.0</u> | <u>\$ 43,245</u> | <u>100.0</u> |
| <u>\$</u> | <u>467</u> | | <u>\$ 2,215</u> | | <u>\$ 624</u> | | <u>\$ 2,403</u> | | <u>\$ (447)</u> | |

Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total personal income..... | \$ 352,243 | \$ 336,400 | \$ 324,680 | \$ 335,722 | \$ 322,543 |
| Unearned income..... | 83,338 | 81,190 | 78,336 | 80,365 | 71,529 |
| Farm earnings..... | 136 | 186 | 137 | 180 | 135 |
| Nonfarm earnings..... | 268,769 | 255,024 | 246,208 | 255,176 | 250,878 |
| Private earnings..... | 236,763 | 223,784 | 215,396 | 225,122 | 222,302 |
| Agricultural services, forestry, fishing..... | 409 | 383 | 376 | 383 | 405 |
| Mining..... | 124 | 97 | 101 | 181 | 301 |
| Construction..... | 12,526 | 11,687 | 11,717 | 13,671 | 14,900 |
| Manufacturing..... | 25,387 | 25,108 | 23,290 | 25,449 | 25,865 |
| Durable goods..... | 18,319 | 18,053 | 16,466 | 18,170 | 18,464 |
| Nondurable goods..... | 7,069 | 7,055 | 6,824 | 7,280 | 7,401 |
| Transportation and utilities..... | 6,604 | 6,208 | 6,029 | 6,235 | 5,891 |
| Wholesale trade..... | 13,082 | 12,501 | 12,458 | 13,412 | 13,025 |
| Retail trade..... | 12,891 | 12,599 | 12,255 | 12,545 | 12,960 |
| Services..... | 165,740 | 155,202 | 149,171 | 153,246 | 148,954 |
| Government..... | 32,006 | 31,240 | 30,812 | 30,054 | 28,577 |
| Federal, civilian..... | 5,426 | 5,431 | 5,314 | 5,157 | 5,045 |
| Military..... | 1,245 | 1,260 | 1,220 | 1,092 | 1,025 |
| State and local..... | 25,335 | 24,550 | 24,278 | 23,806 | 22,507 |
| Personal income tax revenue (fiscal year, statutory basis)..... | \$ 11,576 | \$ 10,110 | \$ 10,584 | \$ 12,484 | \$ 11,400 |
| Total personal income..... | \$ 352,243 | \$ 336,400 | \$ 324,680 | \$ 335,722 | \$ 322,543 |
| Average Effective Rate..... | 3.3% | 3.0% | 3.3% | 3.7% | 3.5% |
| Highest Earned Income Tax Rate..... | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% |

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

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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|----|----------------|-------------------|-------------------|-------------------|-------------------|
| \$ | 304,855 | \$ 282,368 | \$ 271,086 | \$ 258,600 | \$ 254,103 |
| | 65,384 | 55,211 | 51,966 | 52,227 | 51,123 |
| | 131 | 126 | 147 | 132 | 131 |
| | 239,340 | 227,030 | 218,974 | 206,242 | 202,849 |
| | 211,900 | 200,639 | 193,996 | 182,312 | 179,478 |
| | 396 | 400 | 371 | 315 | 299 |
| | 363 | 311 | 297 | 318 | 284 |
| | 15,193 | 14,460 | 13,976 | 13,223 | 13,301 |
| | 24,698 | 24,485 | 24,356 | 24,159 | 24,560 |
| | 17,639 | 17,539 | 17,547 | 17,175 | 17,772 |
| | 7,059 | 6,947 | 6,809 | 6,984 | 6,787 |
| | 5,706 | 5,456 | 5,388 | 5,226 | 5,141 |
| | 12,538 | 11,478 | 11,529 | 10,887 | 10,373 |
| | 12,952 | 13,188 | 12,900 | 12,472 | 11,919 |
| | 140,056 | 130,864 | 125,180 | 115,712 | 113,603 |
| | 27,439 | 26,392 | 24,978 | 23,930 | 23,370 |
| | 4,873 | 4,700 | 4,626 | 4,319 | 4,216 |
| | 1,005 | 1,009 | 934 | 897 | 733 |
| | 21,561 | 20,683 | 19,419 | 18,714 | 18,423 |
| \$ | 10,483 | \$ 9,690 | \$ 8,830 | \$ 8,026 | \$ 7,913 |
| \$ | 304,855 | \$ 282,368 | \$ 271,086 | \$ 258,600 | \$ 254,103 |
| | 3.4% | 3.4% | 3.3% | 3.1% | 3.1% |
| | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% |

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2010 and 2001

(Amounts, except income level are in thousands)

| <u>Calendar Year 2010 (or Fiscal Year 2011)</u> | | | | |
|--|--------------------------------|-----------------------------------|---|-----------------------------------|
| <u>Income Level</u> | <u>Number of Filers</u> | <u>Percentage of Total</u> | <u>Personal Income Tax Liability</u> | <u>Percentage of Total</u> |
| \$100,001 and higher | 594,699 | 17.1% | \$ 7,275,446 | 67.3% |
| \$75,001 - \$100,000 | 283,442 | 8.1% | 1,061,090 | 9.8% |
| \$50,001 - \$75,000 | 452,897 | 13.0% | 1,153,154 | 10.7% |
| \$25,001 - \$50,000 | 768,816 | 22.1% | 1,014,856 | 9.4% |
| \$10,001 - \$25,000 | 667,123 | 19.2% | 268,176 | 2.5% |
| \$10,000 and lower | 712,284 | <u>20.5%</u> | <u>28,389</u> | <u>0.3%</u> |
| Total | <u>3,479,261</u> | <u>100.0%</u> | <u>\$ 10,801,111</u> | <u>100.0%</u> |

| <u>Calendar Year 2001 (or Fiscal Year 2002)</u> | | | | |
|--|--------------------------------|-----------------------------------|---|-----------------------------------|
| <u>Income Level</u> | <u>Number of Filers</u> | <u>Percentage of Total</u> | <u>Personal Income Tax Liability</u> | <u>Percentage of Total</u> |
| \$100,001 and higher | 392,940 | 11.7% | \$ 4,146,368 | 52.8% |
| \$75,001 - \$100,000 | 269,025 | 8.0% | 1,017,446 | 12.9% |
| \$50,001 - \$75,000 | 457,963 | 13.7% | 1,195,224 | 15.2% |
| \$25,001 - \$50,000 | 844,532 | 25.2% | 1,174,501 | 14.9% |
| \$10,001 - \$25,000 | 697,666 | 20.8% | 309,926 | 3.9% |
| \$10,000 and lower | 684,687 | <u>20.6%</u> | <u>22,630</u> | <u>0.3%</u> |
| Total | <u>3,346,813</u> | <u>100.0%</u> | <u>\$ 7,866,095</u> | <u>100.0%</u> |

Source: Massachusetts Department of Revenue - 2010 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

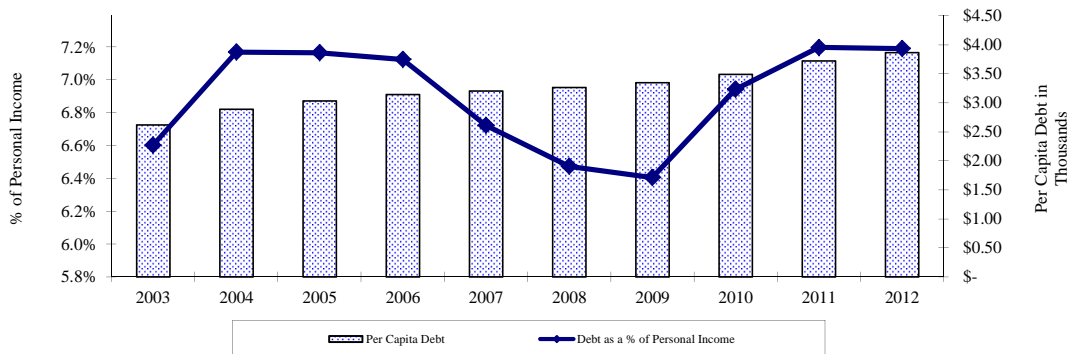
(Amounts in thousands, except for percentages)

| Fiscal year ended June 30 | Governmental Activities | | Business-Type Activities | | Total Primary Government | Prior Year Personal Income | Massachusetts Resident Population ⁽¹⁾ | Debt as a Percentage of Personal Income | Amount of Debt Per Capita |
|------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|--------------------------------|-------------------------------|--|--|------------------------------------|
| | Bonded Debt ⁽²⁾ | Capital Leases ⁽²⁾ | Bonded Debt ⁽²⁾ | Capital Leases ⁽²⁾ | | | | | |
| 2012 | \$ 21,907,683 | \$ 60,457 | \$ 3,370,389 | \$ 23,327 | \$ 25,361,856 | \$ 352,242,750 | 6,557 | 7.2% | \$ 3.87 |
| 2011 | 20,875,055 | 60,975 | 3,277,413 | 31,105 | 24,244,548 | 336,399,750 | 6,518 | 7.2% | 3.72 |
| 2010 | 19,726,507 | 76,608 | 2,731,124 | 40,924 | 22,575,163 | 324,680,250 | 6,469 | 7.0% | 3.49 |
| 2009 | 19,264,569 | 109,765 | 2,103,675 | 58,885 | 21,536,894 | 335,721,500 | 6,432 | 6.4% | 3.35 |
| 2008 | 18,734,440 | 83,741 | 2,026,551 | 67,631 | 20,912,363 | 322,542,500 | 6,410 | 6.5% | 3.26 |
| 2007 | 18,736,961 | 81,351 | 1,624,617 | 83,443 | 20,526,372 | 304,855,000 | 6,410 | 6.7% | 3.20 |
| 2006 | 18,461,406 | 74,552 | 1,519,727 | 87,798 | 20,143,483 | 282,367,750 | 6,403 | 7.1% | 3.15 |
| 2005 | 17,856,799 | 71,018 | 1,421,557 | 101,596 | 19,450,970 | 271,086,000 | 6,412 | 7.2% | 3.03 |
| 2004 | 17,382,172 | 57,900 | 1,049,095 | 73,971 | 18,563,138 | 258,600,250 | 6,423 | 7.2% | 2.89 |
| 2003 | 15,962,506 | 75,754 | 673,398 | 91,934 | 16,803,592 | 254,102,750 | 6,417 | 6.6% | 2.62 |

(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

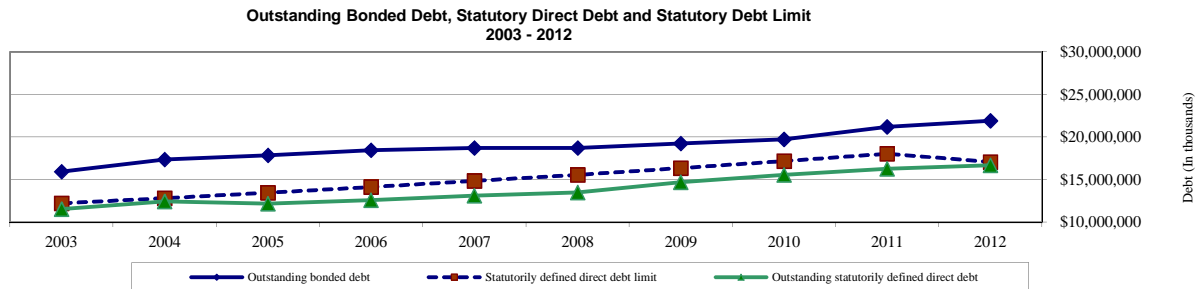
(Amounts in thousands)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Outstanding debt for statutory purposes as of June 30 (1)..... | \$ 21,907,683 | \$ 21,210,134 | \$ 19,726,507 | \$ 19,264,569 | \$ 18,734,440 |
| Less amounts excluded by statute: | | | | | |
| Central artery project bonds net proceeds..... | (1,342,841) | (1,356,606) | (1,243,250) | (1,401,581) | (1,434,654) |
| Accelerated bridge program..... | (1,095,385) | (676,125) | - | - | - |
| County debt assumed..... | (75) | (150) | (225) | (300) | (375) |
| (Premium)/discount and issuance costs..... | (474,130) | (335,078) | 216,688 | 216,890 | 123,335 |
| Grant anticipation notes (GANs) net proceeds(2)..... | (510,385) | (666,790) | (997,467) | (1,134,797) | (1,536,206) |
| School Modernization and Reconstruction Trust bonds..... | (795,009) | (824,279) | (894,502) | (921,751) | (946,285) |
| Convention center bonds net proceeds..... | (638,700) | (643,715) | (643,715) | (643,715) | (643,715) |
| MBTA forward funding bonds net proceeds..... | (207) | (44,472) | (165,559) | (231,000) | (309,203) |
| Special obligation gas bonds net proceeds..... | (337,545) | (371,665) | (419,785) | (456,984) | (482,953) |
| Outstanding statutorily defined direct debt..... | <u>\$ 16,713,406</u> | <u>\$ 16,291,254</u> | <u>\$ 15,578,692</u> | <u>\$ 14,691,332</u> | <u>\$ 13,504,384</u> |
| Statutorily defined direct debt limit*..... | <u>\$ 17,070,000</u> | <u>\$ 18,042,424</u> | <u>\$ 17,183,261</u> | <u>\$ 16,365,011</u> | <u>\$ 15,585,725</u> |
| Debt margin (debt limit less direct debt)..... | <u>\$ 356,594</u> | <u>\$ 1,839,771</u> | <u>\$ 1,604,569</u> | <u>\$ 1,673,679</u> | <u>\$ 2,081,341</u> |
| Debt margin as a percentage of direct debt limit..... | <u>2.1%</u> | <u>10.2%</u> | <u>9.3%</u> | <u>10.2%</u> | <u>13.4%</u> |

(1) Exclusive of the Massachusetts School Building Authority debt.

(2) Inclusive of crossover refunding amounts.

* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutorily defined debt limit, effective July 1, 2011, to \$17.070 billion.



| 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 18,736,961 | \$ 18,461,406 | \$ 17,856,799 | \$ 17,382,172 | \$ 15,962,506 |
| (1,462,870) | (1,476,287) | (1,336,741) | (1,066,638) | (1,386,869) |
| - | - | - | - | (10,600) |
| (450) | (525) | (600) | (675) | (855) |
| 102,048 | 112,673 | 70,937 | 1,120 | (68,718) |
| (1,666,690) | (1,789,876) | (1,908,015) | (1,908,015) | (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) |
| (617,226) | (647,551) | (792,148) | (1,347,882) | (748,124) |
| <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>\$ 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>\$ 1,710,647</u> | <u>\$ 1,537,418</u> | <u>\$ 1,278,249</u> | <u>\$ 363,359</u> | <u>\$ 645,352</u> |
| <u>11.5%</u> | <u>10.9%</u> | <u>9.5%</u> | <u>2.8%</u> | <u>5.3%</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)

| | 2012 | 2011 | 2010 | 2009 |
|--|---------------|---------------|--------------|--------------|
| Highway Bonds | | | | |
| For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010 and May 2012 are secured by a senior lien on 14.085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. 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. | | | | |
| Pre-2010 Bond Issues | | | | |
| Tax Receipts..... | \$ 190,129 | \$ 189,763 | \$ 188,666 | \$ 189,246 |
| Operating Expenses..... | N/A | N/A | N/A | N/A |
| Net Available Revenues..... | \$ 190,129 | \$ 189,763 | \$ 188,666 | \$ 189,246 |
| Annual Debt Service..... | \$ 58,939 | \$ 59,453 | \$ 58,931 | \$ 58,924 |
| Debt Service Coverage Ratio..... | 3.23 | 3.19 | 3.20 | 3.21 |
| Ratings History of Bonds* | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA |
| Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds) | | | | |
| Receipts..... | \$ 1,121,709 | \$ 626,619 | | |
| Operating Expenses..... | N/A | N/A | | |
| Net Available Revenues..... | \$ 1,121,709 | \$ 626,619 | | |
| Annual Debt Service..... | \$ 20,309 | \$ 14,318 | | |
| Debt Service Coverage Ratio..... | 55.23 | 43.76 | | |
| Ratings History of Bonds* | AAA, Aaa, AAA | AAA, Aaa, AAA | | |
| Convention Center Bonds | | | | |
| 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..... | \$ 94,234 | \$ 84,905 | \$ 75,432 | \$ 73,918 |
| Operating Expenses..... | N/A | N/A | N/A | N/A |
| Net Available Revenues..... | \$ 94,234 | \$ 84,905 | \$ 75,432 | \$ 73,918 |
| Annual Debt Service..... | \$ 36,345 | \$ 35,391 | \$ 36,296 | \$ 36,293 |
| Debt Service Coverage Ratio..... | 2.59 | 2.40 | 2.08 | 2.04 |
| Ratings History of Bonds* | A2, A | A2, A | A2, A | A2, A |
| Grant Anticipation Notes (GANS) | | | | |
| 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. | | | | |
| Pre-2010 GANS | | | | |
| Receipts..... | \$ 755,985 | \$ 623,410 | \$ 761,351 | \$ 828,956 |
| Operating Expenses..... | N/A | N/A | N/A | N/A |
| Net Available Revenues..... | \$ 755,985 | \$ 623,410 | \$ 761,351 | \$ 828,956 |
| Annual Debt Service..... | \$ 184,394 | \$ 188,379 | \$ 196,248 | \$ 204,788 |
| Debt Service Coverage Ratio..... | 4.10 | 3.31 | 3.88 | 4.05 |
| Ratings History of Bonds* | Aa3, AA | Aa3, AA | Aa3, AA | Aa3, AA |
| Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1)..... | \$ 41,691 | \$ 44,323 | \$ 43,040 | \$ 39,358 |
| December 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS) | | | | |
| Receipts..... | \$ 1,674,485 | \$ 909,546 | | |
| Operating Expenses..... | N/A | N/A | | |
| Net Available Revenues..... | \$ 1,674,485 | \$ 909,546 | | |
| Annual Debt Service..... | \$ 2,777 | \$ 2,039 | | |
| Debt Service Coverage Ratio..... | 603.07 | 446.01 | | |
| Ratings History of Bonds* | AAA, Aa2, AA+ | AAA, Aa2, AA+ | | |

(1) Source: The Federal Budget for Fiscal 2013, Historical Tables, Table 9.6 2012 is estimated. *Uninsured rating, if available.

| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|----|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ | 194,785 | \$ 148,047 | \$ 239,469 | \$ 196,210 | \$ 196,380 | \$ 194,232 |
| | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| \$ | 194,785 | \$ 148,047 | \$ 239,469 | \$ 196,210 | \$ 196,380 | \$ 194,232 |
| \$ | 56,535 | \$ 58,867 | \$ 56,545 | \$ 48,378 | \$ 124,751 | \$ 52,123 |
| | 3.45 | 2.51 | 4.24 | 4.06 | 1.57 | 3.73 |
| | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA | AA-, Aa3, AA |

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

| | | | | | | |
|----|------------|------------|------------|------------|------------|------------|
| \$ | 463,588 | \$ 462,484 | \$ 451,284 | \$ 449,331 | \$ 599,040 | \$ 507,716 |
| | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| \$ | 463,588 | \$ 462,484 | \$ 451,284 | \$ 449,331 | \$ 599,040 | \$ 507,716 |
| \$ | 211,709 | \$ 211,712 | \$ 211,712 | \$ 95,223 | \$ 93,466 | \$ 74,822 |
| | 2.19 | 2.18 | 2.13 | 4.72 | 6.41 | 6.79 |
| | Aa3, AA | Aa3, AA | Aa3, AA | Aa3, AA | Aa3, AA | Aa3, AA |
| \$ | 36,747 | \$ 34,373 | \$ 33,975 | \$ 31,433 | \$ 30,188 | \$ 30,379 |

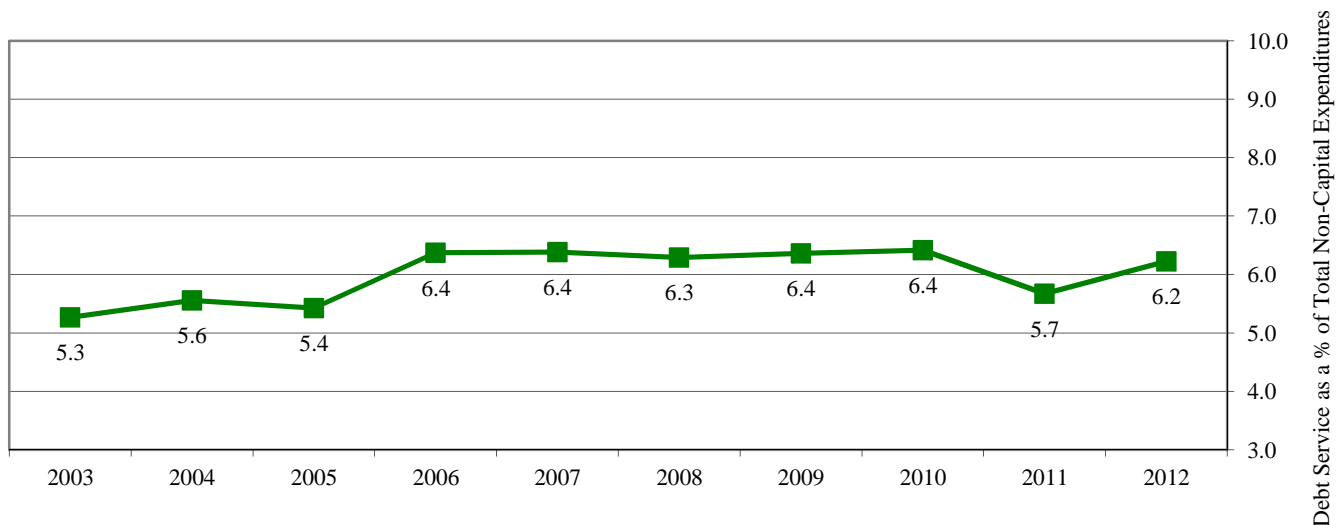
**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types**

(Amounts in thousands)

| Fiscal year ended June 30 | Debt service | Total Non-capital expenditures | Ratio (%) |
|------------------------------|-----------------|-----------------------------------|-----------|
| 2012 | \$ 2,504,253 | \$ 40,234,846 | 6.2 |
| 2011 | 2,219,667 | 39,126,733 | 5.7 |
| 2010 | 2,407,270 | 37,519,262 | 6.4 |
| 2009 | 2,409,590 | 37,878,441 | 6.4 |
| 2008 | 2,238,939 | 35,608,652 | 6.3 |
| 2007 | 2,165,502 | 33,918,074 | 6.4 |
| 2006 | 2,028,441 | 31,831,391 | 6.4 |
| 2005 | 1,719,489 | 31,699,602 | 5.4 |
| 2004 | 1,604,850 | 28,888,360 | 5.6 |
| 2003 | 1,467,007 | 27,857,856 | 5.3 |

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 2003- 2012



Component Units Revenue Bond Coverage For the Last Ten Fiscal Years

(Amounts in thousands)

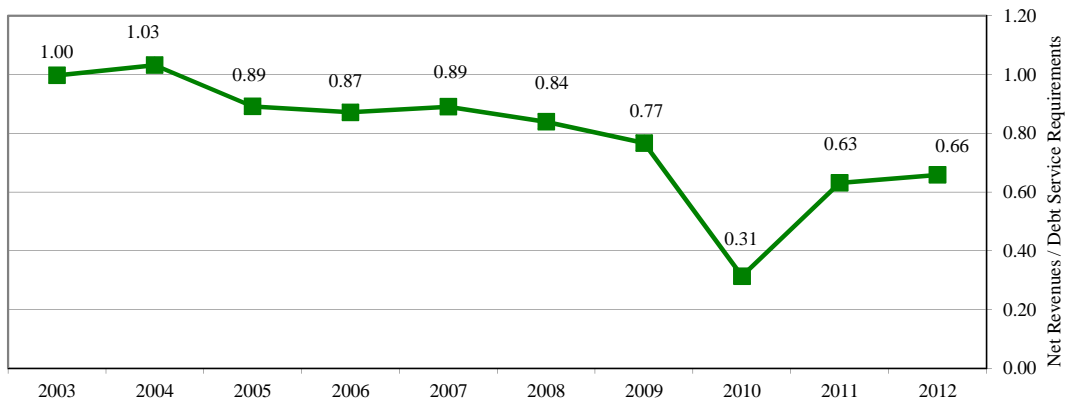
| Fiscal year ended June 30 | Net revenues ⁽¹⁾ | Debt service requirements ⁽²⁾ | Coverage Ratio (%) |
|------------------------------|-----------------------------|---|-----------------------|
| 2012 | \$ 998,905 | \$ 1,517,899 | 0.66 |
| 2011 | 738,470 | 1,170,149 | 0.63 |
| 2010 | 433,617 | 1,383,231 | 0.31 |
| 2009 | 805,316 | 1,050,655 | 0.77 |
| 2008 | 728,445 | 868,331 | 0.84 |
| 2007 | 870,919 | 978,819 | 0.89 |
| 2006 | 717,190 | 823,406 | 0.87 |
| 2005 | 648,282 | 727,316 | 0.89 |
| 2004 | 700,677 | 679,457 | 1.03 |
| 2003 | 663,234 | 665,538 | 1.00 |

(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 2003 - 2012



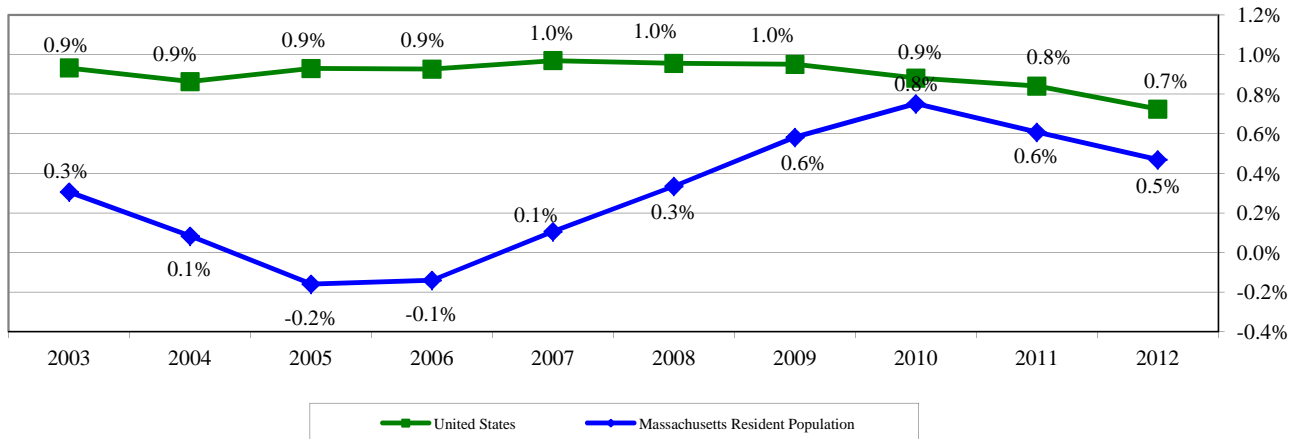
Ten-Year Schedule of Massachusetts and United States Resident Population

(Amounts in thousands)

| Beginning of Fiscal Year | United States | % Change | Massachusetts Resident Population ⁽¹⁾ | % Change | Massachusetts as % of U.S. |
|--------------------------|---------------|----------|--|----------|----------------------------|
| 2012 | 311,592 | 0.7% | 6,588 | 0.5% | 2.1% |
| 2011 | 309,350 | 0.8% | 6,557 | 0.6% | 2.1% |
| 2010 | 306,772 | 0.9% | 6,518 | 0.8% | 2.1% |
| 2009 | 304,094 | 1.0% | 6,469 | 0.6% | 2.1% |
| 2008 | 301,231 | 1.0% | 6,432 | 0.3% | 2.1% |
| 2007 | 298,380 | 1.0% | 6,410 | 0.1% | 2.1% |
| 2006 | 295,517 | 0.9% | 6,403 | -0.1% | 2.2% |
| 2005 | 292,805 | 0.9% | 6,412 | -0.2% | 2.2% |
| 2004 | 290,108 | 0.9% | 6,423 | 0.1% | 2.2% |
| 2003 | 287,625 | 0.9% | 6,417 | 0.3% | 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: - Census.Gov (US Census Bureau.).*

**Massachusetts and United States Estimated Year- to -Year Population Change
2003 - 2012**

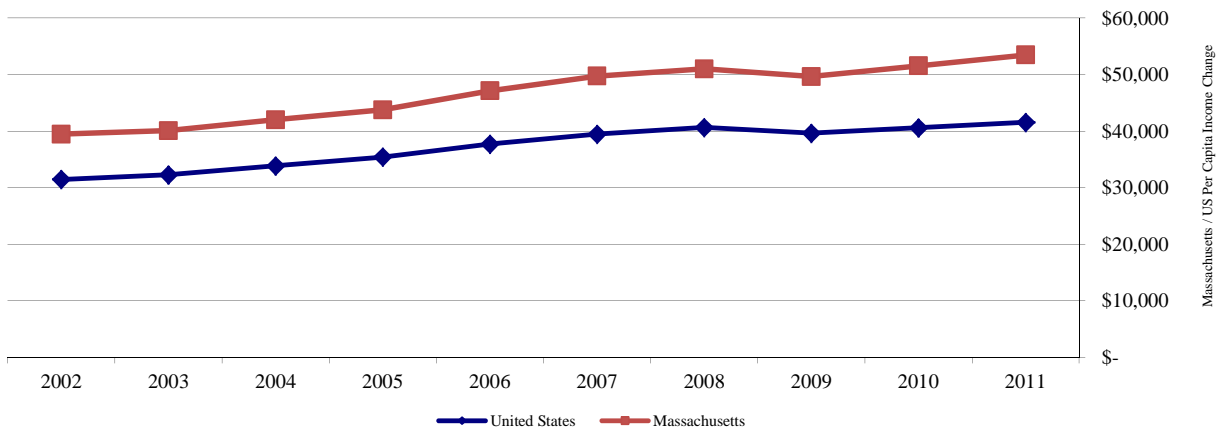


Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

| Calendar Year | United States | % Change | Massachusetts | % Change | Massachusetts as % of U.S. |
|---------------|---------------|----------|---------------|----------|----------------------------|
| 2011 | \$ 41,560 | 2.4% | \$ 53,471 | 3.7% | 128.7% |
| 2010 | 40,584 | 2.4% | 51,552 | 3.8% | 127.0% |
| 2009 | 39,626 | -2.6% | 49,643 | -2.7% | 125.3% |
| 2008 | 40,673 | 4.3% | 51,028 | 4.3% | 127.5% |
| 2007 | 39,458 | 4.7% | 49,727 | 5.5% | 126.0% |
| 2006 | 37,698 | 6.4% | 47,144 | 7.7% | 125.1% |
| 2005 | 35,424 | 4.6% | 43,757 | 4.1% | 123.5% |
| 2004 | 33,881 | 5.0% | 42,021 | 4.8% | 124.0% |
| 2003 | 32,271 | 2.6% | 40,083 | 1.6% | 124.2% |
| 2002 | 31,461 | 1.0% | 39,451 | 0.0% | 125.4% |

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 2002 - 2011**

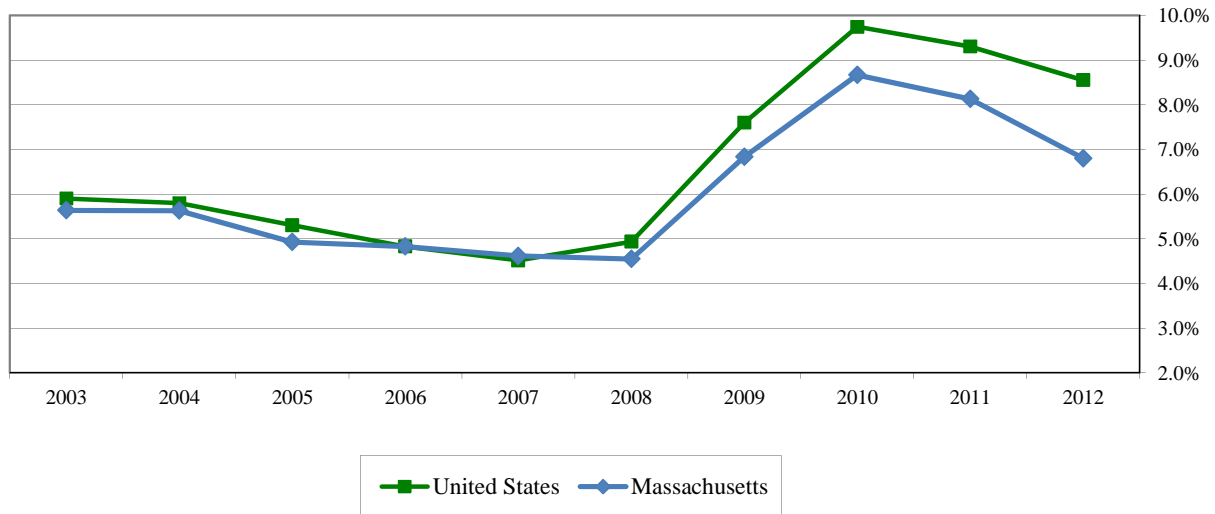


**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,
Unemployment and Unemployment Rates
For Massachusetts and the United States**

(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 % | |
| 2012 | 3,455 | 235 | 6.8% | 154,285 | 13,176 | 8.6% | 79.5% |
| 2011 | 3,497 | 284 | 8.1% | 153,654 | 14,288 | 9.3% | 87.4% |
| 2010 | 3,484 | 302 | 8.7% | 153,916 | 15,006 | 9.7% | 89.0% |
| 2009 | 3,479 | 238 | 6.8% | 154,555 | 11,758 | 7.6% | 89.9% |
| 2008 | 3,446 | 157 | 4.6% | 153,686 | 7,591 | 4.9% | 92.2% |
| 2007 | 3,432 | 158 | 4.6% | 152,436 | 6,898 | 4.5% | 102.2% |
| 2006 | 3,399 | 164 | 4.8% | 150,353 | 7,252 | 4.8% | 100.0% |
| 2005 | 3,376 | 166 | 4.9% | 148,241 | 7,861 | 5.3% | 92.6% |
| 2004 | 3,396 | 191 | 5.6% | 146,815 | 8,512 | 5.8% | 96.7% |
| 2003 | 3,421 | 193 | 5.6% | 145,740 | 8,600 | 5.9% | 95.6% |

Massachusetts and United States Unemployment Rates
Massachusetts and United States Average Unemployment Rates
FY2003 to FY2012



Source: - Federal Bureau of Labor Statistics, November 2012. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

Largest Private Sector Massachusetts Employers 2012 and 2003
(Alphabetical Order)

| <u>2012</u> | | | <u>2003</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.

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

| Functions / Programs | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------------|---------------|---------------|---------------|---------------|
| General government..... | 7,408 | 8,020 | 8,280 | 6,277 | 6,368 |
| Judiciary..... | 7,087 | 7,111 | 7,388 | 7,821 | 8,021 |
| Energy and environmental affairs..... | 2,685 | 2,737 | 2,783 | 2,955 | 2,928 |
| Health and human services..... | 21,042 | 21,011 | 21,401 | 22,605 | 23,322 |
| Transportation and construction..... | 4,230 | 4,209 | 4,127 | 3,043 | 2,892 |
| Education..... | 922 | 1,037 | 1,575 | 844 | 615 |
| Public safety and homeland security..... | 16,503 | 15,785 | 15,857 | 13,951 | 14,242 |
| Housing and economic development..... | 845 | 831 | 846 | 2,314 | 2,302 |
| Higher Education: | | | | | |
| University of Massachusetts..... | 14,159 | 14,159 | 14,031 | 13,814 | 13,651 |
| State universities..... | 4,747 | 4,487 | 4,282 | 4,650 | 4,519 |
| Community colleges..... | 4,834 | 4,684 | 4,276 | 4,781 | 4,775 |
| Totals..... | 84,462 | 84,070 | 84,846 | 83,055 | 83,636 |
| Percentage Change | 0.5% | -0.9% | 2.2% | -0.7% | 1.7% |

Source: Office of the State Comptroller

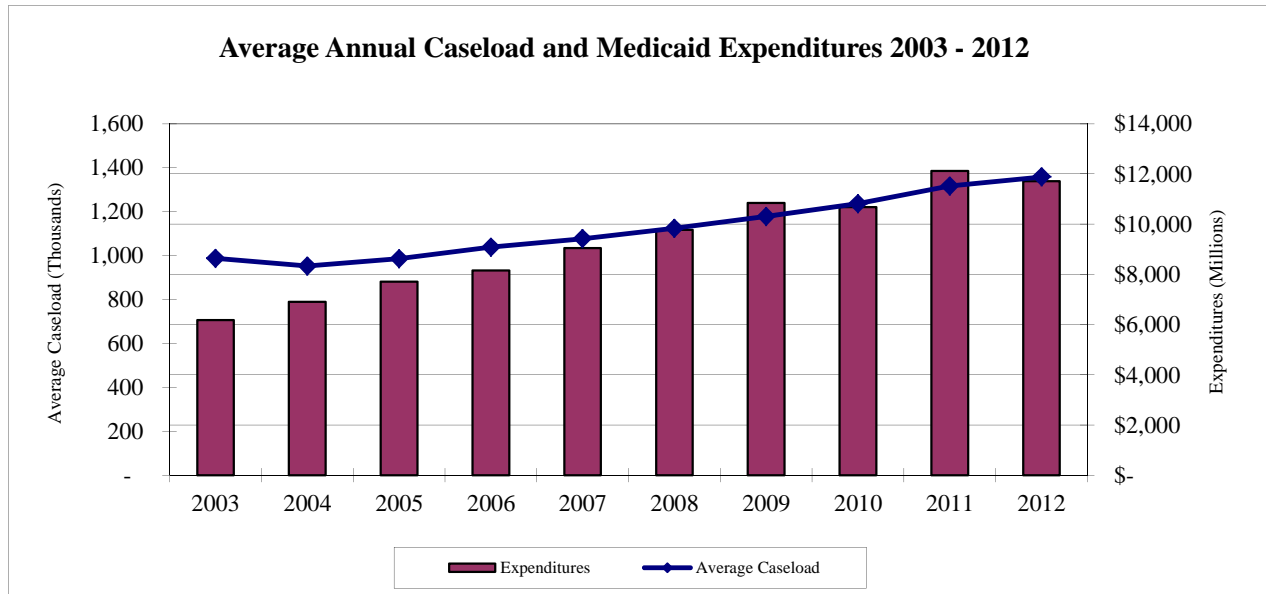
"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and constructions includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 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).

| 2007 | 2006 | 2005 | 2004 | 2003 | Change - 2012 from 2003 |
|---------------|---------------|---------------|---------------|---------------|----------------------------|
| 6,204 | 6,177 | 5,750 | 5,449 | 5,644 | 31.3% |
| 7,993 | 7,635 | 7,467 | 7,099 | 7,198 | -1.5% |
| 2,847 | 2,686 | 2,744 | 2,612 | 2,814 | -4.6% |
| 22,972 | 22,935 | 22,855 | 22,229 | 23,087 | -8.9% |
| 1,903 | 2,708 | 2,759 | 1,794 | 1,843 | 129.5% |
| 617 | 651 | 587 | 569 | 579 | 59.1% |
| 14,550 | 13,517 | 13,152 | 13,578 | 13,964 | 18.2% |
| 2,339 | 2,264 | 2,299 | 2,300 | 2,322 | -63.6% |
| 13,602 | 13,360 | 12,807 | 12,356 | 12,513 | 13.2% |
| 4,495 | 4,301 | 4,224 | 3,914 | 3,957 | 20.0% |
| 4,689 | 4,603 | 4,523 | 4,219 | 4,408 | 9.7% |
| 82,211 | 80,837 | 79,167 | 76,120 | 78,328 | 7.8% |
| 1.7% | 2.1% | 4.0% | -2.8% | -0.2% | |

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 |
|------------------------------|----------------------------|--------------------------|----------------------------------|
| 2012 | 1,358 | \$ 11,708 | \$ 8,622 |
| 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 |



**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 |
|---------------|------------|----------|-----------|--------|--------|----------|-------------|-------------|
| 2011 | 3,212 | 15,051 | 9,611 | 44,300 | 72,174 | 0.20% | 81.1% | 18.9% |
| 2010* | 3,210 | 15,047 | 9,607 | 44,169 | 72,033 | 0.20% | 81.1% | 18.9% |
| 2009 | 3,212 | 14,974 | 9,589 | 44,112 | 71,887 | 0.30% | 81.1% | 18.9% |
| 2008 | 3,212 | 14,976 | 9,591 | 43,893 | 71,672 | 0.41% | 81.1% | 18.9% |
| 2007 | 3,213 | 14,993 | 9,566 | 43,612 | 71,383 | 0.17% | 80.9% | 19.1% |
| 2006 | 3,209 | 14,958 | 9,567 | 43,527 | 71,261 | 0.31% | 81.0% | 19.0% |
| 2005 | 3,202 | 14,966 | 9,573 | 43,303 | 71,044 | 0.11% | 81.0% | 19.0% |
| 2004 | 3,202 | 14,929 | 9,584 | 43,260 | 70,967 | 0.96% | 81.0% | 19.0% |
| 2003 | 3,186 | 13,513 | 10,950 | 42,654 | 70,295 | 0.00% | 68.7% | 31.3% |
| 2002 | 3,186 | 13,513 | 10,950 | 42,654 | 70,295 | 0.21% | 68.7% | 31.3% |

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

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

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

| Functions / Programs | Survey Year 2012 | Survey Year 2011 | Survey Year 2010 | Survey Year 2009 | Survey Year 2008 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Government: | | | | | |
| Total Acreage | 3,039 | 2,993 | 2,373 | 2,495 | 1,858 |
| Number of Improvements | 279 | 255 | 227 | 240 | 163 |
| Gross square footage | 7,690,761 | 7,206,548 | 6,797,819 | 6,660,792 | 5,736,028 |
| Judiciary: | | | | | |
| Total Acreage | 148 | 141 | 141 | 141 | 145 |
| Number of Improvements | 73 | 68 | 68 | 69 | 71 |
| Gross square footage | 4,700,920 | 4,787,564 | 4,787,564 | 4,826,836 | 5,080,836 |
| Energy and environmental affairs | | | | | |
| Total Acreage | 642,799 | 627,286 | 623,952 | 606,662 | 591,511 |
| Number of Improvements | 2,191 | 2,182 | 2,183 | 2,170 | 2,162 |
| Gross square footage | 7,283,666 | 7,295,922 | 7,299,322 | 7,246,280 | 7,242,870 |
| Housing and economic development: | | | | | |
| Total Acreage | 2 | 2 | 2 | 2 | 2 |
| Number of Improvements | 5 | 6 | 6 | 6 | 6 |
| Gross square footage | 68,412 | 77,642 | 77,642 | 77,642 | 77,642 |
| Health and human services: | | | | | |
| Total Acreage | 6,407 | 6,449 | 7,196 | 7,166 | 7,259 |
| Number of Improvements | 855 | 866 | 866 | 902 | 980 |
| Gross square footage | 10,923,090 | 10,834,266 | 10,809,259 | 11,214,034 | 12,270,433 |
| Transportation and public works: | | | | | |
| Total Acreage | 6,972 | 7,013 | 6,966 | 7,050 | 6,930 |
| Number of Improvements | 919 | 918 | 918 | 915 | 915 |
| Gross square footage | 4,876,689 | 4,873,783 | 4,876,689 | 4,876,936 | 4,876,936 |
| Education: | | | | | |
| Total Acreage | 208 | 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 |
| Public safety and homeland security: | | | | | |
| Total Acreage | 19,172 | 19,158 | 18,693 | 18,331 | 18,324 |
| Number of Improvements | 990 | 991 | 1,029 | 1,028 | 1,023 |
| Gross square footage | 12,191,229 | 12,141,396 | 12,685,447 | 12,632,897 | 12,631,497 |
| Higher Education: | | | | | |
| Total Acreage | 7,254 | 7,178 | 7,169 | 7,151 | 7,149 |
| Number of Improvements | 1,007 | 987 | 975 | 937 | 940 |
| Gross square footage | 32,523,400 | 32,144,815 | 32,117,854 | 31,101,329 | 31,197,929 |
| Totals for Commonwealth (exclusive of Component Units): | | | | | |
| Total Acreage | 686,001 | 670,454 | 666,725 | 649,231 | 633,412 |
| Number of Improvements | 6,362 | 6,316 | 6,315 | 6,310 | 6,303 |
| Gross square footage | 80,530,519 | 79,634,288 | 79,723,948 | 78,909,098 | 79,386,523 |
| Percentage Change for Commonwealth: | | | | | |
| Acreage | 2.3% | 0.6% | 2.7% | 2.5% | 0.8% |
| Improvements | 0.7% | 0.0% | 0.1% | 0.1% | 0.1% |
| Gross square footage | 1.1% | -0.1% | 1.0% | -0.6% | 0.3% |

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.

| Survey Year 2007 | Survey Year 2006 | Survey Year 2005 | Survey Year 2004 | Survey Year 2003 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| 1,681 | 2,050 | 2,772 | 2,486 | 3,137 |
| 84 | 232 | 300 | 306 | 263 |
| 4,767,751 | 6,745,962 | 8,429,827 | 8,315,791 | 8,428,905 |
| 135 | 118 | 117 | 114 | 113 |
| 71 | 68 | 68 | 68 | 68 |
| 4,889,645 | 4,351,128 | 4,884,206 | 4,884,206 | 4,952,821 |
| 586,173 | 569,282 | 558,347 | 552,857 | 539,437 |
| 2,156 | 2,159 | 2,168 | 1,916 | 1,903 |
| 7,185,678 | 7,057,840 | 7,039,038 | 6,677,076 | 6,601,985 |
| 2 | 2 | 2 | 2 | 2 |
| 6 | 6 | 6 | 6 | 6 |
| 77,642 | 77,642 | 76,812 | 76,812 | 76,812 |
| 7,604 | 7,615 | 7,311 | 7,284 | 7,561 |
| 1,059 | 1,001 | 992 | 997 | 1,068 |
| 13,371,858 | 12,333,804 | 12,251,382 | 12,493,551 | 13,339,508 |
| 6,933 | 7,217 | 7,175 | 7,513 | 7,736 |
| 914 | 910 | 908 | 909 | 909 |
| 4,856,942 | 4,845,365 | 4,812,965 | 4,821,599 | 4,823,279 |
| 233 | 233 | 233 | 234 | 233 |
| 43 | 43 | 43 | 44 | 43 |
| 272,352 | 272,352 | 272,352 | 272,352 | 272,352 |
| 18,319 | 17,530 | 17,515 | 17,454 | 17,485 |
| 1,031 | 1,026 | 1,038 | 1,037 | 1,069 |
| 12,768,250 | 12,885,742 | 13,137,177 | 13,131,414 | 13,563,676 |
| 7,133 | 7,089 | 7,138 | 7,163 | 7,169 |
| 932 | 933 | 941 | 939 | 935 |
| 30,947,996 | 30,870,743 | 30,997,427 | 30,728,820 | 30,267,370 |
| 628,212 | 611,136 | 600,609 | 595,107 | 582,873 |
| 6,296 | 6,378 | 6,464 | 6,222 | 6,264 |
| 79,138,114 | 79,440,578 | 81,901,186 | 81,401,621 | 82,326,708 |
| 2.8% | 1.8% | 0.9% | 2.1% | 4.9% |
| -1.3% | -1.3% | 3.9% | -0.7% | -5.7% |
| -0.4% | -3.0% | 0.6% | -1.1% | -3.5% |

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

| Academic Year | Fall 2011 | Fall 2010 | Fall 2009 | Fall 2008 | Fall 2007 |
|--|---------------|---------------|---------------|---------------|---------------|
| <u>ENROLLMENT, TUITION AND FEES</u> | | | | | |
| <u>University System</u> | | | | | |
| Undergraduate (FTE)..... | 47,432 | 48,018 | 44,543 | 42,768 | 40,806 |
| Graduate (FTE)..... | 12,048 | 11,734 | 10,177 | 9,460 | 9,328 |
| System Enrollment..... | 59,480 | 59,752 | 54,720 | 52,228 | 50,134 |
| <u>State University System</u> | | | | | |
| Undergraduate (FTE)..... | 35,639 | 36,721 | 34,129 | 33,040 | 32,106 |
| Graduate (FTE)..... | 6,224 | 7,227 | 4,582 | 4,495 | 4,428 |
| System Enrollment..... | 41,863 | 43,948 | 38,711 | 37,535 | 36,535 |
| <u>Community College System</u> | | | | | |
| Undergraduate (FTE)..... | 64,586 | 64,971 | 60,602 | 54,228 | 51,257 |
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| <u>DEGREES CONFERRED</u> | | | | | |
| <u>University System</u> | | | | | |
| Certificates (MD's)..... | 348 | 246 | 329 | 280 | 270 |
| Associate's..... | 97 | 100 | 111 | 103 | 96 |
| Bachelors..... | 10,399 | 9,958 | 9,362 | 8,763 | 8,437 |
| Masters..... | 3,360 | 3,242 | 3,029 | 2,882 | 2,808 |
| Doctoral..... | 450 | 414 | 400 | 381 | 390 |
| Cert. of Adv. Grad. Study..... | 89 | 87 | 79 | 70 | 86 |
| Post-Bacc. Certificate..... | 659 | 550 | 509 | 173 | 133 |
| First Professional..... | 43 | 47 | - | - | - |
| Total Degrees..... | 15,445 | 14,644 | 13,819 | 12,652 | 12,220 |
| <u>State University System</u> | | | | | |
| Certificates..... | 29 | 35 | 572 | 605 | 597 |
| Bachelors..... | 7,722 | 7,190 | 6,886 | 6,621 | 6,328 |
| Masters..... | 2,404 | 2,376 | 2,467 | 2,343 | 2,318 |
| Cert. of Adv. Grad. Study..... | 143 | 116 | 170 | 157 | 224 |
| Post-Bacc. Certificate..... | 362 | 408 | 362 | 406 | 347 |
| Total Degrees..... | 10,660 | 10,125 | 10,457 | 10,132 | 9,814 |
| <u>Community College System</u> | | | | | |
| Certificates..... | 2,888 | 3,020 | 2,770 | 2,587 | 2,495 |
| Associates..... | 10,404 | 9,693 | 9,257 | 8,549 | 8,247 |
| Total Degrees..... | 13,292 | 12,713 | 12,027 | 11,136 | 10,742 |
| Total All Systems - Degrees..... | 39,397 | 37,482 | 36,303 | 33,920 | 31,986 |

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

| Fall 2006 | Fall 2005 | Fall 2004 | Fall 2003 | Fall 2002 | Change - 2011 from 2002 |
|---------------|---------------|---------------|---------------|---------------|----------------------------|
| 39,283 | 38,286 | 37,598 | 37,904 | 37,762 | 25.6% |
| 8,906 | 8,549 | 8,494 | 8,494 | 8,334 | 44.6% |
| 48,189 | 46,835 | 46,093 | 46,398 | 46,097 | 29.0% |
| 31,384 | 30,464 | 29,051 | 29,238 | 26,489 | 34.5% |
| 4,352 | 4,258 | 8,658 | 8,360 | 7,296 | -14.7% |
| 35,736 | 34,722 | 37,709 | 37,598 | 33,785 | 23.9% |
| 49,347 | 48,555 | 50,972 | 51,067 | 49,483 | 30.5% |
| 2007 | 2006 | 2005 | 2004 | 2003 | Change - 2012 from 2003 |
| 268 | 260 | 167 | 150 | 146 | 138.4% |
| 117 | 99 | 95 | 119 | 106 | -8.5% |
| 8,191 | 8,089 | 8,205 | 7,764 | 7,645 | 36.0% |
| 2,503 | 2,484 | 2,588 | 2,467 | 2,311 | 45.4% |
| 443 | 371 | 389 | 407 | 322 | 39.8% |
| 77 | 97 | 88 | 67 | 63 | 41.3% |
| 146 | 115 | 63 | 56 | 30 | 2096.7% |
| - | - | - | - | - | 100.0% |
| 11,745 | 11,515 | 11,595 | 11,030 | 10,623 | 45.4% |
| 615 | 556 | 540 | 490 | 535 | -94.6% |
| 6,207 | 5,885 | 5,549 | 5,525 | 5,545 | 39.3% |
| 2,201 | 2,190 | 2,048 | 2,157 | 2,053 | 17.1% |
| 151 | 179 | 142 | 108 | 121 | 18.2% |
| 431 | 361 | 369 | 361 | 392 | -7.7% |
| 9,605 | 9,171 | 8,648 | 8,641 | 8,646 | 23.3% |
| 2,297 | 2,422 | 2,278 | 2,281 | 1,947 | 48.3% |
| 7,942 | 8,024 | 7,993 | 7,670 | 7,184 | 44.8% |
| 10,239 | 10,446 | 10,271 | 9,951 | 9,131 | 45.6% |
| 31,589 | 31,132 | 30,514 | 29,622 | 28,400 | 38.7% |

Calculation of Transfers: Stabilization Fund

June 30, 2012
(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 41 of Chapter 239 of the Acts of 2012, which superseded certain parts of Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

| | <u>General</u> | <u>Commonwealth Transportation</u> | <u>Massachusetts Tourism</u> | <u>Total</u> |
|--|-------------------|--|----------------------------------|---------------------|
| Undesignated Budgeted Fund Balances Before Transfers | \$ 162,364 | \$ 101,199 | \$ 37,731 | \$ 301,294 |
| Fund Balance Deficit Elimination Transfers Per Sec. 41 of Ch. 239 of the Acts of 2012 | - | - | - | - |
| Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus) | 162,364 | 101,199 | 37,731 | 301,294 |
| Statutory Carryforwards and Transfers per Sec. 41 of Ch. 239 of the Acts of 2012 | | | | |
| 1/2 of 1% of Tax Revenue Carryforward to FY13 | (106,918) | | | (106,918) |
| \$15 Million Transfer from General Fund to Massachusetts Life Sciences Investment Fund | (15,000) | - | - | (15,000) |
| \$20 million Transfer from General Fund to Health Care Workforce Transformation Trust Fund | (20,000) | - | - | (20,000) |
| Distribution of \$2,703,119 from General Fund to City of New Bedford Public Schools | (2,703) | - | - | (2,703) |
| Transfers to General Fund to Enable \$40 Million General Fund Carryforward to FY13 | 22,257 | (16,212) | (6,045) | - |
| \$40 million General Fund Carryforward to FY13 | (40,000) | | | (40,000) |
| Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 41 of Ch. 239 of the Acts of 2012 | (0) | 84,987 | 31,686 | 116,673 |
| <u>Stabilization Balance Reconciliation:</u> | | | | |
| Balance as of July 1, 2011..... | | | | \$ 1,379,071 |
| Capital Gains Tax Transfers to Stabilization Fund during FY 2012 per Chapter 29, Section 5G..... | | | | - |
| Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H..... | | | | 375,021 |
| Investment income, certain tax revenues and other recoveries..... | | | | 11,761 |
| Less: Transfers from Stabilization Fund | | | | |
| Investment Income to General Fund per Sec. 155 of Ch. 68 of the Acts of 2011..... | | | (6,986) | |
| Change in Market Value to General Fund per Sec. 155 of Ch. 68 of the Acts of 2011..... | | | (3,422) | |
| To General Fund and Gaming Fund per Sec. 94 of Ch. 194 of the Acts of 2011..... | | | (20,000) | |
| To General Fund Per Sec. 155 of Ch. 68 of the Acts of 2011..... | | | (200,000) | |
| Total Transfers from Stabilization Fund during FY 2012..... | | | (230,408) | (230,408) |
| Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A..... | | | | - |
| Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above..... | | | | 116,673 |
| Stabilization Fund Balance as of June 30, 2012..... | | | | \$ 1,652,118 |

Calculation Of Transfers: Tax Reduction Fund

June 30, 2012
(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..... | \$ 1,652,118 |
| Allowable Stabilization Fund balance (per Schedule B)..... | <u>4,881,982</u> |
| Stabilization Fund excess, if any, transferable to Tax Reduction Fund..... | <u>\$ -</u> |

Part 2: Status of Stabilization Fund after transfers:

| | |
|--|---------------------|
| Stabilization Fund balance..... | \$ 1,652,118 |
| Transfer to Tax Reduction Fund..... | <u>-</u> |
| Stabilization Fund balance after transfer to Tax Reduction Fund..... | <u>\$ 1,652,118</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 (6th State): 1788
Population: 6,587,536

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



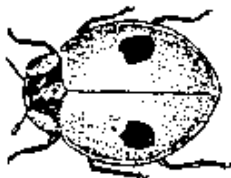
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

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