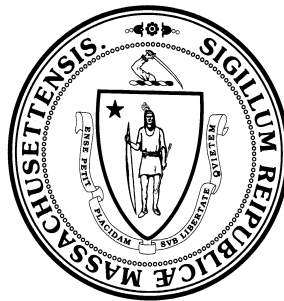


**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT**

**Dated November 1, 2016**

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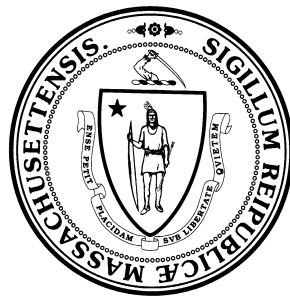
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# THE COMMONWEALTH OF MASSACHUSETTS



## CONSTITUTIONAL OFFICERS

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

## LEGISLATIVE OFFICERS

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

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# THE COMMONWEALTH OF MASSACHUSETTS

## INFORMATION STATEMENT

**November 1, 2016**

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 October 20, 2016. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibit B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2016 and the Commonwealth's Comprehensive Annual Financial Report (reported in accordance with generally accepted accounting principles (GAAP)) for the year ended June 30, 2015. 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/comptroller> by clicking on "Financial Reports" under the "Publications and Reports" tab.

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## THE GOVERNMENT

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

### Executive Branch

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

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

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

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

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

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

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

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

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

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

*State Comptroller.* Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth’s annual state single audit and manages the state accounting system. The Comptroller serves as a member of the Massachusetts Lottery Commission, the Inspector General Council, the Records Conservation Board and the State Retirees Benefits Trust. The Comptroller is appointed by the Governor for a term coterminous with the Governor’s and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Court Administrator of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms.

The Commonwealth’s annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and financial statements on a GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2016, attached hereto as Exhibit B, was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2015, attached hereto as Exhibit C, was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

## **Legislative Branch**

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

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

## **Judicial Branch**

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

## **Independent Authorities and Agencies**

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 34, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2015, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 34, as amended by 61, with 40 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2015 Basic Financial Statements in the CAFR, attached hereto as Exhibit C.

## **Local Government**

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

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

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

## **Initiative Petitions**

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures has been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. Initiative petitions may not make appropriations.

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 2, 2015, the Attorney General certified a petition to amend the state constitution to provide for an additional tax on certain income. See “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*.” On December 18, 2015, the Secretary of State certified that the petitioners had collected sufficient signatures for the petition to be transmitted to the Legislature. On May 18, 2016, the members of the Legislature jointly assembled in constitutional convention agreed to the amendment by a vote of 135-57. If the measure is similarly supported by at least 25% of the next Legislature, it will appear on the ballot at the November, 2018 statewide election.

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## COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

### Operating Fund Structure

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

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (formerly the Highway Fund), from which approximately 98.4% of the statutory basis budgeted operating fund outflows in fiscal 2016 (preliminary and subject to change) were made. The remaining approximately 1.6% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Community First Trust Fund, the Massachusetts Tourism Fund, and the Gaming Local Aid Fund. There were also 15 budgeted 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 Education Fund, the Gaming Economic Development Fund, the Temporary Holding Fund, the Substance Abuse Prevention and Treatment Fund, the Children and Families Protection Fund, the Home and Community-based Services Policy Lab Fund, the Regional Water Entity Reimbursement Fund, the Local Capital Projects Fund, the Local Aid Stabilization Fund, the Manufacturing Fund, and the Community College Fund.

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, the Tax Reduction Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Fund, the Public Safety Training Fund, the Community First Trust Fund and the Local Aid Stabilization Fund are excluded from the consolidated net surplus calculation.

### Overview of Operating Budget Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins with the executive branch early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than early March) with the Governor's budget submission to the Legislature for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplemental 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 Committee on Ways and Means 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 Committee on Ways and Means, 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 roll-call vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

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

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

### **Cash and Budgetary Controls**

The Commonwealth has in place controls designed to ensure that: (i) sufficient cash is available to meet the Commonwealth's obligations, (ii) state expenditures are consistent with periodic allotments of annual appropriations, and (iii) moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. Regarding periodic allotments, at the beginning of each fiscal year the Executive Office for Administration and Finance schedules the rate at which agencies will have access to funds included in their appropriation through a published periodic allotment calendar. Under state finance law, monthly appropriation allotments are ordinarily one-twelfth of the annual amount, but the Executive Office for Administration and Finance may provide for greater or lesser monthly allotments in appropriate cases. 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.

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

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital spending requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds roll-call vote of each house of the Legislature. The state constitution requires the Governor to recommend the terms of the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations. The Executive Office for Administration and Finance establishes a capital investment plan on or before July 1 each year pursuant to state law. The capital investment plan is an administrative guideline and is subject to amendment from time to time. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. Capital spending is tracked against the capital

investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are budgeted and monitored against anticipated receipts.

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

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

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

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before the last day of August, November, February and May. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2016 AND FISCAL 2017 – 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."

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 short-term liquidity vehicle or "cash portfolio" structured similarly to a money market fund and a short-term bond fund. For additional detail on the Massachusetts Municipal Depository Trust, see "FISCAL 2016 AND FISCAL 2017 – Cash Flows."

### **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 for processing of all financial transactions. The University of Massachusetts, the state universities and community colleges process only some transactions on MMARS, and the independent state authorities do not use the system. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, capital assets and other processes management.

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

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

which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

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

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

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

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

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

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 "government-wide perspective") revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net position.

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

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

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance and amounts due to municipalities and state authorities. See Exhibit C – Comprehensive Annual Financial Report for the year ended June 30, 2015; Page 3 and Notes to the Basic Financial Statements.

## **Audit Practices of State Auditor**

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

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

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

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## COMMONWEALTH REVENUES AND EXPENDITURES

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

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Commonwealth Transportation Fund (formerly the Highway Fund) and other budgeted operating funds. Revenues deposited in such funds will be referred to as budgeted operating revenues in this Information Statement. In fiscal 2016, on a statutory basis, approximately 57.8% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 26.1% of such revenues, with the remaining 16.1% 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 2012 through 2016. Projections for fiscal 2017 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, these projections 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 budgeted operating funds revenues and expenditures for fiscal 2012 through fiscal 2016 and projected revenues and expenditures (as of October 31, 2016) for fiscal 2017. Figures for fiscal 2017 are preliminary and subject to change. See "FISCAL 2016 AND FISCAL 2017."

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

	<u>Fiscal 2012 (2)</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (3)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Projected Fiscal 2017</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$400.1	\$170.4	\$297.1	\$190.0	\$226.0	\$126.0
Stabilization Fund	1,379.1	1,652.1	1,556.7	1,248.4	1,252.4	1,291.5
Undesignated	121.7	167.2	20.6	12.1	92.3	64.5
<b>Total</b>	<b><u>\$1,900.8</u></b>	<b><u>\$1,989.7</u></b>	<b><u>\$1,874.4</u></b>	<b><u>\$1,450.5</u></b>	<b><u>\$1,570.7</u></b>	<b><u>\$1,482.0</u></b>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	76.1	76.3	78.8	80.8	83.4	84.8
Banks	266.6	78.0	135.8	51.9	23.5	(5.2)
Cigarettes	451.0	440.1	520.7	510.3	505.6	498.5
Corporations	1,771.1	1,821.9	2,049.1	2,172.1	2,312.0	2,219.8
Deeds	158.8	188.9	223.1	238.3	281.9	289.5
Income	11,911.4	12,830.9	13,201.6	14,448.7	14,393.7	14,987.1
Inheritance and Estate	293.3	313.4	401.5	340.9	399.4	395.0
Insurance	363.6	426.0	368.1	391.4	406.8	401.0
Motor Fuel	661.9	651.6	732.2	756.1	766.6	780.4
Public Utilities	(35.9)	(11.5)	9.8	3.4	(1.6)	-
Room Occupancy	121.6	129.2	138.3	150.7	162.2	170.1
Sales:						
Regular	3,544.4	3,595.9	3,810.6	3,986.6	4,156.9	4,225.7
Meals	868.8	901.2	948.9	998.8	1,063.8	1,107.7
Motor Vehicles	646.1	666.9	736.4	789.1	833.9	856.8
Sub-Total-Sales	5,059.3	5,163.9	5,495.9	5,774.4	6,054.6	6,190.3
Miscellaneous	15.9	14.2	15.1	12.8	36.4	44.7
Settlements and Judgments (4)	-	-	-	-	-	125.0
<b>Total Tax Revenues (5)</b>	<b><u>\$21,114.7</u></b>	<b><u>\$22,123.0</u></b>	<b><u>\$23,370.0</u></b>	<b><u>\$24,932.2</u></b>	<b><u>\$25,424.5</u></b>	<b><u>\$26,181.0</u></b>
MBTA Transfer (6)	(779.1)	(786.9)	(799.3)	(970.6)	(986.2)	(992.2)
MSBA Transfer	(670.5)	(682.0)	(727.5)	(764.1)	(798.5)	(813.2)
Workforce Training Fund Transfer (7)	(21.4)	(22.2)	(21.2)	(23.6)	(22.8)	(23.1)
<b>Total Budgeted Operating Tax Revenues</b>	<b><u>\$19,643.7</u></b>	<b><u>\$20,631.9</u></b>	<b><u>\$21,822.0</u></b>	<b><u>\$23,173.8</u></b>	<b><u>\$23,616.9</u></b>	<b><u>\$24,352.5</u></b>
Federal Reimbursements	7,971.7	8,228.4	8,372.1	9,480.4	10,642.7	10,928.9
Departmental and Other Revenues	3,175.0	3,370.5	3,712.4	3,852.8	4,257.2	4,164.1
Inter-fund Transfers from Non-budgeted Funds and other sources (8)	1,756.1	1,548.1	1,555.2	1,729.5	1,848.7	2,257.9
<b>Budgeted Revenues and Other Sources</b>	<b><u>\$32,546.5</u></b>	<b><u>\$33,778.9</u></b>	<b><u>\$35,461.7</u></b>	<b><u>\$38,236.5</u></b>	<b><u>\$40,365.5</u></b>	<b><u>\$41,703.4</u></b>
Inter-fund Transfers	1,032.3	1,456.6	1,757.0	735.4	472.9	710.1
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>\$33,578.8</u></b>	<b><u>\$35,235.5</u></b>	<b><u>\$37,218.7</u></b>	<b><u>\$38,971.9</u></b>	<b><u>\$40,838.4</u></b>	<b><u>\$42,413.5</u></b>
<u>Expenditures and Uses</u>						
Direct Local Aid	4,929.5	5,115.7	5,292.5	5,420.4	5,567.7	5,728.8
Medicaid	10,431.1	10,799.7	11,900.8	13,655.2	14,851.0	15,435.2
Other Health and Human Services	4,710.5	4,768.9	4,979.5	5,300.8	5,433.0	5,732.0
Group Insurance	1,206.2	1,278.5	1,402.9	1,665.1	1,629.7	1,700.3
Department of Elementary and Secondary Education	435.9	489.2	515.3	514.9	539.3	621.1
Higher Education	937.1	990.8	1,091.5	1,161.6	1,194.3	1,163.5
Department of Early Education and Care	494.3	483.4	509.6	537.7	547.6	563.6
Public Safety	929.7	960.0	1,010.4	1,040.7	1,065.6	1,080.1
Energy and Environmental Affairs	186.8	201.8	215.0	225.0	221.4	239.7
Debt Service (9)	1,923.2	2,117.2	2,122.0	2,190.4	2,174.3	2,437.4
Post -Employment Benefits (10)	1,892.3	1,967.0	2,050.4	2,213.4	2,503.4	2,638.1
Other Program Expenditures	2,898.7	3,006.7	3,293.7	3,113.1	3,240.7	3,039.7
<b>Total - Programs and Services before transfers to Non-budgeted funds</b>	<b><u>\$30,975.3</u></b>	<b><u>\$32,178.7</u></b>	<b><u>\$34,383.6</u></b>	<b><u>\$37,038.3</u></b>	<b><u>\$38,968.0</u></b>	<b><u>\$40,379.5</u></b>

	<b>Fiscal 2012 (2)</b>	<b>Fiscal 2013</b>	<b>Fiscal 2014 (3)</b>	<b>Fiscal 2015</b>	<b>Fiscal 2016</b>	<b>Projected Fiscal 2017</b>
<b>Inter-fund Transfers to Non-budgeted Funds</b>						
Commonwealth Care Trust Fund (11)	614.9	661.2	390.1	-	-	-
Medical Assistance Trust Fund	220.9	390.9	395.0	71.0	665.6	736.2
Massachusetts Transportation Trust Fund	180.1	161.7	270.1	588.6	566.8	325.5
Other	466.4	501.8	446.7	418.4	253.8	490.3
<b>Total Inter-Fund Transfers to Non-Budgeted Funds</b>	<b><u>\$1,482.3</u></b>	<b><u>\$1,715.6</u></b>	<b><u>\$1,501.9</u></b>	<b><u>\$1,078.0</u></b>	<b><u>\$1,486.2</u></b>	<b><u>\$1,551.9</u></b>
<b>Budgeted Expenditures and Other Uses</b>						
Inter-fund Transfers	1,032.3	1,456.6	1,757.0	735.4	472.9	710.1
<b>Total Budgeted Expenditures and Other Uses (12)</b>	<b><u>\$3,489.9</u></b>	<b><u>\$35,350.9</u></b>	<b><u>\$37,642.5</u></b>	<b><u>\$38,851.7</u></b>	<b><u>\$40,927.1</u></b>	<b><u>\$42,641.6</u></b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses (13)</b>						
	<b><u>\$88.9</u></b>	<b><u>(\$115.4)</u></b>	<b><u>(\$423.8)</u></b>	<b><u>\$120.2</u></b>	<b><u>(\$88.7)</u></b>	<b><u>(\$228.1)</u></b>
<b>Ending Fund Balances</b>						
Reserved or Designated (14)	170.5	297.1	190.0	226.0	126.0	27.4
Stabilization Fund	1,652.1	1,556.7	1,248.4	1,252.4	1,291.5	1,302.9
Undesignated	167.1	20.6	12.1	92.3	64.5	(76.4)
<b>Total</b>	<b><u>\$1,989.7</u></b>	<b><u>\$1,874.4</u></b>	<b><u>\$1,450.5</u></b>	<b><u>\$1,570.7</u></b>	<b><u>\$1,482.0</u></b>	<b><u>\$1,253.9</u></b>

SOURCES: Fiscal 2012-2016, Office of the Comptroller; fiscal 2017, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Some fiscal 2012 amounts were reclassified to conform to the fiscal 2013 presentation in the Statutory Basis Financial Report.
- (3) Some fiscal 2014 amounts were reclassified to conform to the fiscal 2015 presentation in the Statutory Basis Financial Report.
- (4) For fiscal 2012 through 2016, tax and non-tax revenue from judgments and settlements in excess of \$10 million is included in specific tax and non-tax revenue categories. Those amounts totaled approximately \$404.4 million in fiscal 2012, \$133.8 million in fiscal 2013, \$436.5 million in fiscal 2014, \$226.1 million in fiscal 2015 and \$155.3 million in fiscal year 2016. The Executive Office for Administration and Finance currently estimates that these revenues will total \$125 million in fiscal 2017, with that revenue being available for budget, as it is below the threshold above which such revenue must be transferred to the Stabilization Fund per M.G.L., Chapter 29, Section 2H.
- (5) The total tax revenues for fiscal 2016 were \$482 million below the benchmark estimate of \$25.751 billion, plus \$155.3 million in certain settlements and judgments that are not included in the consensus revenue estimate. See note 4 above, and "FISCAL 2016 AND FISCAL 2017."
- (6) Beginning in fiscal 2015, the annual amount of sales tax receipts statutorily credited to the MBTA was increased by \$160 million. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes – Sales and Use Tax."
- (7) The fiscal 2012 budget adopted changes to the Workforce Training Fund, which is funded annually through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the Workforce Training Fund is not subject to annual appropriation, and the employer contributions are deposited directly in the Workforce Training Fund after their collection.
- (8) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds through fiscal 2012, abandoned property proceeds as well as other inter-fund transfers.
- (9) Fiscal 2016 budgeted Debt Service excludes \$113 million in payments made from a non-budgeted fund that in prior fiscal years was made and in fiscal 2017 will be made from the budgeted funds.
- (10) Fiscal 2016 and fiscal 2017 Post-Employment Benefits include all budgeted pension transfers and transfers to the State Retiree Benefit Trust Fund (SRBTF). Fiscal 2013 through 2015 Post-Employment Benefits include all budgeted pension transfers and transfers to the SRBTF, excluding transfers to the SRBTF attributable to tobacco settlement payments of approximately \$25 million in fiscal 2013, \$56 million in fiscal 2014 and \$73 million in fiscal 2015.
- (11) The fiscal 2016 and later budgets do not include appropriations of funding for the Health Connector because they assume that increased dedicated revenues in the CCTF, federal grants and self-generated revenues will be able to cover the full program and administrative costs.
- (12) Fiscal 2016 spending assumes a spending reduction of \$189 million for estimated gross payroll savings due to the early retirement incentive program.
- (13) In fiscal year 2017, legislatively authorized spending after veto overrides and anticipated deficiencies in certain accounts is projected to exceed current revenue estimates. In addition, unspent appropriations authorized to be carried forward into fiscal 2017 contribute to the overall deficiency in fiscal 2017. The Executive Office for Administration and Finance will continue to monitor revenues and spending and implement measures as necessary to ensure that the Commonwealth's budget will achieve statutory balance. See "FISCAL 2016 AND FISCAL 2017 – FISCAL 2017."
- (14) Consists largely of appropriations authorized to be expended in following year.

## State Taxes

The major components of state taxes are the income tax, which accounted for approximately 56.6% of total tax revenues in fiscal 2016, the sales and use tax, which accounted for approximately 23.8%, and the corporations and other business and excise taxes (including taxes on insurance companies and financial institutions), which accounted for approximately 10.6%. Other tax and excise sources accounted for the remaining 8.9% of total fiscal 2016 tax revenues.

The Governor annually files a “tax expenditure budget” that provides a list, description and revenue estimate of various tax credits, deductions and exemptions that represent departures from the basic provisions of the state tax code. See “Tax Credits and Other Incentives” below.

*Income Tax.* The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% was applied to most types of income from January 1, 2002 to January 1, 2012. Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be reduced gradually to 5.0%, contingent upon “baseline” state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes). Pursuant to this law, the state income tax rate on most classes of taxable income has been gradually reduced from 5.3% to its current rate of 5.1%. In order to trigger a reduction, baseline revenues are measured for fiscal year-over-fiscal year growth of at least 2.5 percentage points more than the rate of inflation, as measured by the consumer price index for all urban consumers in Boston. Inflation-adjusted baseline revenues must also demonstrate positive growth for consecutive three-month periods, beginning in August and ending in November, in comparison with the same three-month periods in the prior calendar year. If these triggers are met, the personal income tax rate on most classes of taxable income is reduced by 0.05% on the following January 1. Most recently, the state income tax rate on most classes of taxable income was reduced from 5.15% to 5.10%, effective January 1, 2016, as a result of satisfying these triggers. On August 30, 2016, the Department of Revenue certified that the fiscal 2016 inflation-adjusted baseline tax revenue growth over fiscal 2015 was 0.975%, and, therefore, the 2.5% fiscal 2016 growth threshold needed to trigger a further tax rate reduction was not met.

The Department of Revenue will undergo the same process during 2017 to determine whether the state income tax rate will be reduced further from 5.10% to 5.05%, effective January 1, 2018.

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, will be restored. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

The following table shows the Department of Revenue’s estimated impacts of the state income tax rate reductions described above in fiscal years 2013 through 2017, inclusive.

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

<u>Decrease from:</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016(1)</u>	<u>Fiscal 2017(1)</u>
5.3% to 5.25%	\$114	\$119	\$124	\$130	\$136
5.25% to 5.20%	-	65	133	138	145
5.20% to 5.15%	-	-	70	145	152
5.15% to 5.10%	-	-	-	74	152

Source: Department of Revenue.

(1) Income tax revenue impact in fiscal 2017 is projected and subject to change.

On September 2, 2015, the Attorney General certified an initiative petition to amend the state constitution to provide for an additional tax of 4.0% on that portion of annual taxable income in excess of \$1 million for tax years beginning on or after January 1, 2019. The \$1 million figure would be adjusted annually for inflation. See “THE GOVERNMENT – Initiative Petitions.”



*Capital Gains Tax.* 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%. The tax rate on gains from the sale of capital assets owned more than one year is currently 5.10% (effective January 1, 2016), and is equal to the state personal income tax rate. The 5.10% rate could further decline through the statutory mechanism described above. Current state finance law provides for tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold 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. Each quarter, the Department of Revenue certifies the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income after each quarter, and, once the threshold has been exceeded, the excess is transferred to the Commonwealth Stabilization Fund. The final certification of capital gains tax revenues is done in November following the end of the fiscal year, but no adjustment is made to Stabilization Fund transfers if the final amount of capital gains taxes certified differs from the amount certified the preceding July. 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 and is certified annually by the Department of Revenue each December for the ensuing fiscal year as part of the consensus revenue process. In fiscal years 2015 through 2016, the Commonwealth temporarily suspended the requirement to transfer capital gains tax collections above the threshold to the Stabilization Fund.

The fiscal 2017 capital gains collections threshold has been determined to be approximately \$1.128 billion. The fiscal 2017 budget includes language that requires the Comptroller to transfer all capital gains tax collections that are above \$1.278 billion to the Stabilization Fund in fiscal 2017. Current tax revenue estimates would not result in any transfer of capital gains tax revenues to the Stabilization Fund in fiscal 2017 under this provision. See "COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting."

*Sales and Use Tax.* 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 is 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.

Certain sales tax receipts are required to be credited to the Convention Center Fund. The Convention Center Fund is not included in the calculation of revenues for budgeted operating funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund.*"

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MSBA is the amount raised by a 1% sales tax (not including meals). The amount dedicated to the MBTA is a comparable amount, subject to an inflation-adjusted floor, plus \$160 million annually. Effective for fiscal 2015, the \$160 million adjustment was integrated into the inflation-adjusted floor, which was reset at \$970.6 million. The floor grows by the allowable base revenue growth (lesser of sales tax growth or inflation, but not greater than 3% and not less than 0%) thereafter.

The Commonwealth's receipts from the sales tax on account of motor vehicle sales (net of amounts required to be credited to the Convention Center Fund or dedicated to the MBTA or MSBA) are dedicated to the Commonwealth Transportation Fund.

*Business Corporations Tax.* Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 8.0%. The minimum tax is \$456.

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

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

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

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

*Other Taxes.* Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes and other tobacco products, alcoholic beverages, deeds, and hotel/motel room occupancy, as well as taxes on estates, among other tax sources.

*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 publishes a “tax expenditure budget” that provides a list, description and revenue estimate of various tax credits, deductions and exemptions that represent departures from the basic provisions of the state tax code. A summary of the tax expenditure budget published on January 27, 2016 appears below:

**Fiscal 2017 Tax Expenditure Budget Summary (in millions)**

<u>Tax Type</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>
Personal Income Tax	\$6,003.3	\$6,059.5	\$6,490.5	\$6,658.2	\$7,111.9
Corporate and Other Business Excise	1,652.1	1,681.5	1,834.1	1,908.3	1,958.1
Sales and Use Tax	<u>4,585.2</u>	<u>4,685.0</u>	<u>4,726.4</u>	<u>4,886.5</u>	<u>4,958.3</u>
<b>Total</b>	<b>\$12,240.6</b>	<b>\$12,426.0</b>	<b>\$13,051.0</b>	<b>\$13,453.0</b>	<b>\$14,028.3</b>

Under legislation approved June 16, 2008, in support of the life sciences industry, up to \$25 million per year in tax incentives is available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of \$250 million. The Department of Revenue estimates that this program resulted in revenue reductions of \$21.1 million in fiscal 2011, \$17.4 million in fiscal 2012, \$16.5 million in fiscal 2013, \$19.4 million in fiscal 2014 and \$22.5 million in fiscal 2015. The Massachusetts Life Sciences Center board has approved \$20 million in tax incentives that are expected to be utilized in fiscal 2017.

**Tax Revenue Forecasting**

Under state law, on or before October 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current fiscal year and the following fiscal year.

On or before January 15 of each year (January 31 in the first year of a new Governor), the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. State finance law requires that the consensus tax revenue forecasts be net of the amounts necessary to fully fund the pension system according to the applicable funding schedule, and to fulfill statutory commitments to the MBTA and the MSBA. These amounts are to be transferred without further appropriation from the General Fund. See “Sales and Use Tax,” above; “PENSION AND OPEB FUNDING” below.

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

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2012 to 2016. Figures for fiscal 2017 are projected. The figures include sales tax receipts dedicated to the MBTA and the MSBA and amounts transferred to the state pension system.

### Tax Revenue Forecasting (in millions) (1)

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Projected Fiscal 2017</u>
Consensus forecast	\$20,525	\$21,950	\$22,334	\$24,337	\$25,479	\$26,860
<b>Total taxes per enacted budget</b>	<u>\$20,615</u>	<u>\$22,011</u>	<u>\$22,797</u>	<u>\$24,387</u>	<u>\$25,611 (3)</u>	<u>\$26,231 (4)</u>
October revision	21,010	21,496 (2)	-	-	-	26,056
January revision	-	-	23,200	24,325	25,751	-
<b>Actual budgeted operating tax revenues</b>	<u>\$21,115</u>	<u>\$22,123</u>	<u>\$23,370</u>	<u>\$24,932</u>	<u>\$25,425</u>	-
Actual revenues as a percentage of consensus forecast	103%	101%	105%	102%	99.8%	N/A
Actual revenues as a percentage of total taxes per enacted budget	102%	101%	103%	102%	98.7%	N/A

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

- (1) Actual revenues through fiscal 2016 include tax-related settlements exceeding \$10 million each. Consensus forecasts for fiscal 2015 through 2017 do not include estimates for tax-related settlements and judgments exceeding \$10 million each.
- (2) Revised on December 4, 2012.
- (3) Consensus forecast adjusted for subsequent developments during fiscal 2016, other than tax-related settlements exceeding \$10 million each. See “Fiscal 2016 and Fiscal 2017 Tax Revenues; *Fiscal 2016*.”
- (4) Enacted budget, adjusted for veto overrides, assumes total taxes before transfers of \$26.231 billion, after resolving discrepancies between documents produced by the budget conference committee. This figure does not include \$125 million in assumed tax-related settlements exceeding \$10 million each.

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means agreed in January, 2016 on a potential gross state product (PGSP) estimate of 3.6% for calendar year 2017, which is identical to the PGSP figure that was adopted for calendar year 2016. The estimate of PGSP was developed through consultation with the Health Policy Commission, the Executive Office for Administration and Finance, the Department of Revenue, the House and Senate Ways and Means Committees and outside economists. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth’s health care cost growth benchmark. PGSP is a measure of the “full employment” output of the Commonwealth’s economy.

### Fiscal 2016 and Fiscal 2017 Tax Revenues

*Fiscal 2016.* On January 30, 2015, a fiscal 2016 consensus tax revenue estimate of \$25.479 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2016 consensus tax revenue estimate represented revenue growth of 4.8% actual from the then-current fiscal 2015 estimate of \$24.325 billion. The tax estimate assumed a reduction in the Part B rate to 5.10%, effective January 1, 2016. The \$25.479 billion figure included off-budget transfers of \$3.783 billion,

including pension funding and dedicated sales tax for the MBTA and MSBA. On July 17, 2015, the Governor approved the fiscal 2016 budget, which assumed tax revenues of \$25.611 billion (excluding tax revenue from judgments and settlements exceeding \$10 million each), based on the consensus estimate of \$25.479 billion adjusted for the incremental impact of certain tax initiatives enacted as part of the budget.

In addition, the budget contained an earned income tax credit rate increase and other tax enhancements with no impact on fiscal 2016 revenues, but with expected impacts on fiscal 2017 and later years. Subsequent to the enactment of the budget, the legislature passed a two-day sales tax holiday.

Fiscal 2016 monthly tax revenue benchmarks for July through December, 2015, inclusive, were based on the \$25.611 billion estimate. That estimate was revised upward by \$140 million on January 14, 2016, and monthly benchmarks for the period of January through June, 2016, inclusive, were based on the revised estimate of \$25.751 billion.

The following table shows the tax collections for fiscal 2016 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 2016 Tax Collections (in millions)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,671.1	\$74.9	4.7%	\$85.8	\$72.5	\$1,512.8
August	1,728.4	98.1	6.0	79.2	65.8	1,583.4
September	2,551.5	85.1	3.5	81.6	63.5	2,406.5
October	1,663.5	48.0	3.0	81.8	68.5	1,513.2
November	1,673.0	84.1	5.3	76.9	63.6	1,532.6
December	2,427.0	120.6	5.2	87.9	64.6	2,274.5
January	2,588.7	12.7	0.5	92.1	78.7	2,417.9
February	1,273.1	(264.1)	(17.2)	71.4	58.1	1,143.6
March	2,271.7	236.2	11.6	83.1	59.5	2,129.1
April	2,946.7	(111.3)	(3.6)	80.5	67.1	2,799.1
May	1,864.5	30.5	1.7	80.1	66.8	1,717.7
June	2,765.2	77.5	2.9	86.0	69.9	2,609.3
<b>Total (1)</b>	<b>\$25,424.5</b>	<b>\$492.4</b>	<b>2.0%</b>	<b>\$986.3</b>	<b>\$798.5</b>	<b>\$23,639.7</b>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

The tax revenue increase of approximately \$492 million from fiscal 2015 to fiscal 2016 is attributable, in large part, to an increase of approximately \$364 million, or 3.3%, in withholding collections, an increase of approximately \$280 million, or 4.9%, in sales and use tax collections, an increase of approximately \$143 million, or 5.6%, in corporate and business tax collections, an increase of approximately \$124 million, or 5.8%, in tax collections other than income, sales, corporate and business tax collections, which were partly offset by a decrease of approximately \$214 million, or 9.5%, in income tax return and bill payments, a decrease of approximately \$42 million, or 1.7%, in income tax cash estimated payments, and an increase of approximately \$163 million, or 11.5%, in income cash refunds. Fiscal 2016 tax collections (not including the \$155.3 million in tax-related settlements) totaled \$25.269 billion, which reflects an increase of \$552 million, or 2.2%, from fiscal 2015 (not including large tax settlements received in such year); these collections were approximately \$482 million below the benchmarks associated with the revised fiscal 2016 tax revenue estimate of \$25.751 billion.

*Capital Gains and Settlements.* Under state law, fiscal 2016 tax revenues from realized capital gains exceeding \$1.087 billion would have been required to be transferred to the Stabilization Fund, but that transfer was suspended for fiscal 2016. On July 21, 2016, the Department of Revenue certified that the Commonwealth collected \$1.370 billion in capital gains tax during fiscal 2016.

On July 8, 2016, the Department of Revenue and the Office of the Attorney General jointly certified that fiscal 2016 tax-related settlement and judgment payments totaled \$155.3 million and there were no non-tax related settlement and judgment payments.

*Tax Amnesty Programs.* In fiscal 2016, the state implemented a two-month tax amnesty program. The program collected approximately \$136.3 million.

*Fiscal 2017.* On December 16, 2015, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees conducted a hearing on state tax revenue estimates for fiscal 2017. On January 14, 2016, a fiscal 2017 consensus tax revenue estimate of \$26.860 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 2017 consensus tax revenue estimate represented actual revenue growth of 4.3% from the revised fiscal 2016 estimate of \$25.751 billion. The \$26.860 billion estimate assumed that another income tax rate reduction trigger would go into effect January 1, 2017, lowering the state’s Part B personal income tax rate from 5.1% to 5.05%. Of the forecasted \$26.860 billion in fiscal 2017, an estimated \$1.484 billion was projected to come from taxes on capital gains. The \$26.860 billion figure included off-budget transfers of \$2.198 billion for pension funding, \$1.001 billion in dedicated sales tax receipts for the MBTA, \$867.1 million in dedicated sales tax receipts for the MSBA and \$21.4 million for the Workforce Training Fund. It did not include a previously legislated off-budget transfer of approximately \$44 million for the Massachusetts Tourism Fund. The total amount of off-budget transfers was \$4.088 billion excluding the allocation to the Tourism Fund. Accordingly, after taking into account these off-budget transfers, the Secretary and Committee chairs agreed that \$22.772 billion would be the maximum amount of tax revenue available for the fiscal 2017 budget, and that they would base their respective budget recommendations on that number.

As a result of the Commonwealth’s relatively slow tax filing season in the spring of 2016, and after consulting with the Secretary of Administration and Finance, the Department of Revenue and independent economists, the House and Senate budget conferees revised the estimate of tax collections for fiscal 2017 downward. The budget as signed by the Governor assumed total taxes before transfers of \$26.234 billion, or \$750 million less than the January consensus tax revenue estimate, plus \$124 million in other adjustments. Those adjustments reflected the revised expectations that another income tax rate reduction would not be triggered on January 1, 2017, that only \$7 million in room occupancy taxes would be credited to the Massachusetts Tourism Fund, and that the life sciences tax credit would be capped at \$20 million. *See “FISCAL 2016 AND FISCAL 2017–Fiscal 2017.”* After enactment of the budget and veto overrides, \$10 million of room occupancy taxes will be credited to the Massachusetts Tourism Fund. Accordingly, revenue benchmarks for fiscal 2017 will total \$26.231 billion, including revenues dedicated to the MBTA, the MSBA and the Workforce Training Fund.

Preliminary tax revenues (including large tax-related settlements) for the first three months of fiscal 2017, ended September 30, 2016, totaled \$6.198 billion, an increase of approximately \$246.7 million, or 4.1% over the same period in fiscal 2016. The following table shows the tax collections for the first three months of fiscal 2017 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

**Fiscal 2017 Tax Collections (in millions)**

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,705.4	\$34.3	2.1%	\$84.8	\$71.5	\$1,549.0
August	1,737.0	8.6	0.5	79.9	66.6	1590.6
September (1)	2,755.2	203.7	8.0	83.3	67.6	2,604.3
<b>Total (2)</b>	<b><u>6,197.7</u></b>	<b>246.7</b>	<b><u>4.1%</u></b>	<b><u>248.0</u></b>	<b><u>205.7</u></b>	<b><u>5,743.9</u></b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not sum due to rounding.

The year-to-date tax revenue increase of approximately \$246.7 million through September, 2016 from the same period in fiscal 2016 is attributable, in large part, to an increase of approximately \$156.6 million, or 5.9%, in withholding collections, an increase of approximately \$84.2 million, or 15.9%, in corporate and business tax collections, and an increase of approximately \$35.8 million, or 2.3%, in sales and use tax collections, which were partly offset by a decrease of approximately \$47.3 million, or 7.5% in income tax cash estimated payments. Year-to-date collections from large tax and non-tax related settlements and judgments exceeding \$10 million each totaled

\$13.5 million. Excluding these payments, year-to-date fiscal 2017 tax collections through September were approximately \$9.1 million below the year-to-date benchmark associated with the fiscal 2017 tax revenue estimate of \$26.231 billion.

On October 14, 2016, the Secretary of Administrative and Finance revised the tax revenue projection downward by \$175 million to \$26.056 billion to reflect slower-than-expected growth in sales tax collections.

### 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 2016 were \$10.643 billion and are projected to be \$10.929 billion in fiscal 2017.

Departmental and other non-tax revenues are derived from a large number of sources, including but not limited to fees and assessments for services, licenses, tuition and reimbursements. For fiscal 2016, departmental and other non-tax revenues were \$4.258 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2016 included \$1.086 billion in drug rebates, recoveries and other fees, \$588.6 million for Registry of Motor Vehicles fees, fines and assessments, \$240.7 million from filing, registration and other fees paid to the Secretary of State's office and \$835.7 million in reimbursements from cities, towns and non-state entities for retiree benefits.

*Lottery Revenues.* For the budgeted operating funds, inter-fund transfers include transfers of net operating revenues from the State Lottery and Gaming Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of \$1.075 billion, \$1.050 billion, \$1.069 billion, \$1.086 billion and \$1.092 billion in fiscal 2012 through 2016, respectively. Under state law, the net balance in the State Lottery and Gaming Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to fund monthly local aid payments to cities and towns.

The following table shows Lottery revenues and profits for fiscal 2017 to date.

#### Fiscal 2017 Monthly Lottery Revenues and Profits (in thousands) (1)

<u>Month</u>	<u>Revenues</u>	<u>Prizes</u>	<u>Subtotal Operating Expenses</u>	<u>Operating Revenues</u>	<u>Administrative Expenses</u>	<u>Net Profit before Distributions</u>
July	\$430,022	\$311,580	\$24,801	\$93,641	\$3,479	\$90,162
August	470,207	330,739	27,139	112,328	4,681	107,647
September	371,986	274,357	21,305	76,324	6,667	69,657
<b>Total</b>	<b>\$1,272,215</b>	<b>\$916,676</b>	<b>\$73,245</b>	<b>\$282,293</b>	<b>\$14,826</b>	<b>\$267,466</b>
YTD prize accrual		2,655		(2,655)		(2,655)
<b>Adj Totals</b>	<b>\$1,272,215</b>	<b>\$919,332</b>	<b>\$73,245</b>	<b>\$279,638</b>	<b>\$14,826</b>	<b>\$264,811</b>

Source: State Lottery Commission; Monthly values from the State Lottery Commission Statement of Operations.

(1) Figures are preliminary.

A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2017.

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

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2017 (1)	\$5,177,633	\$1,067,814	\$968,294
2016	5,233,931	1,092,130	989,411
2015	5,014,535	1,086,469	985,879
2014	4,863,373	1,069,958	974,562
2013	4,850,482	1,050,128	955,801
2012	4,741,417	1,074,927	983,786

Source: State Lottery Commission

(1) Fiscal 2017 figures are projected. Minor adjustments to Lottery revenues are reported several times a year based upon trends.

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

The Commonwealth’s allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%, which equals more than \$8.962 billion through fiscal 2024, subject to adjustments, reductions and offsets. However, since fiscal 2006 certain amounts have been withheld from each year’s payments by tobacco manufacturers who claim that because of certain developments they are entitled to reduce such payments under the master settlement agreement. Those withheld amounts have ranged from \$21 million to \$35 million to the Commonwealth in the period from 2006 through 2012, inclusive. A smaller amount has been withheld for 2013 through 2016, inclusive. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See “LEGAL MATTERS – Other Revenues.” The Commonwealth was also awarded \$414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states’ particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017, inclusive.

From fiscal 2003 through fiscal 2012, all payments received by the Commonwealth pursuant to the master settlement agreement were deposited in the General Fund. Since fiscal 2012, state law has stipulated that a portion of annual tobacco settlement revenues be deposited into the State Retiree Benefit Trust Fund. See “PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB).”

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

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

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6 (2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
2012	-	253.6	253.6
2013	-	253.5	253.5
2014	-	282.1	282.1
2015	-	245.8	245.8
2016	-	257.6	257.6
<b>Total</b>	<b><u>\$434.0</u></b>	<b><u>\$3,882.9</u></b>	<b><u>\$4,316.9</u></b>

SOURCE: Office of the Comptroller.

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

(2) Payments received for both 1999 and 2000.

*Settlements and Judgments.* State finance law provides that any one-time settlement or judgment amounting to \$10 million or more is to be deposited in the Stabilization Fund to the extent that the total of all such settlements and judgments in a fiscal year exceeds the average of such totals for the five preceding fiscal years. The threshold applicable in fiscal 2017 is \$271 million (average of fiscal 2012 through fiscal 2016).

On September 6, 2016, the Commissioner of Revenue and the Attorney General certified that the Commonwealth had not received any settlement and judgment payments during the first two months of fiscal 2017. The next certification, which will be issued early November, will reflect settlements received through October 31, 2016.

*Gaming.* On November 22, 2011 the Governor approved legislation that authorized 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 set by the gaming commission, must be at least \$85 million per casino (a “Category 1” license) and \$25 million for the slot facility (a “Category 2” license). According to the Massachusetts Gaming Commission, aggregate state tax revenues from gaming licenses are expected to total approximately \$300 million per year once the facilities are operational.

The Massachusetts Gaming Commission entered into agreements with the Category 1 licensees in two of the three regions, pursuant to which the licensees each received a license effective on November 7, 2014. The \$85 million license fees were paid by each licensee in November, 2014. The facility in Springfield is expected to be operational in 2018; the facility in Everett is expected to be operational in 2019. In March, 2016, the Mashpee Wampanoag tribe announced that it would commence construction of a tribal resort casino in the third region, based upon the assumed power of the U. S. Secretary of the Interior to take land into trust for the tribe. On April 28, 2016, the commission voted to deny an application for a Category 1 license in that region. On July 28, 2016, in the case of *Littlefield v. the U. S. Department of the Interior*, the U. S. District Court held that the Secretary of the Interior lacked the authority to take land into trust for the Mashpee Wampanoag tribe and remanded the matter back to the Secretary for further proceedings consistent with the opinion as well as the declaratory judgment entered. The



Bureau of Indian Affairs filed a motion for reconsideration, which was denied by the court, and the Mashpee Wampanoag filed a motion to intervene, which was granted. The Commission will continue to monitor this matter.

The Category 2 slot facility opened on June 24, 2015. In fiscal 2016, the facility generated approximately \$160.9 million in gross gaming revenue, resulting in \$64.4 million in budgetary fund taxes collected by the Commonwealth. Gross gaming revenue projections for fiscal 2017 are \$160 million.

Various municipalities have filed suit contesting certain aspects of the Massachusetts Gaming Commission’s issuance of one of the Category 1 licenses. Certain of these claims have been dismissed, either voluntarily or by order of the Superior Court. On August 24, 2016, the City of Somerville entered into a dismissal of claims against the Massachusetts Gaming Commission and agreed to dismiss all of its litigation pertaining to the Region A category 1 licensee. As of July, 2016, the Massachusetts Gaming Commission is defending the remaining intervenor claim filed by Mohegan Sun and the appeals filed by the City of Revere and the individuals who filed an open meeting law claim as part of the Revere litigation.

**Limitations on Tax Revenues**

Chapter 62F of the General Laws 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 2012 through fiscal 2016. Pursuant to Chapter 62F, the State Auditor’s Office is expected to release its report for fiscal 2017 on or about the third Tuesday of September, 2017.

	<u>Net State Tax Revenues</u>	<u>Allowable State Tax Revenues</u>	<u>Net State Tax Revenues (under) Allowable State Tax Revenues</u>
2016	\$25,801,807,367.74	\$29,477,204,723.77	(\$3,675,397,356.03)
2015	25,239,065,862.40	28,071,638,151.40	(2,832,572,289.00)
2014	23,666,801,083.60	27,048,676,153.30	(3,381,875,069.70)
2013	22,397,185,748.50	26,074,941,365.50	(3,677,755,617.00)
2012	21,384,338,827.60	25,236,379,380.50	(3,852,040,552.90)

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. The Commonwealth's budget for fiscal 2017 provides \$5.986 billion of state-funded local aid to municipalities.

A large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula designed to ensure that each district reaches at least a minimum level of "foundation" spending per public education pupil. The fiscal 2017 budget includes state funding for so-called "Chapter 70" public education aid of \$4.63 billion. This level of funding brings all school districts to the foundation level, ensures that all local educational authorities receive an increase of funding of at least \$25 per pupil, and is an increase of \$111 million over fiscal 2016.

The other major component of direct local aid is unrestricted general governmental aid, which provides unrestricted funds for municipal use. The fiscal 2017 budget provides for \$1.022 billion in unrestricted general governmental aid, which was allocated to provide a 4.3% increase over fiscal 2016 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 2016, the aggregate property tax levy grew from \$3.347 billion to \$15.179 billion, a compound annual growth rate of 4.41%.

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

*MassHealth.* The Commonwealth's Medicaid program, called MassHealth, provides health care to 1.9 million low-income children and families, low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures for adults, and 88% in federal reimbursement on most expenditures for children's benefits reimbursable under the Children's Health Insurance Program (CHIP). Under the federal Affordable Care Act (ACA), beginning January 1, 2014, MassHealth began receiving enhanced federal reimbursement for spending on newly eligible members and some existing members. In calendar 2015, the federal reimbursement rate for these members was 80%, and in calendar 2016, the federal reimbursement rate is 85%. The reimbursement rate for this population will increase each year through 2019, and then will level off at 90% in 2020 and beyond. These federal reimbursement rates are also known as Federal Medical Assistance Percentages (FMAP).

The fiscal 2017 budget as approved in July, 2016 includes \$15.9 billion in funding for non-administrative spending for the MassHealth program. The \$15.9 billion includes \$15.3 billion in programmatic spending, including costs related to the Hutchinson settlement, and approximately \$658 million to support supplemental payments to providers. See "LEGAL MATTERS – Programs and Services."

The MassHealth program is projecting a deficiency relative to the fiscal 2017 budget. This increase is primarily driven by higher caseload relative to what was assumed in the budget. See "FISCAL 2016 AND FISCAL 2017 – Fiscal 2017."

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

residents. MassHealth is also seeking additional federal resources to support this restructuring through an 1115 waiver, as described below.

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

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015 (2)</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017 (3)</u>
<b>Medicaid program expenses</b>	\$10,431.1	\$10,799.1	\$11,900.8	\$13,681.9	\$14,851.0	\$15,435.2
<b>Medicaid administrative expenses</b>	\$86.4	\$84.6	\$86.7	\$87.3	\$93.0	\$97.7
<b>Total expenditures (4)</b>	\$10,517.5	\$10,883.7	\$11,987.5	\$13,769.2	\$14,944.0	\$15,532.9
<b>Annual percentage growth in total expenditures</b>	1.9%	3.5%	10.1%	14.9%	8.5%	3.9%
<b>Enrollment (in average member months) (5)</b>	1,356,313	1,403,225	1,592,050	1,907,366	1,863,215	1,906,314
<b>Annual percentage growth in enrollment</b>	3.2%	3.5%	13.5%	19.8%	(2.3%)	2.3%

SOURCE: Fiscal 2012-2016 (excluding Medicaid administrative expense and enrollment), Office of the Comptroller; fiscal 2017 and fiscal 2012-2017 (Medicaid administrative expense and enrollment only), Executive Office of Health and Human Services.

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

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

(3) Reflects estimated spending and enrollment as of October, 2016.

(4) Total expenditures exclude supplemental payments to providers.

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

*Commonwealth Health Insurance Connector Authority.* State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority (Health Connector). The Health Connector is governed by a board, of which the Secretary of Health and Human Services is the chairperson and the Secretary of Administration and Finance is also a member, each *ex officio*. Most of the funding to support the Health Connector and its programs is paid out of the Commonwealth Care Trust Fund (CCTF), which is supported by dedicated revenue sources. The Health Connector is also responsible for policy development relative to the Affordability Schedule and Minimum Credible Coverage rules and public education and outreach, including the ACA-required Navigator program. The Health Connector also administers the Massachusetts risk adjustment program, currently the only state-based program in the nation.

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

The fiscal 2017 budget for the Health Connector is expected to be fully funded from dedicated revenues in the CCTF. Total Health Connector gross spending in fiscal 2017 is projected to be \$230.3 million, an increase of \$12.2 million from fiscal 2016. Fiscal 2017 spending for the Health Connector, net of federal revenue, is projected to be \$163.8 million, a decrease of \$12.3 million compared to \$176.1 million in fiscal 2016.

*Federal 1115 MassHealth Demonstration Waiver.* Section 1115 of the Social Security Act gives the U.S. Secretary of Health and Human Services authority to waive provisions of major health and welfare programs,

including certain Medicaid requirements, and to allow a state to use federal Medicaid funds in ways that are not otherwise allowed under federal rules. The Commonwealth's 1115 waiver was renewed on October 30, 2014. The \$41.4 billion agreement preserves existing Medicaid eligibility and benefit levels and continues support for state and federal health care subsidies for low-and-middle income individuals to keep insurance affordable for them. This waiver includes more than \$20 billion in revenue to the Commonwealth through federal financial participation. Additionally, the waiver provides that successful programs that have been established under the waiver continue, including an Express Lane Eligibility renewal process for parents and caretakers of children receiving Supplemental Nutritional Assistance Program (SNAP) benefits.

Although the 1115 waiver was renewed for five years, funding for the majority of the Safety Net Care Pool (SNCP) was only authorized for three years (fiscal 2015 through fiscal 2017). MassHealth is currently in discussion with the federal government for a new five-year 1115 waiver, with a focus on restructuring toward Accountable Care Organization and value-based payments. The proposed waiver would include new funding to accelerate the transition through support for providers participating in new payment and care delivery models described above. See "Medicaid and the Health Connector—*MassHealth*." The SNCP funding supports Infrastructure and Capacity Building (ICB) grants and supplemental payments to critical safety net providers such as Boston Medical Center and Cambridge Health Alliance (CHA), including a new Public Hospital Transformation and Incentive Initiative payment totaling \$220 million annually for CHA. The SNCP also supports a portion of the Health Safety Net (HSN), which 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; designated state health programs (DSHP) that provide comprehensive community-based health services for Medicaid-eligible individuals; and Health Connector subsidies for enrollees in the ConnectorCare program, whose incomes are up to 300% of the Federal Poverty Level.

*Health Care Cost Containment.* On August 6, 2012, the Governor signed Chapter 224 of the Acts of 2012, legislation designed to improve the quality of health care and reduce costs through increased transparency, efficiency, and innovation. This law seeks to move providers and payers away from fee-for-service payments toward alternative payment methodologies that are designed to support coordination of patient care, reduce costs, and improve quality. The law 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.

Chapter 224 also established the Health Policy Commission (HPC), an independent agency within, but not subject to the control of, the Executive Office for Administration and Finance. The HPC's mission is to advance a more transparent, accountable, and innovative health care system through independent policy leadership and investment programs, to achieve better health and better care at a lower cost across the Commonwealth.

The HPC is integral to the implementation of Chapter 224. Among other responsibilities, the HPC monitors health care spending trends and the Commonwealth's performance against an annual health care cost growth benchmark, promotes transparency around how provider organizations are organized to deliver care, monitors changes in the health care marketplace, and establishes standards for patient-centered medical homes and accountable care organizations. In addition, the HPC oversees the Office of Patient Protection, which administers an enrollment waiver process for consumers who want to buy non-group health insurance and provides information to consumers about health insurance appeal rights, waivers and other issues related to health insurance and health care.

The HPC has organized its work into four primary areas of focus for improving the health care system in Massachusetts: (a) fostering a value-based market in which payers and providers openly compete to provide services and in which consumers and employers have the appropriate information and incentives to make high-value choices for their care and coverage options; (b) promoting an efficient, high quality health care delivery system in which providers efficiently deliver coordinated, patient-centered, high quality health care that integrates behavioral and physical health and produces better outcomes and improved health; (c) advancing alternative payment methods that support and equitably reward providers for delivering high quality care while holding them accountable for slowing future health care spending increases; and (d) enhancing transparency and data availability necessary for providers, payers, purchasers and policymakers to successfully implement reforms and evaluate performance over time.

The HPC is governed by an 11-member board appointed by the Governor, the Attorney General and the State Auditor. From 2013 to 2016, the HPC was funded through a portion of a one-time assessment on health care payers and providers, as well as a portion of the fees from any casino licenses issued in Massachusetts. In addition to supporting HPC operations, the \$209 million one-time assessment (collected over four years) supports a community hospital grant program, a public health fund and a health information technology fund. The amount dedicated to HPC operations is equal to 5% of the total assessment (approximately \$10.5 million over the four-year period, or approximately \$2.6 million each year). Beginning in fiscal 2017, the HPC will be funded through an annual assessment on the health care industry, similar to CHIA's assessment.

HPC establishes the health care cost growth benchmark annually based on a calculation created by statute. For calendar years 2013 through 2017, the Commonwealth establishes the benchmark as equal to the growth rate of the Potential Gross State Product (PGSP). PGSP is designed to measure the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. Each year, CHIA releases a report on the Commonwealth's performance under the benchmark.

The benchmark has been established as 3.6% every year since 2013. In 2014, the Commonwealth exceeded the benchmark with 4.8% health care cost growth. CHIA postulates that several factors contributed to the Commonwealth surpassing the benchmark in 2014, including increased spending due to expanded MassHealth enrollment under the ACA and the significant rise in prescription drug costs. Preliminary reports from CHIA and HPC indicate that the 2015 growth rate is 4.1%. HPC is expected to conduct a further analysis of the 2015 data and growth rate by the end of calendar year 2016.

The statutory cost growth target from 2018 through 2022 will be equal to the growth rate of PGSP minus 0.5%, and from 2023 on, will be equal to the growth rate of PGSP. However, the HPC and the Legislature have some ability to change those growth targets after 2018.

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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 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Projected Fiscal 2017</u>
Office of Health Services						
Department of Mental Health	\$613.1	\$638.1	\$663.0	\$682.4	\$712.5	\$767.8
Department of Public Health	488.3	507.8	547.7	518.7	525.2	603.5
Division of Healthcare and Finance Policy (1)	<u>14.1</u>	<u>3.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Sub Total</b>	<b>\$1,115.5</b>	<b>\$1,149.6</b>	<b>\$1,210.7</b>	<b>\$1,201.2</b>	<b>\$1,237.7</b>	<b>\$1,371.3</b>
Office of Children, Youth, and Family Services						
Department of Children and Families	\$741.6	\$748.8	\$795.5	\$876.4	\$920.0	\$963.3
Department of Transitional Assistance	733.6	723.3	693.8	660.9	630.2	657.4
Department of Youth Services	141.2	150.8	160.6	168.3	169.2	176.7
Office for Refugees and Immigrants	<u>0.4</u>	<u>0.4</u>	<u>0.9</u>	<u>1.1</u>	<u>1.1</u>	<u>0.4</u>
<b>Sub Total</b>	<b>\$1,616.8</b>	<b>\$1,623.2</b>	<b>\$1,650.8</b>	<b>\$1,706.7</b>	<b>\$1,720.5</b>	<b>\$1,797.7</b>
Office of Disabilities and Community Services						
Department of Developmental Services	\$1,314.6	\$1,352.2	\$1,466.8	\$1,678.9	\$1,735.4	\$1,827.2
Other (2)	<u>126.8</u>	<u>120.5</u>	<u>124.1</u>	<u>129.9</u>	<u>128.6</u>	<u>79.0</u>
<b>Sub Total</b>	<b>\$1,441.4</b>	<b>\$1,472.6</b>	<b>\$1,590.9</b>	<b>\$1,808.8</b>	<b>\$1,864.0</b>	<b>\$1,906.2</b>
Executive Office of Elder Affairs	\$265.8	\$248.2	\$260.1	\$291.7	\$312.0	\$291.5
Executive Office of Health and Human Services (3)	240.5 (3)	242.0 (3)	254.6	278.1	283.5	297.5
Department of Veterans' Services (4)	<u>30.5</u>	<u>33.3</u>	<u>12.6</u>	<u>14.4</u>	<u>15.3</u>	<u>67.8</u>
<b>Sub Total</b>	<b>\$536.8</b>	<b>\$523.5</b>	<b>\$527.2</b>	<b>\$584.2</b>	<b>\$610.8</b>	<b>\$656.8</b>
<b>Budgeted Expenditures and Other Uses</b>	<b>\$4,710.5</b>	<b>\$4,768.9</b>	<b>\$4,979.5</b>	<b>\$5,300.8</b>	<b>\$5,433.0</b>	<b>\$5,732.0</b>

SOURCES: Fiscal 2012-2016 Office of the State Comptroller; fiscal 2017, 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 Massachusetts Rehabilitation Commission, Massachusetts Commission for the Blind, Massachusetts Commission for the Deaf and Hard of Hearing, and, prior to fiscal 2016, Chelsea Soldiers' Home, and Holyoke Soldiers' Home

(3) Includes Medicaid program administration.

(4) The fiscal 2015 budget transferred the Soldiers' Homes in Chelsea and Holyoke from the Office of Disabilities and Community Services to Veterans' Services. Fiscal 2016 and later years include Chelsea Soldiers' Home and Holyoke Soldiers' Home. Beginning in fiscal 2014, Veterans' Services spending does not include veterans' annuities spending, which is captured under local aid spending

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

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

The Department of Children and Families (DCF) is charged with protecting children from abuse and neglect. DCF is currently undergoing an agency improvement initiative to review and update programmatic policies, review agency management structure, and address staffing needs.

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.

*Disabilities and Community Services.* Programs and services provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, and the Department of Developmental Services assist some of the most disadvantaged residents of the Commonwealth. These agencies provide assistance to this population and create public awareness in the citizens of the Commonwealth, as well as promote 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.

*Executive Office of Elder Affairs.* The Executive Office of Elder Affairs provides a variety of services and programs to eligible seniors and their families. The office 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 Executive Office of Elder Affairs also administers a state-supported prescription drug program for seniors.

*Department of Veterans' Services.* The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides approximately 24,000 veterans, veterans' spouses and parents with annuity and benefit payments. The Department also oversees the Chelsea Soldiers' Home and Holyoke Soldiers' Home, state-owned facilities providing long-term health care and domiciliary services to veterans.

## **Education**

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

*Department of Elementary and Secondary Education.* The Department of Elementary and Secondary Education serves the student population from kindergarten through 12<sup>th</sup> grade by providing support for students, educators, schools and districts and by providing state leadership. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which includes 12 members. There are 322 school districts in the Commonwealth, serving over 940,000 students.

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

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education for the state universities and community colleges, while the University of Massachusetts board of trustees sets tuition levels for its campuses. The Massachusetts College of Art and Design, the Massachusetts Maritime Academy, and the University of Massachusetts ("UMass") have authority to retain tuition from all students. The other public higher

education institutions have authority to retain tuition received from out-of-state students and tuitions from self-supporting programs, such as colleges of continuing education and evening schools. Otherwise, tuition revenue is required to be remitted to the State Treasurer by each institution.

The fiscal 2017 budget is the first under an amended state law that allows UMass to establish its own tuition rates for all students and to retain all tuition it collects. This change resulted in a one-time reduction of approximately \$31.1 million in General Fund revenue that reflects that revenue now being retained by UMass and a corresponding reduction of approximately \$31.1 million in the annual appropriation from the Commonwealth to UMass.

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 Children and Families 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.

## **Energy and Environmental Affairs**

The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates 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."

## **Employee Benefits**

*Group Insurance.* The Group Insurance Commission (GIC) provides health insurance benefits to more than 430,000 people, including state and participating municipalities' employees, retirees, their spouses, and dependents,



and certain retired municipal teachers, their spouses and dependents. State employee contributions are currently based on date of hire; employees hired on or before June 30, 2003 contribute 20% of total premium costs, and employees hired after June 30, 2003 pay 25% of premium costs. Similarly, state retirees contribute either 10%, 15% or 20%, depending on their retirement date. The GIC also provides health insurance benefits for the employees and retirees of participating municipalities; the municipalities reimburse the state for their enrollees' premium costs. The contribution ratio(s) for municipal enrollees is set through a collective bargaining process within each community. As of July 1, 2016, the GIC provides health insurance to employees and retirees of 54 municipal entities: 10 cities, 33 towns, eight regional school districts, two regional districts and one educational collaborative.

Fiscal 2017 GIC appropriations total \$1.703 billion, approximately \$560 million of which are offset by municipal revenue and \$205 million of which are offset by non-state agency revenue to reimburse the state for providing health insurance benefits to the participating governmental units, including municipalities. In addition, the fiscal 2017 budget authorizes transfers of up to \$440 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current state retirees and their dependents.

In keeping with the GIC's commitment to cost containment, the GIC approved a package of benefit changes for fiscal 2016 that is designed to encourage greater use of primary care physicians to coordinate healthcare and to lower the utilization of higher-cost services (the highest-cost hospitals and prescription drugs; the less-efficient and/or lower quality specialists). The average fiscal 2017 premium rates for GIC state and municipal members are projected to increase by 3.6% over fiscal 2016.

*Pensions.* The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees and for teachers of the cities, towns and regional school districts throughout the state. See "PENSION AND OPEB FUNDING."

*Other Post-Employment Benefit Obligations (OPEB).* The Commonwealth is required under state law to provide certain health care and life insurance benefits for retired employees of the Commonwealth and certain other governmental agencies. See "PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB)."

The fiscal 2017 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.

### **Other Program Expenditures**

The remaining expenditures on other programs and services for state government include constitutional officers, the judiciary and district attorneys, sheriffs, 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.

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## PENSION AND OPEB FUNDING

### Retirement Systems

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

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS and MTRS as of January 1, 2016, the date of the most recent combined valuation, is as follows:

#### Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
<b>Retirees and beneficiaries currently receiving benefits</b>	61,377	63,744
<b>Terminated employees entitled to benefits but not yet receiving them</b>	4,350	N/A
<b>Subtotal</b>	65,727	63,744
<b>Current Members</b>	88,081	91,059
<b>Total</b>	153,808	154,803

SOURCE: Public Employee Retirement Administration Commission

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

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

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the State Boston Retirement System (SBRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost-sharing multiple-employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth for accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the SBRS. The Commonwealth's actuarially determined contribution to the SBRS was \$120.4 million for fiscal 2016.

Subject to legislative approval, annual increases in cost-of-living allowances are provided in an amount equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first \$13,000 of benefits for members of the MSERS and MTRS. The Legislature approved the 3% increase in cost-of-living allowances for fiscal 2017. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees.

The MSERS and the MTRS, in conjunction with the Commonwealth, are evaluating whether certain of the statutes governing the systems may be in conflict with the exclusive benefit rule of Section 401(a)(2) of the Internal Revenue Code or other federal tax law requirements relating to operation of tax-exempt pension plans. The activities being reviewed include (i) the statutorily directed funding of the budget for PERAC solely from the investment income accounts of MSERS and MTRS, (ii) the statutorily directed contributions made from the MSERS account in the PRIT Fund to a separate optional retirement plan available to certain employees of the Commonwealth's higher education system, (iii) the statutorily mandated reimbursements paid by the MSERS to local retirement systems for local cost-of-living allowances for certain participants of those systems, (iv) the deposit of reimbursement revenues received from local retirement systems to the Commonwealth's General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund and (v) the deposit of federal grant fringe payments to the General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund. The MSERS and the MTRS have engaged outside tax counsel to review these activities. Corrective actions, if necessary, could include administrative actions, amendments to state statutes, prospective corrections and/or retrospective corrections. PERAC and the Commonwealth have each engaged or are in the process of engaging separate legal counsel to review the issues presented.

### **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):

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## Employee Contribution Rates

### MTRS (1)

<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	176	0.2%
1975-1983	7	670	0.7
1984-June 30, 1996	8	7,373	8.1
July 1, 1996-Present	9	15,019	16.5
July 1, 2001-Present	11	<u>67,821</u>	<u>74.5</u>
<b>Totals</b>		<b><u>91,059</u></b>	<b><u>100.0%</u></b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2015 Actuarial Valuation.

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

### MSERS (1)

<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	651	0.7%
1975-1983	7	4,221	4.8
1984-June 30, 1996	8	18,071	20.5
July 1, 1996-Present	9	64,431	73.1
State Police 1996-Present	12	<u>707</u>	<u>0.8</u>
<b>Totals</b>		<b><u>88,081</u></b>	<b><u>100.0%</u></b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2016 Actuarial Valuation.

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

## Funding Schedule

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

The most recently approved funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 14, 2014. The assumptions underlying the funding schedule include valuation of assets and liabilities as of January 1, 2013, an annual rate of return on assets of 8.0%, and appropriation increases of 10% per year until fiscal 2017 with 7% increases thereafter until the final amortization payment in fiscal 2036 (four years before the statutory requirement). In fiscal 2016, more than the required amount was appropriated, because of the employee retirement incentive program approved by the Governor on May 4, 2015. According to a PERAC report released in February, 2016, the program increased the actuarial accrued liability to the MSERS by approximately \$230 million, with an annual cost, when amortized on a 15-year level basis beginning in fiscal 2016, of approximately \$25.5 million. A slightly larger amount, \$29.1 million (based on an earlier estimate), was provided for in the fiscal 2016 budget. See “FISCAL 2016 AND FISCAL 2017 – Fiscal

2016.” Legislation approved in August, 2015 mandated an increased payment in fiscal 2017 as well to reflect this adjustment.

The next funding schedule is due to be filed by the Secretary of Administration and Finance in early 2017. It is expected to be based on the January 1, 2016 actuarial valuation report and to take into account, among other things, the full costs of the employee retirement incentive program described above. The funding schedule filed in early 2017 will govern payments in fiscal 2018 and beyond.

### **Current Funding Schedule for Pension Obligations (in thousands) (1)**

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

SOURCE: Executive Office for Administration and Finance

- (1) Excludes the impact of the early retirement incentive program adopted in fiscal 2015 and to be reflected in the January 1, 2016 actuarial valuation.
- (2) The fiscal 2016 budget includes a \$29.1 million appropriation (in addition to the \$1.972 billion paid according to the schedule) to defray costs associated with the employee retirement incentive program.
- (3) Legislation approved in August, 2015 mandates a fiscal 2017 appropriation of \$2.198 billion, reflecting a \$29.1 million increase to defray costs associated with the employee retirement incentive program.

### **Actuarial Valuations**

In August or September of each year, PERAC releases an updated actuarial valuation of the Commonwealth’s total pension obligation as of the preceding January 1 (based on member data and asset information as of December 31).

The most recently completed valuation report (as of January 1, 2016) was released on August 17, 2016. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2015. In the report, the unfunded actuarial accrued liability for the Commonwealth’s total pension obligation as of January 1, 2016 is approximately \$37.866 billion, including approximately \$13.500 billion for the MSERS, \$21.969 billion for the MTRS, \$2.236 billion for Boston teachers that are members of the SBRS (“Boston Teachers”) and \$161.3 million for cost-of-living increases reimbursable to local systems. This valuation estimates the total actuarial accrued liability as of January 1, 2016 to be approximately \$87.402 billion (comprised of \$36.966 billion for MSERS, \$46.563 billion for MTRS, \$3.711 billion for Boston Teachers and \$161.3 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$49.535 billion based on a five-year average valuation method, which equaled 101.2% of the December 31, 2015 total asset market value. During 2015 there was an overall actuarial loss of \$296 million. There was a non-investment related loss (loss on actuarial accrued liability) of \$30 million. There was a loss of \$266 million on the actuarial value of assets.

The January 1, 2016 actuarial valuation reflects a decrease in the investment return assumption from 7.75% to 7.50%. This change increased the actuarial accrued liability (and therefore the unfunded actuarial accrued liability) for the Commonwealth’s total pension obligation by approximately \$2.2 billion. Prior to the January 1, 2013 valuation, an 8.25% investment return assumption was used. For the January 1, 2013 and January 1, 2014 valuations, an 8.0% investment return assumption was used. The January 1, 2015 valuation used a 7.75% investment return assumption, which was reduced to 7.50% for the January 1, 2016 valuation. This change was based on

PERAC's analysis of the results of the most recent PRIM study, which analyzes expected long-term returns by asset class and general trends in public plans across the country.

The January 1, 2015 actuarial valuation also reflected a fully generational mortality assumption that takes into account all expected future mortality improvements (increasing life expectancy). This change increased the actuarial accrued liability (and therefore the unfunded actuarial accrued liability) for the Commonwealth's total pension obligation by approximately \$1.7 billion at that time. No change was made to the 2015 assumption in the January 1, 2016 actuarial valuation.

The MSERS unfunded actuarial liability increased from \$10.959 billion to \$13.500 billion (and the funded ratio decreased from 67.5% to 63.5%) from January 1, 2015 to January 1, 2016. Much of this increase was due to an assumption change and two plan amendments. The investment return assumption was reduced from 7.75% to 7.50% in this valuation. The actuarial accrued liability increased \$933 million (2.6%) on account of this change. As noted above, the adoption of an employee retirement incentive program in 2015 increased the actuarial liability by \$230 million. Finally, members of the Optional Retirement Plan (ORP, a defined contribution plan for higher education employees) were provided a one-time opportunity to transfer to the MSERS and purchase service for the period while subject to the ORP. In the 2016 valuation, approximately 1,450 members formerly in the ORP were included in the valuation data. Ultimately, approximately 1,600 will be transferred. The increase in actuarial liability for these transfers is estimated to be \$400 million. The January 1, 2016 report does not reflect any ORP assets except for approximately \$20 million that were transferred prior to December 31, 2015. Ultimately, PERAC estimates that \$170 - \$200 million may be transferred.

PERAC issued detailed experience analyses in 2014 for MSERS and MTRS. These experience studies encompassed the years 2006-2011 and reviewed salary increases and rates of retirement, disability, turnover and mortality. PERAC more recently performed an experience analysis of mortality for retirees of MSERS and MTRS from January 1, 2012 to January 1, 2015. That analysis was the basis for the adoption of a generational mortality assumption described above.

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

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

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

The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan

assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2016 is 101.2% of the market value. This figure was 95.7% as of January 1, 2015.

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

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

<u>Valuation Date (Jan. 1)</u>	<u>Actuarial Value of Assets (1)</u>	<u>Market Value of Assets</u>	<u>% of Actuarial Value to Market Value</u>	<u>Funded Ratio (Actuarial Value)</u>	<u>Funded Ratio (Market Value)</u>
2016	\$49,535	\$48,943	101.2%	56.7%	56.0%
2015	48,106	50,290	95.7	59.0	61.7
2014	45,894	48,351	94.9	61.2	64.5
2013	43,517	43,760	99.4	60.6	60.9
2012	43,942	39,947	110.0	65.1	59.1
2011	45,631	41,482	110.0	71.1	64.6
2010	41,589	37,809	110.0	67.5	61.4
2009	37,058	33,689	110.0	62.7	57.0
2008	44,532	49,235	90.4	78.6	86.9
2007	40,412	44,902	90.0	75.2	83.5

SOURCE: Public Employee Retirement Administration Commission.

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

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

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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 Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
<b>2016</b>	\$23,465,963	\$36,966,278	\$13,500,315	63.5%	\$5,792,288	233.1%
<b>2015</b>	22,720,160	33,679,150	10,958,990	67.5	5,591,911	196.0
<b>2014</b>	21,581,133	30,679,600	9,098,467	70.3	5,344,510	170.2
<b>2013</b>	20,317,389	29,385,442	9,068,053	69.1	5,183,195	175.0
<b>2012</b>	20,507,604	27,784,731	7,277,127	73.8	4,922,388	185.7
<b>2011</b>	21,244,900	26,242,776	4,997,876	81.0	4,808,250	103.9
<b>2010</b>	19,019,062	24,862,421	5,843,359	76.5	4,711,563	124.0
<b>2009</b>	16,992,214	23,723,240	6,731,026	71.6	4,712,655	142.8
<b>2008</b>	20,400,656	22,820,502	2,419,846	89.4	4,574,233	52.9
<b>2007</b>	18,445,225	21,670,810	3,225,585	85.1	4,391,891	73.4
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
<b>2016</b>	\$24,593,787	\$46,562,807	\$21,969,020	52.8%	\$6,388,732	343.9%
<b>2015</b>	23,946,759	44,115,769	20,169,010	54.3	6,204,274	325.1
<b>2014</b>	22,940,196	40,741,695	17,801,499	56.3	5,962,650	298.6
<b>2013</b>	21,787,470	39,135,218	17,347,748	55.7	5,783,294	300.0
<b>2012</b>	22,141,475	36,483,027	14,341,552	60.7	5,655,353	253.6
<b>2011</b>	23,117,952	34,890,991	11,773,039	66.3	5,558,311	211.8
<b>2010</b>	21,262,462	33,738,966	12,476,504	63.0	5,509,698	226.4
<b>2009</b>	18,927,731	32,543,782	13,616,051	58.2	5,389,895	252.6
<b>2008</b>	22,883,553	30,955,504	8,071,951	73.9	5,163,498	156.3
<b>2007</b>	20,820,392	29,320,714	8,500,322	71.0	4,969,092	171.1
<b>Aggregate Commonwealth Pension Obligations</b>						
Actuarial Valuation as of Jan. 1						
<b>2016</b>	\$49,535,323	\$87,401,722	\$37,866,399	56.7%	\$12,702,727	298.1%
<b>2015</b>	48,105,862	81,535,003	33,429,141	59.0	12,302,162	271.7
<b>2014</b>	45,894,034	74,936,994	29,042,960	61.2	11,793,788	246.3
<b>2013</b>	43,517,498	71,865,832	28,348,334	60.6	11,408,407	248.5
<b>2012</b>	43,941,682	67,546,587	23,604,905	65.1	11,011,466	214.4
<b>2011</b>	45,630,507	64,219,135	18,588,628	71.1	10,811,975	171.9
<b>2010</b>	41,589,706	61,575,676	19,985,970	67.5	10,655,881	187.6
<b>2009</b>	37,057,703	59,142,155	22,084,452	62.7	10,537,212	209.6
<b>2008</b>	44,531,652	56,636,710	12,105,058	78.6	10,156,252	119.2
<b>2007</b>	40,411,920	53,761,095	13,349,175	75.2	9,766,122	136.7

SOURCE: Public Employee Retirement Administration Commission.



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

(Amounts in thousands except for percentages)

	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)-Market Value</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
2016	\$23,176,451	\$36,966,278	\$13,789,827	62.7%	\$5,792,288	238.1%
2015	23,739,487	33,679,150	9,939,663	70.5	5,591,911	177.8
2014	22,721,053	30,679,600	7,958,547	74.1	5,344,510	148.9
2013	20,405,004	29,385,442	8,980,438	69.4	5,183,195	173.3
2012	18,643,313	27,784,731	9,141,418	67.1	4,922,388	147.8
2011	19,313,545	26,242,776	6,929,231	73.6	4,808,250	144.1
2010	17,290,056	24,862,421	7,572,365	69.5	4,711,563	160.7
2009	15,447,467	23,723,240	8,275,773	65.1	4,712,655	175.6
2008	22,538,610	22,820,502	281,892	98.8	4,574,233	6.2
2007	20,494,694	21,670,810	1,176,116	94.6	4,391,891	26.8
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
2016	\$24,308,553	\$46,562,807	\$22,254,254	52.2%	\$6,388,732	348.3%
2015	25,046,692	44,115,769	19,069,077	56.8	6,204,274	307.4
2014	24,183,391	40,741,695	16,558,304	59.4	5,962,650	277.7
2013	21,934,211	39,135,218	17,201,007	56.0	5,783,294	297.4
2012	20,128,614	36,483,027	16,354,413	55.2	5,655,353	289.2
2011	21,016,320	34,890,991	13,874,671	60.2	5,558,311	249.6
2010	19,329,511	33,738,966	14,409,455	57.3	5,509,698	261.5
2009	17,207,028	32,543,782	15,336,754	52.9	5,389,895	284.5
2008	25,316,044	30,955,504	5,639,460	81.8	5,163,498	109.2
2007	23,133,769	29,320,714	6,186,945	78.9	4,969,092	124.5
<b>Aggregate Commonwealth Pension Obligations</b>						
Actuarial Valuation as of Jan. 1						
2016	\$48,943,080	\$87,401,722	\$38,458,642	56.0%	\$12,702,727	302.8%
2015	50,289,770	81,535,003	31,245,233	61.7	12,302,162	254.0
2014	48,350,920	74,936,994	26,586,074	64.5	11,793,788	225.4
2013	43,760,381	71,865,832	28,105,451	60.9	11,408,407	246.4
2012	39,946,984	67,546,587	27,599,603	59.1	11,011,466	250.6
2011	41,482,279	64,219,135	22,736,856	64.6	10,811,975	210.3
2010	37,808,823	61,575,676	23,766,853	61.4	10,655,881	223.0
2009	33,688,821	59,142,155	25,453,334	57.0	10,537,212	241.3
2008	49,234,569	56,636,710	7,402,141	86.9	10,156,252	72.9
2007	44,902,133	53,761,095	8,858,962	83.5	9,766,122	90.7

SOURCE: Public Employee Retirement Administration Commission.

### Annual Required Contributions

The following table sets forth the annual required contribution (ARC) by the Commonwealth for each of the fiscal years indicated and the actual contributions made. The ARC was determined annually through fiscal 2014, based on the most recent Commonwealth valuation, under Governmental Accounting Standards Board (GASB) Statement No. 27. GASB 27 is no longer applicable with the implementation of GASB 67/68, as described below, but the Commonwealth expects to continue calculating the ARC under GASB 27 principles for comparison. Actuarial 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. The decrease from fiscal 2016 to fiscal 2017 shown below in the percentage of the ARC funded reflects the assumptions and plan changes described in the January 1, 2016 valuation report that increased plan liabilities.

The calculation of the Commonwealth's ARC assumes amortization of the unfunded actuarial liability on a 4.0% annual increasing basis to fiscal 2040. (This is the minimum allowable funding schedule for local systems under state pension law.) The amount shown in the table below for contributions made in the current fiscal year is the amount required by the current funding schedule. The amounts shown for contributions made in fiscal 2016 and fiscal 2017 include the costs associated with the early retirement incentive program (ERIP).

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual required contribution (ARC) (1)	\$1,923,150	\$2,011,147	\$2,217,130	\$2,600,000	\$3,060,000
Contributions made	<u>\$1,552,000</u>	<u>\$1,630,000</u>	<u>\$1,793,000</u>	<u>\$2,001,093</u>	<u>\$2,198,093</u>
% of ARC funded for the fiscal year	81%	81%	75%	77%	72%
ARC as ratio of total government expenditures (2)	5.4%	5.3%	5.7%	6.4%	7.2%

SOURCE: Public Employee Retirement Administration Commission.

- (1) The ARC calculations for fiscal 2013 and fiscal 2014 differ from those disclosed in prior Information Statements, because the ARC calculation in prior disclosures did not take into account amounts required to be contributed for Boston Teachers and local cost-of-living allowances. The ARC calculation for fiscal 2016 does not include costs associated with the ERIP because such costs had not yet been identified at the time the calculation was made.
- (2) Based on Total Budgeted Expenditures and Other Uses.

On June 25, 2012, GASB voted to approve two new standards that modify the accounting and financial reporting of the Commonwealth's pension obligations, GASB Statement No. 67, *Financial Reporting for Pension Plans*, which was effective for the Commonwealth's fiscal 2014 CAFR, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective for the Commonwealth's fiscal 2015 CAFR. GASB 67 established new standards for defined benefit pension plan accounting and reporting, while GASB 68 required changes to governments' reporting of and inclusion of pension assets and liabilities in their annual CAFRs. GASB 68 requires governments to report in their statements of net position (or balance sheet) 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 requires recognition in the financial statements of pension expense, unlike GASB 27. The rate used to discount projected benefit payments to their present value is 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. Under the new standards, as noted above, the ARC calculation, and the requirement to fund the ARC under GAAP, have been eliminated.

The tables that follow show pension-related information for both the MTRS and the MSERS as required by GASB 67 and GASB 68 and as shown in the Commonwealth's fiscal 2015 CAFR. The MTRS and MSERS tables subtitled "Schedule of Changes in the Net Pension Liability and Related Ratios" show the beginning and ending liabilities and assets for the MTRS and MSERS, as well as both systems' unfunded pension liability, or net pension liability (NPL), with the NPL being the amount that the Commonwealth records on its Statement of Net Position as its unfunded pension liability. The table also shows the components of the change in the NPL between the beginning (July 1) and end (June 30) of fiscal 2014 and fiscal 2015.

The tables subtitled “Pension Expense and Deferred Outflows/Inflows of Resources,” “Deferred Outflows/Inflows of Resources,” “Deferred Outflows/Inflows of Resources” and “Projected Recognition of Deferred Outflows/Inflows)” show pension expenses that, under GASB 68, are recognized in the fiscal 2015 CAFR as well as the inflows and outflows that under GASB 68 are recognized either in the fiscal 2015 CAFR or are deferred and projected to be recognized in future fiscal year CAFRs.

The methodology required by GASB 68 to calculate the Commonwealth’s NPL and other pension-related measures (as reflected in the tables below) is in several respects different from the methodology used by PERAC in calculating the Commonwealth’s unfunded pension liability in its annual actuarial valuation. The most important difference between the two methodologies is that GASB 68 requires the value of pension plan assets be recorded at market value as of June 30 of each fiscal year, meaning that investment gains and losses are recognized immediately, while the actuarial value of assets used by PERAC in calculating the Commonwealth’s unfunded liability is measured using a five-year smoothing methodology, meaning that investment gains and losses are amortized over five years. Therefore, the NPL information set out in the tables below based on GASB 68 requirements is not strictly comparable to the unfunded liability and other pension-related information in PERAC’s annual actuarial valuations.

Under GASB 68, in order to provide adequate time for pension plans to distribute pension-related information to pension plan participants (which include state authorities, local school collaboratives, and municipal governments) for use in their annual CAFRs, governments are permitted to use the prior year’s NPL and other pension-related measures in the current year’s CAFR. In conformance with GASB 68, the Commonwealth determined that for the fiscal 2015 CAFR it would use the pension valuation information as of June 30, 2014. The Commonwealth will use the June 30, 2015 pension information for its fiscal 2016 CAFR.

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**GASB 67 Information for the Massachusetts Teachers' Retirement System**

**Schedule of Changes in the Net Pension Liability and Related Ratios**

Fiscal 2015 and Fiscal 2014

(Amounts in thousands, except for percentages)

	<u>Fiscal 2015</u>	<u>Fiscal 2014 (1)</u>
<b>Total pension liability (as of July 1)</b>	<b>\$41,435,000</b>	<b>\$ 39,931,000</b>
Service cost	768,032	720,712
Interest	3,166,728	3,227,025
Differences between expected and actual experience	153,000	-
Changes of assumptions (2)	1,890,000	108,000
<u>Benefit payments, including refunds of member contributions</u>	<u>(2,684,049)</u>	<u>(2,551,737)</u>
Net change in total pension liability	\$3,293,711	\$1,504,000
<b>Total pension liability (as of June 30)</b>	<b>\$44,728,711</b>	<b>\$ 41,435,000</b>
<b>Plan fiduciary net position (as of July 1)</b>	<b>\$25,538,646</b>	<b>\$ 22,697,302</b>
Contributions:		
Non-employer - Commonwealth	1,021,930	930,079
Plan members	669,941	653,328
<u>Other additions</u>	<u>190,925</u>	<u>178,998</u>
Total contributions	1,882,796	1,762,405
Net investment income	845,503	3,771,883
Benefit payments, including refunds of plan member contributions	(2,684,049)	(2,551,737)
Administrative expense	(23,444)	(20,499)
<u>Other changes</u>	<u>(130,384)</u>	<u>(120,708)</u>
Net change in plan fiduciary net position	(\$109,578)	\$2,841,344
<b>Plan fiduciary net position (as of June 30)</b>	<b>\$25,429,068</b>	<b>\$25,538,646</b>
<b>Plan net pension liability/(asset) (as of June 30)</b>	<b>\$19,299,643</b>	<b>\$15,896,354</b>
Plan fiduciary net position as a percentage of the total pension liability	56.9%	61.6%
<u>Covered employee payroll (3)</u>	<u>\$6,204,274</u>	<u>\$ 5,962,650</u>
Net pension liability/(asset) as a percentage of covered employee payroll	311.1%	266.6%

SOURCE: Office of the Comptroller

- (1) Fiscal 2014 amounts were reclassified to conform to current year presentation.
- (2) The changes in assumptions in fiscal 2015 were due to (i) a decrease in the investment rate of return of 0.25% to 7.75% in the January 1, 2015 actuarial valuation and (ii) improved future mortality.
- (3) Reflects compensation in the January 1 actuarial valuation for each fiscal year.

## GASB 68 Information for the Massachusetts Teachers' Retirement System (1)

### Pension Expense and Deferred Outflows/Inflows of Resources

(Amounts in thousands)

Pension Expense for Fiscal 2015 (7/1/13- 6/30/14)

Service cost	\$720,712
Interest	3,227,025
Employee contributions	(653,328)
Projected earnings on plan investments	(1,778,563)
Recognized portion of difference in projected and actual earnings on investments	(398,664)
Recognized portion of plan benefit changes	-
Transfers and reimbursements from other systems	(39,413)
Member make up, redeposit and payments from rollovers	(29,277)
Administrative expense	41,675
<u>Other additions (net)</u>	<u>(3,476)</u>
<b>Pension expense</b>	<b>\$1,104,396</b>

### Deferred Outflows/Inflows of Resources

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Original Amount</u>	<u>Amortization Period (years)</u>	<u>Amortization</u>
Difference between expected and actual experience	\$0	-	\$0	6.1	\$0
Assumption changes	90,295	-	108,000	6.1	17,705
<u>Net difference between projected and actual earnings on investments</u>	-	<u>(1,594,656)</u>	<u>(1,993,320)</u>	<u>5</u>	<u>(398,664)</u>
<b>Total</b>	<b>90,295</b>	<b>(1,594,656)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net</b>	<b>-</b>	<b>(\$1,504,361)</b>	<b>(\$1,885,320)</b>	<b>-</b>	<b>(\$380,959)</b>

### Projected Recognition of Deferred Outflows/(Inflows)

Deferred Inflows/(outflows) recognized in Future Pension Expense  
(fiscal years ending June 30)

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Difference between expected and actual experience	\$0	\$0	\$0	\$0	\$0	\$0
Assumption changes	17,705	17,705	17,705	17,705	17,705	1,770
<u>Net difference between projected and actual earnings on investments</u>	<u>(398,664)</u>	<u>(398,664)</u>	<u>(398,664)</u>	<u>(398,664)</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>(380,959)</b>	<b>(380,959)</b>	<b>(380,959)</b>	<b>(380,959)</b>	<b>\$17,705</b>	<b>\$1,770</b>

(1) Fiscal 2014 information is used in the fiscal 2015 CAFR; fiscal 2015 information is to be used in the fiscal 2016 CAFR.

**GASB 67 Information for the State Retirement System**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**

Fiscal 2015 and Fiscal Y2014

(Amounts in thousands, except for percentages)

	<u>Fiscal 2015</u>	<u>Fiscal 2014 (1)</u>
<b>Total pension liability (as of July 1)</b>	<b>\$31,355,000</b>	<b>\$ 29,988,000</b>
Service cost	700,012	631,634
Interest	2,411,551	2,405,204
Changes in benefit terms (2)	230,302	-
Differences between expected and actual experience	275,000	-
Changes of assumptions (3)	1,397,000	102,000
<u>Benefit payments, including refunds of member contributions</u>	<u>(1,876,451)</u>	<u>(1,771,838)</u>
Net change in total pension liability	3,137,414	\$1,367,000
 <b>Total pension liability (as of June 30)</b>	 <b>\$34,492,414</b>	 <b>\$ 31,355,000</b>
 <b>Plan fiduciary net position (as of July 1)</b>	 <b>\$23,930,895</b>	 <b>\$ 21,084,958</b>
Contributions:		
Employers – Commonwealth and MassDOT	606,376	550,438
Non-employer contributions – Commonwealth	13,595	21,293
Employers and non-employers – other	15,808	6,048
Plan members	549,493	501,106
<u>Other additions</u>	<u>92,503</u>	<u>68,967</u>
Total contributions	1,277,775	1,147,897
Net investment income	800,886	3,551,012
Benefit payments, including refunds of plan member contributions	(1,876,451)	(1,771,838)
Administrative expense	(15,966)	(12,705)
<u>Other changes</u>	<u>(74,554)</u>	<u>(68,429)</u>
Net change in plan fiduciary net position	111,690	\$2,845,937
 <b>Plan fiduciary net position (as of June 30)</b>	 <b>\$24,042,585</b>	 <b>\$23,930,895</b>
 <b>Plan net pension liability/(asset) (as of June 30)</b>	 <b>\$10,449,829</b>	 <b>\$7,424,105</b>
 Plan fiduciary net position as a percentage of the total pension liability	 69.7%	 76.3%
<u>Covered employee payroll (4)</u>	<u>\$ 5,591,911</u>	<u>\$ 5,344,510</u>
Net pension liability/(asset) as a percentage of covered employee payroll	186.9%	138.9%

SOURCE: Office of the Comptroller

- (1) Fiscal 2014 amounts were reclassified to conform to current year presentation
- (2) Reflects costs associated with the retirement incentive program approved in May, 2015.
- (3) The changes in assumptions in fiscal 2015 were due to (1) a decrease in the investment rate of return of 0.25% to 7.75% in the January 1, 2015 actuarial valuation and (2) improved future mortality.
- (4) Reflects compensation in the January 1 actuarial valuation for each fiscal year.

**GASB 68 Information for the State Retirement System (1)**  
**Pension Expense and Deferred Outflows/Inflows of Resources**

(Amounts in thousands)

Pension Expense for Fiscal 2015 (7/1/13- 6/30/14)

Service cost	\$631,634
Interest	2,405,204
Employee contributions	(501,106)
Projected earnings on plan investments	(1,658,120)
Recognized portion of difference in projected and actual earnings on investments	(380,947)
Recognized portion of assumption change	18,545
Transfers and reimbursements from other systems	(25,464)
Member make up, redeposit and payments from rollovers	(7,536)
COLA reimbursements	(21,104)
Other reimbursements	(719)
Administrative expense	36,057
<u>Other expenses that do not reduce the total pension liability</u>	<u>53,177</u>
<b>Pension expense</b>	<b>\$549,621</b>

**Deferred Outflows/Inflows of Resources**

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Original Amount</u>	<u>Amortization Period (years)</u>	<u>Amortization</u>
Difference between expected and actual experience	\$0	\$ -	\$0	5.5	\$0
Assumption changes	83,455	-	102,000	5.5	18,545
Net difference between projected and actual earnings on investments	-	<u>(1,523,789)</u>	<u>(1,904,736)</u>	<u>5</u>	<u>(380,947)</u>
<b>Total</b>	<b>83,455</b>	<b>(1,523,789)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net</b>	<b>-</b>	<b>(\$1,440,334)</b>	<b>(\$1,802,736)</b>	<b>-</b>	<b>(\$362,402)</b>

**Projected Recognition of Deferred Outflows/(Inflows)**

Deferred Inflows/(outflows) recognized in Future Pension Expense  
(fiscal years ending June 30)

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Difference between expected and actual experience	\$0	\$0	\$0	\$0	\$0	\$0
Assumption changes	18,545	18,545	18,545	18,545	9,274	0
Net difference between projected and actual earnings on investments	<u>(380,947)</u>	<u>(380,947)</u>	<u>(380,947)</u>	<u>(380,947)</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>(362,402)</b>	<b>(362,402)</b>	<b>(362,402)</b>	<b>(362,402)</b>	<b>\$9,274</b>	<b>\$0</b>

(1) Fiscal 2014 information is used in the fiscal 2015 CAFR; fiscal 2015 information is to be used in the fiscal 2016 CAFR.

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

The following tables project the funded status of the Massachusetts State Employees Retirement System's, Massachusetts Teachers' Retirement System's, Boston Teachers' Retirement System's (BTRS) and the Commonwealth's aggregate pension liabilities through fiscal 2020. The fiscal 2015 actuarial results reflect assumptions outlined in the January 1, 2015 actuarial valuation report. The tables are expected to be updated when the next funding schedule is prepared in early 2017. All projections are estimates and will vary based on actual investment returns and plan experience. The projections in this table assume that all assumptions will be realized exactly. The actuarially determined contribution for fiscal 2014 was the ARC identified in the January 1, 2013 actuarial valuation report (4.0% annually increasing amortization of the unfunded actuarial liability to fiscal 2040) brought forward for fiscal 2014. The actuarially determined contribution for fiscal 2015 and beyond reflects the Commonwealth's most recently adopted funding schedule. The revised schedule increases the total appropriation by 10% in fiscal 2015, fiscal 2016, and fiscal 2017, and by 7% each year until fully-funded (fiscal 2036 based on the January 1, 2013 valuation). Although the appropriation under the adopted schedule will be less than the actuarial determined contribution for several years, the annual increases in the schedule are significant and will allow the Commonwealth to be fully funded in approximately 20 years. Actuarial figures other than the actuarially determined contribution reflect January 1 estimates of the fiscal year shown. The actuarial value of assets on January 1, 2014 was 94.9% of the market value of assets. The actuarial value of assets on January 1, 2015 was 95.7% of the market value of assets. The actuarial value of assets on January 1, 2016 is assumed to be 97% of the market value of assets. The actuarial value of assets on January 1, 2017, 2018, 2019 and 2020 is assumed to be 98%, 99%, 100%, and 100% of the market value of assets, respectively. The actuarial value of assets is projected using the past history of PRIT Fund cash flows to estimate future cash flows. The actuarial liability is projected from January 1, 2015 to January 1, 2016 using standard methodology. Projections beyond January 1, 2016 reflect slightly decreasing percentage increases to reflect the impact of pension reform legislation enacted in 2011 as well as employee contribution increases as a percentage of pay. Funding schedule information is based on the funding schedule filed by the Secretary of Administration and Finance on January 14, 2014.

For the purpose of calculating the actuarially determined contribution as a percentage of total budgeted operating funds expenditures, the Executive Office for Administration and Finance used the 4.42% compound annual growth rate of budgeted revenues from fiscal 2006 to estimated fiscal 2016. This measure is also used in the Commonwealth's debt affordability analysis. This does not represent an official forecast of the growth in Total Budgeted Expenditures and Other Uses by the Executive Office for Administration and Finance. The actuarial liability and actuarially determined contributions below exclude the impact of the early retirement incentive program adopted in fiscal 2015 and reflected in the January 1, 2016 actuarial valuation.

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

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>ADC as a % of Total Budgeted Operating Funds Expenditures</u>
<b>State Employees' Retirement System</b>						
2015	\$631	\$22,720	\$33,679	\$10,959	67.5%	1.6%
2016	694	23,955	35,151	11,196	68.1	1.7
2017	763	25,192	36,662	11,471	68.7	1.8
2018	817	26,506	38,202	11,696	69.4	1.8
2019	874	27,903	39,769	11,865	70.2	1.9
2020	935	29,162	41,359	12,197	70.5	1.9
<b>Massachusetts Teachers' Retirement System</b>						
2015	\$1,030	\$23,947	\$44,116	\$20,169	54.3%	2.7%
2016	1,132	25,060	45,575	20,515	55.0	2.8
2017	1,245	26,120	47,170	21,050	55.4	2.9
2018	1,332	27,228	48,774	21,545	55.8	3.0
2019	1,426	28,388	50,383	21,995	56.3	3.1
2020	1,525	29,342	51,996	22,654	56.4	3.2
<b>Boston Teachers' Retirement System</b>						
2015	\$109	\$1,439	\$3,554	\$2,115	40.5%	0.3%
2016	120	1,511	3,661	2,150	41.3	0.3
2017	132	1,579	3,804	2,225	41.5	0.3
2018	141	1,647	3,948	2,301	41.7	0.3
2019	151	1,715	4,094	2,380	41.9	0.3
2020	162	1,754	4,242	2,488	41.4	0.3
<b>Aggregate Commonwealth Pension System</b>						
2015	\$1,793	\$48,106	\$81,535	\$33,429	59.0%	4.6%
2016 (2)	1,972	50,527	84,554	34,027	59.8	4.8
2017 (3)	2,169	52,891	87,787	34,895	60.2	5.1
2018	2,321	55,381	91,060	35,678	60.8	5.2
2019	2,483	58,007	94,368	36,362	61.5	5.4
2020	2,657	60,258	97,706	37,448	61.7	5.5

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

- (1) All figures as of January 1, 2015.
- (2) The fiscal 2016 budget included a \$29 million appropriation (in addition to the \$1.972 billion paid according to the schedule) to defray costs associated with the employee retirement incentive program.
- (3) Legislation approved in August, 2015 mandates a fiscal 2017 appropriation of \$2,198,092,616, reflecting a \$29.1 million increase to defray costs associated with the employee retirement incentive program.

**PRIT Fund Investments**

The mission of the PRIM Board is to manage the PRIT Fund so as to ensure that pension assets are well invested so that current and future benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investment, within acceptable levels of risk and cost for an approximately 60% funded public pension fund. Under current law, by the year 2040 the PRIT Fund will have grown, through annual payments in accordance with a legislatively approved funding schedule and through the total return of the fund, to an amount sufficient to meet the then existing pension obligations of the Commonwealth. The funding schedule of state pension appropriations that is currently in place assumes a long-term actuarial rate of return for the PRIT Fund of 8.0%. As of January 1, 2015, the rate of return assumption was reduced to 7.75%, and it is expected to be reduced to 7.5% for the January 1, 2016 valuation report.

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

The actual asset allocation mix invariably deviates from the plan's targets due to market movement, cash flows, and manager performance. Material deviations from the asset allocation targets can alter the expected return and risk of the PRIT Fund. The following table sets forth the actual PRIT Fund asset allocation for each of the most recent five fiscal years, as well as the current targets. The actual allocation figures are as of June 30 for each of the years indicated. The targets are those contained in the asset allocation plan, which was most recently reviewed on February 2, 2016. The Board expects to review the current targets in February, 2017.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Target</u>
Domestic Equity	19.2%	20.8%	19.0%	19.2%	18.7%	18.0%
International Equity	16.7	18.0	17.1	16.9	16.5	16.0
Emerging Markets Equity	6.7	6.5	7.0	6.6	7.0	6.0
Core Fixed Income	13.0	12.6	13.9	13.7	13.9	13.0
Value-Added Fixed Income	8.6	8.9	8.5	8.3	8.4	10.0
Private Equity	12.1	11.7	11.1	11.3	11.1	10.0
Real Estate	9.7	8.2	8.9	10.0	10.4	10.0
Timber/Natural Resources	3.9	4.0	3.9	3.8	3.3	4.0
Hedge Funds	9.9	9.2	9.6	9.1	8.6	9.0
Portfolio Completion Strategies	n/a	n/a	0.0	0.2	1.2	4.0

SOURCE: Pension Reserves Investment Management Board.

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

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

<u>Fiscal Year</u>	<u>Rate of Return</u>	<u>Fiscal Year</u>	<u>Rate of Return</u>
<b>2016</b>	2.29%	<b>2011</b>	22.30%
<b>2015</b>	3.86	<b>2010</b>	12.82
<b>2014</b>	17.53	<b>2009</b>	(23.87)
<b>2013</b>	12.69	<b>2008</b>	(1.81)
<b>2012</b>	(0.08)	<b>2007</b>	19.92
	<b>3yr average</b>		7.68%
	<b>5yr average</b>		7.05%
	<b>10yr average</b>		5.69%
	<b>Assumed Rate</b>		7.50%

SOURCE: Pension Reserves Investment Management Board.

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

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

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

The Commonwealth also oversees the management and administration of the Massachusetts Turnpike Authority Retiree Benefits Trust, which is restricted for OBEP benefits of the retirees of the former Massachusetts Turnpike Authority.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2016, Commonwealth participants contributed 10% to 25% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. The GIC had 157,741 state enrollees as of the end of fiscal 2014.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its OPEB liability in its fiscal 2008 financial reports.

The January 1, 2016 actuarial valuation was issued on October 24, 2016. According to the report, the Commonwealth’s actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately \$16.323 billion as of January 1, 2016. The 4.5% discount rate (which is the approximate rate of return since its inception of the Massachusetts Municipal Depository Trust) is intended to approximate the Commonwealth’s rate of return on non-pension (liquid) investments over the long term. Assuming pre-funding, the study estimated the Commonwealth’s liability to be approximately \$10.155 billion using a discount rate of 7.50%. 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).

A liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth’s statement of net position, as presented on a GAAP basis. The liability increases or decreases each year depending on the amount funded, investment return and changes in amortization and assumptions. This change 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, 2015, this net OPEB obligation as reflected on the Commonwealth’s statement of net position is \$5.605 billion.

The independent actuarial report covers only the Commonwealth’s OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, perform their own valuations, as the Commonwealth acts only as an agent for the entities that participate in the GIC with respect to providing OPEB health insurance benefits and does not assume the risk or financial burden of their health care costs.

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future

health care claims, coverage levels and retiree contribution requirements. Accordingly, the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

The State Retiree Benefits Trust Fund was created to consolidate the state's retiree funding efforts and better project future liabilities, and beginning in fiscal 2008, expenses for current state retirees' healthcare were paid from the fund. Also in fiscal 2008, the fund benefited from a one-time transfer of approximately \$329 million from the Health Care Security Trust. The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments be transferred to the State Retiree Benefits Trust Fund, with the amount deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments would be transferred to that Fund. Pursuant to this requirement, in May, 2013, tobacco settlement proceeds in the amount of \$25.3 million were transferred to the State Retiree Benefits Trust Fund.

The fiscal 2014 budget included a provision that funded the scheduled transfer to the State Retiree Benefits Trust Fund from unspent appropriations, to the extent that they were available, with any balance to be made up through a transfer of tobacco settlement proceeds. In fiscal 2014, pursuant to that provision, unspent appropriations in the amount of \$56.4 million were transferred to the State Retirees Benefits Trust Fund, and approximately \$15 million of tobacco proceeds were used to fund the balance of the transfer.

The fiscal 2015 budget contained a similar provision requiring the transfer of tobacco settlement funds, equal to approximately \$73.7 million, to be funded from unspent appropriations, to the extent that they were available, with any balance to be made up through a transfer of tobacco settlement proceeds. In fiscal 2015, pursuant to that provision, unspent appropriations in the amount of \$44 million were transferred to the State Retirees Benefits Trust Fund, and approximately \$29.7 million of tobacco proceeds were used to fund the balance of the transfer.

The fiscal 2016 budget contained a similar provision requiring that transfers be made equivalent to 30% of fiscal 2016 tobacco settlement proceeds (the same percentage required in fiscal 2015), or approximately \$77 million, to be funded from unspent appropriations, to the extent they were available, with any balance to be made up through a transfer of fiscal 2016 tax revenues exceeding \$100 million generated by a tax amnesty program that was also authorized in the fiscal 2016 budget. In fiscal 2016, pursuant to the budget, unexpended appropriations in the amount of \$77.3 million were transferred to the State Retirees Benefits Trust Fund.

The fiscal 2017 budget enacted by the Legislature requires that transfers be made equivalent to 10% of fiscal 2017 tobacco settlement proceeds, or approximately \$25.2 million. That transfer is contingent on the availability of unexpended appropriations, and if those are insufficient to fund the 10% transfer, the balance of the 10% will be funded by tobacco settlement revenues. The Governor returned that section of the Legislature's proposal with an amendment, proposing instead to require a 30% transfer, as in fiscal 2016, which would result in approximately \$76 million. That proposal has not yet been acted upon by the Legislature.

State finance law also provides for annual deposits in to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues transferred to the Stabilization Fund in excess of the statutory capital gains threshold. This resulted in deposits to the State Retiree Benefits Trust Fund of \$23.4 million in fiscal 2013 and \$2.3 million in fiscal 2014. This requirement was suspended by the legislature for fiscal years 2015 and 2016.

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The actuarial value of plan assets as of January 1, 2016 was approximately \$760 million.

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

Actuarial Valuation as of January 1:	Actuarial Value of <u>Plan Assets</u>	Actuarial <u>Liability</u>	Accrued Unfunded Liability <u>(UAAL)</u>	Actuarial Ratio <u>Covered</u>	<u>Funded Payroll</u>	Annual Covered Payroll as % <u>of UAAL</u>
<b>2016</b>	\$760,400	\$17,082,900	\$16,322,500	4.5%	\$5,792,288	281.8%
<b>2015</b>	610,000	16,502,800	15,892,800	3.7	5,591,911	284.2
<b>2014</b>	511,200	15,670,200	15,159,000	3.3	5,344,500	283.6
<b>2013</b>	406,700	15,784,100	15,377,400	2.6	5,183,195	296.7
<b>2012</b>	360,500	16,559,400	16,298,900	2.2	4,922,388	331.1
<b>2011</b>	350,500	16,568,600	16,218,100	2.1	4,808,250	337.3
<b>2010</b>	309,800	15,166,300	14,856,500	2.0	4,711,563	315.3
<b>2009</b>	273,500	15,305,100	15,031,600	1.8	4,712,655	319.0
<b>2008</b>	-	9,812,000	9,812,000	0.0	4,574,233	214.5

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

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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 2012</u>	<u>June 2013</u>	<u>June 2014</u>	<u>June 2015 (2)</u>	<u>June 2016 (3)</u>
Executive Office	69	68	70	75	75
Office of the Comptroller	108	111	113	109	107
Executive Departments					
Administration and Finance	2,784	2,823	2,882	2,983	2,595
Energy and Environmental Affairs	1,950	1,915	1,900	1,907	1,773
Health and Human Services	19,397	19,379	19,699	20,096	19,556
Board of Library Commissioners	10	10	10	11	-
Housing and Economic Development	677	684	702	699	673
Labor and Workforce Development	262	236	250	234	236
Executive Office of Education	322	359	523	399	370
Public Safety and Security	8,534	8,626	8,815	8,627	8,380
Elder Affairs	<u>37</u>	<u>38</u>	<u>39</u>	36	-
Subtotal under Governor's Authority	34,151	34,249	35,004	35,173	33,765
Judiciary	7,085	7,217	7,188	7,256	7,257
Higher Education	12,539	12,957	13,840	14,111	14,678
Other (1)	<u>10,084</u>	<u>10,356</u>	<u>10,606</u>	<u>10,701</u>	<u>10,747</u>
Subtotal funded by the Operating Budget	<u>63,859</u>	<u>64,779</u>	<u>66,638</u>	<u>67,241</u>	<u>66,447</u>
Federal Grant, Trust and Capital Funded (4)	<u>20,654</u>	<u>20,650</u>	<u>19,963</u>	<u>20,597</u>	<u>19,811</u>
<b>Total (5)</b>	<b><u>84,513</u></b>	<b><u>85,429</u></b>	<b><u>86,601</u></b>	<b><u>87,839</u></b>	<b><u>86,258</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary of the Commonwealth, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.
- (2) June, 2015 figures do not include the approximately 2,500 executive branch employees who took advantage of the Early Retirement Incentive Program and left the state workforce as of July 1, 2015.
- (3) June, 2016 figures include the Board of Library Commissioners in Other and Elder Affairs in Health and Human Services.
- (4) The Massachusetts Department of Transportation is included in Federal Grant, Trust, and Capital Funded.
- (5) Totals may not add due to rounding

### Unions and Labor Negotiations

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

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

Approximately 35,576 executive branch full-time-equivalent state employees are organized in 13 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch, MassDOT, the Lottery Commission, the Registries of Deeds,

sheriffs, Personal Care Attendants at MassHealth, and family child care providers at the Department of Early Education and Care are organized in 67 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

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

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

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

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

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

(5) The contract with the New England Police Benevolent Association, representing unit 4A, runs from July 1, 2014 through June 30, 2017 and provides semi-annual increases of 1.5% each July and January. The total estimated cost of the contract is \$1.2 million.

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

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

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2015 through June 30, 2018 and provides annual increases of 2%, 3.75% and 3.75%, effective July 1, 2015, 2016 and 2017, respectively. The total estimated cost of the contract is \$46.9 million.

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

(10) The contract with the International Association of Fire Fighters runs from January 1, 2015 through December 31, 2017, and provides annual increases of 2%, 3.5%, 3.5%, respectively. The total estimated cost of the contract is \$0.5 million.

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

**Human Resources Division Bargaining Units (1)**

<b><u>Contract Unit</u></b>	<b><u>Bargaining Union</u></b>	<b><u>Type of Employee</u></b>	<b><u>FTEs</u></b>	<b><u>Contract Expiration Dates</u></b>
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	9,654	6/30/17
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,085	6/30/17
4	Massachusetts Correction Officers Federated Union	Corrections	3,868	6/30/18
4A	New England Police Benevolent Association	Corrections	79	6/30/17
5	Coalition of Public Safety	Law enforcement	186	6/30/15 (2)
5A	State Police Association of Massachusetts	State Police	2,078	12/31/17
7	Massachusetts Nurses Association	Health professionals	1,539	12/31/17
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	8,317	12/31/16
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,711	6/30/17
11	International Association of Fire Fighters	Fire fighters	59	12/31/17
		<b>Total</b>	<b>35,576</b>	

SOURCE: Executive Office for Administration and Finance.

- (1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of July 9, 2016 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).
- (2) This contract has expired, and negotiations are ongoing.

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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.

*Required Deposits and Allowable Stabilization Fund Balance.* From fiscal 2005 through fiscal 2013, state finance law provided that (i) 0.5% of current year net tax revenues from each fiscal year be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues be made available for the next fiscal year and (iii) any remaining amount of the year-end surplus be transferred to the Stabilization Fund. Since fiscal 2014, state finance law has required that the entire year-end surplus be transferred to the Stabilization Fund. Since fiscal 2011, state finance law has required that tax revenue from capital gains exceeding \$1 billion in a fiscal year (adjusted annually, beginning in fiscal 2014, for U. S. gross domestic product growth) be deposited into the Stabilization Fund, with 5% of such amount to be transferred to the State Retiree Benefits Trust Fund and, beginning in fiscal 2013, with an additional 5% of such amount to be transferred to the Commonwealth's Pension Liability Fund. However, all of these requirements may be modified or superseded by individual appropriation acts. Legislative enactments in 2015 retained all fiscal 2015 and fiscal 2016 capital gains tax revenues in the General Fund.

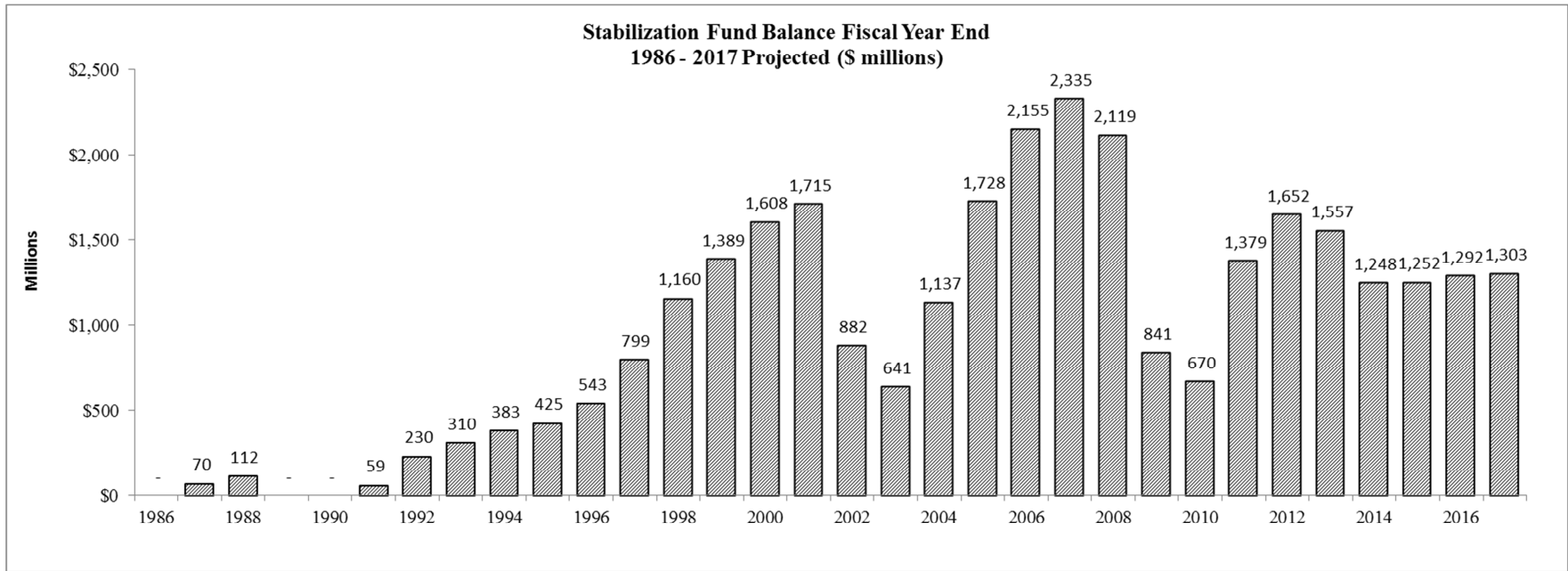
State finance law requires the Comptroller to transfer 75% of the growth in unclaimed property revenue relative to the prior year to the Stabilization Fund. In fiscal 2016, this provision resulted in a transfer of \$27.1 million to the Stabilization Fund.

The fiscal 2015 budget included a provision modifying the law with respect to settlements and judgments such that settlements and judgments in excess of \$10 million would be deposited in the Stabilization Fund only to the extent that the total of all such settlements and judgments exceeded the average of such total for the five preceding fiscal years. See "COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues - *Settlements and Judgments.*"

The allowable Stabilization Fund balance at fiscal year-end is 15% of total revenues for that year. 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 1986 through fiscal 2016 (actual) and fiscal 2017 (projected).

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SOURCE: Fiscal 1986-fiscal 2016, Office of the Comptroller; fiscal 2017 (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 2012 through fiscal 2016:

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

	<b>Fiscal 2012</b>	<b>Fiscal 2013</b>	<b>Fiscal 2014</b>	<b>Fiscal 2015</b>	<b>Fiscal 2016</b>
Beginning fund balances	\$1,379,071	\$1,652,118	\$1,556,657	\$1,248,435	\$1,252,429
<b>Revenues and Other Sources</b>					
Deposit of the remaining consolidated net surplus	116,673	-	-	123,507	-
Deposits made directly during fiscal year	-	-	-	20,000 (1)	27,100 (2)
Capital gains tax transfers in excess of \$1 billion	-	467,500	45,457	-	-
Deposits due to judgments and settlements in excess of \$10 million	375,021	32,498	414,310	-	-
Lottery transfer taxes	1,353	1,291	867	647	744
Investment income	10,408	5,322	7,259	4,646	11,241
Excess permissible tax revenue	-	-	-	-	-
<b>Total Revenues and Other Sources</b>	<b>503,455</b>	<b>506,611</b>	<b>467,893</b>	<b>148,800</b>	<b>39,085</b>
<b>Total Expenditures and Other Uses</b>					
	<b>230,408</b>	<b>602,072</b>	<b>776,115</b>	<b>144,806</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>273,047</b>	<b>(95,461)</b>	<b>(308,222)</b>	<b>3,994</b>	<b>39,085</b>
<b>Ending fund balances</b>	<b>\$1,652,118</b>	<b>\$1,556,657</b>	<b>\$1,248,435</b>	<b>\$1,252,429</b>	<b>\$1,291,514</b>
<b>Allowable Stabilization Fund Balance</b>	<b>\$4,881,982</b>	<b>\$5,066,844</b>	<b>\$5,320,973</b>	<b>\$5,735,471</b>	<b>\$6,047,764</b>

SOURCE: Office of the Comptroller.

(1) Represents repayment of Massachusetts Gaming Commission start-up funds.

(2) Represents transfer equal to 75% of the growth in abandoned property receipts from the prior fiscal year.

**GAAP Basis**

The Commonwealth's GAAP financial statements for the year ended June 30, 2015, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, capital assets and accrual activity on a comprehensive statement of net position. All capital assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

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

basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

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

(Amounts in Millions of Dollars)

<b>Governmental Funds-Statutory Basis, June 30, 2015</b>	
Budgeted Fund Balance	\$1,570.7
Non-budgeted special revenue fund balance	2,125.3
Capital Projects Fund Balance	<u>(524.9)</u>
<b>Governmental Fund Balance-Statutory Basis, June 30, 2015</b>	<b>\$3,171.1</b>
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes	567.3
Less: Massachusetts Department of Transportation Funds	<u>(1,289.5)</u>
<b>Adjusted Statutory Governmental Fund Balance</b>	<b>\$2,448.9</b>
Short term accruals, net of allowances and deferrals for increases/(decreases):	
Taxes, net of refunds and abatements	1,967.1
Tobacco settlement agreement receivable	122.0
Medicaid	(517.0)
Assessments and other receivables	268.1
Amounts due to authorities and municipalities, net	(673.2)
Claims, judgments and other risks	(11.8)
Amounts due to healthcare providers and insurers	(30.5)
Workers' compensation and group insurance	(145.2)
Compensated absences	(11.1)
Other accruals, net	<u>366.4</u>
<b>Net increase to governmental funds balances</b>	<b>\$1,334.8</b>
Massachusetts School Building Authority fund balance	<u>1,521.5</u>
<b>Total changes to governmental funds</b>	<b>\$2,856.3</b>
Governmental fund balance (fund perspective)	5,305.2
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,602.3
Deferred revenue, net of other eliminations	556.1
Long term accruals:	
Net pension liability	(24,532.0)
Net deferred (inflows)/outflows related to pensions	(1,141.9)
Post-employment benefits other than pensions cumulative over/(under) funding	(5,605.0)
Environmental remediation liability	(208.0)
Massachusetts School Building Authority debt and school construction payables	(7,690.2)
Long term debt, unamortized premiums and deferred losses on debt refundings	(24,853.1)
Compensated Absences	(566.2)
Capital leases	(42.9)
Accrued interest on bonds	(367.8)
Other long term liabilities	<u>(309.9)</u>
<b>Total governmental net position/(deficit) (government-wide perspective)</b>	<b><u>(\$54,853.4)</u></b>

SOURCE: Office of the Comptroller

The deficit of \$54.853 billion in government-wide net position can be largely attributed to two factors: first, the implementation of GASB Statement No. 68 which was effective for the fiscal year ending June 30, 2015. This Statement required, among other things, the Commonwealth to include for the first time the long-term net pension liability on Government-wide Statement of Net Position. As of June 30, 2015 the Commonwealth reported a net pension liability of approximately \$24.532 billion. Also contributing to the deficit was the Commonwealth's policy decision to finance the construction of assets owned by other governmental entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during fiscal 2010 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit

of the Commonwealth. At the end of fiscal 2015, MassDOT held \$23.637 billion in road, bridge and other transportation-related assets (excluding assets of the MBTA), net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth, and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$6.128 billion in debt and grant obligations for the school building assistance program that finances construction of schools for the Commonwealth's cities and towns.

### Change in Statement of Net Position

(amounts in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Government Wide</u>
<b>Total net position:</b>			
<b>Fiscal 2014 (1)</b>	(\$52,451,790)	\$5,061,186	(\$47,390,604)
<b>Fiscal 2015</b>	(54,853,441)	5,292,285	(49,561,156)
<b>Change in net position</b>	<u>(\$2,401,651)</u>	<u>\$231,099</u>	<u>(\$2,170,552)</u>

SOURCE: Office of the Comptroller

- (1) During fiscal 2015, the beginning net position of the governmental activities and business type activities were restated by approximately \$23.492 billion and \$426 million, respectively due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and other various restatements; see footnote 1 of the CAFR.

During the fiscal year, approximately \$1.320 billion in restricted net position was set aside for unemployment benefits and an additional approximate \$1.164 billion was restricted for debt retirement.

*Revenues – GAAP Basis.* The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2015:

### Comparison of Fiscal 2015 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	\$25,239	\$25,258	\$25,210
Federal Revenue	12,555	14,045	14,032
Departmental and Miscellaneous Revenue	<u>19,043</u>	<u>21,355</u>	<u>10,833</u>
<b>Total</b>	<b><u>\$56,837</u></b>	<b><u>\$60,658</u></b>	<b><u>\$50,075</u></b>

SOURCE: Office of the Comptroller

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2011 through fiscal 2015.

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

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
Beginning fund balances	\$4,585.7	\$5,267.6	\$6,318.9	\$4,869.9	\$4,619.4
Revenues and Financing Sources	53,898.4	54,370.1	55,289.9	57,210.0	60,658.6
Expenditures and Financing Uses	53,216.5	53,318.8	56,738.9	57,460.5	59,972.8
Excess/(deficit)	681.9	1,051.3	(1,449.0)	(250.5)	685.8
<b>Ending fund balances—GAAP fund perspective</b>	<b><u>\$5,267.6</u></b>	<b><u>\$6,318.9</u></b>	<b><u>\$4,869.9</u></b>	<b><u>\$4,619.4</u></b>	<b><u>\$5,305.2</u></b>

SOURCE: Office of the Comptroller.

*Financial Reports.* The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements. These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is usually published by the Comptroller by October 31 and the CAFR is usually published by the Comptroller by the second Wednesday in January. Publication of the CAFR for the year ended June 30, 2015 was delayed until May 20, 2016 because of delays in the preparation of audited financial statements for such year by the MBTA Retirement Fund, the MBTA and MassDOT. The SBFR for the year ended June 30, 2015 and the CAFR for the year ended June 30, 2015 are attached hereto as Exhibits B and C, respectively. Copies of these financial reports are also available at the address provided under “CONTINUING DISCLOSURE.” The SBFR for fiscal 1997 through fiscal 2015 and the CAFR for fiscal 1995 through fiscal 2015 are also available on the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/comptroller> 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 1990 through 2015 the independent auditors’ opinions were unqualified.

For each year beginning in fiscal 1990, 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 2015 marked the 26th consecutive year that the Commonwealth has received this award.

**Discussion of Financial Condition**

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports.*” Without limiting the generality of the references to the SBFR for the year ended June 30, 2015 and the CAFR for the year

ended June 30, 2015, attention is called in particular to the portion of the CAFR under the heading “Management’s Discussion and Analysis.”

**Auditors’ Report on Fiscal 2015 CAFR**

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2015 were audited by KPMG LLP (KPMG). The KPMG audit report dated May 18, 2016 on the general purpose financial statements included in the CAFR for the year ended June 30, 2015 contained an unqualified opinion. A copy of the audit report of KPMG dated May 18, 2016 has been filed with EMMA and is included within Exhibit C to this Information Statement. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to any official statement of which this Information Statement may be a part.

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## FISCAL 2016 AND FISCAL 2017

### Fiscal 2016

On January 30, 2015, a fiscal 2016 consensus tax revenue estimate of \$25.479 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. After accounting for statutorily required transfers for pensions, to the MBTA, the MSBA and the Workforce Training Fund, and including expected capital gains tax revenue in excess of the fiscal 2016 threshold, the Secretary and Committee chairs agreed that \$21.396 billion would be the maximum amount of tax revenue available for the fiscal 2016 budget. See “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2016 and 2017 Tax Revenues; *Fiscal 2016.*”

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

The fiscal 2016 budget was approximately 3.4% greater than fiscal 2015 estimated spending levels at the time of its approval. This calculation assumed that a \$565.5 million transfer from the General Fund to the Medical Assistance Trust Fund, which was delayed into fiscal 2016 to await necessary federal approval, counted as fiscal 2015 actual spending. The fiscal 2016 budget relied on approximately \$629 million in fiscal initiatives, including retaining projected \$300 million above-threshold capital gains tax revenues in the General Fund (rather than transferring to the Stabilization Fund), projected \$100 million from a non-filer tax amnesty program, \$67 million transfer from the Commonwealth Care Trust Fund, \$46 million from FAS 109 delay and projected savings resulting from cash management in the MassHealth program. The fiscal 2016 budget also assumed savings for fiscal 2016 debt service attributable to the \$113.2 million debt defeasance included in the final fiscal 2015 supplemental appropriation bill.

The fiscal 2016 budget also assumed gross payroll related savings of approximately \$200 million due to an early retirement incentive program (“ERIP”) signed into law by the Governor on May 4, 2015. The ERIP was projected to increase the Commonwealth’s annual required contribution to the pension fund for the next 15 years by approximately \$29.2 million annually. The fiscal 2016 budget provides for this additional contribution. See “PENSION AND OPEB FUNDING – Funding Schedule.”

Legislation that was approved as part of the fiscal 2016 budget established a Fiscal Management and Control Board to focus specifically on improving management of the MBTA and allowed the University of Massachusetts to retain all the tuition it collects. See “COMMONWEALTH REVENUES AND EXPENDITURES – Education; *Department of Higher Education.*”

On July 28, 2015, the Legislature passed overrides to the Governor’s vetoes in the amount of \$97.9 million. On August 6, 2015, the Governor approved legislation that authorized a two-day suspension of the sales tax on August 15 and 16, 2015, which resulted in approximately \$25.5 million in foregone revenue.

On October 15, 2015, the Secretary of Administration and Finance maintained the fiscal 2016 tax revenue estimate of \$25.611 billion without change and reduced the non-tax revenue estimate by \$145 million.

On January 14, 2016, the Secretary of Administration and Finance revised the fiscal 2016 tax revenue estimate upwards by \$140 million, for a revised estimate of \$25.751 billion. On the same day, the Governor reduced spending allotments pursuant to his Section 9C authority by \$47 million. The Governor also identified non-tax revenue solutions worth \$56 million. This combination of revenue and spending adjustments resulted in a remaining statutory budget gap of approximately \$75 million.

On April 1, 2016, the Governor approved a supplemental budget for fiscal 2016 including \$167.6 million in supplemental appropriations. The bill consisted of routine midyear appropriations for identified deficiencies, including emergency assistance and shelter diversion costs (\$44 million), representation of indigent defendants (\$26 million), recognized sheriffs’ deficiencies (\$18 million), collective bargaining costs (\$16 million), settlement



and judgments (\$13 million), MassHealth (\$11 million), and labor costs at the University of Massachusetts (\$10.9 million).

On July 21, 2016, the Governor approved a supplemental budget for fiscal 2016 including \$24 million in appropriations. The bill consisted of routine mid-year appropriations recommended by the Governor in February for representation of indigent defendants (\$14 million) and sheriffs' deficiencies (\$10 million). It also authorized transferability between MassHealth line items, and continued certain prior appropriations.

On October 6, 2016, the Governor approved a final supplemental budget for fiscal 2016 containing \$187 million in fiscal 2016 appropriations (\$23 million net state cost), which provided funding for certain caseload-driven accounts, such as representation of indigent defendants, and which provided funding for two time-sensitive fiscal 2017 needs (student assessments and substance abuse services). The bill extended into fiscal 2017 certain spending authorizations which would otherwise have expired at the end of fiscal 2016 and appropriated \$5 million for newly identified fiscal 2017 spending needs. Outside sections effectuated certain year-end transfers intended to close the fiscal year in balance, and made other technical or corrective changes in law.

### **Fiscal 2017**

On January 14, 2016, a fiscal 2017 consensus tax revenue estimate of \$26.860 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 2017 consensus tax revenue estimate represented actual revenue growth of 4.3% from the revised fiscal 2016 estimate of \$25.751 billion. After accounting for statutorily required transfers for pensions, to the MBTA, the MSBA, and the Workforce Training Fund, the Secretary and Committee chairs agreed that \$22.772 billion would be the maximum amount of tax revenue available for the fiscal 2017 budget. See "COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2016 and 2017 Tax Revenues; *Fiscal 2017*."

As a result of the Commonwealth's relatively slow tax filing season in the spring of 2016, the tax revenue estimates on which the fiscal 2017 budget was based were revised to approximately \$26.231 billion (after overrides) by the budget conferees, resulting in approximately \$24.372 billion as the maximum amount of tax revenue available for the budget, after accounting for transfers and other adjustments. See "COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2016 and Fiscal 2017 Tax Revenues; *Fiscal 2017*."

An interim budget of approximately \$5.3 billion for the first month of fiscal 2017 was enacted by the Legislature on June 23, 2016 and approved by the Governor on June 27, 2016. The interim budget was immediately superseded by the fiscal 2017 budget when it went into effect. The fiscal 2017 budget was enacted by the Legislature on June 30, 2016 and approved by the Governor on July 8, 2016. Total authorized line item spending in the fiscal 2017 budget approved by the Governor amounted to approximately \$38.92 billion, after accounting for \$264 million in line item vetoes. Excluding spending from beginning balances and excluding certain transfers in both years, the fiscal 2017 budget as signed was approximately \$489 million, or 1.3%, greater than fiscal 2016 estimated spending levels at the time of its approval. An increase in the pension transfer represented an additional \$226 million in increased spending over fiscal 2016 levels.

At the time he approved the budget, the Governor filed a supplemental budget for fiscal 2017, which proposed additional appropriations for identified deficiencies totaling \$177 million, net of offsetting revenues.

Through July 31, 2016, the Legislature passed overrides to the Governor's vetoes in the aggregate amount of \$219 million, net of offsetting revenue impacts and increased caseload exposures, including approximately \$112.7 million for the MassHealth program.

On October 14, 2016, the Secretary of Administration and Finance revised the tax revenue projection downward by \$175 million to \$26.056 billion, to reflect slower-than-expected growth in sales tax collections. Also on October 14, 2016, the Secretary of Administration and Finance reported to the Governor a budget shortfall of \$294 million. The projected deficiency reflects both the tax revenue reduction of \$175 million and non-discretionary spending obligations for indigent defendants' legal costs, projected snow and ice costs, shelter and settlement and judgment costs, approximately \$106 million of which had previously been recognized in the fiscal 2017 supplemental budget filed by the Governor in July. On October 27, 2016, the Secretary of Administration and

Finance reported to the House and Senate Committees on Ways and Means that she had identified solutions to close the announced gap. These solutions include unneeded trust balances and other budget closing measures identified but not ultimately needed to close fiscal 2016, increased non-tax revenue, decreased transfers to the MBTA and MSBA due to the lower sales tax projection, and payroll savings. The Secretary also communicated that the Executive Office for Administration and Finance is tracking additional deficiencies, including approximately \$100 million in additional MassHealth spending net of projected reimbursements, and is in the process of identifying solutions within the MassHealth program to manage spending within appropriated amounts, but further reductions or other actions may ultimately be necessary. See “COMMONWEALTH REVENUES AND EXPENDITURES – Medicaid and the Health Connector.”

The Executive Office for Administration and Finance will continue to monitor revenues and spending and will actively manage the Commonwealth’s budget in fiscal 2017. The Secretary for Administration and Finance expects to implement measures to ensure that the Commonwealth’s budget will achieve statutory balance. Those measures include, but are not limited to, reducing allotments, maintaining payroll caps and other hiring limitations and otherwise imposing spending controls.

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

The Commonwealth ended fiscal 2016 with a non-segregated cash balance of approximately \$2.398 billion. Fiscal 2017 is projected to end with a balance of approximately \$2.287 billion.

The fiscal 2016 and 2017 cash flow statements prepared by the State Treasurer as of September 1, 2016 are summarized in the tables below. Fiscal 2016 is based on actual spending and revenue through June, 2016. The fiscal 2017 statement is based upon the fiscal 2017 budget approved by the Governor on July 8, 2016 and subsequent overrides of the Governor’s vetoes. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer’s website.

Commonwealth cash deposits are held in insured or collateralized bank accounts and with the Massachusetts Municipal Depository Trust (MMDT), the Commonwealth’s investment pool for governmental entities. MMDT is comprised of two portfolios, professionally managed by Federated Investors Inc., the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at amortized cost, which approximates fair value and the Short Term Bond Fund investments are carried at fair value. General operating cash is invested in the cash portfolio, and moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the cash portfolio and the short-term bond fund.

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 September 30, 2016, the Cash Portfolio holdings were made up of commercial paper and notes (50.4 %), variable rate instruments (12.1 %), repurchase agreements (15.4 %) and bank instruments (22.1 %). As of September 30, 2016 the Cash Portfolio’s monthly weighted average life was 64 days, and the monthly weighted average maturity was 54 days. The three objectives for the cash portfolio are safety, liquidity and yield. The cash portfolio maintains a stable net asset value of one dollar and is marked to market daily. The Cash Portfolio is fully compliant with GASB 79 as of July 1, 2016.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of August 31, 2016, the Short Term Bond Fund holdings were made up of U. S. Treasury securities (55.1%), Financial

Institution – Banking (6.3%), FNMA MBS (2.3%), Technology (3.4%), FHLMC MBS (3.1%), Utility – Electric (3.2%), Commercial MBS (1.5%), Consumer Non-Cyclical Food/Beverage (1.8%), Energy – Integrated (1.4%), Consumer Cyclical – Pharmaceuticals (1.4%), Other (20.5%). The Other (20.1%) is composed of over 30 sub-sectors, ranging from 1.1% to 0.02%, which broadly can be classified as the following: Financial (3.4%); Consumer non-cyclical (2.9%); Energy (2.6%); Communications (2.3%); Consumer Cyclical (2.1%); Capital Goods (1.8%); FHLMC Agency (1.1%); FNMA Agency (1.1%); Transportation (1.0%); Basic Industry (0.4%); and Utility (0.3%). The short-term bond fund 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.

The fiscal 2016 capital plan projected \$3.963 billion of spending on capital projects, including \$2.125 billion of bond cap spending, approximately \$374.6 million of spending authorized under the accelerated bridge program (ABP), approximately \$353.0 million in special obligation spending for rail enhancement projects (REP), approximately \$657.1 million in federal reimbursements and grants, approximately \$64.0 million of spending on projects funded by anticipated savings or revenues, approximately \$144.1 million from non-commonwealth sources such as contributions from campuses, and approximately \$245.0 million in pay-as-you-go capital funded by operating funds, including tolls.

For cash flow needs for fiscal year 2017, the State Treasurer issued \$1.5 billion in RANs on August 30, 2016. As in previous years, the RANs are scheduled to mature in April, May and June of the same fiscal year.

The fiscal 2017 capital plan currently projects \$4.146 billion of spending on capital projects, including \$2.19 billion of bond cap spending, approximately \$472.4 million of special obligation bond spending authorized under the accelerated bridge program (ABP) and for rail enhancement projects (REP), approximately \$877.5 million in federal reimbursements and grants, approximately \$77.7 million of spending on projects funded by anticipated savings or revenues, approximately \$330.0 million from non-commonwealth sources such as contributions from campuses, and approximately \$198.4 million in pay-as-you-go capital funded by operating funds, including tolls.

The next official, quarterly cash flow statement is expected to be released on or about November 30, 2016.

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The following table provides General Fund ending cash balances by month for fiscal 2013 through fiscal 2017.

**Month End General Fund Cash Balances (in millions)**  
(as of September 1, 2016)

	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>
July	\$ 1,944.4	\$ 1,253.7	\$ 768.9	\$1,380.2	\$1,864.0
August	1,505.4	1,065.1	948.9	551.4	2,029.9 (1)
September	675.8	1,918.9	1,762.7	1,951.6	2,375.6 (1)
October	2,175.8	1,744.4	1,453.2	1,421.0	2,447.9 (1)
November	1,625.7	1,272.2	1,240.7	787.7	2,100.1 (1)
December	1,018.4	1,437.6	991.5	1,029.8	2,060.8 (1)
January	1,597.6	1,186.3	953.9	1,487.5	2,411.3 (1)
February	1,334.9	603.2	414.1	862.0	1,701.8 (1)
March	368.3	749.5	743.0	1,280.0	1,975.3 (1)
April	2,001.3	1,204.6	1,860.9	2,044.2	2,283.8 (1)
May	1,829.7	703.9	1,691.2	2,276.6	2,019.9 (1)
June	2,276.6	1,340.8	2,140.5	2,397.8	2,286.6 (1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2017 ending balances are estimated for August to June.

The following tables provide cash flow detail for fiscal 2016 and fiscal 2017.

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

	<u>Jul-15</u>	<u>Aug-15</u>	<u>Sep-15</u>	<u>Oct-15</u>	<u>Nov-15</u>	<u>Dec-15</u>	<u>Jan-16</u>	<u>Feb-16</u>	<u>Mar-16</u>	<u>Apr-16</u>	<u>May-16</u>	<u>June-16</u>	<u>Total FY 2016</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$2,140.6</b>	<b>\$1,380.2</b>	<b>\$551.4</b>	<b>\$1,951.6</b>	<b>\$1,421.0</b>	<b>\$787.7</b>	<b>\$1,029.8</b>	<b>\$1,487.5</b>	<b>\$862.0</b>	<b>\$1,280.0</b>	<b>\$2,044.2</b>	<b>\$2,276.6</b>	<b>\$2,140.6</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	(0.1)	0.0	(123.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(123.6)
Total Budgetary Revenue/Inflows	3,233.8	3,137.5	3,479.1	2,931.1	3,208.0	3,587.7	3,776.7	3,001.1	3,736.9	4,637.2	3,372.7	4,282.8	42,384.6
Total Budgetary Expenditures/Outflows	3,950.0	3,366.9	3,065.9	3,569.7	3,280.2	2,990.1	3,181.4	3,289.8	3,257.9	3,401.4	3,045.7	2,712.3	39,111.4
Net Budgetary Funds	(716.2)	(229.4)	413.3	(638.6)	(72.3)	597.6	595.4	(288.7)	479.0	1,235.8	327.0	1,570.5	3,273.2
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	1,243.6	855.1	776.9	1,030.4	915.7	752.7	949.5	671.9	816.3	818.2	1,313.0	584.6	10,727.8
Total Non Budgetary Expenditures/Outflows	1,166.8	1,145.8	1,040.5	923.8	1,684.1	1,274.0	1,048.3	1,049.4	1,158.7	964.0	943.4	1,473.9	13,872.9
Net Non Budgetary Funds	76.8	(290.7)	(263.6)	106.5	(768.4)	(521.4)	(98.8)	(377.6)	(342.4)	(145.8)	369.6	(889.4)	(3,145.1)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	1.3	1.7	15.9	1.6	1.6	2.1	0.8	3.5	2.4	4.3	2.5	4.1	41.7
<b>Net Operating Activities</b>	<b>(\$638.2)</b>	<b>(\$518.4)</b>	<b>\$165.5</b>	<b>(\$530.5)</b>	<b>(\$839.1)</b>	<b>\$78.3</b>	<b>\$497.4</b>	<b>(\$662.8)</b>	<b>\$139.0</b>	<b>\$1,094.3</b>	<b>\$699.0</b>	<b>\$685.2</b>	<b>\$169.8</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	155.5	177.8	200.3	143.0	103.9	155.3	204.8	250.2	249.4	192.1	243.1	329.9	2,405.3
Total Federal Grants Expenditures/Outflows	193.1	203.8	139.3	166.7	196.8	211.6	189.2	203.5	218.3	186.8	237.2	233.0	2,379.2
<b>Net Federal Grants</b>	<b>(\$37.7)</b>	<b>(\$25.9)</b>	<b>\$61.0</b>	<b>(\$23.7)</b>	<b>(\$92.9)</b>	<b>(\$56.3)</b>	<b>\$15.6</b>	<b>\$46.7</b>	<b>\$31.2</b>	<b>\$5.3</b>	<b>\$5.9</b>	<b>\$96.9</b>	<b>\$26.1</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	284.3	123.7	281.3	268.0	403.2	521.4	171.8	218.1	491.1	270.8	183.5	270.6	3,487.9
Total Capital Expenditures/Outflows	368.8	408.3	307.7	244.4	304.5	301.4	227.1	227.4	243.3	201.7	250.8	325.3	3,410.6
<b>Net Capital Funds</b>	<b>(\$84.5)</b>	<b>(\$284.5)</b>	<b>(\$26.4)</b>	<b>\$23.6</b>	<b>\$98.7</b>	<b>\$220.0</b>	<b>(\$55.2)</b>	<b>(\$9.4)</b>	<b>\$247.8</b>	<b>\$69.2</b>	<b>(\$67.3)</b>	<b>(\$54.8)</b>	<b>\$77.2</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,200.0	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
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	0.1	200.2	200.3
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	404.6	405.2	405.8	1,215.7
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	404.6	405.3	606.0	1,415.9
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$404.6)</b>	<b>(\$405.3)</b>	<b>(\$606.0)</b>	<b>(\$15.9)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$1,380.2</b>	<b>\$551.4</b>	<b>\$1,951.6</b>	<b>\$1,421.0</b>	<b>\$787.7</b>	<b>\$1,029.8</b>	<b>\$1,487.5</b>	<b>\$862.0</b>	<b>\$1,280.0</b>	<b>\$2,044.2</b>	<b>\$2,276.6</b>	<b>\$2,397.8</b>	<b>\$2,397.8</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

**Overview of Fiscal 2017 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of September 1, 2016)

	<u>Jul-16</u>	<u>Aug-16 (2)</u>	<u>Sep -16 (2)</u>	<u>Oct-16 (2)</u>	<u>Nov -16 (2)</u>	<u>Dec-16 (2)</u>	<u>Jan-17 (2)</u>	<u>Feb-17 (2)</u>	<u>Mar-17 (2)</u>	<u>Apr-17 (2)</u>	<u>May-17 (2)</u>	<u>June-17 (2)</u>	<b>Total FY 2017 (2)</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$2,397.8</b>	<b>\$1,864.0</b>	<b>\$2,029.9</b>	<b>\$2,375.6</b>	<b>\$2,447.9</b>	<b>\$2,100.1</b>	<b>\$2,060.8</b>	<b>\$2,411.3</b>	<b>\$1,701.8</b>	<b>\$1,975.3</b>	<b>\$2,283.8</b>	<b>\$2,019.9</b>	<b>\$2,397.8</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	(35.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(35.7)
Total Budgetary Revenue/Inflows	3,142.5	3,290.5	3,653.6	2,941.7	3,123.4	3,563.0	3,880.1	2,937.6	3,927.0	4,564.8	3,547.9	4,156.1	42,728.0
Total Budgetary Expenditures/Outflows	4,126.3	4,333.2	3,023.4	3,179.5	3,314.1	3,143.7	3,305.7	3,424.1	3,457.4	3,442.7	3,060.0	3,097.2	40,907.1
Net Budgetary Funds	(983.8)	(1,042.7)	630.2	(237.8)	(190.7)	419.3	574.4	(486.5)	469.6	1,122.1	487.8	1,058.9	1,820.9
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	1,373.2	922.0	974.5	1,198.5	917.8	1,039.3	917.4	894.5	926.6	889.1	951.3	970.5	11,974.9
Total Non Budgetary Expenditures/Outflows	1,146.7	1,126.0	1,248.2	1,082.7	1,094.1	1,480.3	1,126.1	1,138.2	1,120.5	1,134.1	1,185.6	1,194.0	14,076.6
Net Non Budgetary Funds	226.5	(204.0)	(273.7)	115.8	(176.3)	(441.0)	(208.7)	(243.7)	(193.9)	(245.0)	(234.3)	(223.4)	(2,101.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	2.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	15.6
<b>Net Operating Activities</b>	<b>(\$754.9)</b>	<b>(\$1,245.5)</b>	<b>\$357.7</b>	<b>(\$120.8)</b>	<b>(\$365.7)</b>	<b>(\$20.5)</b>	<b>\$366.9</b>	<b>(\$729.0)</b>	<b>\$276.9</b>	<b>\$878.4</b>	<b>\$254.7</b>	<b>\$836.7</b>	<b>(\$265.2)</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	77.9	220.0	180.0	170.0	195.0	190.0	180.0	190.0	200.0	180.0	180.0	210.0	2,172.9
Total Federal Grants Expenditures/Outflows	197.1	204.1	176.8	193.9	198.3	223.8	195.2	191.8	214.9	198.3	203.8	210.2	2,408.0
<b>Net Federal Grants</b>	<b>(\$119.2)</b>	<b>\$15.9</b>	<b>\$3.2</b>	<b>(\$23.9)</b>	<b>(\$3.3)</b>	<b>(\$33.8)</b>	<b>(\$15.2)</b>	<b>(\$1.8)</b>	<b>(\$14.9)</b>	<b>(\$18.3)</b>	<b>(\$23.8)</b>	<b>(\$0.2)</b>	<b>(\$235.1)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	656.5	282.8	314.1	525.5	312.5	295.8	255.5	254.2	228.4	233.9	307.8	274.1	3,941.2
Total Capital Expenditures/Outflows	316.3	387.3	329.3	308.5	291.3	280.8	256.7	233.0	216.9	279.0	295.3	335.8	3,530.2
<b>Net Capital Funds</b>	<b>\$340.3</b>	<b>(\$104.5)</b>	<b>(\$15.2)</b>	<b>\$217.0</b>	<b>\$21.2</b>	<b>\$15.0</b>	<b>(\$1.2)</b>	<b>\$21.2</b>	<b>\$11.5</b>	<b>(\$45.1)</b>	<b>\$12.5</b>	<b>(\$61.7)</b>	<b>\$411.0</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
Total Cash Flow Financing Activities Inflows	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
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	506.5	507.3	508.2	1,522.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	506.5	507.3	508.2	1,522.0
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$1,500.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$506.5)</b>	<b>(\$507.3)</b>	<b>(\$508.2)</b>	<b>(\$22.0)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$1,864.0</b>	<b>\$2,029.9</b>	<b>\$2,375.6</b>	<b>\$2,447.9</b>	<b>\$2,100.1</b>	<b>\$2,060.8</b>	<b>\$2,411.3</b>	<b>\$1,701.8</b>	<b>\$1,975.3</b>	<b>\$2,283.8</b>	<b>\$2,019.9</b>	<b>\$2,286.6</b>	<b>\$2,286.6</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures for 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 general obligation contract assistance liabilities or contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for (i) payments by the Commonwealth to the Massachusetts Clean Water Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds and (ii) payments from the Social Innovation Financing Trust Fund on “pay for success” contracts, as described below. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required. See “General Obligation Contract Assistance Liabilities” below.

Contingent liabilities relate to debt obligations of certain independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth’s credit has been or may be pledged, as in the case of certain debt obligations of the MBTA (pre-2000), the Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority, and the higher education building authorities. The Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth’s credit has not been pledged, as in the case of the Commonwealth’s obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the former Massachusetts

Health and Educational Facilities Authority (now the Massachusetts Development Finance Agency) and the Massachusetts State College Building Authority. See “Contingent Liabilities” below.

*Statutory Limit on Direct Debt.* Since December, 1989, state finance law has included a limit on the amount of outstanding “direct” bonds of the Commonwealth. For fiscal 2012, the debt limit was \$18.944 billion under the statute in place during fiscal 2012. In August, 2012, state finance law was amended, effective January 1, 2013, to specify that the debt limit be calculated for fiscal years starting in fiscal 2013 using a fiscal 2012 base value of \$17,070,000,000 and increasing the limit for each subsequent fiscal year to 105% of the previous fiscal year’s limit. Based on this calculation, the statutory limit on “direct” bonds during fiscal 2017 is \$21,786,126,272. 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 outstanding debt 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. On August 10, 2016, the Governor approved legislation that exempts from the statutory debt limit bonds that are issued to finance the Commonwealth’s rail enhancement 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 2012. That information has been corrected in this table. For fiscal 2012, the table below shows the calculation of the debt limit prior to the passage of the legislation approved on June 10, 2013, as described above, and is presented showing net proceeds. For fiscal 2013 and thereafter the limit calculations are presented showing principal amounts as required by the amended law.

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

	<u>Fiscal 2012</u>	<u>Fiscal 2013 (4)</u>	<u>Fiscal 2014 (5)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016 (6)</u>	<u>Fiscal 2017 (7)</u>
Principal balance	\$21,433,553	\$21,513,039	\$22,419,852	\$23,826,301	\$25,079,591	\$25,356,895
Plus/ (less) amounts excluded:						
Net unamortized (discount)/premium and issuance costs	<u>477,815</u>	N/A	N/A	N/A	N/A	N/A
Total net proceeds/principal	21,911,368	21,513,039	22,419,852	23,826,301	25,079,591	25,356,895
Less: net proceeds/principal of direct debt excluded from the statutory debt limit:						
Special obligation debt (1)	(986,050)	(935,095)	(888,405)	(829,340)	(768,365)	(768,365)
Accelerated bridge program	(1,035,859)	(988,605)	(1,403,850)	(1,495,150)	(1,535,890)	(1,535,890)
Rail enhancement program (2)	-	-	-	-	-	(450,000)
Federal grant anticipation notes (1)	(628,290)	(449,100)	(530,935)	(699,855)	(657,040)	(657,040)
Assumed county debt	(75)	-	-	-	-	-
MBTA forward funding	(207)	(207)	(207)	(207)	(207)	(207)
Transportation Infrastructure Fund School Building Assistance (SBA)	(1,345,406)	(1,303,013)	(1,241,263)	(1,197,127)	(1,150,296)	(1,131,096)
	<u>(811,088)</u>	<u>(764,338)</u>	<u>(723,917)</u>	<u>(689,446)</u>	<u>(652,197)</u>	<u>(632,734)</u>
Outstanding direct debt, net proceeds/principal (3)	<u>\$17,104,393</u>	<u>\$17,072,681</u>	<u>\$17,631,275</u>	<u>\$18,915,176</u>	<u>\$20,315,596</u>	<u>\$20,181,563</u>
Statutory Debt Limit	<u><b>\$18,944,152</b></u>	<u><b>\$17,923,500</b></u>	<u><b>\$18,819,675</b></u>	<u><b>\$19,760,659</b></u>	<u><b>\$20,748,692</b></u>	<u><b>\$21,786,126</b></u>

SOURCE: Office of the Comptroller.

- (1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (2) Exempt from the debt limit, effective August 10, 2016.
- (3) Includes capital appreciation bonds reported at original net proceeds.
- (4) For 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.
- (5) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.
- (6) Amounts are unaudited.
- (7) Amounts are as of September 30, 2016 and are unaudited.

### General Obligation Debt

As of September 30, 2016, the Commonwealth had approximately \$21.9 billion in general obligation bonds outstanding, of which \$18.0 billion, or approximately 82% was fixed rate debt and \$3.9 billion, or 18%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. These structures include floating rate notes in various interest rate modes, direct purchase agreements in various interest rate modes, multi-modal bonds currently in the Term Mode, and variable rate demand bonds. Variable rate demand bonds, which account for \$636.1 million of outstanding general obligation debt as of September 30, 2016, are 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." For the purpose of reporting general obligation debt outstanding and variable rate debt outstanding, future compounded interest on the Commonwealth's variable rate College Opportunity Bonds, as discussed in greater detail below, is included as debt outstanding. Additionally, any outstanding commercial paper, bond anticipation notes, or revenue anticipation notes, as more fully described below, are not reported in general obligation debt outstanding calculations.

Of all Commonwealth variable rate debt outstanding, the interest rates on \$2.2 billion, or approximately 10% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under state finance law, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of \$1.7 billion or approximately 8% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

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

As of September 30, 2016, the Commonwealth had outstanding approximately \$145.0 million (\$78.1 million principal and including a discount equal to \$66.9 million) of variable rate "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority (MEFA), 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%. This debt is held directly by MEFA and has no secondary market.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Fixed-rate revenue anticipation notes (RANs) are issued by the State Treasurer annually in anticipation of revenue receipts for the same fiscal 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 September 30, 2016 the Commonwealth had liquidity support for a \$400 million commercial paper program which it utilizes for cash flow purposes.

### **Special Obligation Debt**

*Commonwealth Transportation Fund.* Section 20 of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues which are accounted to the Commonwealth Transportation Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees. In addition, a portion of the Commonwealth's receipts from the sales tax is dedicated to the Commonwealth Transportation Fund (see "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Sales and Use Tax*"), and state finance law currently provides for a series of substantial transfers from the General Fund to the Commonwealth Transportation Fund through fiscal 2020; none of the sales tax receipts or General Fund transfers has been pledged to secure Commonwealth special obligation bonds.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of September 30, 2016, the Commonwealth had outstanding approximately \$170.7 million of such special obligation bonds secured by a pledge of 6.86¢ of the 24¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of additional debt, with the exception of refunding bonds.

The Commonwealth is also authorized to issue approximately \$1.876 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund ("CTF Bonds") to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program ("Accelerated Bridge Program" or "ABP"). Additionally, in April, 2014, the Commonwealth was authorized to issue up to \$6.7 billion in general obligation debt, special obligation debt, or a combination of both, for the purpose of funding capital expenditures of MassDOT, for the benefit of the MBTA and for other rail improvement projects ("Rail Enhancement Program" or "REP"). As of September 30, 2016, the Commonwealth had outstanding approximately \$2.0 billion of CTF Bonds, which are secured by a pledge of registry fees and a specified portion of the motor fuels

excise tax, \$1.5 billion of which have been issued in support of the ABP and \$450 million of which have been issued in support of the REP. Not included in these figures are \$136.6 million of CTF Bonds issued on October 6, 2016, \$51.2 million of which were issued in support of the ABP and \$85.4 million of which were issued in support of the REP.

*Convention Center Fund.* Chapter 152 of the Acts of 1997, as amended, authorized \$694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$66 million) and the Worcester convention center (\$19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued \$686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, and in June, 2005, the Commonwealth issued \$527.6 million of special obligation refunding bonds, which advance refunded, in part, the 2004 issue. Of the 2004 and 2005 special obligation bonds secured solely by the pledge of receipts of tax revenues in the Convention Center Fund, approximately \$597.6 million remained outstanding as of September 30, 2016.

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

### **Federal Grant Anticipation Notes**

The Commonwealth is also authorized to issue \$1.1 billion of grant anticipation notes (“GANs”) secured by future federal funds to fund a portion of the Commonwealth’s accelerated structurally deficient bridge program (“ABP”). Such notes are secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds and previously issued bonds secured by motor fuels excise taxes. The Commonwealth expects to pay interest on the notes supporting the ABP from state appropriations. As of September 30, 2016, \$657.0 million of GANs was outstanding. Not included in this figure is \$125.4 million of GANs in support of the ABP which the Commonwealth issued on October 6, 2016.

### **Build America Bonds**

The Commonwealth has issued bonds in the form of Build America Bonds (BABs) and as Recovery Zone Economic Development Bonds (RZEDBs). BABs and RZEDBs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). 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. 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. In federal fiscal year 2016, such payments were subject to a sequestration reduction of 6.8%, with the Bipartisan Budget Act of 2015, approved by the President on November 2, 2015, extending the sequestration provisions through federal fiscal year 2025. For federal fiscal year 2017, this reduction will increase to 6.9%. Beginning in fiscal 2012, such subsidy payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund and used, without further legislative appropriation, to pay debt service on the related BABs and RZEDBs. The Commonwealth is obligated to make payments of principal and interest on the BABs and RZEDBs whether or not it receives interest subsidy payments. As of September 30 2016, \$2.1 billion of the Commonwealth’s outstanding general obligation debt was comprised of BABs, \$419.8 million of the outstanding CTF bonds were comprised of BABs, \$156.4 million of the outstanding

CTF bonds were comprised of RZEDBs and \$88.6 million of the outstanding grant anticipation notes were comprised of BABs.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2012 through fiscal 2016, exclusive of unamortized bond premiums:

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

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016 (5)</u>
<b>Beginning Balance as of July 1</b>	\$20,875,055	\$21,433,553	\$21,513,039	\$22,419,852	\$23,826,301
Debt Issued	1,759,627	1,470,473	2,359,899	2,918,817	2,766,419
Subtotal	<u>22,634,682</u>	<u>22,904,026</u>	<u>23,672,983</u>	<u>25,338,669</u>	<u>26,592,720</u>
Debt retired or defeased, exclusive of refunded debt	(1,202,094)	(1,386,527)	(1,434,511)	(1,486,243)	(1,446,444)
Refunding debt issued, net of refunded debt (3)	965	(4,460)	(18,575)	(26,125)	(66,685)
<b>Ending Balance June 30 (2)</b>	<u><b>\$21,433,553</b></u>	<u><b>\$21,513,039</b></u>	<u><b>\$22,419,852</b></u>	<u><b>\$23,826,301</b></u>	<u><b>\$25,079,591</b></u>

SOURCE: Office of the Comptroller.

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

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

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

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

(5) Amounts are unaudited.

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 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016 (2)</u>
General Obligation Debt	\$18,851,538	\$19,140,239	\$19,596,662	\$20,801,956	\$21,668,296
Special Obligation Debt	1,971,630	1,923,700	2,292,255	2,324,490	2,754,255
Federal Grant Anticipation Notes	<u>610,385</u>	<u>449,100</u>	<u>530,935</u>	<u>699,855</u>	<u>657,040</u>
<b>TOTAL</b>	<u><b>\$21,433,553</b></u>	<u><b>\$21,513,039</b></u>	<u><b>\$22,419,852</b></u>	<u><b>\$23,826,301</b></u>	<u><b>\$25,079,591</b></u>

SOURCE: Office of the Comptroller.

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

(2) Amounts are unaudited.

**Debt Service Requirements**

The following table sets forth, as of September 30, 2016, 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 September 30, 2016 through Maturity (in thousands)**

Period Ending	<u>General Obligation Bonds</u>						<u>Federal Highway Grant Anticipation Notes</u>				
	Principal	Gross Interest	CABs	Build America Bond Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2017	\$982,930	\$659,685	-	(\$24,658)	\$635,027	\$1,617,957	\$44,440	\$31,582	(\$1,302)	\$30,280	\$74,720
6/30/2018	1,360,605	915,588	4,958	(36,557)	879,031	2,239,637	47,150	29,776	(1,147)	28,629	75,779
6/30/2019	1,241,150	864,519	4,852	(36,557)	827,962	2,069,111	49,300	27,606	(973)	26,634	75,934
6/30/2020	1,162,029	813,625	4,410	(36,300)	777,325	1,939,354	51,615	25,261	(782)	24,479	76,094
6/30/2021	1,211,278	755,087	4,265	(35,014)	720,074	1,931,352	54,125	22,724	(577)	22,147	76,272
6/30/2022	1,132,285	700,475	4,436	(32,698)	667,777	1,800,062	56,780	20,053	(357)	19,696	76,476
6/30/2023	985,461	649,655	4,054	(31,412)	618,243	1,603,704	65,470	17,236	(122)	17,114	82,584
6/30/2024	975,627	600,550	3,871	(31,412)	569,138	1,544,765	67,725	14,371	-	14,371	82,096
6/30/2025	969,750	554,696	3,924	(31,177)	523,519	1,493,269	70,190	10,991	-	10,991	81,181
6/30/2026	893,288	511,365	4,033	(30,776)	480,589	1,373,877	73,425	7,492	-	7,492	80,917
6/30/2027	777,625	471,056	4,231	(30,203)	440,853	1,218,478	76,820	3,828	-	3,828	80,648
6/30/2028	780,471	435,484	4,324	(28,953)	406,530	1,187,001	-	-	-	-	-
6/30/2029	815,515	399,869	3,891	(26,687)	373,182	1,188,697	-	-	-	-	-
6/30/2030	774,195	363,668	3,586	(22,892)	340,776	1,114,971	-	-	-	-	-
6/30/2031	753,358	322,882	3,402	(16,808)	306,074	1,059,432	-	-	-	-	-
6/30/2032	642,374	294,549	3,141	(14,776)	279,773	922,147	-	-	-	-	-
6/30/2033	446,625	270,029	2,361	(12,440)	257,589	704,214	-	-	-	-	-
6/30/2034	441,941	250,436	1,590	(11,068)	239,368	681,309	-	-	-	-	-
6/30/2035	445,027	231,975	921	(9,647)	222,327	667,355	-	-	-	-	-
6/30/2036	473,660	211,824	485	(8,177)	203,647	677,308	-	-	-	-	-
6/30/2037	448,707	190,005	214	(6,654)	183,351	632,057	-	-	-	-	-
6/30/2038	463,565	169,477	-	(5,077)	164,400	627,965	-	-	-	-	-
6/30/2039	469,255	148,284	-	(3,445)	144,839	614,094	-	-	-	-	-
6/30/2040	465,500	126,675	-	(1,609)	125,066	590,566	-	-	-	-	-
6/30/2041	469,630	105,736	-	-	105,736	575,366	-	-	-	-	-
6/30/2042	558,140	85,452	-	-	85,452	643,592	-	-	-	-	-
6/30/2043	570,130	61,984	-	-	61,984	632,114	-	-	-	-	-
6/30/2044	497,725	37,627	-	-	37,627	535,352	-	-	-	-	-
6/30/2045	322,485	23,375	-	-	23,375	345,860	-	-	-	-	-
6/30/2046	293,320	10,691	-	-	10,691	304,011	-	-	-	-	-
6/30/2047	55,000	825	-	-	825	55,825	-	-	-	-	-
<b>Totals (1)</b>	<b>\$21,878,651</b>	<b>\$11,237,148</b>	<b>\$66,949</b>	<b>(\$524,998)</b>	<b>\$10,712,149</b>	<b>\$32,590,800</b>	<b>\$657,040</b>	<b>\$210,919</b>	<b>(\$5,259)</b>	<b>\$205,659</b>	<b>\$862,699</b>

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

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

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

<b>Period Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Principal</b>	<b>Gross Interest</b>	<b>Build America Bond Subsidies</b>	<b>Net Interest</b>	<b>Debt Service</b>
6/30/2017	\$22,210	\$16,165	\$38,375	\$9,840	\$76,664	(\$12,314)	\$64,350	\$74,190
6/30/2018	23,310	31,164	54,474	10,635	76,172	(12,314)	63,858	74,493
6/30/2019	24,475	30,126	54,601	11,460	75,641	(12,314)	63,326	74,786
6/30/2020	23,380	28,842	52,222	12,530	75,068	(12,314)	62,753	75,283
6/30/2021	24,610	27,673	52,283	13,660	74,441	(12,314)	62,127	75,787
6/30/2022	25,970	26,380	52,350	19,480	73,758	(12,314)	61,444	80,924
6/30/2023	27,440	24,952	52,392	29,500	72,784	(12,314)	60,470	89,970
6/30/2024	28,990	23,443	52,433	39,005	71,309	(12,314)	58,995	98,000
6/30/2025	30,625	21,848	52,473	50,825	69,348	(11,937)	57,410	108,235
6/30/2026	32,360	20,164	52,524	53,415	66,761	(11,529)	55,232	108,647
6/30/2027	34,190	18,384	52,574	56,100	64,073	(11,065)	53,008	109,108
6/30/2028	36,125	16,504	52,629	50,975	61,179	(10,575)	50,603	101,578
6/30/2029	38,170	14,517	52,687	53,240	58,661	(10,058)	48,604	101,844
6/30/2030	40,330	12,418	52,748	50,555	56,100	(9,512)	46,588	97,143
6/30/2031	42,610	10,199	52,809	58,125	53,527	(8,935)	44,592	102,717
6/30/2032	45,020	7,856	52,876	60,865	50,536	(8,316)	42,220	103,085
6/30/2033	47,565	5,380	52,945	63,825	47,325	(7,661)	39,664	103,489
6/30/2034	50,250	2,764	53,014	66,850	44,053	(6,970)	37,084	103,934
6/30/2035	-	-	-	65,065	40,587	(6,239)	34,349	99,414
6/30/2036	-	-	-	68,455	37,196	(5,466)	31,729	100,184
6/30/2037	-	-	-	77,035	33,618	(4,650)	28,968	106,003
6/30/2038	-	-	-	75,625	29,778	(3,718)	26,060	101,685
6/30/2039	-	-	-	79,565	25,836	(2,546)	23,289	102,854
6/30/2040	-	-	-	83,665	21,735	(1,308)	20,427	104,092
6/30/2041	-	-	-	87,995	17,408	-	17,408	105,403
6/30/2042	-	-	-	91,665	13,740	-	13,740	105,405
6/30/2043	-	-	-	95,935	9,470	-	9,470	105,405
6/30/2044	-	-	-	100,000	5,000	-	5,000	105,000
6/30/2045	-	-	-	-	-	-	-	-
6/30/2046	-	-	-	-	-	-	-	-
<b>Totals (1)</b>	<b>\$597,630</b>	<b>\$338,779</b>	<b>\$936,409</b>	<b>\$1,535,890</b>	<b>\$1,401,767</b>	<b>(\$219,000)</b>	<b>\$1,182,767</b>	<b>\$2,718,657</b>

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

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

**Special Obligation Revenue Bonds**  
**(Rails)**

<b>Period Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>
6/30/2017	\$42,465	\$8,811	\$51,276	\$15,870	\$20,466	\$36,336
6/30/2018	23,040	6,785	29,825	18,395	19,673	38,068
6/30/2019	24,300	5,518	29,818	18,970	18,806	37,776
6/30/2020	25,640	4,182	29,822	19,355	17,923	37,278
6/30/2021	26,905	2,916	29,821	19,690	17,020	36,710
6/30/2022	28,385	1,436	29,821	22,265	16,054	38,319
6/30/2023	-	-	-	16,870	14,966	31,836
6/30/2024	-	-	-	9,425	14,132	23,557
6/30/2025	-	-	-	-	13,696	13,696
6/30/2026	-	-	-	-	13,696	13,696
6/30/2027	-	-	-	-	13,696	13,696
6/30/2028	-	-	-	7,620	13,696	21,316
6/30/2029	-	-	-	7,955	13,315	21,270
6/30/2030	-	-	-	7,820	12,917	20,737
6/30/2031	-	-	-	8,505	12,682	21,187
6/30/2032	-	-	-	8,875	12,257	21,132
6/30/2033	-	-	-	9,265	11,813	21,078
6/30/2034	-	-	-	9,660	11,350	21,010
6/30/2035	-	-	-	10,585	10,867	21,452
6/30/2036	-	-	-	10,860	10,523	21,383
6/30/2037	-	-	-	10,785	9,980	20,765
6/30/2038	-	-	-	12,035	9,441	21,476
6/30/2039	-	-	-	12,530	8,847	21,377
6/30/2040	-	-	-	13,040	8,228	21,268
6/30/2041	-	-	-	13,565	7,585	21,150
6/30/2042	-	-	-	14,135	7,011	21,146
6/30/2043	-	-	-	14,735	6,413	21,148
6/30/2044	-	-	-	15,760	5,790	21,550
6/30/2045	-	-	-	121,430	5,123	126,553
6/30/2046	-	-	-	-	-	-
<b>Totals (1)</b>	<b>\$170,735</b>	<b>\$29,648</b>	<b>\$200,383</b>	<b>\$450,000</b>	<b>\$357,963</b>	<b>\$807,963</b>

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

## Interest Rate Swaps

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. As of September 30, 2016, approximately \$2.2 billion of the Commonwealth's outstanding variable-rate debt is synthetically fixed via floating-to-fixed interest rate swap hedge agreements. Not included in this figure is an additional \$142.0 million in synthetically fixed debt associated with special obligation issues as shown in the table below.

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

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. In both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps, are assumed to be less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of June 30, 2015, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, as provided for in GASB Statement No. 53.

The bonds and related swap agreements have final maturities ranging from 2018 to 2037. The total notional value of approximately \$2.3 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 3.672% 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.

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.

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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 September 30, 2016.

Associated Bond Issue	Outstanding Notional Amount (thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair value as of 7/31/2016	Counterparty
<i>General Obligation Bonds:</i>								
Series 2001B & C	421,000	VRDB	4.150%	Cost of Funds	2/20/2001	1/1/2021	(34,101,594)	Morgan Stanley Capital Services
			3.672%					
			-					
Series 2013A, 2014E, 2015B & 2015C (refunding)	475,000	SIFMA	4.004%	SIFMA	3/15/2005	2/1/ 2028	(85,439,115)	Wells Fargo Bank
Series 2006C (refunding)	100,000	CPI	3.73% - 3.85%	CPI-based formula	1/1/2007	11/1/2020	(2,314,941)	Wells Fargo Bank
Series 2007A	400,000	LIBOR	4.420%	67% 3-Month LIBOR + 0.57%	10/8/2008	5/1/2037	(9,797,737)	Barclays Bank PLC
Series 2007A (refunding) (1)	31,665	LIBOR	3.936%	67% 3-Month LIBOR + 0.46%	10/8/2008	11/1/2020	(3,502,156)	Wells Fargo Bank
Series 2007A (refunding)	414,130	LIBOR	4.083%	67% 3-Month LIBOR + 0.55%	10/8/2008	11/1/2025	(70,099,061)	Bank of NY Mellon
Series 2000A	22,917	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	8/1/2018	(1,100,074)	Merrill Lynch Capital Services
Series 2000A	11,083	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	8/1/2018	(533,343)	JP Morgan formerly Bear Stearns
Series 2006B, Series 2000D	<u>\$294,000</u>	VRDB/ARS	4.515%	67% 3-Month LIBOR	4/2/2009	6/15/2033	<u>(\$99,491,737)</u>	Barclays Bank PLC
<b>Subtotal</b>	<b><u>\$2,169,795</u></b>						<b><u>(\$306,381,758)</u></b>	

<b>Associated Bond Issue</b>	<b>Outstanding Notional Amount (thousands)</b>	<b>Bond Floating Rate</b>	<b>Swap Fixed Rate Paid (Range)</b>	<b>Swap Variable Rate Received</b>	<b>Effective Date</b>	<b>Termination Date</b>	<b>Fair value as of 7/31/2016</b>	<b>Counterparty</b>
<i>Special Obligation Dedicated Tax Revenue Bonds</i>								
Series 2004 (Convention Ctr)	15,173	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	1/1/2018	(261,904)	Goldman Sachs Capital Markets
Series 2004 (Convention Ctr)	15,174	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	1/1/2018	(251,589)	JP Morgan formerly Bear Stearns
Series 2004 (Convention Ctr)	15,173	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	1/1/2018	(252,273)	JPMorgan Chase Bank
Series 2005A (Gas Tax)	96,490	CPI	4.771% - 5.059%	CPI-based formula	1/12/2005	6/1/2022	(3,981,017)	Merrill Lynch Capital Services
<b><u>Subtotal</u></b>	<b><u>\$142,010</u></b>						<b><u>(\$4,746,783)</u></b>	
<b><u>Total</u></b>	<b><u>\$2,311,805</u></b>						<b><u>(\$311,128,541)</u></b>	

SOURCE: Office of the Treasurer and Receiver General.

- (1) The Series 1998A Refunding, 2006A, 2000A, 2000B and 2007A Refunding swaps with Deutsche Bank were terminated as part of the novation of the Commonwealth's swaps with Deutsche Bank to Wells Fargo on December 23, 2015.

## Liquidity Facilities

Some 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 September 30, 2016.

<b><u>Variable Rate Bonds</u></b>	<b><u>Outstanding Principal Amount (in thousands)</u></b>	<b><u>Bank</u></b>	<b><u>Termination Date</u></b>
2000 Series A	\$200,000	Citibank	4/24/2018
2000 Series B	75,590	Bank of America	4/24/2018
2001 Series C (Refunding)	210,500	State Street Bank	4/17/2017
2006 Series A	150,000	Wells Fargo Bank	8/08/2017

SOURCE: Office of the Treasurer and Receiver General.

The Commonwealth also has liquidity support for three series of commercial paper totaling \$400 million.

<b><u>Commercial Paper Series</u></b>	<b><u>Outstanding Principal Amount (in thousands)</u></b>	<b><u>Bank</u></b>	<b><u>Termination Date</u></b>
Series I (tax-exempt) and Series K (taxable) (1)	\$200,000	TD Bank	4/17/2018
Series L (tax-exempt)	200,000	State Street Bank	1/29/2019

SOURCE: Office of the Treasurer and Receiver General.

(1) One or both series may be outstanding as long as the total amount outstanding does not exceed \$200 million.

## Direct Purchase Agreements

Certain of the Commonwealth's variable rate bonds have been directly purchased by a bank. The following table lists the Commonwealth's direct purchase agreements, as of September 30, 2016.

<b><u>Direct Purchase Bonds</u></b>	<b><u>Outstanding Principal Amount (in thousands)</u></b>	<b><u>Mandatory Tender Date</u></b>
2001 Series B (Refunding)	\$210,500	8/01/2017
2006 Series B	200,000	5/31/2019
2015 Series B Refunding (1)	125,000	2/01/2018
2015 Series C Refunding (1)	125,000	2/01/2019
2016 Series B	100,000	4/01/2021
2016 Series C	200,000	4/01/2021

SOURCE: Office of the Treasurer and Receiver General.

(1) Dates provided represent hard maturities rather than mandatory tenders.

## **General Obligation Contract Assistance Liabilities**

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

*Massachusetts Clean Water Trust.* The Massachusetts Clean Water Trust (the "Trust") manages the Commonwealth's state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and drinking water projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust may bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's programs may not exceed \$138 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of September 30, 2016 the Trust had approximately \$2.8 billion of bonds outstanding. Approximately 7.00% of the Trust's aggregate debt service is covered by Commonwealth contract assistance. Prior to August, 2014, the Trust was known as the Massachusetts Water Pollution Abatement Trust.

*Massachusetts Development Finance Agency.* Under the infrastructure investment incentive program, known as "I-Cubed," up to \$600 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that are secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer's property is assessed by the municipality in which the development is located in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality is required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation is secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date, or in some cases to the next redemption date, plus all remaining principal payments due. Pursuant to this program, MassDevelopment has issued tax-exempt contract assistance bonds to finance and refinance infrastructure projects associated with the Fan Pier development in Boston, the Assembly Row project in Somerville, the Chestnut Hill Square project in Newton, the Boston Landing project in Boston and the Boylston West project in Boston and the University Station project in Westwood. As of September 30, 2016, total "I-Cubed" program bonds were outstanding in the amount of approximately \$101.9 million.

Legislation approved by the Governor on August 8, 2008 included an authorization to finance up to \$43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds issued by MassDevelopment to finance the parkway are secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. As of September 30, 2016, approximately \$25.8 million of such bonds were outstanding.

*Social Innovation Financing Trust Fund.* Legislation approved in 2012 established a Social Innovation Financing Trust Fund for the purpose of funding contracts to improve outcomes and lower costs for contracted government services, referred to as “pay for success contracts.” The legislation authorized the Secretary of Administration and Finance to enter into pay for success contracts in which a substantial portion of Commonwealth payments, from amounts appropriated by the Legislature to the Trust Fund, would be conditioned on the achievement of specified performance outcomes. The Commonwealth’s obligation to make such payments is a general obligation for which the Commonwealth’s full faith and credit are pledged. The first such contract was entered into in January, 2014, to help young men leaving the juvenile justice system or on probation avoid re-offending. The contract obligates the Commonwealth to make up to \$28 million in success payments, in the aggregate, through fiscal 2020. In September, 2016, the Commonwealth entered into a side letter to permit the parties to negotiate a contract amendment to extend the period in which young men may be referred to the project without changing the timing or maximum amount of success payments. The Commonwealth entered into a second such contract in December, 2014, to address chronic individual homelessness through permanent stable, supportive housing. The contract obligates the Commonwealth to make up to \$6 million in success payments, in the aggregate, through fiscal 2021. The Commonwealth entered into a third such contract in June, 2016, to assist individuals in Adult Basic Education (ABE) or English for Speakers of Other Languages (ESOL) programs transition to employment, higher wage jobs, and higher education. The contract obligates the Commonwealth to make up to \$15 million in success payments, in the aggregate, through fiscal 2023.

The following table sets forth the Commonwealth’s general obligation contract assistance requirements for all of fiscal 2017 and each fiscal year thereafter pursuant to contracts with the Massachusetts Clean Water Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency (including the I-Cubed Program and the South Weymouth naval air base contract assistance requirements) and contracts associated with the Social Innovation Financing Trust Fund.

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

<u>Fiscal Year</u>	<u>Massachusetts Clean Water Trust</u>	<u>Massachusetts Department of Transportation</u>	<u>Massachusetts Development Finance Agency</u>	<u>Social Innovation Financing Trust Fund (3)</u>	<u>Total</u>
2017	\$57,379	\$125,000	\$8,371	\$2,387	\$193,137
2018	45,018	125,000	8,372	15,397	193,787
2019	44,609	125,000	8,366	4,968	182,943
2020	39,102	125,000	8,365	13,595	186,062
2021	32,085	125,000	8,371	5,442	170,898
2022	22,723	125,000	8,371	4,583	160,677
2023	22,939	125,000	8,367	-	156,306
2024	14,704	125,000	8,368	-	148,072
2025	10,577	125,000	8,373	-	143,950
2026	8,245	125,000	8,369	-	141,614
2027 through 2049	<u>31,895 (1)</u>	<u>1,875,000</u>	<u>146,203</u>	-	2,053,098
<b>Total (4)</b>	<b><u>\$329,276</u></b>	<b><u>\$3,125,000 (2)</u></b>	<b><u>\$229,897</u></b>	<b><u>\$46,371</u></b>	<b><u>\$3,730,544</u></b>

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

- (1) Current contract assistance payments end in fiscal 2046.
- (2) Represents \$25 million per year for fiscal years 2027 to 2049, inclusive and \$100 million per year for fiscal years 2027 to 2039, inclusive.
- (3) Projected payment schedule. The actual amount and timing of payments will be based on the achievement of specified performance outcomes. Up to \$10,770,000 of these payments may be funded through a grant from the U. S. Department of Labor.
- (4) Totals may not add due to rounding.

## 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 leases in effect as of June 30, 2015 are set forth in the table below.

### Long-Term Leases (in thousands)

<u>Fiscal Year</u>	<u>Leases (1)</u>
2016	\$203,419
2017	144,719
2018	125,043
2019	101,318
2020	69,139
2021	41,186
2022	29,065
2023	23,533
2024	20,855
2025	13,631
2026	5,490
2027 through 2044	<u>37,313</u>
<b>Total</b>	<b><u>\$814,711</u></b>

SOURCES: Office of the Comptroller

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

## Contingent Liabilities

*Massachusetts Bay Transportation Authority.* The MBTA issues its own bonds and notes. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of September 30, 2016, the MBTA had approximately \$206.5 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030.

*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. No bonds have ever been issued pursuant to this legislation.

*Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority.* The Steamship Authority operates passenger and vehicle ferries to Martha’s Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth’s payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of November 1, 2016 the Steamship Authority had approximately \$66.3 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.* This authority, created to assist the University of Massachusetts, is permitted by its enabling act to have outstanding up to \$200 million in Commonwealth-guaranteed debt. The Commonwealth’s guaranty of principal and interest is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of the Authority, including dormitory rental income and student fees, are pledged to pay the Authority’s bonds. As of August 1, 2016, the Authority had approximately \$117.4 million of Commonwealth-guaranteed debt outstanding.

**Authorized and Unissued Debt**

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

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

<u>Fiscal Year</u>	<u>Authorized and Unissued Debt</u>
2012	\$13,893,469
2013	13,762,257
2014	26,255,768
2015	29,071,339
2016 (1)	26,145,997

SOURCE: Office of the Comptroller.  
 (1) Unaudited

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

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

## COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan on a rolling basis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. The capital investment plan for fiscal 2017 through fiscal 2021 provides resources for various Commonwealth facilities and programs.

The Executive Office for Administration and Finance also sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the “bond cap,” is to keep Commonwealth debt within affordable levels. On May 19, 2016, the Governor announced the five-year capital investment plan for fiscal 2017 through fiscal 2021 and an administrative bond cap of \$2.19 billion. This increase represents a 3% increase over fiscal 2016, a smaller increase than projected growth in tax revenues.

The following table shows the allocation of administrative bond cap spending by agency and the allocation of total capital spending from all sources of funding for fiscal 2017:

### Fiscal Year 2017 Capital Budget (in millions)

<u>Agency</u>	<u>Bond Cap</u>	<u>Project- Financed</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total</u>
Administration and Finance	\$126.2	\$10.0	-	\$70.0	\$206.2
Capital Asset Management	492.8	24.2	1.4	58.3	576.8
Education	19.0				19.0
Energy and Environmental Affairs	200.7	-	2.2	21.8	224.7
Housing and Community Development	200.2	-	3.0	10.0	213.2
Housing and Economic Development	142.5	-	-	4.9	147.4
MassIT	169.0	42.3	111.4	14.8	337.4
Public Safety	18.7	1.2	-	-	21.0
MassDOT	<u>816.0</u>	<u>-</u>	<u>759.6</u>	<u>820.1</u>	<u>2,489.4</u>
<b>Total (1)</b>	<b>\$2,190.0</b>	<b>\$77.7</b>	<b>\$877.6</b>	<b>\$1,000.7</b>	<b>\$4,146.0</b>

SOURCE: Executive Office for Administration and Finance as of Executive Office for Administration and Finance as of May 19, 2016.

(1) Totals may not add due to rounding

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

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



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

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

The Commonwealth aggregates its capital expenditures into seven 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 and other. The following table sets forth capital spending in fiscal 2012 through fiscal 2017 (fiscal 2017 is preliminary and subject to change) according to these categories.

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

<b>Investment Category:</b>	<b><u>Fiscal 2012</u></b>	<b><u>Fiscal 2013</u></b>	<b><u>Fiscal 2014</u></b>	<b><u>Fiscal 2015</u></b>	<b><u>Fiscal 2016</u></b>	<b><u>Fiscal 2017 (2)</u></b>
Information technology	\$ 129	\$133	\$190	\$207	\$169	\$305
Infrastructure/facilities	518	452	457	449	526	517
Environment	131	130	138	221	238	202
Housing	185	183	182	188	185	200
Public safety	17	17	22	26	18	20
Transportation	1,618	1,528	1,790	2,041	2,081	1,892
Other	<u>125</u>	<u>183</u>	<u>227</u>	<u>242</u>	<u>215</u>	<u>297</u>
Total (3)	<u>\$2,724</u>	<u>\$2,626</u>	<u>\$3,006</u>	<u>\$3,374</u>	<u>\$3,432</u>	<u>\$3,433</u>

SOURCE: Fiscal 2012-2016, Office of the State Comptroller; fiscal 2017, Executive Office for Administration and Finance.

- (1) Includes all spending funded by capital appropriations, including General Obligation, Special Obligation, project financed, and federal spending.
- (2) Preliminary and subject to change.
- (3) Totals may not add due to rounding.

One project for which capital spending is anticipated during fiscal 2017 is the extension of the MBTA's Green Line from Cambridge into Somerville and Medford. MassDOT and the MBTA recently completed a comprehensive review of the project, following a preliminary analysis that projected a cost increase ranging from \$700 million to \$1 billion, as compared to the prior estimate. In the course of this review, the MBTA and MassDOT paused additional contracting for the project, analyzed the source of the cost overrun, considered a redesign of the project, and sought additional sources of funding. Following this review, a revised project scope with a new cost estimate of \$2.3 billion, and pledged contributions for the project totaling approximately \$227 million from corridor municipalities and the metropolitan planning organization, the MBTA's Fiscal and Management Control Board (FMCB) voted on May 9, 2016 to approve the resubmission of the project to the Federal Transit Authority (FTA). MassDOT, the MBTA and the FMCB will only issue final approval of the project once a revised finance plan is approved by the FTA and certified bids come in within the revised cost estimate. Special obligation bonds funded from the Commonwealth Transportation Fund as well as municipal contributions may be used to finance additional project costs. See "LONG-TERM LIABILITIES – Special Obligation Debt."

### Debt Affordability Policy

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

For this purpose, debt service includes programs expected to be funded both within and outside of the bond cap, including principal and interest payments on all general obligation debt, special obligation gas tax debt, ABP debt, projected debt service for REP, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. This inclusive definition ensures that while some programs are expected to be funded outside of the bond cap, the related debt service costs of the programs should be fully accounted for under the debt affordability policy in setting the bond cap at appropriate levels.

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

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

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

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

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

SOURCE: Executive Office for Administration and Finance.

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

The Capital Debt Affordability Committee is charged with reviewing on a continuing basis the amount and condition of the Commonwealth's tax-supported debt, as well as the debt of certain state authorities. The Committee is also responsible for providing an estimate of the total amount of new Commonwealth debt that can prudently be authorized for the next fiscal year, taking into account certain criteria, to the Governor and Legislature on or before December 15 of each year. The committee's estimates are advisory and not binding on the Governor or the Legislature. The Legislature is responsible for authorizing Commonwealth debt. The Governor determines the total amount capital spending for each fiscal year and the amount of new Commonwealth debt that he considers advisable to finance such spending. The Committee consists of seven voting members – the Secretary of Administration and Finance (who chairs the committee), the State Treasurer, the Comptroller, the Secretary of Transportation, one appointee of the Governor and two appointees of the State Treasurer – and eight legislative leaders who are non-voting members. For fiscal 2017, the committee determined that up to \$2.19 billion of capital debt issuance could be prudently authorized. The committee is expected to release its recommendation regarding fiscal 2018 on or about December 15, 2016.

## LEGAL MATTERS

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

### Programs and Services

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

*Rosie D., et al. v. The Governor*, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has undertaken implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. MassHealth estimates that its implementation of program changes in compliance with the remedy order will increase its costs, including administrative costs, prospectively by over \$20 million annually. The Court has extended the monitoring period several times, most recently through December 31, 2016. The Commonwealth maintains that it is in full compliance with the court's judgment. A status conference is scheduled for November 8, 2016.

*SEIU v. Department of Mental Health*, Supreme Judicial Court. The Service Employees International Union ("SEIU") has challenged the Department of Mental Health's contracts for the provision of Community Based Flexible Supports ("CBFS") as unlawful privatization contracts under the so-called Pacheco Law. The union seeks declaratory relief invalidating portions of the CBFS contracts as well as reinstatement of and back pay for up to 100 former Department case managers who the union claims were laid off in 2009 as a result of these allegedly unlawful contracts. On August 15, 2012, the Department of Mental Health ("Department") filed a motion for judgment on the pleadings seeking to dismiss the case due to lack of subject matter jurisdiction based on SEIU's lack of standing to pursue the action and its failure to include as defendants in the action the private contractors whose contracts would be partially invalidated were the requested relief granted. By Memorandum of Decision and Order dated March 8, 2013, the Superior Court allowed the Department's motion, and on March 24, 2013, judgment entered dismissing the case. SEIU subsequently appealed. On August 15, 2014, the Supreme Judicial Court issued a decision affirming the Superior Court's determination that the complaint was deficient for failing to name the state contractors in the CBFS program as parties. It remanded the case to the Superior Court for the sole purpose of allowing SEIU to move to amend its complaint to add as necessary parties the DMH contractors. In its August 15, 2014 decision, the Supreme Judicial Court reversed the Superior Court's separate determination that, based on the pleadings, SEIU lacked direct standing to seek enforcement of the Pacheco Law. The union filed an amended complaint naming the CBFS contractors on October 8, 2014. After the Department moved to dismiss this amended complaint, the Superior Court in late August, 2015 issued a memorandum of decision dismissing SEIU's complaint for lack of jurisdiction on the ground that the only extant contracts are renewal contracts, which are expressly excluded from the purview of the Pacheco Law. A judgment dismissing the case with prejudice was entered on August 28, 2015. SEIU filed a notice of appeal and, on January 13, 2016, the Supreme Judicial Court allowed SEIU's application for direct appellate review. The Supreme Judicial Court heard oral arguments on September 6, 2016, and a decision is expected by early 2017. If the Court rejects DMH's arguments, the case will likely be remanded for trial. The Department believes that the potential costs associated with rehiring the laid-off case managers, if such relief were ultimately ordered, could reach \$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 which was subsequently amended in July, 2013 (“Agreement”). Under the terms of the Agreement, the defendants will use the Massachusetts Money Follows the Person Demonstration Project (“MFP Project”) and various waiver programs to provide community residential and non-residential supports in an integrated setting to Massachusetts Medicaid-eligible persons with an acquired brain injury who are in nursing and long-term rehabilitation facilities (“Class Members in Facilities”). Over the six-year term of the Agreement, the defendants will provide between 905 and 1,174 waiver slots for Class Members in Facilities. The exact number of slots to be added will depend on the level of demand for waiver services.

The cost of implementing these programs was originally projected to be approximately \$386 million, phased in over six years, with approximately half of that amount expected to be reimbursed by the federal government. The fiscal 2015 budget provided a new, \$34.3 million line item at EHS/MassHealth specifically for the purposes of funding the Hutchinson Settlement. The fiscal 2016 budget increased the appropriation to \$49.4 million. The fiscal 2017 appropriation is approximately \$71.6 million. The majority of this funding will be allocated to the Department of Developmental Services and the Massachusetts Rehabilitation Commission to fund Hutchinson-related services, while the residual EHS/MassHealth funding will pay for the development of the IT systems necessary to support and track these services. By year six of the agreement, fiscal 2019, when the program will be fully implemented, the annualized cost of the program as initially projected will be approximately \$112 million (gross) or \$56 million (net) state cost.

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

*Fowler, et al., for themselves and others similarly situated v. Thomas Turco, in his official capacity as the Commissioner of the Massachusetts Department of Correction, and the Massachusetts Partnership for Correctional Healthcare, LLC*, United States District Court, Massachusetts. Four state prisoners have filed a class action suit relating to treatment of the Hepatitis C virus (HCV) among prisoners in the custody of the Massachusetts Department of Correction. The suit alleges that the Department of Correction and its healthcare services provider, the Massachusetts Partnership for Correctional Healthcare (MPCH), have failed to provide HCV-positive prisoners with access to new medications that, plaintiffs claim, enjoy higher success rates, fewer side effects, and shorter treatment duration than prior treatments. Employing the uppermost range estimate for the rate of HCV infection among prisoners nationwide—41.1%—to the Massachusetts prison population, the number of HCV-infected individuals in Massachusetts custody could be as high as 4,800. (At present, approximately 1,500 prisoners have

been identified as HCV-positive.) The State Office of Pharmacy Services, which procures the medications for MPCH, pays between approximately \$39,000 and \$75,000 per patient, depending on the specific medication, for the typical 12-week course of treatment. Based on these figures, if the defendants are required to provide the medications to all HCV-infected prisoners in Department custody, the total cost could reach \$150-\$350 million dollars.

## **Medicaid Audits and Regulatory Reviews**

*In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund).* The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. Federal responses to the Commonwealth's most recent waiver submissions have been pending since 2000. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. Updated federal regulations on health care-related taxes took effect June 30, 2010. By the end of Health Safety Net fiscal year 2016, the Commonwealth will have collected an estimated \$5.811 billion in acute hospital assessments since 1990 and an estimated \$2.692 billion in surcharge payments since 1998.

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

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

## Taxes

*Comcast of Massachusetts I, Inc. v. Commissioner of Revenue*, Appellate Tax Board. On June 7, 2016, the Appellate Tax Board (the “Board”) issued a Decision in favor of the Commissioner in these ten consolidated corporate excise tax cases for the years 2003-2008. The case presented a variety of issues, including: (a) whether the taxpayers were entitled to a re-computation of the sales factor of various members of the combined group based on the costs of performance rule under G.L. c. 63, section 38(f), as in effect during the years at issue; (b) whether the taxpayers were entitled to a refund of corporate excise attributable to final IRS determinations adjusting the income of the taxpayers; (c) whether the taxpayers may properly claim interest expense deductions that they had added back under the Massachusetts Add Back Statute, G.L. c. 63, § 31J, on their originally filed returns; (d) whether the taxpayers improperly treated as sales within the meaning of G.L. c. 63, § 38(f), certain intercompany reimbursements made at cost, and (e) whether the taxpayers’ position that investment expenses were apportionable to Massachusetts, when these same expenses were associated with dividend income that the parties agreed was properly allocable 100% to Pennsylvania, was without legal merit. The potential refund claims total approximately \$195 million. The Board issued its decision following a seven-day trial that started on October 13, 2015 and terminated on November 20, 2015, and which was followed by the filing of post-trial and reply briefs by the parties. The Commissioner has requested that the Board issue Findings of Fact and a Report explaining the reasoning for its Decision. On September 2, 2016, the taxpayers filed a Motion to Alter, Amend or Clarify Decision, which was heard on September 29, 2016. The taxpayers contend that during the course of proceedings of the case, the Commissioner conceded five issues and that the Board’s decision should therefore be in favor of the taxpayers on those five issues. By Order dated September 30, 2016, the Board denied the motion without a hearing and indicated that, to the extent necessary, it will take the taxpayers’ motion into consideration when issuing its Report.

*Northeastern University, et al. v. Commissioner of Revenue* (Appeals Court, Suffolk Superior Court) and related Brownfields Credits Claims. The plaintiffs in a consolidated Superior Court case, three Massachusetts universities and one corporation, allege that the Commissioner of Revenue (“Commissioner”) wrongfully denied their requests for Brownfields Tax Credits and, in the case of the corporate plaintiff, the request to transfer or sell tax credits already obtained. Legislation in 2006 made not-for-profit institutions eligible, for the first time, to claim tax credits for work those institutions performed to remediate an environmentally contaminated site. (Because not-for-profits do not typically pay corporate excise taxes, against which such a credit may be applied, the legislation also made it possible, for the first time, for taxpayers granted such a credit to “sell” that credit to individuals or corporations who do incur tax liability, so that the buyer can make use of the credit. The law specifies that any unused portion of a credit, as reduced from year to year, can be carried over and applied to a tax liability for any subsequent year, not to exceed five years.) The sole issue in the *Northeastern University* litigation, filed in August, 2014, is whether the nonprofits may receive a Brownfields Tax Credit for site-remediation work performed prior to the taxable year commencing on or after June 24, 2006 (*i.e.*, the effective date of the legislative amendment). The Commissioner denied the plaintiffs’ applications for the credit because the site remediation work had been achieved prior to the taxable year commencing on or after June 24, 2006. But the plaintiffs have prevailed in the Superior Court and, if all other application conditions are met, they would be entitled to tax credits in the cumulative amount of \$17.7 million. Additionally, other entities may now be bolstered in claims for credits that they have not yet asserted; those claims may be worth tens of millions of dollars. The Commonwealth has appealed the adverse Superior Court judgment. On June 17, 2016, the court dismissed the appeal with respect to 131 Willow Ave. LLC only, following the filing of a partial motion to dismiss under Rule 29(b) of the MA Rules of Appellate Procedure by the Commissioner on June 15, 2016, reflecting the agreement of the Commissioner and 131 Willow Ave. LLC that the appeal be dismissed with respect to 131 Willow Ave. LLC only. The Commissioner filed his initial appellate brief on June 28, 2016. The taxpayers filed their brief on August 22, 2016. The Commissioner filed his reply brief on September 30, 2016, and the appeal is now ready to be scheduled for oral argument. There is also an unrelated Superior Court case filed in February, 2016 by Arborway Corporation, which likewise presents a Brownfields Credit claim; the potential revenue loss in that case is estimated at \$1.7 million. In the category of Brownfields Credits claims not yet docketed at the Appellate Tax Board, the Department of Revenue estimates \$20.3 million worth of potential revenue loss (even though none of the individual credit amounts exceeds \$10 million).

*Film Credits Claims.* Under the provisions of General Laws chapter 63, § 38X, personal income tax and corporate excise credits and sales tax exemptions are available to qualifying taxpayers in the motion picture industry (commonly referred to as “Film Credits”). In summary, a taxpayer engaged in the making of a motion picture shall be allowed a credit against the taxes imposed by the General Laws in chapter 63 for the employment of persons

within the Commonwealth in connection with the filming or production of one or more motion pictures in the Commonwealth within any consecutive 12-month period. The Department of Revenue is reviewing applications from various taxpayers for Film Credits, against taxable income, in amounts that total approximately \$54.1 million. All applications are currently pending action within the Department's Audit Division.

## **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 Manufacturer or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the PMs suffer a specified market share loss as compared to their market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the PMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for a given year. Even if such a determination is made, the States can still avoid the NPM adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes.

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

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

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

(d) (2007 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$791 million, the MSA payments they made to the States for 2007 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2007 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$8.8 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2007 sales, depending upon the outcome of similar NPM proceedings against other states.

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

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

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

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

(i) (2012 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$789 million, the MSA payments they made to the States for 2012 sales. This amount is subject to revision until a Final Calculation in March, 2017. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2012. If the matter is



arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$200,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2012 sales, depending upon the outcome of similar NPM proceedings against other states.

(j) (2013 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$814 million, the MSA payments they made to the States for 2013 sales. This amount is subject to revision until a Final Calculation in March, 2018. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2013. The largest PMs have not yet had an opportunity to designate funds related to 2013 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2018, the Commonwealth's potential exposure cannot be determined.

(k) (2014 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$816 million, the MSA payments they made to the States for 2014 sales. This amount is subject to revision until a Final Calculation in March, 2019. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2014. The largest PMs have not yet had an opportunity to designate funds related to 2014 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2019, the Commonwealth's potential exposure cannot be determined.

(l) (2015 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$890 million, the MSA payments they made to the States for 2015 sales. This amount is subject to revision until a Final Calculation in March, 2020. 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 2015. The largest PMs have not yet had an opportunity to designate funds related to 2015 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2020, the Commonwealth's potential exposure cannot be determined.

## **Environment**

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

## **Other**

*Drug Testing Laboratory disputes*. In August, 2012, Annie Dookhan, a chemist formerly employed at the state'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 Attorney General's office conducted a criminal investigation, and in December, 2012 Ms. Dookhan was indicted by a statewide grand jury on charges in connection with altering drug evidence during the testing process and obstructing justice; she pled guilty in 2013 and was

sentenced to 3-to-5 years in state prison. In advance of oral argument in follow-on litigation scheduled for November 8, 2016, the Supreme Judicial Court requested amicus briefs on the following question:

Whether the persons who were convicted of drug-related charges and in whose cases former Hinton Drug Lab Assistant Analyst Annie Dookhan signed the certificate of drug analysis as the analyst, who are collectively referred to as the “Dookhan defendants,” are entitled to a comprehensive remedy, including whether all cases involving misconduct by Dookhan should be dismissed or subjected to a court-imposed deadline.

Meanwhile, in January, 2013, Sonja Farak, a chemist formerly employed at the state’s Amherst drug testing laboratory was arrested for theft of a controlled substance and tampering with evidence. In January, 2014, Ms. Farak pled guilty to charges that she removed drug samples for her own use and mixed drug evidence samples with counterfeit drugs to hide the theft, and she was given a split sentence of 2.5 years in a house of correction with 18 months to serve. The Attorney General’s Office conducted an investigation into the full scope and timing of Ms. Farak’s misconduct and the operations of the Amherst laboratory, issuing a report dated April 1, 2016, to the Hampden County Superior Court. It is now anticipated that there will be litigation to determine whether any criminal cases over the course of Ms. Farak’s employment at the Amherst laboratory were so tainted by malfeasance or affected by alleged delay in disclosure of her misconduct as to warrant relief to criminal defendants. Court hearings on motions for new trials or to dismiss filed by a small, initial group of defendants are expected to take place in Hampden Superior Court prior to the end of 2016. Given the thousands of cases from both laboratories potentially affected, there likely will be continuing significant, but as yet undetermined, state costs to remedy alleged malfeasance, including costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments.

*[Remainder of page intentionally left blank]*

## 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 usually becomes available on or around 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/comptroller> by clicking on "Financial Reports" under the "Publications and Reports" tab.

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

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

The Commonwealth failed to file an event notice in October, 2013 when the Moody's rating on outstanding junior-lien GANs was upgraded from Aa2 to Aa1, and failed to file an event notice in March, 2014 when the S&P rating on certain insured special obligation bonds payable from the Convention Center Fund was upgraded from A to AA-. The Commonwealth has filed notices of all such rating changes with respect to the bonds that are currently outstanding.

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

The fiscal 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 the amount of the limit. An amended filing for fiscal 2012 has been posted with EMMA, and a corrected table is included in this Information Statement. See "LONG-TERM LIABILITIES – General Authority to Borrow; *Statutory Limit on Direct Debt.*"

The fiscal 2014 annual financial information was filed by the Commonwealth on March 27, 2015 pursuant to its continuing disclosure undertakings with respect to its general obligation bonds; however, there was a failure to link the filing to certain CUSIP numbers for Commonwealth general obligation bonds issued from October 29, 2014 through December 31, 2014. In addition, certain annual financial information was not properly linked to certain Commonwealth contract assistance bonds and certain CTF Bonds. Corrective filings have since been posted on EMMA.

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

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

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

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**AVAILABILITY OF OTHER FINANCIAL INFORMATION**

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

November 1, 2016

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# Exhibit A

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UMASS DONAHUE INSTITUTE



**Quarterly Report  
for the Massachusetts State Treasurer's Office of Debt Management**

## **Massachusetts Economic Due Diligence**

First Quarter FY 2017



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

All information is presented on a calendar-year basis unless otherwise indicated. **Information in the text, tables, charts, and graphs is current as of October 20, 2016.** Sources of information are indicated in the text or immediately following the charts and tables, and also in 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 (p. A-2)</u>	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, July 1, 2010 - July 1, 2015	3.5%	3.9%
 <u>Personal Income, Consumer Prices, and Poverty (p. A-8)</u>		
Per Capita Personal Income, 2015	\$62,603	\$48,112
Average Annual Pay, All Industries, 2015	\$66,692	\$52,942
Percent Change in CPI-U*, 2014-2015	0.6%	0.1%
Percent Change in CPI-U*, September 2015 - September 2016	2.3%	1.5%
Poverty Rate, 2015	11.5%	14.7%
Average Weekly Earnings, Manufacturing Production Workers: 2015	\$892.98	\$832.42
Percent Change from previous year	1.7%	1.1%
 <u>Employment (p. A-18)</u>		
Percent Change in Nonfarm Payroll Employment, July 2015 - July 2016 (not seasonally adjusted)	2.0%	1.7%
Unemployment Rate, 2015	5.0%	5.3%
Unemployment Rate, September 2016 (not seasonally adjusted)	3.3%	4.8%
 <u>Education (p. A-24)</u>		
Expenditure Per Pupil K-12 Public, 2014	\$15,105	\$11,022
Percent of Adults with a Bachelor’s Degree or Higher, 2015	41.5%	30.6%
 <u>Economic Base and Performance (p. A-30)</u>		
Percent Change in Gross Domestic Product, 2014-2015	2.0%	2.4%
Percent Change in International Exports, 2014-2015	-7.8%	-7.4%
Percent Change in Housing Permits Authorized, 2014-2015	20.3%	13.0%

\*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.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last 25 years, significant changes have occurred in the age distribution of the population. Dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in the next 25 years. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a consistently lower poverty rate. State unemployment rates have typically remained below the national average with the exception of a slight increase during the recession of the early 1990s and a seventeen-month stretch between 2006 and 2007. More recently, Massachusetts unemployment has tracked faster than the national average and currently stands at 3.3 percent, compared to the national rate of 4.8 percent. In 2014, Massachusetts was ranked second in the U.S. according to the American Human Development Index, modeled after the United Nations Human Development Index, which compares health, income and education outcomes.

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

## **POPULATION CHARACTERISTICS**

Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2015 to be 839.4 persons per square mile, as compared to 87.4 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, as well as Delaware, in percentage of residents living in metropolitan areas. According to the current county-based definition, 98.5 percent of the state's population live in metropolitan areas.

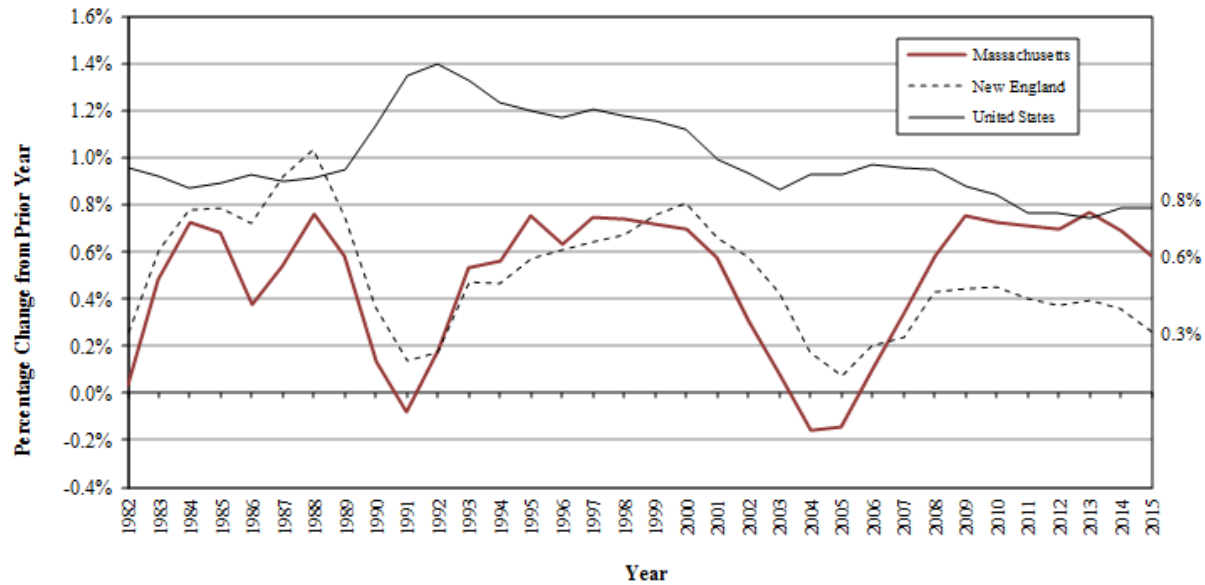
The state's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a July 1, 2015 population estimated at 667,137 or 9.8 percent of the total state population. Boston is the hub of the seven-county Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and had a total population as of July 1, 2015 estimated at 4,774,321, or 32.4 percent of the total New England population. The Cambridge-Newton-Framingham, MA Metropolitan Division is the largest component of that MSA, with a total population as of July 1, 2015 estimated at 2,361,182, while the Boston, MA Metropolitan division is the second largest component, with a total population estimated at 1,984,537.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2015 population estimated at 935,536. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2015 estimated population of 184,815, 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, 2015 population estimated at 631,982. Springfield, the third largest city in the Commonwealth with a July 1, 2015 estimated population of 154,341, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, including Baystate Health Systems, General Dynamics, and MassMutual Financial Group. In addition, Springfield is home to three independent colleges.

As the following graph and table (on the next page) indicate, the population in Massachusetts has generally grown at a rate similar to the population of New England and more slowly than the nation as a whole. From 2009 to 2015, Massachusetts' growth has more closely resembled that of the U.S. as a whole than that of New England, although growth has slowed somewhat since 2013. According to the Census Bureau's latest revised estimates released in December 2015, the Massachusetts population has grown only by 6.8 percent since Census 2000, while the U.S. has grown 13.9 percent.

*Annual Percent Change in Total Population, 1982-2015*



SOURCE: U.S. Census Bureau.

NOTE: Figures for all years shown are estimates as of July 1.

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

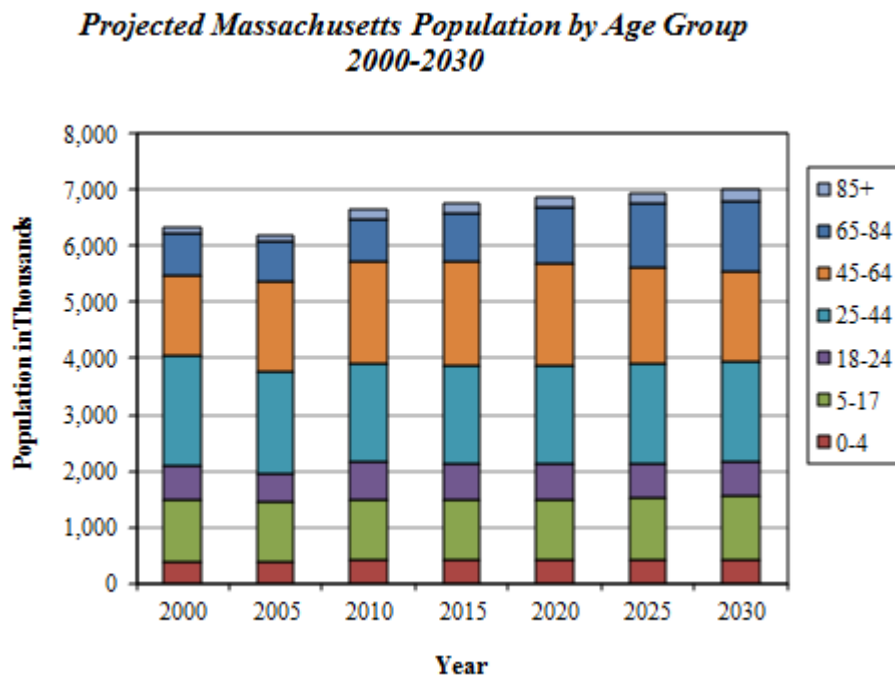
<i>Population, 1975-2015</i> <i>(in thousands)</i>						
<b>Year</b>	<b>Massachusetts</b>		<b>New England</b>		<b>United States</b>	
	<b>Total</b>	<b>Percent Change</b>	<b>Total</b>	<b>Percent Change</b>	<b>Total</b>	<b>Percent Change</b>
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	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	6,565	0.7%	14,468	0.4%	309,347	0.8%
2011	6,612	0.7%	14,527	0.4%	311,719	0.8%
2012	6,658	0.7%	14,580	0.4%	314,103	0.8%
2013	6,709	0.8%	14,637	0.4%	316,427	0.7%
2014	6,755	0.7%	14,690	0.4%	318,907	0.8%
2015	6,794	0.6%	14,728	0.3%	321,419	0.8%

SOURCE: U.S. Department of Commerce, Census Bureau.

NOTE: The Census count in 1980 is as of April 1; estimates for all other years are as of July 1.

The next 14 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. The Census has not updated these projections to reflect the 2010 Census.

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

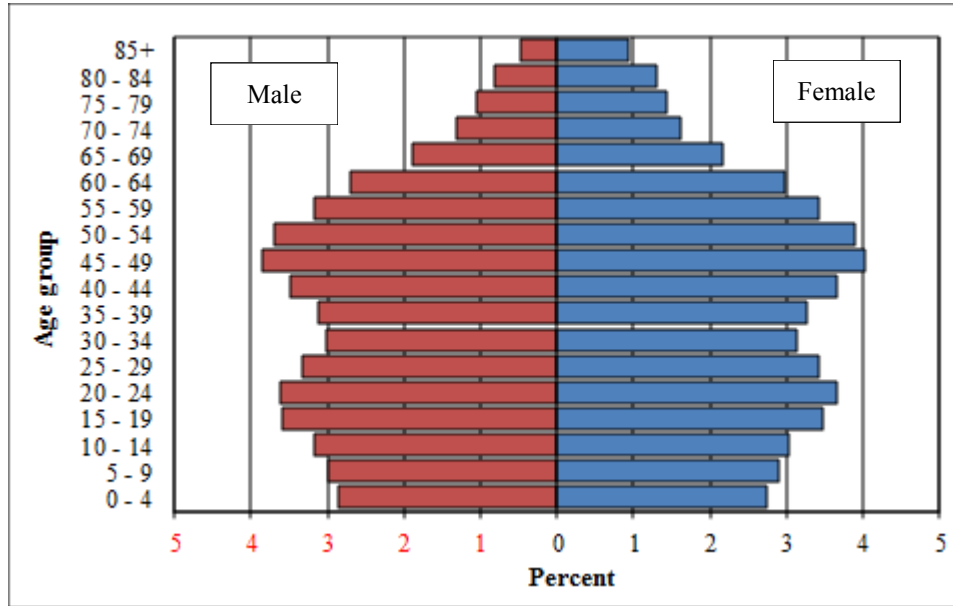


SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.  
Internet Release Date: 04/21/05.

NOTE: Actual Census 2000 counts as of April 1; Population Estimates for 2005 as of July 1; all other figures are projections as of July 1 of the indicated year.

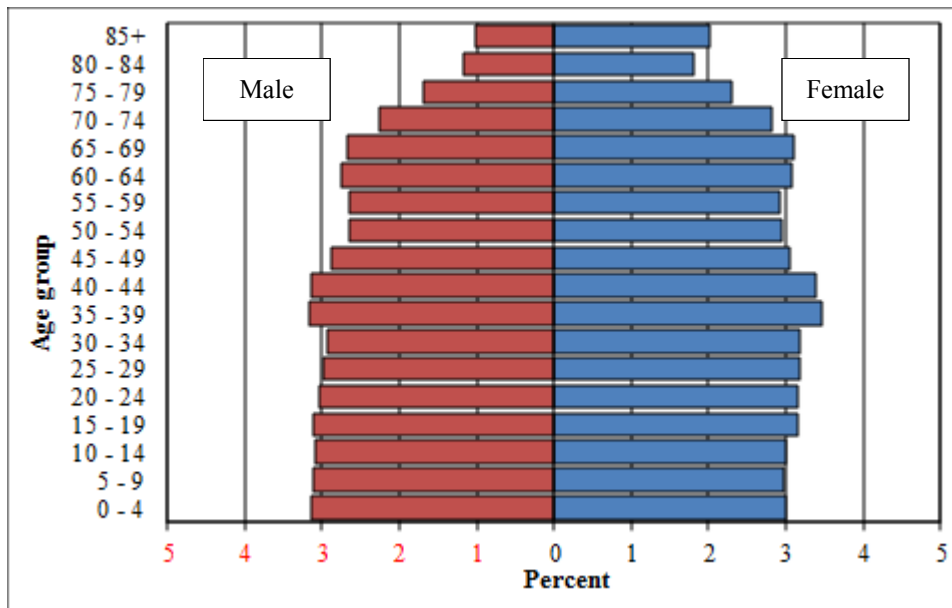
*Population Pyramids of Massachusetts*  
*Percent of Total Population*

2010



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

2030

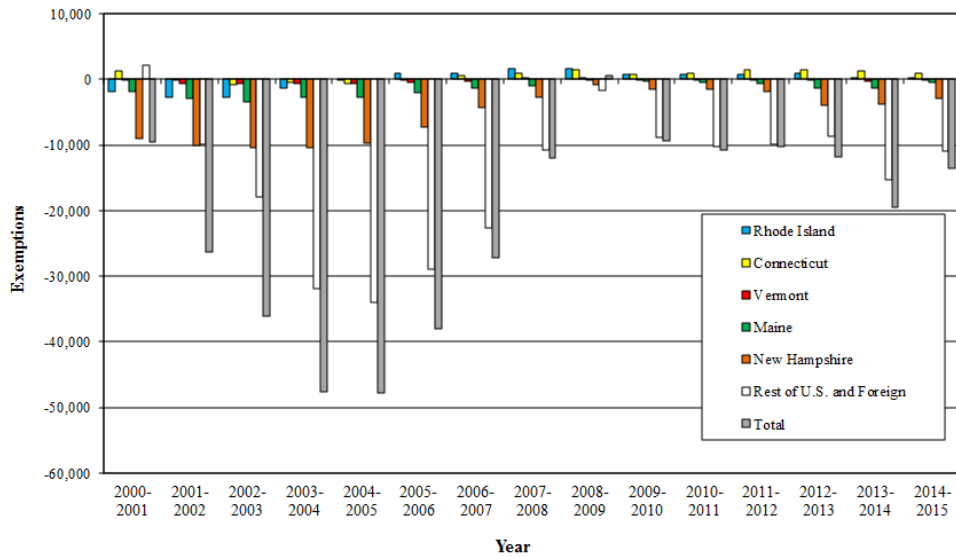


SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.  
 Internet Release Date: 04/21/05.

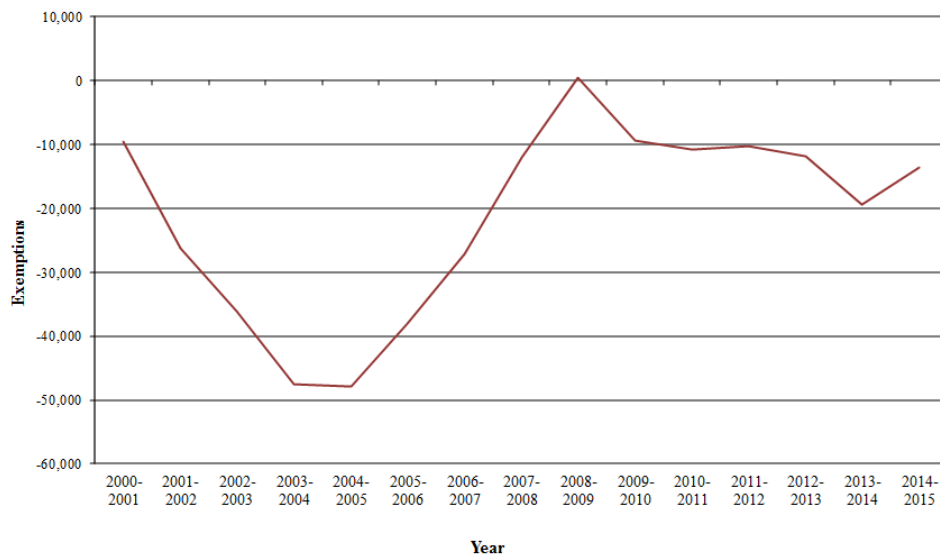


**Migration.** Migration is one of several components of annual population change in Massachusetts. The movement of people from place to place is often linked to economic opportunities or downturns. These data are derived from the filing addresses and number of exemptions submitted with federal tax returns. A tax filer is considered a migrant when he/she files a tax return with an address different from the previous year's filing address. Of the New England states, New Hampshire was the largest net loss for Massachusetts and Connecticut was the largest net gain for Massachusetts from 2000 through 2015. Massachusetts also sends many more migrants to other U.S. states than it gains. Its largest net losses outside of New England are to Florida, California, Texas, and North Carolina, while its largest net gains are from New York, New Jersey and Pennsylvania. The charts below illustrate the net migration for Massachusetts to and from the New England states and the rest of the country using IRS data.

**Massachusetts Net Migration to New England States  
Using IRS Exemption Data, 2000-2015**



**Massachusetts Net Migration Using IRS Exemption Data, 2000-2015**

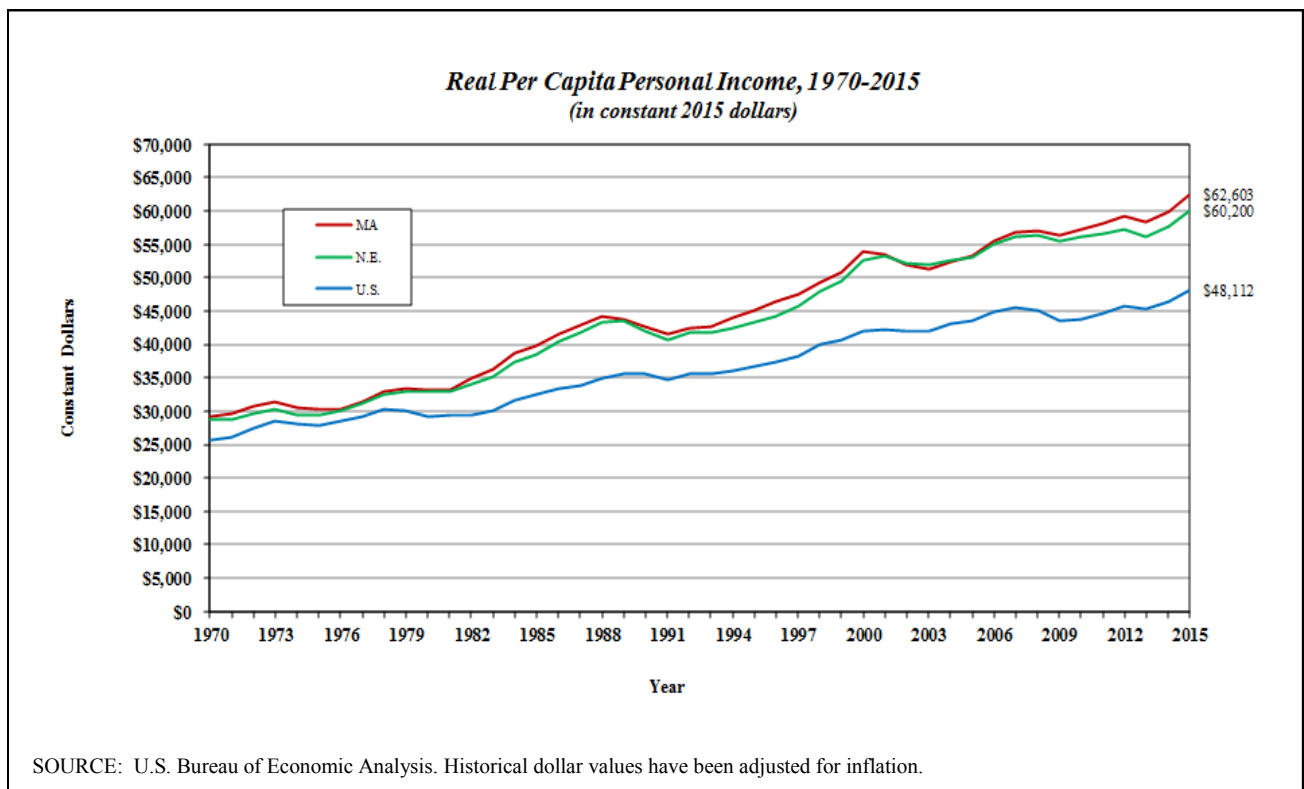


SOURCE: U.S. Internal Revenue Service, Statistics of Income.

## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Real per capita income levels in Massachusetts have varied over time. Between 1992 and 1997, real per capita income levels in the Commonwealth increased faster than the national average. In 2000, Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.5 percentage points. From 2001 to 2003, real income declined in Massachusetts while staying roughly flat for the nation. However, real income levels in Massachusetts remained well above the national average. Following a significant decline in 2009, Massachusetts, New England, and the U.S. steadily increased until 2012. Overall, between 2006 and 2012, Massachusetts personal income increased considerably faster than the nation during the recession and its aftermath. In 2013, Massachusetts, New England and the U.S. all experienced a slight decline in real income. From 2014 to 2015, real per capita income rose in the state, New England, and the nation. In recent years, Massachusetts per capita personal income rose higher than New England and continued to outpace the nation. At the state level in 2015, only the District of Columbia and Connecticut have 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 1970-2015.

<i>Per Capita Personal Income, 1970-2015</i>									
Year	Nominal Income (in nominal dollars)			Real Income (in 2015 dollars)			Percent Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,575	\$4,547	\$4,196	\$29,216	\$28,667	\$25,632	2.8%	2.1%	3.5%
1971	\$4,859	\$4,795	\$4,468	\$29,559	\$28,723	\$26,148	1.2%	0.2%	2.0%
1972	\$5,228	\$5,156	\$4,853	\$30,712	\$29,686	\$27,518	3.9%	3.4%	5.2%
1973	\$5,647	\$5,589	\$5,352	\$31,310	\$30,311	\$28,570	1.9%	2.1%	3.8%
1974	\$6,108	\$6,056	\$5,824	\$30,625	\$29,540	\$28,000	-2.2%	-2.5%	-2.0%
1975	\$6,592	\$6,516	\$6,312	\$30,327	\$29,449	\$27,808	-1.0%	-0.3%	-0.7%
1976	\$7,098	\$7,061	\$6,856	\$30,369	\$30,181	\$28,559	0.1%	2.5%	2.7%
1977	\$7,733	\$7,701	\$7,494	\$31,461	\$31,173	\$29,310	3.6%	3.3%	2.6%
1978	\$8,547	\$8,527	\$8,338	\$33,044	\$32,483	\$30,311	5.0%	4.2%	3.4%
1979	\$9,500	\$9,501	\$9,212	\$33,317	\$32,912	\$30,074	0.8%	1.3%	-0.8%
1980	\$10,695	\$10,716	\$10,153	\$33,239	\$32,876	\$29,204	-0.2%	-0.1%	-2.9%
1981	\$11,868	\$11,914	\$11,262	\$33,188	\$33,017	\$29,365	-0.2%	0.4%	0.6%
1982	\$13,005	\$12,939	\$11,947	\$34,959	\$34,061	\$29,343	5.3%	3.2%	-0.1%
1983	\$14,067	\$13,896	\$12,652	\$36,184	\$35,114	\$30,108	3.5%	3.1%	2.6%
1984	\$15,755	\$15,472	\$13,860	\$38,630	\$37,338	\$31,617	6.8%	6.3%	5.0%
1985	\$16,938	\$16,591	\$14,719	\$39,746	\$38,598	\$32,422	2.9%	3.4%	2.5%
1986	\$18,197	\$17,795	\$15,459	\$41,635	\$40,393	\$33,431	4.8%	4.7%	3.1%
1987	\$19,608	\$19,182	\$16,265	\$42,986	\$41,702	\$33,936	3.2%	3.2%	1.5%
1988	\$21,403	\$20,900	\$17,426	\$44,239	\$43,273	\$34,913	2.9%	3.8%	2.9%
1989	\$22,437	\$22,218	\$18,653	\$43,868	\$43,570	\$35,654	-0.8%	0.7%	2.1%
1990	\$23,080	\$22,764	\$19,591	\$42,656	\$42,118	\$35,527	-2.8%	-3.3%	-0.4%
1991	\$23,468	\$23,056	\$19,985	\$41,549	\$40,803	\$34,778	-2.6%	-3.1%	-2.1%
1992	\$24,639	\$24,360	\$21,060	\$42,565	\$41,706	\$35,578	2.4%	2.2%	2.3%
1993	\$25,487	\$25,152	\$21,698	\$42,792	\$41,895	\$35,590	0.5%	0.5%	0.0%
1994	\$26,603	\$26,092	\$22,538	\$44,089	\$42,424	\$36,045	3.0%	1.3%	1.3%
1995	\$27,933	\$27,394	\$23,568	\$45,213	\$43,421	\$36,654	2.5%	2.4%	1.7%
1996	\$29,523	\$28,763	\$24,728	\$46,411	\$44,337	\$37,355	2.7%	2.1%	1.9%
1997	\$31,152	\$30,401	\$25,950	\$47,631	\$45,744	\$38,321	2.6%	3.2%	2.6%
1998	\$32,909	\$32,393	\$27,510	\$49,203	\$48,053	\$40,002	3.3%	5.0%	4.4%
1999	\$34,849	\$34,133	\$28,627	\$50,831	\$49,613	\$40,727	3.3%	3.2%	1.8%
2000	\$38,547	\$37,363	\$30,602	\$53,898	\$52,522	\$42,121	6.0%	5.9%	3.4%
2001	\$39,944	\$38,900	\$31,540	\$53,547	\$53,200	\$42,211	-0.7%	1.3%	0.2%
2002	\$39,856	\$39,000	\$31,815	\$52,069	\$52,259	\$41,916	-2.8%	-1.8%	-0.7%
2003	\$40,805	\$39,859	\$32,692	\$51,374	\$51,948	\$42,112	-1.3%	-0.6%	0.5%
2004	\$42,856	\$41,838	\$34,316	\$52,514	\$52,702	\$43,057	2.2%	1.5%	2.2%
2005	\$44,842	\$43,644	\$35,904	\$53,196	\$53,043	\$43,573	1.3%	0.6%	1.2%
2006	\$48,307	\$46,858	\$38,144	\$55,586	\$54,962	\$44,845	4.5%	3.6%	2.9%
2007	\$50,417	\$49,201	\$39,821	\$56,914	\$56,268	\$45,520	2.4%	2.4%	1.5%
2008	\$52,283	\$51,278	\$41,082	\$57,024	\$56,394	\$45,225	0.2%	0.2%	-0.6%
2009	\$51,412	\$50,537	\$39,376	\$56,456	\$55,570	\$43,502	-1.0%	-1.5%	-3.8%
2010	\$53,058	\$52,064	\$40,277	\$57,364	\$56,142	\$43,779	1.6%	1.0%	0.6%
2011	\$55,233	\$54,060	\$42,453	\$58,140	\$56,570	\$44,732	1.4%	0.8%	2.2%
2012	\$57,194	\$55,731	\$44,267	\$59,268	\$57,202	\$45,698	1.9%	1.1%	2.2%
2013	\$57,165	\$55,507	\$44,462	\$58,434	\$56,208	\$45,237	-1.4%	-1.7%	-1.0%
2014	\$59,603	\$57,778	\$46,414	\$59,961	\$57,714	\$46,469	2.6%	2.7%	2.7%
2015	\$62,603	\$60,200	\$48,112	\$62,603	\$60,200	\$48,112	4.4%	4.3%	3.5%

SOURCE: U.S. Bureau of Economic Analysis.

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

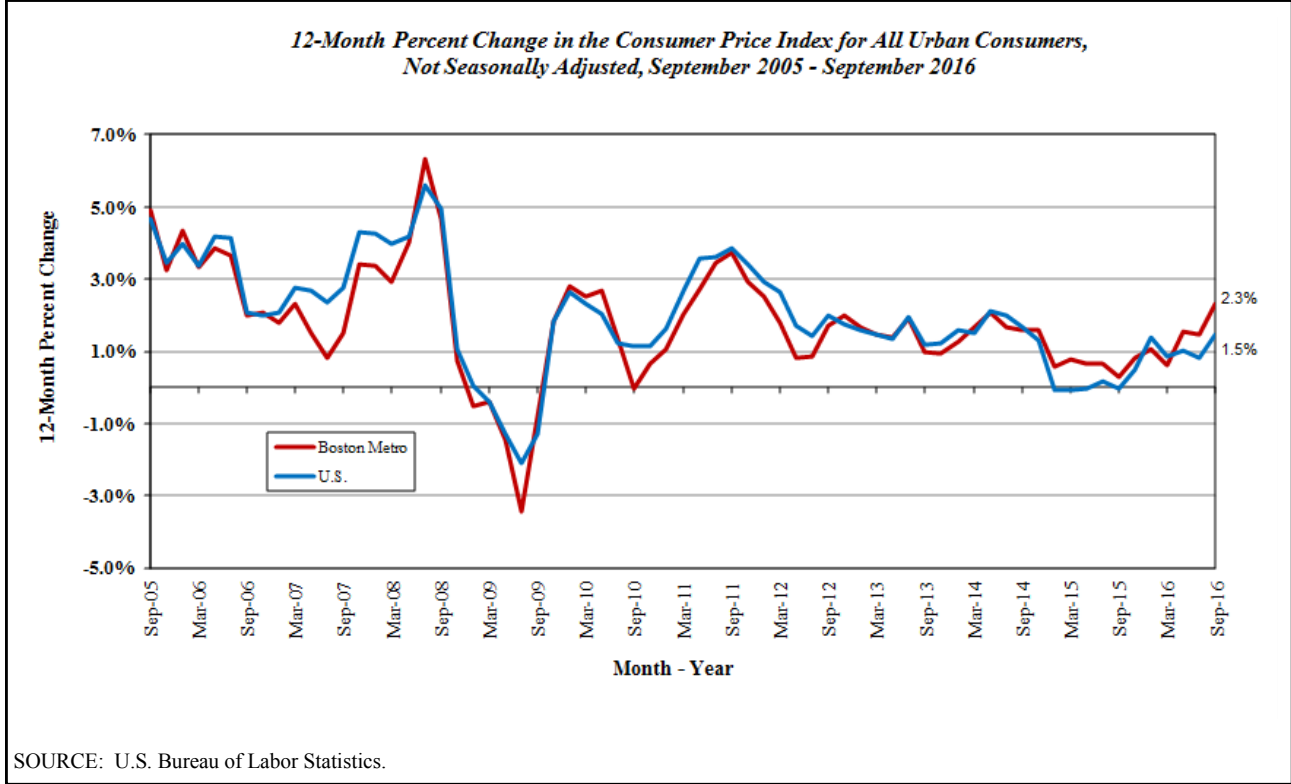
**Average Annual Pay.** Massachusetts saw steady growth in average annual pay for most of the past fifteen years, adjusted for inflation. It lost ground in 2009, but resumed growth in 2010. Payroll data are reported to the Quarterly Census of Employment and Wages (QCEW) by all employers covered under the Unemployment Insurance programs, and summary data are released. 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 from the data in the QCEW. Since 2005, average annual wages in the state have grown at an annual rate of 0.9 percent, compared to 0.7 percent for the nation. The level of average annual pay in Massachusetts in 2015 was 26 percent higher than the national average: \$66,692 compared to \$52,942.

**Annual Wage and Salary Disbursements.** Wage and salary disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data are recorded on a place-of-work basis, they are then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1998 and 2000, the Massachusetts share of New England and overall U.S. totals increased. In subsequent years, the Massachusetts share of New England and the U.S. decreased slightly until 2006. Since then, Massachusetts' share of New England has risen steadily while its share of the U.S. has stayed roughly the same. In 2015, the shares were 52.4 and 3.0 percent respectively.

<i>Annual Wage and Salary Disbursements, 1990-2015</i> (in millions of 2015 dollars)					
Year	U.S.	N.E.	MA	MA as a pct. of N.E.	MA as a pct. of U.S.
1990	\$ 4,950	\$308	\$149	48.4%	3.0%
1991	\$ 4,876	\$294	\$142	48.3%	2.9%
1992	\$ 5,009	\$298	\$144	48.3%	2.9%
1993	\$ 5,035	\$298	\$145	48.5%	2.9%
1994	\$ 5,159	\$303	\$148	48.8%	2.9%
1995	\$ 5,309	\$312	\$153	49.0%	2.9%
1996	\$ 5,457	\$320	\$158	49.3%	2.9%
1997	\$ 5,719	\$337	\$166	49.3%	2.9%
1998	\$ 6,074	\$358	\$177	49.5%	2.9%
1999	\$ 6,341	\$376	\$189	50.2%	3.0%
2000	\$ 6,639	\$401	\$206	51.2%	3.1%
2001	\$ 6,625	\$400	\$203	50.7%	3.1%
2002	\$ 6,578	\$391	\$196	50.1%	3.0%
2003	\$ 6,613	\$391	\$194	49.6%	2.9%
2004	\$ 6,797	\$401	\$199	49.6%	2.9%
2005	\$ 6,904	\$401	\$198	49.4%	2.9%
2006	\$ 7,115	\$410	\$203	49.5%	2.9%
2007	\$ 7,306	\$422	\$211	49.9%	2.9%
2008	\$ 7,187	\$416	\$209	50.2%	2.9%
2009	\$ 6,899	\$400	\$201	50.3%	2.9%
2010	\$ 6,923	\$403	\$204	50.6%	2.9%
2011	\$ 6,979	\$406	\$206	50.8%	3.0%
2012	\$ 7,145	\$411	\$210	51.2%	2.9%
2013	\$ 7,232	\$415	\$214	51.4%	3.0%
2014	\$ 7,478	\$429	\$222	51.9%	3.0%
2015	\$ 7,849	\$449	\$235	52.4%	3.0%

SOURCE: U.S. 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 September 2005 and September 2016. The latest available data for September 2016 show that the CPI-U for Boston area increased at a rate of 2.3 percent over September 2015. The U.S. index increased at a rate of 1.5 percent over the same period.



In 2009, the Boston metropolitan area and U.S. experienced their first monthly year-over-year declines in the CPI-U since 1954 and 1955, respectively. The 2015 U.S. CPI-U increased 8.7 percent since 2010 while Boston’s CPI-U increased 8.1 percent during that period. Between 2014 and 2015, Boston’s CPI increased by 0.6 percent while in the United States as a whole, CPI-U increased only by 0.1%, the smallest change since before the recession. The table on the following page shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year from 1970 through the present.

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

Year	Boston Metro Area		United States	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
2005	216.4	3.3%	195.3	3.4%
2006	223.1	3.1%	201.6	3.2%
2007	227.4	1.9%	207.3	2.8%
2008	235.4	3.5%	215.3	3.8%
2009	233.8	-0.7%	214.5	-0.4%
2010	237.4	1.6%	218.1	1.6%
2011	243.9	2.7%	224.9	3.2%
2012	247.7	1.6%	229.6	2.1%
2013	251.1	1.4%	233.0	1.5%
2014	255.2	1.6%	236.7	1.6%
2015	256.7	0.6%	237.0	0.1%

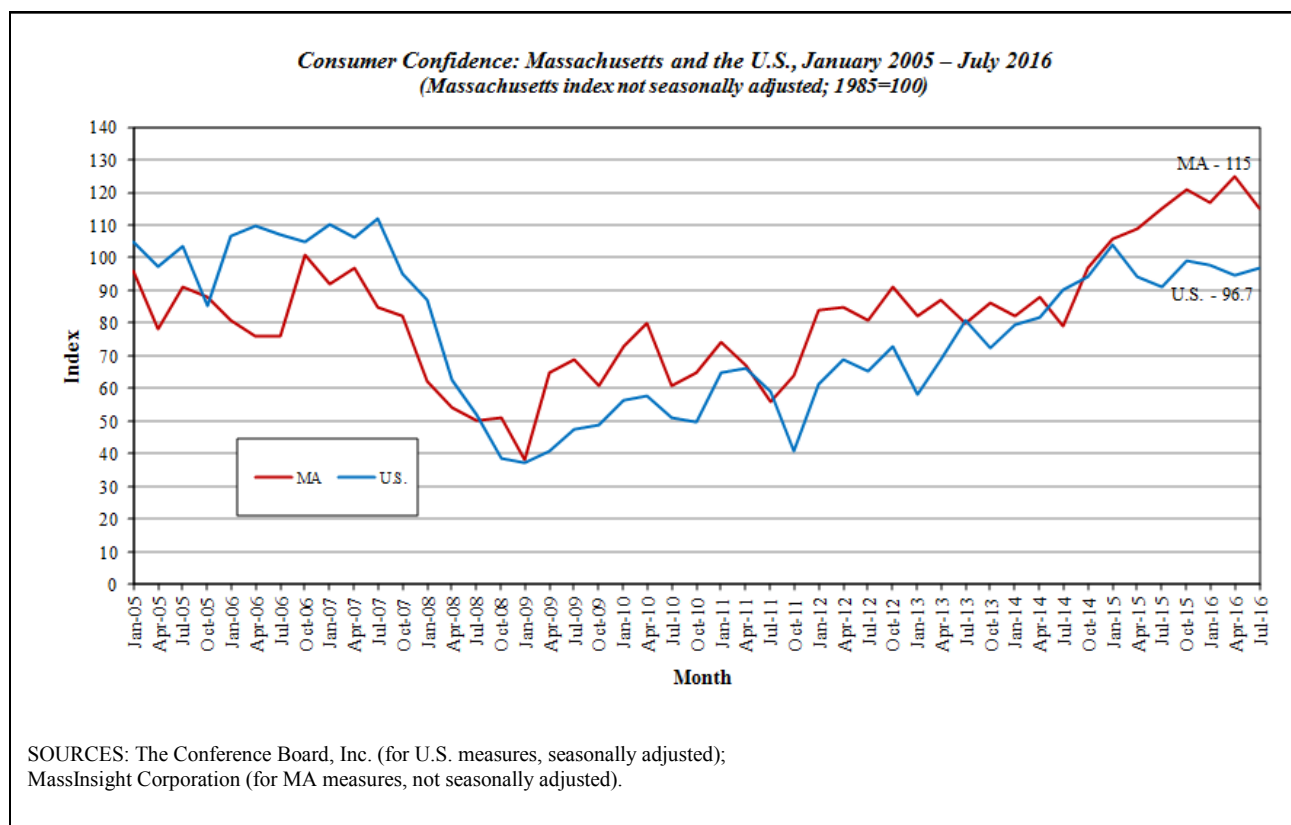
SOURCE: U.S. Bureau of Labor Statistics.



**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 MassInsight, based on quarterly polling of 450 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations for six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. measures are compiled by a different source than the Massachusetts measures, according to the Federal Reserve Bank of Boston, the numbers are generally comparable. A score of 100 is considered neutral.

According to the Conference Board, consumer confidence nationally reached a six-year high of 111.9 in July 2007, followed by an all-time low of 25.3 in February 2009. The Massachusetts index has generally been higher than the U.S. index since sharing lows in January 2009, except for a brief period when they tracked closely together in 2011 and then experienced slight dips in July 2013 and July 2014.

In the third quarter of 2016, Consumer Confidence for Massachusetts reached 115.0, down from a 16-year high of 125.0 in quarter two. The U.S. has yet to recover to its 2007 levels and stood at 96.7 in the third quarter of 2016. The following graph and table detail the recent record of these measures.



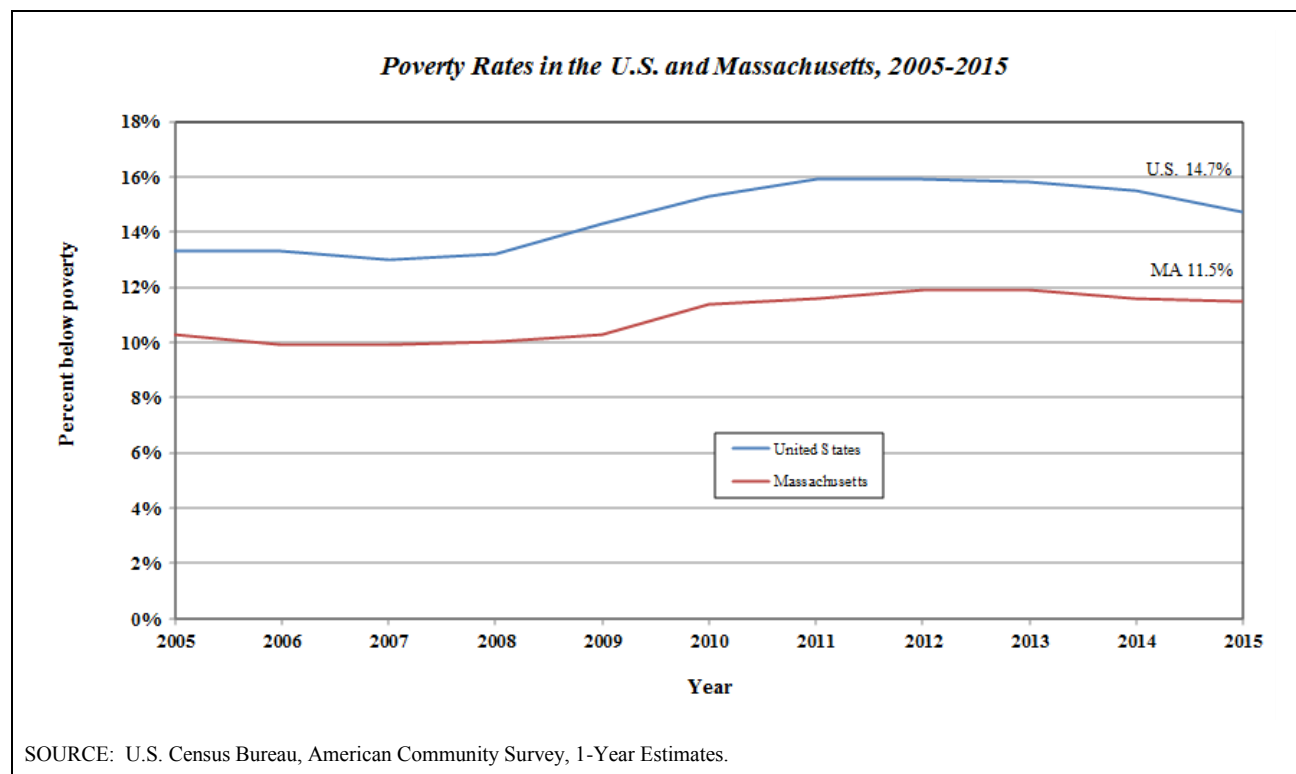
*Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S.  
(1985=100)*

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
Jul-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	95.2	76.0	118.0	86.0	80.0
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	59.2	20.0	35.7	80.0	74.9
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	58.4	48.0	56.2	105.0	59.9
Apr-13	87.0	69.0	54.0	61.0	109.0	74.3
Jul-13	80.0	81.0	56.0	73.6	97.0	86.0
Oct-13	86.0	72.4	64.0	72.6	101.0	72.2
Jan-14	82.0	79.4	55.0	77.3	99.0	80.8
Apr-14	88.0	81.7	66.0	78.5	103.0	83.9
Jul-14	79.0	90.3	69.0	87.9	86.0	91.9
Oct-14	97.0	94.1	76.0	94.4	111.0	93.8
Jan-15	106.0	103.8	84.0	113.9	120.0	97.0
Apr-15	109.0	94.3	94.0	105.1	119.0	87.1
Jul-15	115.0	91.0	115.0	104.0	115.0	82.3
Oct-15	121.0	99.1	118.0	114.6	123.0	88.7
Jan-16	117.0	97.8	122.0	116.6	114.0	85.3
Apr-16	125.0	94.7	129.0	117.1	123.0	79.7
Jul-16	115.0	96.7	120.0	118.8	111.0	82.0

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

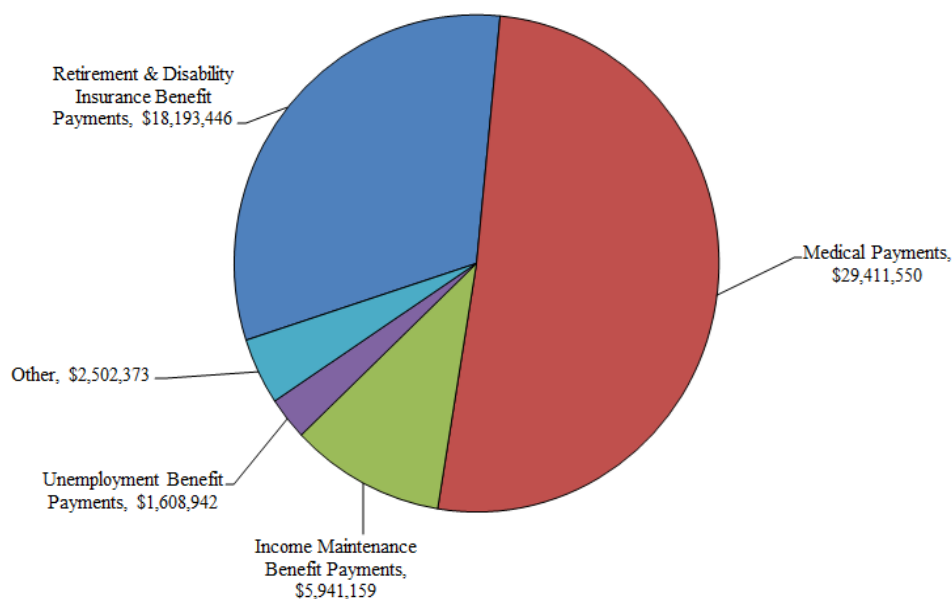


**Poverty.** Since 2005, the Massachusetts poverty rate, which was 11.5 percent in 2015, has been three to four percentage points lower than the national average, which was 14.7 percent in 2015. Massachusetts ranked 38th out of the 50 states and the District of Columbia in 2015, for percent of persons whose ratio of income to the poverty level was below 100 percent in the past 12 months. Poverty status is not determined for all people. Institutionalized people, people in military quarters, people in college dormitories, and unrelated individuals under 15 years old are excluded.



**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for 14.8 percent of total personal income in Massachusetts in 2014, dropping from 15.0 percent in 2013. The chart below does not include transfer payments from businesses or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts from governments and businesses totaled \$59.0 billion for 2014, adjusted for inflation. Fifty-one percent of government transfer payments to individuals were medical payments, up from over 48.4 percent in 2013.

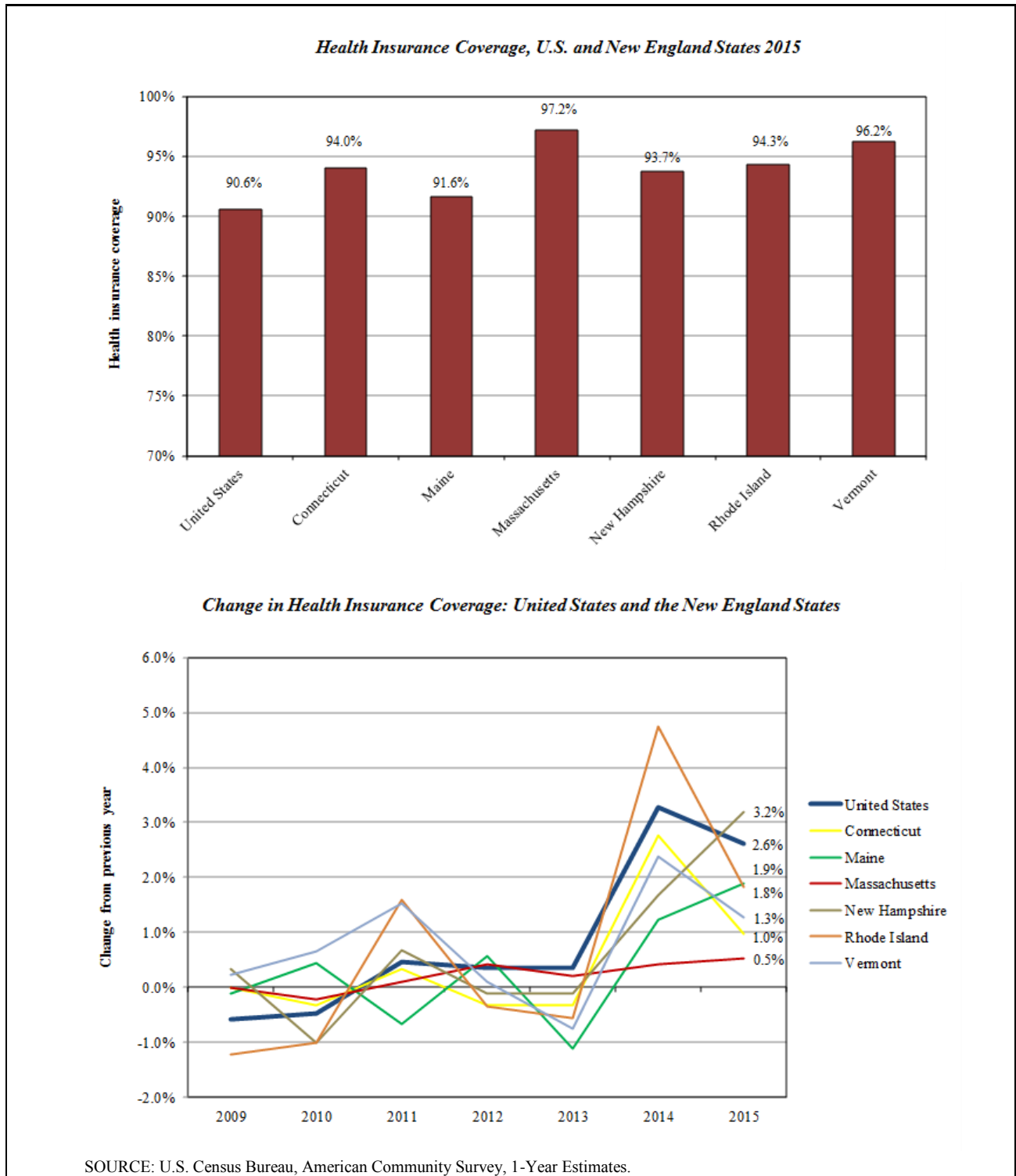
**Transfer Payments from Governments to Individuals in  
Massachusetts in 2014**  
(From Annual State Personal Income Estimates)  
(in thousands of 2015 dollars)



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

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

**Health Insurance Coverage.** Massachusetts leads the nation in the percent of individuals with health insurance coverage. Massachusetts passed legislation in 2006 mandating universal coverage in the Commonwealth. In 2015, 97.2 percent of the civilian non-institutionalized population was covered in the state by either private or public insurance, compared with 90.6 percent nationwide. Massachusetts also leads the other New England states in coverage, with Vermont as the next closest at 96.2 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.

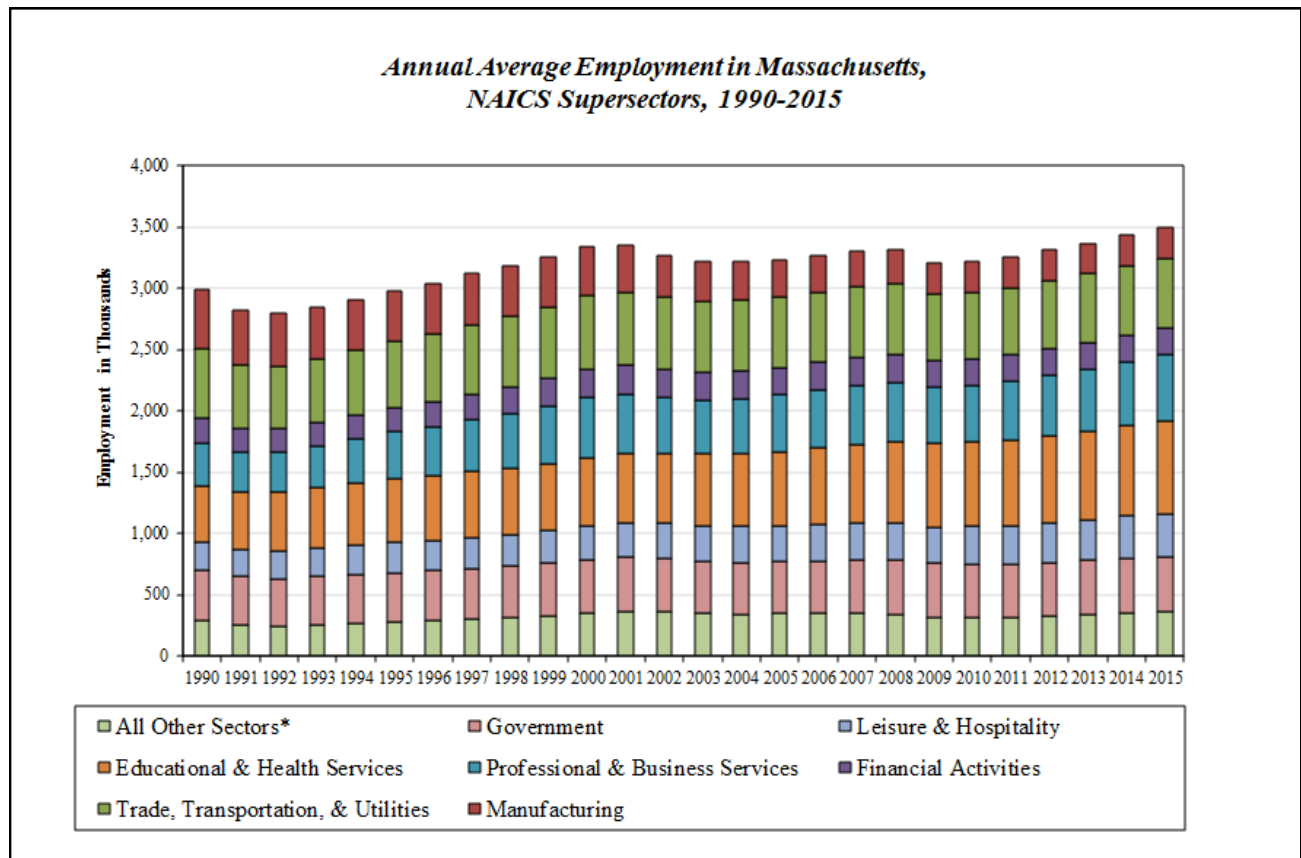


## EMPLOYMENT

**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 supersector shares for 2015 with the corresponding shares for 1995. 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 from 2002 to 2004, total non-agricultural employment in Massachusetts eventually increased 0.6 percent in 2005 and continued to increase every year through 2008. After a large dip in 2009, employment has continued to grow steadily with nonfarm employment increasing 1.7 percent in 2015. With an annual average just under 3.5 million nonfarm employees, 2015 had the highest numbers to date.

After years of moderate but steady declines or near-zero growth in the late nineties and early 2000s, manufacturing employment in the state experienced steep annual declines in 2002 (10.2 percent) and 2003 (7.0 percent) before returning to more moderate declines in 2004 (3.5 percent). After a steep drop of 9.5 percent in 2009, the decline returned to a less dramatic 2.4 percent in 2010. September 2016 saw manufacturing employment increase by 0.6 percent since September of 2015. The 2015 employment total was slightly higher than 2014 (250.3 thousand compared to 250.2).

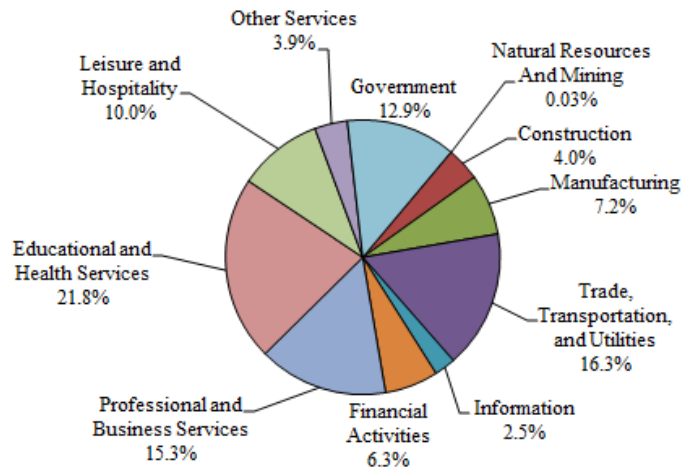


SOURCE: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES).

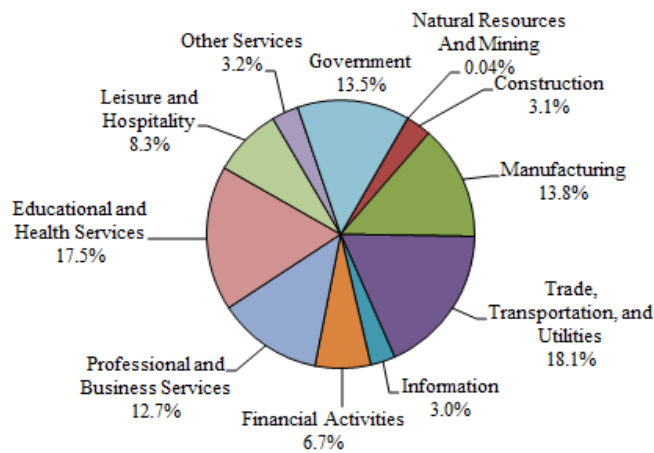
\*Includes Mining & Natural Resources, Construction, Information, and Other Services.

**Massachusetts Nonfarm Payroll Employment  
(NAICS Industry basis)**

**NAICS Supersectors: 2015 Share**



**NAICS Supersectors: 1995 Share**



SOURCE: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES).

**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 June 2016. The 2016 list is nearly identical to the 2015 list, except for the addition of the TJX Companies and the removal of Tufts University. 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 June 2016*  
(listed alphabetically)

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

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Division of Unemployment Assistance, Research Department, 10/25/2016.

NOTE: This alphabetic listing includes private employers reporting large numbers of jobs covered by the MA unemployment insurance program. The information is based on the June 2016 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 franchise as a separate employer.

**Massachusetts Companies in the Fortune 500 List.** As of June 2016, Massachusetts is home to twelve Fortune 500 companies headquartered here, the same twelve as in 2015. When comparing the 2016 Fortune 500 list to the 2015 list, eleven Massachusetts companies gained and one lost rank. Biogen located in Weston, climbed 35 places on the list, the largest leap for a Massachusetts company, while Waltham-based Global Partners fell 93 places.

*Massachusetts Companies in the 2016 Fortune 500*

Rank		Company (location)	Industry	2016 revenues (billions)
2016	2015			
73	78	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$39.4
76	94	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$38.2
89	103	TJX (Framingham)	Specialty Retailers: Apparel	\$30.9
113	121	EMC (Hopkinton)	Computer Peripherals	\$24.7
120	129	Raytheon (Waltham)	Aerospace and Defense	\$23.2
132	133	Staples (Framingham)	Specialty Retailers: Other	\$21.0
164	181	Thermo Fisher Scientific (Waltham)	Scientific, Photo, Control Equipment	\$17.0
263	298	Biogen Idec (Weston)	Pharmaceuticals	\$10.8
264	278	State St. Corp. (Boston)	Commercial Banks	\$10.8
273	180	Global Partners (Waltham)	Wholesalers: Diversified	\$10.3
343	367	Eversource (Springfield)	Utilities: Gas and Electric	\$8.0
359	378	Boston Scientific (Natick)	Medical Products & Equipment	\$7.5

SOURCE: *Forbes*, 06/06/2016 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 August 31, 2016, the preliminary Massachusetts Unemployment Trust Fund had a balance of \$1.114 billion. This balance is the sum of the private contributory account balance of \$1.004 billion and the government contributory account balance of \$110 million. This compares to the May 31, 2016 balance of \$1.133 billion with a private contributory portion of \$1.019 billion. The September 2016 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$1.132 billion by the end of 2020 according to the Moody's-based outlook.

***Unemployment.*** The unemployment rate in Massachusetts was consistently below or equal to the national average from mid-1995 through September 2005, with similar patterns of gradual improvement after the mid-2003 peak. The Massachusetts rate was greater than or equal to the U.S. rate for 19 months between January 2006 and June 2007, but has not exceeded the U.S. rate since then. The Massachusetts rate peaked at 9.6 percent in January 2010, the same month that the U.S. rate peaked at 10.6 percent. From July 2007 onward, the state rate remained equal to or below the comparable (not seasonally adjusted) U.S. unemployment rate.

Since reaching 6.8 percent in January 2014, the Massachusetts unemployment rate has gradually declined to 3.3 percent in September 2016, 1.5 percent below the national rate of 4.8 percent and the lowest level in over a decade. 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, 1969-2015*

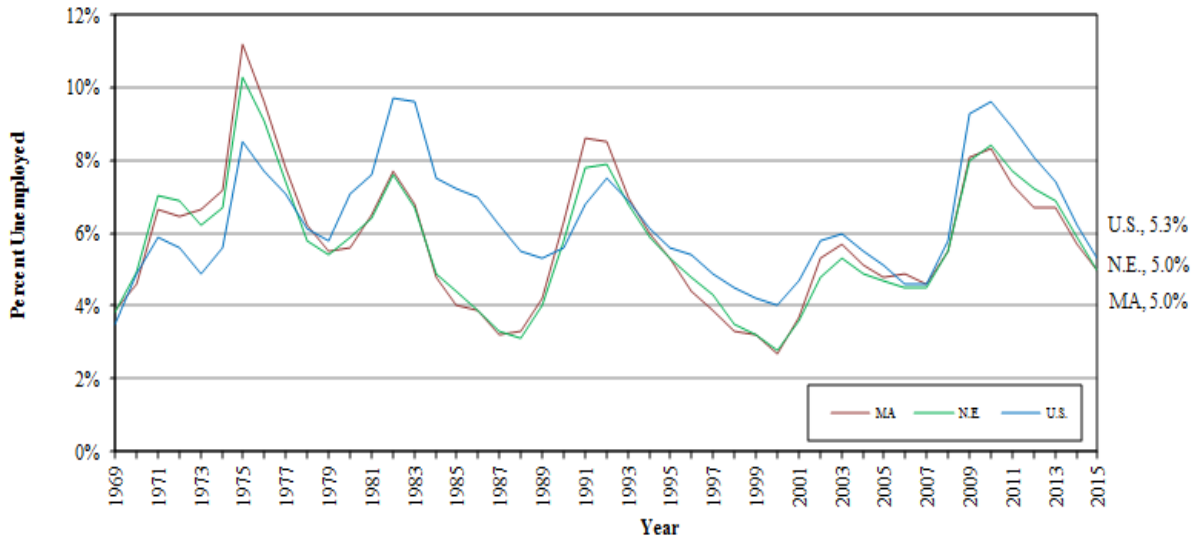
*(in thousands)*

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	2,722	5,706	96,158	262	518	7,406	9.6%	9.1%	7.7%	124.7%
1977	2,763	5,821	99,009	215	433	6,991	7.8%	7.4%	7.1%	109.9%
1978	2,814	5,936	102,251	175	344	6,202	6.2%	5.8%	6.1%	101.6%
1979	2,853	6,071	104,962	157	328	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,868	6,148	106,940	162	363	7,637	5.6%	5.9%	7.1%	78.9%
1981	2,942	6,259	108,670	190	403	8,273	6.5%	6.4%	7.6%	85.5%
1982	2,987	6,341	110,204	231	482	10,678	7.7%	7.6%	9.7%	79.4%
1983	2,997	6,392	111,550	202	428	10,717	6.8%	6.7%	9.6%	70.8%
1984	3,037	6,525	113,544	145	319	8,539	4.8%	4.9%	7.5%	64.0%
1985	3,051	6,633	115,461	121	289	8,312	4.0%	4.4%	7.2%	55.6%
1986	3,066	6,726	117,834	119	264	8,237	3.9%	3.9%	7.0%	55.7%
1987	3,094	6,825	119,865	100	227	7,425	3.2%	3.3%	6.2%	51.6%
1988	3,141	6,909	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,176	7,007	123,869	132	277	6,528	4.2%	4.0%	5.3%	79.2%
1990	3,206	7,109	125,840	202	412	7,047	6.3%	5.8%	5.6%	112.5%
1991	3,195	7,117	126,346	275	554	8,628	8.6%	7.8%	6.8%	126.5%
1992	3,181	7,102	128,105	269	564	9,613	8.5%	7.9%	7.5%	113.3%
1993	3,174	7,051	129,200	222	481	8,940	7.0%	6.8%	6.9%	101.4%
1994	3,201	7,033	131,056	193	415	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,215	7,049	132,304	170	374	7,404	5.3%	5.3%	5.6%	94.6%
1996	3,241	7,118	133,943	144	340	7,236	4.4%	4.8%	5.4%	81.5%
1997	3,306	7,220	136,297	130	312	6,739	3.9%	4.3%	4.9%	79.6%
1998	3,341	7,264	137,673	110	254	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,354	7,327	139,368	107	234	5,880	3.2%	3.2%	4.2%	76.2%
2000	3,330	7,335	142,583	90	205	5,692	2.7%	2.8%	4.0%	67.5%
2001	3,381	7,394	143,734	126	267	6,801	3.7%	3.6%	4.7%	78.7%
2002	3,431	7,476	144,863	181	360	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,422	7,504	146,510	195	401	8,774	5.7%	5.3%	6.0%	95.0%
2004	3,396	7,478	147,401	175	363	8,149	5.1%	4.9%	5.5%	92.7%
2005	3,384	7,521	149,320	164	352	7,591	4.8%	4.7%	5.1%	94.1%
2006	3,413	7,605	151,428	167	345	7,001	4.9%	4.5%	4.6%	106.5%
2007	3,426	7,648	153,124	158	344	7,078	4.6%	4.5%	4.6%	100.0%
2008	3,452	7,704	154,287	191	426	8,924	5.5%	5.5%	5.8%	94.8%
2009	3,470	7,729	154,142	281	620	14,265	8.1%	8.0%	9.3%	87.1%
2010	3,480	7,751	153,889	289	649	14,825	8.3%	8.4%	9.6%	86.5%
2011	3,469	7,738	153,617	252	597	13,747	7.3%	7.7%	8.9%	82.0%
2012	3,486	7,732	154,975	232	559	12,506	6.7%	7.2%	8.1%	82.7%
2013	3,514	7,744	155,389	236	533	11,460	6.7%	6.9%	7.4%	90.5%
2014	3,557	7,785	155,922	204	457	9,617	5.7%	5.9%	6.2%	91.9%
2015	3,570	7,778	157,130	178	385	8,296	5.0%	5.0%	5.3%	94.3%

SOURCE: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS) and Current Population Survey (CPS).

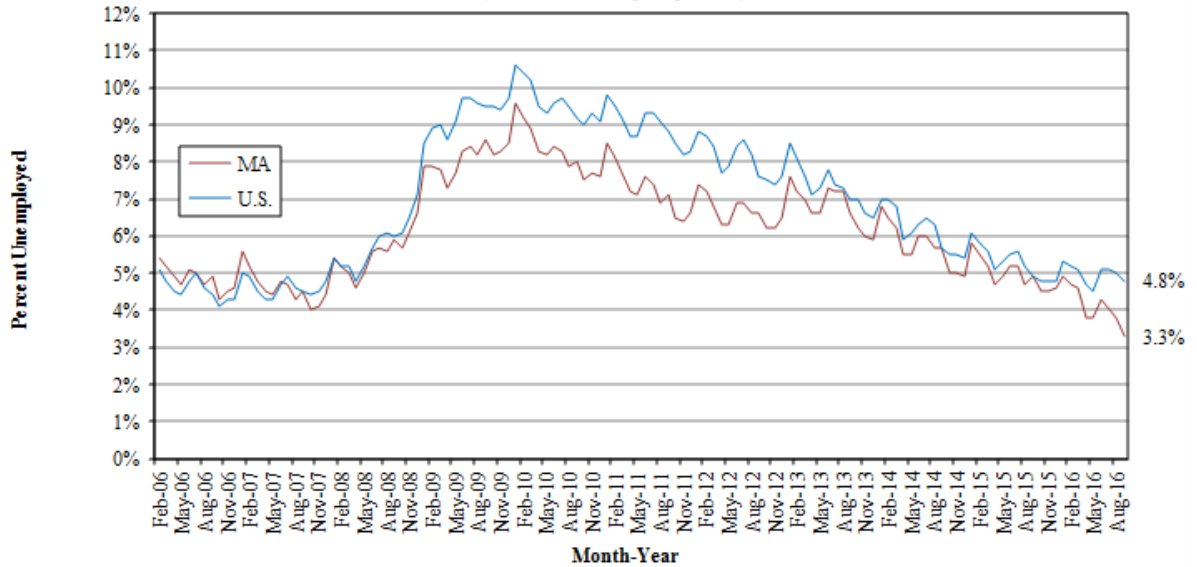


*Annual Average Unemployment Rate, 1969-2015  
Massachusetts, New England, and United States*



SOURCE: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS).

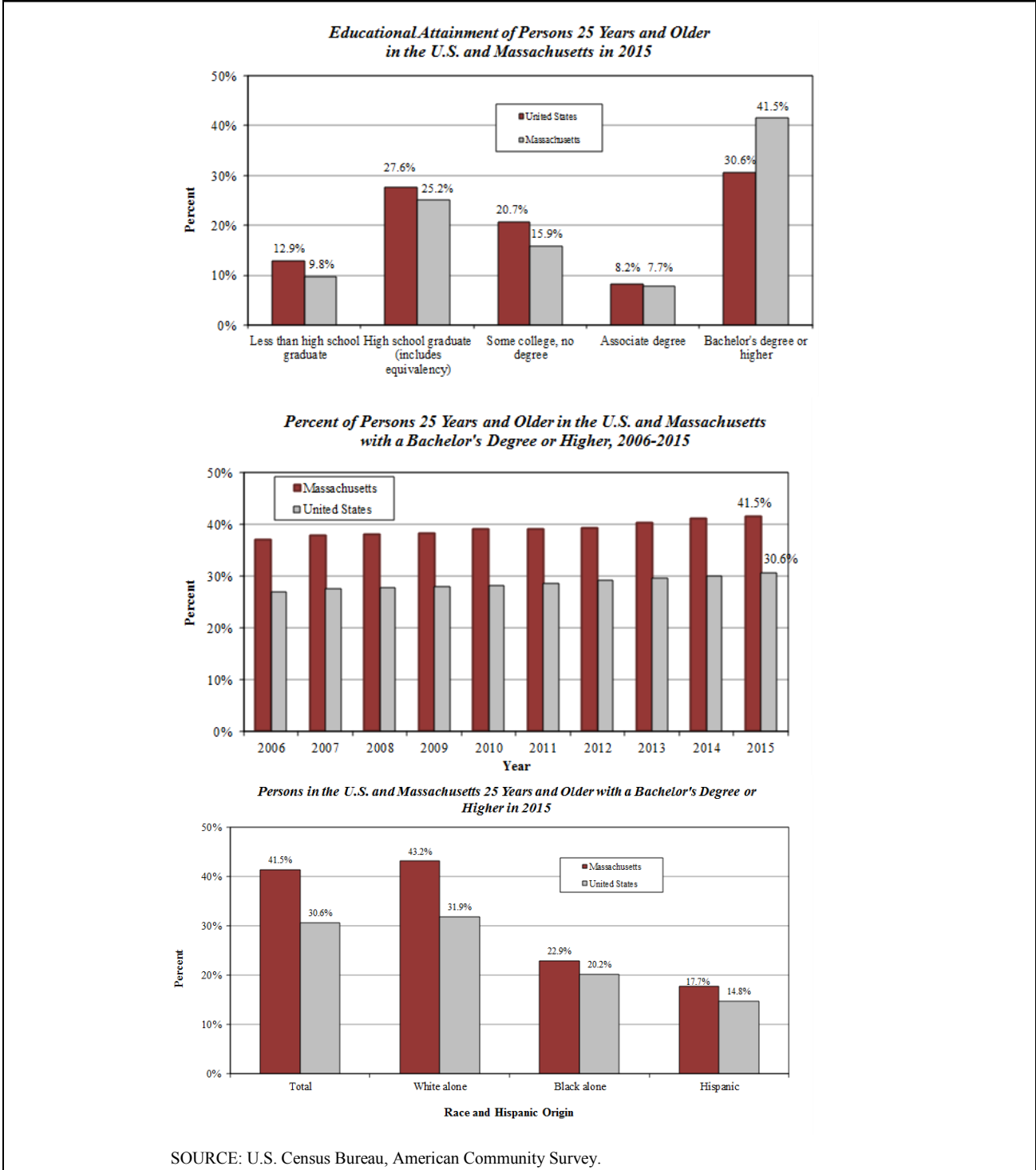
*Monthly Unemployment Rate, February 2006 - September 2016  
Massachusetts and United States  
(not seasonally adjusted)*



SOURCES: Massachusetts Executive Office of Labor and Workforce Development and U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS).

## 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 2015, according to the Census Bureau's American Community Survey (ACS). The Census also reported that Massachusetts ranked 35th in persons who had not completed high school, at 9.8 percent of the population aged 25 or more, less than the national average of 12.9 percent. Massachusetts' black and Hispanic populations achieved college degrees at a lower rate than its white population, but their rates were higher than their national averages. The most current ACS data are shown below.

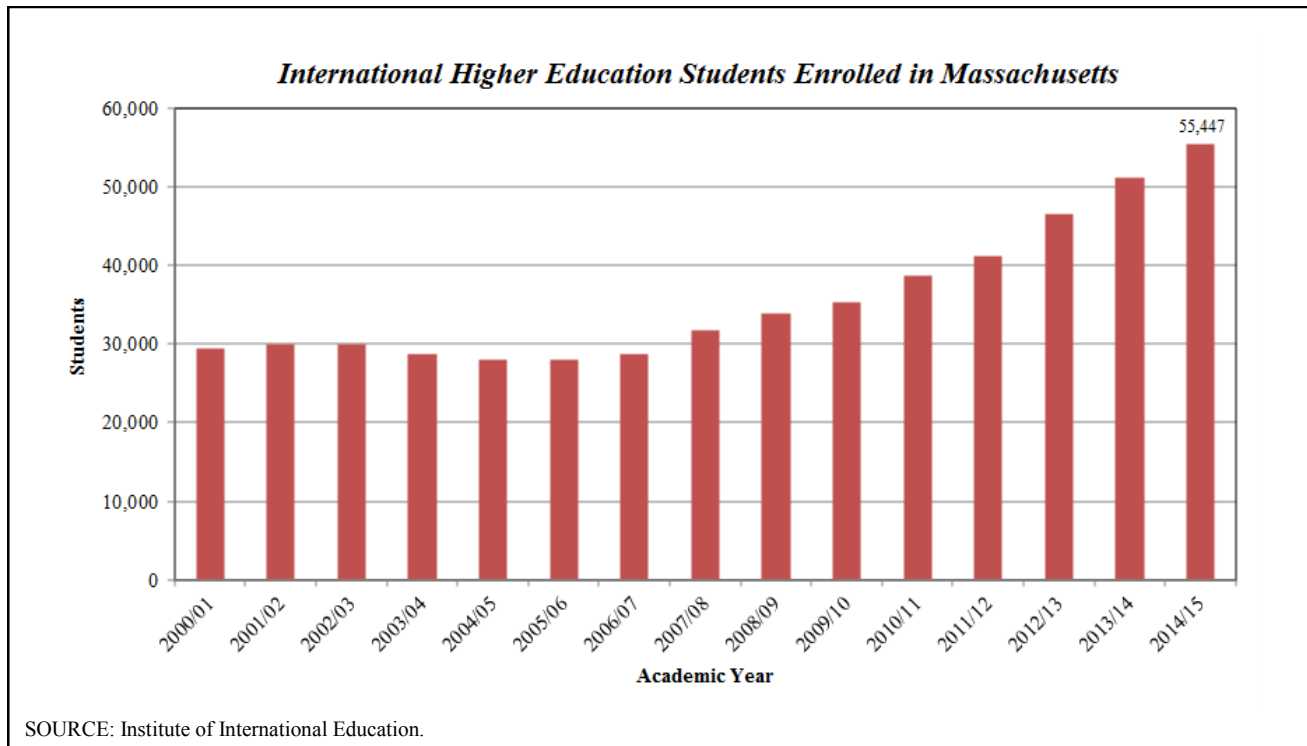


**Higher Education Data.** The table below compares Massachusetts residents' higher education enrollment by race and Hispanic origin to the U.S. There were 1.5 percent fewer people enrolled in college in the U.S. in 2015 compared to 2014. Total enrollment in Massachusetts remained relatively unchanged.

<i>Higher Education Enrollment by Race and Hispanic Origin in 2015</i>						
	Total	White alone	Black alone	Asian alone	All other races	Hispanic or Latino
United States	22,656,979	67.3%	14.9%	8.5%	9.3%	17.0%
Massachusetts	586,389	71.9%	9.7%	10.8%	7.6%	10.7%

SOURCE: U.S. Census Bureau, American Community Survey, 2015 1-Year Estimates.

Survey data released by the Institute of International Education state that 55,447 foreign students were enrolled in Massachusetts colleges and universities in the 2014/2015 school year. This was an increase of 8.2 percent from the previous year. The national enrollment increased 10.0 percent. Massachusetts remains fourth ranked among states for foreign student enrollment.

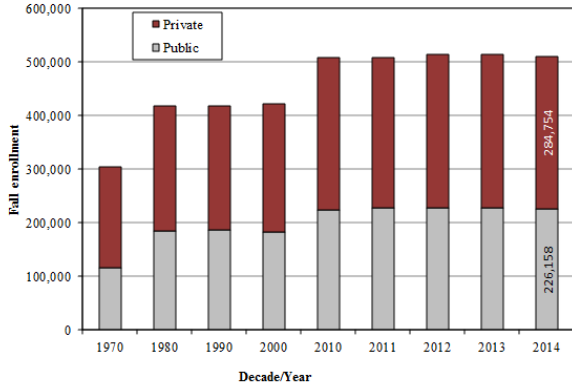


The graphs and table on the following page provide information about higher education enrollment, degrees conferred, and research and development expenditures at colleges and universities.

U.S. Department of Education data show that from 2013 to 2014, higher education enrollment decreased 0.8 percent in the United States and 0.6 percent at Massachusetts institutions. During the 2000-2014 period, enrollment in public higher education increased 25 percent in the United States and 23 percent at Massachusetts institutions. Enrollment in private institutions increased 56 percent in the United States and 20 percent at Massachusetts institutions.

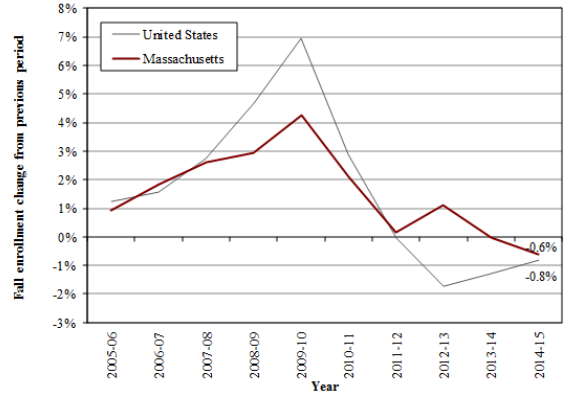
Research and development expenditures at universities and colleges increased 41 percent in the United States and 60 percent in Massachusetts between 2005 and 2014.

**Massachusetts Higher Education  
Public/Private Enrollment**



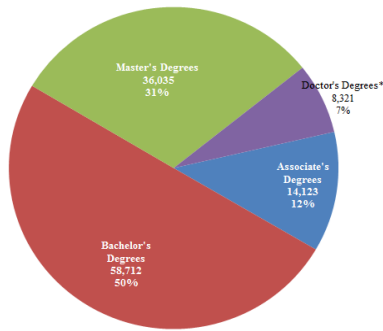
SOURCE: U.S. Department of Education, Digest of Education Statistics.

**Massachusetts Total Higher Education Enrollment  
Percent Change in Total Enrollment**



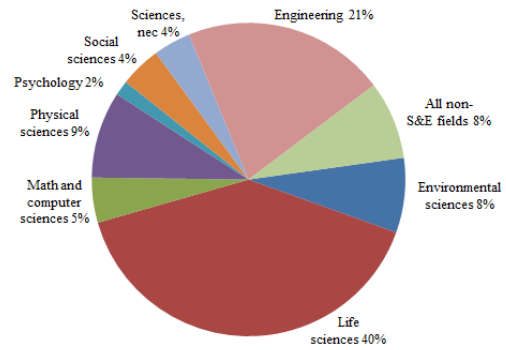
SOURCE: U.S. Department of Education, Digest of Education Statistics.

**Degrees Conferred by Degree-Granting Institutions in  
Massachusetts 2013-14**



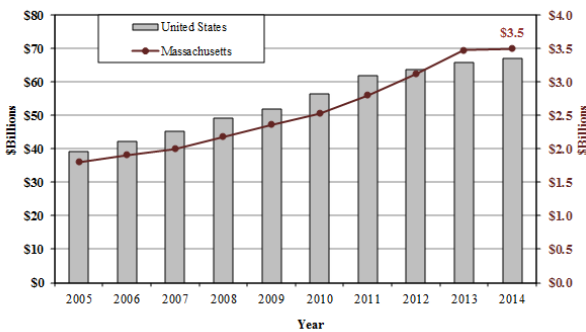
SOURCE: U.S. Department of Education, Digest of Education Statistics. \*Includes Ph.D., Ed.D., and comparable degrees at the doctoral level.

**R&D Expenditures at Massachusetts Universities and  
Colleges, by Science and Engineering Field: FY2014**



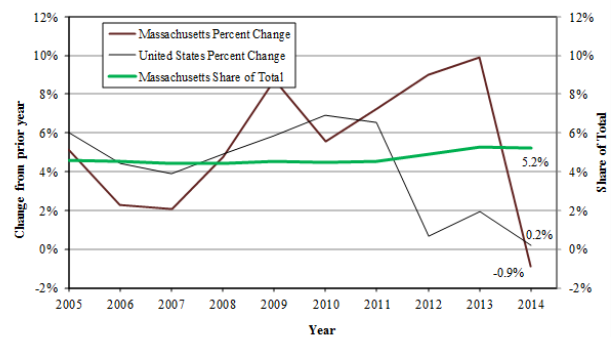
SOURCE: National Science Foundation. NOTE: \$3.50 Billion in FY 2014.

**Research and Development Expenditures at Universities and  
Colleges**



SOURCE: National Science Foundation.

**Research and Development Expenditures at Universities and  
Colleges**



SOURCE: National Science Foundation.

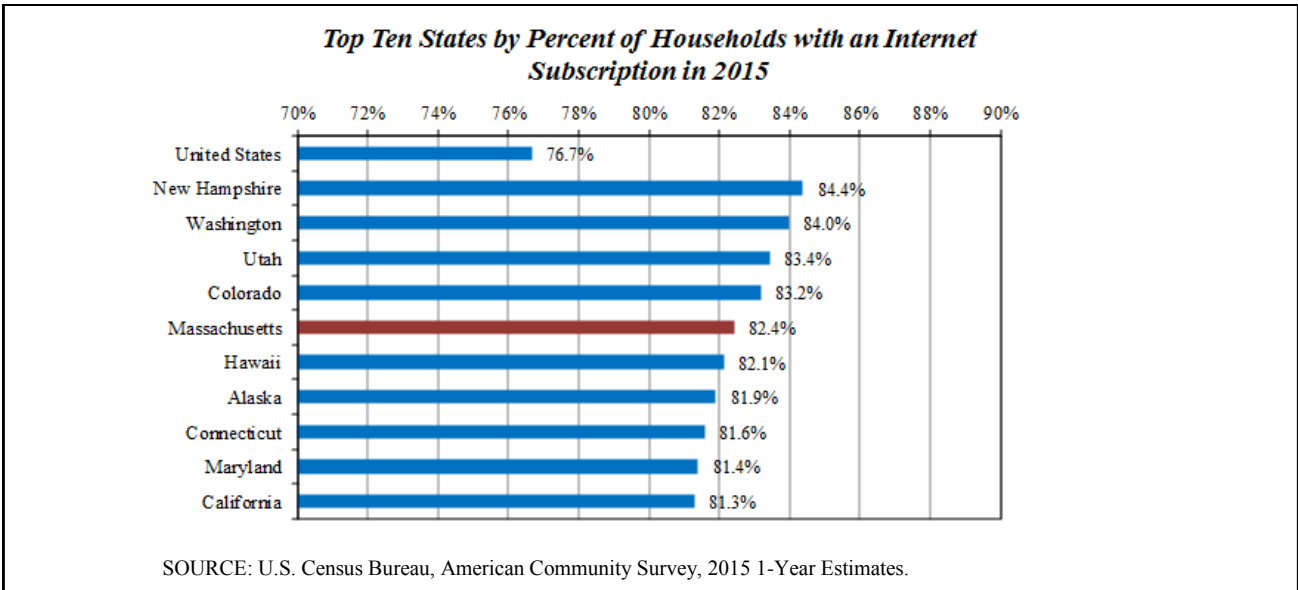
**Current Massachusetts Higher Education Rank Among States and the District of Columbia**

Enrollment -2014	MA Rank	Degrees Awarded - 2013	MA Rank	Research & Development\$ - FY 2014	MA Rank
Total	13	Total	10	Total	5
Public	22	Associate's	22	Environmental sciences	2
Private	7	Bachelor's	10	Life sciences	7
		Master's	6	Math/computer sciences	6
		Professional/Doctorate	7	Physical sciences	2
				Psychology	8
				Social sciences	3
				Sciences, nec	2
				Engineering	5

SOURCE: U.S. DOE Digest of Education Statistics.

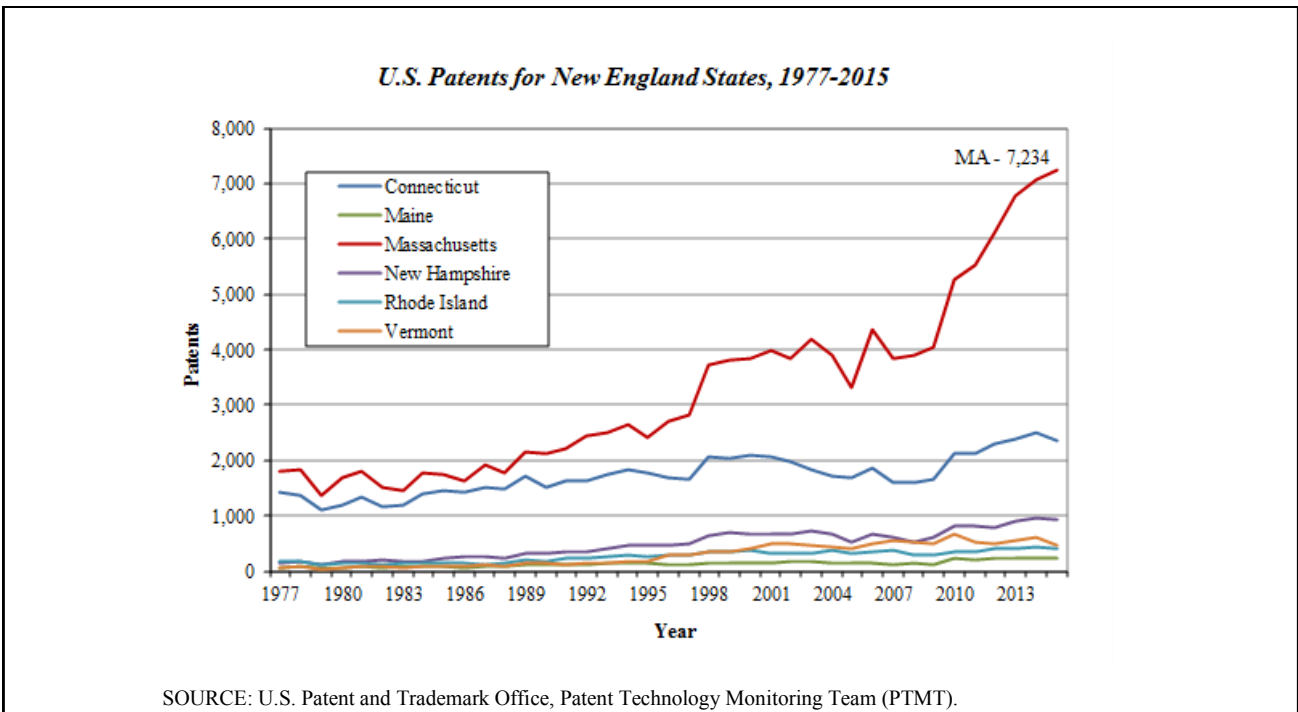
SOURCE: National Science Foundation

**Internet Access.** Massachusetts has the fifth highest household internet subscription rate in the U.S. according to the Census Bureau’s 2015 American Community Survey.



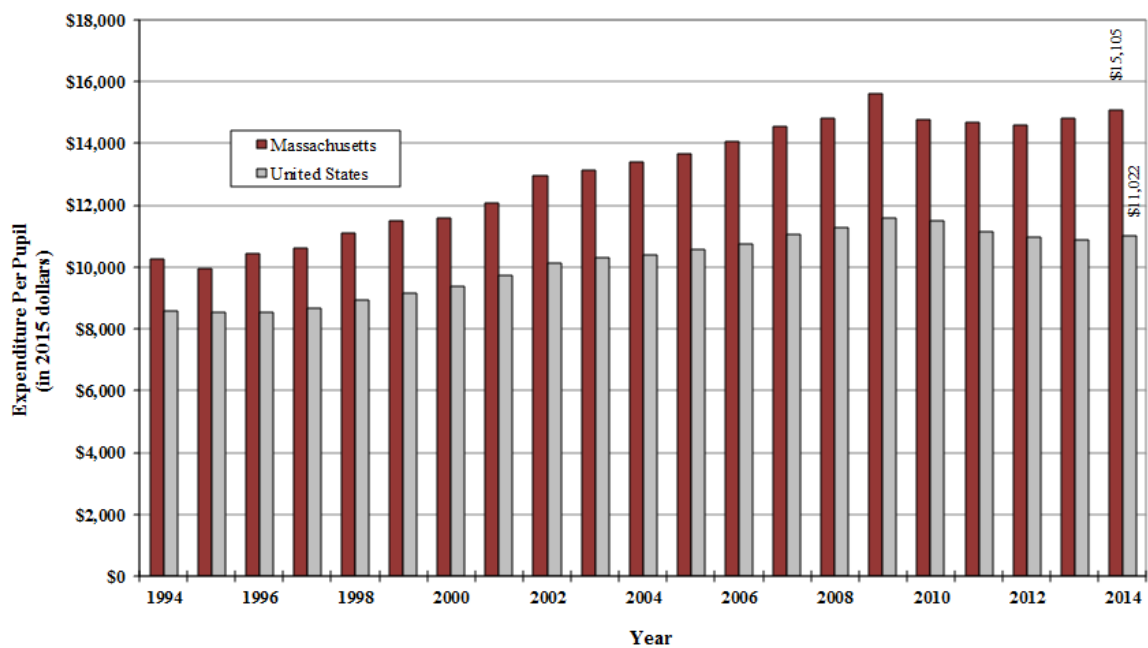
**Patents.** The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country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

In 2015, Massachusetts was fourth among all states for the number of new patents issued. Only six nations originated more U.S. patents than Massachusetts, putting the state on par with Canada for origination of U.S. patents. Since 1977, Massachusetts has received more new patents than any other New England state. With 6,777 new utilities patents and 7,234 total new patents in 2015, a 2.2 percent increase in total patents since 2014, Massachusetts innovators were responsible for 62 percent of the new patents in New England.



**Primary and Secondary Education Expenditures.** Massachusetts has spent from 16.5 to 37.0 percent more per pupil on primary and secondary education than the national average since 1994. During the 2013-2014 school year, the average Massachusetts per student expenditures increased 2.1 percent to \$15,105. Massachusetts was ranked 8th in the nation among states and the District of Columbia in 2014. The table and chart below show expenditures per pupil for Massachusetts and the U.S.

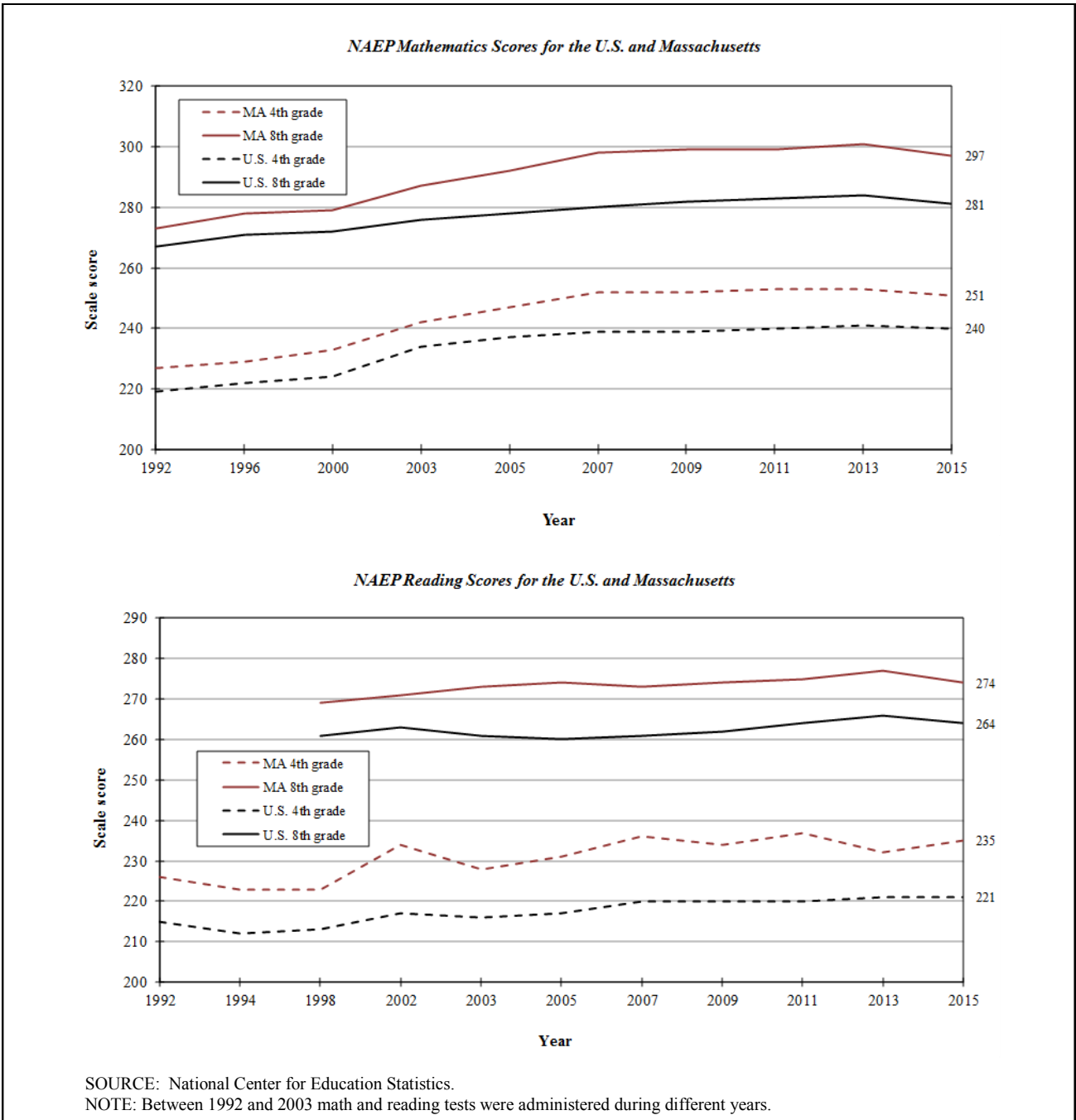
<i>Per Pupil Expenditure in Public Elementary and Secondary Schools</i> <i>(in 2015 adjusted dollars)</i>				
Fiscal Year	Massachusetts	United States	Ratio (MA/U.S.)	MA change from previous year
1994	\$10,244	\$8,567	1.20	
1995	\$9,940	\$8,534	1.16	-3.0%
1996	\$10,440	\$8,534	1.22	5.0%
1997	\$10,605	\$8,676	1.22	1.6%
1998	\$11,112	\$8,913	1.25	4.8%
1999	\$11,518	\$9,177	1.26	3.7%
2000	\$11,609	\$9,398	1.24	0.8%
2001	\$12,081	\$9,737	1.24	4.1%
2002	\$12,970	\$10,134	1.28	7.4%
2003	\$13,153	\$10,317	1.27	1.4%
2004	\$13,401	\$10,386	1.29	1.9%
2005	\$13,674	\$10,560	1.29	2.0%
2006	\$14,086	\$10,744	1.31	3.0%
2007	\$14,564	\$11,052	1.32	3.4%
2008	\$14,811	\$11,294	1.31	1.7%
2009	\$15,598	\$11,599	1.34	5.3%
2010	\$14,772	\$11,522	1.28	-5.3%
2011	\$14,690	\$11,127	1.32	-0.6%
2012	\$14,599	\$10,951	1.33	-0.6%
2013	\$14,798	\$10,886	1.36	1.4%
2014	\$15,105	\$11,022	1.37	2.1%



SOURCE: U.S. Census Bureau, Public Elementary–Secondary Education Finance Data.

**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 and the national public samples.

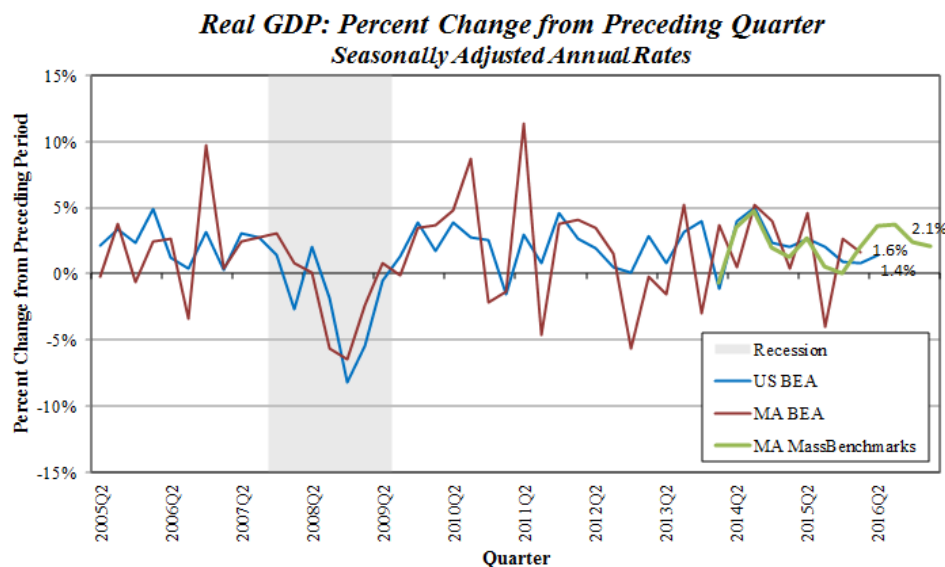


## ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

**Comparing BEA GDP for the U.S., the region, and Massachusetts.** The U.S. Bureau of Economic Analysis (BEA) defines Gross Domestic Product by State (GDP) as “the value added in production by the labor and property located in a state. GDP for a state is derived as the sum of the gross state product originating in all industries in a state. In concept, an industry’s GDP, referred to as its “value added”, is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported).”

The BEA provides national (in January) and state (in June) annual and quarterly GDP estimates. *MassBenchmarks* releases quarterly estimates of Massachusetts economic activity. This is reported in the following section. While we do not have access to many of the components that BEA uses to calculate state GDP in advance of its release, we provide an overview of our state’s components when they are available. Additionally, we provide state economic indexes and industrial sector data that are released more frequently and in some cases, are among the components used to calculate state GDP.

<i>State Gross Domestic Product - Annual Change</i>						
<i>(billions of chained 2009 dollars)</i>						
Year	Massachusetts		New England		United States	
	GDP	Annual change	GDP	Annual change	GDP	Annual change
2000	\$348		\$720		\$12,625	
2001	\$351	1.0%	\$728	1.1%	\$12,744	0.9%
2002	\$353	0.5%	\$734	0.8%	\$12,971	1.8%
2003	\$362	2.5%	\$754	2.6%	\$13,304	2.6%
2004	\$369	2.1%	\$781	3.6%	\$13,773	3.5%
2005	\$375	1.6%	\$793	1.5%	\$14,211	3.2%
2006	\$381	1.6%	\$809	2.0%	\$14,594	2.7%
2007	\$391	2.6%	\$826	2.1%	\$14,798	1.4%
2008	\$391	0.1%	\$816	-1.3%	\$14,718	-0.5%
2009	\$383	-2.2%	\$793	-2.8%	\$14,320	-2.7%
2010	\$396	3.4%	\$812	2.4%	\$14,628	2.2%
2011	\$405	2.3%	\$820	1.0%	\$14,834	1.4%
2012	\$414	2.3%	\$831	1.3%	\$15,126	2.0%
2013	\$412	-0.6%	\$827	-0.4%	\$15,317	1.3%
2014	\$419	1.8%	\$841	1.7%	\$15,653	2.2%
2015	\$428	2.0%	\$852	1.3%	\$16,023	2.4%



SOURCES: U.S. Bureau of Economic Analysis, MA *MassBenchmarks* calculations by Dr. Alan Clayton-Matthews. Seasonally adjusted annual rates are quarterly data adjusted to an annual basis.

NOTE: Shaded areas are recession periods.



## 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:

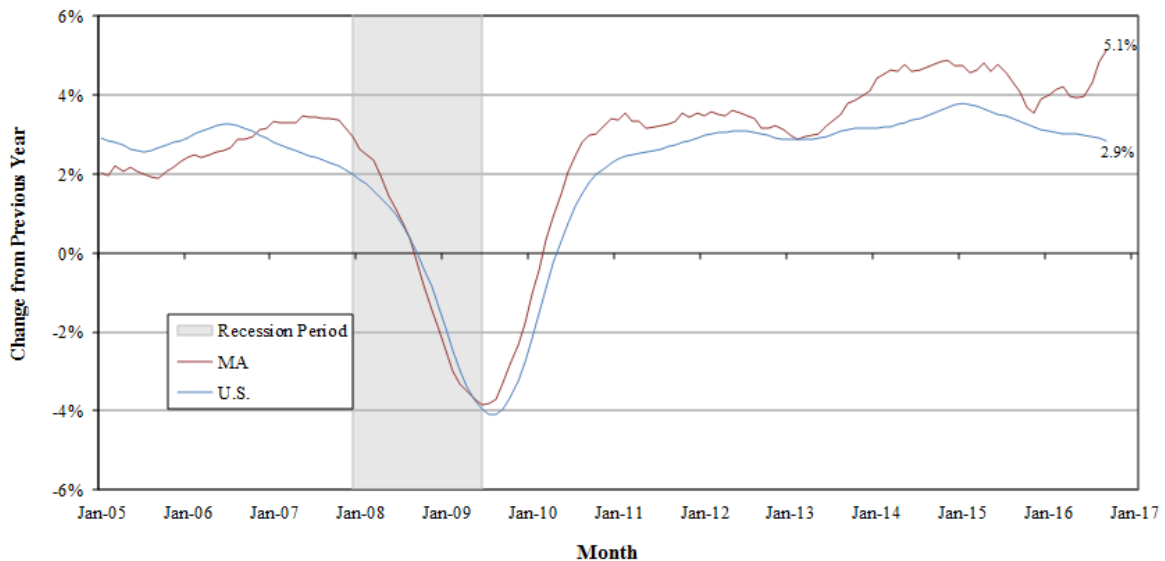
*...produces a monthly coincident index for each of the 50 states. The indexes are released a few days after the Bureau of Labor Statistics (BLS) releases the employment data for the states.*

*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. (<https://www.phil.frb.org/research-and-data/regional-economy/indexes/coincident/>)*

The graph below indicates the state and national index change from 12 months prior. Recent revisions to BLS data that the Philadelphia Federal Reserve Bank uses to construct its indexes resulted in an improved trend for Massachusetts since the recession ended in 2009. The table below compares the Massachusetts index to its New England neighbors and the U.S.

Area	September 2016	1-Month Change	3-Month Change	12-Month Change
U.S.	178.9	0.2%	0.6%	2.9%
Massachusetts	200.8	0.5%	1.8%	5.1%
Connecticut	169.3	0.4%	1.1%	3.4%
Maine	145.6	-0.1%	-0.2%	1.1%
New Hampshire	208.9	0.5%	1.0%	3.8%
Rhode Island	172.3	0.2%	0.3%	2.0%
Vermont	171.9	0.2%	0.5%	3.7%

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



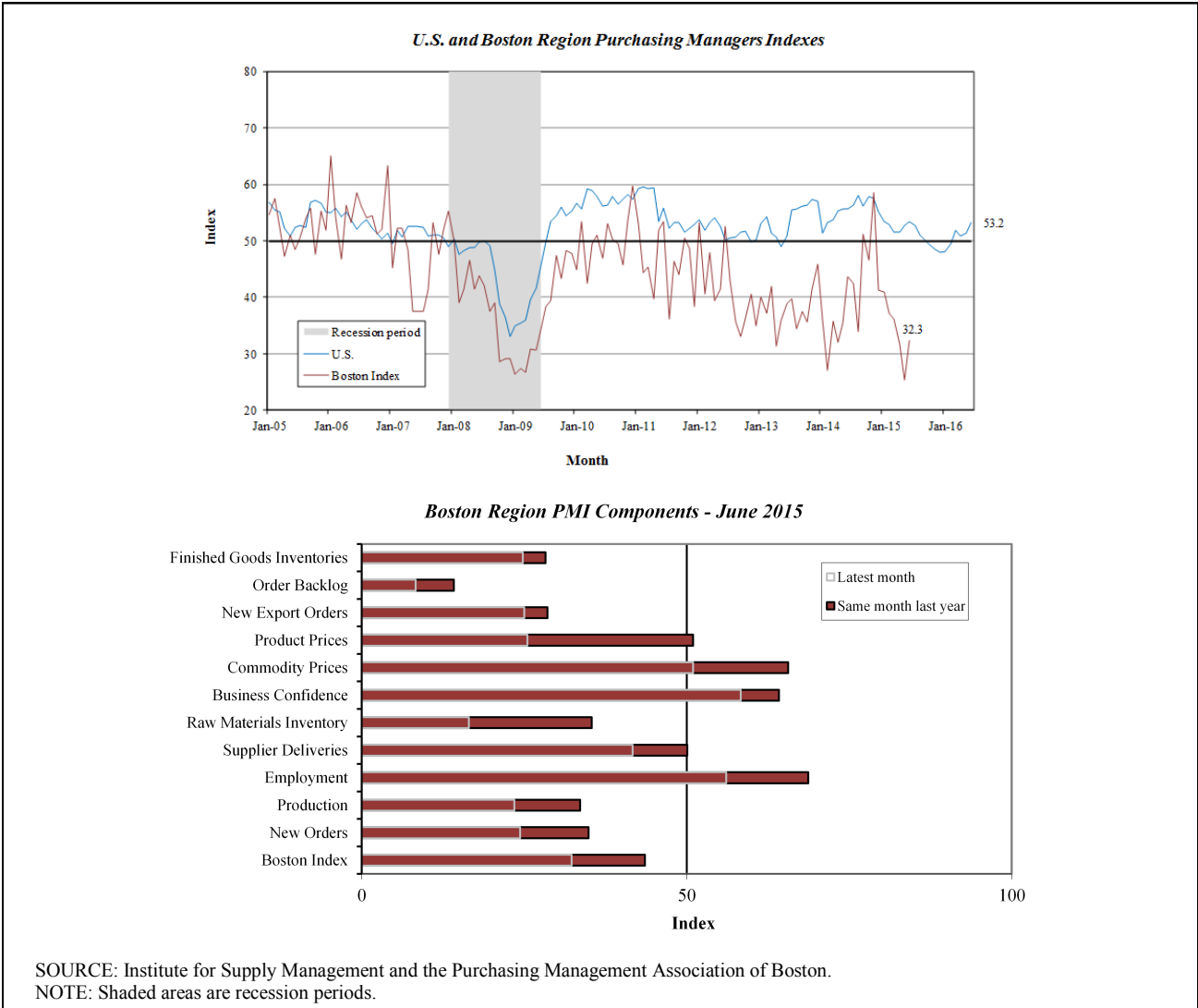
SOURCE: Federal Reserve Bank of Philadelphia. October 2016.

NOTES: Shaded areas are recession periods. 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.” **It should be noted that the Boston survey has been suspended, and consequently, data from it are not currently being updated.**

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 2016 national index indicated that the manufacturing sector has been expanding since December 2015, with the exception of a small dip in April 2016. The Boston region’s June 2015 (the last date for which data were available) index of 32.3 indicated that overall business conditions were contracting after hitting a four-year high of 58.5 in November 2014.

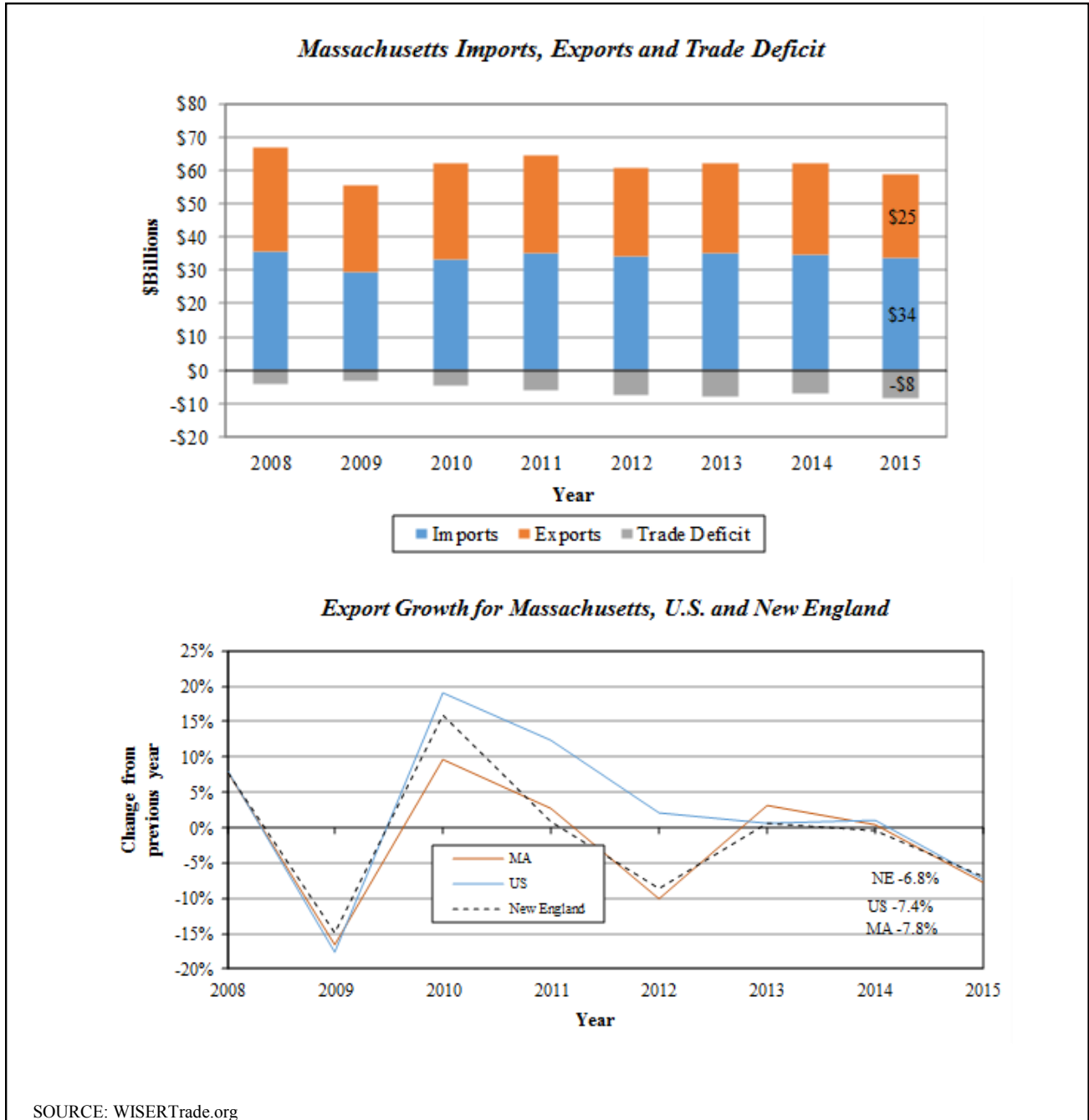


## ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

**Total Trade Volume.** Total trade volume, exports and imports, decreased 4.9 percent from 2014 to \$58.9 billion in 2015. Canada's trade volume was \$10.9 billion and at 18.5 percent of the total state trade, was by far our most valuable trading partner. Massachusetts trade deficit, \$8.4 billion, grew 17.1 percent in 2015. See appendix 8 for more trade data.

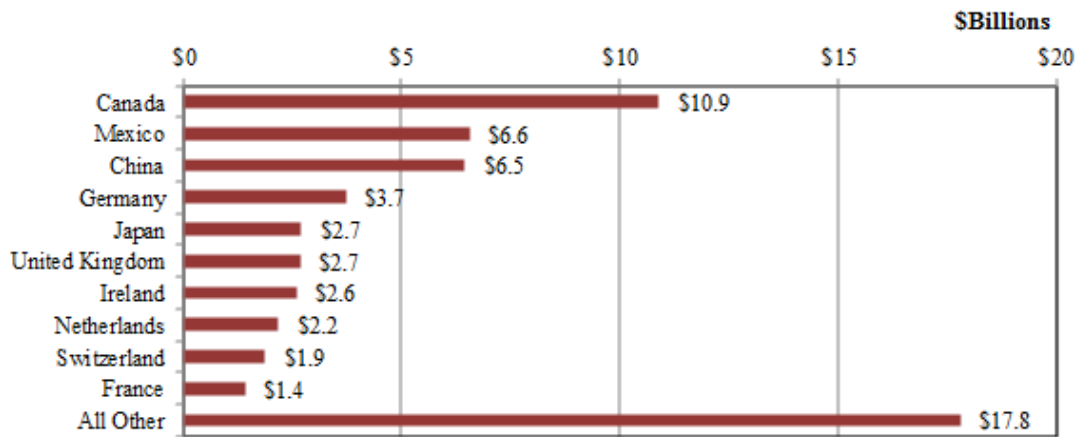
**Exports.** Massachusetts ranked 19th in the United States in 2015 and first in New England with \$25.3 billion in exports. This was a 7.8 percent decrease from the previous year's export value, while national exports decreased by 7.3 percent. Total exports from New England decreased by 6.7 percent. Canada was again our top export destination in 2015 with \$3.2 billion.

**Imports.** Imports decreased 2.6 percent to \$33.7 billion in 2015. Canada was also the largest source for Massachusetts imports in 2015, from which we imported \$7.7 billion or 22.9 percent of our total.

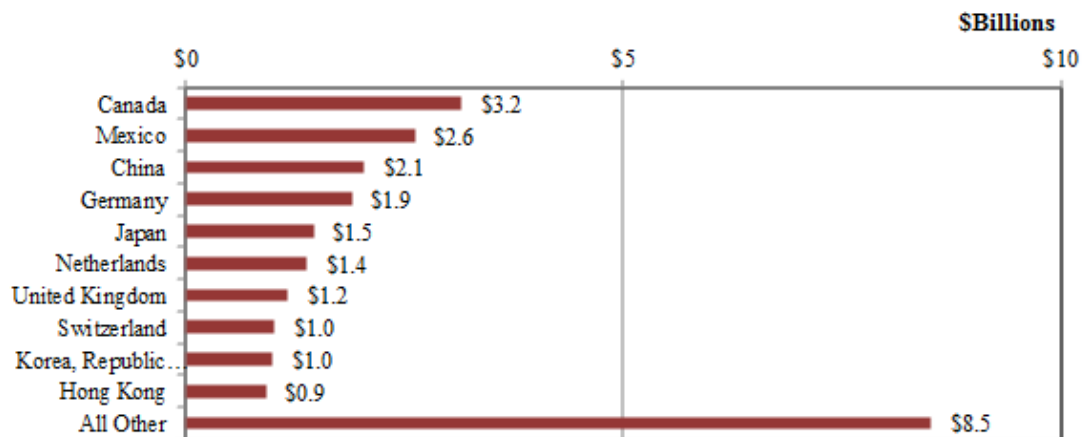


*Top Ten Trade Partners by Trade Type from WISERTrade.*

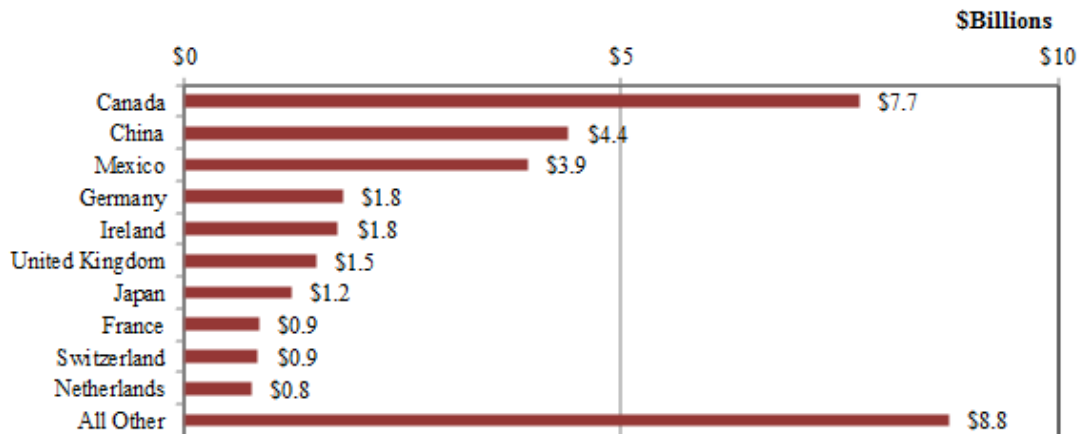
**Massachusetts 2015 Top Ten Trade Partners**



**Massachusetts 2015 Top Ten Export Partners**

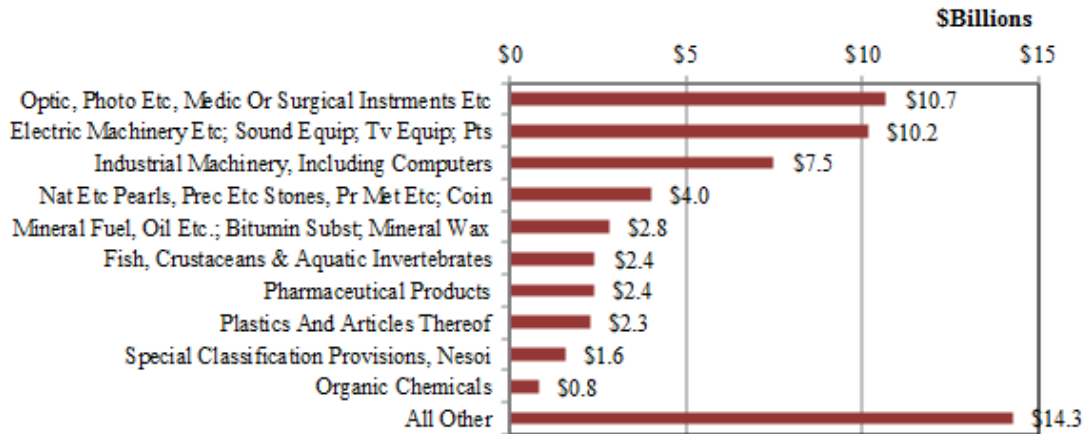


**Massachusetts 2015 Top Ten Import Partners**

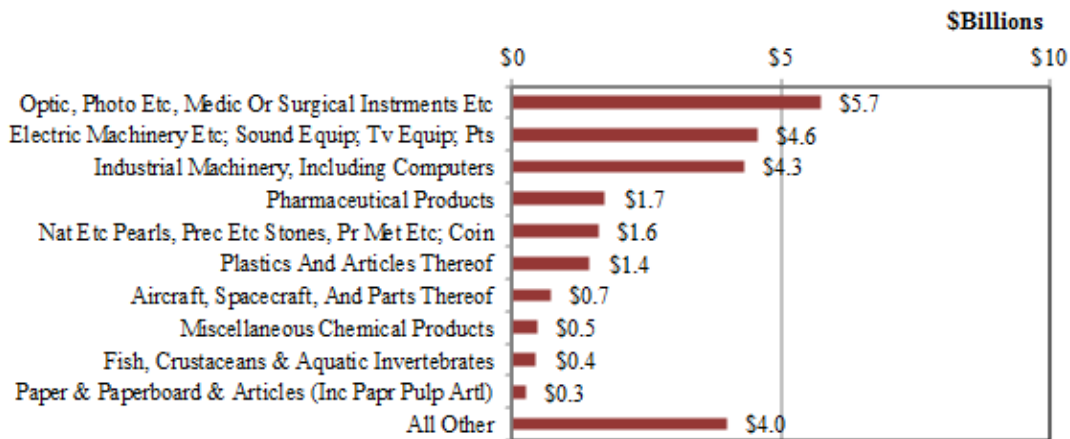


*Top Ten Commodities Traded by Trade Type from WISERTrade.*

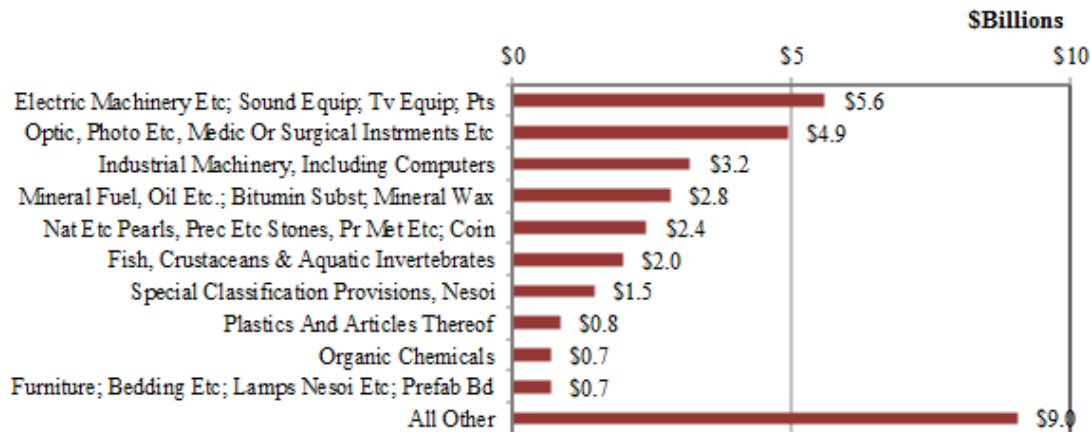
**Massachusetts 2015 Top Ten Commodities Imported and Exported**



**Massachusetts 2015 Top Ten Commodities Exported**

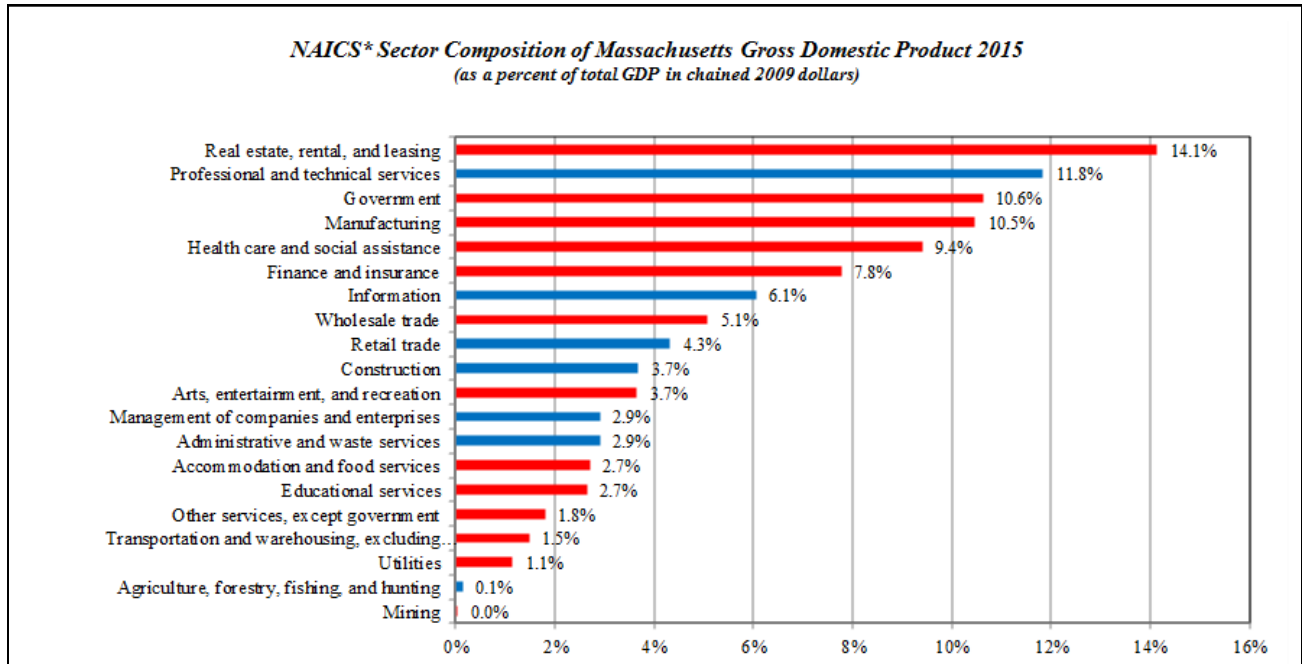


**Massachusetts 2015 Top Ten Commodities Imported**



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

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy, real estate, rental and leasing; professional and technical services; government; and manufacturing, contributed 47.1 percent of the GDP in 2015. The real estate, rental and leasing sector remained the largest contributor in 2015. The following bar chart displays the latest sector contributions to the Massachusetts GDP.



SOURCE: U.S. Bureau of Economic Analysis.

NOTES: Blue bar indicates positive change from previous year and red is a negative change. Transportation and warehousing excludes U.S. Post Office.

\*North American Industry Classification System.

**GDP Subsectors.** When measured in chained 2009 dollars, the change in Massachusetts total GDP grew 13.5 percent between 2004 and 2014. Between 2004 and 2014 (the latest data available for subsector data), several industries grew much faster than the state average. Industry subsectors that experienced substantial cumulative growth or reduction are listed in the following chart.

**Industry Subsectors with a Substantial Growth or Reduction**  
(chained 2009 dollars)

NAICS* Industry Subsector	Percent change 2004-2014
Water transportation	174%
Computer systems design and related services	123%
Computer and electronic products manufacturing	84%
Petroleum and coal products manufacturing	-60%
Publishing industries, except Internet (includes software)	58%
Warehousing and storage	50%
Textile mills and textile product mills	-49%
Other transportation equipment manufacturing	-47%

SOURCE: U.S. Bureau of Economic Analysis.

NOTES: Updated January 2016. Subsector represents at least a half percent of Massachusetts GDP in the latest year.

\*North American Industry Classification System.

**Gross Domestic Product by Industry in Massachusetts**  
(millions of chained 2009 dollars)

NAICS* Industry Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total Gross Domestic Product by State</b>	\$381,139	\$390,955	\$391,411	\$382,747	\$395,887	\$404,871	\$414,029	\$411,601	\$419,192	\$427,541
<b>Private industries</b>	\$336,973	\$345,689	\$345,428	\$336,814	\$350,454	\$357,383	\$368,702	\$366,256	\$373,474	\$382,209
Agriculture, forestry, fishing, and hunting	\$795	\$684	\$670	\$712	\$745	\$616	\$615	\$593	\$552	\$593
Mining	\$215	\$302	\$156	\$174	\$142	\$132	\$143	\$173	\$221	\$190
Utilities	\$5,085	\$5,095	\$5,161	\$4,842	\$5,196	\$5,259	\$5,454	\$5,264	\$5,284	\$4,907
Construction	\$16,387	\$15,272	\$14,330	\$12,824	\$12,747	\$13,225	\$14,070	\$14,580	\$14,697	\$15,737
Manufacturing	\$40,374	\$45,021	\$42,194	\$40,011	\$44,238	\$43,571	\$44,812	\$43,723	\$44,470	\$44,771
Wholesale trade	\$22,395	\$22,725	\$22,902	\$20,343	\$20,568	\$20,689	\$20,149	\$20,786	\$21,351	\$21,724
Retail trade	\$18,367	\$17,498	\$16,839	\$16,716	\$17,314	\$17,260	\$17,305	\$17,718	\$17,912	\$18,481
Transportation and warehousing, excluding Postal Service	\$6,526	\$6,632	\$6,454	\$5,972	\$6,275	\$6,616	\$6,439	\$6,398	\$6,520	\$6,367
Information	\$18,318	\$19,877	\$21,474	\$20,188	\$22,630	\$22,816	\$23,037	\$23,092	\$23,890	\$25,910
Finance and insurance	\$32,705	\$32,317	\$29,090	\$33,090	\$32,533	\$32,397	\$36,070	\$33,078	\$32,711	\$33,265
Real estate, rental, and leasing	\$53,705	\$55,250	\$55,433	\$55,269	\$57,457	\$59,642	\$60,928	\$60,623	\$61,823	\$60,438
Professional and technical services	\$38,485	\$39,658	\$43,891	\$41,376	\$42,858	\$44,294	\$46,376	\$46,118	\$47,735	\$50,597
Management of companies and enterprises	\$9,292	\$9,032	\$8,891	\$8,371	\$8,525	\$9,822	\$9,909	\$10,277	\$10,745	\$12,490
Administrative and waste services	\$10,331	\$11,020	\$11,055	\$10,082	\$10,782	\$11,262	\$11,562	\$11,564	\$11,912	\$12,458
Educational services	\$9,889	\$10,270	\$10,557	\$10,841	\$11,056	\$11,174	\$11,235	\$11,119	\$11,389	\$11,364
Health care and social assistance	\$31,842	\$32,712	\$34,831	\$35,264	\$36,085	\$36,809	\$38,191	\$38,679	\$39,509	\$40,250
Arts, entertainment, and recreation	\$13,854	\$13,968	\$13,691	\$13,054	\$13,825	\$14,356	\$14,776	\$15,167	\$15,444	\$15,630
Accommodation and food services	\$10,387	\$10,331	\$10,095	\$9,677	\$10,229	\$10,680	\$10,999	\$11,258	\$11,440	\$11,543
Other services, except government	\$8,532	\$8,377	\$8,128	\$7,685	\$7,565	\$7,578	\$7,653	\$7,530	\$7,702	\$7,731
<b>Government</b>	\$44,158	\$45,257	\$45,981	\$45,933	\$45,456	\$47,485	\$45,405	\$45,417	\$45,801	\$45,446

**Rank of Industry Contribution to GDP in Massachusetts**  
(millions of chained 2009 dollars)

NAICS* Industry Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total Gross Domestic Product by State</b>										
<b>Private industries</b>										
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	18	18	18	18	18	18	18	18	18	18
Construction	10	10	10	11	11	11	11	11	11	10
Manufacturing	3	3	4	4	3	4	4	4	4	4
Wholesale trade	7	7	7	7	8	8	8	8	8	8
Retail trade	8	9	9	9	9	9	9	9	9	9
Transportation and warehousing, excluding Postal Service	17	17	17	17	17	17	17	17	17	17
Information	9	8	8	8	7	7	7	7	7	7
Finance and insurance	5	6	6	6	6	6	6	6	6	6
Real estate, rental, and leasing	1	1	1	1	1	1	1	1	1	1
Professional and technical services	4	4	3	3	4	3	2	2	2	2
Management of companies and enterprises	15	15	15	15	15	15	15	15	15	12
Administrative and waste services	13	12	12	13	13	12	12	12	12	13
Educational services	14	14	13	12	12	13	13	14	14	15
Health care and social assistance	6	5	5	5	5	5	5	5	5	5
Arts, entertainment, and recreation	11	11	11	10	10	10	10	10	10	11
Accommodation and food services	12	13	14	14	14	14	14	13	13	14
Other services, except government	16	16	16	16	16	16	16	16	16	16
<b>Government</b>	2	2	2	2	2	2	3	3	3	3

SOURCE: U.S. 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 show a ten-year time span. Graphs include data value labels for the latest annual points.

Not all datasets are reported for all of the major NAICS sectors. The Massachusetts Department of Workforce and Labor Development's Employment and Wages (ES-202) data series are available for every sector and contain the number of establishments, average monthly employment, total annual wages and average weekly wages for the establishments with employees. The data are reported quarterly and annually for employees in the private, federal government, state government, and local government sectors. **NOTE:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.

The nonemployer businesses and receipts graph 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 (at the four-digit NAICS level) detail. Nonemployer annual data have a two-year reporting lag for businesses that do not have paid employees and are subject to federal income tax. The 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. For more information, please visit:

[http://www.bea.gov/newsreleases/regional/gdp\\_state/qgsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/qgsp_newsrelease.htm)

Foreign exports from the U.S. Census Bureau's Foreign Trade Division and WISERTrade, are available for four industries on a monthly basis. Total state exports are available on a monthly basis. Sector exports and the top ten export destinations for this industry sector are by dollar value.

Each sector analysis has a summary at the bottom of each page. The summary provides (when available):

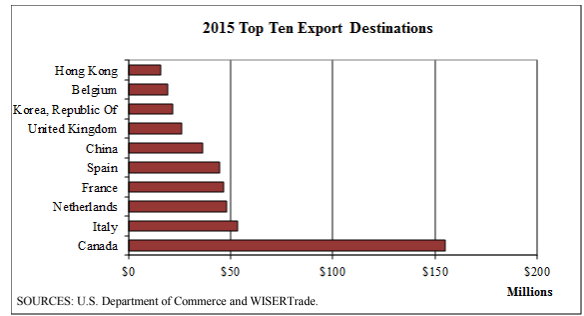
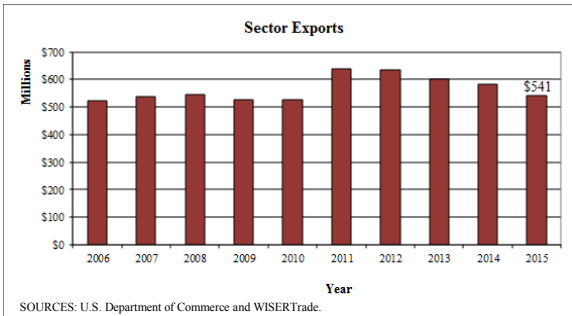
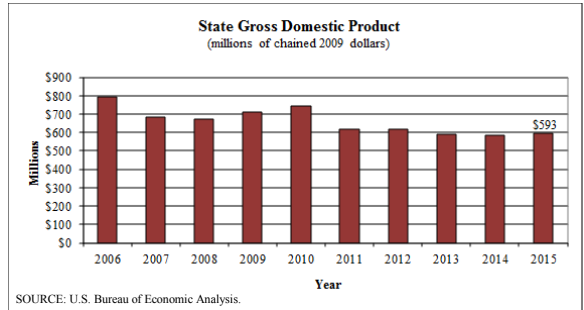
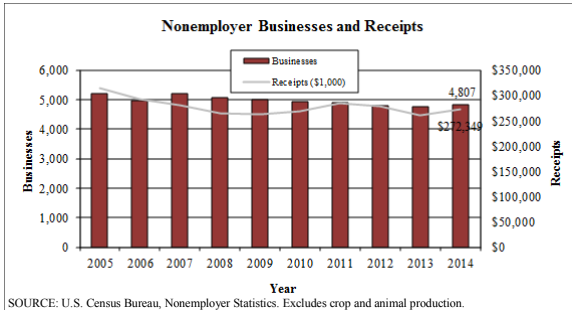
1. GDP contribution to state total: this sector's GDP divided by the state's total GDP. A green figure in the text at the bottom of the page indicates it is larger than the previous year's GDP contribution. Red indicates it is smaller than the previous year's and black indicates no change from the previous year's GDP contribution.
2. GDP rank: this sector's GDP rank versus all state sectors. A green figure in the text at the bottom of the page indicates that it is higher than the previous year's rank. Red indicates that it is lower than the previous year's and black indicates that there was no change from the previous year's GDP rank.
3. Nonemployer to employer establishment ratio: the number of nonemployer establishments divided by the number of establishments with employers. In general, a ratio greater than one means there are more small businesses. A number less than one means there are more large businesses.
4. Establishments with employees: the subsector with the largest number of establishments who have employees.
5. Nonemployer establishments: the subsector with the largest number of establishments that do not have employees.
6. Employees: the subsector with the largest number of employees, at establishments with employees.
7. Annual wages: the subsector with the largest total annual wages, at establishments with employees.
8. Average weekly wage: the subsector with the largest average weekly wage, at establishments with employees.
9. Annual receipts at nonemployer establishments: the subsector with the most receipts, at establishments that do not have employees.
10. Most valuable export: the subsector export with the highest dollar value.

\*North American Industry Classification System.

Note: Total Wage, Average Weekly Wage, Nonemployer Receipts, and Sector Exports are all inflation-adjusted to 2015. State Gross Domestic Product is also adjusted for inflation, but chained to 2009.



**NAICS 11 - Agriculture, Forestry, Fishing & Hunting.** The Agriculture, Forestry, Fishing and Hunting sector comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats.



**Summary.**

GDP contribution to state total: **0.1%**

GDP rank: **19 of 20**

Nonemployer to employer establishment ratio: **4.8 to 1**

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

Establishments with employees: **Fishing**

Nonemployer establishments: **Fishing**

Employees: **Greenhouse and nursery production**

Annual wages: **Fishing**

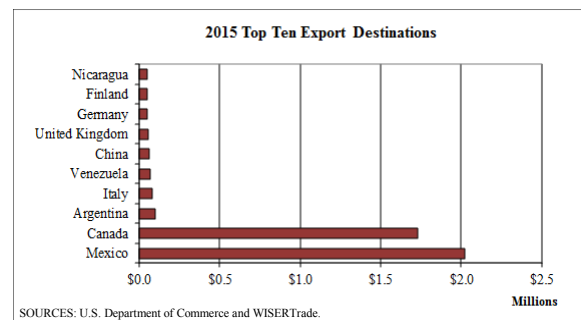
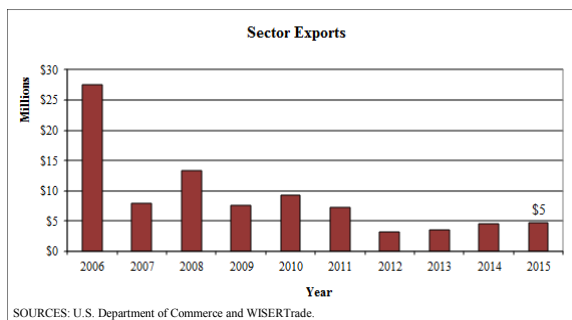
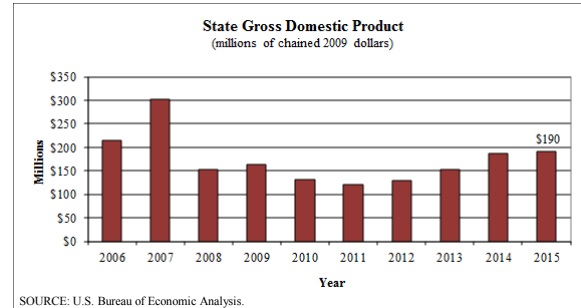
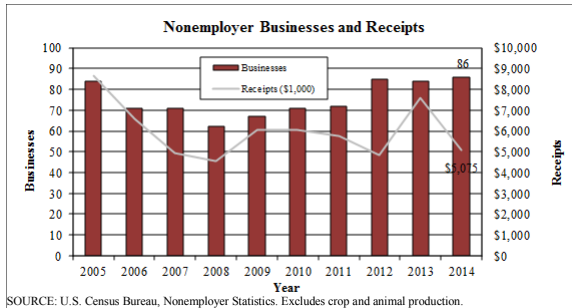
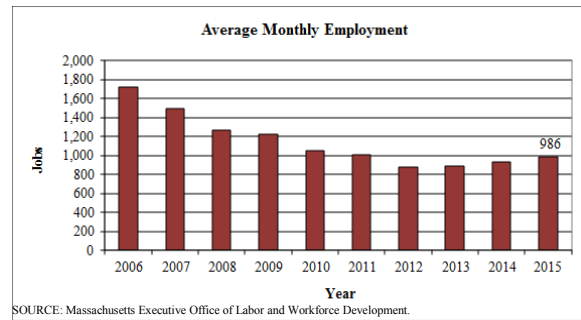
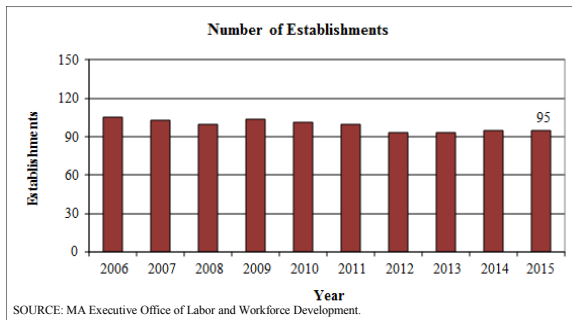
Average weekly wage: **Fishing**

Annual receipts at nonemployer establishments: **Fishing**

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

\*For this 2-digit industry, Nonemployer data are available only for 113-115 (Forestry, fishing & hunting & agricultural support services).

**NAICS 21 – Mining.** The Mining, Quarrying, and Oil and Gas Extraction sector comprises establishments that extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The term mining is used in the broad sense to include quarrying, well operations, beneficiating (e.g., crushing, screening, washing, and flotation), and other preparation customarily performed at the mine site, or as a part of mining activity.



**Summary.**

GDP contribution to state total: **0.04%**

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

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

Establishments with employees: **Nonmetallic mineral mining and quarrying**

Nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Employees: **Nonmetallic mineral mining and quarrying**

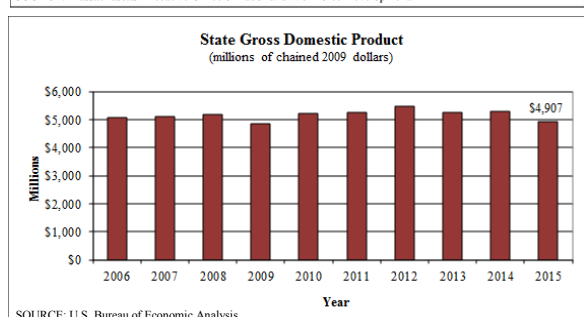
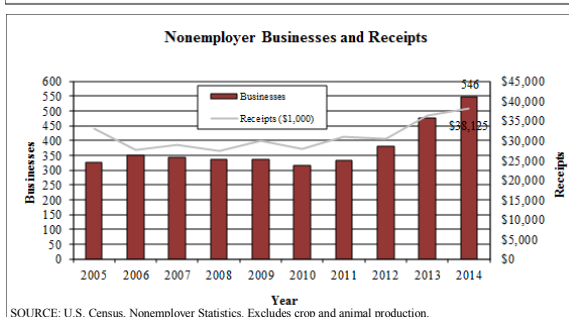
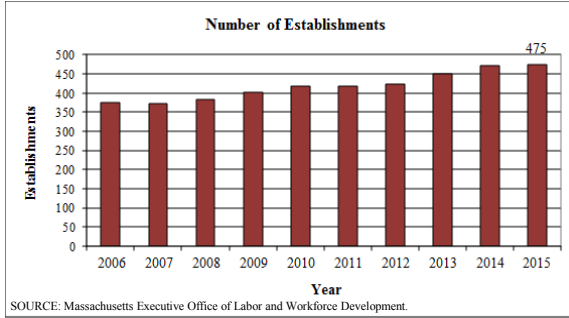
Annual wages: **Nonmetallic mineral mining and quarrying**

Average weekly wage: **Oil and gas extraction**

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

Most valuable export: **Minerals and ores**

**NAICS 22 – Utilities.** The Utilities sector comprises establishments engaged in the provision of the following utility services: electric power, natural gas, steam supply, water supply, and sewage removal. See the appendix, pages five and six for supplemental tables regarding electricity generation, supply and capacity.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.1%**

GDP rank: **17 of 20**

Nonemployer to employer establishment ratio: **1.2 to 1**

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

Establishments with employees: **Power generation and supply**

Nonemployer establishments: Subsector detail N/A

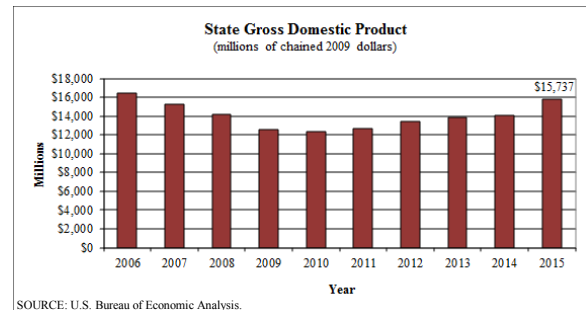
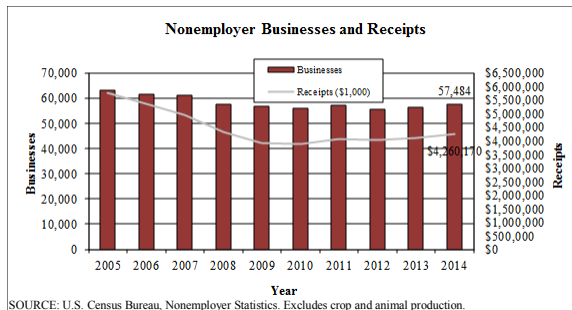
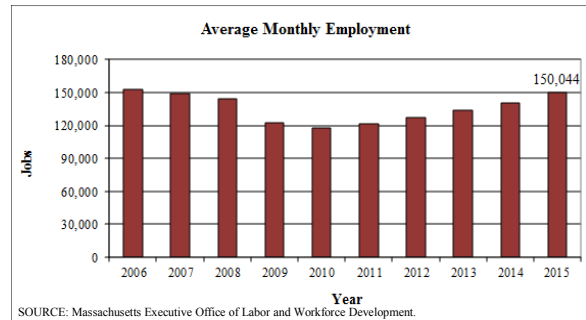
Employees: **Power generation and supply**

Annual wages: **Power generation and supply**

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

Annual receipts at nonemployer establishments: Subsector detail N/A

**NAICS 23 – Construction.** The Construction sector comprises establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Establishments primarily engaged in the preparation of sites for new construction and establishments primarily engaged in subdividing land for sale as building sites also are included in this sector. See the appendix pages two through four for housing permits, housing sales, and housing sale prices.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **3.7%**

GDP rank: **10 of 20**

Nonemployer to employer establishment ratio: **2.9 to 1**

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

Establishments with employees: **Building equipment contractors**

Nonemployer establishments: **Building finishing contractors**

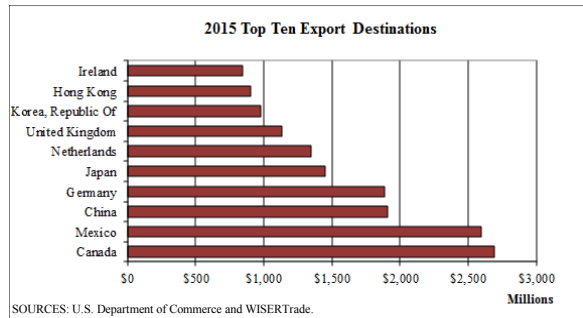
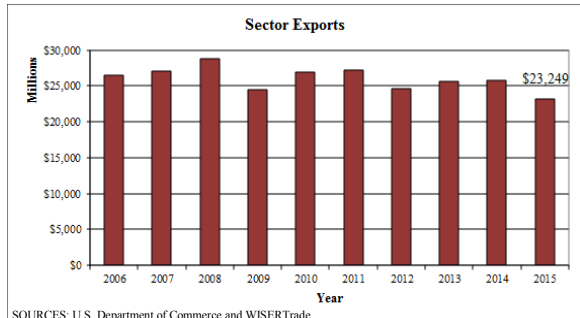
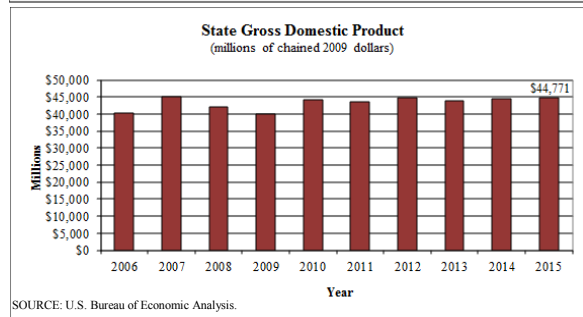
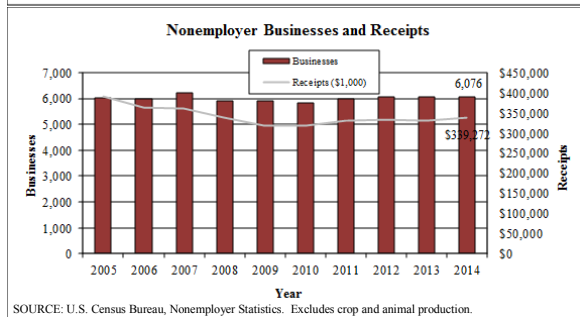
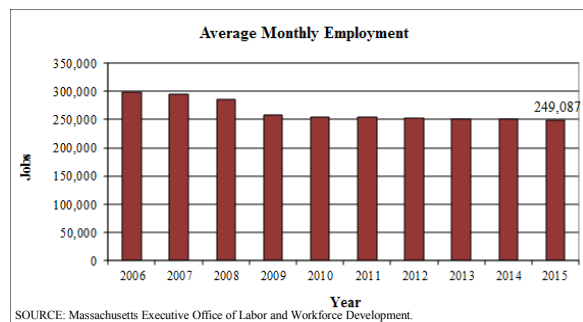
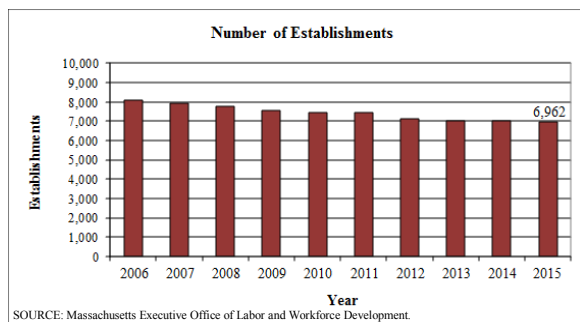
Employees: **Building equipment contractors**

Annual wages: **Building equipment contractors**

Average weekly wage: **Land subdivision**

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

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



**Summary.**

GDP contribution to state total: **10.5%**

GDP rank: **4 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

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

Establishments with employees: **Machine shops and threaded products**

Nonemployer establishments: **Other miscellaneous manufacturing**

Employees: **Electronic instrument manufacturing**

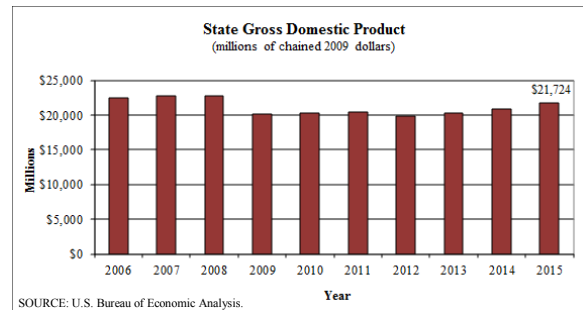
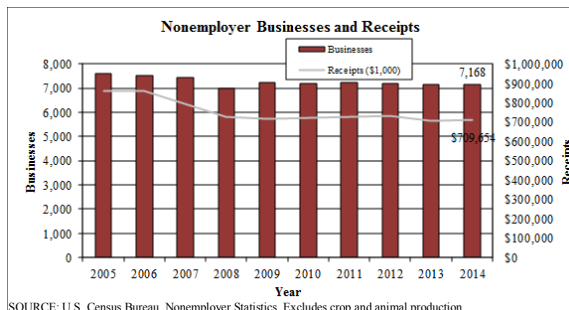
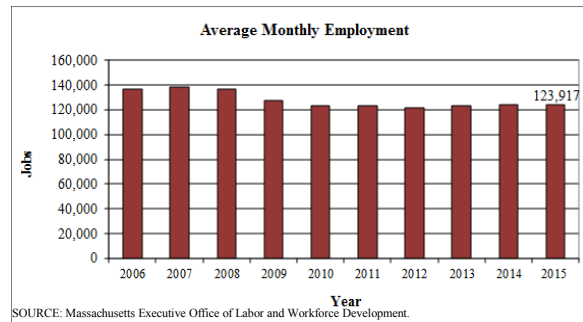
Annual wages: **Electronic instrument manufacturing**

Average weekly wage: **Pharmaceutical and medicine manufacturing**

Annual receipts at nonemployer establishments: **Other miscellaneous manufacturing**

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

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



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **5.1%**

GDP rank: **8 of 20**

Nonemployer to employer establishment ratio: **0.5 to 1**

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

Establishments with employees: **Electronic markets and agents/brokers**

Nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

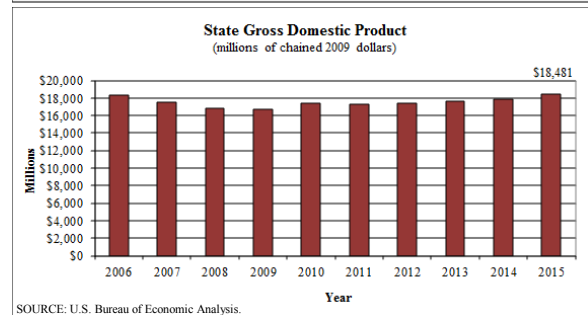
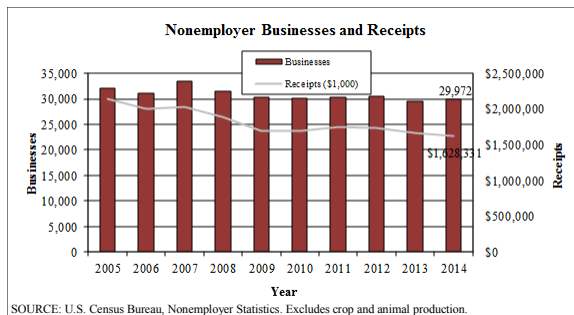
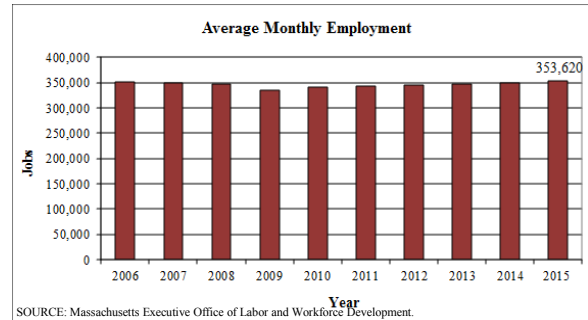
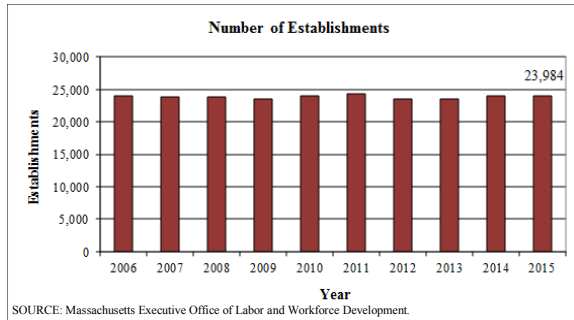
Employees: **Electronic markets and agents/brokers**

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

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

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

**NAICS 44-45 - Retail Trade.** The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **4.3%**

GDP rank: **9 of 20**

Nonemployer to employer establishment ratio: **1.2 to 1**

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

Establishments with employees: **Grocery stores**

Nonemployer establishments: **Direct selling establishments**

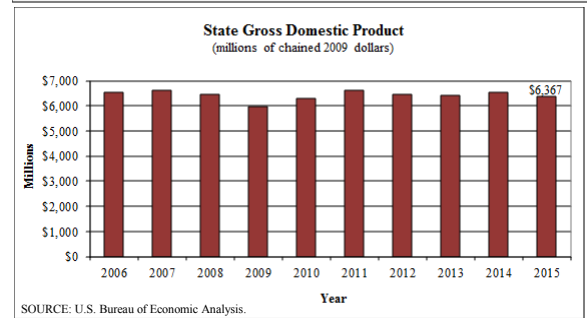
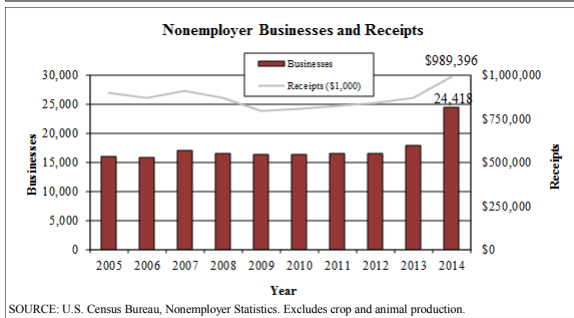
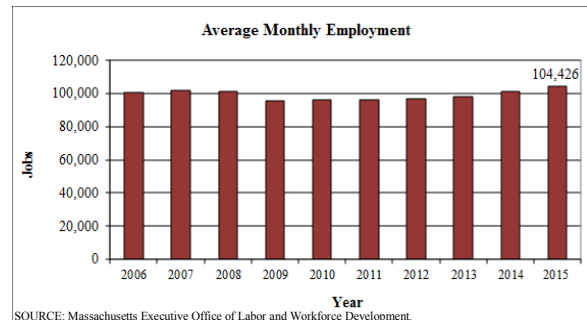
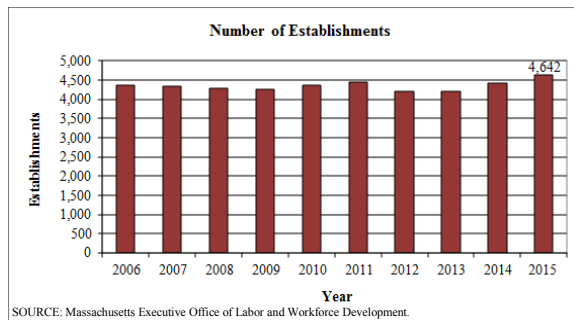
Employees: **Grocery stores**

Annual wages: **Grocery stores**

Average weekly wage: **Electronic shopping and mail-order houses**

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

**NAICS 48-49 - Transportation and Warehousing.** The Transportation and Warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Establishments in these industries use transportation equipment or transportation related facilities as a productive asset. The type of equipment depends on the mode of transportation. The modes of transportation are air, rail, water, road, and pipeline. See pages six and seven of the appendix for more information regarding transportation and warehousing.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.5%**

GDP rank: **16 of 20**

Nonemployer to employer establishment ratio: **5.5 to 1**

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

Establishments with employees: **General freight trucking**

Nonemployer establishments: **Taxi and limousine service**

Employees: **School and employee bus transportation**

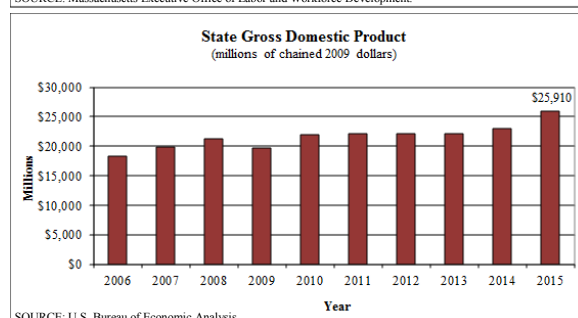
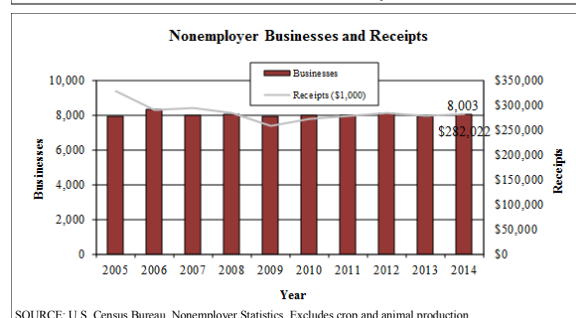
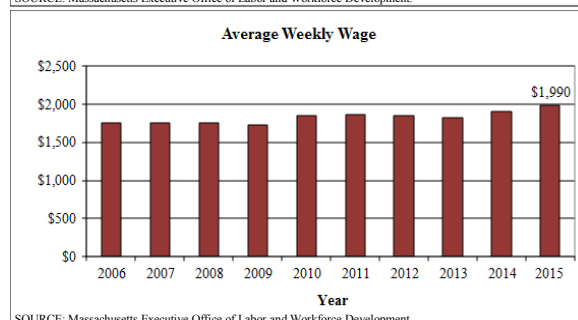
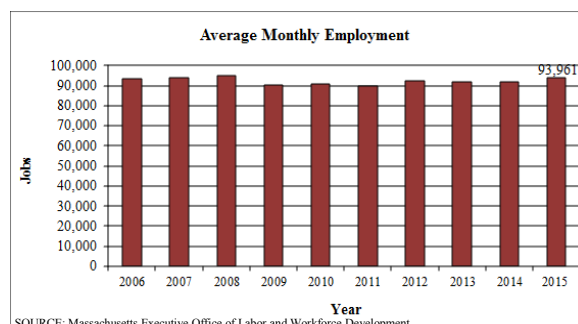
Annual wages: **Warehousing and storage**

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

Annual receipts at nonemployer establishments: **Taxi and limousine service**



**NAICS 51 – Information.** The Information sector comprises establishments engaged in the following processes: producing and distributing information and cultural products, providing the means to transmit or distribute these products as well as data or communications, and processing data. In 2014, Information exports of prepackaged software, NAICS code 511, were recoded to the Manufacturing NAICS code 334.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **6.1%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **1.7 to 1**

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

Establishments with employees: **Other information services**

Nonemployer establishments: **Other information services**

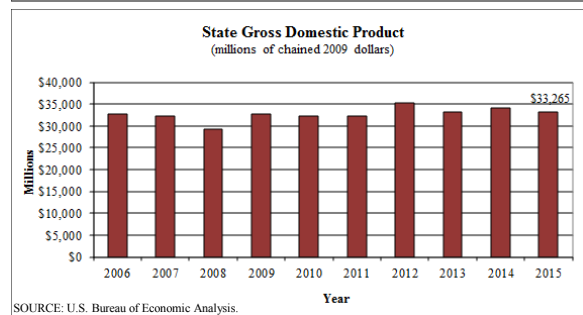
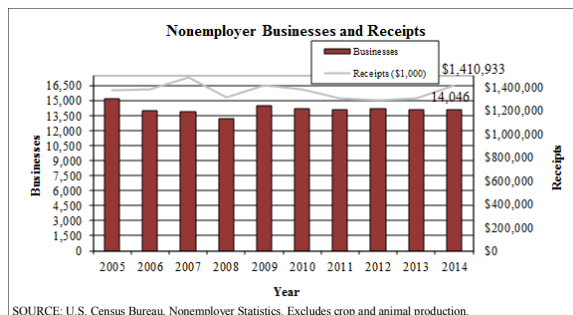
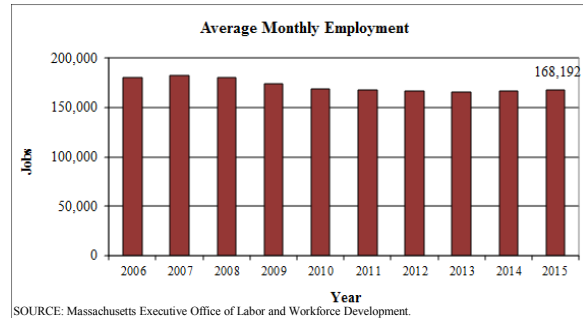
Employees: **Software publishers**

Annual wages: **Software publishers**

Average weekly wage: **Software publishers**

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

**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: **7.8%**

GDP rank: **6 of 20**

Nonemployer to employer establishment ratio: **1.4 to 1**

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

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

Nonemployer establishments: **Other financial investment activities**

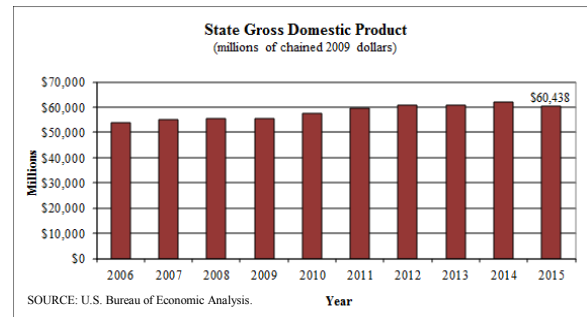
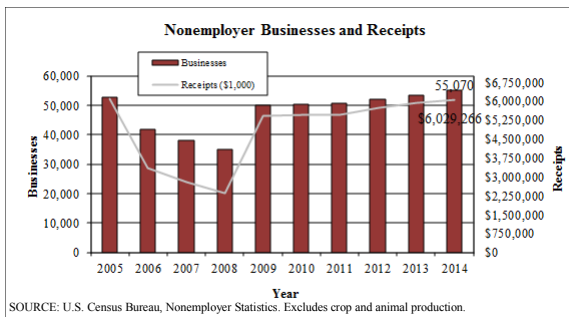
Employees: **Depository credit intermediation**

Annual wages: **Other financial investment activities**

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

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

**NAICS 53 - Real Estate and Rental and Leasing.** The Real Estate and Rental and Leasing sector comprises establishments primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets, and establishments providing related services. The major portion of this sector comprises establishments that rent, lease, or otherwise allow the use of their own assets by others. The assets may be tangible, as is the case of real estate and equipment, or intangible, as is the case with patents and trademarks.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **14.1%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **8.3 to 1**

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

Establishments with employees: **Activities related to real estate**

Nonemployer establishments: **Lessors of real estate**

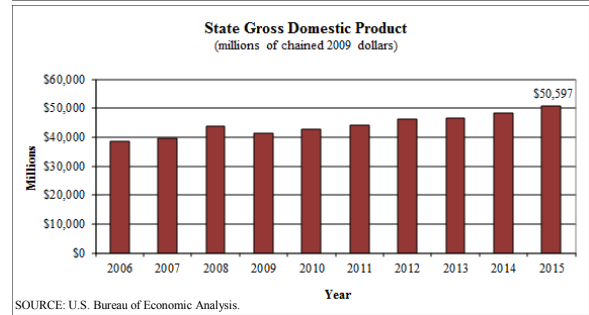
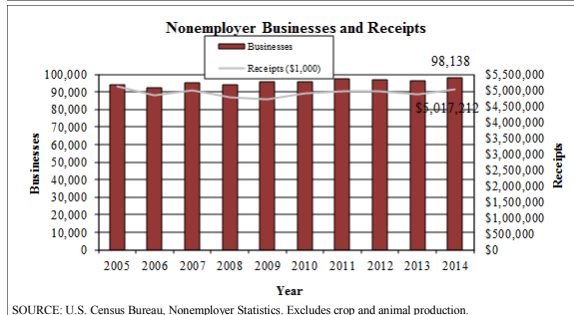
Employees: **Activities related to real estate**

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

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

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

**NAICS 54 - Professional and Technical Services.** The Professional and Technical Services sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. The establishments in this sector specialize according to expertise and provide these services to clients in a variety of industries - in some cases, to households. Activities performed include: legal advice and representation, accounting, bookkeeping, and payroll services, architectural, engineering, and specialized design services, computer services, consulting services, research services, advertising services, photographic services, translation and interpretation services, veterinary services, and other professional, scientific, and technical services.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **11.8%**

GDP rank: **2 of 20**

Nonemployer to employer establishment ratio: **3.1 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**

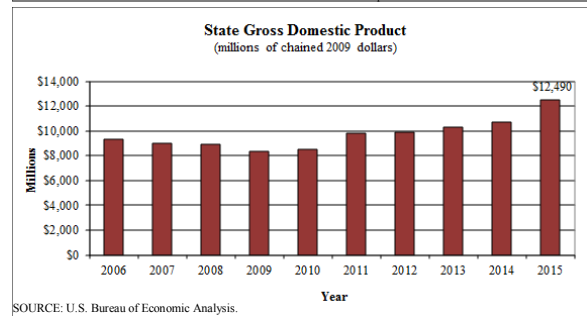
Average weekly wage: **Scientific research and development services**

Annual receipts at nonemployer establishments: **Other professional, scientific, and technical services**

**NAICS 55 - Management of Companies and Enterprises.** The Management of Companies and Enterprises sector comprises establishments that hold the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing management decisions or establishments (except government establishments) that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decision making role of the company or enterprise. Establishments that administer, oversee, and manage may hold the securities of the company or enterprise.



State nonemployer and export data are not available for this sector.



**Summary.**

GDP contribution to state total: **2.9%**

GDP rank: **11 of 20**

Nonemployer to employer establishment ratio: N/A

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

Establishments with employees: Subsector detail N/A

Nonemployer establishments: N/A

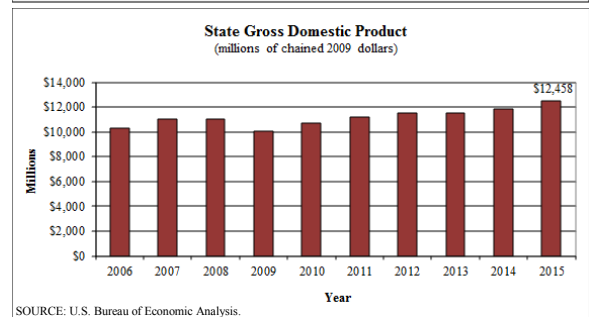
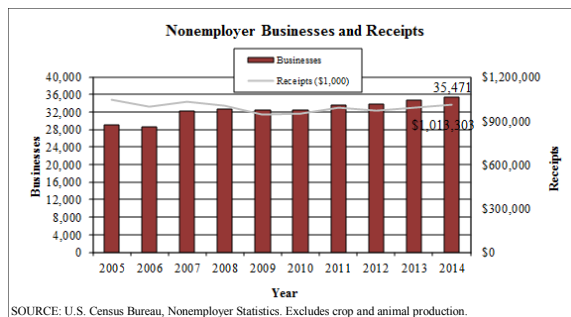
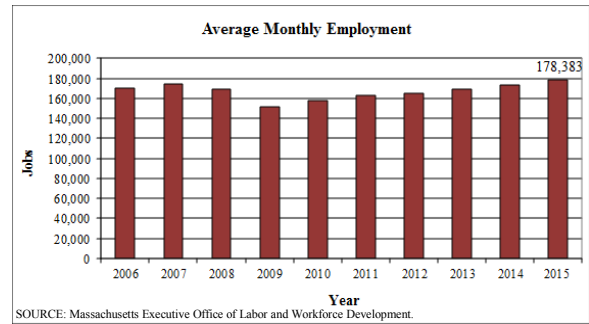
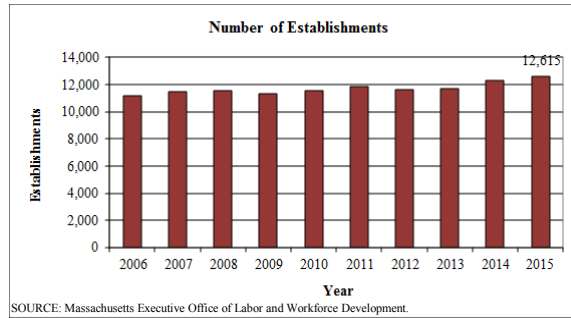
Employees: Subsector detail N/A

Annual wages: Subsector detail N/A

Average weekly wage: Subsector detail N/A

Annual receipts at nonemployer establishments: N/A

**NAICS 56 - Administrative and Waste Services.** The Administrative and Waste Services sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. The establishments in this sector specialize in one or more of these support activities and provide these services to clients in a variety of industries and in some cases, to households. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **2.9%**

GDP rank: **12 of 20**

Nonemployer to employer establishment ratio: **2.9 to 1**

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

Establishments with employees: **Services to buildings and dwellings**

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

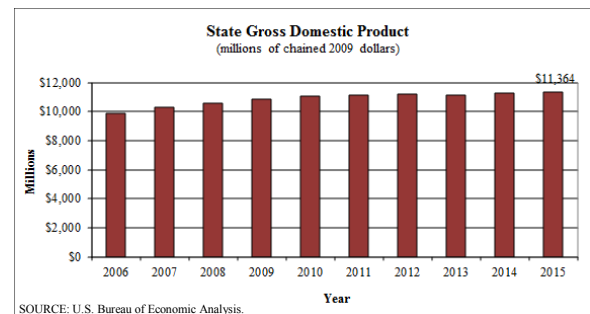
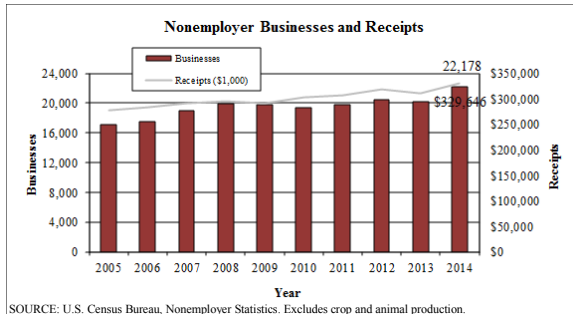
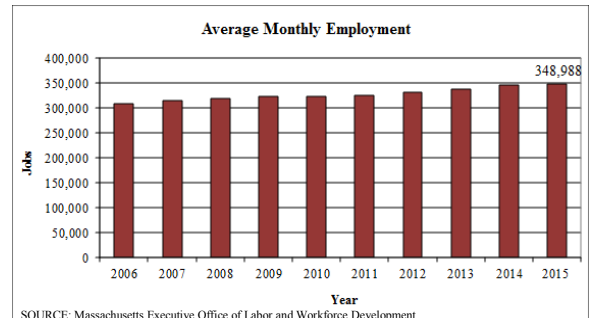
Employees: **Employment services**

Annual wages: **Employment services**

Average weekly wage: **Office administrative services**

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

**NAICS 61 - Educational Services.** The Educational Services sector comprises establishments that provide instruction and training in a wide variety of subjects. This instruction and training is provided by specialized establishments, such as schools, colleges, universities, and training centers. These establishments may be privately owned and operated for profit or not for profit, or they may be publicly owned and operated. They may also offer food and/or accommodation services to their students.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: 2.7%

GDP rank: 14 of 20

Nonemployer to employer establishment ratio: 5.1 to 1

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

Establishments with employees: **Other schools and instruction**

Nonemployer establishments: Subsector detail N/A

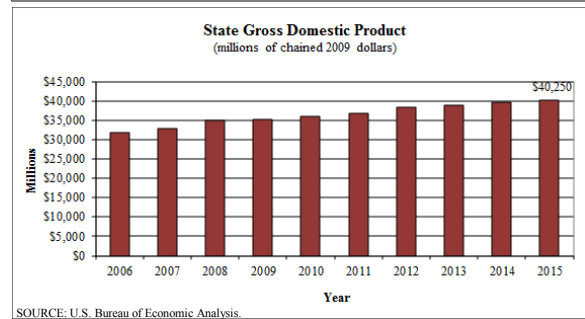
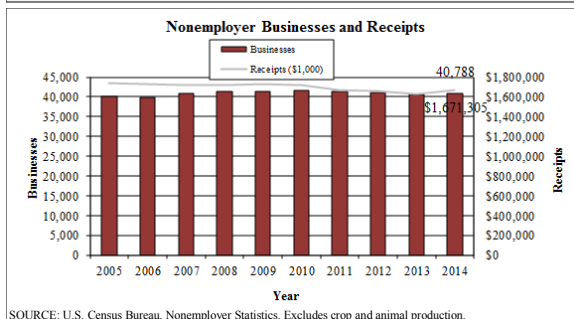
Employees: **Elementary and secondary schools**

Annual wages: **Elementary and secondary schools**

Average weekly wage: **Colleges and universities**

Annual receipts at nonemployer establishments: Subsector detail N/A

**NAICS 62 - Health Care and Social Assistance.** The Health Care and Social Assistance sector comprises establishments providing health care and social assistance for individuals. The sector includes both health care and social assistance because it is sometimes difficult to distinguish between the boundaries of these two activities. **Note:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **9.4%**

GDP rank: **5 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

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

Establishments with employees: **Individual and family services**

Nonemployer establishments: **Offices of other health practitioners**

Employees: **General medical and surgical hospitals**

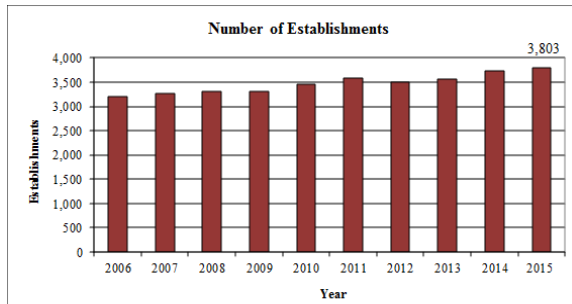
Annual wages: **General medical and surgical hospitals**

Average weekly wage: **Offices of physicians**

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



**NAICS 71 - Arts, Entertainment, and Recreation.** The Arts, Entertainment, and Recreation sector includes a wide range of establishments that: operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons, are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing, preserve and exhibit objects and sites of historical, cultural, or educational interest and operate facilities or provide services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure-time interests. See the appendix page six for travel and tourism information.



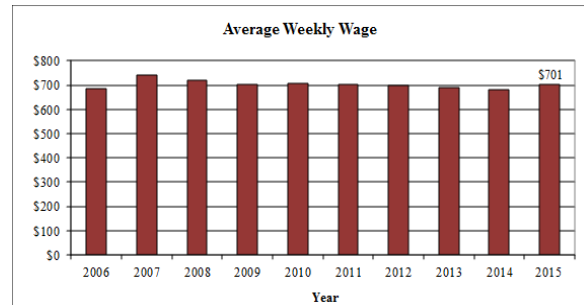
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



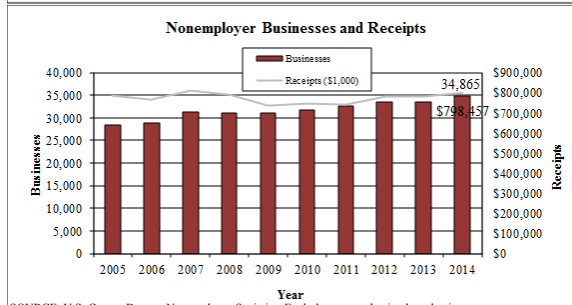
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



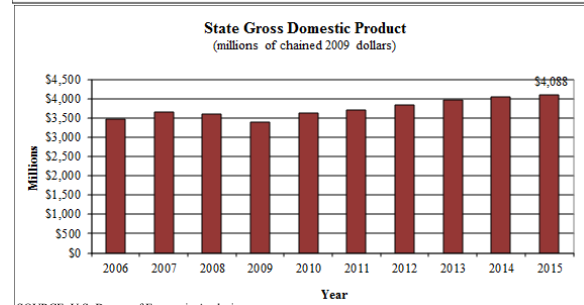
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



SOURCE: U.S. Census Bureau, Nonemployer Statistics. Excludes crop and animal production.



SOURCE: U.S. Bureau of Economic Analysis.

State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.0%**

GDP rank: **18 of 20**

Nonemployer to employer establishment ratio: **9.3 to 1**

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

Establishments with employees: **Other amusement & recreation industries**

Nonemployer establishments: **Independent artists, writers, and performers**

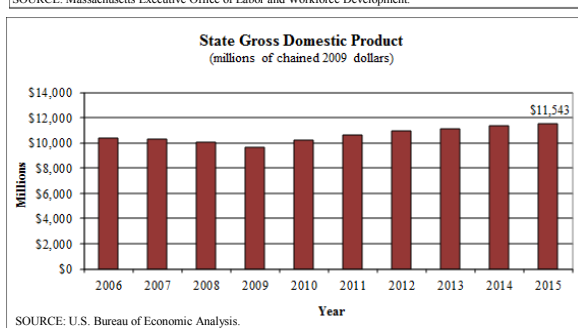
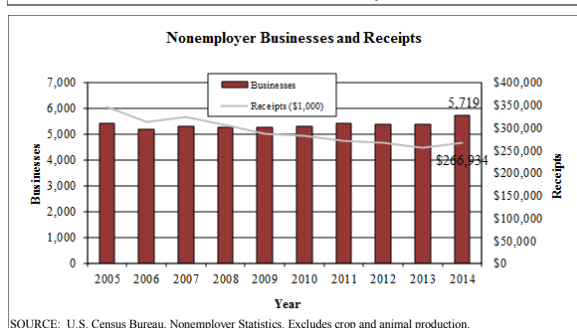
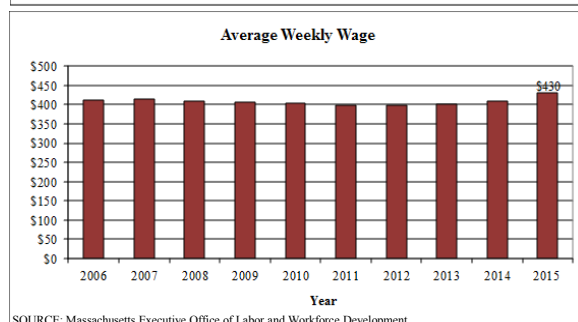
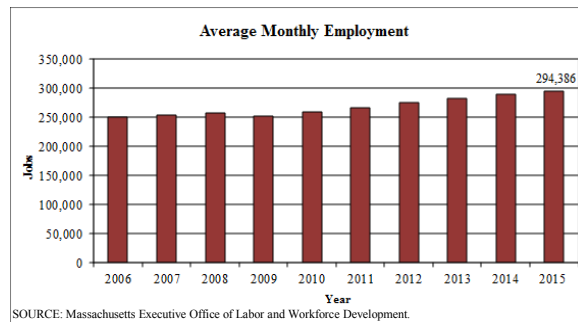
Employees: **Other amusement & recreation industries**

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

Average weekly wage: **Spectator sports**

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

**NAICS 72 - Accommodation and Food Services.** The Accommodation and Food Services sector comprises establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption. The sector includes both accommodation and food services establishments because the two activities are often combined at the same establishment.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: 2.7%

GDP rank: 13 of 20

Nonemployer to employer establishment ratio: 0.3 to 1

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

Establishments with employees: **Restaurants and other eating places**

Nonemployer establishments: **Special food services**

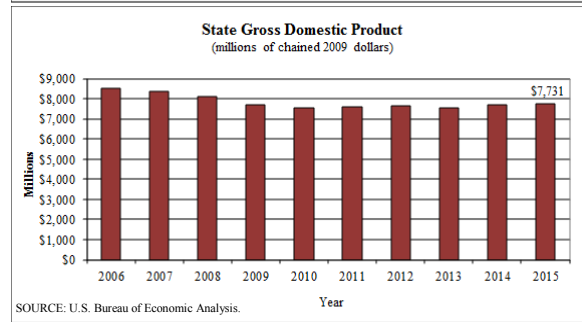
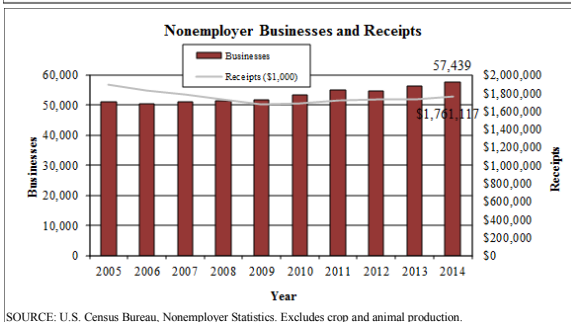
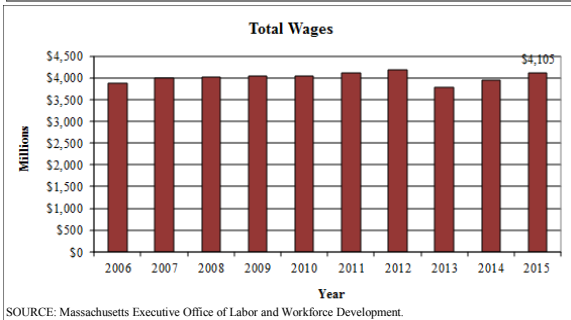
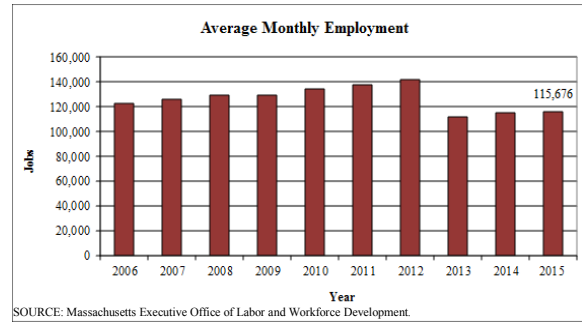
Employees: **Restaurants and other eating places**

Annual wages: **Restaurants and other eating places**

Average weekly wage: **Traveler accommodation**

Annual receipts at nonemployer establishments: **Special food services**

**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. **Note:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.8%**

GDP rank: **15 of 20**

Nonemployer to employer establishment ratio: **2.7 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**

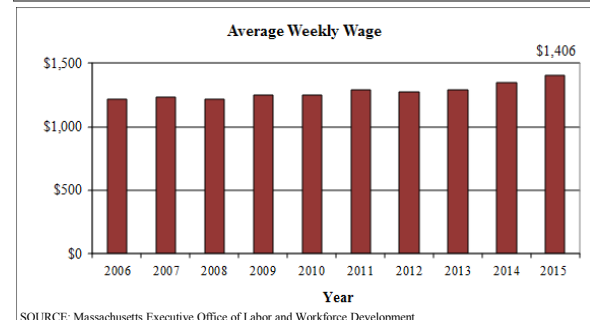
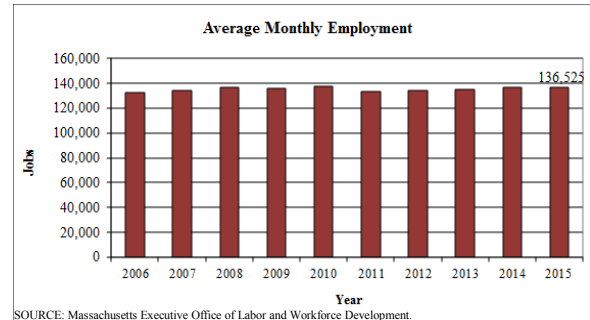
Employees: **Personal Care Services**

Annual wages: **Automotive repair and maintenance**

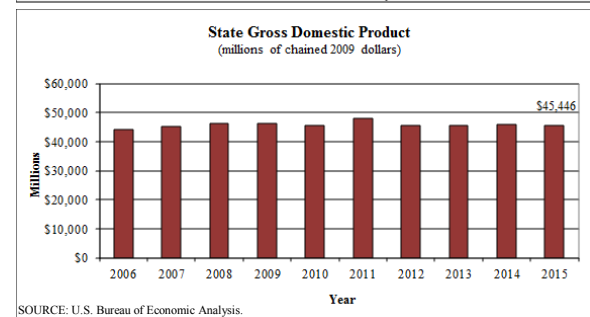
Average weekly wage: **Electronic equipment repair/maintenance**

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

**NAICS 92 - Public Administration.** The Public Administration sector consists of establishments of federal, state, and local government agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions within a given area. These agencies also set policy, create laws, adjudicate civil and criminal legal cases and provide for public safety and national defense.



State nonemployer and export data are not available for this sector.



**Summary.**

GDP contribution to state total: **10.6%**

GDP rank: **3 of 20**

Nonemployer to employer establishment ratio: **N/A**

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

Establishments with employees: **Justice, public order, and safety activities**

Nonemployer establishments: **N/A**

Employees: **Justice, public order, and safety activities**

Annual wages: **Justice, public order, and safety activities**

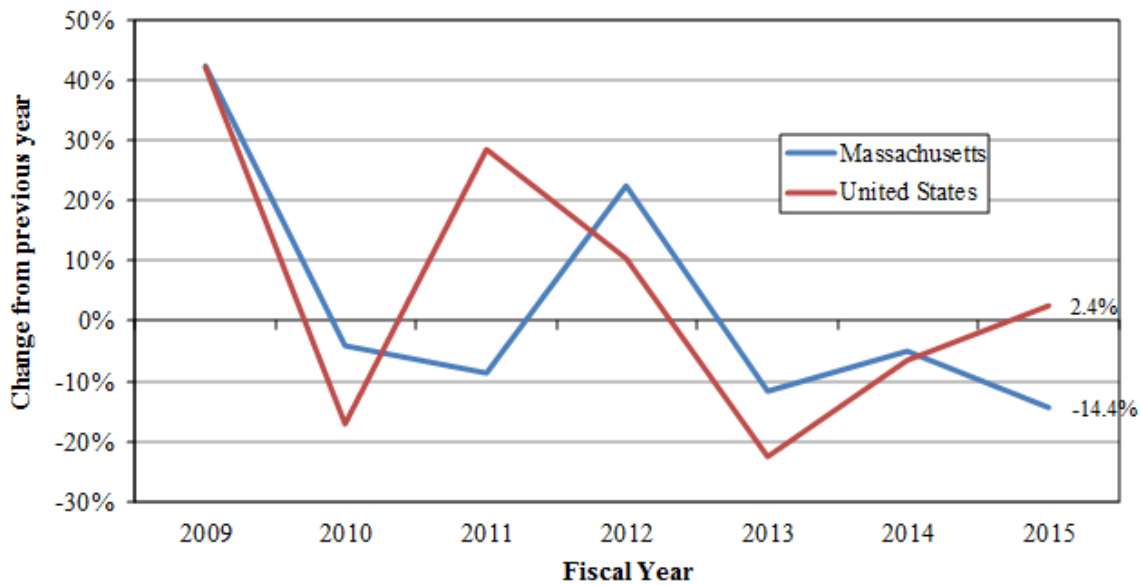
Average weekly wage: **Justice, public order, and safety activities**

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

## ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING

**Federal Spending in Massachusetts.** Massachusetts received approximately \$58.6 billion in contracts, grants, direct payments, insurance, loans and guarantees, and other spending from the federal government in federal FY 2015. Massachusetts received 2.1 percent of all federal spending in FFY 2015 versus 2.5 percent in FFY 2014. Federal dollars to Massachusetts have dropped since FFY 2012. Massachusetts federal contracts declined from FFY 2012 to FY 2014, but increased 5.2 percent in FFY 2015. The proportion of all Massachusetts federal contracts has averaged 2.9 percent over the last eight years.

**Change in Federal Spending - U.S. Versus Massachusetts**



**Federal Spending in the United States and Massachusetts**  
(in \$Billions of 2015 adjusted dollars)

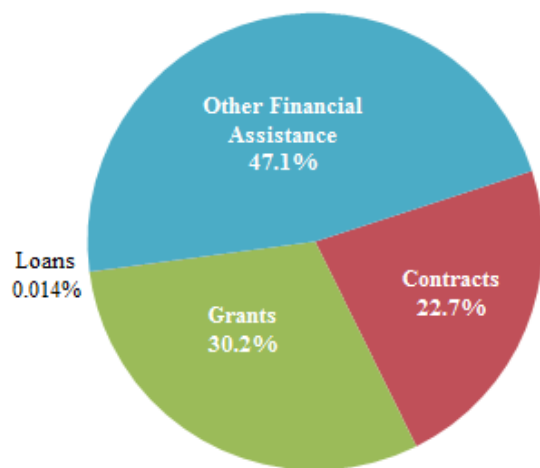
FFY	Massachusetts	YOY change	United States	YOY change
2008	\$53.3		\$2,294.8	
2009	\$75.9	42.4%	\$3,257.7	42.0%
2010	\$72.8	-4.2%	\$2,701.0	-17.1%
2011	\$66.5	-8.6%	\$3,468.7	28.4%
2012	\$81.4	22.4%	\$3,829.6	10.4%
2013	\$72.0	-11.5%	\$2,969.3	-22.5%
2014	\$68.5	-4.9%	\$2,774.5	-6.6%
2015	\$58.6	-14.4%	\$2,842.3	2.4%

SOURCE: <http://www.usaspending.gov> as of 09/30/16.

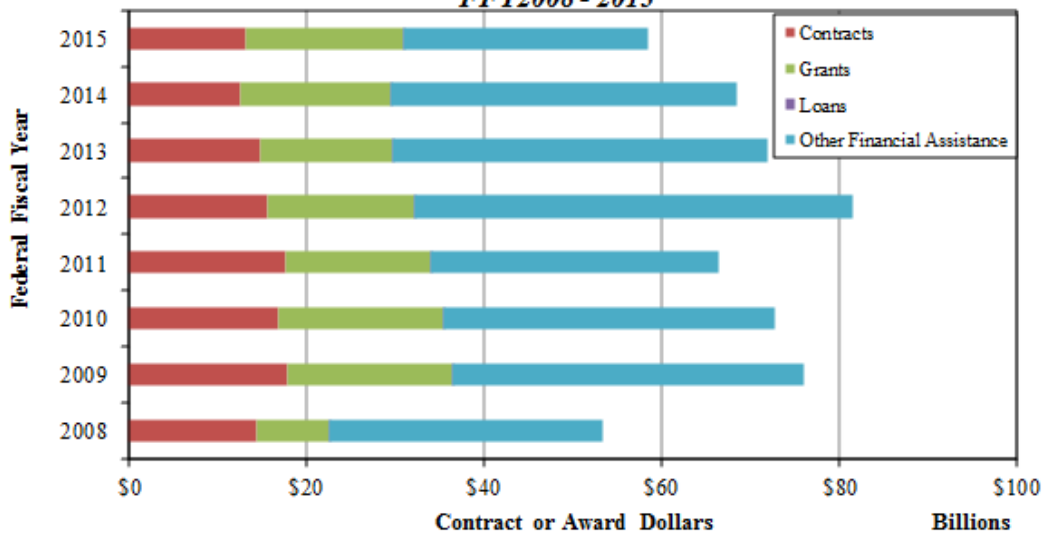
NOTE: Federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values and change in dollar values reflect inflation-adjusted (\$2015) dollars.

In FFY 2015, the largest portion of federal spending in Massachusetts, 47.1 percent, was for Other Financial Assistance which includes direct payments to individuals (such as Medicare and food stamps), insurance payments (such as unemployment benefits, flood insurance), and other types of assistance payments (such as reimbursements for prescriptions for veterans). Other Financial Assistance decreased 29.2 percent while both Contracts and Grants increased 5.2 percent from FFY 2014. The graphs below describe the most recent complete fiscal year and the last eight years of federal spending in Massachusetts, including the most recent data for the current fiscal year as reported by USASpending.gov.

**Federal Spending in Massachusetts - Federal Fiscal Year 2015**



**Composition of Federal Spending Awards to Massachusetts  
FFY2008 - 2015**



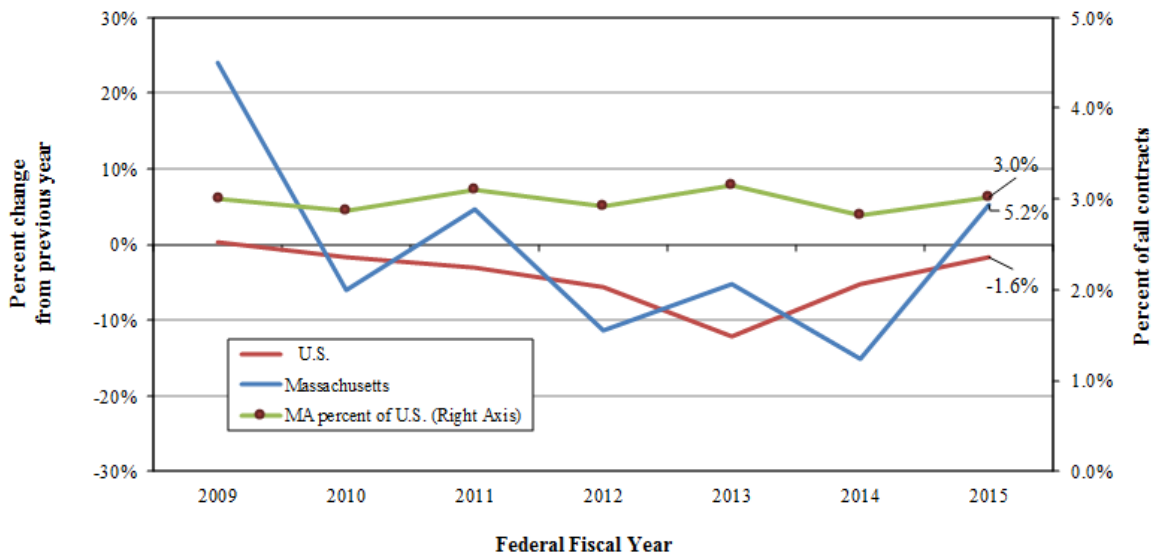
SOURCE: <http://www.usaspending.gov> as of 09/30/16. Federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values and change in dollar values reflect inflation-adjusted (\$2015) dollars.

**Federal Contracts.** The table and graph below compare the annual summary of federal contracts performed in Massachusetts to the total contracts awarded by the federal government. In FFY 2015, the latest full year available, 3.0 percent of all federal contract work was performed in Massachusetts. This is slightly more than the 2.9 percent average it has been receiving over the last eight years.

The following two pages summarize the federal contracts by top products or services, funding agencies and sub agencies, contractors and sub-awardees, over the long-term and the latest complete federal fiscal year. The work was primarily performed in Massachusetts and the vendors who were awarded the contracts may or may not have been located in Massachusetts.

<i>Federal Contracts Performed in Massachusetts as a Percent of all Federal Contracts</i>					
<i>(in millions of 2015 adjusted dollars)</i>					
Fiscal Year	Massachusetts	MA percent increase from previous year	MA portion of all federal contracts	U.S.	U.S. percent increase from previous year
2008	\$14,484		2.4%	\$595,860	
2009	\$17,972	24.1%	3.0%	\$597,524	0.3%
2010	\$16,904	-5.9%	2.9%	\$587,252	-1.7%
2011	\$17,681	4.6%	3.1%	\$569,081	-3.1%
2012	\$15,685	-11.3%	2.9%	\$536,565	-5.7%
2013	\$14,869	-5.2%	3.2%	\$471,822	-12.1%
2014	\$12,623	-15.1%	2.8%	\$446,750	-5.3%
2015	\$13,280	5.2%	3.0%	\$439,652	-1.6%
Total	\$123,498			\$4,244,505	

*Change in Massachusetts Federal Contracts, FFY2009 - 2015*



SOURCE: <http://www.usaspending.gov> as of 09/30/16. Federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values and change in dollar values reflect inflation-adjusted (\$2015) dollars.

## *Summary of Federal Contracts Performed in Massachusetts*

### **FY 2008 to FY 2015**

Total Dollars:	\$123,497,890,995
Number of Transactions:	651,659

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

Precious Metals Primary Forms	\$8,769,454,600
Gas Turbines & Jet Engines Aircraft	\$5,758,369,275
Guided Missiles	\$4,548,608,771
Gas Turbines And Jet Engines, Aircraft, Prime Moving; And Components	\$4,213,556,446
R&D-Electronics & Comm Eq-B Res	\$3,700,138,243

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

Department of Defense	\$93,022,556,908
Department of the Treasury	\$8,959,966,312
Department of Veterans Affairs	\$3,474,365,988
Department of Health and Human Services	\$3,241,417,116
Department of Transportation	\$2,867,795,108

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

Department Of The Army	\$33,654,879,106
Department Of The Navy	\$26,325,713,325
Department Of The Air Force	\$22,292,728,223
United States Mint	\$8,796,392,880
Missile Defense Agency (Mda)	\$4,925,423,940

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

Raytheon Company	\$33,602,454,092
General Dynamics Corporation	\$12,171,810,917
General Electric Company	\$11,327,245,834
Massachusetts Institute Of Technology	\$8,498,098,178
Coins 'N Things Inc.	\$6,615,626,744

### **Top 5 Contract Sub-Awardees**

Cobham Plc	\$2,437,545,987
Bae Systems Information And Electronic Systems Integration Inc.	\$932,797,395
General Dynamics Advanced Information Systems, Inc.	\$443,136,951
Raytheon Company	\$315,283,273
General Dynamics C4 Systems, Inc.	\$185,453,595

SOURCE: <http://www.usaspending.gov> as of 09/30/16. Annual federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values reflect inflation-adjusted (\$2015) dollars.



## *Federal Contracts Performed in Massachusetts*

### **Fiscal Year: 2015**

Total Contract Funds Awarded: \$13,279,681,528

Total Contract Funds to Sub-Awardees: \$717,135,461

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

Number of Transactions: 55,078

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

Guided Missile Systems, Complete \$1,174,633,756

Precious Metals Primary Forms \$1,107,003,779

Support- Professional: Engineering/Technical \$810,896,192

R&D- Defense System: Electronics/Communication Equipment (Basic Research) \$792,094,450

Gas Turbines And Jet Engines, Aircraft, Prime Moving; And Components \$535,188,273

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

Department of Defense \$7,428,959,940

Department of the Treasury \$1,128,178,310

Department of Veterans Affairs \$626,220,465

Department of Health and Human Services \$290,839,469

Department of Homeland Security \$254,607,360

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

Department Of The Army \$3,491,062,712

Department Of The Navy \$2,605,880,366

Department Of The Air Force \$1,955,898,181

United States Mint \$1,130,877,235

Department Of Veterans Affairs \$635,022,643

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

Raytheon Company \$3,423,778,765

General Dynamics Corporation \$1,241,792,018

Massachusetts Institute Of Technology \$1,004,438,737

General Electric Company \$822,541,647

Coins 'N Things, Inc. \$797,898,826

### **Top 5 Contract Sub-Awardees**

General Dynamics Advanced Information Systems, Inc. \$194,916,272

Covidien Lp \$59,456,198

Ranor Inc. \$42,605,995

Ultra Electronics Holdings Plc \$19,468,162

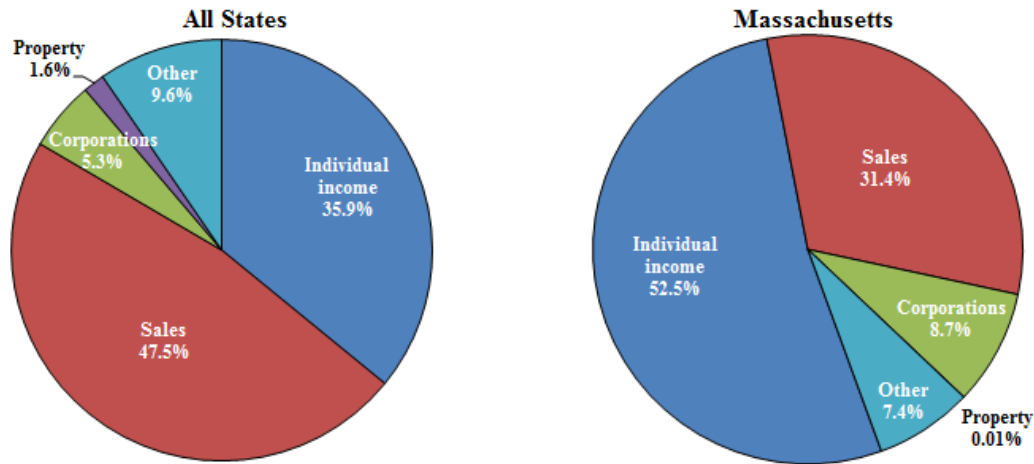
Mercury Systems, Inc. \$19,373,771

SOURCE: <http://www.usaspending.gov> as of 09/30/16. Annual federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting.

**State Revenues.** Taxes collected by all states in FY 2014 totaled \$866.8 billion, 0.6 percent more than FY 2013. Massachusetts collected \$25.3 billion in FY 2014, 3.9 percent more than in FY 2013. Massachusetts ranked ninth in the nation in total taxes collected in 2014, up from tenth in 2013.

In FY 2014, the national average of tax collection from individual income tax and sales and gross receipts tax was 83.4 percent of total revenue. Massachusetts collected most of its revenue, 52.5 percent, from individual income tax while overall states collected 47.5 percent of their revenue from sales and gross receipts tax. Sales and gross receipts tax accounted for 31.4 percent of Massachusetts's nearly one billion in new revenue in 2014 and 47.5 percent of all U.S. states' \$4.9 billion in new revenue. Seven states do not have an individual income tax.

***FY 2014 State Revenues by Type***

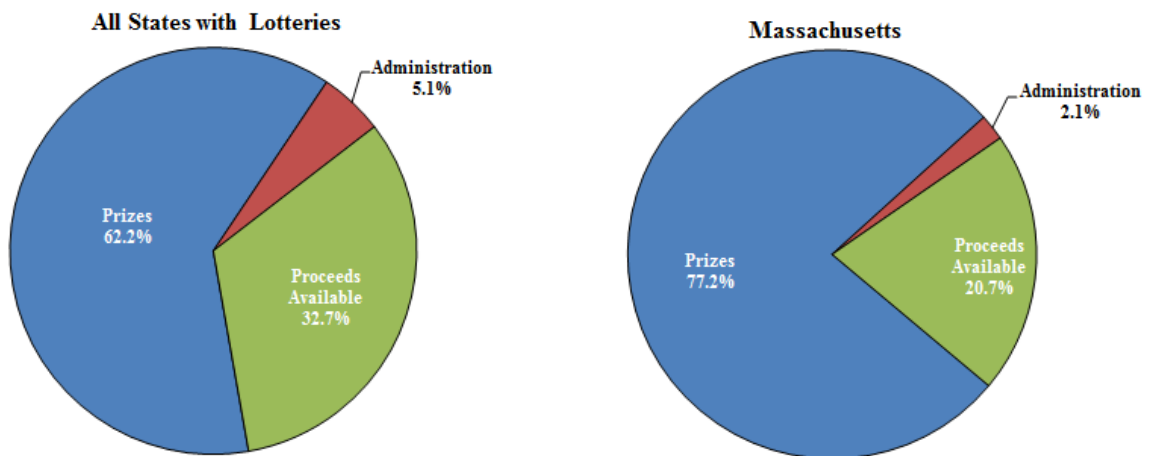


SOURCE: U.S. Census Bureau, Governments Division.

NOTES: Other: Licenses, death and gift, severance, documentary and stock transfer and other NEC. Shares of total based on inflation-adjusted dollars (\$2015).

**State Lottery Proceeds.** Massachusetts ranked third in revenue, \$4.64 billion, and second in prize money awarded, \$3.59 billion, among the 43 states with lotteries in FY 2013. Massachusetts lottery revenue increased 0.8 percent from the previous year.

***FY 2013 Apportionment of Lottery Funds***



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

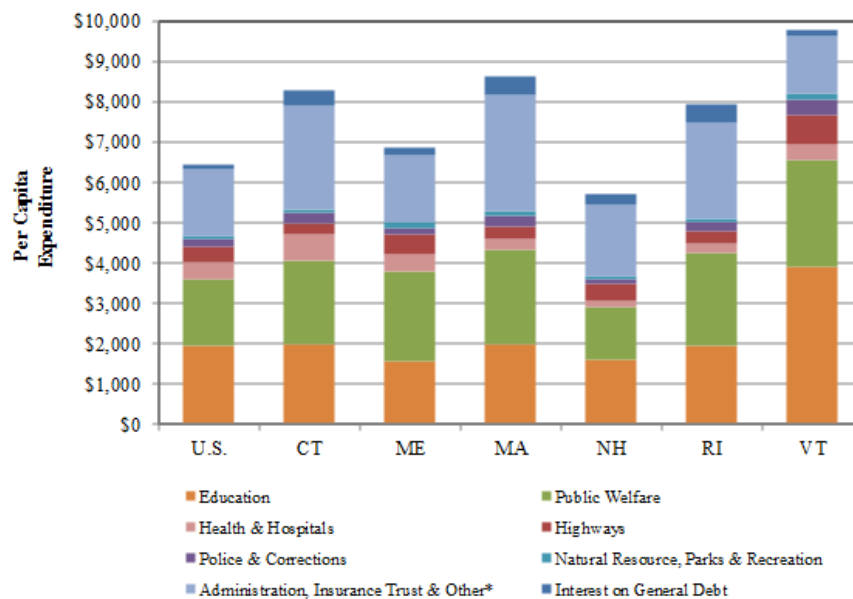
NOTE: Shares of total based on inflation-adjusted dollars (\$2015).

**State Expenditures.** The following table and graph depict FY 2013 per capita state government general expenditures in inflation-adjusted dollars by category for the six New England states and the U.S. average state expenditures. Massachusetts ranked sixth in the nation in per capita expenditures, \$8,610 in 2013, while it ranked sixth and spent \$8,775 in 2012. This represents a 1.9 percent decrease in per capita expenditures from 2012 to 2013, with the largest per capita dollar increase in the Natural Resource, Parks and Recreation function.

General expenditures, by function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Education	\$1,485	\$1,633	\$1,647	\$1,875	\$1,815	\$1,917	\$1,972	\$1,967	\$2,011	\$1,973
Public Welfare	\$2,067	\$2,086	\$2,167	\$2,145	\$2,149	\$2,243	\$2,286	\$2,347	\$2,359	\$2,360
Health & Hospitals	\$216	\$215	\$220	\$259	\$260	\$262	\$256	\$259	\$249	\$249
Highways	\$591	\$334	\$307	\$305	\$380	\$325	\$323	\$304	\$320	\$304
Police & Corrections	\$270	\$269	\$291	\$313	\$322	\$324	\$304	\$289	\$286	\$292
Natural Resource, Parks & Recreation	\$113	\$92	\$95	\$100	\$98	\$106	\$99	\$94	\$84	\$95
Administration, Insurance Trust & Other*	\$2,278	\$2,014	\$1,987	\$2,160	\$2,092	\$2,348	\$2,780	\$2,621	\$2,987	\$2,897
Interest on General Debt	\$503	\$528	\$572	\$592	\$614	\$620	\$567	\$499	\$479	\$440
<b>Total</b>	<b>\$7,521</b>	<b>\$7,173</b>	<b>\$7,287</b>	<b>\$7,749</b>	<b>\$7,731</b>	<b>\$8,146</b>	<b>\$8,588</b>	<b>\$8,381</b>	<b>\$8,775</b>	<b>\$8,610</b>

General expenditures, by function	U.S.	CT	ME	MA	NH	RI	VT
Education	\$1,926	\$1,985	\$1,546	\$1,973	\$1,591	\$1,920	\$3,906
Public Welfare	\$1,669	\$2,070	\$2,215	\$2,360	\$1,294	\$2,314	\$2,644
Health & Hospitals	\$420	\$633	\$456	\$249	\$146	\$218	\$383
Highways	\$361	\$299	\$471	\$304	\$429	\$308	\$739
Police & Corrections	\$204	\$255	\$163	\$292	\$130	\$246	\$367
Natural Resource, Parks & Recreation	\$87	\$64	\$151	\$95	\$77	\$85	\$155
Administration, Insurance Trust & Other*	\$1,634	\$2,575	\$1,674	\$2,897	\$1,767	\$2,365	\$1,417
Interest on General Debt	\$148	\$406	\$178	\$440	\$275	\$458	\$153
<b>Total</b>	<b>\$6,450</b>	<b>\$8,288</b>	<b>\$6,853</b>	<b>\$8,610</b>	<b>\$5,708</b>	<b>\$7,913</b>	<b>\$9,764</b>
State's rank of total per capita expenditures		10	19	6	32	9	2

*Fiscal Year 2013 Per Capita State Government General Expenditures, by Type  
(U.S. and the New England States)*



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

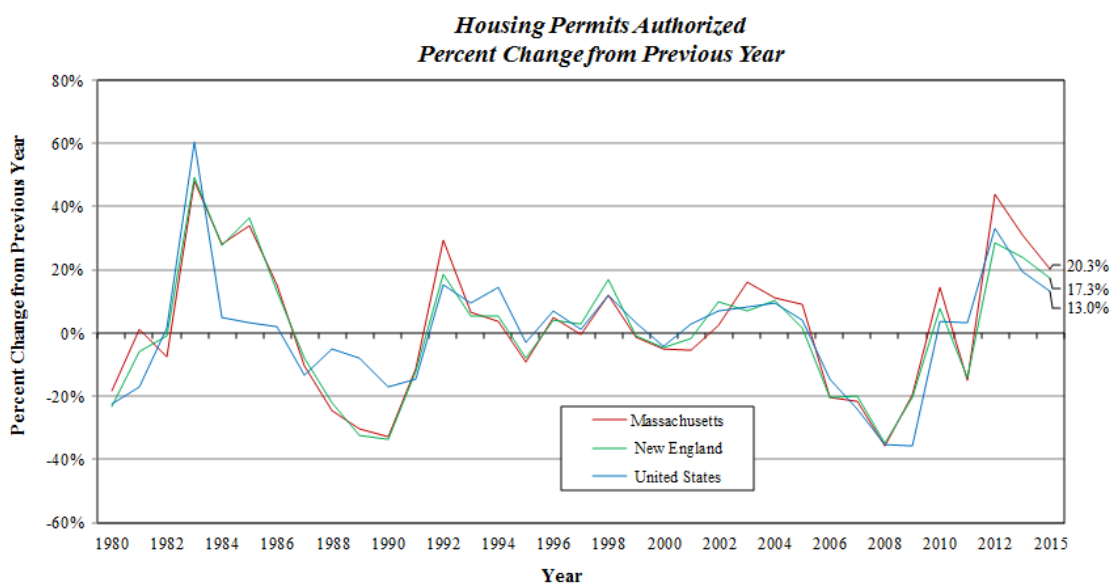
\*Other includes utility, liquor store, other and unallocable expenditures. Updated 06/07/15.

NOTE: Per capita dollars are adjusted for inflation (\$2015).

***Supplementary Data Section.*** The following appendix contains more detailed data for industry sectors or subsectors.

**Building Permits.** The Census Bureau's Residential Construction Branch Building Permits Survey is a leading economic indicator used to track the housing industry.

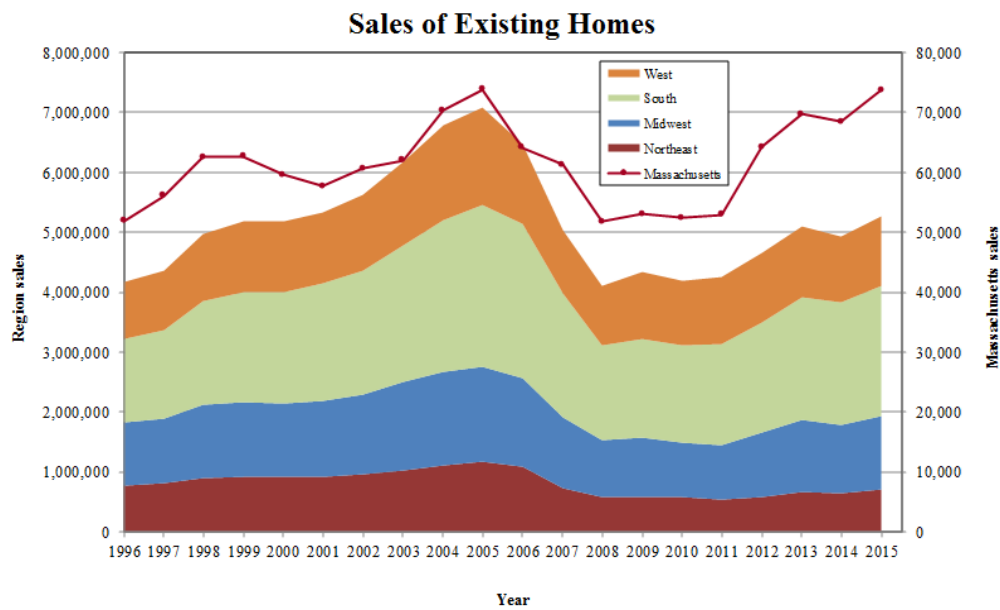
<i>Housing Permits Authorized</i>						
Year	Massachusetts		New England		United States	
	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,480	-18.3%	41,079	-23.4%	1,190,600	-22.4%
1985	39,196	33.8%	99,192	36.3%	1,733,266	3.1%
1990	14,290	-32.9%	36,169	-33.5%	1,110,766	-17.0%
1995	16,428	-9.3%	38,418	-7.9%	1,332,549	-2.8%
1996	17,261	5.1%	39,941	4.0%	1,425,616	7.0%
1997	17,186	-0.4%	41,110	2.9%	1,441,136	1.1%
1998	19,254	12.0%	48,008	16.8%	1,612,260	11.9%
1999	18,967	-1.5%	47,632	-0.8%	1,663,533	3.2%
2000	18,000	-5.1%	45,335	-4.8%	1,592,267	-4.3%
2001	17,034	-5.4%	44,594	-1.6%	1,636,676	2.8%
2002	17,465	2.5%	49,031	9.9%	1,747,678	6.8%
2003	20,257	16.0%	52,395	6.9%	1,889,214	8.1%
2004	22,477	11.0%	57,858	10.4%	2,070,077	9.6%
2005	24,549	9.2%	58,742	1.5%	2,155,316	4.1%
2006	19,580	-20.2%	46,782	-20.4%	1,838,903	-14.7%
2007	15,358	-21.6%	37,532	-19.8%	1,398,415	-24.0%
2008	9,883	-35.6%	24,454	-34.8%	905,359	-35.3%
2009	7,941	-19.6%	19,463	-20.4%	582,963	-35.6%
2010	9,075	14.3%	20,964	7.7%	604,610	3.7%
2011	7,725	-14.9%	17,987	-14.2%	624,061	3.2%
2012	11,111	43.8%	23,109	28.5%	829,658	32.9%
2013	14,569	31.1%	28,635	23.9%	990,822	19.4%
2014	14,486	-0.6%	28,958	1.1%	1,046,363	5.6%



SOURCE: U.S. Census Bureau. 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>						
<b>Year</b>	<b>U.S.</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>	<b>Massachusetts</b>
1990	3,184,000	583,000	864,000	1,088,000	649,000	25,691
1991	3,146,000	596,000	867,000	1,070,000	633,000	31,379
1992	3,431,000	667,000	967,000	1,127,000	680,000	38,847
1993	3,737,000	714,000	1,031,000	1,257,000	745,000	43,588
1994	3,884,000	728,000	1,031,000	1,313,000	822,000	45,238
1995	3,849,000	725,000	1,010,000	1,312,000	812,000	43,509
1996	4,167,000	776,000	1,056,000	1,393,000	942,000	51,857
1997	4,374,000	813,000	1,084,000	1,466,000	1,001,000	56,107
1998	4,965,000	905,000	1,219,000	1,722,000	1,129,000	62,549
1999	5,179,000	908,000	1,245,000	1,854,000	1,182,000	62,662
2000	5,173,000	915,000	1,226,000	1,867,000	1,175,000	59,602
2001	5,335,000	910,000	1,274,000	1,965,000	1,186,000	57,665
2002	5,634,000	950,000	1,347,000	2,062,000	1,265,000	60,661
2003	6,176,000	1,020,000	1,473,000	2,283,000	1,410,000	61,979
2004	6,778,000	1,111,000	1,549,000	2,540,000	1,578,000	70,342
2005	7,080,000	1,168,000	1,591,000	2,707,000	1,614,000	73,887
2006	6,477,000	1,087,000	1,484,000	2,562,000	1,344,000	64,126
2007	5,030,000	720,000	1,190,000	2,060,000	1,060,000	61,299
2008	4,110,000	570,000	950,000	1,600,000	990,000	51,766
2009	4,340,000	590,000	980,000	1,640,000	1,130,000	52,992
2010	4,190,000	570,000	910,000	1,630,000	1,080,000	52,413
2011	4,260,000	540,000	910,000	1,680,000	1,130,000	52,902
2012	4,660,000	590,000	1,070,000	1,840,000	1,160,000	64,254
2013	5,090,000	660,000	1,200,000	2,050,000	1,190,000	69,697
2014	4,940,000	640,000	1,140,000	2,050,000	1,100,000	68,503
2015	5,250,000	700,000	1,240,000	2,160,000	1,170,000	73,772

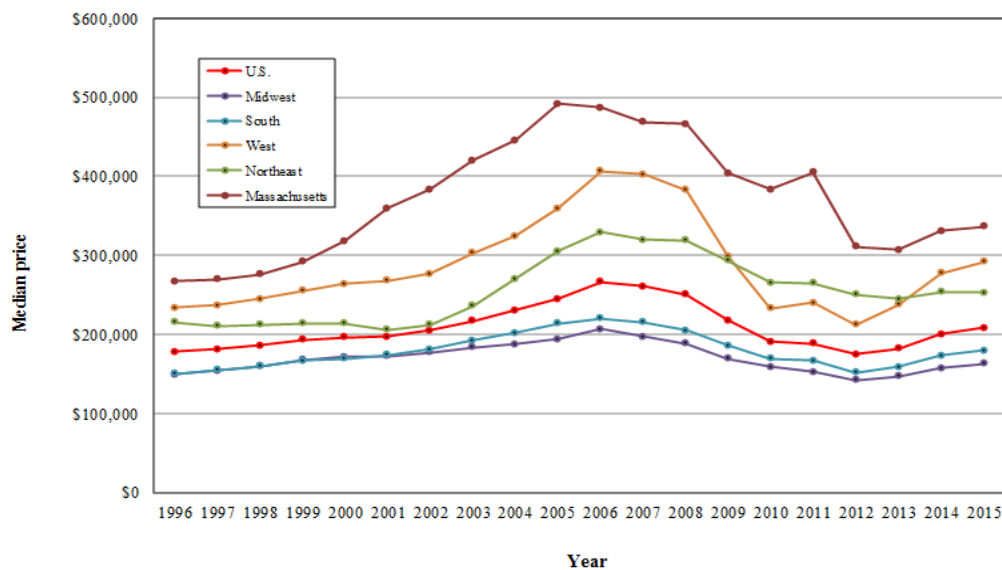


SOURCES: National Association of Realtors and Massachusetts Association of Realtors.

**Home prices.** Massachusetts sales prices are much higher than the national median but they are 29.9 percent less than the 2004 peak.

<i>Median Sales Price of Existing Homes (in 2015 Dollars) United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1989	\$179,674	\$271,614	\$138,770	\$161,133	\$263,012	\$338,325
1990	\$174,816	\$256,421	\$138,366	\$153,599	\$251,343	\$328,641
1991	\$176,458	\$249,895	\$140,087	\$153,313	\$251,461	\$293,913
1992	\$175,693	\$240,903	\$142,244	\$153,901	\$238,537	\$275,857
1993	\$175,835	\$233,080	\$142,702	\$153,692	\$232,588	\$267,122
1994	\$178,003	\$226,302	\$144,897	\$151,774	\$238,616	\$267,844
1995	\$178,229	\$215,399	\$149,458	\$150,702	\$234,218	\$267,036
1996	\$181,124	\$210,883	\$154,537	\$154,688	\$237,319	\$269,701
1997	\$186,217	\$212,060	\$159,783	\$160,079	\$244,696	\$276,465
1998	\$193,103	\$214,188	\$168,093	\$167,221	\$255,775	\$292,083
1999	\$196,329	\$214,112	\$172,143	\$169,156	\$263,763	\$318,099
2000	\$197,652	\$206,186	\$172,464	\$173,840	\$267,848	\$359,645
2001	\$204,897	\$212,392	\$177,328	\$181,343	\$277,033	\$383,131
2002	\$217,255	\$236,227	\$183,527	\$192,354	\$303,023	\$419,818
2003	\$230,319	\$270,509	\$187,553	\$201,851	\$324,353	\$445,966
2004	\$245,173	\$305,901	\$193,980	\$213,805	\$359,352	\$492,153
2005	\$266,508	\$329,251	\$207,041	\$220,512	\$406,922	\$487,321
2006	\$260,883	\$319,667	\$197,279	\$215,972	\$402,905	\$468,806
2007	\$250,344	\$319,045	\$188,729	\$204,962	\$383,060	\$466,194
2008	\$218,079	\$293,267	\$169,641	\$186,264	\$298,882	\$404,213
2009	\$190,575	\$265,701	\$159,199	\$169,032	\$233,220	\$383,273
2010	\$188,152	\$265,108	\$153,043	\$167,065	\$239,891	\$404,824
2011	\$175,019	\$250,252	\$142,670	\$151,943	\$212,109	\$310,840
2012	\$182,516	\$245,385	\$147,314	\$158,979	\$237,539	\$307,377
2013	\$200,535	\$253,441	\$157,294	\$173,675	\$277,860	\$330,664
2014	\$208,547	\$253,000	\$163,394	\$179,513	\$292,146	\$336,399
2015	\$222,400	\$260,200	\$174,400	\$192,200	\$316,000	\$345,000

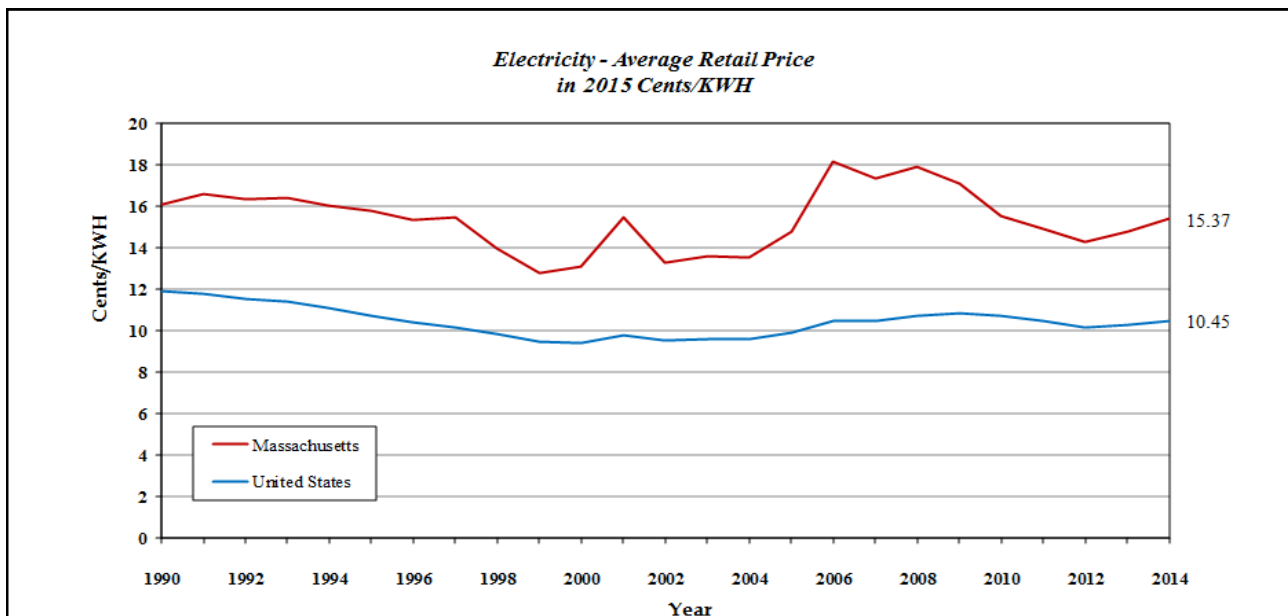
**Median Sales Price of Existing Homes (in 2015 Dollars)**



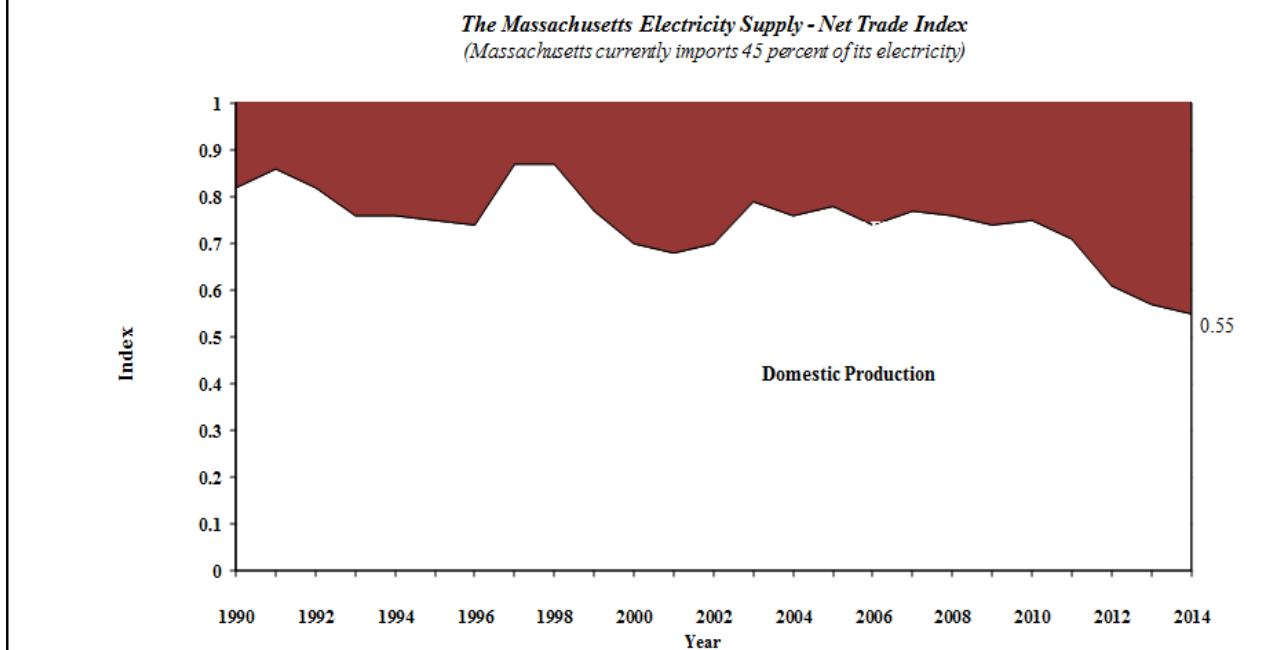
SOURCE: National Association of Realtors and Massachusetts Association of Realtors. The Massachusetts sales price reflects only that of single-family homes. Sales prices of the other regions represent the average of both single- and multi-family homes.



**Electricity Prices, Supply and Capacity by Source.** Massachusetts had the sixth highest electric rate in the country in 2014, 15.37 cents per kilowatt hour in 2015 dollars, while the U.S. average was 10.45. Adjusted for inflation, this was an increase of 4.1 percent for Massachusetts and an increase of 2.0 percent for the U.S. from the previous year. Massachusetts electric utilities generated \$8.4 billion in revenue in 2014. This was 2.6 percent more than in 2013, while they sold 1.4 percent less electricity. The Massachusetts Net Electricity Trade Index, which represents the state's electricity self-sufficiency, was 0.55 in 2014, the latest data available. In 2014, 59.4 percent of Massachusetts electricity was generated by burning natural gas, our top fuel source for power generation.



SOURCE: U.S. Department of Energy, [http://www.eia.doe.gov/cneaf/electricity/st\\_profiles/massachusetts.html](http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html).  
 NOTE: Massachusetts restructured the electric utility industry to establish consumer electricity rate savings by 03/01/98. <https://malegislature.gov/Laws/SessionLaws/Acts/1997/Chapter164>



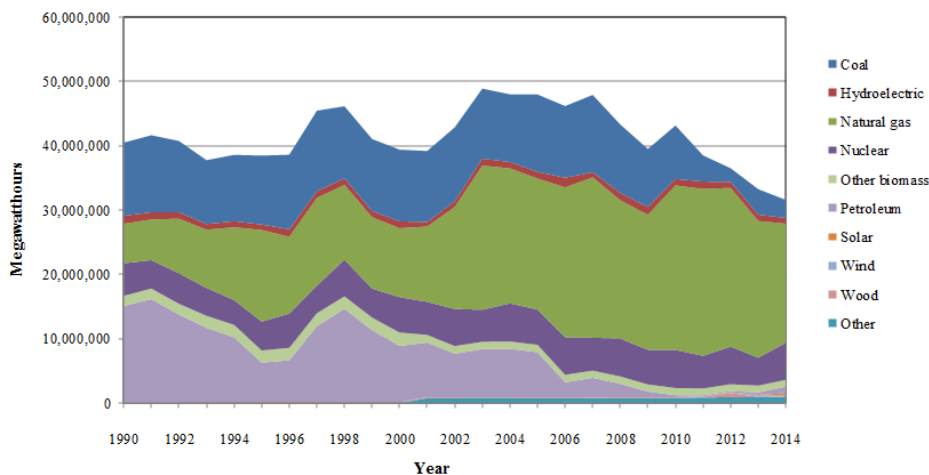
SOURCE: U.S. Department of Energy, [http://www.eia.doe.gov/cneaf/electricity/st\\_profiles/massachusetts.html](http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html).



**Electric Power Industry Generation by Primary Energy Source  
2005 to 2014 (in Megawatthours)**

Energy Source	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total electric industry	47,515,443	45,597,775	47,075,975	42,505,478	38,966,651	42,804,824	38,054,821	36,198,121	32,885,021	31,118,591
Coal	12,033,547	11,138,341	12,024,347	10,628,688	9,028,110	8,305,890	4,058,807	2,136,922	3,959,229	2,794,889
Hydroelectric	1,041,950	1,512,645	797,482	1,155,811	1,201,076	996,339	1,148,762	912,482	991,504	902,077
Natural gas	20,369,467	23,306,676	24,925,043	21,514,434	20,987,836	25,581,752	25,939,672	24,672,381	21,256,887	18,497,715
Nuclear	5,475,057	5,829,658	5,119,789	5,868,639	5,396,021	5,917,813	5,085,220	5,859,540	4,330,643	5,769,154
Other biomass	1,138,288	1,153,571	1,121,067	1,129,046	1,107,875	1,125,326	1,039,130	1,065,140	1,060,541	1,073,422
Petroleum	7,026,444	2,328,246	3,051,604	2,107,999	897,078	295,736	196,503	174,494	390,311	1,004,834
Solar	0	0	0	80	43	928	4,765	29,614	106,457	306,321
Wind	0	0	0	3,672	5,956	22,068	61,385	89,673	204,898	224,971
Wood	120,027	125,258	119,157	122,580	115,384	125,412	101,295	658,991	76,531	125,237
Other	772,307	782,278	748,033	772,928	760,909	770,629	859,514	906,429	875,926	878,130
Pumped storage	-461,643	-578,898	-830,547	-798,400	-533,636	-337,069	-440,231	-307,545	-367,906	-458,158

**Electric Power Generation by Primary Energy Source, 1990 to 2014**



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

NOTE: Other includes batteries, chemicals, hydrogen, pitch, purchased steam, sulfur, tire-derived fuels and misc. technologies. Pumped storage is omitted from the graph because it represents the storage of power generated elsewhere rather than newly generated power.

**Travel and Tourism.** The Massachusetts Office of Travel and Tourism (MOTT) reported a 2.9 percent decrease in 2015 museum and attraction attendance compared to 2014, with 10.4 million visitors. Museum attendance was up 17.7 percent in April 2016 for the calendar year compared to April 2015. For May FY 2016 year-to-date, net room occupancy tax collections totaled \$222.4 million, a 7.6 percent increase from the same period in FY 2015.

**Transportation and Warehousing.** Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Based on total passenger volume data for calendar year 2015, Logan Airport was the most active airport in New England and the 17<sup>th</sup> most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of August 2016 year-to-date, total airport flight operations were up 6.4 percent and total airport passengers were up 8.5 percent from the same period in 2015. According to the FAA, in calendar year 2015, Logan Airport ranked 27<sup>th</sup> in the nation in total air cargo volume. As of August 2016 year-to-date, Massport reported the airport handled 396.5 million pounds of cargo; a 2.8 percent increase from 2015. Massport reported that total express mail was up 1.3 percent from the same period in 2015. Please refer to the Aviation Activity charts on the following page.

Massport's Port of Boston properties processed 237,166 full TEUs (twenty-foot equivalent units) of containerized cargo in 2015, an increase of 10.7 percent from calendar year 2014. It also processed 59,995 automobiles, a decrease of 53 automobiles, and 328,305 cruise passengers, a 4.0 percent increase, compared to 2014.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2014 decreased by 0.7 percent to 18.7 million short tons from 2013. Waterborne cargo in New England decreased 0.9 percent while the U.S. increased 3.1 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

*Aviation Activity for Massachusetts's Primary Airports*

Passenger Boardings	2006	2007	2008	2009	2010	2011	2012	2013	2014
Logan International	13,544,552	13,783,297	12,820,489	12,566,797	13,561,814	14,180,730	14,293,695	14,810,153	15,507,561
Nantucket Memorial	276,866	282,197	258,214	204,981	201,390	169,352	179,128	183,557	170,361
Barnstable Municipal	206,980	204,152	191,906	138,858	124,560	100,596	95,717	87,648	85,184
Worcester Regional	14,823	460	3,182	17,241	35,833	53,541	10,750	8,007	57,818
Martha's Vineyard	45,881	49,205	45,002	42,248	43,904	49,095	50,484	56,313	52,362
Provincetown Municipal	11,375	12,459	11,468	10,747	11,450	10,967	11,580	11,288	10,410
New Bedford Regional	15,211	14,567	13,908	11,680	12,363	11,152	12,256	10,604	8,159
Hanscom Field	14,560	16,568	8,385	7,350	7,952	10,893	11,097	12,621	11,116
<b>Total</b>	<b>14,130,248</b>	<b>14,362,905</b>	<b>13,352,554</b>	<b>12,999,902</b>	<b>13,999,266</b>	<b>14,586,326</b>	<b>14,664,707</b>	<b>15,180,191</b>	<b>15,902,971</b>

Cargo - Gross Landed Weight (lbs.)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Logan International	1,100,485,850	1,059,947,900	1,100,485,850	835,954,035	817,235,460	806,845,332	780,913,850	866,698,830	910,283,225

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

Passenger Boardings	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Logan International	2.5%	1.8%	-7.0%	-2.0%	7.9%	4.6%	0.8%	3.6%	4.7%
Nantucket Memorial	9.5%	1.9%	-8.5%	-20.6%	-1.8%	-15.9%	5.8%	2.5%	-7.2%
Barnstable Municipal	16.4%	-1.4%	-6.0%	-27.6%	-10.3%	-19.2%	-4.9%	-8.4%	-2.8%
Worcester Regional	628.0%	-96.9%	591.7%	441.8%	107.8%	49.4%	-79.9%	-25.5%	622.1%
Martha's Vineyard	-6.3%	7.2%	-8.5%	-6.1%	3.9%	11.8%	2.8%	11.5%	-7.0%
Provincetown Municipal	11.1%	9.5%	-8.0%	-6.3%	6.5%	-4.2%	5.6%	-2.5%	-7.8%
New Bedford Regional	-15.3%	-4.2%	-4.5%	-16.0%	5.8%	-9.8%	9.9%	-13.5%	-23.1%
Hanscom Field	4.8%	13.8%	-49.4%	-12.3%	8.2%	37.0%	1.9%	13.7%	-11.9%
<b>Total</b>	<b>2.9%</b>	<b>1.6%</b>	<b>-7.0%</b>	<b>-2.6%</b>	<b>7.7%</b>	<b>4.2%</b>	<b>0.5%</b>	<b>3.5%</b>	<b>4.8%</b>

Cargo	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Logan International	-4.2%	-3.7%	3.8%	-24.0%	-2.2%	-1.3%	-3.2%	11.0%	5.0%

SOURCE: Federal Aviation Administration.

[http://www.faa.gov/airports/planning\\_capacity/passenger\\_allcargo\\_stats/passenger/](http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/).

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

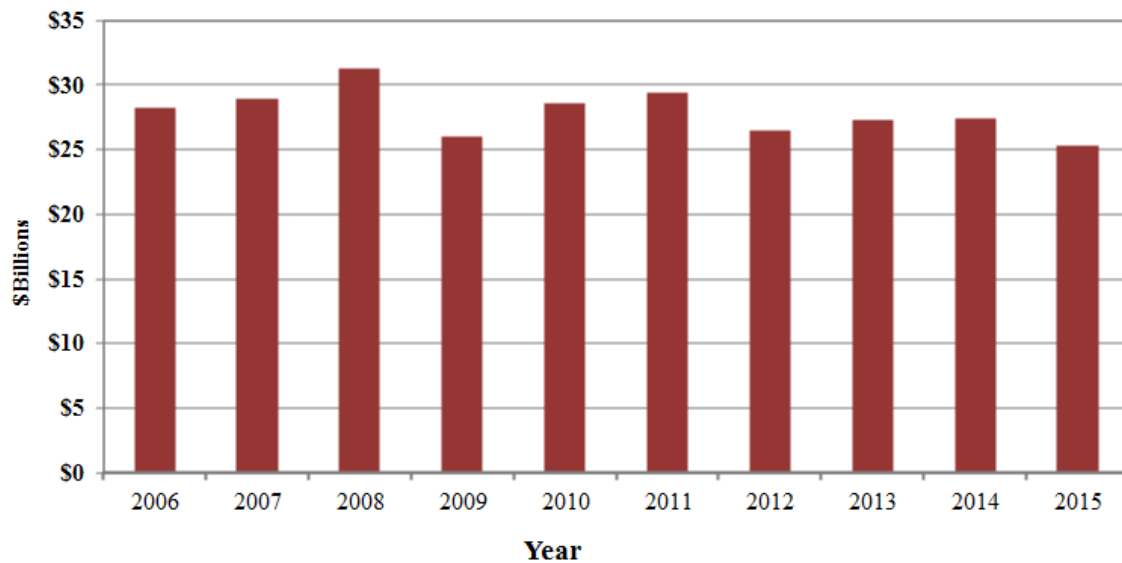
State	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
U.S. total	2,551,939	2,527,622	2,588,440	2,563,972	2,477,094	2,210,752	2,334,399	2,367,484	2,306,770	2,274,778	2,345,439
Massachusetts	31,787	28,812	27,411	28,043	25,993	25,018	22,661	20,646	17,298	18,866	18,733
Maine	32,447	32,353	28,103	26,839	24,747	22,996	20,907	15,411	15,127	14,078	11,964
Connecticut	20,075	19,617	19,340	20,148	18,196	16,767	16,229	12,977	10,645	11,368	13,313
Rhode Island	9,764	10,972	11,016	11,184	10,517	8,404	8,315	8,378	7,567	9,072	8,754
New Hampshire	4,795	5,254	4,823	4,026	3,833	3,583	2,964	3,347	2,419	2,679	2,803
Vermont	-	-	-	-	-	-	-	-	-	-	-
New England	98,868	97,008	90,693	90,240	83,286	76,768	71,076	60,759	53,056	56,063	55,567

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

State	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
U.S. total	6.6%	-1.0%	2.4%	-0.9%	-3.4%	-10.8%	5.6%	1.4%	-2.6%	-1.4%	3.1%
Massachusetts	3.7%	-9.4%	-4.9%	2.3%	-7.3%	-3.8%	-9.4%	-8.9%	-16.2%	9.1%	-0.7%
Maine	2.4%	-0.3%	-13.1%	-4.5%	-7.8%	-7.1%	-9.1%	-26.3%	-1.8%	-6.9%	-15.0%
Connecticut	8.1%	-2.3%	-1.4%	4.2%	-9.7%	-7.9%	-3.2%	-20.0%	-18.0%	6.8%	17.1%
Rhode Island	3.7%	12.4%	0.4%	1.5%	-6.0%	-20.1%	-1.1%	0.8%	-9.7%	19.9%	-3.5%
New Hampshire	-3.5%	9.6%	-8.2%	-16.5%	-4.8%	-6.5%	-17.3%	12.9%	-27.7%	10.7%	4.6%
Vermont	-	-	-	-	-	-	-	-	-	-	-
New England	3.7%	-1.9%	-6.5%	-0.5%	-7.7%	-7.8%	-7.4%	-14.5%	-12.7%	5.7%	-0.9%

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC), <http://www.navigationdatacenter.us/wcsc/wcsc.htm>.

### Massachusetts Annual Exports



**Massachusetts Top Export Partners**  
(top ten export destinations ranked by value of 2015 exports, in millions of 2015 dollars)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Canada	\$3,574	\$3,472	\$3,643	\$3,928	\$4,261	\$3,389	\$3,507	\$3,996	\$3,600	\$3,817	\$3,723	\$3,162
Mexico	\$925	\$928	\$948	\$1,124	\$1,268	\$991	\$1,376	\$1,513	\$1,667	\$1,903	\$2,332	\$2,623
China	\$1,096	\$1,048	\$1,486	\$1,552	\$1,705	\$1,506	\$2,373	\$2,198	\$1,945	\$2,024	\$2,308	\$2,053
Germany	\$3,083	\$2,551	\$2,894	\$2,675	\$2,715	\$1,922	\$2,024	\$2,154	\$1,868	\$1,877	\$1,861	\$1,911
Japan	\$2,223	\$2,245	\$2,632	\$2,445	\$2,647	\$1,885	\$2,211	\$2,151	\$2,066	\$1,801	\$1,860	\$1,476
Netherlands	\$3,069	\$3,558	\$3,102	\$2,501	\$2,918	\$2,176	\$1,832	\$1,165	\$1,116	\$1,319	\$1,337	\$1,399
United Kingdom	\$1,848	\$1,932	\$2,270	\$2,603	\$3,822	\$4,447	\$3,474	\$3,458	\$2,683	\$1,439	\$2,363	\$1,179
Switzerland	\$340	\$319	\$272	\$238	\$487	\$397	\$509	\$593	\$450	\$1,309	\$808	\$1,025
Korea, Republic Of	\$796	\$952	\$1,007	\$927	\$726	\$685	\$965	\$1,084	\$1,067	\$922	\$993	\$1,005
Hong Kong	\$641	\$601	\$645	\$653	\$644	\$576	\$723	\$790	\$735	\$1,801	\$968	\$928
Total Exports, Top Destinations	\$17,596	\$17,607	\$18,899	\$18,647	\$21,193	\$17,974	\$18,995	\$19,103	\$17,195	\$18,213	\$18,554	\$16,761
All other countries	\$9,239	\$8,553	\$8,782	\$9,971	\$9,749	\$7,934	\$9,445	\$10,235	\$9,347	\$9,195	\$8,996	\$8,521
Total Exports	\$26,835	\$26,160	\$27,682	\$28,618	\$30,942	\$25,908	\$28,440	\$29,338	\$26,543	\$27,407	\$27,550	\$25,282

**Value of International Shipments from Massachusetts**  
(top ten industry groups ranked by value of latest exports, in millions)

Major Industry Group/3-Digit NAICS	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Computer And Electronic Products	\$8,833	\$8,815	\$8,610	\$7,292	\$8,139	\$8,118	\$7,531	\$7,349	\$8,162	\$7,309
Chemicals	\$6,100	\$6,010	\$6,071	\$4,267	\$3,941	\$3,545	\$3,560	\$3,676	\$3,510	\$3,413
Miscellaneous Manufactured Commodities	\$2,634	\$2,651	\$3,435	\$3,024	\$3,311	\$3,357	\$3,155	\$3,343	\$3,071	\$3,181
Machinery, Except Electrical	\$3,221	\$3,293	\$2,879	\$2,218	\$3,754	\$3,839	\$3,357	\$2,936	\$2,946	\$3,171
Waste And Scrap	\$702	\$970	\$1,511	\$736	\$711	\$1,160	\$809	\$759	\$766	\$1,253
Transportation Equipment	\$655	\$1,066	\$1,362	\$1,223	\$1,151	\$1,179	\$1,076	\$1,111	\$1,310	\$1,236
Electrical Equipment, Appliances, And Components	\$1,025	\$880	\$687	\$561	\$606	\$715	\$1,003	\$1,137	\$1,189	\$1,183
Plastics And Rubber Products	\$623	\$666	\$646	\$622	\$816	\$854	\$701	\$686	\$730	\$827
Fabricated Metal Products, Nesoi	\$799	\$703	\$794	\$669	\$880	\$911	\$694	\$755	\$789	\$779
Primary Metal Manufacturing	\$761	\$1,123	\$2,259	\$3,022	\$2,606	\$2,944	\$2,015	\$2,898	\$2,381	\$523
Total Exports, Top Massachusetts Industries	\$25,351	\$26,176	\$28,252	\$23,633	\$25,915	\$26,621	\$23,901	\$24,648	\$24,854	\$22,875
All other exports	\$2,932	\$2,804	\$2,978	\$2,432	\$2,677	\$2,747	\$2,541	\$2,631	\$2,564	\$2,407
Total Exports	\$28,283	\$28,980	\$31,230	\$26,065	\$28,592	\$29,367	\$26,442	\$27,279	\$27,418	\$25,282

SOURCE: WISERTrade.org.

# Sources

Listed below are the websites of the original data sources used to compile Exhibit A. For more information, contact the UMass Donahue Institute Economic and Public Policy Research unit.

Web: <http://www.donahue.umassp.edu/business-groups/economic-public-policy-research>

Tel: 413-577-2415

## Introduction

**American Human Development Project**

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

## Population Characteristics

**U.S. Department of Commerce, Bureau of the Census**

<http://www.census.gov>

**U.S. Internal Revenue Service**

<http://www.irs.gov>

## Personal Income, Consumer Prices, and Poverty

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/regional/index.htm>

**U.S. Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov>

**The Conference Board, Inc.**

<http://www.conference-board.org>

**MassInsight Corporation**

<http://www.massinsight.com/index.asp>

**U.S. Department of Commerce, Bureau of the Census**

<http://www.census.gov>

## Employment

**Mass. Executive Office of Labor and Workforce Development, Division of Unemployment Assistance**

<http://lmi2.detma.org/Lmi/LMIDataProg.asp>

**U.S. Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov/data/home.htm>

## Economic Base and Performance

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/national/index.htm#gdp>

**Fortune Magazine**

<http://www.fortune.com/fortune/>

## Economic Base and Performance - Sector Detail (NAICS Basis)

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/regional/index.htm>

**U.S. Census Bureau, Foreign Trade Division.**

**Prepared by the World Institute for Strategic Economic Research (WISER)**

<http://www.WISERTrade>

## Massport

<http://www.massport.com>

**Airports Council International**

<http://www.aci.aero>

**Federal Aviation Administration**

[http://www.faa.gov/airports\\_airtraffic/airports/planning\\_capacity/passenger\\_allcargo\\_stats/](http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/)

**Army Corps of Engineers**

<http://www.navigationdatacenter.us/wcsc/wcsc.htm>

**Federal Reserve Bank of Boston**

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

**U.S. Department of Commerce**

<http://www/census.gov>

**National Association of Realtors**

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

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

**Massachusetts Office of Travel and Tourism**

<http://www.massvacation.com>

**U.S. Census Bureau, Governments Division**

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

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

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

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

**Federal Spending - contract, grant, and other award data**

<http://www.usaspending.gov>

**Large employers by sector**

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

## Human Resources and Infrastructure

**U.S. Census Bureau**

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

**Massachusetts Department of Higher Education**

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

**New England Board of Higher Education**

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

**National Science Foundation**

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

**U.S. Department of Education, National Center for Education Statistics**

<http://nces.ed.gov>

**Institute of International Education**

<http://www.iae.org>

**U.S. Patent Office**

<http://www.uspto.gov>

# Exhibit B

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# Commonwealth of Massachusetts

STATUTORY BASIS FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016



**THOMAS G. SHACK III, ESQ.**  
**COMPTROLLER**

Palmers Island Lighthouse - New Bedford - Bristol County

# Commonwealth of Massachusetts



## Statutory Basis Financial Report

*For the Fiscal Year Ended June 30, 2016*

Thomas G. Shack III, Esq.  
*Comptroller of the Commonwealth*

Prepared by  
*The Financial Reporting and Analysis Team  
Office of the Comptroller*

This document is available at the Comptroller's website: [www.mass.gov/comptroller/](http://www.mass.gov/comptroller/)



Palmers Island Lighthouse - New Bedford - Bristol County

Photo courtesy of Massachusetts Office of Travel and Tourism

# Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2016

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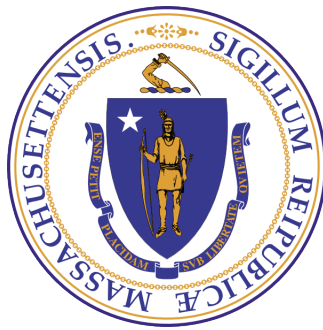
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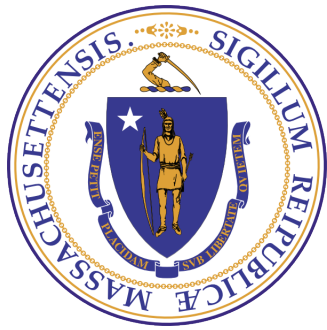
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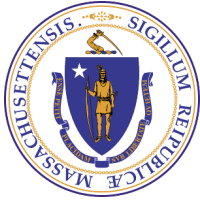
# *Introductory Section*



Comptroller's Letter  
Report Summary  
Constitutional, Legislative and Judicial Officers  
Organizational Chart of State Government  
Advisory Board to the Comptroller  
Acknowledgements



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The Commonwealth of Massachusetts  
Office of the Comptroller

October 31, 2016

The People of Massachusetts  
His Excellency Charles D. Baker, Governor  
Senator Karen E. Spilka, Chair of the Senate Committee on Ways and Means  
Representative Brian S. Dempsey, Chair of the House Committee on Ways and Means  
Secretary Kristen Lepore, Executive Office of Administration and Finance

I am pleased to present the Statutory Basis Financial Report (SBFR) for the fiscal year ended June 30, 2016.

Under M.G.L. c. 7A, s. 7, the Comptroller is responsible for establishing accounting rules and interpreting and implementing accounting standards for Commonwealth departments. Pursuant to M.G.L.c. 7A, s. 12, the Comptroller is also required to file the SBFR with the Governor, the Secretary of Administration and Finance, the House and Senate Committees on Ways and Means, the Clerks of the House and Senate, and any other Parties specified in general or special law. This report is provided consistent with these mandates.

In my opinion, the SBFR provides an independent and unbiased accounting of Commonwealth revenues and expenditures for Fiscal Year 2016. It has also been reviewed in accordance with professional standards established by the American Institute of Certified Public Accountants.

My office will also issue the Commonwealth's Comprehensive Annual Financial Report (CAFR), by the end of this calendar year. The CAFR has the additional requirements of adherence to generally accepted accounting principles (GAAP), and the interpretation of statements issued by the Governmental Accounting Standards Board (GASB).

As we conclude our review of Fiscal Year 2016, I would like to take the opportunity to acknowledge the remarkable effort and dedication of the Office of the Comptroller staff, who continually support our mission to promote accountability, integrity, and clarity in Commonwealth business, fiscal, and administrative enterprises.

Respectfully,

Thomas G. Shack, III, Esq.  
Comptroller of the Commonwealth

## ***Report Summary***

As of June 30, 2016, the Commonwealth had a budgeted fund balance of approximately \$1.482 billion and completed FY16 with a balanced budget according to state finance law (see page 3 for the definition of a balanced budget under state finance law). During the fiscal year, the balance of the Commonwealth's Stabilization (or rainy day) Fund increased by \$39 million, to \$1.292 billion, as a result of investment earnings and transfers of abandoned property revenues. No funds were drawn from the Stabilization Fund in FY16. (The Budgeted Funds – Operations table on page 7 displays the FY16 summary of budgeted funds compared to FY15. Details of FY16 Stabilization Fund activity are provided on pages 9 and 120.) The total budgeted fund balance of \$1.482 billion reflects a loss (revenues and other financing sources less than expenditures and other financing uses) of approximately \$89 million, subtracted from the FY16 beginning balance of \$1.571 billion. This follows an FY15 operating gain of \$120 million. In addition to the \$1.292 billion reserved in the Stabilization Fund, \$126 million is reserved for continuing appropriations and debt service in fiscal year 2017. The remaining undesignated balance of \$64 million is made up of smaller budgeted fund balances.

During FY16, budgeted fund tax revenues increased by \$443 million, or 1.9%, from FY15, as tax revenue growth due to the continuing strength of the Massachusetts economy was partially offset by a decline in capital gains tax revenues. Before transfers between budgeted funds that do not affect total budgeted fund balances, total budgeted fund revenues and other financing sources increased by \$2.129 billion, or 5.6%. Budgeted fund expenditures and other financing uses increased by \$2.338 billion, or 6.1%, primarily due to increases in Medicaid spending, additional payments to hospitals that care for the uninsured, and higher contributions to the state pension system to pay down the Commonwealth's unfunded pension liability. A more detailed analysis of revenue and spending changes, as well as the economic factors that affected the budget, is included in the sections that follow.

### ***Overview of the Financial Statements***

This report focuses on the Commonwealth's budgeted funds. For the budgeted funds, the activity (inflows and outflows) and balances (assets and liabilities) of each fund are presented separately. For all other funds included in this report, the activity – inflows and outflows – is presented in tabular form, but per statute, the full balance sheets for each fund are not shown.

The financial operations of these funds are maintained in the Massachusetts Management Accounting and Reporting System, (MMARS). The statewide accounting system is operated by the Commonwealth and contains detailed information summarized in this report.

The SBFR is intended to satisfy the requirements of state finance law and to present the results of FY16 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.

### ***Basis of Accounting and Definition of the Consolidated Net Surplus***

The statutory (or budgetary) basis of accounting, defined in Massachusetts law, is used to budget and control fiscal operations. The statutory basis of accounting is not in conformity with accounting principles generally accepted in the United States of America (GAAP) as defined for governments by the Governmental Accounting Standards Board (GASB). In addition, Fiduciary Funds are not included in this presentation. The Comptroller's Office will report the Commonwealth's financial position on a GAAP basis in December, in the State's Comprehensive Annual Financial Report (CAFR). That report provides a basis for comparison with other jurisdictions, as the accounting rules for the CAFR are the same for all governments, whereas the statutory basis of accounting may differ across states. There are significant differences between what is contained in the SBFR and what will be presented in the CAFR according to GAAP. The major differences are that the CAFR reflects capital assets and depreciation expense, all types of long-term obligations – including debt and pensions – and in the CAFR the financial statements are presented in an all-encompassing, net position and net expense format.

The Commonwealth's statutory basis of accounting defines the "consolidated net surplus" as the ending "undesignated", or unreserved, balances in specific budgeted funds, that is, those funds subject to the state's annual appropriation process, though by statute several budgeted funds are excluded from the consolidated net surplus calculation. In turn, state finance law defines a "balanced budget" as a consolidated net surplus of \$0. The largest of the budgeted funds are the

General Fund, which accounts for approximately 93.5% of total budgeted fund expenditures, and the Commonwealth Transportation Fund, which accounts for approximately 4.9% of total state budgeted fund activity. The remaining approximately 1.6% of budgeted fund activity is comprised of 12 smaller funds, 6 of which by statute are excluded from the consolidated net surplus calculations.

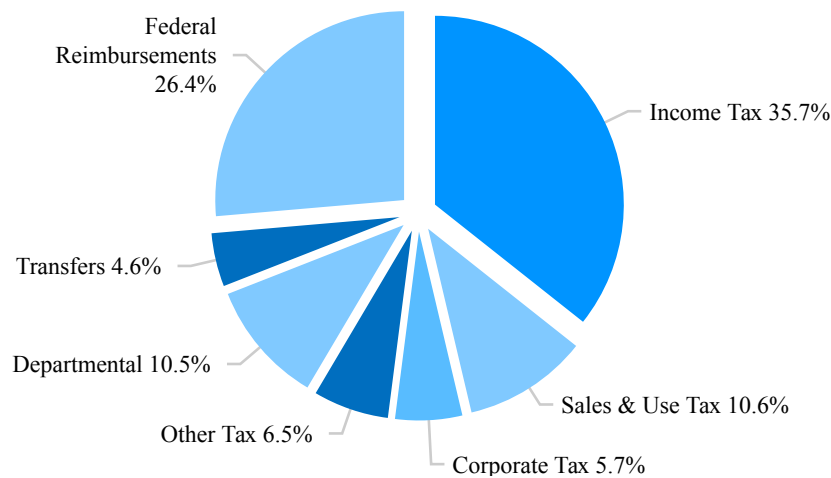
In accordance with Section 12 of Chapter 7A of the Massachusetts General Laws, as amended, the Office of the Comptroller is required to transmit the SBFR by October 31<sup>st</sup>. The SBFR for the fiscal year ended June 30, 2016 is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth’s books for the fiscal year.

***The Economic Context***

The funding available to the Commonwealth to finance its programs is determined in large part by the performance of the state’s economy, most importantly the growth in employment. In FY16, the Commonwealth’s economy continued to perform better than the nation’s economy. Between June 2015 and June 2016, employment (which is the primary driver of the Commonwealth’s largest revenue source, income tax withholding) grew by approximately 69,000 jobs, or 2.0%, compared to employment growth of 1.7% for the United States as a whole over the same period. As of June 2016, the Massachusetts unemployment rate was 4.2%, compared to 4.9% nationally.

***The Budgeted Funds***

***Budgeted Fund Revenues and Other Sources (Total of \$40.4 billion)***



The FY16 budget as enacted by the Legislature was based on an FY16 consensus tax revenue estimate of \$25.479 billion, of which approximately \$23.668 billion was to be credited to the Commonwealth’s budgeted funds after adjusting for \$1.812 billion in tax revenue that is deposited directly into non-budgeted funds for transfers of sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$985 million) and the Massachusetts School Building Authority (\$804 million), and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million). The FY16 enacted budget adjusted the estimate to \$25.711 billion, including \$100 million in tax settlements (of which \$23.899 billion was to be deposited in the budgeted funds), due to several tax law changes included in the budget. Both estimates included \$122 million of capital gains revenue that under statute was to be transferred to the Stabilization Fund and would not be available for budgetary purposes.

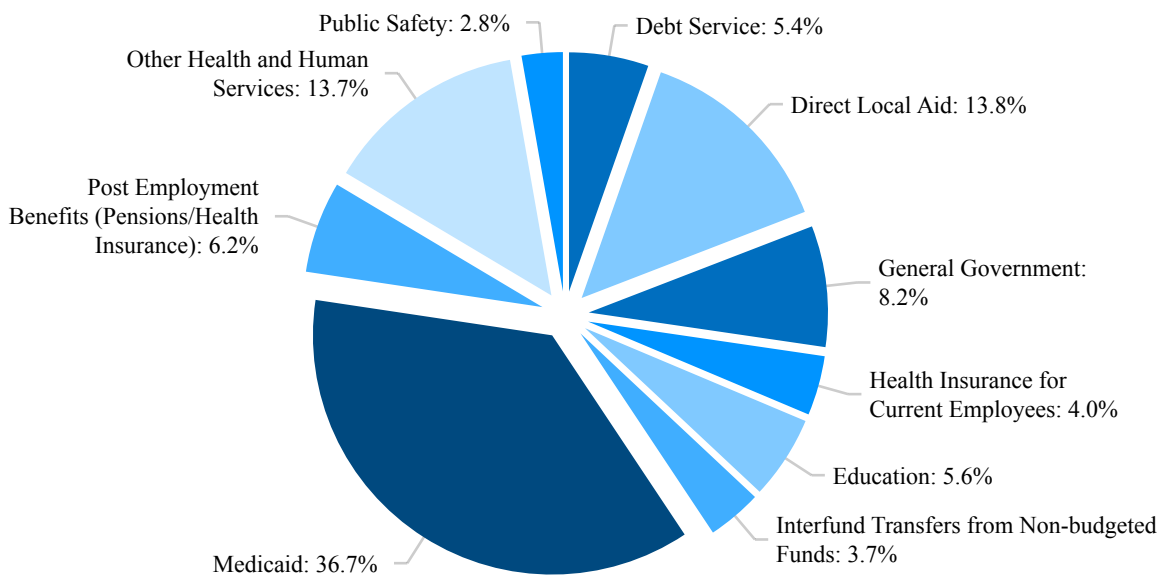
As a result of above forecast revenue performance over the the first six months of FY16, in January 2016, the FY16 tax revenue estimate was adjusted upward by \$140 million, to \$25.876 billion, (including \$125 million in settlements exceeding \$10 million each, virtually all of which were tax-related), of which \$24.065 billion was to be deposited in the budgeted funds.



FY16 tax revenues ended the year at \$25.424 billion (including \$155 million in tax settlements exceeding \$10 million each), of which \$23.617 billion was deposited in the budgeted funds. Tax revenue deposited in the budgeted funds grew by \$443 million, or 1.9% from FY15, and was \$448 million below the final FY16 tax estimate and \$283 million below the enacted budget's FY16 tax estimate.

The FY16 General Appropriation Act (GAA) authorized approximately \$39.156 billion in spending, exclusive of approximately \$1.972 billion in required pension contributions and \$212 million in FY15 spending authorized to be continued into FY16 as part of FY15 end-of-year supplemental budgets.

**Budgeted Expenditures and Other Uses (Total of \$40.5 billion)**



Approximately \$913 million in supplemental appropriations were authorized during FY16, \$702 million of which were enacted prior to June 30, 2016. Subsequent to year end, two additional supplemental budgets were enacted totaling approximately \$211 million in new and continued appropriations, \$164 million of which was for FY16 Medicaid expenditures, with virtually all of the remainder continued to FY17 and reappropriated. The year's significant supplemental appropriation activity included:

- \$566 million for transfers to the Medical Assistance Trust Fund;
- \$164 million for Medicaid expenses;
- \$41 million for emergency housing assistance;
- \$39 million for compensation of private counsel representing indigent defendants;
- \$28 million to fund county Sheriffs;
- \$13 million for certain court judgments and settlements.

In order to maintain a balanced budget in the face of lower than projected FY16 tax revenue collections, the Governor reduced spending authorizations, or allotments, using his authority under Section 9C of Chapter 29. Those allotment reductions totaled approximately \$47 million. The Executive Office for Administration and Finance in conjunction with state departments also took action in the fourth quarter of FY16 to minimize discretionary spending to maintain a balanced budget. Finally, the following specific actions were taken in FY16 to maintain statutory budget balance:

- \$283 million in capital gains tax revenue that under statute is required to be deposited in the Stabilization Fund (\$255 million), the State Pension Fund (\$14 million), and the State Retiree Benefits Trust Fund (\$14 million) was retained in the General Fund, per a provision in the FY16 General Appropriation Act that suspended the requirement;
- \$71 million in Medicaid payments was shifted from FY16 to FY17;
- \$137 million in non-recurring revenue was generated by a tax amnesty program;
- \$113 million in debt service payments normally paid from budgeted funds was paid from a non-budgeted fund capitalized by FY15 surplus revenues;
- \$79 million in revenues was transferred to the General Fund from non-budgeted funds and state authorities;
- \$26 million was retained in the General Fund by reducing the statutorily required tobacco settlement transfer to the State Retiree Benefits Trust Fund.

FY16 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$40.366 billion, an increase of \$2.129 billion, or 5.6%, from FY15. Tax revenue grew by \$443 million, or 1.9%; while the economy continued to expand modestly, growth in withholding and sales tax revenue was offset by a decline in capital gains tax revenue, which according to a preliminary Department of Revenue estimate, dropped by \$299 million, or 17.9%, from \$1.669 billion in FY15 to an \$1.370 billion in FY16. (There were also declines in other non-withholding, or non-wage, income taxes, though details on these will not be available until 2015 income tax returns filed on extension are analyzed.) Federal reimbursements totaled \$10.643 billion, an increase of \$1.162 billion, or 12.3%, primarily due to growth in reimbursements for increased Medicaid program spending, as well as increases in reimbursements for payments to hospitals that care for a disproportionate share of low income patients. Departmental revenue, which consists primarily of assessments and fees for state licenses and state services, totaled \$4.257 billion, an increase of \$404 million, or 10.5%, from FY15. Large increases in departmental revenue included \$198 million in pharmacy rebates paid to the state employee health insurance program, \$166 million in payments from the University of Massachusetts Medical School, and \$46 million in additional reimbursements by cities and towns participating in the state's health plans. Interfund transfers from non-budgeted funds totaled \$1.849 billion, an increase of \$119 million, or 6.9%, from FY15, due primarily to \$16 million in additional transfers from abandoned property revenues and \$36 million in higher fringe benefit recoveries from capital, federal grants, and non-budgeted funds.

The Commonwealth continues to receive revenues from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover health care costs for tobacco-related illnesses. In FY16, the Commonwealth received \$258 million in tobacco settlement funds, an increase of \$12 million from FY15. The \$258 million represented approximately 69.6% of the estimated amounts shown in the MSA. Statute requires that a portion of tobacco settlement proceeds be transferred directly to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care, with the percentage of proceeds transferred increasing by 10% each year until 100% of such proceeds is to be deposited in the SRBTF in FY2023 and after. For FY16, the statutorily required transfer was 40% of tobacco settlement revenues; however, the FY16 General Appropriation Act altered the mechanism by which the transfer was made and reduced the percentage of tobacco settlement revenues deposited to the SRBTF from 40% to 30%. That action reduced the FY16 transfer to approximately \$77 million, compared to the statutorily required transfer of \$103 million. For FY17, statute requires a transfer of 50%, or \$122 million, of the \$244 million in estimated FY17 tobacco settlement payments, to the SRBTF; the fiscal 2017 budget enacted by the Legislature requires that transfers be made equivalent to 10% of fiscal 2017 tobacco settlement proceeds, or approximately \$25.7 million. The Governor returned that section of the Legislature's proposal with an amendment, proposing instead to require a 30% transfer, as in fiscal 2016, which would result in a transfer of approximately \$73 million. That proposal has not yet been acted

upon by the Legislature. In the absence of further action, the amount transferred to the SRBTF in FY17 would revert to the statutorily required 50% of tobacco settlement proceeds, or \$122 million.

FY16 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$40.454 billion, an increase of \$2.338 billion, or 6.1%, from FY15, with the increase primarily attributable to higher spending on Medicaid and other health care spending, pension contributions, and Local Aid.

Spending on programs and services totaled \$34.290 billion, an increase of \$1.656 billion, or 5.1%, from FY15. Medicaid expenditures totaled \$14.851 billion, an increase of \$1.196 billion, or 8.8%, from FY15, primarily due to provisions of the federal Affordable Care Act (ACA) that expanded eligibility for Medicaid as of January 1, 2015, and also due to base enrollment and health care cost growth. Spending on state employee health benefits paid through the Group Insurance Commission (excluding benefits paid to retirees) declined by \$16 million, or 1.0%, from \$1.646 billion to \$1.630 billion.

Budgeted debt service totaled \$2.174 billion, down \$16 million, or 0.7%, from FY15, with the decline due primarily to the payment from a non-budgeted fund of \$113 million in debt service expenditures that normally would be paid from a budgeted fund. Without that shift, debt service expenditures would have totaled \$2.288 billion, an increase of \$97 million, or 4.4%.

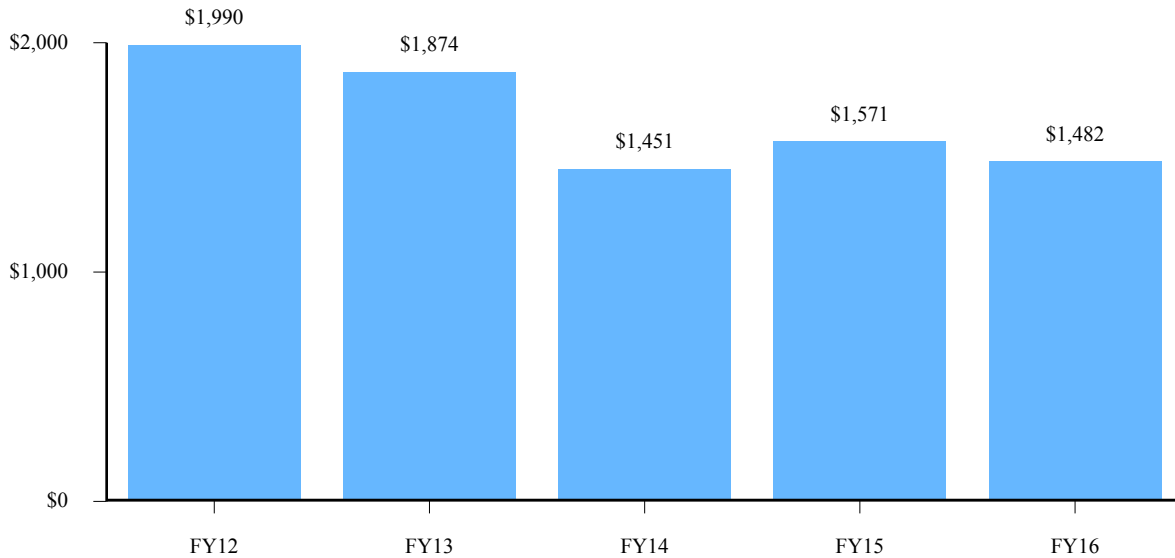
Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.486 billion, an increase of \$482 million or 48.0%, primarily due to an increase in transfers to the Medical Assistance Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) totaled \$2.503 billion, an increase of \$216 million, or 9.5%, as the Commonwealth increased its pension contribution by 10%, or \$179 million, over FY15. Spending for direct local aid (both education aid and unrestricted aid), at \$5.568 billion, was up \$147 million, or 2.7%, from FY15.

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 Budgeted Funds - Operations table isolates this “interfund” activity from the budgeted sources and subtracts this revenue and spending to align forecasts prepared during the budget process to actual amounts in this report. In FY16, transfers among the Budgeted Funds totaled \$473 million, a decrease of \$262 million, or 35.7%, with the decline due primarily to reduced transfers to and from the Stabilization Fund during the fiscal year. 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)

	2016	2015
Beginning fund balances:		
Reserved and designated .....	\$ 225,993	\$ 190,032
Reserved for Stabilization Fund .....	1,252,429	1,248,435
Undesignated .....	92,264	12,075
<b>Total .....</b>	<b>1,570,686</b>	<b>1,450,542</b>
Revenues and other financing sources:		
Taxes .....	23,616,920	23,173,799
Federal reimbursements .....	10,642,720	9,480,404
Departmental and other revenues, including tobacco settlement .....	4,257,203	3,852,782
Interfund transfers from non-budgeted funds and other financing sources .....	1,848,709	1,729,489
<b>Budgeted revenues and other financing sources .....</b>	<b>40,365,552</b>	<b>38,236,474</b>
Intragovernmental Service Fund revenues .....	385,270	362,058
Interfund transfers among budgeted funds and other financing sources .....	87,628	373,330
<b>Total revenues and other financing sources .....</b>	<b>40,838,450</b>	<b>38,971,862</b>
Expenditures and other financing uses:		
Programs and services .....	34,290,355	32,634,516
Debt service .....	2,174,307	2,190,405
Post employment benefits .....	2,503,377	2,287,113
Interfund transfers to non-budgeted funds and other financing uses .....	1,486,206	1,004,296
<b>Budgeted expenditures and other financing uses .....</b>	<b>40,454,245</b>	<b>38,116,330</b>
Intragovernmental Service Fund expenditures .....	385,270	362,058
Interfund transfers among budgeted funds and other financing uses .....	87,628	373,330
<b>Total expenditures and other financing uses .....</b>	<b>40,927,143</b>	<b>38,851,718</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	(88,693)	120,144
Ending fund balances:		
Reserved and designated .....	126,018	225,993
Reserved for Stabilization Fund .....	1,291,514	1,252,429
Undesignated .....	64,461	92,264
<b>Total .....</b>	<b>\$ 1,481,993</b>	<b>\$ 1,570,686</b>

***Budgeted Funds – Fund Balance (Including Stabilization Fund)***  
***(Amounts in millions)***



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

As of June 30, 2016, the ending balance is comprised mainly of the fund balance of the General Fund and the Stabilization Fund. Due to designations of fund balances, \$126 million of the total budgeted fund balance, exclusive of the Stabilization Fund, is reserved for appropriations and debt service in FY17. The remaining \$64 million is undesignated in the budgeted funds that are not included in the consolidated net surplus calculation, with \$45 million of that balance in the Community First Trust Fund, which funds home and community-based services under the state’s federally reimbursed Medicaid program.

***Lottery and Gaming***

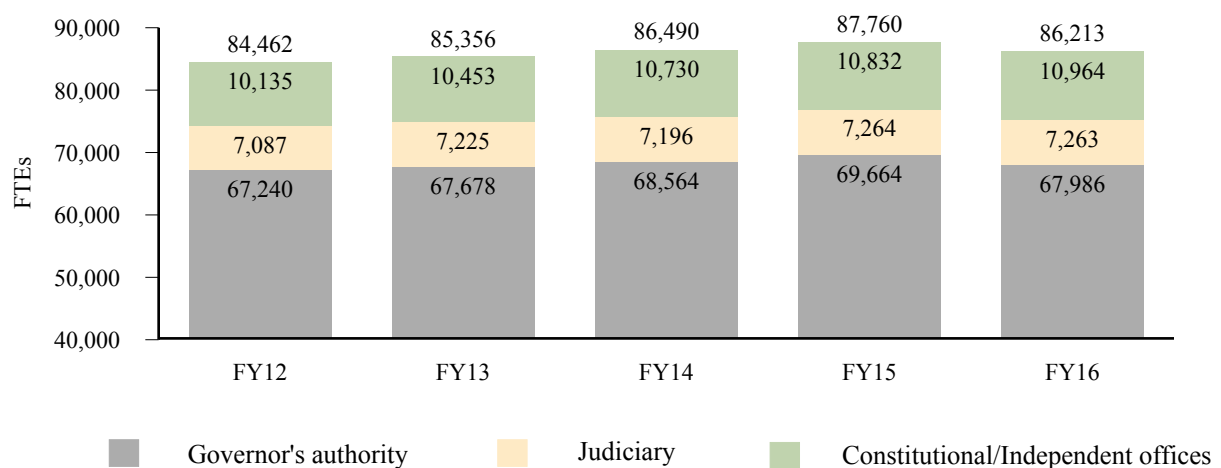
Gross Lottery revenues (including revenues from the Arts Lottery) grew from \$5.195 billion in FY15 to \$5.407 billion in FY16, an increase of \$212 million, or 4.1%. Lottery profits, after deducting administrative expenses and fringe benefit charges to reimburse the Commonwealth’s General Fund for pension and employee health insurance benefits, but prior to distributions to reimburse the Massachusetts Cultural Council and compulsive gamblers appropriation as mandated in the FY16 budget, totaled \$989 million, an increase of \$5 million, or 0.5%, from FY15. Of that \$989 million in profits, and as mandated in the FY16 General Appropriation Act, approximately \$875 million was transferred to the General Fund to reimburse it for so-called Unrestricted General Government Aid (formerly Lottery Local Aid), \$12 million reimbursed the Massachusetts Cultural Council appropriation, and \$1.5 million reimbursed a compulsive gambling prevention program appropriation. The remaining \$99 million after these reimbursements was transferred to the General Fund as unrestricted revenue to fund general state operations. The FY17 General Appropriation Act contains provisions for approximately \$1.022 billion in Unrestricted General Government Aid, of which \$958 million is to be paid from the General Fund and reimbursed by Lottery profits.

FY16 was the first year in which significant tax revenues were collected on profits generated by slot machines at the Plainridge slots parlor, which opened on June 24, 2015. FY16 budgeted fund tax revenues remitted to the Commonwealth, which are equal to 40% of gross profits (or “gross gaming revenues”) from the slot machines, totaled approximately \$64 million, which was earmarked for local aid; an additional \$14 million in non-budgeted fund revenue, equal to 9% of gross gaming revenue from the slot machines, was earmarked for advancement of horse racing. The FY17 budget also relies on \$64 million in budgeted fund revenue from taxes on slots parlor profits.

### Full-Time Equivalent Employment

The chart below shows the Commonwealth’s full-time equivalent employment, including the Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal, and trust) over the past five fiscal years. In FY16, the number of Commonwealth employees decreased by approximately 1,547 full-time equivalent employees (FTEs), to a total of 86,213, with most of the decreases in health and human services (approximately 502 FTEs), MassDOT (approximately 352 FTEs), administration and finance (approximately 387 FTEs), labor and workforce development (approximately 270 FTEs), public safety (approximately 244 FTEs) and environmental affairs (approximately 150 FTEs). These declines were due primarily to the early retirement incentive program (ERIP) enacted during FY15, under which participating employees were required to leave the state payroll by June 30, 2015. The ERIP program reduced the state workforce by approximately 2,478 FTEs.

**Full Time Equivalent Workforce  
Including Higher Education  
June 2012 – June 2016**



### The Stabilization Fund

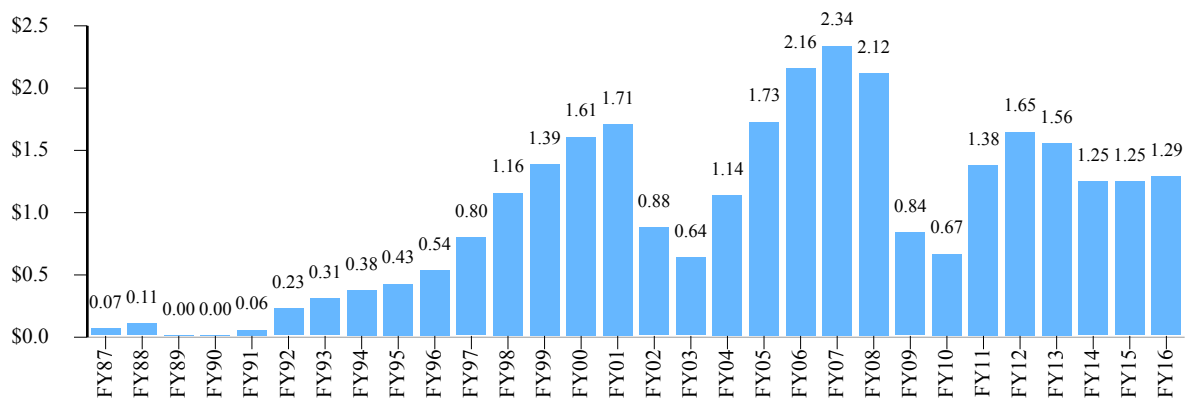
In FY16, the Commonwealth made no withdrawals from the Stabilization (or rainy day) Fund. Per a statutory provision that requires the Commonwealth to deposit to the Stabilization Fund annual increases in abandoned property revenues, a transfer of \$27 million in such revenue was made to the rainy day fund. During FY16, the Stabilization Fund also earned \$11 million in investment income and received a small amount of tax revenue. As a result, the balance of the Stabilization Fund increased by \$39 million, to \$1.292 billion, between FY15 and FY16.

As part of an effort to ensure a statutorily balanced budget, the FY16 enacted budget included a provision suspending a statutory requirement to transfer tax revenue attributable to capital gains above a threshold to the Stabilization Fund, State Pension Liability Fund, and State Retiree Benefits Trust Fund. The FY16 capital gains tax threshold, as determined by the Department of Revenue, was \$1.087 billion. In July 2016, the Department of Revenue certified that FY16 tax collections attributable to capital gains totaled \$1.370 billion, meaning that \$283 million in capital gains tax revenue was retained in the General Fund that otherwise would have been transferred to the Stabilization Fund, State Pension Liability Fund, and the State Retiree Benefits Trust Fund. In December 2016, the Department of Revenue estimated that the capital gains tax threshold for FY17 is \$1.128 billion. However, the FY17 General Appropriation Act again temporarily suspended the capital gains transfer requirement for FY17, replacing it with a statutory requirement that FY17 capital gains tax revenues in excess of \$1.278 billion be transferred to the Stabilization Fund. The tax revenue

estimate assumed in the FY17 enacted budget projects that no capital gains tax revenue will be transferred to the Stabilization Fund in FY17.

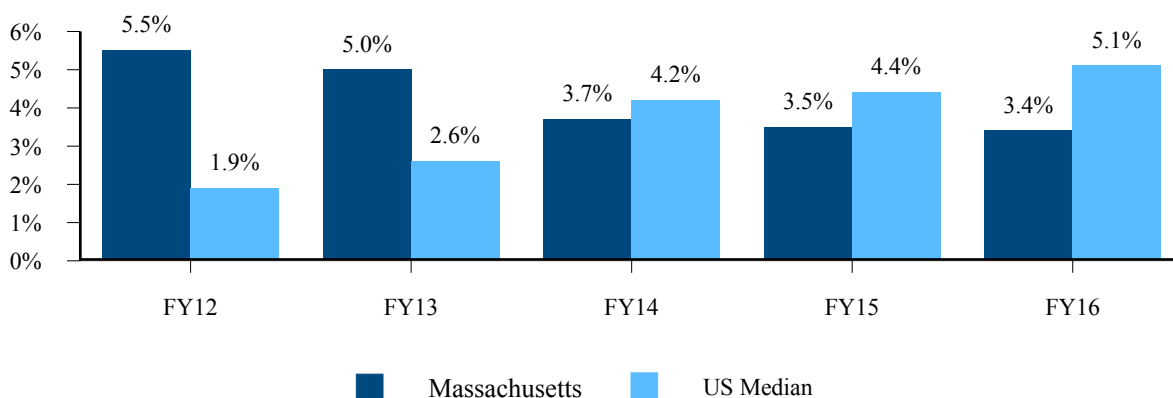
The chart below, which shows the Stabilization Fund balances since the Fund's inception, indicates that the Fund balance increased by more than \$709 million in FY11 and \$273 million in FY12 as the Commonwealth emerged from the recession, but declined by \$95 million in FY13 and \$308 million in FY14, increased by \$4 million in FY15 and \$39 million in FY16. According to The National Association of State Budget Officers' (NASBO) *Fiscal Survey of the States*, the Commonwealth ranked ninth in the nation at the end of FY15 (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. Six states had no stabilization fund balance at the end of FY15. According to the *Survey* and the Commonwealth's results shown in this report, Massachusetts will still have the ninth largest Stabilization Fund balance at the end of FY16 once all 50 states close their books on the fiscal year.

**Stabilization Fund Balance**  
(Amounts in \$ billions)



The chart below shows the Commonwealth's Stabilization Fund balance as a percentage of General Fund expenditures compared to the median of all 50 states as reported in the NASBO survey. (The median is a better measure than the average of all states because Alaska and Texas -- whose revenue streams have benefited from strong oil revenues in recent years -- together accounted for almost half of all stabilization fund balances nationally in FY16.) By that measure, Massachusetts's Stabilization Fund balance of 3.4% of General Fund expenditures as of the end of FY16 was below the estimated national median of 5.1% of expenditures.

**Stabilization Fund Percentage of General Fund Expenditures Compared To US Median**



Massachusetts maintains a Stabilization Fund balance that is larger than that of many states and in FY16 made a \$39 million deposit to the Fund. However, the Commonwealth drew down the Fund's balance between FY12 and FY14 as its economy recovered from recession, despite strong tax revenue growth in those years. The Stabilization Fund's balance has not yet been restored to pre-recession levels, thus potentially leaving the Commonwealth vulnerable if another economic downturn occurs. While credit rating agencies have continued to maintain the Commonwealth's strong bond rating, they have identified the state's reliance on reserves in those years as an area requiring improvement. On a positive note, the FY17 General Appropriation Act assumes that for the second consecutive year the Commonwealth will not withdraw funds from the Stabilization Fund to help balance the operating budget.

***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 FY16, the Commonwealth maintained 95 non-budgeted funds, while another 22 were inactive.

The largest non-budgeted funds in terms of operating revenues include the Lottery Fund, the Federal Grants Fund, the Medical Assistance Trust Fund, and the Commonwealth Care Trust Fund. Other funds that show large inflows include the Grant Anticipation Notes Trust Fund, funded by federal highway spending reimbursements, and the "pass-through" MBTA State and Local Contribution Trust Fund (which accounts for sales tax revenue dedicated to and transferred to the MBTA) and School Modernization Trust Fund (which accounts for sales tax revenue dedicated to and transferred to Massachusetts School Building Authority).

The following table, Non-Budgeted Special Revenue Funds - Operations, summarizes the FY16 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. The table includes the State Lottery Funds, where Lottery revenues and expenditures occur prior to Lottery profits being transferred to the General Fund to reimburse it for local aid and other appropriations.

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

	2016	2015
Beginning fund balance .....	\$ 2,125,275	\$ 2,269,864
Revenues and other financing sources:		
Taxes .....	2,183,221	2,065,570
Assessments .....	638,305	607,975
Federal grants and reimbursements .....	3,162,489	2,993,570
Departmental and miscellaneous .....	6,740,599	6,355,358
Transfers and other financing sources .....	1,535,799	1,121,520
Total revenues and other financing sources .....	14,260,413	13,143,993
Expenditures and other financing uses:		
Programs and services .....	11,947,924	10,919,380
Debt service .....	295,811	316,777
Transfers and other financing uses .....	2,075,043	2,052,425
Total expenditures and other financing uses .....	14,318,778	13,288,582
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	(58,365)	(144,589)
Ending fund balance .....	\$ 2,066,910	\$ 2,125,275



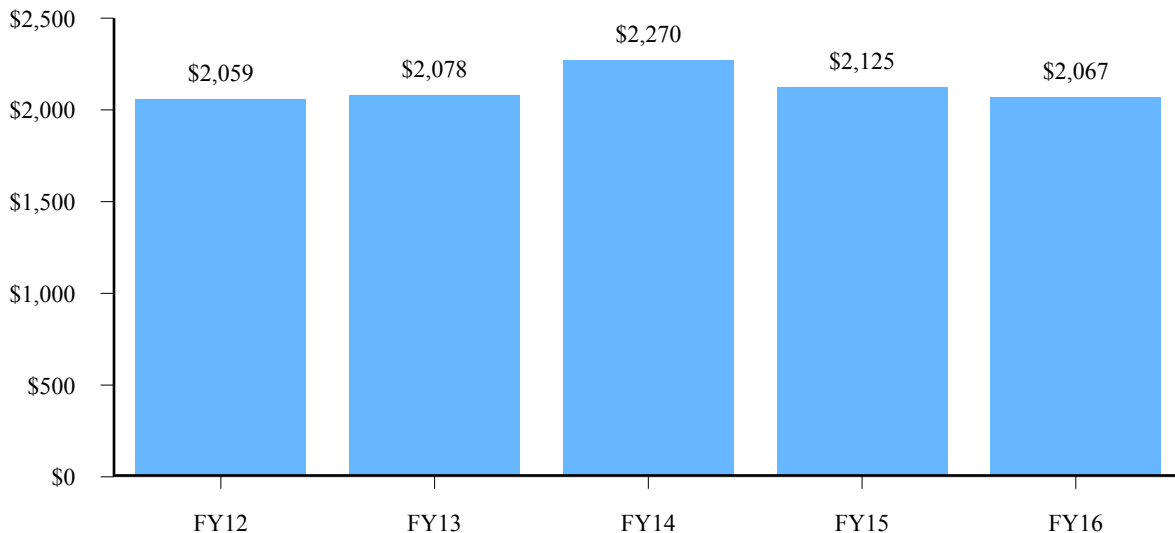
Non-Budgeted Special Revenue Funds with operating deficits in excess of \$10 million include:

- \$113 million – Debt Defeasance Trust Fund, which used revenue deposited at the end of FY15 to fund FY16 debt service;
- \$30 million – Convention and Exhibition Center Fund;
- \$16 million – Massachusetts Transportation Trust Fund;
- \$15 million – Federal Grants Fund;
- \$10 million – Health Information Technology Trust Fund.

In FY16, \$43 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 financed through Federal Grant Anticipation Notes (GANs). In addition, approximately \$33 million in interest payments for the GANs were funded by a General Fund appropriation.

For the eleven Universal Health Care funds, revenues and other financing sources were \$1.910 billion in FY16, an increase of approximately \$865 million from FY15. This increase was due primarily to a \$799 million increase in transfers to the Medical Assistance Trust Fund. Expenditures from the Universal Health Care funds totaled \$1.820 billion, an increase of \$771 million from FY15, due primarily to an increase of \$798 million in spending from the Medical Assistance Trust Fund, which funds payments to hospitals that treat large populations of Medicaid-eligible patients. The following chart, Non-Budgeted Special Revenue Funds - Fund Balance, shows the combined fund balance in the Non-Budgeted Special Revenue funds for the past five years.

***Non-Budgeted Special Revenue Funds – Fund Balance***  
***(Amounts in millions)***



Individual non-budgeted funds that represent approximately 85% of total non-budgeted fund balances include:

- \$818 million – Massachusetts Transportation Trust Fund;
- \$390 million – Central Artery/Tunnel Project Repair and Maintenance Trust Fund;

- \$123 million – Enhanced 911 Fund;
- \$97 million – Health Safety Net Trust Fund;
- \$89 million – Convention and Exhibition Center Fund;
- \$87 million – Grant Anticipation Note Trust Fund;
- \$83 million – Distressed Hospital Trust Fund;
- \$60 million – Commonwealth Care Trust Fund.

As noted in previous reports, the Government Land Bank Fund has a continuing structural fund deficit. The FY16 deficit balance of approximately \$35 million remains an unbudgeted drain on the Commonwealth’s cash pool. 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. More consolidation and elimination is needed for the non-budgeted special revenue funds generally.

### ***The Capital Projects Funds***

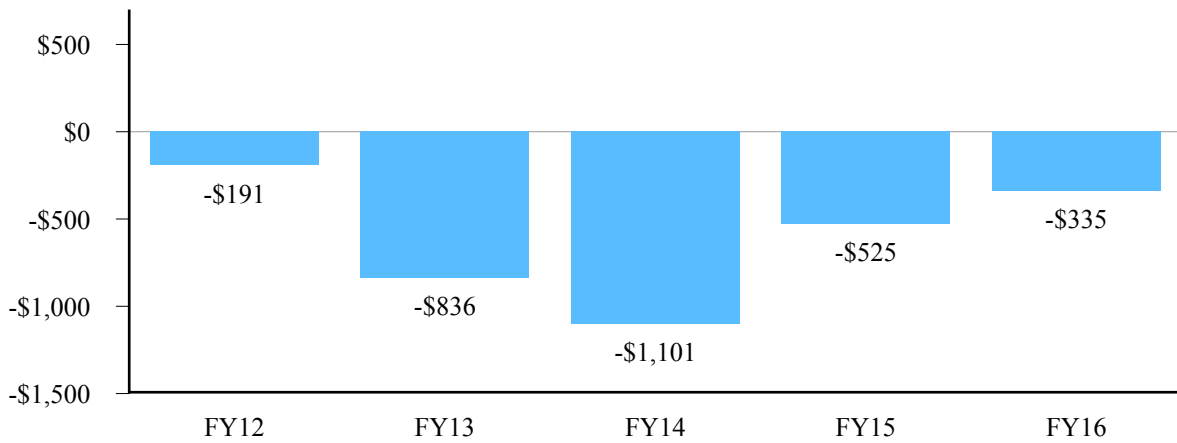
The purpose of these funds is to account for the construction or acquisition of capital assets. The Governor may propose capital outlay budgets which, upon enactment by the Legislature and approval by the Governor, become capital outlay acts. Capital outlay acts financed through the sale of debt require 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 expenditures. Imbalances due to timing differences develop when the expenditure precedes the inflow of funds from the sale of bonds or federal reimbursements. Due to restrictions imposed by federal tax arbitrage rules, tax exempt bonds are not routinely sold in anticipation of expenditures.

To fund the FY16 capital budget, the Commonwealth borrowed by issuing \$2.759 billion in long-term bonds, \$2.259 billion of which was general obligation debt and \$500 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$1.463 billion in debt to refund already existing obligations, taking advantage of continued low interest rates in FY16.

The graph Capital Projects Funds - Fund Balance (Deficit) on the next page shows the combined fund balance in Capital Projects Funds for the past five years. Typically, the combined ending balance in the Capital Projects Funds is negative, as capital spending occurs prior to bonds being issued by the Commonwealth. At the end of FY16, the Capital Projects Funds had a \$335 million deficit balance (including \$623 million in accounts payable), as at the end of the fiscal year the Commonwealth had not yet reimbursed itself for capital spending that it typically funds in arrears through subsequent bond issues. That deficit was eliminated in September 2016 when the Commonwealth issued \$550 million in General Obligation bonds.

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



The Capital Projects Funds - Operations table below includes the FY16 Capital Projects Funds, summarized and compared to FY15. Financial statements for each of the individual funds are included in the financial section of this report.

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

	2016	2015
Beginning fund balance (deficit) .....	\$ (524,860)	\$ (1,101,197)
Revenues and other financing sources:		
Federal grants and reimbursements .....	85,759	81,475
Departmental .....	2,922	3,004
Miscellaneous .....	1,350	649
Departmental and miscellaneous .....	4,272	3,653
Proceeds of general and special obligation bonds .....	3,002,758	3,404,176
Proceeds of refunding bonds .....	1,674,030	707,386
Transfer for federal reimbursements .....	500,929	468,040
Transfers and other financing sources .....	93,736	55,410
Total revenues and other financing sources .....	5,361,484	4,720,140
Expenditures and other financing uses:		
Acquisition and maintenance of capital assets .....	3,390,064	3,368,281
Payments to advance refunding escrow agent/principal repayment .....	1,674,030	707,386
Transfers and other financing uses .....	107,228	68,136
Total expenditures and other financing uses .....	5,171,322	4,143,803
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	190,162	576,337
Ending fund balance (deficit) .....	\$ (334,698)	\$ (524,860)

The Administration oversees a coordinated fiscal strategy for the management of Capital Projects Funds. This strategy includes a five year capital budget linked to debt management and capital management. The focus of this strategy is to manage capital spending within outstanding debt levels and debt service obligations the Administration considers appropriate for the Commonwealth. An important part of the strategy is to control capital spending within an administrative “cap.”

During FY16, significant capital spending included:

- \$348 million in Bridge Repair projects under the Commonwealth’s Accelerated Bridge Program;
- \$315 million in Special Transit Projects, including the Green Line Extension and procurement of new vehicles for the Red & Orange Line;
- \$223 million in Chapter 90 reimbursements to municipalities for local road and bridge projects;
- \$206 million invested in new academic buildings and improvements to existing facilities on several community college, state university and University of Massachusetts campuses. The Commonwealth’s spending leveraged an additional \$66 million in University investments in FY16;
- \$76 million for the MassWorks economic development infrastructure grants to cities and towns;
- \$54 million for environmental community investment, critical coastal infrastructure, and land protection grants;
- \$52 million for grants from the Massachusetts Life Sciences Center;
- \$46 million spent statewide on deferred maintenance for state facilities;
- \$41 million for “Accelerated Energy Program” projects that improve the efficiency of state facilities’ heating, electrical, and water systems;
- \$20 million for the MassTaxConnect electronic tax filing system, which began accepting business tax filings in FY16;
- \$13 million for Seaport Council Grants to foster economic development in coastal communities;
- \$12 million for the expansion of the Women’s Recovery from Addictions Program at Taunton State Hospital;
- \$12 million for Workforce Skills grants to vocational high schools and community colleges.

During FY16, the Commonwealth passed or agreed to terms for approximately \$200 million in bond authorizations and deauthorized approximately \$110 million in previously enacted bond authorizations.

### ***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.

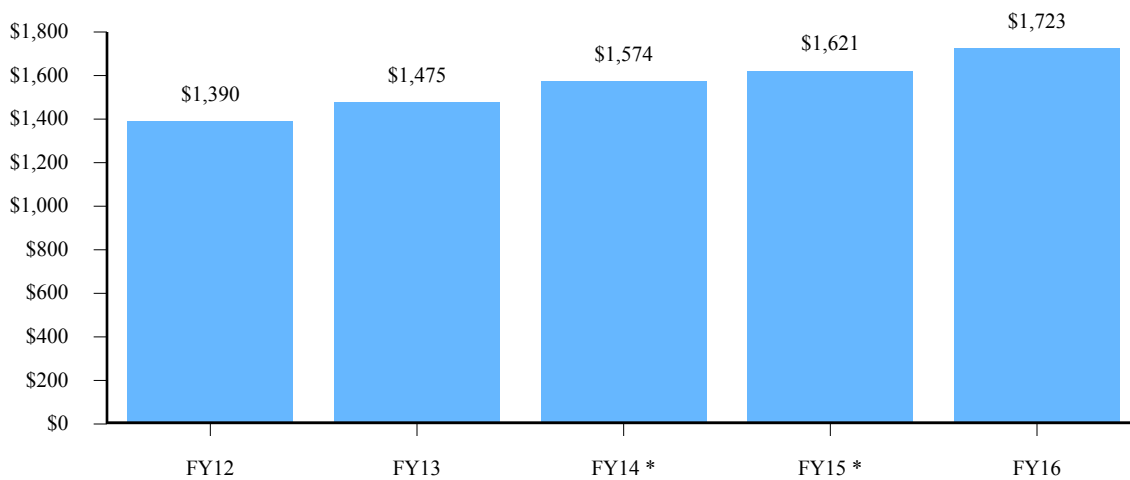
**Non-Appropriated Funds Of Higher Education - Operations**  
**(Amounts in thousands)**

	2016	2015 Restated*
Beginning fund balance .....	\$ 1,621,183	\$ 1,574,205
Revenues and other financing sources:		
Federal grants and reimbursements .....	515,907	532,948
Departmental revenues .....	2,217,341	2,075,768
Transfers and other financing sources .....	1,900,951	1,679,194
Total revenues and other financing sources .....	4,634,200	4,287,910
Expenditures and other financing uses:		
Programs and services .....	4,531,953	4,240,932
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses .....	102,247	46,978
Ending fund balance .....	<u>\$ 1,723,430</u>	<u>\$ 1,621,183</u>

\*FY15 was restated by approximately \$7 million for activities previously unreported

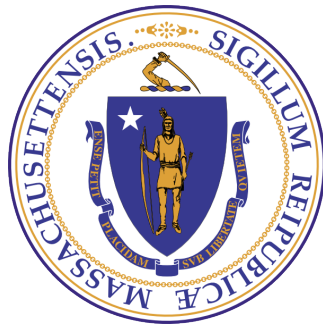
The Non-Appropriated Funds of Higher Education – Operations table above includes the FY16 activity in Higher Education funds, summarized and compared to FY15. Financial statements for each of the individual funds are included in the statistical section of this report. The following chart, Non-Appropriated Funds of Higher Education - Fund Balance, shows the combined fund balance for the past five years. The combined balance represents an approximate \$921 million fund balance for the University of Massachusetts, an approximate \$482 million fund balance for the State University (formerly the State College) system and an approximate \$321 million fund balance for the Community Colleges.

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



\*FY14 and FY15 were restated due to amounts previously unreported

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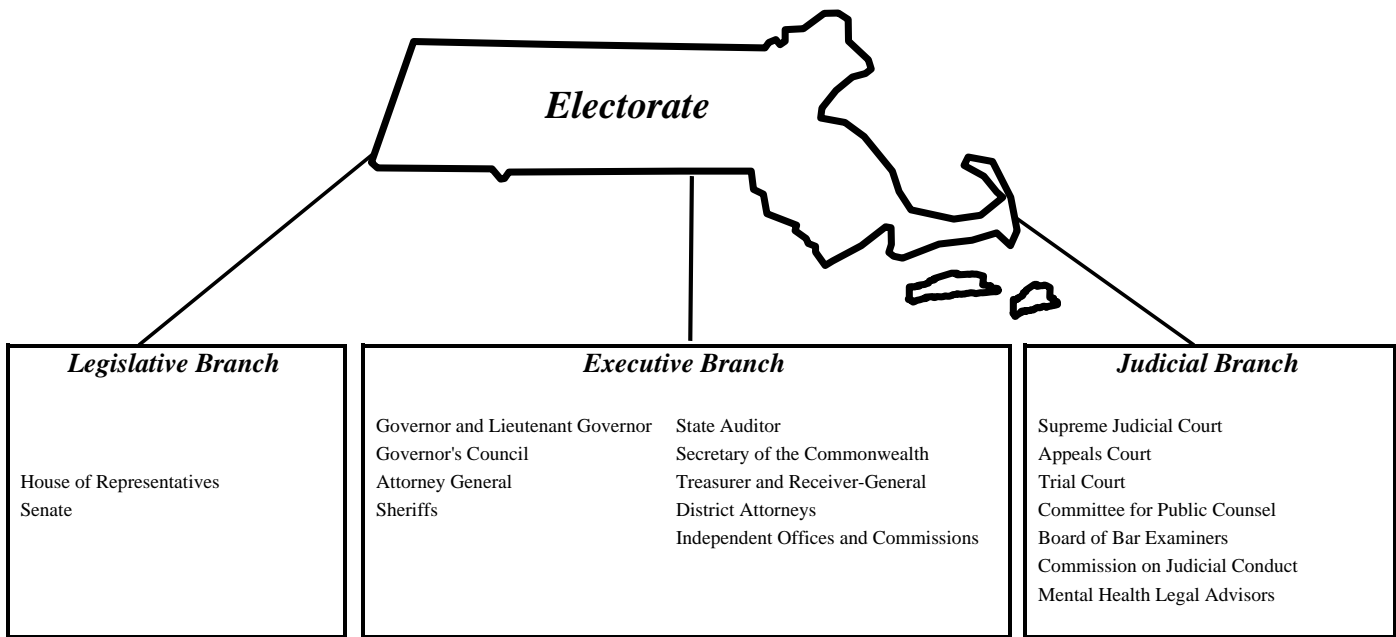
Robert A. DeLeo  
*Speaker of the House*

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*Chief Justice, Supreme Judicial Court*

Scott L. Kafker  
*Chief Justice, Appeals Court*

Lewis H. Spence  
*Court Administrator, Trial Court*



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



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**REPORT PREPARED BY:**

Howard Merkowitz  
*Deputy Comptroller*

**Financial Reporting and Analysis**

Michael Rodino, CPA  
*Director*

Bhavdeep J. Trivedi  
*Director Emeritus of the Financial Reporting Group*

Pauline Lieu, CPA, CFE, CGFM  
*Accountant*

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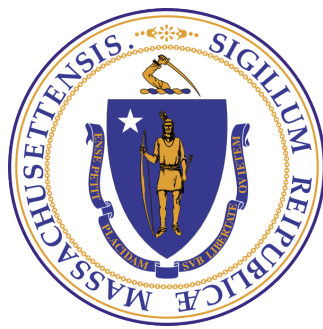


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# *Financial Section*



Independent Accountants' Review Report  
Combined Financial Statements - Statutory Basis  
Notes to Combined Financial Statements - Statutory Basis  
Combining and Individual Fund Financial Statements - Statutory Basis



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

## **Independent Accountants' Review Report**

Mr. Thomas G. Shack III, 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, 2016, and related notes as listed in the accompanying 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's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the combined financial statements – statutory basis in accordance with Massachusetts General Laws (hereafter referred to as the Statutory Basis of Accounting); this includes determining that the Statutory Basis of Accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements –statutory basis that are free from material misstatement, whether due to fraud or error.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement 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 as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements – statutory basis for them to be in accordance with the Statutory Basis of Accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements – statutory basis in order for them to be in conformity with the Statutory Basis of Accounting.

### **Basis of Accounting**

We draw attention to notes 1 and 2 of the combined financial statements – statutory basis which describes the Statutory Basis of Accounting. The combined financial statements – statutory basis were prepared on the basis of accounting that demonstrates compliance with Section 12 of Chapter 7A Massachusetts General Laws, as amended, and the budgetary principles of the Commonwealth of Massachusetts, which is a basis of accounting other than U.S. generally accepted accounting principles. Our conclusion is not modified with respect to this matter.



### **Other Matter**

The introductory section, combining and individual fund financial statements - statutory basis, supplemental information, and statistical section listed in the accompanying table of contents are presented for purposes of additional analysis and are not required parts of the combined financial statements – statutory basis. Such information is the representation of management.

We have reviewed the combining and individual fund financial statements – statutory basis and supplemental information, and based on our review, we are not aware of any material modifications that should be made to such information in order for it to be in accordance with the Statutory Basis of Accounting. We have not audited the information and accordingly, do not express an opinion on such information.

We have not audited or reviewed the introductory and statistical sections and, accordingly, we do not express an opinion, a conclusion, or provide any assurance on such information.

### **Restriction on Use**

This report is intended solely for the information and use of elected and appointed officials of the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2016

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# *Combined Financial Statements - Statutory Basis*



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

June 30, 2016  
 (Amounts in thousands)

	Totals (Memorandum only)	
	2016	2015
<b>ASSETS</b>		
Cash and short-term investments .....	\$ 1,609,305	\$ 1,544,284
Cash with fiscal agent .....	16,690	13,903
Investments .....	271,744	264,426
Receivables, net of allowance for uncollectibles:		
Due from federal government .....	377,724	712,911
Other receivables .....	38,823	11,274
Due from cities and towns .....	23,268	19,722
Total assets .....	<u>\$ 2,337,554</u>	<u>\$ 2,566,520</u>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Deficiency in cash and short-term investments .....	\$ 15,108	\$ —
Accounts payable .....	777,367	803,302
Accrued payroll .....	63,086	192,532
Total liabilities .....	<u>855,561</u>	<u>995,834</u>
Fund equity:		
Combined fund balance:		
Reserved for:		
Continuing appropriations .....	109,328	212,090
Commonwealth Stabilization .....	1,291,514	1,252,429
Debt service .....	16,690	13,903
Unreserved:		
Undesignated .....	64,461	92,264
Total fund equity .....	<u>1,481,993</u>	<u>1,570,686</u>
Total liabilities fund equity .....	<u>\$ 2,337,554</u>	<u>\$ 2,566,520</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, 2016

(Amounts in thousands)

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Revenues:			
Taxes .....	\$ 23,940,379	\$ 23,616,920	\$ (323,459)
Assessments .....	431,489	419,382	(12,107)
Federal grants and reimbursements .....	10,260,069	10,642,720	382,651
Tobacco settlement revenue .....	272,049	257,616	(14,433)
Departmental .....	3,133,589	3,579,470	445,881
Miscellaneous .....	305,081	386,005	80,924
Total revenues .....	<u>38,342,656</u>	<u>38,902,113</u>	<u>559,457</u>
Other financing sources:			
Fringe benefit cost recovery .....	290,509	365,659	75,150
Lottery reimbursements .....	100,604	107,935	7,331
Lottery distributions .....	920,542	975,254	54,712
Operating transfers in .....	560,431	345,200	(215,231)
Commonwealth care trust transfer .....	—	44,482	44,482
Stabilization transfer .....	—	27,100	27,100
Other fund deficit support .....	—	70,707	70,707
Total other financing sources .....	<u>1,872,086</u>	<u>1,936,337</u>	<u>64,251</u>
Total revenues and other financing sources .....	<u>40,214,742</u>	<u>40,838,450</u>	<u>623,708</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Expenditures:			
Legislature .....	91,447	61,368	30,079
Judiciary .....	888,211	878,664	9,547
Inspector General .....	4,459	4,315	144
Governor and Lieutenant Governor .....	10,590	6,603	3,987
Secretary of the Commonwealth .....	40,561	39,322	1,239
Treasurer and Receiver-General .....	212,143	205,226	6,917
Auditor of the Commonwealth .....	18,356	18,354	2
Attorney General .....	45,544	44,265	1,279
Ethics Commission .....	2,069	2,034	35
District Attorney .....	119,262	114,087	5,175
Office of Campaign & Political Finance .....	1,536	1,516	20
Sheriff's Departments .....	605,053	603,220	1,833
Disabled Persons Protection Commission .....	2,943	2,943	—
Board of Library Commissioners .....	25,333	25,333	—
Comptroller .....	14,539	13,911	628
Administration and Finance .....	2,675,684	2,299,220	376,464
Energy and Environmental Affairs .....	238,385	222,851	15,534
Health and Human Services .....	5,688,087	5,530,514	157,573
Massachusetts Department of Transportation .....	187,020	171,437	15,583
Office of the Child Advocate .....	790	595	195
Executive Office of Education .....	2,327,102	2,281,321	45,781
Center for Health Information and Analysis .....	32,563	26,625	5,938
Public Safety and Security .....	1,156,023	1,121,829	34,194
Housing and Economic Development .....	588,660	536,247	52,413
Labor and Workforce Development .....	78,004	45,082	32,922
Direct local aid .....	5,570,730	5,567,738	2,992
Medicaid .....	14,851,052	14,851,007	45
Post employment benefits .....	2,426,093	2,503,377	(77,284)
Debt service:			
Principal retirement .....	1,357,149	1,288,270	68,879
Interest and fiscal charges .....	930,143	886,037	44,106
Total expenditures .....	<u>40,189,531</u>	<u>39,353,310</u>	<u>836,221</u>
Other financing uses:			
Fringe benefit cost assessment .....	—	4,485	(4,485)
Operating transfers out .....	703,919	646,170	57,749
Stabilization transfer .....	—	—	—
Medical assistance transfer .....	1,027,500	665,564	361,936
Delivery system transformation initiatives trust transfer .....	189,142	186,907	2,235
Other fund deficit support .....	—	70,707	(70,707)
Total other financing uses .....	<u>1,920,561</u>	<u>1,573,833</u>	<u>346,728</u>
Total expenditures and other financing uses .....	<u>42,110,092</u>	<u>40,927,143</u>	<u>1,182,949</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(1,895,350)	(88,693)	1,806,657
Fund balance (deficit) at beginning of year .....	1,570,686	1,570,686	—
Fund balance (deficit) at end of year .....	<u>\$ (324,664)</u>	<u>\$ 1,481,993</u>	<u>\$ 1,806,657</u>

See accompanying notes to financial statements and accountants' review report

**Non-Budgeted Special Revenue and Capital Projects Funds**  
 Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis  
 Fiscal Year Ended June 30, 2016  
 (Amounts in thousands)

	Non-Budgeted Special Revenue	Capital Projects	Totals (Memorandum only)	
			2016	2015
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes	\$ 2,183,221	\$ —	\$ 2,183,221	\$ 2,065,570
Assessments	638,305	—	638,305	607,975
Federal grants and reimbursements	3,162,489	85,759	3,248,248	3,075,045
Departmental	6,402,887	2,922	6,405,809	6,255,994
Miscellaneous	337,712	1,350	339,062	103,017
Total revenues	<u>12,724,614</u>	<u>90,031</u>	<u>12,814,645</u>	<u>12,107,601</u>
Other financing sources:				
Issuance of general obligation bonds	—	2,259,209	2,259,209	2,671,507
Bond premiums (discounts) on general obligation bonds	—	184,014	184,014	198,987
Issuance of special obligation bonds	—	500,000	500,000	447,310
Bond premiums (discounts) on special obligation bonds	—	59,535	59,535	86,372
Issuance of current refunding bonds	—	250,000	250,000	202,895
Issuance of advance refunding bonds	—	1,212,655	1,212,655	429,445
Bond premiums (discounts) on advance refunding bonds	—	211,375	211,375	75,046
Operating transfers in	653,328	—	653,328	934,374
Health safety net trust transfer	30,000	—	30,000	—
Medical assistance transfer	665,564	—	665,564	70,975
Federal reimbursement transfer in	—	500,929	500,929	468,040
State share of federal highway construction	—	93,736	93,736	171,581
Delivery system transformation initiatives trust transfer	186,907	—	186,907	—
Total other financing sources	<u>1,535,799</u>	<u>5,271,453</u>	<u>6,807,252</u>	<u>5,756,532</u>
Total revenues and other financing sources	<u>14,260,413</u>	<u>5,361,484</u>	<u>19,621,897</u>	<u>17,864,133</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary	2,279	14,690	16,969	13,038
Inspector General	264	—	264	459
Governor and Lieutenant Governor	112	188	300	184
Secretary of the Commonwealth	4,825	1,535	6,360	6,987
Treasurer and Receiver-General	6,264,536	13,749	6,278,285	6,019,535
Auditor of the Commonwealth	—	2,333	2,333	3,272
Attorney General	18,231	365	18,596	12,685
Ethics Commission	—	627	627	94
District Attorney	2,338	—	2,338	1,830
Office of Campaign & Political Finance	—	—	—	1,055
Sheriff's Departments	9,632	3,572	13,204	14,188
Disabled Persons Protection Commission	66	—	66	—
Board of Library Commissioners	2,915	19,440	22,355	23,356
Massachusetts Gaming Commission	33,692	—	33,692	21,072
Comptroller	2,381	395	2,776	5,532
Administration and Finance	379,029	653,288	1,032,317	1,161,918
Energy and Environmental Affairs	168,668	235,121	403,789	401,236
Health and Human Services	2,074,966	47,140	2,122,106	1,269,777
Massachusetts Department of Transportation	1,113,180	2,002,480	3,115,660	3,125,391
Executive Office of Education	986,175	52,554	1,038,729	1,003,910
Center for Health Information and Analysis	222	—	222	1,157
Public Safety and Security	232,465	41,227	273,692	259,048
Housing and Economic Development	487,688	296,261	783,949	761,854
Labor and Workforce Development	164,260	5,099	169,359	180,083
Debt service:				
Principal retirement	196,594	—	196,594	204,219
Interest and fiscal charges	99,217	—	99,217	112,558
Total expenditures	<u>12,243,734</u>	<u>3,390,064</u>	<u>15,633,799</u>	<u>14,604,438</u>
Other financing uses:				
Payments to advance refunding bonds escrow	—	1,424,030	1,424,030	504,491
Principal on current refundings	—	250,000	250,000	202,895
Fringe benefit cost assessment	166,947	13,490	180,437	173,504
Lottery operating reimbursements	107,935	—	107,935	104,238
Lottery distributions	975,255	—	975,255	947,250
Operating transfers out	249,497	2	249,499	352,119
Stabilization transfer	—	—	—	20,000
Commonwealth care trust transfer	44,482	—	44,482	—
Health safety net trust transfer	30,000	—	30,000	—
Federal reimbursement transfer out	500,928	—	500,928	468,040
State share of federal highway construction	—	93,736	93,736	55,410
Total other financing uses	<u>2,075,044</u>	<u>1,781,258</u>	<u>3,856,302</u>	<u>2,827,947</u>
Total expenditures and other financing uses	<u>14,318,778</u>	<u>5,171,322</u>	<u>19,490,101</u>	<u>17,432,385</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	(58,365)	190,162	131,796	431,748
Fund balance (deficit) at beginning of year (restated)	2,125,275	(524,860)	1,600,415	1,168,667
Fund balance (deficit) at end of year	<u>\$ 2,066,910</u>	<u>\$ (334,698)</u>	<u>\$ 1,732,211</u>	<u>\$ 1,600,415</u>

See accompanying notes to financial statements and accountants' review report

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## 1. FINANCIAL STATEMENT PRESENTATION

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### A. INTRODUCTION

The accompanying combined financial statements (Statutory Basis Financial Report) of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A as amended by Section 4 of Chapter 88 of the Acts of 1997 of the Massachusetts General Laws, as amended most recently by Chapter 26, Section 4 of the Acts of 2009. The Office of the Comptroller also publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America for governments.

The Statutory Basis Financial Report (SBFR) includes the budgeted, non-budgeted, special revenue, and capital projects funds of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles.

The SBFR's financial statements are not intended to include independent authorities, non-appropriated funds of higher education, or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

### B. GOVERNMENTAL FUND TYPES

The fund types are organized as follows:

Governmental fund types account for the general governmental activities of the Commonwealth.

*Budgeted Funds* - are the primary operating funds of the Commonwealth. They account for all budgeted governmental transactions. Major budgeted funds include the General, Stabilization, and Commonwealth Transportation Funds, which are identified by the Comptroller as the operating funds of the Commonwealth. In addition, there are twelve smaller budgeted funds, the Intragovernmental Services Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Community First Trust Fund, the Massachusetts Tourism Fund, the Local Capital Projects Fund, the Gaming Local Aid Fund, the Local Aid Stabilization Fund, the Manufacturing Fund, and the Community College Fund.

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

*Capital Projects Funds* - account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived from proceeds of bonds and other obligations, which are generally received after related expenditures have been incurred, operating transfers authorized by the Legislature, and from federal reimbursements. Deficit balances in Capital Projects Funds represent amounts to be financed, primarily through future bond sales.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### A. STATUTORY BASIS OF ACCOUNTING

The SBFR is prepared from the Commonwealth's books and records and other official reports that are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and budgetary control of appropriations. The SBFR is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis of accounting, revenues generally are recognized when cash deposits are received by the Treasury. However, revenues receivable for federal grants and reimbursements generally are recognized when related

expenditures are incurred, provided that the related revenues are received by the Commonwealth by August 31, the end of the statutory accounts receivable period. Amounts due from political subdivisions of the Commonwealth are recognized when considered measurable and available. These are largely payments from municipalities reimbursing for pension costs paid by the Commonwealth on their behalf, authorized under Section 3(8)C of Chapter 32 of the Massachusetts General Laws, provided that the revenues are received by August 31. However, the FY16 final supplemental appropriations act (Chapter 283 of the Acts of 2016) required that the Comptroller record as FY16 revenues two payments from the Massachusetts Housing Financial Agency (MHFA) totaling \$9 million that were received in October 2016, after the accounts receivable period ended.

Under the statutory basis of accounting, expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30, and payment made by August 31. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

The accounting policies followed in preparing the accompanying statutory basis financial report are described in the remainder of this section.

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

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

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Fund. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Fund investments are carried at fair value.

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

### **C. DEDICATED REVENUE AND PLEDGES**

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

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 2011, 2014, and 2015. During FY16, there were no new GANs issued under the Commonwealth's Accelerated Bridge Program. As of June 30, 2016, total principal remaining to be paid was approximately \$657 million. Maturities are from FY17 through FY27. Debt service paid during FY16 was approximately \$75 million.

In FY16, the Commonwealth issued approximately \$50 million in special obligation bonds under the Accelerated Bridge Program (ABP) and \$450 million under the Rail Enhancement Program (REP). These bonds mature from FY17 to FY45 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), and the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited into the Commonwealth Transportation Fund (CTF). These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline

tax not included in the senior lien. As of June 30, 2016, approximately \$1.536 billion and \$450 million in principal was outstanding on the ABP and REP bonds, respectively, and approximately \$1.183 billion and \$358 million of interest (net of the federal subsidy) was expected to be paid through maturity related to the ABP and REP bonds, respectively.

The ABP projected interest costs are net of federal subsidies under the Build America Bond (BABs) program. BABs is a temporary program under which the Commonwealth and other state and local governments issued taxable bonds in calendar 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the bonds.

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 24 cent per gallon gasoline tax, with no new debt issued during FY16. As of June 30, 2016, bonds secured by these pledged funds totaled approximately \$171 million of principal. These bonds mature from FY17 to FY22 and were issued in multiple series. Principal and interest paid during FY16 amounted to approximately \$40 million and \$11 million, respectively. The lien on these bonds has been closed, meaning that no additional new-money bonds can be issued against these revenues under this trust agreement.

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1.0% sales tax (not including meals), subject to an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts having been dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Legislation approved by the Governor on October 31, 2014 increased the amount statutorily required to be credited to the MBTA by \$160 million annually, starting in fiscal 2015. The \$160 million increase in the dedicated sales tax revenue amount and the amount included in the inflation-adjusted floor were intended to replace the \$160 million annual state appropriation the MBTA received from fiscal 2010 through fiscal 2014. In FY16, total dedicated sales tax revenue that was directed to the MBTA was approximately \$986 million. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge starting in FY11 of a 1.0% sales tax (not including meals) but with no annual floor or ceiling. In FY16, approximately \$799 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, 2016, taxes within the Convention Center districts support approximately \$598 million of outstanding principal and approximately \$355 million of interest on debts related to these Convention Centers. Taxes collected in FY16 were approximately \$135 million, while debt service on the bonds was approximately \$55 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Beginning in FY14, motor vehicle sales tax collections were shifted from the General Fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY16, approximately \$536 million in sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$171 million was dedicated to funding the operations of the MBTA while an additional \$82 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

#### **D. INTERFUND/INTRAFUND TRANSACTIONS**

Transactions of a buyer/seller nature between departments within a fund are not eliminated.

Transfers in and out net to approximately \$15 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 \$366 million into the General Fund results from cost assessments from the other budgeted funds, non-budgeted special revenue funds, capital funds, 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.

“Designated 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, 2015, from which the summarized information was derived.

**N. ESTIMATES**

The preparation of the SBFR requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**O. RECLASSIFICATION**

Certain amounts for FY15 were reclassified to conform to current year presentation.

**P. BEGINNING OF YEAR FUND BALANCE**

The beginning balances of the General Fund and the Manufacturing Fund were restated to reflect the transfer of balances to the General Fund.

The beginning fund balance of the University of Massachusetts System and the combined Higher Education funds were restated to reflect activities which were not previously reported during fiscal year 2015.

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### 3. BUDGETARY CONTROL

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State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

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

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

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

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

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is required to pay certain Medicaid expenses regardless of appropriations, due to superseding federal law.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003) amended Section 9C, of Chapter 29, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. This proposal must be delivered to the Legislature 15 days before any reductions take effect. Alternatively, funds from the Stabilization Fund may be used to cure the deficiency, subject to appropriation.

The following table summarizes budgetary activity for FY16 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 46 of the Acts of 2015:		
Direct appropriations .....	\$ 38,146,700	\$ 37,842,036
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2015 .....	—	1,313,841
Total original budget .....	<u>38,146,700</u>	<u>39,155,877</u>
Supplemental Acts of 2015:		
Chapter 119 .....	—	565,925
Supplemental Acts of 2016:		
Chapter 70 .....	—	136,014
Chapter 155 .....	—	24,434
Chapter 283 .....	—	186,837
Total budgeted revenues and expenditures per Legislative action .....	<u>—</u>	<u>913,210</u>
Chapter 29, Section 9C Reductions .....	—	(46,995)
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending .....	2,068,042	2,088,000
Budgeted revenues and expenditures as reported .....	<u>\$ 40,214,742</u>	<u>\$ 42,110,092</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 .....	\$ 40,838,450	\$ 40,927,143
Adjustments to revenues and expenditures:		
Transfer of revenues to the Intragovernmental Service Fund .....	(385,270)	(385,270)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments .....	(4,485)	(4,485)
Transfer of surplus revenues from the Intragovernmental Service Fund to the General Fund .....	(8,721)	(8,721)
RMV license plates .....	(3,524)	(3,524)
Other fund deficit support .....	(70,708)	(70,708)
Other .....	(190)	(190)
Actual as presented on budgetary documents .....	<u>\$ 40,365,552</u>	<u>\$ 40,454,245</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, the Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account's spending authorization.

#### 4. MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT)

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MassDOT is an entity legally separate from the Commonwealth. MassDOT operations are reported separately in the non-budgeted special revenue funds section of this report, which includes all of the Commonwealth's highway and turnpike-related operations as well as the activity of the Registry of Motor Vehicles. MassDOT capital spending and revenue activity are reported in the capital funds section of this report, in the Central Artery Statewide Road and Bridge Infrastructure Fund, the Highway Capital Projects Fund, and the Federal Highway Construction Program Fund.

MassDOT financial activity is included in this report in order to reflect all activity reported on the Commonwealth's MMARS accounting system. For the SBFR, MassDOT is treated as an agency or department of the Commonwealth, as specified in Massachusetts General Laws. However, for GAAP reporting purposes, as reflected in the Commonwealth's CAFR, MassDOT will be included as a discretely presented component unit of the Commonwealth.

#### 5. INDIVIDUAL FUND DEFICITS

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The following Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2016, as follows (amounts in thousands) (excludes MassDOT):

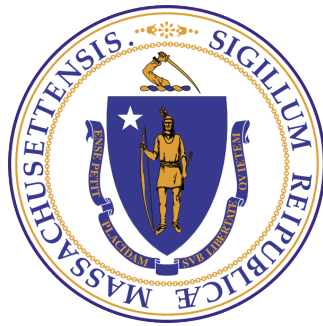
Non-Budgeted Special Revenue:	
Federal Grants Fund .....	\$ (9,707)
Other:	
Health Information Technology Trust Fund .....	(3,963)
Government Land Bank Fund .....	<u>(35,033)</u>
Total Non-Budgeted Special Revenue Funds .....	<u>(48,703)</u>
Capital Projects:	
General Capital Projects Fund .....	(198,836)
Highway Capital Projects Fund .....	<u>(180,744)</u>
Total Capital Projects Funds .....	<u>(379,580)</u>
Total .....	<u><u>\$ (428,283)</u></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

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Approximately 43.3% 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, 2016, the General Fund includes approximately \$14.851 billion in expenditures for Medicaid claims. The combined financial statements - statutory basis includes Medicaid claims processed but unpaid at June 30, 2016 of approximately \$11 million as accounts payable.

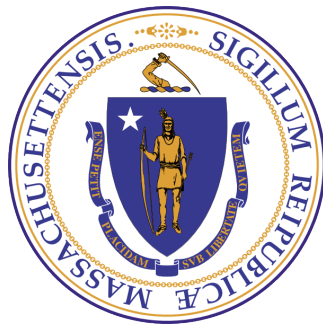


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***Combining and Individual  
Fund Financial Statements -  
Statutory Basis***



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# *Individual Budgeted Funds*

Budgeted funds are those funds subject to appropriation in either the annual General Appropriation Act (GAA) or other appropriations bills. Unless otherwise specified, budgeted funds are also subject to Section 5C of Chapter 29 of the Massachusetts General Laws (MGL), which defines the “consolidated net surplus” calculation (and determines whether the annual budget is in balance) as well as year-end transfers to eliminate deficits in budgeted funds.

## **MAJOR BUDGETED FUNDS:**

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

***Commonwealth Transportation Fund*** - to account for revenues from motor fuels taxes and all fees and fines received by the Registry of Motor Vehicles relating to the use and operation of motor vehicles and trailers. Spending is for debt service on general and special obligation debt, as well as for amounts, subject to appropriation, to fund the programs and services of the Massachusetts Department of Transportation. This fund also includes activity of the Infrastructure Fund, which was a subfund of the Highway Fund.

***The Commonwealth Stabilization Fund*** - to account for amounts calculated in accordance with state finance law and to maintain a reserve to enhance the Commonwealth’s fiscal stability. Tax revenues from certain lottery winners selling their stream of future winnings in exchange for current payments are recorded in this fund. In addition, transfers are required for fiscal year capital gains tax revenues exceeding \$1 billion (adjusted annually for economic growth) and judgments and settlements of more than \$10 million that exceed the previous 5 year’s average of judgments and settlements. These transfers were suspended for fiscal year 2016.

## **ADMINISTRATIVE CONTROL FUND:**

This fund accounts for the revenues generated by certain administrative functions of government, for which the Legislature has required a separate fund be established. Budgeted funds are subject to Section 5C of Chapter 29 of the MGL, calculation of year-end transfers, unless specified otherwise.

***Intragovernmental Service Fund*** - to account for the charges of any state agency for services provided to another state agency.

## **BUDGETED ENVIRONMENTAL FUNDS:**

The Environmental funds are exempt from Section 5C of Chapter 29 of the MGL, calculation of year-end transfers.

***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 saltwater fishing improvement programs.



## **OTHER BUDGETED FUNDS:**

These funds account for a variety of miscellaneous taxes, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

**Public Safety Training Fund** - to account for all revenues collected from the surcharge imposed by Section 12 of Chapter 89 and the seventh paragraph of Section 20 of Chapter 90 of the MGL. The fund shall be used for the instruction of public safety personnel including, but not limited to, the recruitment of additional state police classes and for the municipal police training committee, under Section 116 of Chapter 6 of the MGL, to preserve and promote public safety. The fund is not included in the consolidated net surplus calculation Section 5C of Chapter 29 of the MGL, or the year-end transfers to eliminate deficits in the consolidated net surplus funds.

**Community First Trust Fund** - The secretary of health and human services may expend amounts in excess of the \$16 million collected from federal reimbursements in the nonbudgeted Community First Trust Fund to ensure compliance with the state balancing incentive payment program. Monies deposited in the fund are used for non-institutionally-based long-term services and support. The fund is not included in the consolidated net surplus calculation Section 5C of Chapter 29 of the MGL, nor in the year-end transfers to eliminate deficits in the consolidated net surplus funds.

**Massachusetts Tourism Fund** - to account for revenues received from hotel taxes; used to fund the Office of Travel and Tourism promotions and the Massachusetts Convention Center Authority.

**Local Capital Projects Fund** - to account for funds generated by the casino license fees and by the tax on revenues generated by casinos (but not the slots parlor), once they are operational. Even though this fund did not have FY16 activity, it is presented here for comparative purposes as there was FY15 activity.

**Gaming Local Aid Fund** - to account for gaming tax revenues generated by the tax on casino revenues. The fund is used by finance local aid distributions.

**Local Aid Stabilization Fund** - to account for gaming tax revenues generated by casinos. Monies are used to supplement local aid distributions to cities and towns. The fund is not included in the consolidated net surplus calculation Section 5C of Chapter 29 of the MGL, nor in the year-end transfers to eliminate deficits in the consolidated net surplus funds.

**Manufacturing Fund** - To account for a portion of gaming facility license fees. Even though this fund did not have FY16 activity, it is presented here for comparative purposes as it had activity in FY15.

**Community College Fund** - to account for a portion of gaming license fees. Even though this fund did not have FY16 activity, it is presented here for comparative purposes as it had activity in FY15.

**The following funds have been enacted in legislation but had no activity in FY16 and are not presented in this report:**

**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 MGL. 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. The mechanism transferring tax revenues to the fund was repealed effective January 1, 2013, but the fund itself was not repealed.

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

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

**Substance Abuse Prevention and Treatment Fund** - to account for sales tax revenues (non-dedicated) collected from the sale of alcoholic beverages, with the funds 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, but the fund itself was not repealed.

***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.

***Dam Safety Trust Fund*** - to account for all receipts and revenues generated through agreements executed between the department of environmental management and public or private entities for dam safety purposes, and all fines, costs, expenses and interest imposed. Revenues over \$250,000 in a fiscal year shall be credited to the General Fund.

***Children and Families Protection Fund*** - to account for any penalties collected for violations of the Massachusetts Pesticide Control Act under Chapter 132B, Sections 6C to 6I of the MGL. Amounts credited to the fund are used for the implementation and enforcement of said Sections 6C to 6I.

***Home and Community-based Services Policy Lab Fund*** - to account for any appropriations authorized by the general court and specifically designated to be credited to the fund and any additional nonstate-sourced funds as designated by the secretary of elder affairs including, but not limited to, federal or private grants or donations. The fund is used to support research and analysis which would enhance the development, evaluation, design and continued improvement of programs rendering home and community-based services to individuals who need long-term services and support.

***Regional Water Entity Reimbursement Fund*** - to account for amounts to reimburse the Massachusetts Water Resources Authority for its costs in providing cities and towns financial assistance in the form of interest free grants and loans to rehabilitate collection systems. Such reimbursement shall be in addition to the contract assistance amounts in section 6 of chapter 29C, but not be greater than 10 % of the maximum amount set forth in chapter 29C.

***Education Fund*** - to account for a portion of the funds generated by the tax on casino (but not slots parlor) revenue. 35% of the funds received are to be appropriated for higher education purposes, and that any appropriations for either higher education or K-12 education from this fund are required to supplement, not offset, General Appropriation Act spending.

***Gaming Economic Development Fund*** - to account for a portion of the funds generated by the tax on casino (but not slots parlor) revenue. Expenditures from the are to be used to support economic development and job growth.

***Agricultural Reserve and Security Fund*** - to account for gifts, grants, donations, federal reimbursements and grants plus any interest earned from the Fund. Expenditures are to be used to foster agriculture in the Commonwealth and other purposes of the Department of Agricultural Resources.

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

June 30, 2016

(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control Intragovernmental Service
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 487,253	\$ —	\$ 1,019,769	\$ 34,342
Cash with fiscal agent .....	—	16,690	—	—
Investments .....	—	—	271,745	—
Receivables, net of allowance for uncollectibles:				
Due from federal government .....	377,724	—	—	—
Other receivables .....	23,240	15,583	—	—
Due from cities and towns .....	23,268	—	—	—
Total assets .....	<u>\$ 911,485</u>	<u>\$ 32,273</u>	<u>\$ 1,291,514</u>	<u>\$ 34,342</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deficiency in cash and short-term investments .....	\$ —	\$ 15,108	\$ —	\$ —
Accounts payable .....	746,749	475	—	26,854
Accrued payroll .....	60,860	—	—	2,036
Total liabilities .....	<u>807,609</u>	<u>15,583</u>	<u>—</u>	<u>28,890</u>
Fund balance (deficit):				
Reserved for:				
Continuing appropriations .....	103,876	—	—	5,452
Commonwealth Stabilization .....	—	—	1,291,514	—
Debt service .....	—	16,690	—	—
Unreserved:				
Undesignated .....	—	—	—	—
Total fund equity (deficit) .....	<u>103,876</u>	<u>16,690</u>	<u>1,291,514</u>	<u>5,452</u>
Total liabilities and fund equity .....	<u>\$ 911,485</u>	<u>\$ 32,273</u>	<u>\$ 1,291,514</u>	<u>\$ 34,342</u>

See accountants' review report

Environmental		Budgeted Other			
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Community First Trust	Massachusetts Tourism	Local Capital Projects
\$ 16,569	\$ 2,825	\$ 2,490	\$ 44,621	\$ 1,385	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
<u>\$ 16,569</u>	<u>\$ 2,825</u>	<u>\$ 2,490</u>	<u>\$ 44,621</u>	<u>\$ 1,385</u>	<u>\$ —</u>

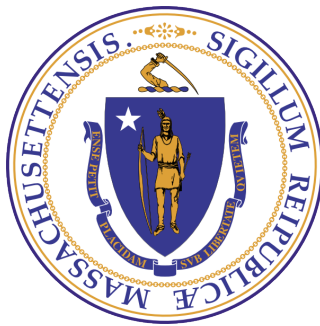
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
1,814	115	—	—	1,359	—
156	8	—	—	26	—
<u>1,970</u>	<u>123</u>	<u>—</u>	<u>—</u>	<u>1,385</u>	<u>—</u>
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
14,599	2,702	2,490	44,621	—	—
<u>14,599</u>	<u>2,702</u>	<u>2,490</u>	<u>44,621</u>	<u>—</u>	<u>—</u>
<u>\$ 16,569</u>	<u>\$ 2,825</u>	<u>\$ 2,490</u>	<u>\$ 44,621</u>	<u>\$ 1,385</u>	<u>\$ —</u>

continued

**Budgeted Funds**  
Combining Balance Sheet - Statutory Basis  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Budgeted Other				Totals (Memorandum only)	
	Gaming Local Aid	Local Aid Stabilization	Manufacturing	Community College	2016	2015
<b>ASSETS</b>						
Cash and short-term investments.....	\$ —	\$ 50	\$ —	\$ —	\$ 1,609,305	\$ 1,544,284
Cash with fiscal agent.....	—	—	—	—	16,690	13,903
Investments.....	—	—	—	—	271,744	264,426
Receivables, net of allowance for uncollectibles:.....						
Due from federal government.....	—	—	—	—	377,724	712,911
Other receivables.....	—	—	—	—	38,823	11,274
Due from cities and towns.....	—	—	—	—	23,268	19,722
Total assets.....	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,337,554</u>	<u>\$ 2,566,520</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Deficiency in cash and short-term investments.....	\$ —	\$ —	\$ —	\$ —	\$ 15,108	\$ —
Accounts payable.....	—	—	—	—	777,367	803,302
Accrued payroll.....	—	—	—	—	63,086	192,532
Total liabilities.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>855,561</u>	<u>995,834</u>
Fund balance (deficit):						
Reserved for:						
Continuing appropriations.....	—	—	—	—	109,328	212,090
Commonwealth Stabilization.....	—	—	—	—	1,291,514	1,252,429
Debt service.....	—	—	—	—	16,690	13,903
Unreserved:						
Undesignated.....	—	50	—	—	64,461	92,264
Total fund equity (deficit).....	<u>—</u>	<u>50</u>	<u>—</u>	<u>—</u>	<u>1,481,993</u>	<u>1,570,686</u>
Total liabilities and fund equity.....	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,337,554</u>	<u>\$ 2,566,520</u>

See accountants' review report



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**Budgeted Funds**

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

Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control
				Intragovernmental Service
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ 22,257,084	\$ 1,301,318	\$ 744	\$ —
Assessments .....	395,984	23,398	—	—
Federal grants and reimbursements .....	10,585,466	—	—	—
Tobacco settlement revenue .....	257,616	—	—	—
Departmental .....	2,505,504	661,268	—	402,100
Miscellaneous .....	367,327	7,371	11,241	—
Total revenues .....	<u>36,368,981</u>	<u>1,993,355</u>	<u>11,985</u>	<u>402,100</u>
Other financing sources:				
Fringe benefit cost recovery .....	365,659	—	—	—
Lottery reimbursements .....	107,935	—	—	—
Lottery distributions .....	975,254	—	—	—
Operating transfers in .....	280,653	—	—	—
Commonwealth care trust transfer .....	44,482	—	—	—
Stabilization transfer .....	—	—	27,100	—
Other fund deficit support .....	30,031	—	—	—
Total other financing sources .....	<u>1,804,014</u>	<u>—</u>	<u>27,100</u>	<u>—</u>
Total revenues and other financing sources .....	<u>38,172,995</u>	<u>1,993,355</u>	<u>39,085</u>	<u>402,100</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Legislature .....	61,368	—	—	—
Judiciary .....	878,663	—	—	—
Inspector General .....	4,315	—	—	—
Governor and Lieutenant Governor .....	6,576	—	—	—
Secretary of the Commonwealth .....	39,322	—	—	—
Treasurer and Receiver-General .....	205,226	—	—	—
Auditor of the Commonwealth .....	18,354	—	—	—
Attorney General .....	44,265	—	—	—
Ethics Commission .....	2,034	—	—	—
District Attorney .....	114,084	—	—	—
Office of Campaign & Political Finance .....	1,516	—	—	—
Sheriff's Departments .....	603,220	—	—	—
Disabled Persons Protection Commission .....	2,943	—	—	—
Board of Library Commissioners .....	25,333	—	—	—
Comptroller .....	8,870	—	—	5,041
Administration and Finance .....	2,076,261	—	—	222,855
Energy and Environmental Affairs .....	203,683	—	—	1,471
Health and Human Services .....	5,383,102	—	—	97,554
Massachusetts Department of Transportation .....	—	171,417	—	—
Office of the Child Advocate .....	595	—	—	—
Executive Office of Education .....	2,280,888	—	—	432
Center for Health Information and Analysis .....	26,625	—	—	—
Public Safety and Security .....	1,065,606	—	—	56,223
Housing and Economic Development .....	512,117	—	—	1,666
Labor and Workforce Development .....	45,082	—	—	—
Direct local aid .....	5,462,705	—	—	—
Medicaid .....	14,851,007	—	—	—
Post employment benefits .....	2,461,159	42,218	—	—
Debt service:				
Principal retirement .....	561,002	713,596	—	13,671
Interest and fiscal charges .....	424,579	461,458	—	—
Total expenditures .....	<u>37,370,500</u>	<u>1,388,689</u>	<u>—</u>	<u>398,913</u>
Other financing uses:				
Fringe benefit cost assessment .....	—	—	—	—
Operating transfers out .....	45,572	566,790	—	8,721
Stabilization transfer .....	—	—	—	—
Medical assistance transfer .....	665,564	—	—	—
Delivery system transformation initiatives trust transfer .....	186,907	—	—	—
Other fund deficit support .....	—	35,089	—	—
Total other financing uses .....	<u>898,043</u>	<u>601,879</u>	<u>—</u>	<u>8,721</u>
Total expenditures and other financing uses .....	<u>38,268,543</u>	<u>1,990,568</u>	<u>—</u>	<u>407,634</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use .....	(95,548)	2,787	39,085	(5,534)
Fund balance (deficit) at beginning of year .....	199,424	13,903	1,252,429	10,986
Fund balance (deficit) at end of year .....	<u>\$ 103,876</u>	<u>\$ 16,690</u>	<u>\$ 1,291,514</u>	<u>\$ 5,452</u>

See accountants' review report

Environmental		Budgeted Other			
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Community First Trust	Massachusetts Tourism	Local Capital Projects
\$ 1,001	\$ —	\$ —	\$ —	\$ 56,772	\$ —
—	—	—	—	—	—
8,824	—	—	48,430	—	—
—	—	—	—	—	—
7,787	1,502	1,308	—	—	—
66	—	—	—	—	—
17,678	1,502	1,308	48,430	56,772	—
—	—	—	—	—	—
—	—	—	—	—	—
190	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
190	—	—	—	—	—
17,868	1,502	1,308	48,430	56,772	—
—	—	—	—	—	—
—	—	—	2	—	—
—	—	—	—	27	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	2	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
105	—	—	—	—	—
16,468	1,228	—	—	—	—
—	—	—	49,859	—	—
—	—	—	—	20	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	80	22,384	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
16,573	1,228	—	49,943	22,431	—
2,730	138	—	1,212	404	—
—	—	—	25,087	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	35,618	—
2,730	138	—	26,299	36,022	—
19,303	1,366	—	76,242	58,453	—
(1,435)	136	1,308	(27,812)	(1,681)	—
16,034	2,566	1,182	72,433	1,681	—
\$ 14,599	\$ 2,702	\$ 2,490	\$ 44,621	\$ —	\$ —

continued



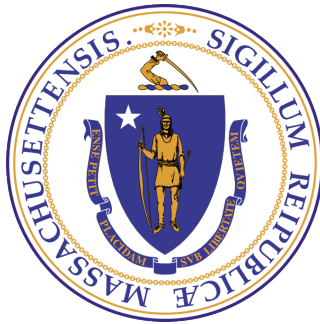
**Budgeted Funds**

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

Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Budgeted Other				Totals (Memorandum only)	
	Gaming Local Aid	Local Aid Stabilization	Manufacturing	Community College	2016	2015
	<b>REVENUES AND OTHER FINANCING SOURCES</b>					
Revenues:						
Taxes	\$ —	\$ —	\$ —	\$ —	\$ 23,616,920	\$ 23,173,799
Assessments	—	—	—	—	419,382	425,316
Federal grants and reimbursements	—	—	—	—	10,642,720	9,480,404
Tobacco settlement revenue	—	—	—	—	257,616	245,839
Departmental	—	—	—	—	3,579,470	3,280,789
Miscellaneous	—	—	—	—	386,005	262,895
Total revenues	—	—	—	—	38,902,113	36,869,043
Other financing sources:						
Fringe benefit cost recovery	—	—	—	—	365,659	329,606
Lottery reimbursements	—	—	—	—	107,935	104,238
Lottery distributions	—	—	—	—	975,254	947,250
Operating transfers in	64,356	—	—	—	345,200	343,934
Commonwealth care trust transfer	—	—	—	—	44,482	—
Stabilization transfer	—	—	—	—	27,100	288,313
Other fund deficit support	40,677	—	—	—	70,707	89,478
Total other financing sources	105,033	—	—	—	1,936,337	2,102,819
Total revenues and other financing sources	105,033	—	—	—	40,838,450	38,971,862
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature	—	—	—	—	61,368	60,465
Judiciary	—	—	—	—	878,664	839,454
Inspector General	—	—	—	—	4,315	4,521
Governor and Lieutenant Governor	—	—	—	—	6,603	6,368
Secretary of the Commonwealth	—	—	—	—	39,322	44,891
Treasurer and Receiver-General	—	—	—	—	205,226	203,312
Auditor of the Commonwealth	—	—	—	—	18,354	17,768
Attorney General	—	—	—	—	44,265	43,134
Ethics Commission	—	—	—	—	2,034	1,914
District Attorney	—	—	—	—	114,087	108,677
Office of Campaign & Political Finance	—	—	—	—	1,516	1,433
Sheriff's Departments	—	—	—	—	603,220	581,157
Disabled Persons Protection Commission	—	—	—	—	2,943	2,724
Board of Library Commissioners	—	—	—	—	25,333	25,301
Comptroller	—	—	—	—	13,911	13,568
Administration and Finance	—	—	—	—	2,299,220	2,323,887
Energy and Environmental Affairs	—	—	—	—	222,851	226,430
Health and Human Services	—	—	—	—	5,530,514	5,398,933
Massachusetts Department of Transportation	—	—	—	—	171,437	122,553
Office of the Child Advocate	—	—	—	—	595	—
Executive Office of Education	—	—	—	—	2,281,321	2,214,194
Center for Health Information and Analysis	—	—	—	—	26,625	26,405
Public Safety and Homeland Security	—	—	—	—	1,121,829	1,091,441
Housing and Economic Development	—	—	—	—	536,247	519,220
Labor and Workforce Development	—	—	—	—	45,082	43,198
Direct local aid	105,033	—	—	—	5,567,738	5,420,412
Medicaid	—	—	—	—	14,851,007	13,655,213
Post employment benefits	—	—	—	—	2,503,377	2,287,113
Debt service:						
Principal retirement	—	—	—	—	1,288,270	1,290,529
Interest and fiscal charges	—	—	—	—	886,037	899,875
Total expenditures	105,033	—	—	—	39,353,310	37,474,091
Other financing uses:						
Fringe benefit cost assessment	—	—	—	—	4,485	2,863
Operating transfers out	—	—	—	—	646,170	829,826
Stabilization transfer	—	—	—	—	—	268,313
Medical assistance transfer	—	—	—	—	665,564	70,975
Delivery system transformation initiatives trust transfer	—	—	—	—	186,907	116,171
Other fund deficit support	—	—	—	—	70,707	89,478
Total other financing uses	—	—	—	—	1,573,833	1,377,627
Total expenditures and other financing uses	105,033	—	—	—	40,927,143	38,851,718
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use						
	—	—	—	—	(88,693)	120,144
Fund balance (deficit) at beginning of year	—	50	—	—	1,570,686	1,450,542
Fund balance (deficit) at end of year	\$ —	\$ 50	\$ —	\$ —	\$ 1,481,993	\$ 1,570,686

See accountants' review report



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**Budgeted Funds**

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	General			Commonwealth Transportation		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes .....	\$ 22,604,053	\$ 22,257,084	\$ (346,969)	\$ 1,301,426	\$ 1,301,318	\$ (108)
Assessments .....	408,336	395,984	(12,352)	23,153	23,398	245
Federal grants and reimbursements .....	10,219,269	10,585,466	366,197	—	—	—
Tobacco settlement revenue .....	272,049	257,616	(14,433)	—	—	—
Departmental .....	2,485,327	2,505,504	20,177	639,499	661,268	21,769
Miscellaneous .....	298,793	367,327	68,534	707	7,371	6,664
Total revenues .....	<u>36,287,827</u>	<u>36,368,981</u>	<u>81,154</u>	<u>1,964,785</u>	<u>1,993,355</u>	<u>28,570</u>
Other financing sources:						
Fringe benefit cost recovery .....	290,509	365,659	75,150	—	—	—
Lottery reimbursements .....	100,604	107,935	7,331	—	—	—
Lottery distributions .....	920,542	975,254	54,712	—	—	—
Operating transfers in .....	359,261	280,653	(78,608)	96,000	—	(96,000)
Commonwealth care trust transfer .....	—	44,482	44,482	—	—	—
Stabilization transfer .....	—	—	—	—	—	—
Other fund deficit support .....	—	30,031	30,031	—	—	—
Total other financing sources .....	<u>1,670,916</u>	<u>1,804,014</u>	<u>133,098</u>	<u>96,000</u>	<u>—</u>	<u>(96,000)</u>
Total revenues and other financing sources .....	<u>37,958,743</u>	<u>38,172,995</u>	<u>214,252</u>	<u>2,060,785</u>	<u>1,993,355</u>	<u>(67,430)</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature .....	91,447	61,368	30,079	—	—	—
Judiciary .....	888,209	878,663	9,546	—	—	—
Inspector General .....	4,459	4,315	144	—	—	—
Governor and Lieutenant Governor .....	10,563	6,576	3,987	—	—	—
Secretary of the Commonwealth .....	40,445	39,322	1,123	—	—	—
Treasurer and Receiver-General .....	212,143	205,226	6,917	—	—	—
Auditor of the Commonwealth .....	18,356	18,354	2	—	—	—
Attorney General .....	45,544	44,265	1,279	—	—	—
Ethics Commission .....	2,069	2,034	35	—	—	—
District Attorney .....	119,259	114,084	5,175	—	—	—
Office of Campaign & Political Finance .....	1,536	1,516	20	—	—	—
Sheriff's Departments .....	605,053	603,220	1,833	—	—	—
Disabled Persons Protection Commission .....	2,943	2,943	—	—	—	—
Board of Library Commissioners .....	25,333	25,333	—	—	—	—
Comptroller .....	9,014	8,870	144	—	—	—
Administration and Finance .....	2,371,037	2,076,261	294,776	—	—	—
Energy and Environmental Affairs .....	218,400	203,683	14,717	—	—	—
Health and Human Services .....	5,510,011	5,383,102	126,909	—	—	—
Massachusetts Department of Transportation .....	—	—	—	187,000	171,417	15,583
Office of the Child Advocate .....	790	595	195	—	—	—
Executive Office of Education .....	2,325,242	2,280,888	44,354	—	—	—
Center for Health Information and Analysis .....	32,563	26,625	5,938	—	—	—
Public Safety and Security .....	1,092,213	1,065,606	26,607	—	—	—
Housing and Economic Development .....	555,795	512,117	43,678	—	—	—
Labor and Workforce Development .....	58,963	45,082	13,881	—	—	—
Direct local aid .....	5,465,696	5,462,705	2,991	—	—	—
Medicaid .....	14,851,052	14,851,007	45	—	—	—
Post employment benefits .....	2,426,093	2,461,159	(35,066)	—	42,218	(42,218)
Debt service:						
Principal retirement .....	590,664	561,002	29,662	752,814	713,596	39,218
Interest and fiscal charges .....	447,027	424,579	22,448	483,116	461,458	21,658
Total expenditures .....	<u>38,021,919</u>	<u>37,370,500</u>	<u>651,419</u>	<u>1,422,930</u>	<u>1,388,689</u>	<u>34,241</u>
Other financing uses:						
Fringe benefit cost assessment .....	—	—	—	—	—	—
Operating transfers out .....	115,653	45,572	70,081	588,266	566,790	21,476
Medical assistance transfer .....	1,027,500	665,564	361,936	—	—	—
Delivery system transformation initiatives trust .....	189,142	186,907	2,235	—	—	—
Other fund deficit support .....	—	—	—	—	35,089	(35,089)
Total other financing uses .....	<u>1,332,295</u>	<u>898,043</u>	<u>434,252</u>	<u>588,266</u>	<u>601,879</u>	<u>(13,613)</u>
Total expenditures and other financing uses .....	<u>39,354,214</u>	<u>38,268,543</u>	<u>1,085,671</u>	<u>2,011,196</u>	<u>1,990,568</u>	<u>20,628</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use .....						
	(1,395,471)	(95,548)	1,299,923	49,589	2,787	(46,802)
Fund balance (deficit) at beginning of year .....	199,424	199,424	—	13,903	13,903	—
Fund balance (deficit) at end of year .....	<u>\$ (1,196,047)</u>	<u>\$ 103,876</u>	<u>\$ 1,299,923</u>	<u>\$ 63,492</u>	<u>\$ 16,690</u>	<u>\$ (46,802)</u>

See accountants' review report

Commonwealth Stabilization			Administrative Control			Environmental		
			Intragovernmental Services			Inland Fisheries and Game		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ —	\$ 744	\$ 744	\$ —	\$ —	\$ —	\$ 1,000	\$ 1,001	\$ 1
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	5,800	8,824	3,024
—	—	—	—	—	—	—	—	—
—	—	—	—	402,100	402,100	7,345	7,787	442
5,547	11,241	5,694	—	—	—	34	66	32
<u>5,547</u>	<u>11,985</u>	<u>6,438</u>	<u>—</u>	<u>402,100</u>	<u>402,100</u>	<u>14,179</u>	<u>17,678</u>	<u>3,499</u>
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	170	190	20
—	27,100	27,100	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	27,100	27,100	—	—	—	170	190	20
<u>5,547</u>	<u>39,085</u>	<u>33,538</u>	<u>—</u>	<u>402,100</u>	<u>402,100</u>	<u>14,349</u>	<u>17,868</u>	<u>3,519</u>
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	116	—	116	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	5,524	5,041	483	—	—	—
—	—	—	304,528	222,855	81,673	119	105	14
—	—	—	1,509	1,471	38	17,171	16,468	703
—	—	—	121,553	97,554	23,999	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	1,860	432	1,428	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	63,811	56,223	7,588	—	—	—
—	—	—	7,665	1,666	5,999	—	—	—
—	—	—	19,042	—	19,042	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	13,671	13,671	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	<u>539,279</u>	<u>398,913</u>	<u>140,366</u>	<u>17,290</u>	<u>16,573</u>	<u>717</u>
—	—	—	—	—	—	—	2,730	(2,730)
—	—	—	—	8,721	(8,721)	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	8,721	(8,721)	—	2,730	(2,730)
—	—	—	<u>539,279</u>	<u>407,634</u>	<u>131,645</u>	<u>17,290</u>	<u>19,303</u>	<u>(2,013)</u>
5,547	39,085	33,538	(539,279)	(5,534)	533,745	(2,941)	(1,435)	1,506
<u>1,252,429</u>	<u>1,252,429</u>	<u>—</u>	<u>10,986</u>	<u>10,986</u>	<u>—</u>	<u>16,034</u>	<u>16,034</u>	<u>—</u>
<u>\$ 1,257,976</u>	<u>\$ 1,291,514</u>	<u>\$ 33,538</u>	<u>\$ (528,293)</u>	<u>\$ 5,452</u>	<u>\$ 533,745</u>	<u>\$ 13,093</u>	<u>\$ 14,599</u>	<u>\$ 1,506</u>

continued

**Budgeted Funds**

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Environmental			Budgeted Other		
	Marine Recreational Fisheries Development			Public Safety Trust		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments .....	—	—	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	—	—
Tobacco settlement revenue .....	—	—	—	—	—	—
Departmental .....	1,418	1,502	84	—	1,308	1,308
Miscellaneous .....	—	—	—	—	—	—
Total revenues .....	<u>1,418</u>	<u>1,502</u>	<u>84</u>	<u>—</u>	<u>1,308</u>	<u>1,308</u>
Other financing sources:						
Fringe benefit cost recovery .....	—	—	—	—	—	—
Lottery reimbursements .....	—	—	—	—	—	—
Lottery distributions .....	—	—	—	—	—	—
Operating transfers in .....	—	—	—	—	—	—
Commonwealth care trust transfer .....	—	—	—	—	—	—
Stabilization transfer .....	—	—	—	—	—	—
Other fund deficit support .....	—	—	—	—	—	—
Total other financing sources .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources .....	<u>1,418</u>	<u>1,502</u>	<u>84</u>	<u>—</u>	<u>1,308</u>	<u>1,308</u>
<b>EXPENDITURES AND OTHER FINANCING</b>						
Expenditures:						
Legislature .....	—	—	—	—	—	—
Judiciary .....	—	—	—	—	—	—
Inspector General .....	—	—	—	—	—	—
Governor and Lieutenant Governor .....	—	—	—	—	—	—
Secretary of the Commonwealth .....	—	—	—	—	—	—
Treasurer and Receiver-General .....	—	—	—	—	—	—
Auditor of the Commonwealth .....	—	—	—	—	—	—
Attorney General .....	—	—	—	—	—	—
Ethics Commission .....	—	—	—	—	—	—
District Attorney .....	—	—	—	—	—	—
Office of Campaign & Political Finance .....	—	—	—	—	—	—
Sheriff's Departments .....	—	—	—	—	—	—
Disabled Persons Protection Commission .....	—	—	—	—	—	—
Board of Library Commissioners .....	—	—	—	—	—	—
Comptroller .....	—	—	—	—	—	—
Administration and Finance .....	—	—	—	—	—	—
Energy and Environmental Affairs .....	1,306	1,228	78	—	—	—
Health and Human Services .....	—	—	—	—	—	—
Massachusetts Department of Transportation .....	—	—	—	—	—	—
Office of the Child Advocate .....	—	—	—	—	—	—
Executive Office of Education .....	—	—	—	—	—	—
Center for Health Information and Analysis .....	—	—	—	—	—	—
Public Safety and 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>1,306</u>	<u>1,228</u>	<u>78</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other financing uses:						
Fringe benefit cost assessment .....	—	138	(138)	—	—	—
Operating transfers out .....	—	—	—	—	—	—
Medical assistance transfer .....	—	—	—	—	—	—
Delivery system transformation initiatives trust .....	—	—	—	—	—	—
Other fund deficit support .....	—	—	—	—	—	—
Total other financing uses .....	<u>—</u>	<u>138</u>	<u>(138)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenditures and other financing uses .....	<u>1,306</u>	<u>1,366</u>	<u>(60)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use .....	112	136	24	—	1,308	1,308
Fund balance (deficit) at beginning of year .....	<u>2,566</u>	<u>2,566</u>	<u>—</u>	<u>1,182</u>	<u>1,182</u>	<u>—</u>
Fund balance (deficit) at end of year .....	<u>\$ 2,678</u>	<u>\$ 2,702</u>	<u>\$ 24</u>	<u>\$ 1,182</u>	<u>\$ 2,490</u>	<u>\$ 1,308</u>

See accountants' review report

Budgeted Other								
Community First Trust			Massachusetts Tourism			Local Capital Projects		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ 33,900	\$ 56,772	\$ 22,872	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
35,000	48,430	13,430	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
35,000	48,430	13,430	33,900	56,772	22,872	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
35,000	48,430	13,430	33,900	56,772	22,872	—	—	—
—	—	—	—	—	—	—	—	—
2	2	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	27	27	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
2	2	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
56,523	49,859	6,664	—	—	—	—	—	—
—	—	—	20	20	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
87	80	7	25,114	22,384	2,730	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
56,614	49,943	6,671	25,161	22,431	2,730	—	—	—
—	1,212	(1,212)	—	404	(404)	—	—	—
—	25,087	(25,087)	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	35,618	(35,618)	—	—	—
—	26,299	(26,299)	—	36,022	(36,022)	—	—	—
56,614	76,242	(19,628)	25,161	58,453	(33,292)	—	—	—
(21,614)	(27,812)	(6,198)	8,739	(1,681)	(10,420)	—	—	—
72,433	72,433	—	1,681	1,681	—	—	—	—
\$ 50,819	\$ 44,621	\$ (6,198)	\$ 10,420	\$ —	\$ (10,420)	\$ —	\$ —	\$ —

continued

**Budgeted Funds**

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Budgeted Other					
	Gaming Local Aid			Local Aid Stabilization		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments .....	—	—	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	—	—
Tobacco settlement revenue .....	—	—	—	—	—	—
Departmental .....	—	—	—	—	—	—
Miscellaneous .....	—	—	—	—	—	—
Total revenues .....	—	—	—	—	—	—
Other financing sources:						
Fringe benefit cost recovery .....	—	—	—	—	—	—
Lottery reimbursements .....	—	—	—	—	—	—
Lottery distributions .....	—	—	—	—	—	—
Operating transfers in .....	105,000	64,356	(40,644)	—	—	—
Commonwealth care trust transfer .....	—	—	—	—	—	—
Stabilization transfer .....	—	—	—	—	—	—
Other fund deficit support .....	—	40,677	40,677	—	—	—
Total other financing sources .....	105,000	105,033	33	—	—	—
Total revenues and other financing sources .....	105,000	105,033	33	—	—	—
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature .....	—	—	—	—	—	—
Judiciary .....	—	—	—	—	—	—
Inspector General .....	—	—	—	—	—	—
Governor and Lieutenant Governor .....	—	—	—	—	—	—
Secretary of the Commonwealth .....	—	—	—	—	—	—
Treasurer and Receiver-General .....	—	—	—	—	—	—
Auditor of the Commonwealth .....	—	—	—	—	—	—
Attorney General .....	—	—	—	—	—	—
Ethics Commission .....	—	—	—	—	—	—
District Attorney .....	—	—	—	—	—	—
Office of Campaign & Political Finance .....	—	—	—	—	—	—
Sheriff's Departments .....	—	—	—	—	—	—
Disabled Persons Protection Commission .....	—	—	—	—	—	—
Board of Library Commissioners .....	—	—	—	—	—	—
Comptroller .....	—	—	—	—	—	—
Administration and Finance .....	—	—	—	—	—	—
Energy and Environmental Affairs .....	—	—	—	—	—	—
Health and Human Services .....	—	—	—	—	—	—
Massachusetts Department of Transportation .....	—	—	—	—	—	—
Office of the Child Advocate .....	—	—	—	—	—	—
Executive Office of Education .....	—	—	—	—	—	—
Center for Health Information and Analysis .....	—	—	—	—	—	—
Public Safety and Security .....	—	—	—	—	—	—
Housing and Economic Development .....	—	—	—	—	—	—
Labor and Workforce Development .....	—	—	—	—	—	—
Direct local aid .....	105,034	105,033	1	—	—	—
Medicaid .....	—	—	—	—	—	—
Post employment benefits .....	—	—	—	—	—	—
Debt service:						
Principal retirement .....	—	—	—	—	—	—
Interest and fiscal charges .....	—	—	—	—	—	—
Total expenditures .....	105,034	105,033	1	—	—	—
Other financing uses:						
Fringe benefit cost assessment .....	—	—	—	—	—	—
Operating transfers out .....	—	—	—	—	—	—
Medical assistance transfer .....	—	—	—	—	—	—
Delivery system transformation initiatives trust .....	—	—	—	—	—	—
Other fund deficit support .....	—	—	—	—	—	—
Total other financing uses .....	—	—	—	—	—	—
Total expenditures and other financing uses .....	105,034	105,033	1	—	—	—
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use .....	(34)	—	34	—	—	—
Fund balance (deficit) at beginning of year .....	—	—	—	50	50	—
Fund balance (deficit) at end of year .....	\$ (34)	\$ —	\$ 34	\$ 50	\$ 50	\$ —

See accountants' review report

Budgeted Other						Totals (Memorandum only)		
Manufacturing			Community College					
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 23,940,379	\$ 23,616,920	\$ (323,459)
—	—	—	—	—	—	431,489	419,382	(12,107)
—	—	—	—	—	—	10,260,069	10,642,720	382,651
—	—	—	—	—	—	272,049	257,616	(14,433)
—	—	—	—	—	—	3,133,589	3,579,470	445,881
—	—	—	—	—	—	305,081	386,005	80,924
—	—	—	—	—	—	38,342,656	38,902,113	559,457
—	—	—	—	—	—	290,509	365,659	75,150
—	—	—	—	—	—	100,604	107,935	7,331
—	—	—	—	—	—	920,542	975,254	54,712
—	—	—	—	—	—	560,431	345,200	(215,231)
—	—	—	—	—	—	—	44,482	44,482
—	—	—	—	—	—	—	27,100	27,100
—	—	—	—	—	—	—	70,707	70,707
—	—	—	—	—	—	1,872,086	1,936,337	64,251
—	—	—	—	—	—	40,214,742	40,838,450	623,708
—	—	—	—	—	—	91,447	61,368	30,079
—	—	—	—	—	—	888,211	878,664	9,547
—	—	—	—	—	—	4,459	4,315	144
—	—	—	—	—	—	10,590	6,603	3,987
—	—	—	—	—	—	40,561	39,322	1,239
—	—	—	—	—	—	212,143	205,226	6,917
—	—	—	—	—	—	18,356	18,354	2
—	—	—	—	—	—	45,544	44,265	1,279
—	—	—	—	—	—	2,069	2,034	35
—	—	—	—	—	—	119,262	114,087	5,175
—	—	—	—	—	—	1,536	1,516	20
—	—	—	—	—	—	605,053	603,220	1,833
—	—	—	—	—	—	2,943	2,943	—
—	—	—	—	—	—	25,333	25,333	—
—	—	—	—	—	—	14,539	13,911	628
—	—	—	—	—	—	2,675,684	2,299,220	376,464
—	—	—	—	—	—	238,385	222,851	15,534
—	—	—	—	—	—	5,688,087	5,530,514	157,573
—	—	—	—	—	—	187,020	171,437	15,583
—	—	—	—	—	—	790	595	195
—	—	—	—	—	—	2,327,102	2,281,321	45,781
—	—	—	—	—	—	32,563	26,625	5,938
—	—	—	—	—	—	1,156,023	1,121,829	34,194
—	—	—	—	—	—	588,660	536,247	52,413
—	—	—	—	—	—	78,004	45,082	32,922
—	—	—	—	—	—	5,570,730	5,567,738	2,992
—	—	—	—	—	—	14,851,052	14,851,007	45
—	—	—	—	—	—	2,426,093	2,503,377	(77,284)
—	—	—	—	—	—	1,357,149	1,288,270	68,879
—	—	—	—	—	—	930,143	886,037	44,106
—	—	—	—	—	—	40,189,531	39,353,310	836,221
—	—	—	—	—	—	—	4,485	(4,485)
—	—	—	—	—	—	703,919	646,170	57,749
—	—	—	—	—	—	1,027,500	665,564	361,936
—	—	—	—	—	—	189,142	186,907	2,235
—	—	—	—	—	—	—	70,707	(70,707)
—	—	—	—	—	—	1,920,561	1,573,833	346,728
—	—	—	—	—	—	42,110,092	40,927,143	1,182,949
—	—	—	—	—	—	(1,895,350)	(88,693)	1,806,657
—	—	—	—	—	—	1,570,686	1,570,686	—
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (324,664)	\$ 1,481,993	\$ 1,806,657



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

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments .....	\$ 487,253	\$ 400,735
Receivables, net of allowance for uncollectibles:		
Due from federal government .....	377,724	712,911
Other receivables .....	23,240	11,274
Due from cities and towns .....	23,268	19,722
Total assets .....	\$ 911,485	\$ 1,144,642
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable .....	\$ 746,749	\$ 759,421
Accrued payroll .....	60,860	185,860
Total liabilities .....	807,609	945,281
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations .....	103,876	199,361
Total fund balance .....	103,876	199,361
Total liabilities and fund balance .....	\$ 911,485	\$ 1,144,642

See accountants' review report

## General Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ 22,604,053	\$ 22,257,084	\$ (346,969)	\$ 21,854,255
Assessments .....	408,336	395,984	(12,352)	403,138
Federal grants and reimbursements .....	10,219,269	10,585,466	366,197	9,388,840
Tobacco settlement revenue .....	272,049	257,616	(14,433)	245,839
Departmental .....	2,485,327	2,505,504	20,177	2,245,586
Miscellaneous .....	298,793	367,327	68,534	257,977
Total revenues .....	36,287,827	36,368,981	81,154	34,395,635
Other financing sources:				
Fringe benefit cost recovery .....	290,509	365,659	75,150	329,606
Lottery reimbursements .....	100,604	107,935	7,331	104,238
Lottery distributions .....	920,542	975,254	54,712	947,250
Operating transfers in .....	359,261	280,653	(78,608)	262,223
Commonwealth care trust transfer .....	—	44,482	44,482	—
Stabilization transfer .....	—	—	—	144,806
Other fund deficit support .....	—	30,031	30,031	—
Total other financing sources .....	1,670,916	1,804,014	133,098	1,788,123
Total revenues and other financing sources...	37,958,743	38,172,995	214,252	36,183,758
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Legislature .....	91,447	61,368	30,079	60,465
Judiciary .....	888,209	878,663	9,546	839,454
Inspector General .....	4,459	4,315	144	4,521
Governor and Lieutenant Governor .....	10,563	6,576	3,987	6,368
Secretary of the Commonwealth .....	40,445	39,322	1,123	44,787
Treasurer and Receiver-General .....	212,143	205,226	6,917	203,312
Auditor of the Commonwealth .....	18,356	18,354	2	17,768
Attorney General .....	45,544	44,265	1,279	43,134
Ethics Commission .....	2,069	2,034	35	1,914
District Attorney .....	119,259	114,084	5,175	108,677
Office of Campaign and Political Finance .....	1,536	1,516	20	1,433
Sheriff's Department .....	605,053	603,220	1,833	581,157
Disabled Persons Protection Commission .....	2,943	2,943	—	2,724
Board of Library Commissioners .....	25,333	25,333	—	25,301
Comptroller .....	9,014	8,870	144	8,837

continued

## General Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
Expenditures (continued):				
Administration and Finance .....	2,371,037	2,076,261	294,776	2,092,470
Energy and Environmental Affairs .....	218,400	203,683	14,717	208,194
Health and Human Services .....	5,510,011	5,383,102	126,909	5,300,785
Office of the Child Advocate .....	790	595.49	195	—
Executive Office of Education .....	2,325,242	2,280,888	44,354	2,214,091
Center for Health Information and Analysis .....	32,563	26,625	5,938	26,405
Public Safety and Security .....	1,092,213	1,065,606	26,607	1,040,689
Housing and Economic Development .....	555,795	512,117	43,678	495,721
Labor and Workforce Development .....	58,963	45,082	13,881	43,198
Direct local aid .....	5,465,696	5,462,705	2,991	5,420,412
Medicaid .....	14,851,052	14,851,007	45	13,655,213
Post employment benefits .....	2,426,093	2,461,159	(35,066)	2,255,945
Debt service:				
Principal retirement .....	590,664	561,002	29,662	546,616
Interest and fiscal charges .....	447,027	424,579	22,448	438,987
Total expenditures .....	38,021,919	37,370,500	651,419	35,688,578
Other financing uses:				
Operating transfers out .....	115,653	45,572	70,081	161,100
Stabilization transfer .....	—	—	—	48,806
Medical assistance transfer .....	1,027,500	665,564	361,936	70,975
Delivery system transformation initiatives trust transfer .....	189,142	186,907	2,235	116,171
Other fund deficit support .....	—	—	—	42,896
Total other financing uses .....	1,332,295	898,043	434,252	439,948
Total expenditures and other financing uses .....	39,354,214	38,268,543	1,085,671	36,128,526
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(1,395,471)	(95,548)	1,299,923	55,232
Restated Fund balance (deficit) at beginning of year .....	199,424	199,424	—	144,129
Fund balance (deficit) at end of year .....	\$ (1,196,047)	\$ 103,876	\$ 1,299,923	\$ 199,361

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# Commonwealth Transportation Fund

## Balance Sheet - Statutory Basis

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments .....	\$ —	\$ 428
Cash with fiscal agent .....	16,690	13,903
Receivables, net of allowance for uncollectibles:		
Other receivables .....	15,583	—
Total assets .....	<u>\$ 32,273</u>	<u>\$ 14,331</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Deficiency in cash and short-term investments .....	\$ 15,108	\$ —
Accounts payable .....	475	428
Total liabilities .....	<u>15,583</u>	<u>428</u>
Fund balance:		
Reserved fund balance:		
Reserved for debt service .....	16,690	13,903
Total fund balance .....	<u>16,690</u>	<u>13,903</u>
Total liabilities and fund balance .....	<u>\$ 32,273</u>	<u>\$ 14,331</u>

See accountants' review report

**Commonwealth Transportation Fund**  
Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ 1,301,426	\$ 1,301,318	\$ (108)	\$ 1,265,166
Assessments .....	23,153	23,398	245	22,178
Departmental .....	639,499	661,268	21,769	645,810
Miscellaneous .....	707	7,371	6,664	225
Total revenues .....	<u>1,964,785</u>	<u>1,993,355</u>	<u>28,570</u>	<u>1,933,379</u>
Other financing sources:				
Operating transfers in .....	96,000	—	(96,000)	—
Other fund deficit support .....	—	—	—	71,485
Total other financing sources .....	<u>96,000</u>	<u>—</u>	<u>(96,000)</u>	<u>71,485</u>
Total revenues and other financing sources .....	<u>2,060,785</u>	<u>1,993,355</u>	<u>(67,430)</u>	<u>2,004,864</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Massachusetts Department of Transportation .....	187,000	171,417	15,583	122,553
Post employment benefits .....	—	42,218	(42,218)	31,168
Debt service:				
Principal retirement .....	752,814	713,596	39,218	735,408
Interest and fiscal charges .....	483,116	461,458	21,658	460,888
Total expenditures .....	<u>1,422,930</u>	<u>1,388,689</u>	<u>34,241</u>	<u>1,350,017</u>
Other financing uses:				
Operating transfers out .....	588,266	566,790	21,476	655,328
Other fund deficit support .....	—	35,089	(35,089)	—
Total other financing uses .....	<u>588,266</u>	<u>601,879</u>	<u>(13,613)</u>	<u>655,328</u>
Total expenditures and other financing uses .....	<u>2,011,196</u>	<u>1,990,568</u>	<u>20,628</u>	<u>2,005,345</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	49,589	2,787	(46,802)	(481)
Fund balance (deficit) at beginning of year .....	13,903	13,903	—	14,384
Fund balance (deficit) at end of year .....	<u>\$ 63,492</u>	<u>\$ 16,690</u>	<u>\$ (46,802)</u>	<u>\$ 13,903</u>

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# Commonwealth Stabilization Fund

## Balance Sheet - Statutory Basis

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments .....	\$ 1,019,769	\$ 988,004
Investments .....	271,745	264,425
Total assets .....	<u>\$ 1,291,514</u>	<u>\$ 1,252,429</u>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable .....	\$ —	\$ —
Total liabilities .....	<u>—</u>	<u>—</u>
Fund balance:		
Reserved fund balance:		
Reserved for Commonwealth Stabilization .....	1,291,514	1,252,429
Total fund balance .....	<u>1,291,514</u>	<u>1,252,429</u>
Total liabilities and fund balance .....	<u>\$ 1,291,514</u>	<u>\$ 1,252,429</u>

See accountants' review report

## Commonwealth Stabilization Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ —	\$ 744	\$ 744	\$ 647
Miscellaneous .....	5,547	11,241	5,694	4,646
Total revenues .....	<u>5,547</u>	<u>11,985</u>	<u>6,438</u>	<u>5,293</u>
Other financing sources:				
Stabilization transfer .....	—	27,100	27,100	143,507
Total other financing sources .....	—	27,100	27,100	143,507
Total revenues and other financing sources .....	<u>5,547</u>	<u>39,085</u>	<u>33,538</u>	<u>148,800</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and Finance .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Stabilization transfer .....	—	—	—	144,806
Total other financing uses .....	—	—	—	144,806
Total expenditures and other financing uses .....	—	—	—	144,806
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	5,547	39,085	33,538	3,994
Fund balance (deficit) at beginning of year .....	1,252,429	1,252,429	—	1,248,435
Fund balance (deficit) at end of year .....	<u>\$ 1,257,976</u>	<u>\$ 1,291,514</u>	<u>\$ 33,538</u>	<u>\$ 1,252,429</u>

See accountants' review report



# Intragovernmental Service Fund

## Balance Sheet - Statutory Basis

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 34,342	\$ 43,611
Total assets.....	<u>\$ 34,342</u>	<u>\$ 43,611</u>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ 26,854	\$ 27,292
Accrued payroll.....	2,036	5,333
Total liabilities.....	<u>28,890</u>	<u>32,625</u>
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	5,452	10,986
Total fund balance.....	<u>5,452</u>	<u>10,986</u>
Total liabilities and fund balance.....	<u>\$ 34,342</u>	<u>\$ 43,611</u>

See accountants' review report

## Intragovernmental Service Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ 402,100	\$ 402,100	\$ 379,264
Total revenues .....	—	402,100	402,100	379,264
Other financing sources:				
Operating transfers in .....	—	—	—	—
Total other financing sources .....	—	—	—	—
Total revenues and other financing sources .....	—	402,100	402,100	379,264
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Secretary of the Commonwealth .....	116	—	116	104
Comptroller .....	5,524	5,041	483	4,731
Administration and Finance .....	304,528	222,855	81,673	211,368
Energy and Environmental Affairs .....	1,509	1,471	38	1,431
Health and Human Services .....	121,553	97,554	23,999	98,148
Executive Office of Education .....	1,860	432	1,428	103
Public Safety and Security .....	63,811	56,223	7,588	50,752
Housing and Economic Development .....	7,665	1,666	5,999	1,795
Labor and Workforce Development .....	19,042	—	19,042	—
Debt service:				
Principal retirement .....	13,671	13,671	—	8,506
Total expenditures .....	539,279	398,913	140,366	376,938
Other financing uses:				
Operating transfers out .....	—	8,721	(8,721)	1,569
Total other financing uses .....	—	8,721	(8,721)	1,569
Total expenditures and other financing uses .....	539,279	407,634	131,645	378,507
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(539,279)	(5,534)	533,745	757
Fund balance (deficit) at beginning of year .....	10,986	10,986	—	10,229
Fund balance (deficit) at end of year .....	\$ (528,293)	\$ 5,452	\$ 533,745	\$ 10,986

See accountants' review report

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

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 16,569	\$ 18,181
Total assets.....	\$ 16,569	\$ 18,181
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ 1,814	\$ 1,736
Accrued payroll.....	156	411
Total liabilities.....	1,970	2,147
Fund balance:		
Undesignated.....	14,599	16,034
Total fund balance.....	14,599	16,034
Total liabilities and fund balance.....	\$ 16,569	\$ 18,181

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, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ 1,000	\$ 1,001	\$ 1	\$ 986
Federal grants and reimbursements .....	5,800	8,824	3,024	8,095
Departmental .....	7,345	7,787	442	7,294
Miscellaneous .....	34	66	32	45
Total revenues .....	14,179	17,678	3,499	16,420
Other financing sources:				
Operating transfers in .....	170	190	20	187
Total other financing sources .....	170	190	20	187
Total revenues and other financing sources .....	14,349	17,868	3,519	16,607
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and Finance .....	119	105	14	94
Energy and Environmental Affairs .....	17,171	16,468	703	15,647
Total expenditures .....	17,290	16,573	717	15,741
Other financing uses				
Fringe benefit cost assessment .....	—	2,730	(2,730)	2,265
Total other financing uses .....	—	2,730	(2,730)	2,265
Total expenditures and other financing uses .....	17,290	19,303	(2,013)	18,006
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(2,941)	(1,435)	1,506	(1,399)
Fund balance (deficit) at beginning of year .....	16,034	16,034	—	17,433
Fund balance (deficit) at end of year .....	\$ 13,093	\$ 14,599	\$ 1,506	\$ 16,034

See accountants' review report

# Marine Recreational Fisheries Development Fund

## Balance Sheet - Statutory Basis

June 30, 2016

(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 2,825	\$ 2,766
Total assets.....	<u>\$ 2,825</u>	<u>\$ 2,766</u>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ 115	\$ 173
Accrued payroll.....	8	27
Total liabilities.....	<u>123</u>	<u>200</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	2,702	2,566
Total fund balance.....	<u>2,702</u>	<u>2,566</u>
Total liabilities and fund balance.....	<u>\$ 2,825</u>	<u>\$ 2,766</u>

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, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ 1,418	\$ 1,502	\$ 84	\$ 1,429
Total revenues .....	1,418	1,502	84	1,429
Other financing sources:				
Operating transfers in .....	—	—	—	—
Total other financing sources .....	—	—	—	—
Total revenues and other financing sources .....	1,418	1,502	84	1,429
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Energy and Environmental Affairs .....	1,306	1,228	78	1,158
Total expenditures .....	1,306	1,228	78	1,158
Other financing uses				
Fringe benefit cost assessment .....	—	138	(138)	104
Total other financing uses .....	—	138	(138)	104
Total expenditures and other financing uses .....	1,306	1,366	(60)	1,262
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	112	136	24	167
Fund balance (deficit) at beginning of year .....	2,566	2,566	—	2,399
Fund balance (deficit) at end of year .....	\$ 2,678	\$ 2,702	\$ 24	\$ 2,566

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**Public Safety Training Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 2,490	\$ 1,182
Total assets.....	\$ 2,490	\$ 1,182
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	2,490	1,182
Total fund balance (deficit).....	2,490	1,182
Total liabilities and fund balance.....	\$ 2,490	\$ 1,182

See accountants' review report

## Public Safety Training Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ 1,308	\$ 1,308	\$ 1,406
Total revenues .....	—	1,308	1,308	1,406
Other financing sources:				
Operating transfers in .....	—	—	—	—
Total other financing sources .....	—	—	—	—
Total revenues and other financing sources .....	—	1,308	1,308	1,406
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and finance .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Operating transfers out .....	—	—	—	792
Total other financing uses .....	—	—	—	792
Total expenditures and other financing uses .....	—	—	—	792
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	—	1,308	1,308	614
Fund balance (deficit) at beginning of year .....	1,182	1,182	—	568
Fund balance (deficit) at end of year .....	\$ 1,182	\$ 2,490	\$ 1,308	\$ 1,182

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**Community First Trust Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 44,621	\$ 72,433
Total assets.....	\$ 44,621	\$ 72,433
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	44,621	72,433
Total fund balance.....	44,621	72,433
Total liabilities and fund balance.....	\$ 44,621	\$ 72,433

See accountants' review report

## Community First Trust Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Federal grants and reimbursements .....	\$ 35,000	\$ 48,430	\$ 13,430	\$ 83,470
Total revenues .....	35,000	48,430	13,430	83,470
Other financing sources:				
Operating transfers in .....	—	—	—	—
Total other financing sources .....	—	—	—	—
Total revenues and other financing sources .....	35,000	48,430	13,430	83,470
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary .....	2	2	—	—
District Attorney .....	2	2	—	—
Health and Human Services .....	56,523	49,859	6,664	—
Housing and Economic Development .....	87	80	7	—
Total expenditures .....	56,614	49,943	6,671	—
Other financing uses:				
Fringe benefit cost assessment .....	—	1,212	(1,212)	—
Operating transfers out .....	—	25,087	(25,087)	11,037
Total other financing uses .....	—	26,299	(26,299)	11,037
Total expenditures and other financing uses .....	56,614	76,242	(19,628)	11,037
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(21,614)	(27,812)	(6,198)	72,433
Fund balance (deficit) at beginning of year .....	72,433	72,433	—	—
Fund balance (deficit) at end of year .....	\$ 50,819	\$ 44,621	\$ (6,198)	\$ 72,433

See accountants' review report

**Massachusetts Tourism Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 1,385	\$ 4,724
Total assets.....	\$ 1,385	\$ 4,724
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 1,359	\$ 2,974
Accrued payroll.....	26	69
Total liabilities.....	1,385	3,043
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	—	1,681
Total fund balance.....	—	1,681
Total liabilities and fund balance.....	\$ 1,385	\$ 4,724

See accountants' review report

## Massachusetts Tourism Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes .....	\$ 33,900	\$ 56,772	\$ 22,872	\$ 52,745
Total revenues .....	33,900	56,772	22,872	52,745
Other financing sources:				
Operating transfers in .....	—	—	—	2,513
Total other financing sources .....	—	—	—	2,513
Total revenues and other financing sources .....	33,900	56,772	22,872	55,258
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Governor and Lieutenant Governor .....	27	27	—	—
Massachusetts Departments of Transportation .....	20	20	—	—
Housing and Economic Development .....	25,114	22,384	2,730	21,704
Total expenditures .....	25,161	22,431	2,730	21,704
Other financing uses:				
Fringe benefit cost assessment .....	—	404	(404)	494
Stabilization transfer .....	—	—	—	19,337
Other fund deficit support .....	—	35,618	(35,618)	12,062
Total other financing uses .....	—	36,022	(36,022)	31,893
Total expenditures and other financing uses .....	25,161	58,453	(33,292)	53,597
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	8,739	(1,681)	(10,420)	1,661
Fund balance (deficit) at beginning of year .....	1,681	1,681	—	20
Fund balance (deficit) at end of year .....	\$ 10,420	\$ —	\$ (10,420)	\$ 1,681

See accountants' review report

**Local Capital Projects Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ —	\$ 3,864
Total assets.....	\$ —	\$ 3,864
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ 3,864
Total liabilities.....	—	3,864
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	—	—
Total fund balance (deficit).....	—	—
Total liabilities and fund balance.....	\$ —	\$ 3,864

See accountants' review report

## Local Capital Projects Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ —	\$ —	\$ —
Total revenues .....	—	—	—	—
Other financing sources:				
Operating transfers in .....	—	—	—	18,425
Total other financing sources .....	—	—	—	18,425
Total revenues and other financing sources .....	—	—	—	18,425
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Housing and Economic Development .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Stabilization transfer .....	—	—	—	24,437
Other fund deficit support .....	—	—	—	15,238
Total other financing uses .....	—	—	—	39,675
Total expenditures and other financing uses .....	—	—	—	39,675
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	—	—	—	(21,250)
Fund balance (deficit) at beginning of year .....	—	—	—	21,250
Fund balance (deficit) at end of year .....	\$ —	\$ —	\$ —	\$ —

See accountants' review report

**Gaming Local Aid Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ —	\$ —
Total assets.....	<u>\$ —</u>	<u>\$ —</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	<u>—</u>	<u>—</u>
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	—	—
Total fund balance (deficit).....	<u>—</u>	<u>—</u>
Total liabilities and fund balance.....	<u>\$ —</u>	<u>\$ —</u>

See accountants' review report

## Gaming Local Aid Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ —	\$ —	\$ —
Total revenues .....	—	—	—	—
Other financing sources:				
Operating transfers in .....	105,000	64,356	(40,644)	1,961
Other fund deficit support .....	—	40,677	40,677	17,994
Total other financing sources .....	105,000	105,033	33	19,955
Total revenues and other financing sources .....	105,000	105,033	33	19,955
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Direct local aid .....	105,034	105,033	1	19,955
Total expenditures .....	105,034	105,033	1	19,955
Other financing uses:				
Operating transfers out .....	—	—	—	—
Total other financing uses .....	—	—	—	—
Total expenditures and other financing uses .....	105,034	105,033	1	19,955
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	(34)	—	34	—
Fund balance (deficit) at beginning of year .....	—	—	—	—
Fund balance (deficit) at end of year .....	\$ (34)	\$ —	\$ 34	\$ —

See accountants' review report



**Local Aid Stabilization Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 50	\$ 7,400
Total assets.....	\$ 50	\$ 7,400
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ 7,350
Total liabilities.....	—	7,350
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	50	50
Total fund balance (deficit).....	50	50
Total liabilities and fund balance.....	\$ 50	\$ 7,400

See accountants' review report

## Local Aid Stabilization Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ —	\$ —	\$ —
Total revenues .....	—	—	—	—
Other financing sources:				
Operating transfers in .....	—	—	—	8,375
Total other financing sources .....	—	—	—	8,375
Total revenues and other financing sources .....	—	—	—	8,375
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Executive Office of Education .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Operating transfers out .....	—	—	—	—
Total other financing uses .....	—	—	—	—
Total expenditures and other financing uses .....	—	—	—	—
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	—	—	—	8,375
Fund balance (deficit) at beginning of year .....	50	50	—	(8,325)
Fund balance (deficit) at end of year .....	\$ 50	\$ 50	\$ —	\$ 50

See accountants' review report

**Manufacturing Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ —	\$ 125
Total assets.....	\$ —	\$ 125
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ —	\$ 62
Total liabilities.....	—	62
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	—	63
Total fund balance (deficit).....	—	63
Total liabilities and fund balance.....	\$ —	\$ 125

See accountants' review report

## Manufacturing Fund

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

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ —	\$ —	\$ —
Total revenues .....	—	—	—	—
Other financing sources:				
Operating transfers in .....	—	—	—	21,775
Total other financing sources .....	—	—	—	21,775
Total revenues and other financing sources .....	—	—	—	21,775
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Labor and Workforce Development .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Stabilization transfer .....	—	—	—	13,373
Other fund deficit support .....	—	—	—	8,339
Total other financing uses .....	—	—	—	21,712
Total expenditures and other financing uses .....	—	—	—	21,712
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	—	—	—	63
Restated Fund balance (deficit) at beginning of year .....	—	—	—	—
Fund balance (deficit) at end of year .....	\$ —	\$ —	\$ —	\$ 63

See accountants' review report

**Community College Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2016  
(Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Cash and short-term investments.....	\$ —	\$ 831
Total assets.....	\$ —	\$ 831
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accrued payroll.....	\$ —	\$ 831
Total liabilities.....	—	831
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	—	—
Total fund balance (deficit).....	—	—
Total liabilities and fund balance.....	\$ —	\$ 831

See accountants' review report

**Community College Fund**

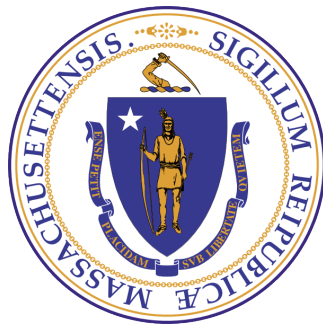
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental .....	\$ —	\$ —	\$ —	\$ 2
Total revenues .....	—	—	—	2
Other financing sources:				
Operating transfers in .....	—	—	—	28,475
Total other financing sources .....	—	—	—	28,475
Total revenues and other financing sources .....	—	—	—	28,477
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Executive Office of Education .....	—	—	—	—
Total expenditures .....	—	—	—	—
Other financing uses:				
Stabilization transfer .....	—	—	—	17,554
Other fund deficit support .....	—	—	—	10,943
Total other financing uses .....	—	—	—	28,497
Total expenditures and other financing uses .....	—	—	—	28,497
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses .....	—	—	—	(20)
Fund balance (deficit) at beginning of year .....	—	—	—	20
Fund balance (deficit) at end of year .....	\$ —	\$ —	\$ —	\$ —

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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 and Gaming 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. Residual fund balance transfers are made to the General Fund at the end of the fiscal year.

## **GAMING FUNDS:**

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

***Gaming 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 MGL.

## **UNIVERSAL HEALTH CARE FUNDS:**

The eleven Universal Healthcare Funds account for assessments and other revenues that are dedicated to making health care and health insurance accessible and affordable to all citizens of the Commonwealth.

***Catastrophic Illness in Children Relief Fund*** - to account for receipts from a portion of an employer's unemployment health insurance contribution and certain Federal Financial Participation (FFP). The assistance is for medical expenses of childhood catastrophic illnesses not covered by any other state and federal program and subject to certain family income limits.

***Commonwealth Care Trust Fund*** - to collect fair share employer assessments, free rider surcharges, cigarette tax revenues, transfers from the Health Safety Net Trust Fund and any funds that may be appropriated or transferred for deposit into the trust fund for the purpose of providing health care coverage in accordance with Chapter 58 of the Acts of 2006.



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

**Health Safety Net Trust Fund** - to account for reimbursing hospitals and community health centers for a portion of the cost of reimbursable health services provided to low-income, uninsured or underinsured residents of the Commonwealth. Revenues are from surcharges and assessment in health care services.

**Community First Trust Fund** - The secretary of health and human services may expend not more than \$16 million deposited in the fund. There shall be credited to the fund an amount equal to the increase in revenues from federal reimbursements resulting from the increased percentage points attributable to participation in the state balancing incentive payment program. There shall be credited to the fund an amount equal to the revenues received from FFP earned on any qualifying expenditures sourced from the fund. Any remaining balance in the fund at the end of a fiscal year shall not revert to the General Fund but shall remain in the fund and be available for expenditure during the next fiscal year. Expenditures from the fund may be made for services provided in prior fiscal years.

**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 home and community-based waiver programs established to support the commonwealth's rebalancing initiative. Monies equal to the amount of FFP collected from the previous quarter shall be transferred to the fund.

**Healthcare Payment Reform Fund** - to account for any gaming license fees transferred under Section 93 of Chapter 194 of the Acts of 2011, as amended by Section 10 of Chapter 3 of the Acts of 2013, 5% of the acute hospital assessments and any monies credited or transferred to the fund from any other fund or source. The Health Policy Commission is the trustee of the fund and may expend from the fund to carry out the purposes of Chapter 224 of the Acts of 2012, which is to improve the quality of and reduce the cost of health care in the Commonwealth.

**Distressed Hospital Trust Fund** - to account for public and private sources such as gifts, grants and donations, interest earned on such revenues, 60% of the acute hospital assessment established in Section 241 of Chapter 224 of the Acts of 2012, and any funds provided from other sources. All expenditures shall support the State's efforts to meet the health care cost growth benchmark established in Section 9 of Chapter 6D of the MGL and shall be consistent with any activities funded by the e-Health Institute, the Healthcare Payment Reform Fund, and any delivery system transformation initiative funds authorized by the federal government. No more than 10% of the amounts held in the fund in any one year shall be used by the commission for the combined cost of program administration, technical assistance to grantees or program evaluation.

**Prevention and Wellness Trust Fund** - to account for: (1) any revenue from appropriations or other monies authorized by the General Court and specifically designated to be credited to the fund; (2) any fines and penalties allocated to the fund; (3) any funds from public and private sources such as gifts, grants and donations to further community-based prevention activities; (4) any interest earned on such revenues; and (5) any funds provided from other sources. Also, 26 2/3% of the acute hospital assessment established in Section 241 of Chapter 224 of the Acts of 2012 shall be credited to this fund. All expenditures from the fund shall support the state's efforts to meet the health care cost growth benchmark established in Section 9 of Chapter 6D of the MGL and any activities funded by the Healthcare Payment Reform Fund and other health related purposes. No more than 15% of the amounts held in the fund in any one year shall be used by the department for the combined cost of program administration, technical assistance to grantees or program evaluation.

**Massachusetts Health Information Exchange Fund** - to account for expenditures to support the dissemination and development of the statewide health information exchange. There shall be credited to the fund any appropriations, proceeds of any bonds or notes of the commonwealth issued for the purpose, or other monies authorized by the general court and designated thereto; any federal grants or loans; any private gifts, grants or donations made available; and any income derived from the investment of amounts credited to the fund.

## **OTHER FUNDS:**

The other special revenue funds account for a variety of miscellaneous taxes, assessments, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

***Dam and Seawall Repair or Removal Fund*** - to account for amounts credited or transferred to the fund by the General Court or any other source including, without limitation, federal grants; loan repayments; investment earnings on monies in the fund; and any other amounts required to be credited to the fund by operation of law, resolution or agreement entered into by the Department of Conservation and Recreation. Amounts credited to the fund shall be used to provide grants or loans to local governmental bodies, charitable organizations and private dam owners to finance or refinance costs related to dams and flood or wave control repair or remediation projects. Grants from the fund shall only be available to local government bodies and charitable organizations.

***Department of Telecommunication and Energy Trust Fund*** - to account for expenditures by the Department of Telecommunications and Energy for activities of the Department related to the regulation of electric companies.

***Fingerprint-Based Background Check Trust Fund*** - to account for any appropriations or other monies authorized by the General Court and specifically designated to be credited thereto and any additional funds designated for deposit into the fund, including any private donations made available for deposit into the fund. Expenditures shall be for the sole purpose of carrying out state and national criminal background checks and verifications.

***Liability Management and Reduction Fund*** - to account for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims.

***Medical Marijuana Trust Fund*** - to account for revenues generated from fees collected after July 1, 2013, as authorized by Section 3B of Chapter 7 of the MGL and Section 13 of Chapter 369 of the Acts of 2012. Expenditures from the fund shall be for the administrative costs of operations and programs related to said Chapter 369.

***Essex Regional Emergency Communication Center Fund*** - The fund shall be used for the operation of the Regional Emergency Communications Center (RECC) to provide centralized emergency communication services to participating communities. There shall be credited to the fund: (i) the per capita assessment based on population on each member city or town and (ii) any other funding, including, but not limited to, appropriation, gift, grant, contribution, transfer or investment. Expenditures from the fund shall be made for the operating costs of the RECC provided, however, that funds shall not be used toward the capital budget requirements of the Essex County Regional Emergency Communications Center.

***Dockside Testing Trust Fund*** - to account for fees collected from harvesters of molluscan shellfish on Georges Bank in the amount of \$35,000 per vessel. Expenditures shall be for the administrative costs of the operations and programs of the department related to regulating and monitoring the shellfish harvesters, including the testing of shellfish as necessary to ensure that they are safe for human consumption.

***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 Chapter 10, Section 35T of the MGL.

***Community Preservation Trust Fund*** - to account for revenues received from surcharges on real estate property taxes, public and private sources as gifts, grants and donations, from damages, penalties costs from litigation settlements and surcharge on municipal liens imposed by the cities and towns that accept funds from the trust, to further community open space preservation programs.

***Health Insurance Portability and Accountability Act Fund*** - to account for revenues received from Federal reimbursements under the Social Security Act, other Federal reimbursements, grants, gifts or other contributions to meet the costs of compliance with the Federal Health Insurance Portability and Accountability Act of 1996 (HIPPA).

**State Racing Fund** - to account for racing-related taxes and assessments, to be used for expenditures governing simulcasting and to provide certain relief to the racing industry in the Commonwealth. This fund expires on July 31, 2016.

**Division of Professional Licensure Trust Fund** - to support programs and administrative costs of the Division of Professional Licensure. Revenues are from professional registration fees and expenditures are for regulatory purposes. Moneys deposited into the trust fund that are unexpended at the end of the fiscal year, and that total not more than 50% of the division's expenditures for the previous fiscal year, shall not revert to the General Fund.

**Victims of Drunk Driving Trust Fund** - to account for fines collected from individuals convicted of driving under the influence of various substances defined by the law. Expenditures are for grants to community based programs to provide counseling and support services to victims of accidents.

**State Athletic Commission Fund** - to account for licensing fees, other fees and fines collected up to a maximum of \$200,000 per year. All revenues in excess of \$200,000 shall be transferred to the General Fund.

**Organ and Tissue Donor Registration Fund** - to account for funds received from public and private donations, fees collected by the department of Public Health, including interest revenue, for the purpose of registration of residents of the Commonwealth as organ and tissue donors. Administrative costs cannot exceed 3% per annum of the funds held in the fund in any given fiscal year.

**Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust Fund** - to account for monies received from fees, fines and investment income up to a maximum of \$250,000 per year. All revenues in excess of \$250,000 are transferred to the General Fund. Expenditures are for emergency hazardous materials response and mitigation costs.

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

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

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

**Enhanced 911 Fund** - to account for expenditures by the State Police and the Executive Office of Public Safety and Security to automatically identify a telephone number used to place or route a 911 call.

**Counsel for Indigent Salary Enhancement Trust Fund** - to account for fees collected for private applications for criminal complaints for misdemeanors in Commonwealth courts, including investment income. Expenditures are for rate enhancements for advocates for the indigent.

**Smart Growth Housing Trust Fund** - to account for revenues from state surplus property sold for between \$25 million to \$50 million, or appropriations from the General Fund and monetary sanctions imposed by the department. Expenditures are for 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 for the implementation of programs for energy reliability, renewable energy, public procurement of energy and energy efficiency and climate change.

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

**Roche Community Rink Fund** - to account for the residual net revenues of the privately operated ice skating rink located in the West Roxbury section of the City of Boston.

**Health Care Workforce Transformation Fund** - to account for all revenue received from appropriations made by General Court and gifts, grants, loan repayments and interest income. Expenditures of not more than 10% of the amount held in the fund in any one year shall be used by the Secretary of Health and Human Services for the combined cost of program administration, technical assistance to grantees and program evaluation. Funds of not less than 20% may be transferred to the Department of Public Health and up to 10% may be transferred to the Massachusetts Nursing and Allied Health Workforce Development Trust Fund. Funds remaining shall be expended by the Executive Office of Labor and Workforce Development for various healthcare related jobs programs.

**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 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 debt service payable on Build America bonds issued by the Commonwealth. Expenditures are used to pay debt service related to these bonds.

**Housing Preservation and Stabilization Fund** - to account for funds appropriated or transferred to the trust fund by the general court; and all interest earned on monies in the trust fund. Expenditures shall be made for providing affordable housing for low-income families and individuals in the commonwealth, particularly those most at risk of becoming homeless. Balances remaining at the end of a fiscal year shall not revert to the General Fund.

**Office of Refugees and Immigrants Trust Fund** - to account for grants, bequests, gifts or contributions of cash or securities and contributions of services or property in kind made for the purpose of supporting the office for refugees and immigrants. Expenditures shall be made only for operating costs of the office for refugees and immigrants and costs associated with refugee and immigrant-related programs, grants and initiatives of the director.

**Veterans Independence Plus Initiative Trust Fund** - to account for revenues collected by the department from this initiative. Expenditures from the fund shall be for the administration of the Veterans Independence Plus Initiative, a joint initiative of the United States Department of Veterans Affairs and the Administration on Aging in the United States Department of Health and Human Services. Any remaining balance at the end of a fiscal year shall not revert to the General Fund but shall remain in the fund and be available to the department during the following fiscal year. The secretary may expend from the fund for services provided in prior fiscal years.

**Massachusetts Environmental Police Trust Fund** - to account for (i) all revenues collected of certain administrative surcharges; (ii) a 10% maintenance fee charged on all division of law enforcement private details; (iii) any appropriations, bond proceeds or other monies authorized by the general court and specifically designated to be credited to the fund; (iv) interest or investment earnings on any such monies; and (v) all other amounts credited or transferred to the fund from any other fund or source. Amounts credited to the fund may be expended on programs and costs related to the division of law enforcement. The unexpended balance in the fund at the end of a fiscal year shall not revert to the General Fund but shall remain available for expenditure in subsequent fiscal years. No expenditure made from the fund shall cause the fund to become deficient at any point.

**Domestic and Sexual Violence Prevention and Victim Assistance Fund** - to support innovative practices to prevent domestic and sexual violence and provide assistance to victims of domestic violence in the commonwealth. The fund shall be credited any appropriations, bond proceeds or other monies authorized by the general court, and any other

monies which may be available for the purposes of the fund from any other source or sources. Any revenues, deposits, receipts or funds received shall be deposited in the fund and shall be available for the purposes described in this section. Money remaining in the fund at the end of the year shall not revert to the General Fund.

***Massachusetts Seafood Marketing Program Fund*** - to account for (i) a portion of the monies collected from the sale of commercial harvester and dealer permits issued by the division in an amount not to exceed \$250,000 per fiscal year; (ii) any appropriations, grants, gifts or other monies authorized by the general court or other parties and specifically designated to be credited to the fund; and (iii) any income derived from the investment of amounts credited to the fund. All amounts credited to the fund shall be for the purpose of developing and administering the seafood marketing program. Monies deposited in the fund that are unexpended at the end of the fiscal year shall not revert to the General Fund and shall be available for expenditure in the subsequent year. The fund shall be exempt from the indirect and fringe benefits that would otherwise be assessed.

***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 (STEM Pipeline Fund)*** - to account for support provided to Massachusetts students who participate in programs that support careers in fields related to mathematics, science, technology and engineering. The grants also support curriculum development in those fields.

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

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

***Regional Greenhouse Gas Initiatives (RGGI) Auction Trust Fund*** - to account for auction proceeds under the carbon dioxide cap and trade program. Expenditures from the fund shall be made by the Department of Environmental Protection in consultation with the Department of Energy Resources to adopt rules and regulations establishing a carbon dioxide cap to limit and reduce the total carbon dioxide emissions released by electricity-generating stations.

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

***Ocean Resources and Waterways Trust Fund*** - to account for funds appropriated, investment income, grants or ocean development mitigation fees received; for use in restoring or enhancing marine habitat and resources affected by project developments.

***Off Highway Vehicle Program Fund*** - to account for fees, fines and investment income collected for use in enforcement and environmental development, repair and restorations of trails and facilities.

***Workforce Training Trust Fund*** - to account for revenues from the 0.075% unemployment surcharge on taxable wages on employers; to provide grants to employers, employer groups, labor organizations and training providers for projects to provide education and training to existing employees and newly hired workers.

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

***Substance Abuse Services Fund*** - to account for funds used to expand inpatient treatment facilities and ongoing case management for individuals civilly committed under Section 35 of Chapter 123 of the MGL.

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

***Department of Public Utilities Storm Trust Fund*** - to account for assessments charged against each electric company under the jurisdictional control of the Department of Public Utilities and any income derived from the investment of amounts credited to the Fund. Monies from this fund shall be used in investigating the preparation for and response to storm and other emergency events by electric companies in the Commonwealth.

***Financial Literacy Trust Fund*** - to account for private contributions, publicly or privately-funded grants and funds appropriated by the state or federal government. The fund shall be used to encourage financial literacy and education for residents, institutions, community organizations and entities that will promote financial literacy

***Homeless Animal Prevention and Care Fund*** - to offset costs associated with the vaccination, spaying and neutering of homeless dogs and cats owned by low-income residents and to assist with the training of animal control officers consistent with Section 151C of Chapter 140 of the MGL. The fund shall consist of all revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return and from public and private sources as gifts, grants and donations to further reduce the population of homeless animals.

***Horseneck Beach Reservation Trust Fund*** - to account for the long-term preservation, maintenance, nourishment and public safety of Horseneck Beach in the Town of Westport. Revenues credited to the fund shall consist of a surcharge of \$1 imposed by the Department of Conservation and Recreation upon each fee charged and collected from admission to and parking in the Horseneck Beach Reservation. Expenditures from the fund for public safety may be made available to the Town of Westport's police, fire, ambulance and emergency personnel.

***Environmental Trust Fund*** - to account for fines, gifts and grants used for restoration, protection and improvement of the quality of Boston Harbor, Lynn Harbor, Massachusetts Bay, Buzzards Bay and Cape Cod Bay.

***Social Innovation Financing Trust Fund*** - to account for funding contracts to improve outcomes and lower costs for contracted government services. The Secretary of Administration and Finance may provide that payments in future years under any such contracts shall constitute a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth shall be pledged for the benefit of the providers of the contracted government services, but the total amount of payments under such contracts secured by a pledge of the full faith and credit of the Commonwealth shall not exceed, in the aggregate, \$50 million.

***Children's Trust Fund*** - to account for gifts, grants, interest and donations to the Child Abuse Prevention Board and certain appropriations designated to be transferred to the fund; used for support programs to raise awareness of child abuse and prevention programs.

***Child Support Enforcement Fund*** - to account for child support payments, fees and penalties collected by the Child Support Division, federal monies and any related interest / earnings. Expenditures are for child-support related activities.

***Massachusetts Military Family Relief Fund*** - to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, from public and private sources as gifts, grants, and donations to further the purposes of the fund, which is to help members of the Massachusetts National Guard and Massachusetts residents who are members of the Armed Forces of the United States and who were called to active duty after September 11, 2001.

***Department of Industrial Accidents Special Fund*** - to account for assessments to employers and cities and towns for workers' compensation insurance premiums and penalties assessed against employers who fail to insure for workers' compensation; used to reimburse the General Fund for the operating account of the Department of Industrial Accidents and for administrative overhead.

***Logan Airport Health Study Trust Fund*** - to account for monies allocated by the Massachusetts Port Authority or any other public or private entity to the department of public health to conduct public health activities associated with the Logan Airport Health Study. Funds shall be expended for administration and project management activities and for direct support to community health centers within the study area. Monies deposited in the fund that are unexpended at the end of the fiscal year shall not revert to the General Fund.

**Massachusetts AIDS Fund** - to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, from public and private sources as gifts, grants, and donations; used for research, treatment, and education related to acquired immune deficiency syndrome.

**Head Injury Treatment Services Trust Fund** - to account for revenues from a surcharge on fines resulting from "driving under the influence" convictions; funds the Massachusetts Rehabilitation Commission's statewide head injury program to develop and maintain non-residential rehabilitation services for head injured persons.

**Board of Registration in Medicine Fund** - to account for certain revenues and expenditures of the Board.

**Water Pollution Abatement Projects Administration Fund** - to account for transfers from the Water Pollution Abatement Trust and general obligation bond proceeds; used for the administration of the Department of Environmental Protection to fund water pollution abatement projects.

**Child Care Quality Fund** - to account for revenues received from the sale of "Invest in Children" distinctive registration plates issued by the Registrar of Motor Vehicles and the expenditures by the commissioner of the Office for Children for providing grants for not-for-profit childcare organizations for the purpose of improving childcare services.

**Convention and Exhibition Center Fund** - to account for certain rooms and sales and use taxes, surcharges imposed on tourist tickets, including cruises and land-based sightseeing located in the Commonwealth, to finance the construction and operating expenses of a new Boston Convention Center and convention centers in Worcester and Springfield.

**Firearms Fingerprint Identity Verification Trust Fund** - to account for fees paid in firearms registrations for the purpose of financing fingerprint identification verifications with the fingerprint records maintained by the Federal Bureau of Investigations or any other federal agency for the verification of firearms license application identities.

**Grant Anticipation Note Trust Fund** - to account for proceeds to cover federal grant anticipation note expenditures and pay the related debt service.

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

**Community Mitigation Fund** - to account for gaming tax revenue transferred under Section 59 of Chapter 23K of the MGL 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.

**Capital Needs Investment Fund** - to account for funds specifically appropriated to the fund by the legislature. The funds shall be for the restoration costs of the Mayflower II and the construction of a public safety building in the Town of Barre. The fund shall expire on December 31, 2020 at which time the fund shall be repealed and any unexpended balance and interest shall be transferred to the General Fund.

**Debt Defeasance Trust Fund** - to account for legislatively mandated transfers to purchase securities to be held for the credit of or cash deposit into a sinking fund which shall be applied to pay, at maturity or upon redemption bonds of the Commonwealth as specified by the Treasurer. Payment shall include any premium and any interest accrued or to accrue to the date of maturity or earlier redemption of such bonds. Any balance remaining in the fund on or after June 1, 2016 shall be transferred to the general fund and the Trust fund shall be repealed.

## **MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUNDS:**

**Massachusetts Transportation Trust Fund** - to account for assessments, federal grants, departmental revenues, transfers and expenditures related to MassDOT.

**Central Artery / Tunnel Project Repair and Maintenance Trust Fund** - to account for any costs incurred in connection with the repairs and maintenance of the Central Artery and the Ted Williams Tunnel.

**Motor Vehicle Safety Inspection Trust Fund** - to account for motor vehicle inspection fees for administration and operation of safety inspection programs by the Registry of Motor Vehicles.

**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. Any expenditures from this fund shall be solely for the purpose of transportation and related infrastructure projects. 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 MGL.

**The following funds have been enacted in legislation but were inactive in FY16 and are not presented in this report:**

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

**Health Care Security Trust Fund** - to account for revenues received from tobacco companies under the tobacco settlement and interest income for health-related services and programs intended to control or reduce the use of tobacco in the Commonwealth. Per statute, tobacco revenues were deposited directly into the General Fund, not into this fund.

**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.

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

**Essential Community Provider Trust Fund** - to account for amounts appropriated for transfers and interest earned by the fund; used for payments to acute care hospitals and community health centers, as defined in Chapter 58 of the Acts of 2006, Section 8.

**Department of Mental Retardation Trust Fund** - to account for any receipts from assessments, transfers by the Department of Mental Retardation for public facilities and any other FFP. Expenditures are for operating the intermediate care facilities and community residences serving individuals with mental retardation.

**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.

**Agricultural Inspection and Infrastructure Trust Fund** - to account for agricultural inspection fee revenues, interest or investment earnings on such monies; and all other monies credited or transferred to the fund by law. Expenditures from the fund shall be for agricultural programs and costs related to the Agricultural Innovation Center. Any unexpended balance in the fund at the end of the fiscal year, not to exceed \$200,000, shall not revert to the General Fund but shall remain available for expenditure in subsequent fiscal years.

**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.

**Section 1202 Trust Fund** - to account for amounts equal to the FFP received under Section 1202 of the Patient Protection and Affordable Care Act. The amount deposited shall not exceed the amount expended from the fund. Expenditures shall be exclusively for services provided in calendar years 2013 and 2014 that are eligible for 100% FFP under said Section 1202. This fund expires June 30, 2015.

**Housing and Economic Development Trust Fund** - to account for (i) grants, bequests, gifts or contributions of cash or securities, or contributions of services or property in kind from any persons or other governmental, nongovernmental, quasi-governmental or local governmental entities and (ii) all interest earned on monies in the trust. Expenditures shall be made only for the following purposes: (i) operating costs of the executive office of housing and community development, including the divisions and programs within the executive office; (ii) operating costs of the Massachusetts marketing partnership and the offices within the partnership, and (iii) costs associated with housing and economic development programs, grants and initiatives of the secretary.

**Climate Change Adaptation Infrastructure Investment Fund** - to account for amounts credited or transferred to the fund by the general court or any other source including, without limitation, federal grants, loan repayments, investment earnings on monies in the fund and any other amounts required to be credited to the fund. Monies deposited into the fund that are unexpended at the end of the fiscal year shall not revert to the General Fund and shall be available for expenditure in the subsequent fiscal year. Amounts credited to the fund may be used for the costs associated with the operations of the division of waterways and the office of dam safety, the department of environmental protection, the department of fish and game and the office of coastal zone management for the costs associated with operations. The fund shall be used to provide grants or loans to agencies of the Commonwealth and local governmental bodies to finance or refinance costs of inspection, repair and removal projects.

**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.

**Medical Security Trust Fund** - to account for premiums, fees, and contributions; used for health insurance for workers receiving unemployment insurance. This fund expired on December 31, 2013. All activities are moved to Commonwealth Care Trust Fund.

**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.

**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.

**Public Health Trust Fund** - to account for the collection of fees on slot machines assessed under Section 56 of Chapter 23K of the MGL 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.

**Gaming Licensing Fund** - to account for the collection of all gaming establishment licensing fees established under Chapter 23K of the MGL and excluding initial application fees. Monies from this fund shall be transferred to various funds in accordance with Section 93 of Chapter 194 of the Acts of 2011. This fund shall expire on December 31, 2015.

**Securities Fraud Prosecution Fund** - to account for criminal penalties, fines and settlements collected under chapter 110A and any income from the investment of amounts credited to the fund. Expenditures from this fund are for investigations and enforcement of and dissemination of information about the requirements of Chapter 110A. The Fund shall not exceed a maximum of \$500,000. Amounts collected in excess of the maximum shall be deposited in the General Fund.

***Flood Control Compact Fund*** - to account for any funds authorized and specifically designated to the fund by the general court plus any interest or investment earnings on any such monies. Expenditures shall be made without further appropriation for costs arising under any compact authorized by the general court. Any remaining balance in the fund at the end of a fiscal year shall not revert to the General Fund but shall remain in the fund and be available for expenditure during the next fiscal year. No expenditure from the fund shall cause it to become deficient at any point.

**Non-Budgeted Special Revenue Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Lotteries			Gaming		Universal Health Care Funds	
	Federal Grants	State Lottery	Arts Lottery	Gaming Control	Gaming Revenue	Catastrophic Illness in Children Relief	Commonwealth Care Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes	\$ —	\$ 564	\$ —	\$ —	\$ 64,356	\$ —	\$ 149,085
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements	2,362,548	—	—	—	—	—	—
Departmental	—	5,350,513	54,533	24,214	—	—	168,221
Miscellaneous	—	1,546	73	—	—	—	—
Total revenues	<u>2,362,548</u>	<u>5,352,623</u>	<u>54,606</u>	<u>24,214</u>	<u>64,356</u>	<u>—</u>	<u>317,306</u>
Other financing sources:							
Operating transfers in	—	—	—	—	—	3,033	—
Health safety net trust transfer	—	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer	—	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	<u>3,033</u>	—
Total revenues and other financing sources	<u>2,362,548</u>	<u>5,352,623</u>	<u>54,606</u>	<u>24,214</u>	<u>64,356</u>	<u>3,033</u>	<u>317,306</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary	1,928	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	901	—	—	—	—	—	—
Treasurer and Receiver-General	1,121	4,270,519	44,579	78	—	—	—
Attorney General	16,707	—	—	976	—	—	—
District Attorney	1,868	—	—	—	—	—	—
Office of Campaign and Political Finance	—	—	—	—	—	—	—
Sheriff's Departments	3,605	—	—	—	—	—	—
Disabled Persons Protection Commission	66	—	—	—	—	—	—
Board of Library Commissioners	2,915	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	22,541	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance	5,447	—	—	—	—	—	202,640
Energy and Environmental Affairs	52,159	—	—	—	—	—	—
Health and Human Services	460,029	—	—	157	—	2,462	—
Massachusetts Department of Transportation	87	—	—	—	—	—	—
Executive Office of Education	984,833	—	—	—	—	—	—
Center for Health Information and Analysis	69	—	—	—	—	—	—
Public Safety and Security	144,382	—	—	19	—	—	—
Housing and Economic Development	464,600	—	—	—	—	—	—
Labor and Workforce Development	138,503	—	—	—	—	—	94
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—
Total expenditures	<u>2,279,220</u>	<u>4,270,519</u>	<u>44,579</u>	<u>23,771</u>	<u>—</u>	<u>2,462</u>	<u>202,734</u>
Other financing uses:							
Fringe benefit cost assessment	58,337	8,942	—	1,843	—	115	28
Lottery operating reimbursements	—	107,935	—	—	—	—	—
Lottery distributions	—	965,228	10,027	—	—	—	—
Operating transfers out	40,066	—	—	1,673	64,356	35	3,036
Stabilization transfer	—	—	—	—	—	—	—
Commonwealth care trust transfer	—	—	—	—	—	—	44,482
Health safety net trust transfer	—	—	—	—	—	—	30,000
Federal reimbursement transfer out	—	—	—	—	—	—	—
Total other financing uses	<u>98,403</u>	<u>1,082,104</u>	<u>10,027</u>	<u>3,516</u>	<u>64,356</u>	<u>150</u>	<u>77,546</u>
Total expenditures and other financing uses	<u>2,377,623</u>	<u>5,352,623</u>	<u>54,606</u>	<u>27,287</u>	<u>64,356</u>	<u>2,612</u>	<u>280,280</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(15,075)	—	—	(3,073)	—	421	37,026
Fund balances (deficits) at beginning of year (restated)	5,368	—	—	6,601	—	3,393	23,253
Fund balances (deficits) at end of year	<u>\$ (9,707)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,528</u>	<u>\$ —</u>	<u>\$ 3,814</u>	<u>\$ 60,279</u>

See accountants' review report

Universal Health Care Funds

Medical Assistance Trust	Health Safety Net Trust	Community First Trust	Delivery System Transformation Initiatives Trust	Money Follows the Person Rebalancing Demonstration Grant Trust	Healthcare Payment Reform	Distressed Hospital Trust	Prevention & Wellness Trust	Health Information Exchange
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	382,356	—	—	—	8,875	26,725	12,391	—
—	—	—	—	—	—	—	—	—
—	1,214	—	—	—	4	—	—	53
248,461	494	—	22,427	—	—	—	—	—
<u>248,461</u>	<u>384,064</u>	<u>—</u>	<u>22,427</u>	<u>—</u>	<u>8,879</u>	<u>26,725</u>	<u>12,391</u>	<u>53</u>
—	—	—	—	4,353	—	—	—	—
—	30,000	—	—	—	—	—	—	—
665,564	—	—	—	—	—	—	—	—
—	—	—	186,907	—	—	—	—	—
<u>665,564</u>	<u>30,000</u>	<u>—</u>	<u>186,907</u>	<u>4,353</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>914,025</u>	<u>414,064</u>	<u>—</u>	<u>209,334</u>	<u>4,353</u>	<u>8,879</u>	<u>26,725</u>	<u>12,391</u>	<u>53</u>
—	—	—	—	—	—	—	—	—
—	264	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	7,157	18,188	—	—
914,025	361,006	2,322	209,331	2,049	—	—	18,389	—
—	—	—	—	—	—	—	—	—
—	34	—	—	—	119	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<u>914,025</u>	<u>361,304</u>	<u>2,322</u>	<u>209,331</u>	<u>2,049</u>	<u>7,276</u>	<u>18,188</u>	<u>18,389</u>	<u>—</u>
—	634	183	—	—	1,079	279	212	—
—	—	—	—	—	—	—	—	—
—	26	—	1,993	—	1,104	180	65	475
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	660	183	1,993	—	2,183	459	277	475
<u>914,025</u>	<u>361,964</u>	<u>2,505</u>	<u>211,324</u>	<u>2,049</u>	<u>9,459</u>	<u>18,647</u>	<u>18,666</u>	<u>475</u>
—	52,100	(2,505)	(1,990)	2,304	(580)	8,078	(6,275)	(422)
—	45,191	15,602	1,991	6,243	15,189	74,567	27,825	433
<u>\$ —</u>	<u>\$ 97,291</u>	<u>\$ 13,097</u>	<u>\$ 1</u>	<u>\$ 8,547</u>	<u>\$ 14,609</u>	<u>\$ 82,645</u>	<u>\$ 21,550</u>	<u>\$ 11</u>

continued

**Non-Budgeted Special Revenue Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Non-Budgeted Other Funds							
	Dam and Seawall Repair or Removal	Department of Telecommunication and Energy Trust	Fingerprint-Based Background Check Trust	Liability Management and Reduction	Medical Marijuana Trust	Essex Regional Emergency Communication Center	Dockside Testing Trust	Civil Monetary Penalty (CMP)
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	4,200	—	—	—	—	—	—
Federal grants and reimbursements	—	—	—	—	—	—	—	—
Departmental	—	—	6,343	2,018	7,227	—	181	1,782
Miscellaneous	281	2	—	5	—	669	—	—
Total revenues	<u>281</u>	<u>4,202</u>	<u>6,343</u>	<u>2,023</u>	<u>7,227</u>	<u>669</u>	<u>181</u>	<u>1,782</u>
Other financing sources:								
Operating transfers in	—	—	—	—	—	—	—	—
Health safety net trust transfer	—	—	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer	—	—	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	—	—	—
Total revenues and other financing sources	<u>281</u>	<u>4,202</u>	<u>6,343</u>	<u>2,023</u>	<u>7,227</u>	<u>669</u>	<u>181</u>	<u>1,782</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—	—	—
Treasurer and Receiver-General	—	—	—	—	—	—	—	—
Attorney General	—	—	—	60	—	—	—	—
District Attorney	—	—	—	—	—	—	—	—
Office of Campaign and Political Finance	—	—	—	—	—	—	—	—
Sheriff's Departments	—	—	—	—	—	578	—	—
Disabled Persons Protection Commission	—	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	—	—	—
Comptroller	—	—	—	2,381	—	—	—	—
Administration and Finance	—	—	—	—	—	—	—	—
Energy and Environmental Affairs	6,895	2,947	—	—	—	—	—	—
Health and Human Services	—	—	—	—	1,958	—	61	385
Massachusetts Department of Transportation	—	—	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—	—	—
Public Safety and Security	—	—	4,004	—	—	—	—	—
Housing and Economic Development	—	—	—	—	—	—	—	—
Labor and Workforce Development	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—	—
Total expenditures	<u>6,895</u>	<u>2,947</u>	<u>4,004</u>	<u>2,441</u>	<u>1,958</u>	<u>578</u>	<u>61</u>	<u>385</u>
Other financing uses:								
Fringe benefit cost assessment	—	749	151	24	209	—	15	—
Lottery operating reimbursements	—	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—	—
Operating transfers out	—	168	398	—	65	20	5	—
Stabilization transfer	—	—	—	—	—	—	—	—
Commonwealth care trust transfer	—	—	—	—	—	—	—	—
Health safety net trust transfer	—	—	—	—	—	—	—	—
Federal reimbursement transfer out	—	—	—	—	—	—	—	—
Total other financing uses	<u>—</u>	<u>917</u>	<u>549</u>	<u>24</u>	<u>274</u>	<u>20</u>	<u>20</u>	<u>—</u>
Total expenditures and other financing uses	<u>6,895</u>	<u>3,864</u>	<u>4,553</u>	<u>2,465</u>	<u>2,232</u>	<u>598</u>	<u>81</u>	<u>385</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(6,614)	338	1,790	(442)	4,995	71	100	1,397
Fund balances (deficits) at beginning of year (restated)	17,465	2,858	3,277	2,318	—	36	284	3,555
Fund balances (deficits) at end of year	<u>\$ 10,851</u>	<u>\$ 3,196</u>	<u>\$ 5,067</u>	<u>\$ 1,876</u>	<u>\$ 4,995</u>	<u>\$ 107</u>	<u>\$ 384</u>	<u>\$ 4,952</u>

See accountants' review report

Non-Budgeted Other Funds

MBTA State and Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	State Racing	Division of Professional Licensure Trust	Victims of Drunk Driving Trust	State Athletic Commission	Organ and Tissue Donor Registration	Department of Fire Services Hazardous Material Emergency Mitigation Response Recovery Trust	Registers Technological
\$ 986,242	\$ 25,509	\$ —	\$ 1,326	\$ —	\$ —	\$ 182	\$ —	\$ —	\$ —
162,858	—	—	774	—	—	—	—	—	—
—	—	18,020	—	—	—	—	—	—	—
—	—	—	490	13,162	478	34	118	231	4,703
—	45	—	582	—	1	—	—	—	—
<u>1,149,100</u>	<u>25,554</u>	<u>18,020</u>	<u>3,172</u>	<u>13,162</u>	<u>479</u>	<u>216</u>	<u>118</u>	<u>231</u>	<u>4,703</u>
—	10,000	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	10,000	—	—	—	—	—	—	—	—
<u>1,149,100</u>	<u>35,554</u>	<u>18,020</u>	<u>3,172</u>	<u>13,162</u>	<u>479</u>	<u>216</u>	<u>118</u>	<u>231</u>	<u>4,703</u>
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	3,924
1,149,100	—	—	—	—	—	—	—	—	—
—	—	—	—	—	488	—	—	—	—
—	—	—	—	—	249	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	1,924	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	36,380	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	—
—	—	13,798	70	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	57	89	—	78	—
—	—	—	—	8,609	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>1,149,100</u>	<u>36,380</u>	<u>13,798</u>	<u>1,994</u>	<u>8,609</u>	<u>794</u>	<u>89</u>	<u>—</u>	<u>78</u>	<u>3,926</u>
—	26	70	88	1,610	57	16	—	—	442
—	—	—	—	—	—	—	—	—	—
—	12	60	102	566	28	24	—	—	185
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	38	130	190	2,176	85	40	—	—	627
<u>1,149,100</u>	<u>36,418</u>	<u>13,928</u>	<u>2,184</u>	<u>10,785</u>	<u>879</u>	<u>129</u>	<u>—</u>	<u>78</u>	<u>4,553</u>
—	(864)	4,092	988	2,377	(400)	87	118	153	150
—	22,531	3,551	819	2,415	2,057	306	656	333	1,190
<u>\$ —</u>	<u>\$ 21,667</u>	<u>\$ 7,643</u>	<u>\$ 1,807</u>	<u>\$ 4,792</u>	<u>\$ 1,657</u>	<u>\$ 393</u>	<u>\$ 774</u>	<u>\$ 486</u>	<u>\$ 1,340</u>

continued

**Non-Budgeted Special Revenue Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Non-Budgeted Other Funds							
	County Registers Technological	State Election Campaign	Enhanced 911	Counsel for Indigent Salary Enhancement Trust	Smart Growth Housing Trust	Special Projects Permitting and Oversight	Division of Energy Resources Credit Trust	School Modernization and Reconstruction Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 798,531
Assessments .....	—	—	—	—	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	—	—	—	—
Departmental .....	2,082	—	121,056	—	—	968	—	—
Miscellaneous .....	—	251	92	—	—	—	6	—
Total revenues .....	<u>2,082</u>	<u>251</u>	<u>121,148</u>	<u>—</u>	<u>—</u>	<u>968</u>	<u>6</u>	<u>798,531</u>
Other financing sources:								
Operating transfers in .....	—	—	—	—	—	—	—	—
Health safety net trust transfer .....	—	—	—	—	—	—	—	—
Medical assistance transfer .....	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer .....	—	—	—	—	—	—	—	—
Total other financing sources .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources .....	<u>2,082</u>	<u>251</u>	<u>121,148</u>	<u>—</u>	<u>—</u>	<u>968</u>	<u>6</u>	<u>798,531</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Judiciary .....	—	—	—	350	—	—	—	—
Inspector General .....	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor .....	—	—	—	—	—	—	—	—
Secretary of the Commonwealth .....	—	—	—	—	—	—	—	—
Treasurer and Receiver-General .....	—	—	—	—	—	—	—	798,531
Attorney General .....	—	—	—	—	—	—	—	—
District Attorney .....	—	—	—	—	—	—	—	—
Office of Campaign and Political Finance .....	—	—	—	—	—	—	—	—
Sheriff's Departments .....	—	—	4,123	—	—	—	—	—
Disabled Persons Protection Commission .....	—	—	—	—	—	—	—	—
Board of Library Commissioners .....	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission .....	—	—	—	—	—	—	—	—
Comptroller .....	—	—	—	—	—	—	—	—
Administration and Finance .....	1,975	—	884	—	—	—	—	—
Energy and Environmental Affairs .....	—	—	—	—	—	1,014	75	—
Health and Human Services .....	—	—	63	—	—	—	—	—
Massachusetts Department of Transportation .....	—	—	—	—	—	—	—	—
Executive Office of Education .....	—	—	—	—	—	—	—	—
Center for Health Information and Analysis .....	—	—	—	—	—	—	—	—
Public Safety and Security .....	—	—	80,215	—	—	—	—	—
Housing and Economic Development .....	—	—	—	—	859	—	—	—
Labor and Workforce Development .....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement .....	—	—	—	—	—	—	—	—
Interest and fiscal charges .....	—	—	—	—	—	—	—	—
Total expenditures .....	<u>1,975</u>	<u>—</u>	<u>85,285</u>	<u>350</u>	<u>859</u>	<u>1,014</u>	<u>75</u>	<u>798,531</u>
Other financing uses:								
Fringe benefit cost assessment .....	—	—	2,260	—	—	206	—	—
Lottery operating reimbursements .....	—	—	—	—	—	—	—	—
Lottery distributions .....	—	—	—	—	—	—	—	—
Operating transfers out .....	—	—	2,428	—	—	112	10	—
Stabilization transfer .....	—	—	—	—	—	—	—	—
Commonwealth care trust transfer .....	—	—	—	—	—	—	—	—
Health safety net trust transfer .....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out .....	—	—	—	—	—	—	—	—
Total other financing uses .....	<u>—</u>	<u>—</u>	<u>4,688</u>	<u>—</u>	<u>—</u>	<u>318</u>	<u>10</u>	<u>—</u>
Total expenditures and other financing uses .....	<u>1,975</u>	<u>—</u>	<u>89,973</u>	<u>350</u>	<u>859</u>	<u>1,332</u>	<u>85</u>	<u>798,531</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	107	251	31,175	(350)	(859)	(364)	(79)	—
Fund balances (deficits) at beginning of year (restated) .....	2,078	430	92,180	352	1,943	3,034	1,847	—
Fund balances (deficits) at end of year .....	<u>\$ 2,185</u>	<u>\$ 681</u>	<u>\$ 123,355</u>	<u>\$ 2</u>	<u>\$ 1,084</u>	<u>\$ 2,670</u>	<u>\$ 1,768</u>	<u>\$ —</u>

See accountants' review report





**Non-Budgeted Special Revenue Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Non-Budgeted Other Funds							
	Housing Preservation and Stabilization	Office of Refugees and Immigrants Trust	Veterans Independence Plus Initiative Trust	Environmental Police Trust	Domestic and Sexual Violence Prevention and Victim Assistance	Seafood Marketing Program	Government Land Bank	Natural Heritage and Endangered Species
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments .....	—	—	—	—	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	—	—	—	1,437
Departmental .....	—	—	—	553	9	251	—	421
Miscellaneous .....	9,419	260	1,564	—	—	—	—	197
Total revenues .....	<u>9,419</u>	<u>260</u>	<u>1,564</u>	<u>553</u>	<u>9</u>	<u>251</u>	<u>—</u>	<u>2,055</u>
Other financing sources:								
Operating transfers in .....	10,350	—	—	—	—	—	5,226	—
Health safety net trust transfer .....	—	—	—	—	—	—	—	—
Medical assistance transfer .....	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer .....	—	—	—	—	—	—	—	—
Total other financing sources .....	<u>10,350</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,226</u>	<u>—</u>
Total revenues and other financing sources .....	<u>19,769</u>	<u>260</u>	<u>1,564</u>	<u>553</u>	<u>9</u>	<u>251</u>	<u>5,226</u>	<u>2,055</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Judiciary .....	—	—	—	—	—	—	—	—
Inspector General .....	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor .....	—	—	—	—	—	—	—	—
Secretary of the Commonwealth .....	—	—	—	—	—	—	—	—
Treasurer and Receiver-General .....	—	—	—	—	—	—	—	—
Attorney General .....	—	—	—	—	—	—	—	—
District Attorney .....	—	—	—	—	—	—	—	—
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 .....	—	—	—	408	—	85	—	1,007
Health and Human Services .....	—	256	1,113	—	—	—	—	—
Massachusetts Department of Transportation .....	—	—	—	—	—	—	—	—
Executive Office of Education .....	—	—	—	—	—	—	—	—
Center for Health Information and Analysis .....	—	—	—	—	—	—	—	—
Public Safety and Security .....	—	—	—	—	—	—	—	—
Housing and Economic Development .....	12,402	—	—	—	—	—	—	—
Labor and Workforce Development .....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement .....	—	—	—	—	—	—	2,786	—
Interest and fiscal charges .....	—	—	—	—	—	—	2,440	—
Total expenditures .....	<u>12,402</u>	<u>256</u>	<u>1,113</u>	<u>408</u>	<u>—</u>	<u>85</u>	<u>5,226</u>	<u>1,007</u>
Other financing uses:								
Fringe benefit cost assessment .....	—	—	—	50	—	—	—	146
Lottery operating reimbursements .....	—	—	—	—	—	—	—	—
Lottery distributions .....	—	—	—	—	—	—	—	—
Operating transfers out .....	—	1	—	36	—	—	—	—
Stabilization transfer .....	—	—	—	—	—	—	—	—
Commonwealth care trust transfer .....	—	—	—	—	—	—	—	—
Health safety net trust transfer .....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out .....	—	—	—	—	—	—	—	—
Total other financing uses .....	<u>—</u>	<u>1</u>	<u>—</u>	<u>86</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>146</u>
Total expenditures and other financing uses .....	<u>12,402</u>	<u>257</u>	<u>1,113</u>	<u>494</u>	<u>—</u>	<u>85</u>	<u>5,226</u>	<u>1,153</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	7,367	3	451	59	9	166	—	902
Fund balances (deficits) at beginning of year (restated) .....	2,424	58	37	34	2	6	(35,033)	1,936
Fund balances (deficits) at end of year .....	<u>\$ 9,791</u>	<u>\$ 61</u>	<u>\$ 488</u>	<u>\$ 93</u>	<u>\$ 11</u>	<u>\$ 172</u>	<u>\$ (35,033)</u>	<u>\$ 2,838</u>

See accountants' review report

Non-Budgeted Other Funds

Mathematics, Science, Technology and Engineering Grant	Commonwealth Covenant	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	Substance Abuse Services
\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 22,814	\$ ---	\$ ---
				11,061					
			70,416	753		607			
							439		
			70,416	11,814		607	23,253		
1,524									5,000
1,524									5,000
1,524			70,416	11,814		607	23,253		5,000
			77,447	10,798		948		1	
				108					5,183
793									
									908
							18,983		
793			77,447	10,906		948	18,983	1	6,091
102				1,296		73	89		
986	1					87	11		87
1,088	1			1,296		160	100		87
1,881	1		77,447	12,202		1,108	19,083	1	6,178
(357)	(1)		(7,031)	(388)		(501)	4,170	(1)	(1,178)
804	1	24	33,735	1,845	620	1,292	32,882	415	6,256
\$ 447	\$ ---	\$ 24	\$ 26,704	\$ 1,457	\$ 620	\$ 791	\$ 37,052	\$ 414	\$ 5,078

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
 Fiscal Year Ended June 30, 2016  
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Victims of Human Trafficking Trust	Department of Public Utilities Storm Trust	Financial Literacy Trust	Homeless Animal Prevention and Care	Horseneck Beach Reservation Trust	Environmental Trust	Social Innovation Financing Trust
<b>REVENUES AND OTHER FINANCING</b>							
Revenues:							
Taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments .....	—	328	—	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	—	—	—
Departmental .....	—	—	—	—	50	735	—
Miscellaneous .....	—	—	144	249	—	13	—
Total revenues .....	<u>—</u>	<u>328</u>	<u>144</u>	<u>249</u>	<u>50</u>	<u>748</u>	<u>—</u>
Other financing sources:							
Operating transfers in .....	—	—	1	—	—	—	—
Health safety net trust transfer .....	—	—	—	—	—	—	—
Medical assistance transfer .....	—	—	—	—	—	—	—
Delivery system transformation initiatives trust .....	—	—	—	—	—	—	—
Total other financing sources .....	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources .....	<u>—</u>	<u>328</u>	<u>145</u>	<u>249</u>	<u>50</u>	<u>748</u>	<u>—</u>
<b>EXPENDITURES AND OTHER FINANCING</b>							
Expenditures:							
Judiciary .....	—	—	—	—	—	—	—
Inspector General .....	—	—	—	—	—	—	—
Governor and Lieutenant Governor .....	—	—	—	—	—	—	—
Secretary of the Commonwealth .....	—	—	—	—	—	—	—
Treasurer and Receiver-General .....	—	—	20	—	—	—	—
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 .....	—	—	—	—	—	—	906
Energy and Environmental Affairs .....	—	249	—	188	50	915	—
Health and Human Services .....	—	—	—	—	—	—	—
Massachusetts Department of Transportation .....	—	—	—	—	—	—	—
Executive Office of Education .....	—	—	—	—	—	—	—
Center for Health Information and Analysis .....	—	—	—	—	—	—	—
Public Safety and Security .....	—	—	—	—	—	—	—
Housing and Economic Development .....	—	—	—	—	—	—	—
Labor and Workforce Development .....	—	—	—	—	—	—	—
Debt service:							
Principal retirement .....	—	—	—	—	—	—	—
Interest and fiscal charges .....	—	—	—	—	—	—	—
Total expenditures .....	<u>—</u>	<u>249</u>	<u>20</u>	<u>188</u>	<u>50</u>	<u>915</u>	<u>906</u>
Other financing uses:							
Fringe benefit cost assessment .....	—	69	—	8	—	73	—
Lottery operating reimbursements .....	—	—	—	—	—	—	—
Lottery distributions .....	—	—	—	—	—	—	—
Operating transfers out .....	—	15	—	—	—	43	—
Stabilization transfer .....	—	—	—	—	—	—	—
Commonwealth care trust transfer .....	—	—	—	—	—	—	—
Health safety net trust transfer .....	—	—	—	—	—	—	—
Federal reimbursement transfer out .....	—	—	—	—	—	—	—
Total other financing uses .....	<u>—</u>	<u>84</u>	<u>—</u>	<u>8</u>	<u>—</u>	<u>116</u>	<u>—</u>
Total expenditures and other financing uses .....	<u>—</u>	<u>333</u>	<u>20</u>	<u>196</u>	<u>50</u>	<u>1,031</u>	<u>906</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	—	(5)	125	53	—	(283)	(906)
Fund balances (deficits) at beginning of year .....	1	156	—	150	74	3,296	6,129
Fund balances (deficits) at end of year .....	<u>\$ 1</u>	<u>\$ 151</u>	<u>\$ 125</u>	<u>\$ 203</u>	<u>\$ 74</u>	<u>\$ 3,013</u>	<u>\$ 5,223</u>

See accountants' review report

Non-Budgeted Other Funds

Children's Trust	Child Support Enforcement	Military Family Relief	Department of Industrial Accidents Special	Logan Airport Health Study Trust	AIDS Fund	Head Injury Treatment Services Trust	Board of Registration in Medicine	Water Pollution Abatement Project Administration	Child Care Quality
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	20,316	—	—	—	—	8,421	—
—	33,039	—	—	—	—	—	—	—	—
—	5,211	—	5,637	—	—	7,757	8,861	—	216
1	75	239	11	135	90	2	—	—	—
1	38,325	239	25,964	135	90	7,759	8,861	8,421	216
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
1	38,325	239	25,964	135	90	7,759	8,861	8,421	216
1	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	291	—	—	—	—	—	—	—	—
—	221	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	37,946	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	4,602	—
—	—	—	—	104	94	5,185	6,357	—	—
1	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	300	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	961	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
2	38,458	300	961	104	94	5,185	6,357	4,602	—
—	1,888	—	3,893	—	—	169	1,243	1,212	—
—	—	—	—	—	—	—	—	—	—
—	900	—	19,034	—	—	51	1,385	1,922	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	2,788	—	22,927	—	—	220	2,628	3,134	—
2	41,246	300	23,888	104	94	5,405	8,985	7,736	—
(1)	(2,921)	(61)	2,076	31	(4)	2,354	(124)	685	216
196	20,491	944	4,980	—	119	3,797	9,012	1,122	581
\$ 195	\$ 17,570	\$ 883	\$ 7,056	\$ 31	\$ 115	\$ 6,151	\$ 8,888	\$ 1,807	\$ 797

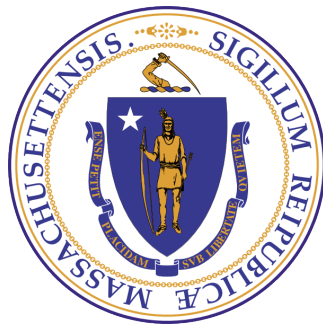
continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances  
 Fiscal Year Ended June 30, 2016  
 (Amounts in thousands)

	Non-Budgeted Other Funds							MassDOT
	Convention and Exhibition Center	Firearms Fingerprint Identity Verification Trust	Grant Anticipation Note Trust	Race Horse Development	Community Mitigation	Capital Needs Investment	Debt Defeasance Trust	Massachusetts Transportation Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes	\$ 134,612	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—	—	—
Federal grants and reimbursements	—	—	545,369	—	—	—	—	91,123
Departmental	—	1,435	—	14,453	—	—	—	468,127
Miscellaneous	194	—	176	2	—	—	94	41,837
Total revenues	<u>134,806</u>	<u>1,435</u>	<u>545,545</u>	<u>14,455</u>	<u>—</u>	<u>—</u>	<u>94</u>	<u>601,087</u>
Other financing sources:								
Operating transfers in	—	—	31,582	—	—	—	—	573,906
Health safety net trust transfer	—	—	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer	—	—	—	—	—	—	—	—
Total other financing sources	—	—	31,582	—	—	—	—	573,906
Total revenues and other financing sources	<u>134,806</u>	<u>1,435</u>	<u>577,127</u>	<u>14,455</u>	<u>—</u>	<u>—</u>	<u>94</u>	<u>1,174,993</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	112
Secretary of the Commonwealth	—	—	—	—	—	—	—	—
Treasurer and Receiver-General	—	—	—	—	—	—	—	297
Attorney General	—	—	—	—	—	—	—	—
District Attorney	—	—	—	—	—	—	—	—
Office of Campaign and Political Finance	—	—	—	—	—	—	—	—
Sheriff's Departments	—	—	—	—	—	—	—	1,326
Disabled Persons Protection Commission	—	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	8,827	400	—	—	—
Comptroller	—	—	—	—	—	—	—	—
Administration and Finance	50,024	—	—	—	—	—	—	5,672
Energy and Environmental Affairs	—	—	—	—	—	—	—	6,163
Health and Human Services	—	—	—	—	—	—	—	215
Massachusetts Department of Transportation	—	—	—	—	—	—	—	1,095,686
Executive Office of Education	—	—	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—	—	—
Public Safety and Security	—	918	—	—	—	—	—	288
Housing and Economic Development	—	—	—	—	—	1,218	—	—
Labor and Workforce Development	—	—	—	—	—	—	—	24
Debt service:								
Principal retirement	37,793	—	42,815	—	—	—	113,200	—
Interest and fiscal charges	16,718	—	33,234	—	—	—	—	—
Total expenditures	<u>104,535</u>	<u>918</u>	<u>76,049</u>	<u>8,827</u>	<u>400</u>	<u>1,218</u>	<u>113,200</u>	<u>1,109,783</u>
Other financing uses:								
Fringe benefit cost assessment	—	—	—	—	—	—	—	76,441
Lottery operating reimbursements	—	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—	—
Operating transfers out	60,000	2,000	—	—	—	—	94	4,356
Stabilization transfer	—	—	—	—	—	—	—	—
Commonwealth care trust transfer	—	—	—	—	—	—	—	—
Health safety net trust transfer	—	—	—	—	—	—	—	—
Federal reimbursement transfer out	—	—	500,928	—	—	—	—	—
Total other financing uses	<u>60,000</u>	<u>2,000</u>	<u>500,928</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>94</u>	<u>80,797</u>
Total expenditures and other financing uses	<u>164,535</u>	<u>2,918</u>	<u>576,977</u>	<u>8,827</u>	<u>400</u>	<u>1,218</u>	<u>113,294</u>	<u>1,190,580</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(29,729)	(1,483)	150	5,628	(400)	(1,218)	(113,200)	(15,587)
Fund balances (deficits) at beginning of year (restated)	118,556	3,602	86,459	7,336	17,500	4,739	113,200	833,583
Fund balances (deficits) at end of year	<u>\$ 88,827</u>	<u>\$ 2,119</u>	<u>\$ 86,609</u>	<u>\$ 12,964</u>	<u>\$ 17,100</u>	<u>\$ 3,521</u>	<u>\$ —</u>	<u>\$ 817,996</u>

See accountants' review report

MassDOT			Totals (Memorandum only)	
Central Artery/ Tunnel Project Repair and Maintenance Trust	Motor Vehicle Safety Inspection Trust	Transportation Infrastructure and Development	2016	2015
\$ —	\$ —	\$ —	\$ 2,183,221	\$ 2,065,570
—	—	—	638,305	607,975
—	—	—	3,162,489	2,993,570
—	57,275	—	6,402,887	6,252,990
7,560	76	—	337,712	102,368
<u>7,560</u>	<u>57,351</u>	<u>—</u>	<u>12,724,614</u>	<u>12,022,473</u>
—	—	—	653,328	934,374
—	—	—	30,000	—
—	—	—	665,564	70,975
—	—	—	186,907	116,171
—	—	—	1,535,799	1,121,520
<u>7,560</u>	<u>57,351</u>	<u>—</u>	<u>14,260,413</u>	<u>13,143,993</u>
—	—	—	2,279	966
—	—	—	264	459
—	—	—	112	—
—	—	—	4,825	5,427
—	—	—	6,264,536	6,005,784
—	—	—	18,231	12,306
—	—	—	2,338	1,830
—	—	—	—	1,055
—	—	—	9,632	9,420
—	—	—	66	—
—	—	—	2,915	2,916
—	—	—	33,692	21,072
—	—	—	2,381	1,574
—	—	—	379,029	513,265
—	2,717	—	168,668	146,307
—	—	—	2,074,966	1,211,184
2,539	12,253	2,615	1,113,180	1,144,978
—	—	—	986,175	975,241
—	—	—	222	1,157
—	—	—	232,465	211,120
—	—	—	487,688	482,377
—	—	—	164,260	170,942
—	—	—	196,594	204,219
—	—	—	99,217	112,558
<u>2,539</u>	<u>14,970</u>	<u>2,615</u>	<u>12,243,734</u>	<u>11,236,157</u>
—	1,208	—	166,947	160,778
—	—	—	107,935	104,238
—	—	—	975,255	947,250
—	41,173	—	249,497	352,119
—	—	—	—	20,000
—	—	—	44,482	—
—	—	—	30,000	—
—	—	—	500,928	468,040
—	42,381	—	2,075,044	2,052,425
<u>2,539</u>	<u>57,351</u>	<u>2,615</u>	<u>14,318,778</u>	<u>13,288,582</u>
5,021	—	(2,615)	(58,365)	(144,589)
<u>385,091</u>	<u>8,847</u>	<u>25,375</u>	<u>2,125,275</u>	<u>2,269,864</u>
<u>\$ 390,112</u>	<u>\$ 8,847</u>	<u>\$ 22,760</u>	<u>\$ 2,066,910</u>	<u>\$ 2,125,275</u>



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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 the Massachusetts Department of Transportation (MassDOT) for capital projects activity.

**Convention and Exhibition Center Project Fund** - to account for proceeds of bonds to finance the construction of a convention center in the City of Boston.

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

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

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

## **OTHER FUNDS:**

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

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

## **LOCAL AID FUND:**

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

## **MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUND:**

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

*The following funds have been enacted in legislation but were inactive in FY16 and are not presented in this report:*

**Capital Investment Trust Fund** - to account for a transfer from the General Fund to finance appropriated items of a capital nature pursuant to sections 2E and 107 of Chapter 88 of the Acts of 1997.

**Transportation Deferred Maintenance Trust Fund** - to account for funds transferred from various sources by the Secretary of Administration and Finance to design, construct, maintain and repair the Commonwealth's roads and bridges.



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

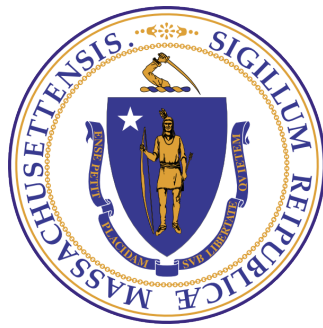
Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	General Capital Projects	Convention and Exhibition Center Capital	Capital Improvements and Investment Trust	Highway Capital Projects
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Federal grants and reimbursements .....	\$ 76,898	\$ —	\$ —	\$ —
Departmental .....	—	—	—	—
Miscellaneous .....	—	—	—	1,198
Total revenues .....	<u>76,898</u>	<u>—</u>	<u>—</u>	<u>1,198</u>
Other financing sources:				
Issuance of general obligation bonds .....	1,496,632	—	—	759,343
Bond premiums (discounts) on general obligation bonds .....	128,652	—	—	55,362
Issuance of special obligation bonds .....	—	—	—	500,000
Bond premiums (discounts) on special obligation bonds .....	—	—	—	59,535
Issuance of current refunding bonds .....	71,336	—	2,456	109,618
Issuance of advance refunding bonds .....	639,867	—	87	548,178
Bond premiums (discounts) on advance refunding bonds .....	113,978	—	12	93,910
Federal reimbursement transfer in .....	—	—	—	—
State share of federal highway construction .....	—	—	—	—
Total other financing sources .....	<u>2,450,465</u>	<u>—</u>	<u>2,555</u>	<u>2,125,946</u>
Total revenues and other financing sources .....	<u>2,527,363</u>	<u>—</u>	<u>2,555</u>	<u>2,127,144</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary .....	14,690	—	—	—
Governor and Lieutenant Governor .....	—	—	—	188
Secretary of the Commonwealth .....	1,535	—	—	—
Treasurer and Receiver-General .....	13,749	—	—	—
Auditor of the Commonwealth .....	2,333	—	—	—
Attorney General .....	23	—	—	296
Ethics Commission .....	627	—	—	—
Sheriff's Departments .....	3,572	—	—	—
Board of Library Commissioners .....	19,440	—	—	—
Comptroller .....	395	—	—	—
Administration and Finance .....	650,608	—	—	238
Energy and Environmental Affairs .....	232,762	—	—	1,494
Health and Human Services .....	47,140	—	—	—
Massachusetts Department of Transportation .....	146,909	—	—	1,249,539
Executive Office of Education .....	52,554	—	—	—
Public Safety and Security .....	41,227	—	—	—
Housing and Economic Development .....	271,080	—	—	25,181
Labor and Workforce Development .....	5,099	—	—	—
Total expenditures .....	<u>1,503,741</u>	<u>—</u>	<u>—</u>	<u>1,276,935</u>
Other financing uses:				
Payments to advance refunding bonds escrow .....	753,844	—	99	642,089
Principal on current refundings .....	71,336	—	2,456	109,618
Fringe benefit cost assessment .....	13,470	—	—	—
Operating transfers out .....	2	—	—	—
State share of federal highway construction .....	—	—	—	93,736
Total other financing uses .....	<u>838,653</u>	<u>—</u>	<u>2,555</u>	<u>845,443</u>
Total expenditures and other financing uses .....	<u>2,342,394</u>	<u>—</u>	<u>2,555</u>	<u>2,122,378</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	184,968	—	—	4,767
Fund balances (deficits) at beginning of year .....	(383,804)	8,393	—	(185,511)
Fund balances (deficits) at end of year .....	<u>\$ (198,836)</u>	<u>\$ 8,393</u>	<u>\$ —</u>	<u>\$ (180,744)</u>

See accountant's review report

Federal Highway Construction Program	Government Land Bank Capital Projects	Local Aid Capital Projects	MassDOT		Totals (Memorandum only)	
			Central Artery Statewide Road and Bridge Infrastructure			
				2016	2015	
\$ 8,862	\$ —	\$ —	\$ —	\$ 85,759	\$ 81,475	
2,922	—	—	—	2,922	3,004	
—	—	—	152	1,350	649	
11,784	—	—	152	90,031	85,128	
—	1,852	1,383	—	2,259,209	2,671,507	
—	—	—	—	184,014	198,987	
—	—	—	—	500,000	447,310	
—	—	—	—	59,535	86,372	
—	—	1,995	64,594	250,000	202,895	
—	12,733	11,790	—	1,212,655	429,445	
—	1,748	1,727	—	211,375	75,046	
500,929	—	—	—	500,929	468,040	
93,736	—	—	—	93,736	55,410	
594,665	16,333	16,895	64,594	5,271,453	4,635,012	
606,449	16,333	16,895	64,746	5,361,484	4,720,140	
—	—	—	—	14,690	12,072	
—	—	—	—	188	184	
—	—	—	—	1,535	1,560	
—	—	—	—	13,749	13,751	
—	—	—	—	2,333	3,272	
49	—	—	—	365	379	
—	—	—	—	627	94	
—	—	—	—	3,572	4,768	
—	—	—	—	19,440	20,440	
—	—	—	—	395	3,958	
1	1,344	1,098	—	653,288	648,653	
581	—	284	—	235,121	254,929	
—	—	—	—	47,140	58,593	
605,286	—	—	747	2,002,480	1,980,413	
—	—	—	—	52,554	28,669	
—	—	—	—	41,227	47,928	
—	—	—	—	296,261	279,477	
—	—	—	—	5,099	9,141	
605,916	1,344	1,382	747	3,390,064	3,368,281	
—	14,481	13,517	—	1,424,030	504,491	
—	—	1,995	64,594	250,000	202,895	
20	—	—	—	13,490	12,726	
—	—	—	—	2	—	
—	—	—	—	93,736	55,410	
20	14,481	15,512	64,594	1,781,258	775,522	
605,936	15,825	16,894	65,341	5,171,322	4,143,803	
513	508	1	(595)	190,162	576,337	
(1)	(508)	11	36,562	(524,860)	(1,101,197)	
\$ 512	\$ —	\$ 12	\$ 35,967	\$ (334,698)	\$ (524,860)	



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# *Supplemental Information*



Calculation of Transfers – Stabilization and Tax Reduction Funds  
Schedule A – FY2016 Tax Revenues by Revenue Class  
Schedule B – Calculation of Cap on Stabilization Fund  
Schedule C – Detail of Elimination of Budgetary Inter Fund Activity  
Non-Tax Revenue Initiatives  
Schedule of Post Employment Benefits – Last Six Fiscal Years

See review report

## Calculation of Transfers: Stabilization Fund\*

June 30, 2016  
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General Fund	Commonwealth Transportation Fund	Massachusetts Tourism Fund	Gaming Local Aid	Total
Budgeted Fund Undesignated Balances .....	\$ (30,031)	\$ 35,089	\$ 35,618	\$ (40,677)	\$ —
Fund Balance Deficit Elimination Transfers Per Section 5C of Ch. 29 .....	30,031	(35,089)	(35,618)	40,677	—
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus) .....	—	—	—	—	—
<u>Disposition of Consolidated Net Surplus per Section 159 of Ch. 133 of the Acts of 2016:</u>					
To the Massachusetts Community Preservation Trust Fund .....	—	—	—	—	—
To the Massachusetts Life Sciences Investment Fund .....	—	—	—	—	—
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

### Stabilization Balance Reconciliation:

Balance as of July 1, 2015 .....	\$ 1,252,429
Capital Gains Tax Transfers to Stabilization Fund during FY2016 per Chapter 29, Section 5G .....	—
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H .....	—
Transfer to Stabilization Fund from Abandoned Property Revenue Growth from Prior Fiscal Year .....	27,100
Transfer of certain tax revenues to the Stabilization Fund .....	744
Stabilization Fund investment income .....	11,241
Less Transfers from Stabilization Fund during FY 2016 .....	—
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above .....	—
<b>Stabilization Fund Balance as of June 30, 2016 .....</b>	<b><u>\$ 1,291,514</u></b>

\* Excludes funds with no FY16 balances or activity

Note: Details may not add to totals due to rounding

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2016

(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.....	\$ 1,291,514
Allowable Stabilization Fund balance (per Schedule B) .....	6,054,833
	<hr/>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	\$ —
	<hr/> <hr/>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance .....	\$ 1,291,514
Transfer to Tax Reduction Fund .....	—
	<hr/>
Stabilization Fund balance after transfer to Tax Reduction Fund .....	\$ 1,291,514
	<hr/> <hr/>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance .....	\$ —
Transfers from Stabilization Fund .....	—
	<hr/>
Tax Reduction Fund balance after transfers .....	\$ —
	<hr/> <hr/>

**Schedule A**  
**FY2016 Tax Revenues By Revenue Class**

June 30, 2016  
(Amounts in thousands)

Alcoholic beverages .....	\$ 82,611
Banks: financial institutions .....	23,465
Cigarette .....	505,561
Cigarette excise - Commonwealth Care .....	135,278
Corporations .....	2,312,031
Deeds .....	281,941
Estate and inheritance .....	399,429
Health care coverage penalty - Commonwealth Care .....	13,807
Income .....	14,393,713
Insurance .....	369,391
Motor and special fuels .....	766,553
Public utilities .....	(1,604)
Room occupancy .....	245,058
Sales and use .....	6,089,859
Club alcoholic beverages .....	784
Motor vehicle excise .....	100
Convention center surcharges .....	16,493
Community preservation .....	25,509
Satellite .....	11,773
Gaming revenue - Mass Gaming Commission .....	64,356
State racing - Mass Gaming Commission .....	1,326
Beano .....	1,409
Raffles and bazaars .....	897
Boxing .....	182
DOI excess and surplus lines .....	37,405
UI surcharge .....	22,814
FY 2016 state tax revenue .....	<u>\$ 25,800,141</u>

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

**Schedule B**  
**Calculation of Cap on Stabilization Fund**

June 30, 2016  
(Amounts in thousands)

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Total budgeted revenues and other financial resources pertaining to the budgeted funds .....	\$ 40,838,450
Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C) .....	<u>(472,898)</u>
Budgeted revenues and other financial resources pertaining to the budgeted funds .....	<u>40,365,552</u>
Allowable Stabilization Fund balance, 15% of budgeted revenue .....	<u><u>\$ 6,054,833</u></u>

Calculation of Stabilization Fund Cap as defined by Massachusetts General Laws Chapter 29 section 2H.



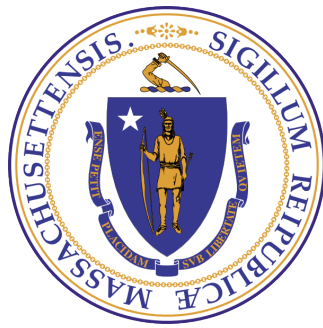
**Schedule C**  
**Detail of Elimination of Budgetary Inter Fund Activity**

June 30, 2016  
(Amounts in thousands)

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Adjustments to revenues :		
Transfer to the Intragovernmental Service Fund .....	\$	(385,270)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments .....		(4,485)
Transfer from the Intragovernmental Service Fund to the General Fund .....		(8,721)
RMV license plates .....		(3,524)
Other fund deficit support .....		(70,708)
Other .....		(190)
Elimination of budgetary interfund activity .....	\$	<u>(472,898)</u>



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# Non-Tax Revenue Initiatives

June 30, 2016  
(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 FY16 were (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc .....	\$ 2,528	\$ 340
Allen Daniels .....	1,423	195
Delta .....	764	119
Premier Credit of North America, LLC .....	473	88
Financial Asset Management Systems, Inc .....	268	27
Linebarger, Goggan, Blair & Sampson, LLP .....	43	7
<b>Total</b> .....	<b>\$ 5,499</b>	<b>\$ 776</b>

Under the same program, the following amounts were collected and fees paid for the Institutions of Higher Education (these figures are as subset of the above) (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc .....	\$ 2,042	\$ 262
Allen Daniels .....	691	106
Delta .....	625	97
Premier Credit of North America, LLC .....	278	48
<b>Total</b> .....	<b>\$ 3,636</b>	<b>\$ 513</b>

**II. Revenue Maximization:**

Section 2 of Chapter 165 of the Acts of 2014 authorized, effective in FY2015, the Department of Early Education and Care and the Executive Office for Health and Human Services the ability to retain and expend funds for contingency fee contracts. These fees relate to pursuing federal reimbursement or avoiding costs for the departments acting in their capacities as the single state agency under Title IV-E of the Social Security Act and Title XIX and XXI of the Social Security Act, respectively. The Office of the Comptroller no longer manages or reports contingency fee contracts for these services.

**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 FY16, the following amounts were generated (amounts in thousands):

State expenditures avoided .....	\$ 2,667
Contractor payments .....	(313)
<b>Net cost savings/avoidance</b> .....	<b>\$ 2,354</b>

**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. FY16 activity (amounts in thousands):

Total Commonwealth intercepts .....	\$ 13,799
Amounts included above that were intercepted on behalf of the Institutions of Higher Education .....	\$ 7,196

## Schedule of Pension and Post Employment Health Benefits

(Amounts in thousands except for percentages)

### Pension funding progress for the last six fiscal years

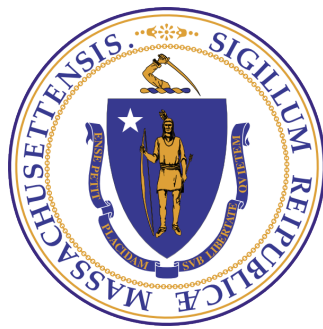
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employee's Retirement System</b>						
Actuarial Valuation as of January 1, 2016 .....	\$ 23,465,963	\$ 36,966,278	\$ 13,500,315	63.5%	\$ 5,792,288	233.1%
Actuarial Valuation as of January 1, 2015 .....	22,720,160	33,679,150	10,958,990	67.5%	5,591,911	196.0%
Actuarial Valuation as of January 1, 2014 .....	21,581,133	30,679,600	9,098,467	70.3%	5,344,510	170.2%
Actuarial Valuation as of January 1, 2013 .....	20,317,389	29,385,442	9,068,053	69.1%	5,183,195	175.0%
Actuarial Valuation as of January 1, 2012 .....	20,507,644	27,784,731	7,277,087	73.8%	4,922,388	147.8%
Actuarial Valuation as of January 1, 2011 .....	21,244,900	26,242,776	4,997,876	81.0%	4,808,250	103.9%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2016 .....	\$ 24,593,787	\$ 46,562,807	\$ 21,969,020	52.8%	\$ 6,388,732	343.9%
Actuarial Valuation as of January 1, 2015 .....	23,946,759	44,115,769	20,169,010	54.3%	6,204,274	325.1%
Actuarial Valuation as of January 1, 2014 .....	22,940,196	40,741,695	17,801,499	56.3%	5,962,650	298.6%
Actuarial Valuation as of January 1, 2013 .....	21,787,470	39,135,218	17,347,748	55.7%	5,783,294	300.0%
Actuarial Valuation as of January 1, 2012 .....	22,141,475	36,483,027	14,341,552	60.7%	5,655,353	253.6%
Actuarial Valuation as of January 1, 2011 .....	23,117,952	34,890,991	11,773,039	66.3%	5,558,311	211.8%

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

### State Retiree Benefits Trust Fund

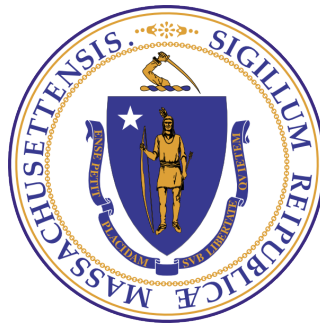
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2016 .....	\$ 760,400	\$ 17,082,900	\$ 16,322,500	4.5%	\$ 5,792,288	281.8%
Actuarial Valuation as of January 1, 2015 .....	610,000	16,502,800	15,892,800	3.7%	5,591,911	284.2%
Actuarial Valuation as of January 1, 2014 .....	511,200	15,670,200	15,159,000	3.3%	5,344,510	283.6%
Actuarial Valuation as of January 1, 2013 .....	406,700	15,784,100	15,377,400	2.6%	5,183,195	296.7%
Actuarial Valuation as of January 1, 2012 .....	360,500	16,659,400	16,298,900	2.2%	4,922,388	331.1%
Actuarial Valuation as of January 1, 2011 .....	350,500	16,568,600	16,218,100	2.1%	4,808,250	337.3%

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108. Telephone number: (617) 727-5000.



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# *Statistical Section*



Ten-Year Schedules – Statutory Basis  
Higher Education Non-appropriated Funds – Statutory Basis

See review report

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

June 30, 2016  
(Amounts in millions)

	2016	% Total	2015	% Total	2014	% Total	2013	% Total
Taxes .....	\$ 25,800	42.7	\$ 25,239	44.4	\$ 23,665	43.6	\$ 22,396	43.8
Federal reimbursements .....	11,528	19.1	10,287	18.1	9,265	17.1	9,078	17.8
Federal grants .....	2,363	3.9	2,269	4.0	2,328	4.3	2,396	4.7
Lotteries .....	5,407	8.9	5,194	9.1	5,050	9.3	5,043	9.9
Assessments .....	1,058	1.7	1,033	1.8	1,079	2.0	1,018	2.0
Motor vehicle licenses and registrations .....	546	0.9	546	1.0	495	0.9	487	1.0
Fees, investment earnings, etc .....	5,016	8.3	4,409	7.8	4,252	7.9	3,858	7.5
Proceeds of general and special obligation bonds and related premiums .....	3,003	5.0	3,404	6.0	2,262	4.2	1,512	3.0
Proceeds of refunding bonds .....	1,674	2.8	707	1.2	722	1.3	231	0.5
Other interfund transfers .....	4,067	6.7	3,748	6.6	5,093	9.4	4,982	9.8
Total revenues and other financing sources .....	<u>\$ 60,462</u>	<u>100.0</u>	<u>\$ 56,836</u>	<u>100.0</u>	<u>\$ 54,211</u>	<u>100.0</u>	<u>\$ 51,001</u>	<u>100.0</u>

Certain amounts in fiscal years 2015 to 2007 were reclassified to conform to current presentation.

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2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total	2007	% Total
\$ 21,384	42.7	\$ 20,776	38.2	\$ 18,792	40.3	\$ 18,513	38.8	\$ 21,009	44.5	\$ 19,849	44.3
8,931	17.8	10,151	18.6	9,374	20.1	9,139	19.1	6,937	14.7	6,830	15.3
2,655	5.3	3,097	5.7	3,134	6.7	2,646	5.5	2,065	4.4	1,989	4.5
4,941	9.9	4,632	8.5	4,629	9.9	4,649	9.7	4,915	10.4	4,670	10.4
986	2.0	960	1.8	971	2.1	894	1.9	806	1.7	794	1.8
474	0.9	497	0.9	463	1.0	383	0.8	376	0.8	374	0.8
3,580	7.2	3,461	6.4	2,828	6.0	2,798	5.9	3,199	6.8	2,450	5.6
1,921	3.8	2,306	4.2	1,672	3.6	2,141	4.5	1,306	2.8	1,604	3.6
480	1.0	947	1.7	538	1.2	390	0.8	—	—	1,531	3.4
4,731	9.4	7,618	14.0	4,233	9.1	6,197	13.0	6,538	13.9	4,605	10.3
<u>\$ 50,083</u>	<u>100.0</u>	<u>\$ 54,445</u>	<u>100.0</u>	<u>\$ 46,634</u>	<u>100.0</u>	<u>\$ 47,750</u>	<u>100.0</u>	<u>\$ 47,151</u>	<u>100.0</u>	<u>\$ 44,696</u>	<u>100.0</u>



## Ten-Year Schedule of Tax Revenues By Source

### All Governmental Fund Types - Statutory Basis

June 30, 2016

(Amounts in millions)

	2016	% Total	2015	% Total	2014	% Total	2013	% Total
Income .....	\$ 14,394	55.8	\$ 14,449	57.3	\$ 13,202	55.8	\$ 12,831	57.5
Sales and use .....	6,090	23.6	5,804	23.0	5,519	23.3	5,184	23.1
Corporations .....	2,312	9.0	2,172	8.6	2,049	8.7	1,822	8.1
Motor fuels .....	767	3.0	756	3.0	732	3.1	651	2.9
Cigarette .....	506	2.0	510	2.0	521	2.2	440	2.0
Insurance .....	369	1.4	333	1.3	316	1.3	373	1.7
Estate and inheritance .....	399	1.5	341	1.4	402	1.7	313	1.4
Banks: Financial Institutions* .....	23	0.1	52	0.2	136	0.6	78	0.3
Alcoholic beverages .....	83	0.3	80	0.3	79	0.3	77	0.3
Other .....	857	3.3	742	2.9	711	3.0	625	2.7
Total taxes .....	<u>\$ 25,800</u>	<u>100.0</u>	<u>\$ 25,239</u>	<u>100.0</u>	<u>\$ 23,667</u>	<u>100.0</u>	<u>\$ 22,394</u>	<u>100.0</u>

\*Negative amounts in FY11 are primarily due to changes in corporate tax laws, which resulted in some financial institutions tax being classified as corporations tax.

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2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total	2007	% Total
\$ 11,911	55.7	\$ 11,576	55.7	\$ 10,110	53.8	\$ 10,584	57.2	\$ 12,484	59.4	\$ 11,400	57.4
5,079	23.8	4,921	23.7	4,626	24.6	3,880	21.0	4,098	19.5	4,076	20.5
1,771	8.3	1,951	9.4	1,600	8.5	1,549	8.4	1,512	7.2	1,588	8.0
662	3.1	661	3.2	655	3.5	654	3.5	673	3.2	676	3.4
451	2.1	454	2.2	456	2.4	457	2.5	437	2.1	438	2.2
318	1.5	296	1.4	285	1.5	309	1.7	369	1.8	369	1.9
293	1.4	310	1.5	221	1.2	260	1.4	254	1.2	250	1.3
267	1.2	(11)	(0.1)	235	1.3	243	1.3	548	2.6	341	1.7
77	0.4	73	0.4	72	0.4	73	0.4	72	0.3	71	0.4
555	2.5	545	2.6	532	2.8	504	2.6	562	2.7	640	3.2
<u>\$ 21,384</u>	<u>100.0</u>	<u>\$ 20,776</u>	<u>100.0</u>	<u>\$ 18,792</u>	<u>100.0</u>	<u>\$ 18,513</u>	<u>100.0</u>	<u>\$ 21,009</u>	<u>100.0</u>	<u>\$ 19,849</u>	<u>100.0</u>

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

June 30, 2016

(Amounts in millions)

	2016	% Total	2015	% Total	2014	% Total	2013	% Total
Legislature .....	\$ 61	0.1	\$ 60	0.1	\$ 56	0.1	\$ 57	0.1
Judiciary .....	896	1.5	852	1.5	831	1.5	802	1.5
Inspector General .....	4	—	5	—	6	—	6	—
Governor and Lieutenant Governor .....	7	—	7	—	5	—	6	—
Secretary of the Commonwealth .....	45	0.1	52	0.1	53	0.1	50	0.1
Treasurer and Receiver-General .....	6,485	10.7	6,224	11.1	5,893	10.9	5,867	11.3
Auditor of the Commonwealth .....	20	—	21	—	19	—	19	—
Attorney General .....	63	0.1	56	0.1	53	0.1	50	0.1
Ethics Commission .....	3	—	2	—	2	—	2	—
District Attorney .....	116	0.2	111	0.2	108	0.2	108	0.2
Office of Campaign and Political Finance .....	2	—	2	—	1	—	1	—
Sheriff's Departments .....	616	1.0	595	1.1	571	1.0	543	1.0
Disabled Persons Protection Commission .....	3	—	3	—	2	—	2	—
Board of Library Commissioners .....	48	0.1	49	0.1	45	0.1	41	0.1
Massachusetts Gaming Commission .....	35	0.1	21	—	23	—	14	—
Comptroller .....	17	—	20	—	18	—	14	—
Administration and Finance .....	8,823	14.8	8,832	15.9	8,862	16.3	8,665	16.8
Energy and Environmental Affairs .....	627	1.0	628	1.1	561	1.0	490	0.9
Housing and Community Development .....	—	—	—	—	—	—	—	—
Health and Human Services .....	22,579	37.3	20,398	36.0	18,649	34.1	17,447	34.1
Transportation and Public Works .....	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation .....	3,287	5.4	3,248	5.8	2,914	5.4	2,439	4.7
Office of the Child Advocate .....	1	—	—	—	—	—	—	—
Executive Office of Education .....	3,320	5.5	3,218	5.7	3,130	5.8	2,952	5.7
Center for Health Information and Analysis .....	27	—	28	—	25	—	9	—
Public Safety and Security .....	1,396	2.3	1,350	2.4	1,313	2.4	1,324	2.6
Housing and Economic Development .....	1,320	2.2	1,281	2.3	1,251	2.3	1,214	2.3
Labor and Workforce Development .....	214	0.4	223	0.4	237	0.4	300	0.6
Post employment benefits .....	2,503	4.1	2,287	3.9	2,109	3.7	1,990	3.8
Debt service .....	2,470	4.1	2,507	4.5	2,410	4.4	2,351	4.5
Payments to advance refunding escrow agent/ Principal on current refunding .....	1,674	2.8	707	1.3	722	1.3	230	0.4
Other fund deficit support .....	71	0.1	89	0.2	168	0.3	—	—
Other interfund transfers .....	3,685	6.1	3,409	6.2	4,673	8.6	4,752	9.2
<b>Total expenditures and other financing uses .....</b>	<b>\$ 60,417</b>	<b>100.0</b>	<b>\$ 56,285</b>	<b>100.0</b>	<b>\$ 54,710</b>	<b>100.0</b>	<b>\$ 51,745</b>	<b>100.0</b>

Schedule reflects changes in accordance with Article 87 reorganizations of the Massachusetts Constitution at various times over the last ten years at point of implementation.

For fiscal years 2009 to 2016, this schedule reflects Budgeted, Non-Budgeted and Capital Projects expenditures and other financing uses only.

Certain amounts in fiscal years 2015 to 2007 were reclassified to conform to current presentation.

2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total	2007	% Total
\$ 58	0.1	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1	\$ 58	0.1	\$ 59	0.2
780	1.6	788	1.5	788	1.7	814	1.6	831	1.7	788	1.8
3	—	3	—	4	—	3	—	3	—	3	—
7	—	5	—	5	—	8	—	9	—	5	—
43	0.1	46	0.1	54	0.1	53	0.1	53	0.1	55	0.1
5,847	11.7	5,610	10.6	5,483	11.5	6,043	12.2	5,640	11.8	5,267	11.7
18	—	17	—	17	—	20	—	19	—	18	—
53	0.1	51	0.1	53	0.1	57	0.1	56	0.1	52	0.1
2	—	2	—	2	—	2	—	2	—	2	—
101	0.2	97	0.2	96	0.2	104	0.2	104	0.2	96	0.2
1	—	3	—	1	—	1	—	1	—	2	—
532	1.1	511	1.0	378	0.8	295	0.6	296	0.7	275	0.6
2	—	2	—	2	—	3	—	2	—	2	—
34	0.1	34	0.1	34	0.1	48	0.1	46	0.1	42	0.1
1	—	—	—	—	—	—	—	—	—	—	—
13	—	14	—	15	—	14	—	14	—	14	—
7,456	14.9	7,206	13.7	7,040	14.9	6,892	14.2	7,059	14.8	7,043	15.7
456	0.9	482	0.9	529	1.1	526	1.1	473	1.0	450	1.0
—	—	—	—	—	—	—	—	—	—	509	1.1
17,632	35.1	17,737	33.5	16,044	33.8	16,468	33.3	15,504	32.5	14,456	32.4
—	—	—	—	509	1.1	1,689	3.4	1,378	2.9	1,404	3.1
2,323	4.6	2,278	4.3	1,542	3.2	—	—	—	—	—	—
—	—	3,225	6.1	3,184	6.7	3,390	6.9	2,989	6.3	2,936	6.5
3,030	6.0	—	—	—	—	—	—	—	—	—	—
—	—	1,172	2.2	1,308	2.7	1,456	2.9	1,381	2.9	1,253	2.8
1,236	2.5	—	—	—	—	—	—	—	—	—	—
1,203	2.4	1,283	2.4	1,245	2.6	981	2.0	857	1.8	508	1.1
390	0.8	428	0.8	403	0.8	331	0.7	274	0.6	67	0.1
1,892	3.8	1,839	3.5	1,749	3.7	1,314	2.7	1,399	2.9	1,335	3.0
2,272	4.5	2,128	4.0	2,117	4.5	2,145	4.3	2,239	4.7	2,352	5.2
388	0.8	540	1.0	538	1.1	—	—	—	—	1,531	3.4
—	—	65	0.1	—	—	220	0.4	1,593	3.5	—	—
4,352	8.7	7,272	13.8	4,373	9.2	6,456	13.1	5,403	11.3	4,383	9.8
<u>\$ 50,125</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>	<u>\$ 47,683</u>	<u>100.0</u>	<u>\$ 44,907</u>	<u>100.0</u>

**Ten-Year Schedule of Budgeted Funds Expenditures and Other Financing Uses By  
Major Program Category**

June 30, 2016  
(Amounts in millions)

	2016	2015	2014	2013	2012	2011	2010	2009*	2008	2007
Direct local aid .....	\$ 5,568	\$ 5,420	\$ 5,292	\$ 5,116	\$ 4,929	\$ 4,785	\$ 4,837	\$ 4,724	\$ 5,040	\$ 5,033
Medicaid** .....	14,851	13,655	11,901	10,800	10,431	10,237	9,287	8,537	8,104	7,413
Other Health and Human Services .....	5,433	5,301	4,980	4,769	4,711	4,615	4,616	4,970	5,014	—
Public Assistance .....	—	—	—	—	—	—	—	—	—	1,258
Elementary and Secondary Education .....	539	515	515	489	436	349	358	496	486	—
Higher Education .....	1,194	1,162	1,092	991	937	943	846	1,036	1,085	1,116
Early Education and Care .....	548	538	510	483	494	515	513	560	550	—
Public Safety and Security .....	1,066	1,041	1,010	960	930	905	1,053	1,224	1,265	—
Energy and Environmental Affairs .....	221	225	215	202	187	186	202	216	227	—
MBTA and regional transit authorities .....	—	—	—	—	—	—	—	—	—	52
Post employment benefits .....	2,503	2,287	2,109	1,990	1,892	1,839	1,749	1,314	1,399	1,335
Group health insurance .....	1,630	1,665	1,403	1,278	1,206	1,130	1,064	973	853	1,022
Debt service .....	2,174	2,190	2,133	2,117	1,923	1,664	1,860	1,891	1,868	2,085
Major programs .....	35,727	33,999	31,160	29,195	28,076	27,168	26,385	25,941	25,891	19,314
Other program expenditures .....	3,241	3,326	3,294	3,007	2,899	2,851	2,999	2,762	2,739	8,343
Interfund transfers and other financing uses ..	1,959	1,527	3,200	3,149	2,515	5,520	1,810	3,867	4,405	1,819
Total expenditures and other financing uses ..	\$ 40,927	\$ 38,852	\$ 37,654	\$ 35,351	\$ 33,490	\$ 35,539	\$ 31,194	\$ 32,570	\$ 33,035	\$ 29,476

\* Fiscal years 2008 through 2016 presentation aligned with Bond Official Statements - Commonwealth Expenditures - Budgeted Operating Funds

\*\* Exclusive of non-budgeted Medicaid spending within the Health Care Quality Improvement Fund, totaling \$290 million in fiscal 2007.

Certain amounts in fiscal years 2015 to 2007 were reclassified to conform to current presentation.

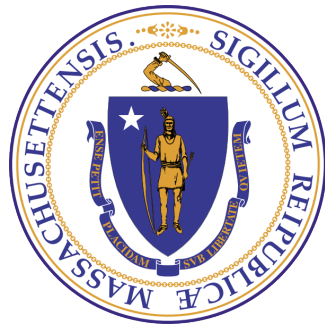
## Ten-Year Schedule of Long-Term Bonds And Notes Outstanding

Fiscal Year Ended June 30, 2016

(Amounts in millions)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General obligation bonds .....	\$ 21,668	\$ 20,802	\$ 19,387	\$ 19,140	\$ 18,852	\$ 18,517	\$ 17,683	\$ 17,052	\$ 16,085	\$ 16,033
Grant anticipation notes* .....	657	700	531	449	610	766	991	1,134	1,536	1,666
Special obligation bonds .....	2,754	2,324	2,292	1,924	1,972	1,592	1,053	1,079	1,113	1,249
Commonwealth long-term bonds .....	<u>\$ 25,079</u>	<u>\$ 23,826</u>	<u>\$ 22,210</u>	<u>\$ 21,513</u>	<u>\$ 21,434</u>	<u>\$ 20,875</u>	<u>\$ 19,727</u>	<u>\$ 19,265</u>	<u>\$ 18,734</u>	<u>\$ 18,948</u>

\*Inclusive of cross-over refunding notes but exclusive of unamortized premiums.



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# ***HIGHER EDUCATION***

## ***NON-APPROPRIATED ACTIVITY***

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The Commonwealth's Public Institutions of Higher Education are allowed, by their enabling statutes, to collect, retain, and expend certain fees, rents, donations and other types of revenue. These financial resources are important elements in the overall financial operations of the respective institutions, and are in addition to amounts made available from appropriations. The Public Institutions of Higher Education include:

***University of Massachusetts System*** - The University system includes the campuses at Amherst, Worcester, Boston, Lowell, Dartmouth and certain institutes and programs operated by the Office of the University President.

***State University Systems*** - The State College and University Systems include the three state colleges, and six state universities, which provide four-year post-secondary education programs. These include:

- Bridgewater State University
- Framingham State University
- Fitchburg State University
- Massachusetts College of Art & Design
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State University
- Worcester State University
- Westfield State University

***Community College System*** - The Community College System includes the fifteen community colleges, which provide two-year post secondary education programs.

- Berkshire Community College
- Bunker Hill Community College
- Bristol Community College
- Cape Cod Community College
- Greenfield Community College
- Holyoke Community College
- Massasoit Community College
- Massachusetts Bay Community College
- Middlesex Community College
- Mount Wachusett Community College
- Northern Essex Community College
- North Shore Community College
- Quinsigamond Community College
- Roxbury Community College
- Springfield Technical Community College



**Higher Education System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	University of Massachusetts	State Universities and Colleges	Community Colleges	Totals	
				2016	2015 Restated
<b>Revenues and other financing sources:</b>					
Federal grants and reimbursements .....	\$ 286,393	\$ 56,453	\$ 173,061	\$ 515,907	\$ 532,948
Departmental revenue .....	1,353,498	476,256	387,588	2,217,341	2,075,768
Miscellaneous revenue .....	1,231,056	378,686	291,210	1,900,951	1,679,194
Total revenues and other financing sources .....	<u>2,870,947</u>	<u>911,395</u>	<u>851,859</u>	<u>4,634,200</u>	<u>4,287,910</u>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):					
AA Regular employee compensation .....	680,953	177,582	171,366	1,029,901	954,660
BB Regular employee related expenses .....	24,379	5,618	3,505	33,502	30,802
CC Special employees and contracted services .....	263,184	133,787	214,334	611,305	607,258
DD Pension and insurance .....	195,523	46,114	37,693	279,329	248,213
EE Administrative expenditures .....	104,810	70,674	39,485	214,969	216,369
FF Facility operational supplies .....	165,509	15,149	22,468	203,126	196,323
GG Energy costs and space rental .....	141,738	41,454	25,357	208,550	207,393
HH Consultant services .....	205,830	11,989	14,999	232,818	237,453
JJ Operational services .....	42,167	38,773	15,483	96,423	90,549
KK Equipment purchase .....	33,702	5,949	10,818	50,469	67,015
LL Equipment leases, maintenance and repair .....	26,677	7,663	6,160	40,500	38,375
MM Purchased client services and programs .....	36,969	4,011	2,717	43,698	41,571
NN Construction and improvements .....	127,452	44,748	20,686	192,886	167,196
PP Aid to local governments .....	—	156	4,287	4,443	2,694
RR Benefit programs .....	370,758	98,600	176,406	645,764	656,360
SS Debt payment .....	28,378	13,864	3,892	46,134	54,513
TT Loans and special payments .....	286,243	132,688	31,053	449,983	280,331
UU Information technology (IT) expenses .....	91,407	29,069	27,678	148,154	143,857
Total expenditures and other financing uses .....	<u>2,825,679</u>	<u>877,889</u>	<u>828,385</u>	<u>4,531,953</u>	<u>4,240,932</u>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses .....	45,268	33,506	23,473	102,247	46,978
Fund balance at beginning of year, as restated .....	<u>875,277</u>	<u>448,410</u>	<u>297,495</u>	<u>1,621,183</u>	<u>1,574,205</u>
Fund balance at end of year .....	<u>\$ 920,545</u>	<u>\$ 481,916</u>	<u>\$ 320,968</u>	<u>\$ 1,723,430</u>	<u>\$ 1,621,183</u>

**University of Massachusetts**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis  
Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Totals	
	2016	2015 Restated
<b>Revenues and other financing sources:</b>		
Federal grants and reimbursements .....	\$ 286,393	\$ 291,886
Departmental revenue .....	1,353,498	1,245,089
Miscellaneous revenue .....	1,231,056	975,559
<b>Total revenues and other financing sources .....</b>	<b>2,870,947</b>	<b>2,512,534</b>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):		
AA Regular employee compensation .....	680,953	621,269
BB Regular employee related expenses .....	24,379	22,462
CC Special employees and contracted services .....	263,184	250,601
DD Pension and insurance .....	195,523	171,759
EE Administrative expenditures .....	104,810	112,630
FF Facility operational supplies .....	165,509	156,550
GG Energy costs and space rental .....	141,738	147,268
HH Consultant services .....	205,830	212,542
JJ Operational services .....	42,167	41,931
KK Equipment purchase .....	33,702	47,911
LL Equipment leases, maintenance and repair .....	26,677	26,007
MM Purchased client services and programs .....	36,969	34,988
NN Construction and improvements .....	127,452	102,792
PP Aid to local governments .....	—	10
RR Benefit programs .....	370,758	377,193
SS Debt payment .....	28,378	26,974
TT Loans and special payments .....	286,243	89,797
UU Information technology (IT) expenses .....	91,407	89,297
<b>Total expenditures and other financing uses .....</b>	<b>2,825,679</b>	<b>2,531,981</b>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses .....	45,268	(19,447)
Fund balance at beginning of year, as restated .....	875,277	894,724
Fund balance at end of year .....	<u>\$ 920,545</u>	<u>\$ 875,277</u>

**State University and College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Bridgewater State University	Framingham State University	Fitchburg State University	Massachusetts College of Art
<b>Revenues and other financing sources:</b>				
Federal grants and reimbursements.....	\$ 14,779	\$ 6,021	\$ 7,942	\$ 2,333
Departmental revenue.....	122,292	50,411	53,780	29,165
Miscellaneous revenue.....	86,984	61,015	36,454	20,845
<b>Total revenues and other financing sources.....</b>	<b>224,055</b>	<b>117,448</b>	<b>98,175</b>	<b>52,342</b>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):				
AA Regular employee compensation.....	67,700	10,003	19,976	10,198
BB Regular employee related expenses.....	1,445	464	517	401
CC Special employees and contracted services.....	42,784	10,816	12,544	5,842
DD Pension and insurance.....	19,983	3,050	4,863	828
EE Administrative expenditures.....	6,101	37,916	2,304	2,282
FF Facility operational supplies.....	1,657	2,840	1,371	1,317
GG Energy costs and space rental.....	5,218	3,756	4,019	2,053
HH Consultant services.....	1,878	1,405	755	1,522
JJ Operational services.....	12,157	6,993	1,299	2,063
KK Equipment purchase.....	751	575	651	811
LL Equipment leases, maintenance and repair.....	2,308	740	769	363
MM Purchased client services and programs.....	2,152	328	298	—
NN Construction and improvements.....	4,442	4,928	16,275	6,844
PP Aid to local governments.....	—	80	—	—
RR Benefit programs.....	24,384	8,508	9,784	8,645
SS Debt payment.....	1,807	393	—	—
TT Loans and special payments.....	20,303	17,200	30,882	8,061
UU Information technology (IT) expenses.....	5,491	4,039	3,249	1,817
<b>Total expenditures and other financing uses.....</b>	<b>220,561</b>	<b>114,033</b>	<b>109,556</b>	<b>53,045</b>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	3,494	3,415	(11,380)	(703)
Fund balance at beginning of year.....	27,187	55,865	58,355	16,985
<b>Fund balance at end of year.....</b>	<b>\$ 30,682</b>	<b>\$ 59,280</b>	<b>\$ 46,974</b>	<b>\$ 16,282</b>

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	
					2016	2015
\$ 612	\$ 3,243	\$ 12,341	\$ 472	\$ 8,712	\$ 56,453	\$ 56,875
33,458	21,753	29,162	58,825	77,410	476,256	447,210
11,867	14,770	80,525	32,225	34,002	378,686	398,812
45,937	39,765	122,028	91,521	120,123	911,395	902,897
7,596	8,924	29,160	5,171	18,853	177,582	155,750
783	449	281	845	434	5,618	4,779
8,037	7,790	17,657	8,480	19,839	133,787	130,005
1,025	880	8,485	985	6,016	46,114	39,479
1,206	1,833	13,027	3,374	2,631	70,674	70,486
1,166	413	3,177	2,087	1,121	15,149	14,652
2,018	1,811	6,102	11,610	4,868	41,454	31,106
1,228	897	1,565	1,705	1,034	11,989	11,371
8,808	3,532	1,688	1,244	989	38,773	35,521
130	1,131	562	848	490	5,949	7,604
846	88	446	1,331	772	7,663	5,887
—	—	752	—	481	4,011	3,627
558	1,041	3,383	3,767	3,511	44,748	39,243
—	75	1	—	—	156	118
696	6,423	18,117	11,117	10,927	98,600	89,894
—	386	355	281	10,642	13,864	23,568
7,639	2,333	13,396	9,608	23,266	132,688	155,220
1,772	1,191	5,751	2,385	3,375	29,069	27,764
43,507	39,196	123,904	64,840	109,247	877,889	846,072
2,430	570	(1,876)	26,681	10,876	33,506	56,825
37,572	12,904	31,218	149,970	58,354	448,410	391,586
\$ 40,002	\$ 13,473	\$ 29,342	\$ 176,651	\$ 69,230	\$ 481,916	\$ 448,410

**Community College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

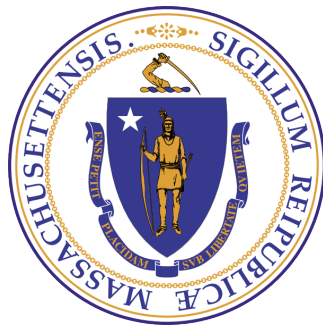
Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College
<b>Revenues and other financing sources:</b>							
Federal grants and reimbursements .....	\$ 3,792	\$ 25,193	\$ 18,677	\$ 4,373	\$ 5,337	\$ 11,654	\$ 18,018
Departmental revenue .....	9,262	43,959	24,702	11,046	15,205	14,632	37,141
Miscellaneous revenue .....	9,772	29,846	38,491	13,432	6,291	18,970	22,791
Total revenues and other financing sources .....	22,826	98,998	81,869	28,851	26,833	45,256	77,951
<b>Expenditures and other financing uses</b>							
(by MMARS subsidiary):							
AA Regular employee compensation .....	2,470	35,000	12,616	3,614	5,005	6,571	15,184
BB Regular employee related expenses .....	121	227	389	118	18	272	142
CC Special employees and contracted services ..	5,593	18,428	31,471	10,026	6,637	9,236	20,941
DD Pension and insurance .....	852	2,067	4,221	1,607	1,459	1,788	4,926
EE Administrative expenditures .....	1,295	2,838	2,298	1,312	1,317	1,781	2,261
FF Facility operational supplies .....	496	1,244	847	255	297	2,882	1,535
GG Energy costs and space rental .....	762	3,049	2,280	1,185	1,150	1,209	1,292
HH Consultant services .....	381	779	476	206	486	399	1,536
JJ Operational services .....	605	1,921	602	498	588	939	419
KK Equipment purchase .....	1,094	747	1,853	46	104	902	787
LL Equipment leases, maintenance and repair ..	169	643	241	109	212	111	519
MM Purchased client services and programs .....	25	342	1,098	—	3	33	320
NN Construction and improvements .....	357	2,755	863	623	472	543	2,328
PP Aid to local governments .....	52	—	186	—	7	83	3,309
RR Benefit programs .....	5,333	26,704	19,836	4,396	6,718	13,471	12,601
SS Debt payment .....	19	245	—	—	—	280	1,034
TT Loans and special payments .....	2,376	91	329	141	296	800	7,072
UU Information technology (IT) expenses .....	958	6,271	2,146	824	753	2,314	1,834
Total expenditures and other financing uses .....	22,959	103,350	81,751	24,962	25,520	43,613	78,041
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses .....	(133)	(4,352)	118	3,889	1,313	1,643	(90)
Fund balance at beginning of year .....	3,017	24,282	14,879	18,841	1,621	13,941	33,477
Fund balance at end of year .....	\$ 2,884	\$ 19,930	\$ 14,997	\$ 22,730	\$ 2,934	\$ 15,584	\$ 33,387

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	
								2016	2015
\$ 4,696	\$ 19,665	\$ 1,601	\$ 11,290	\$ 14,528	\$ 14,339	\$ 6,383	\$ 13,514	\$173,061	\$184,188
19,390	33,529	28,730	40,150	32,702	44,613	754	31,773	387,588	383,469
15,605	32,090	19,448	25,844	16,617	8,067	20,272	13,674	291,210	304,822
39,691	85,285	49,779	77,284	63,847	67,019	27,409	58,961	851,859	872,479
1,657	18,269	24,143	14,070	22,745	8,355	163	1,507	171,366	177,642
202	619	274	459	128	—	48	489	3,505	3,562
14,897	28,246	10,222	16,020	7,778	15,181	9,959	9,699	214,334	226,652
1,167	6,356	3,301	4,234	1,882	3,103	132	596	37,693	36,975
2,423	1,822	2,194	1,598	2,007	2,707	10,717	2,916	39,485	33,253
548	1,565	979	1,420	3,089	4,255	775	2,283	22,468	25,121
2,200	2,879	395	1,891	1,508	3,156	1,185	1,216	25,357	29,019
418	1,650	1,518	470	1,407	1,967	1,607	1,698	14,999	13,540
—	2,397	933	2,949	230	1,303	956	1,143	15,483	13,098
—	391	529	494	275	1,159	133	2,304	10,818	11,500
—	1,375	309	226	187	741	178	1,140	6,160	6,481
274	—	10	—	235	—	—	377	2,717	2,955
2,187	—	3,049	3,428	679	1,341	392	1,669	20,686	25,162
3	—	184	—	461	—	—	2	4,287	2,565
9,642	162	1,322	27,989	13,107	16,592	1,207	17,326	176,406	189,274
45	—	318	681	1,271	—	—	—	3,892	3,972
—	19,328	—	275	13	317	15	—	31,053	35,314
1,781	1,501	57	2,008	2,040	3,925	878	387	27,678	26,796
37,444	86,558	49,737	78,211	59,039	64,101	28,345	44,753	828,385	862,880
2,247	(1,274)	43	(927)	4,808	2,918	(936)	14,207	23,473	9,600
15,635	2,803	10,753	8,340	10,086	3,480	16,217	120,123	297,495	287,896
<u>\$ 17,882</u>	<u>\$ 1,529</u>	<u>\$ 10,796</u>	<u>\$ 7,413</u>	<u>\$ 14,894</u>	<u>\$ 6,398</u>	<u>\$ 15,281</u>	<u>\$ 134,330</u>	<u>\$320,968</u>	<u>\$297,495</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, 2015*

Thomas G. Shack III, Esq.  
*Comptroller of the Commonwealth*

Prepared by  
*Financial Reporting and Analysis  
Office of the Comptroller*

This Document is available at the Comptroller's website: [www.mass.gov/comptroller](http://www.mass.gov/comptroller)

Massachusetts Veterans War Memorial Tower atop Mt. Greylock in Berkshire County

Photo courtesy of Jared Huckle

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

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# *Introductory Section*

*(Unaudited)*

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



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*Thomas G. Shack III, Comptroller  
One Ashburton Place  
Boston, MA 02108*

***May 18, 2016***

***To the Citizens of the Commonwealth of Massachusetts,  
Governor Charles D. Baker and Honorable Members of the General Court***

I am pleased to transmit the Commonwealth's fiscal year 2015 (FY15) 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 FY15 are found in the Statutory Basis Financial Report (SBFR) issued separately this past November. The SBFR 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 one 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 SBFR.

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

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

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

This CAFR is presented in three sections: **Introductory**, **Financial**, and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) section and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of an MD&A.

This letter of transmittal is designed to complement the MD&A, where the financial analysis is presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information; it also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

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

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

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

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

<b>Governmental Funds - Statutory Basis, June 30, 2015</b> .....	
Budgeted fund balance .....	\$ 1,570.7
Non-budgeted special revenue fund balance .....	2,125.3
Capital projects fund balance .....	<u>(524.9)</u>
<b>Governmental Fund Balance - Statutory Basis, June 30, 2015</b> .....	<b>\$ 3,171.1</b>
Plus: Expendable Trust and Similar Fund Statutory balances that are considered Governmental Funds for GAAP reporting purposes .....	567.3
Less: Massachusetts Department of Transportation Funds .....	<u>(1,289.5)</u>
<b>Adjusted Statutory Governmental fund balance</b> .....	<b>2,448.9</b>
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatements .....	1,967.1
Tobacco Settlement Agreement receivable .....	122.0
Medicaid .....	<u>(517.0)</u>
Other short term accruals:	
Assessments and other receivables .....	268.1
Amounts due to authorities and municipalities, net .....	<u>(673.2)</u>
Claims, judgments and other risks .....	(11.8)
Amounts due to health care providers and insurers .....	(30.5)
Workers' compensation and group insurance .....	(145.2)
Compensated absences .....	(11.1)
Other accruals, net .....	<u>366.4</u>
<b>Net increase to governmental fund balances</b> .....	<b><u>1,334.8</u></b>
<b>Massachusetts School Building Authority fund balance</b> .....	<b><u>1,521.5</u></b>
<b>Total changes to governmental funds</b> .....	<b><u>2,856.3</u></b>
<b>Governmental fund balance (fund perspective)</b> .....	<b>5,305.2</b>
Plus: Capital assets including infrastructure, net of accumulated depreciation .....	4,602.3
Deferred revenue, net of other eliminations .....	556.1
Long term accruals:	
Net pension liability .....	(24,532.0)
Net deferred (inflows) / outflows of resources related to pension .....	(1,141.9)
Post employment benefits other than pensions cumulative over / (under) funding .....	(5,605.0)
Environmental remediation liability .....	(208.0)
Massachusetts School Building Authority debt and school construction payables .....	(7,690.2)
Long term debt, unamortized premiums and deferred losses on debt refundings .....	(24,853.1)
Compensated absences .....	(566.2)
Capital leases .....	(42.9)
Accrued interest on bonds .....	(367.8)
Other long term liabilities .....	<u>(309.9)</u>
<b>Total governmental net position (entity wide perspective)</b> .....	<b><u>\$ (54,853.4)</u></b>

The deficit of \$54.853 billion in governmental activities net position is largely attributable to two factors: first, 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; and second, the Commonwealth's net (or unfunded) pension liability, that

starting in FY15 has been placed on the Commonwealth's books in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. At the end of FY15, MassDOT held \$23.698 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. The Commonwealth also 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 FY06 and FY15 the Commonwealth's capital spending on Higher Education capital projects totaled approximately \$1.4 billion, capital spending for transportation-related financial assistance to local governments totaled approximately \$2.4 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 totaled \$4.3 billion, including \$1 billion to fund the Massachusetts School Building Authority in FY05 and FY06. In addition, the Commonwealth has a net liability of \$6.128 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns, and entities such as local housing and other quasi-governmental authorities.

Since MassDOT's governmental activity ended FY15 with a positive net position of \$24.779 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.

As mentioned above, GASB 68 requires that the Commonwealth's net pension liability, or NPL, be recorded on the Commonwealth's books for the first time in FY15. The FY15 NPL for the governmental activities totaled \$24.532 billion and GASB 68 related adjustments (in the form of deferred inflows and outflows) reduced the governmental activities' net position by an additional \$1.142 billion; thus, the implementation of GASB 68 resulted in reduction of net position of \$25.674 billion, compared to an FY14 pension liability (the "net pension obligation") of \$2.219 billion under the prior GASB pension standard.

After adjusting for the impact of the pension accounting change due to the implementation of GASB 68 (which required that the Commonwealth restate its FY15 beginning balance to reflect the full net pension liability), the net deficit in governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) increased by \$2.402 billion between June 30, 2014 and June 30, 2015. Virtually all of the growth in the net deficit was due to the following two factors:

- The Commonwealth had until recently funded its other post-employment benefits (OPEB) liability purely 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 \$773 million in FY15, reducing net position; cumulative OPEB underfunding is \$5.605 billion. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$74 million in FY15 to approximately \$250 million annually by FY23.
- As explained previously, the Commonwealth continues to fund, through its own debt, transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY15, approximately \$2.205 billion of the more than \$2.843 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.520 billion in transportation spending (including more than \$349 million in grants and other financial assistance to cities and towns), \$176 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities), and approximately \$488 million in other capital grants and financial assistance to local governments and quasi-public entities.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$2.171 billion from FY14 (after adjusting the FY14 ending balance for the implementation of GASB 68), with the deficit in governmental activities partially offset by surpluses in Unemployment Insurance and Higher Education.

## REPORTING ENTITY

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

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

## INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2015. 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. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,



Thomas G. Shack III  
Comptroller of the Commonwealth

## **CONSTITUTIONAL OFFICERS**

Charles D. Baker  
*Governor*

Karyn E. Polito  
*Lieutenant Governor*

Deborah B. Goldberg  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

Maura Healey  
*Attorney General*

William F. Galvin  
*Secretary of State*

## **LEGISLATIVE OFFICERS**

Stanley C. Rosenberg  
*President of the Senate*

Robert A. DeLeo  
*Speaker of the House*

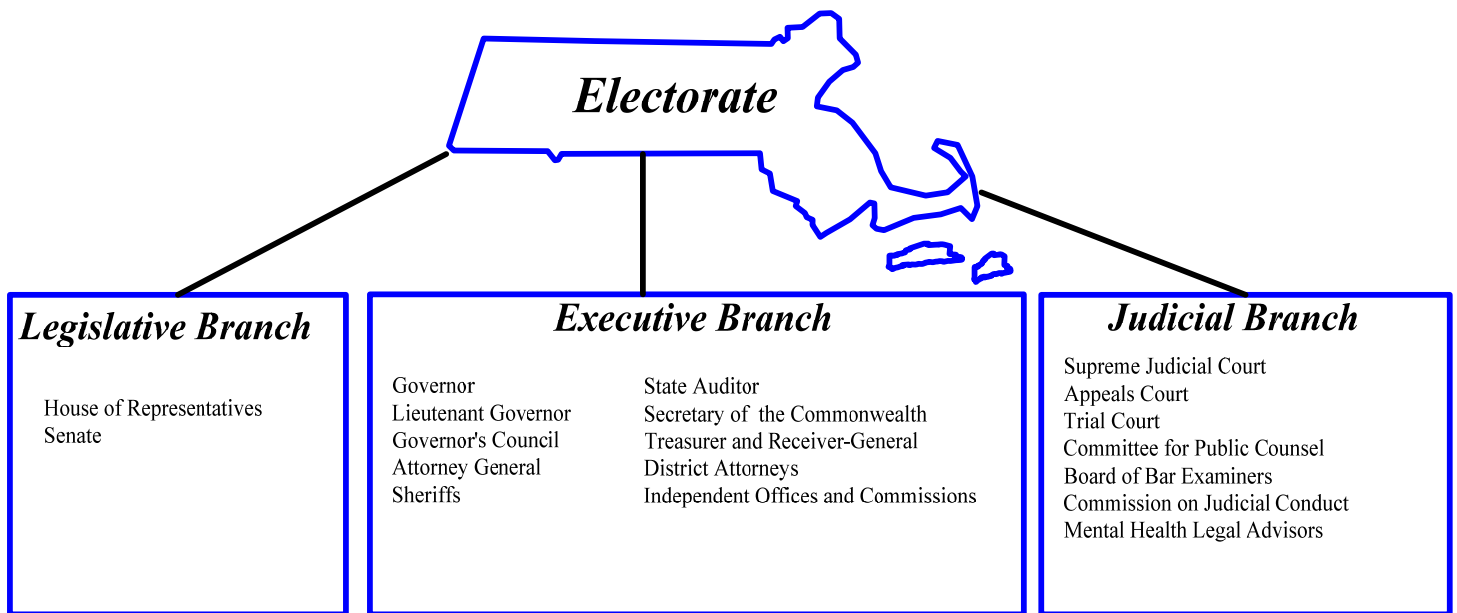
## **JUDICIAL OFFICERS**

Ralph D. Gants  
*Chief Justice, Supreme Judicial Court*

Scott L. Kafker  
*Chief Justice, Appeals Court*

Lewis H. Spence  
*Court Administrator, Trial Court*





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

**ADVISORY BOARD TO THE COMPTROLLER**

Kristen Lepore (Chair)  
*Secretary of Administration and Finance*

Deborah B. Goldberg  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

Maura Healey  
*Attorney General*

Lewis H. Spence  
*Chief Administrator, Trial Court*

Michael Esmond  
*Gubernatorial Appointee*

Timothy C. Sullivan  
*Gubernatorial Appointee*

**REPORT PREPARED BY:**

Howard Merkowitz  
*Deputy Comptroller*

**Statewide Financial Reporting and Analysis**

Bhavdeep J. Trivedi  
*Director*

Michael Rodino, CPA  
*Assistant Director*

Pauline Lieu, CPA, CGFM  
*Accountant*

Neil Gouse, CGFM  
*Accountant*

Mayowa Taiwo, CPA  
*Accountant*

Frank Conlon  
*Accountant*

Christine Bender  
*Accountant*

Cathy Hunter  
*Program Coordinator*

**Statewide General Accounting**

Julia P. Burns, CGFM  
*Director, General Accounting*

**Statewide Department Assistance**

Scott Olsen  
*Director, Department Assistance*



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**Commonwealth of Massachusetts**

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for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO



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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*



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

## **Independent Auditors' Report**

Mr. Thomas G. Shack III, Comptroller  
The Commonwealth of Massachusetts  
Boston, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Universities and certain Community Colleges all of which are major enterprise funds and represent 86% of the total assets and deferred outflows of the business-type activities. We did not audit 75% of the total assets and deferred outflows of the Community Colleges major enterprise fund. Additionally, we did not audit the financial statements of the nonmajor component units, which represent 8% of the total assets and deferred outflows of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, in fiscal year 2015, the Commonwealth adopted the provisions of Governmental Accounting Standard Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to these matters.

### ***Other Matters***

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

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with



auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

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

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2016 on our consideration of the Commonwealth's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.

**KPMG LLP**

May 18, 2016



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# Management's Discussion and Analysis (Unaudited)

## Financial Highlights – Primary Commonwealth Government

### *Government–Wide Highlights*

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, 2015 (FY15). 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.

**Net Position** – The liabilities of the primary government exceeded its assets at the end of FY15 by almost \$49.561 billion, an increase in the net deficit of \$2.171 billion from FY14, after a restatement of the beginning balance by negative \$23.919 billion due to implementation in FY15 of new accounting standards relating to pension liabilities and other restatements.

Of the \$49.561 billion deficit, “unrestricted net position” has a deficit of \$55.145 billion and there is a \$2.502 billion positive balance attributable to net investment in capital assets. There are five primary reasons for the negative unrestricted net position:

1. With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, the Commonwealth is required to place on its books the full amount of its unfunded pension liability (known as the “net pension liability”), which totaled \$24.935 billion as of June 30, 2015.
2. The Commonwealth has a net liability of \$6.128 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA).
3. In FY10, the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.521 billion, as of the date of the transfer, net of depreciation. These and subsequently constructed road and bridge assets were valued at \$23.698 billion as of June 30, 2015. However, the Commonwealth originally paid and continues to pay for the construction of these assets and retains more than \$12 billion in transportation-related debt, which is now unrelated to any capital asset owned by the Commonwealth.
4. The Commonwealth, through debt issuances, also pays for non-transportation capital assets held by quasi-public entities and local governments and housing authorities.
5. The Commonwealth had, until recently, funded its retiree health insurance benefits (Other Post-Employment Benefits, or OPEB) on a pay-as-you-go basis. As a result, as of June 30, 2015, it had accumulated a \$5.605 billion liability for OPEB. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$74 million in FY15 to approximately \$250 million annually by FY24.

At the end of FY15, the Commonwealth also held \$3.081 billion in “restricted net position”, which are assets restricted primarily for payment of debt service, unemployment insurance benefits, and the Institutions of Higher Education. Approximately \$1.320 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.164 billion was restricted for debt retirement (of which \$1.143 billion was restricted for MSBA debt retirement), \$219 million was restricted for Higher Education and \$378 million was restricted for other governmental purposes. The Commonwealth's governmental activities (which excludes the “business-type activities” of the Institutions of

Higher Education and Unemployment Insurance) net deficit increased by \$2.402 billion, to \$54.853 billion, and its governmental activities unrestricted net deficit increased by approximately \$2.437 billion in FY15, to \$55.842 billion, after the \$23.492 billion downward adjustment to the FY15 beginning balance on account of GASB 68.

Total revenues of the primary government increased by \$2.130 billion, or 4.0% in FY15, to \$55.170 billion. Total expenses of the primary government increased by \$1.993 billion, or approximately 3.6%, to \$57.341 billion. Details on revenues and expenses can be found on pages 24–27.

After adjusting for a \$426 million downward adjustment to Higher Education beginning balances on account of GASB 68, the net position of business-type activities increased by \$231 million, due to a surplus of \$277 million in Higher Education activity.

At June 30, 2015, the Commonwealth's governmental funds reported a combined ending fund balance of \$5.305 billion, an increase of \$686 million from June 30, 2014. Of the ending balances:

- \$2 million is nonspendable, \$1.790 billion is restricted, \$2.375 billion is committed, \$577 million is assigned and \$561 million is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements, on pages 69–71)
- The MSBA's fund balance of \$1.521 billion is blended into the Commonwealth. Within this fund balance is \$1.307 billion in cash and restricted investments which resulted primarily from the issuance of debt in FY15 and previous fiscal years, less approximately \$27 million in liabilities. In FY15, \$767 million was dedicated to the MSBA from the Commonwealth from sales taxes, and the MSBA issued \$377 million in long-term dedicated sales tax bonds.

Other highlights of FY15 financial operations include:

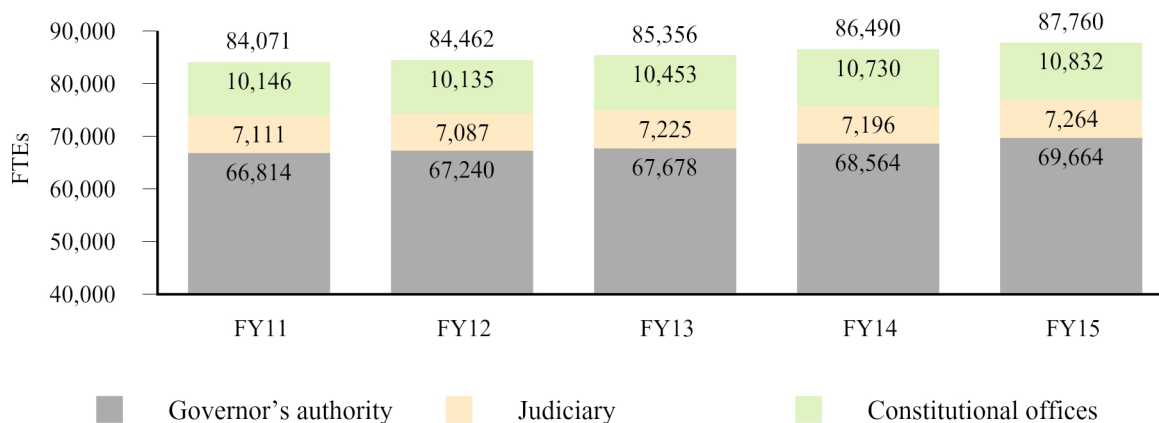
- Tobacco settlement proceeds for the year were approximately \$241 million on a GAAP basis, a decrease of approximately \$41 million from FY14. Approximately \$122 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY16. By statute, in FY15 approximately \$74 million, or the equivalent of 30% of tobacco settlement proceeds, was transferred to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care. The FY16 budget funds a transfer to the SRBTF equal to 30% of tobacco settlement proceeds, contingent on unspent debt service appropriations. Per statute, the proportion of tobacco settlement revenues transferred to the SRBTF increases annually until an amount equal to 100% of the tobacco settlement proceeds is to be transferred to the SRBTF in FY23.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$5.912 billion in bond authorizations. There were no bond de-authorizations of previously approved capital appropriations during the fiscal year. The Commonwealth determines the timing and extent of capital spending and bonding as part of its five-year capital plan.
- Lottery revenues for FY15 were \$5.195 billion, an increase of approximately \$145 million, 2.9% from FY14. Prizes were approximately \$4.109 billion and operating expenses and mandated transfers to the governmental funds were \$1.086 billion.

### ***Full-Time Equivalent Employment***

The chart on page 21 shows the Commonwealth's full-time equivalent employment as of June 30 of each fiscal year, including the Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal, and trust) over the past five fiscal years. In FY15, the number of Commonwealth FTEs increased by approximately 1,300, to a total of 87,760, with most of the increases in health and human services (approximately 563 additional FTEs), State Universities (approximately 452 additional FTEs) and the University of Massachusetts (approximately 604 additional FTEs). Employment levels increased by a total of approximately 3,690 FTEs between June 30, 2011 and June 30, 2015 restoring some of the reductions that occurred in FY09 and FY10. It should be noted that although they are included in the FTE numbers as of June 30, 2015, in FY15 the Commonwealth

instituted an early retirement incentive program (ERIP) for executive branch employees that required all participants to retire by June 30th. Approximately 2,478 Commonwealth employees took advantage of ERIP, and thus as of July 1, 2015, the number of Commonwealth FTEs was approximately that many FTEs lower than on June 30th.

**Full Time Equivalent Workforce**  
**Including Higher Education and the Massachusetts Department of Transportation**  
**June 2011 – June 2015**



## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government–Wide Financial Statements

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

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

The government–wide financial statements can be found on pages 38–41 of this report.

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

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

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

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

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 65–128.

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. Required pension schedules under GASB Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, are also presented in this section.

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

## **GOVERNMENT-WIDE ANALYSIS**

The primary government's combined net position (governmental and business-type activities) showed a net deficit of \$49.561 billion at the end of FY15, an increase in the net deficit of \$2.171 billion from the end of FY14 after restatement of the FY15 beginning balance as a result of implementing GASB 68. Governmental activities unrestricted net position is negative by \$55.842 billion. As explained previously, in addition to the \$24.935 billion net pension liability recorded on the Commonwealth's books, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance, construction of new assets owned by MassDOT, local governments, and local authorities. In FY15, MassDOT reports its capital assets on its financial statements, which are incorporated into



the Commonwealth's financial statements similarly to other component units.

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

Massachusetts School Building Authority net deficit.....	\$ 6,128,200
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	11,637,806
Effect on unrestricted net position of item unique to the Commonwealth .....	\$ 17,766,213

Of the Commonwealth's more than \$2.8 billion in FY15 capital spending, approximately \$2.2 billion in state-funded capital spending did not result in capital assets attributed to governmental activities of the Commonwealth, including approximately \$1.5 billion in transportation spending (with \$349 million in grants and other financial assistance to cities and towns), \$176 million for Institutions of Higher Education (which are included in the Commonwealth's business-type activities) and approximately \$488 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY15 the Commonwealth's capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$16.9 billion. These include Higher Education capital projects totaling approximately \$1.4 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$8.6 billion, transportation-related financial assistance to local governments totaling more than \$2.4 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 of almost \$4.3 billion, including \$1 billion in FY05 and FY06 to capitalize the Massachusetts School Building Authority.

The Commonwealth also funds school construction through debt issued by the MSBA (beyond its initial \$1 billion capitalization), and includes the MSBA's debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns, and school districts.

Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year of the financial statement date, respectively. As of June 30, 2015, the Commonwealth's government-wide current cash and short-term investments totaled \$4.217 billion, an increase of \$775 million from June 30, 2014. Total current assets were \$10.849 billion, an increase of \$865 million from June 30, 2014. During the year, the Commonwealth issued \$1.2 billion in Revenue Anticipation Notes (RANs), which were retired in April, May and June 2015. As of June 30, 2015, the Commonwealth's current liabilities were \$9.774 billion, an increase of \$892 million from June 30, 2014.

As of June 30, 2015, the primary government's non-current assets totaled \$17.371 billion, an increase of \$485 million from June 30, 2014. This increase was due mainly to a \$518 million increase in capital assets, most of which occurred in the business-type of activities, as the result of increases in assets recorded by the Institutions of Higher Education.

The Commonwealth holds \$11.287 billion in traditional capital assets such as land, construction in process, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table on page 24 shows the Commonwealth's net position. Restricted net position represents resources that are subject to external constraints.

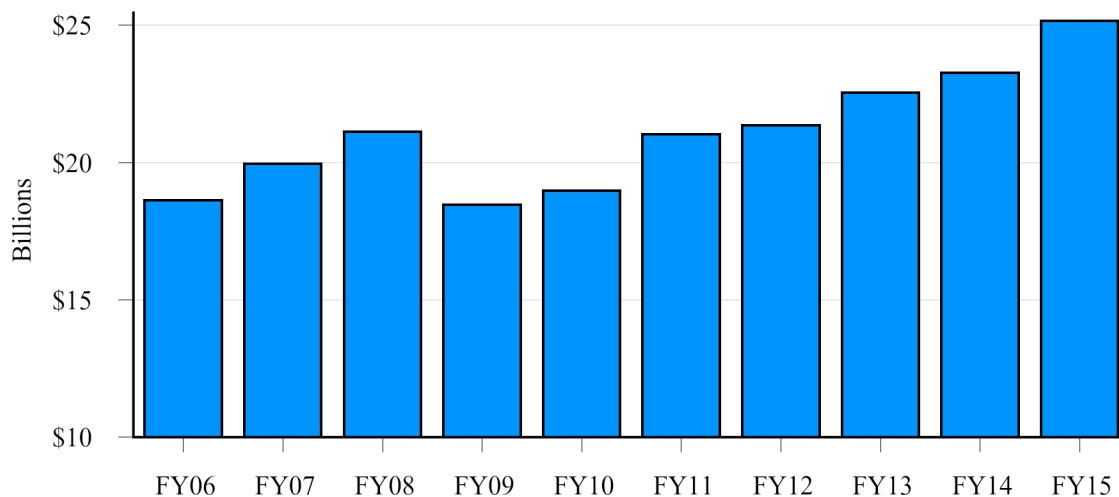
**Net Position as of June 30, 2015 and 2014**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Current assets .....	\$ 9,088,754	\$ 8,292,538	\$ 1,760,469	\$ 1,691,508	\$ 10,849,223	\$ 9,984,046
Non-capital non-current assets .....	3,329,493	3,274,393	2,754,615	2,842,280	6,084,108	6,116,673
Capital assets .....	4,602,322	4,572,621	6,684,216	6,196,149	11,286,538	10,768,770
Deferred outflows of resources .....	2,300,253	505,587	234,880	143,319	2,535,133	648,906
<b>Total assets and deferred outflows .....</b>	<b>19,320,822</b>	<b>16,645,139</b>	<b>11,434,180</b>	<b>10,873,256</b>	<b>30,755,002</b>	<b>27,518,395</b>
Current liabilities .....	8,727,106	7,852,089	1,047,022	1,029,600	9,774,128	8,881,689
Long term liabilities .....	62,415,478	37,733,551	4,983,945	4,337,997	67,399,423	42,071,548
Deferred inflows of resources .....	3,031,679	19,189	110,928	18,018	3,142,607	37,207
<b>Total liabilities and deferred outflows .....</b>	<b>74,174,263</b>	<b>45,604,829</b>	<b>6,141,895</b>	<b>5,385,615</b>	<b>80,316,158</b>	<b>50,990,444</b>
Net Position:						
Net investment in capital assets .....	(553,272)	(502,370)	3,055,444	2,794,845	2,502,172	2,292,475
Restricted .....	1,541,566	1,455,704	1,539,785	1,590,545	3,081,351	3,046,249
Unrestricted .....	(55,841,735)	(29,913,024)	697,056	1,102,251	(55,144,679)	(28,810,773)
<b>Total Net Position .....</b>	<b>\$ (54,853,441)</b>	<b>\$ (28,959,690)</b>	<b>\$ 5,292,285</b>	<b>\$ 5,487,641</b>	<b>\$ (49,561,156)</b>	<b>\$ (23,472,049)</b>

**Changes in Net Position**

As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$2.171 billion between FY14 and FY15. The table on page 25 shows the major categories of government-wide revenues and expenses for FY14 and FY15, as well as net position for the two fiscal years. In FY15, approximately 46% of the primary government's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which was federal aid. FY15 revenues totaled \$55.170 billion, an increase of \$2.130 billion, or 4.0% from FY14, with tax revenue totaling \$25.210 billion, an increase of \$1.891 billion, or 8.1%, from FY14. The increase in tax revenue was attributable primarily to income tax revenue growth of \$1.461 billion, or 11.4%, sales tax growth of \$289 million, or 5.2%, and corporate excise tax growth of \$92 million, or 4.2%,

**Revenue from Taxation**  
**FY06-FY15**



**Changes in Net Position during the Fiscal Years Ended June 30, 2015 and 2014**  
(in thousands of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2015	June 30, 2014*	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014*	June 30, 2015 Distribution	June 30, 2014 Distribution	'14 to '15 % Change
<b>Revenues</b>									
Program Revenues:									
Charges for services .....	\$ 9,582,046	\$ 9,236,702	\$ 3,944,737	\$ 4,423,762	\$ 13,526,783	\$ 13,660,464	24.5%	25.8%	(5.0)%
Operating grants and contributions .....	13,950,227	13,121,648	936,917	1,347,423	14,887,144	14,469,071	27.0%	27.3%	(1.1)%
Capital grants and contributions .....	81,475	30,699	206,128	122,081	287,603	152,780	0.5%	0.3%	66.7 %
General Revenues:									
Taxes .....	25,209,826	23,319,168	—	—	25,209,826	23,319,168	45.7%	44.0%	3.9 %
Other .....	1,251,193	1,131,754	7,536	306,690	1,258,729	1,438,444	2.3%	2.7%	(14.8)%
<b>Total Revenues .....</b>	<b>50,074,767</b>	<b>46,839,971</b>	<b>5,095,318</b>	<b>6,199,956</b>	<b>55,170,085</b>	<b>53,039,927</b>	<b>100.0%</b>	<b>100.0%</b>	<b>49.7 %</b>
<b>Expenses</b>									
Medicaid .....	15,086,742	14,034,862	—	—	15,086,742	14,034,862	26.3%	25.3%	4.0 %
Direct local aid .....	5,469,412	5,353,521	—	—	5,469,412	5,353,521	9.5%	9.7%	(2.1)%
Health and human services .....	7,605,180	7,308,295	—	—	7,605,180	7,308,295	13.3%	13.2%	0.8 %
Lottery .....	4,109,611	3,980,980	—	—	4,109,611	3,980,980	7.2%	7.2%	— %
Higher education .....	—	—	4,695,309	4,700,342	4,695,309	4,700,342	8.2%	8.5%	(3.5)%
Early elementary and secondary education .....	4,654,161	4,714,555	—	—	4,654,161	4,714,555	8.1%	8.5%	(4.7)%
Unemployment compensation .....	—	—	1,598,084	2,036,431	1,598,084	2,036,431	2.8%	3.7%	(24.3)%
Other .....	14,122,138	13,218,451	—	—	14,122,138	13,218,451	24.6%	23.9%	2.9 %
<b>Total Expenses .....</b>	<b>51,047,244</b>	<b>48,610,664</b>	<b>6,293,393</b>	<b>6,736,773</b>	<b>57,340,637</b>	<b>55,347,437</b>	<b>100.0%</b>	<b>100.0%</b>	<b>(26.9)%</b>
<b>Excess/(Deficiency)</b>									
<b>before transfers .....</b>	<b>(972,477)</b>	<b>(1,770,693)</b>	<b>(1,198,075)</b>	<b>(536,817)</b>	<b>(2,170,552)</b>	<b>(2,307,510)</b>			
Transfers .....	(1,429,174)	(1,205,141)	1,429,174	1,205,141	—	—			
Change in net position (deficits) .....	(2,401,651)	(2,975,834)	231,099	668,324	(2,170,552)	(2,307,510)			
Net position/(deficit) - beginning, as restated .....	(52,451,790)	(25,983,856)	5,061,186	4,819,317	(47,390,604)	(21,164,539)			
Net position/(deficit) - ending .....	<u>(\$54,853,441)</u>	<u>(\$28,959,690)</u>	<u>\$ 5,292,285</u>	<u>\$ 5,487,641</u>	<u>(\$49,561,156)</u>	<u>(\$23,472,049)</u>			

\* - Certain expenditures were reclassified to conform to current year presentation.

Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) totaled \$14.887 billion, an increase of \$418 million, or 2.9%, in FY15, with Medicaid reimbursements increasing by \$1.092 billion, or 14.3%, as enrollment in the program expanded and some reimbursement rates increased due to implementation of the federal Affordable Care Act. The increase in Medicaid reimbursements was offset by a decline of \$442 million, or 88.1%, in federal reimbursements for the Unemployment Insurance program, as the economic recovery continued in the Commonwealth.

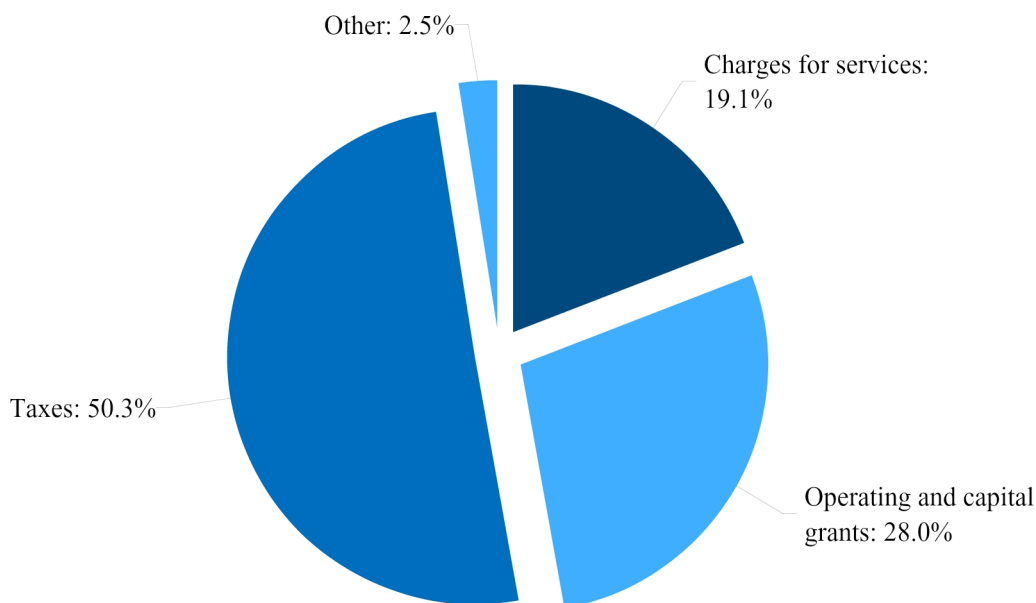
Charges for services totaled \$13.527 billion, a decrease of \$134 million, or 1.0%, with increases in General Government and Lottery charges more than offset by decreases in Medicaid, Higher Education, and Unemployment Insurance charges.

As of June 30, 2015, government-wide restricted net position totaled \$3.081 billion, an increase of \$35 million, due primarily to a \$26 million increase in assets restricted for indebtedness and a \$1 million increase in assets restricted for Higher Education endowments, partially offset in declines in assets restricted for unemployment insurance benefits and other purposes.

Primary government spending totaled \$57.341 billion, an increase of \$1.993 billion, or 3.6%, from FY14, with governmental activities spending (i.e., excluding business-type activities such as Higher Education and the Unemployment Insurance program) totaling \$51.047 billion, an increase of \$2.437 billion, or 5.0%, and business-type activities spending totaling \$6.293 billion, a decline of \$443 million, or 6.6%. Medicaid expenses totaled \$15.087 billion, an increase of \$1.052 billion, or 7.5%, from FY14, due to expanded Medicaid eligibility under the Affordable Care Act. Unemployment insurance compensation totaled \$1.598 billion, a decrease of \$438 million, or 21.5%, as unemployment declined in the Commonwealth and the extended benefit program expired. Other significant spending changes occurred in health and human services, where spending totaled \$7.605 billion, an increase of \$297 million or 4.1%, in transportation and public works, where spending totaled \$2.690 billion, an increase of \$311 million, or 13.1%, in direct local aid, where spending totaled \$5.469 billion, an increase of \$116 million, or 2.2%, and in general government expenses, where spending totaled \$2.704 billion, an increase of \$182 million, or 7.2%.

Income taxes comprises the bulk of tax revenue. Of the \$25.210 billion in tax revenue within governmental activities, \$14.327 billion, or 57% of total taxes, was from income taxes, \$5.832 billion, or 23%, was from sales taxes, \$2.265 billion, or 9%, was from corporate taxes, \$758 million, or 3%, was from motor fuels taxes and \$2.028 billion, or 8%, was from other forms of taxation. Lottery revenues of \$5.194 billion made up 54% of the Commonwealth's governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$8.709 billion, or 62% of all grants, other health and human services grants of \$2.499 billion, or 18% of all grants, and education grants of \$1.193 billion, or 9% of grants. Most of the state's capital grants are for highway construction, and those federal grants are recorded not in the Commonwealth's financial statements but in the financial statements of the Massachusetts Department of Transportation.

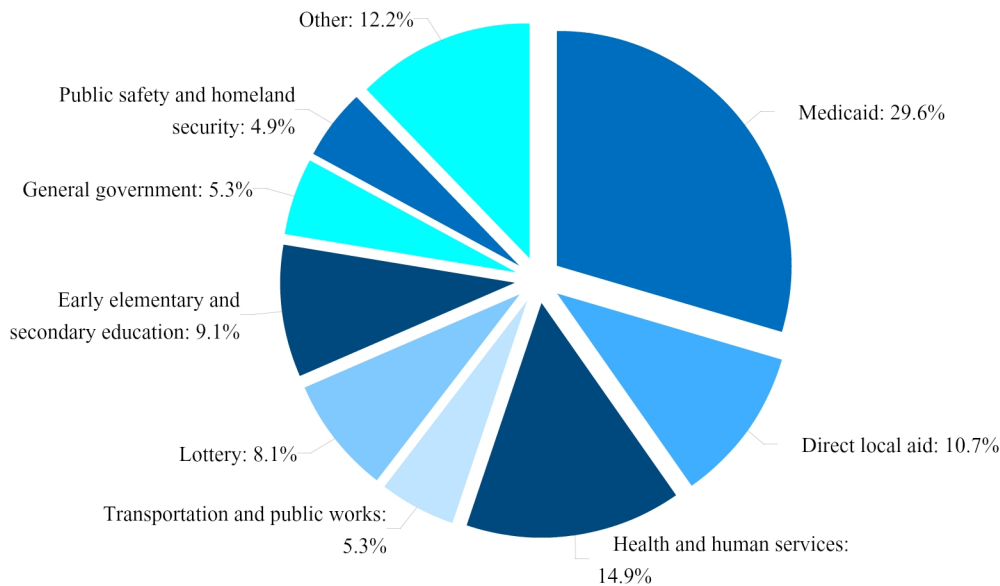
**Revenue—Governmental Activities  
Fiscal Year Ending June 30, 2015**



Medicaid expenses of \$15.087 billion accounted for 29.6% of the Commonwealth's governmental activities expenses. Historically, approximately half of Medicaid expenses have been reimbursed by the federal government, although under the Affordable Care Act some Medicaid expenditures are reimbursed at higher rates. 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 \$7.605 billion, accounting for 14.9% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$4.654 billion, accounting for 9.1% of governmental expenses and public safety and homeland security costs of approximately \$2.486 billion, accounting for 4.9% of governmental expenses. State employees' pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.954 billion.

**Major Expenses—Governmental Activities**  
**Fiscal Year Ending June 30, 2015**



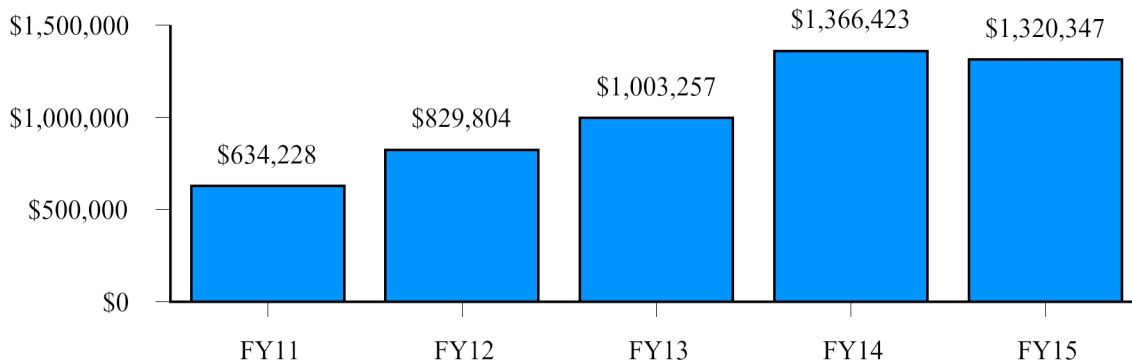
**Business–Type Activities**

Business–type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the Institutions of Higher Education are deemed to be business–type activities because of their lack of separate taxation. Also, Unemployment Compensation is considered to be a business–type activity.

As of June 30, 2015, business-type activities' net position totaled \$5.292 billion, an increase of \$231 million, or 4.6%, from the end of FY14, after the restatement related to GASB 68, with the net position of the Institutions of Higher Education increasing by \$277 million to \$3.972 billion, and the net position of the Unemployment Insurance program decreasing by \$46 million, to \$1.320 billion. Total revenues, including transfers, of the business-type activities totaled \$6.524 billion a decrease of \$881 million, or 11.9%. Charges for services totaled \$3.945 billion, a decrease of \$479 million, or 10.8%, again mainly due to a decline in unemployment insurance charges, which dropped by \$405 million, or 21.4%. Operating grants and contributions totaled \$937 million, a decrease of \$411 million, or 30.5%, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth. Capital grants and contributions totaled \$206 million, an increase of \$84 million, or 68.8% due to capital assets constructed by the Department of Capital Asset Maintenance (DCAM) on behalf of the Institutions of Higher Education. Business-type activities expenditures totaled \$6.293 billion, a decrease of \$443 million, or 6.6%. The primary reason was a decrease of \$438 million, or 21.5% in the Unemployment insurance compensation which totaled \$1.598 billion in FY15, as unemployment declined in the Commonwealth and the extended benefit program

expired. The Institutions of Higher Education spending modestly decreased by \$5 million to \$4.695 billion during FY15.

**Unemployment Compensation Fund  
Net Position  
Fiscal Years 2011 - 2015  
(Amounts in Thousands)**



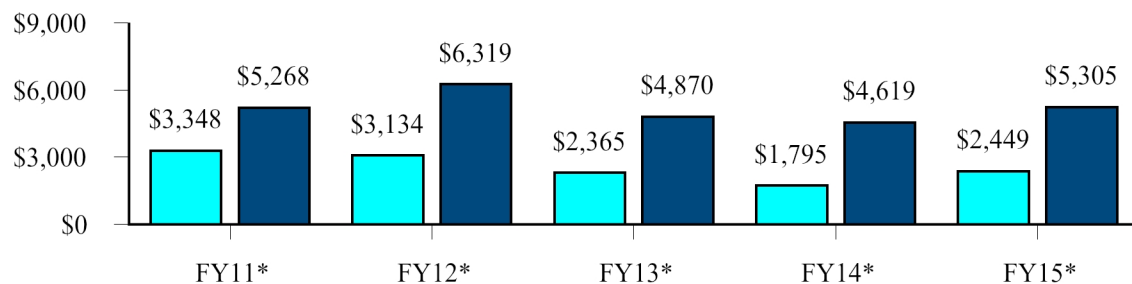
## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

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

### Governmental Funds

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The General Fund is the primary operating fund of the Commonwealth. At the end of FY15, the fund balance of the General Fund was \$2.743 billion. Of this amount, \$1.252 billion represents the balance in the Commonwealth's Stabilization Fund. \$210 million was classified as assigned for continuing appropriations from FY15 into FY16.

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



\*Statutory basis excludes the Massachusetts Department of Transportation (MassDOT)

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 the American Recovery and Reinvestment Act (ARRA), with annual ARRA revenues in excess of \$2 billion, but by FY15 ARRA revenues had declined to approximately \$95 million, almost entirely for education and transportation projects. Also reported in the Federal Grants Fund is \$1.210 billion in food stamp benefit payments, \$72 million of childhood immunization grant and \$23 million from the USDA food program, which do not flow through the Commonwealth but are included in this report under governmental accounting rules.

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

	FY15	FY14	FY13	FY12	FY11
Beginning fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715
Revenues and other financing sources.....	60,658,637	57,209,970	55,289,871	54,370,101	53,898,404
Expenditures and other financing uses .....	59,972,852	57,460,487	56,738,878	53,318,771	53,216,491
Excess/(deficiency).....	685,785	(250,517)	(1,449,007)	1,051,330	681,913
Ending fund balances.....	<u>\$ 5,305,219</u>	<u>\$ 4,619,434</u>	<u>\$ 4,869,951</u>	<u>\$ 6,318,958</u>	<u>\$ 5,267,628</u>

FY15 governmental fund revenues and other financing sources totaled \$60.659 billion, an increase of \$3.449 billion, or 6.0%, from FY14. Tax revenues totaled \$25.258 billion, an increase of \$1.472 billion, or 6.2%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements totaled \$14.045 billion, an increase of \$898 million, or 6.8%, due primarily to growth in reimbursable Medicaid spending. Assessments, fees, and investment earnings totaled \$11.306 billion, an increase of \$530 million, or 4.9%. Revenues from other financing sources totaled \$10.049 billion, an increase of \$549 million, or 5.8%.

FY15 governmental fund expenditures and other financing uses totaled \$59.973 billion, an increase of \$2.512 billion, or 4.4% from FY14. Medicaid expenditures totaled \$15.087 billion, an increase of \$1.052 billion or 7.5%. Debt service expenditures totaled \$2.968 billion, an increase of \$198 million, or 7.2%, post-employment benefits totaled \$902 million, an increase of \$37 million, or 4.3%, and direct local aid totaled \$5.469 billion, an increase of \$116 million, or 2.2%. Other financing uses totaled \$7.291 billion, a decrease of \$178 million, or 2.4%.

As of June 30, 2015, the Commonwealth's governmental funds reported combined ending fund balance of \$5.305 billion, an increase of \$686 million, or 14.8%, from the previous year.

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

	2015	2014	Change	Percentage Change
<b><u>Nonspendable/Restricted:</u></b>				
Nonspendable.....	\$ 2,318	\$ 1,116	\$ 1,202	107.7%
Restricted.....	1,790,143	1,517,555	272,588	18.0%
<b>Total Nonspendable/Restricted.....</b>	<b>1,792,461</b>	<b>1,518,671</b>	<b>273,790</b>	18.0%
<b><u>Unrestricted</u></b>				
Committed.....	2,375,021	2,249,906	125,115	5.6%
Assigned.....	576,632	510,353	66,279	13.0%
Unassigned.....	561,105	340,505	220,600	64.8%
<b>Total Unrestricted.....</b>	<b>3,512,758</b>	<b>3,100,764</b>	<b>411,994</b>	13.3%
<b>Total fund balances.....</b>	<b>\$ 5,305,219</b>	<b>\$ 4,619,435</b>	<b>\$ 685,784</b>	14.8%

GAAP requires that fund balances be classified by the degree of restriction placed upon their use by constitutional, statutory, or contractual requirements, and these classifications are shown in the table above. Nonspendable amounts represent loans receivable. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds, and most of the balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraints on their use than restricted balances, as well the fund balance of the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements, on pages 69–71.

**Proprietary Funds**

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

As discussed above, the business-type activities increased the Commonwealth's net position by approximately \$231 million.

**BUDGETARY HIGHLIGHTS**

The FY15 General Appropriation Act (GAA) authorized approximately \$36.996 billion in spending, exclusive of approximately \$1.793 billion in required pension contributions and \$176 million in FY14 spending authorized to be continued into FY15 as part of FY14 end-of-year supplemental budgets.

The FY15 budget as enacted by the Legislature was based on an FY15 consensus tax revenue estimate of \$24.337 billion, of which approximately \$22.732 billion was to be credited to the Commonwealth's budgeted funds after adjusting for \$1.605 billion in tax revenue that is deposited directly into non-budgeted funds for transfers of sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$811 million) and the Massachusetts School Building Authority (\$772 million), and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million). The FY15 enacted budget adjusted the estimate to \$24.670 billion, including \$240 million in tax settlements (of which \$23.065 billion was to be deposited in the budgeted funds), due to several tax law changes included in the budget. Both estimates included \$122 million of capital gains revenue that under statute was to be transferred to the Stabilization Fund and would not be available for budgetary purposes.

In January 2015, the FY15 tax revenue estimate was further adjusted downward by \$62 million, to \$24.508 billion



(including \$183 million in settlements revenue, virtually all of which were tax-related), of which \$22.903 billion was to be deposited in the budgeted funds, as a result of a reduction in the income tax rate triggered by revenue growth in FY14 and other tax law changes.

FY15 tax revenues ended the year at \$24.932 billion (including \$215 million in tax settlements), of which \$23.174 billion was deposited in the budgeted funds. Tax revenue deposited in the budgeted funds grew by \$1.352 billion, or 6.2% from FY14, and was \$271 million above the final FY15 tax estimate and \$109 million above the original FY15 tax estimate.

Approximately \$1.204 billion in supplemental appropriations were authorized during FY15, \$764 million of which were enacted prior to June 30, 2015. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$440 million in new and continued appropriations, \$249 million of which was for FY15 expenditures, with the remainder continued to FY16 and reappropriated. The year's significant supplemental appropriation activity included:

- \$228 million for Medicaid payments to local hospitals that care for lower income residents;
- \$203 million for the costs of health care for beneficiaries covered by the Commonwealth's MassHealth, or Medicaid, program;
- \$190 million for the Group Insurance Commission to pay health care benefits for Commonwealth employees;
- \$113 million to establish a non-budgeted fund to pay FY16 debt service and thereby reduce FY16 budgeted fund debt service expenditures;
- \$52 million for emergency homeless assistance for family shelters and services;
- \$43 million to the Department of Developmental Disabilities for residential and non-residential services provided to the developmentally disabled;
- \$39 million for snow and ice removal and related costs incurred as a result of blizzards during the winter of 2014-15;
- \$35 million to compensate private counsel who defend indigent defendants;
- \$22 million to pay Sheriffs' Department costs;
- \$15 million for a substance abuse treatment program.

In FY15 the previous and current Governor each reduced spending authorizations, or allotments, using their authority under Section 9C of Chapter 29, in order to maintain a balanced budget. Those reductions totaled approximately \$411 million.

In FY15, there were approximately \$1.188 billion in one-time revenues and savings used to balance the Commonwealth's budget, up from approximately \$754 million in FY14 one-time solutions.

Significant FY15 uses of one-time resources included:

- \$621 million in capital gains tax revenue that under statute would have been required to be deposited in the Stabilization Fund (\$559 million), the State Pension Fund (\$31 million), and the State Retiree Benefits Trust Fund (\$31 million); however, that requirement was suspended for FY15 under budget-balancing measures enacted in February 2015;
- \$170 million from shifting the payment of some FY15 Medicaid expenses into FY16 ;
- \$124 million in one-time federal and other revenues;
- \$89 million from the proceeds of the sale of the Saltonstall State Office Building;
- \$85 million generated by a tax amnesty program;

- \$53 million from gaming facility license fees;
- \$46 million in additional revenues from the delay in implementation of the so-called FAS109 corporate tax deduction.

During FY15, the Commonwealth also transferred \$4.8 million in investment income earned by the Stabilization Fund to the General Fund.

FY15 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$38.236 billion, an increase of \$2.775 billion, or 7.8%, from FY14. Tax revenue grew by \$1.352 billion, or 6.2%, as a result of continuing growth in the economy and the strong stock market, which generated an increase in capital gains taxes of approximately \$432 million, or 35%, compared to FY14. Federal reimbursements totaled \$9.480 billion, an increase of \$1.108 billion, or 13.2%, primarily due to growth in reimbursable Medicaid spending as the Affordable Care Act covered an increased number of Massachusetts residents and reimbursement rates increased for some services. Departmental revenue, which consists primarily of assessments and fees for state licenses and state services, totaled \$3.853 billion, an increase of \$140 million, or 3.8%, from FY14. Large increases in departmental revenue included \$95 million in additional reimbursements by cities and towns participating in the state's health plan, an \$89 million payment generated from the sale of the Saltonstall State Office Building, \$85 million in pharmacy rebates paid to the state's Medicaid program, and \$34 million in additional motor vehicle registration fees. These increases were offset by several large decreases in departmental revenue, including a \$120 million reduction as a result of a non-recurring payment from the University of Massachusetts Medical School, a \$44 million decline in pediatric immunization assessments, and a reduction of \$36 million in tobacco settlement payments received by the Commonwealth. Interfund transfers from non-budgeted funds totaled \$1.729 billion, an increase of \$174 million, or 11.2%, from FY14, due primarily to \$100 million in additional transfers from gaming license fees to the budgeted funds, \$35 million in additional trust fund closeouts, and \$19 million in higher fringe benefit recoveries from capital, federal grants, and non-budgeted and trust funds.

FY15 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$38.116 billion, an increase of \$2.231 billion, or 6.2%, from FY14, with virtually all of the increase attributable to health care spending (including Medicaid and employee health insurance benefits), debt service, pension contributions, and Local Aid.

Spending on programs and services totaled \$32.635 billion, an increase of \$2.423 billion, or 8.0%, from FY14. Medicaid expenditures totaled \$13.655 billion, an increase of \$1.754 billion, or 14.7%, from FY14, primarily due to provisions of the federal Affordable Care Act (ACA) that expanded eligibility for Medicaid as of January 1, 2015, and also due to base enrollment and health care cost growth. In addition, individuals who were eligible for non-Medicaid subsidized coverage under the ACA but could not obtain it due to problems with the Commonwealth Connector's eligibility and enrollment system temporarily received health benefits through MassHealth until the Connector system could be repaired, adding approximately \$521 million to FY15 spending, which is included in the \$1.754 billion Medicaid increase.

Debt service totaled \$2.190 billion, up \$68 million, or 3.2%, from FY14, with the entire growth in debt service expenditures charged to the Commonwealth Transportation Fund, as principal and interest payments began to come due on borrowing for the Commonwealth's road and bridge capital programs. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.078 billion, a decrease of \$424 million or 28.2%, primarily due to decreases in health care transfers to the Commonwealth Care Trust Fund and the Medical Assistance Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) totaled \$2.213 billion, an increase of \$163 million, or 7.9%, as the Commonwealth increased its pension contribution by 10% over FY14, and employee health benefits paid through the Group Insurance Commission, increased by \$243 million, or 17.3%, from \$1.403 billion to \$1.646 billion. Spending for direct local aid (both education aid and unrestricted aid), at \$5.420 billion, was up \$128 million, or 2.4%, from FY14. The FY15 financial statements for each of the fourteen active budgeted funds are included in the financial section of this report.

## 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, 2015 amounts to approximately \$19.550 billion, with accumulated depreciation of approximately \$8.263 billion, leaving a net book value of \$11.287 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, piers and dams. (The investments in capital assets noted above do not include capital assets owned by MassDOT.) The total increase in the Commonwealth's investment in capital assets from 2014 to 2015 was approximately \$518 million, with \$30 million in governmental activities and \$488 million in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table below details the capital asset activity for the Commonwealth.

	<b>Capital Assets at Year - End</b>					
	(net of depreciation)					
	(amounts in thousands)					
	Governmental Activities		Business - Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land.....	\$ 861,487	\$ 842,713	\$ 118,415	\$ 114,530	\$ 979,902	\$ 957,243
Historical treasures .....	—	—	1,196	1,162	1,196	1,162
Construction in process .....	960,752	866,236	758,620	1,139,836	1,719,372	2,006,072
Buildings .....	2,386,166	2,483,617	4,980,724	4,125,043	7,366,890	6,608,660
Machinery and equipment .....	228,921	245,966	747,841	728,235	976,762	974,201
Infrastructure, excluding central artery .....	164,996	134,089	—	—	164,996	134,089
Library collections.....	—	—	77,420	87,343	77,420	87,343
<b>Total.....</b>	<b>\$ 4,602,322</b>	<b>\$ 4,572,621</b>	<b>\$ 6,684,216</b>	<b>\$ 6,196,149</b>	<b>\$ 11,286,538</b>	<b>\$ 10,768,770</b>

Additional detail on the Commonwealth's FY15 capital asset activity can be found in Note 5 to the basic financial statements ("Capital Assets") on pages 87–88.

## 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 FY15 capital budget, the Commonwealth borrowed by issuing \$2.919 billion in long-term bonds, \$2.472 billion of which was general obligation debt and \$447 million of which was special obligation debt secured by motor fuels taxes, motor vehicle license and registration fees, and future federal reimbursements for transportation spending. All new bond sales were either for general government purposes, for road and bridge repair, or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$632 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY15.

Approximately 17.9% percent of the Commonwealth's \$20.802 billion in general obligation debt outstanding as of June 30, 2015 was issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 1.9% of all general obligation debt). During fiscal 2015, there were no changes to credit ratings on any of the Commonwealth's outstanding debt.

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

Additional detail on the Commonwealth’s short-term debt can be found in Note 6 (“Short-Term Financing and Credit Arrangements”) on pages 88–89 and Note 7 (“Long-Term Obligations”) on pages 89–104.

<b>Outstanding Long - Term Debt Obligations</b>						
(Amounts in thousands)						
	Governmental		Business - Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
General obligation bonds .....	\$ 20,801,956	\$ 19,596,662	\$ —	\$ —	\$ 20,801,956	\$ 19,596,662
Special obligation bonds (excluding GANs) ...	2,324,490	2,292,255	—	—	2,324,490	2,292,255
Revenue obligation bonds .....	—	—	4,553,105	4,243,731	4,553,105	4,243,731
Grant anticipation notes .....	699,855	530,935	—	—	699,855	530,935
<b>Subtotal</b> .....	<b>23,826,301</b>	<b>22,419,852</b>	<b>4,553,105</b>	<b>4,243,731</b>	<b>28,379,406</b>	<b>26,663,583</b>
Massachusetts School Building Authority .....	5,714,410	5,632,470	—	—	5,714,410	5,632,470
<b>Total</b> .....	<b>\$ 29,540,711</b>	<b>\$ 28,052,322</b>	<b>\$ 4,553,105</b>	<b>\$ 4,243,731</b>	<b>\$ 34,093,816</b>	<b>\$ 32,296,053</b>

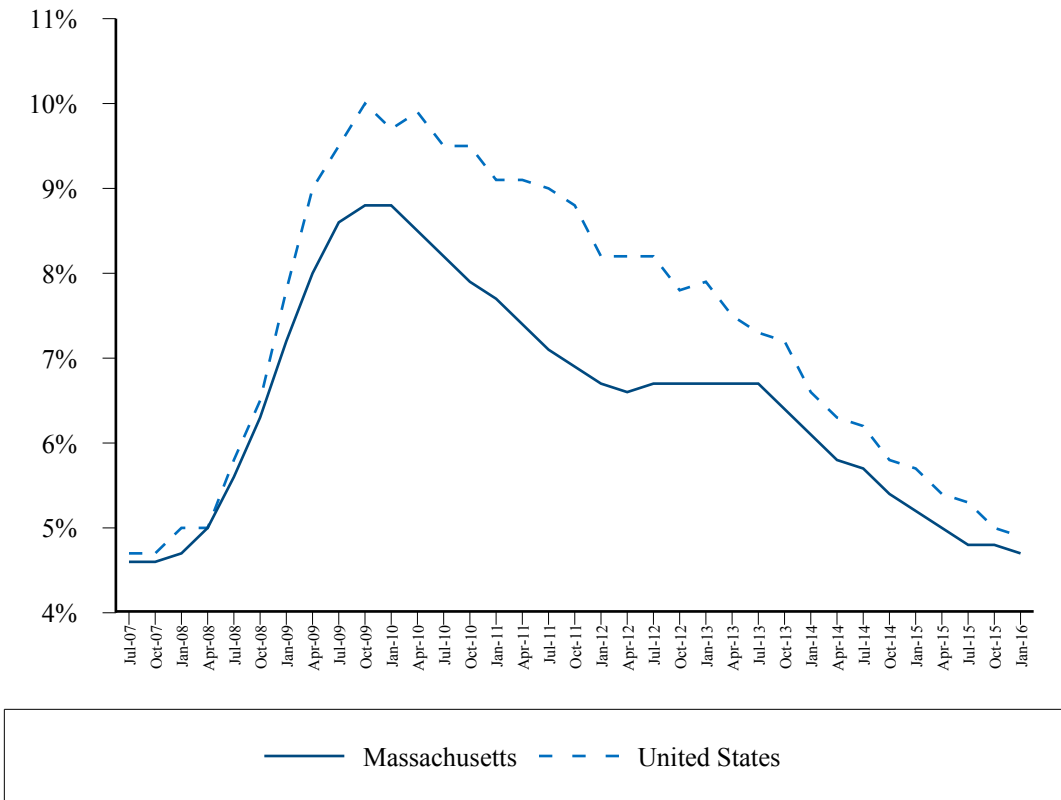
## **ECONOMIC FACTORS AFFECTING NEXT YEAR’S BUDGET**

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

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation’s gross domestic product fell and unemployment hit the highest levels in decades. While the national recession ended in June 2009, recovery has been slow compared to previous recessions.

The Massachusetts economy outperformed the nation’s economy as a whole during and immediately following the most recent recession. Home prices fell in Massachusetts by approximately 18% at their lowest point during the recession, compared to a decline of 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, declined to a low of 5.6% in June 2014, and stood at 4.7% as of January 2016. Nationally, the unemployment rose from 5.8% in July 2008 to a high of 10.0 % in October 2009 (a rate that had not been seen since 1983), and had declined to 4.9% as of January 2016. Based on the “establishment survey” of employment, which is considered by most economists to be more accurate than the “household survey” upon which the unemployment rate is based, Massachusetts employment growth has exceeded the nation’s both since the start and end of the most recent recession.

**Unemployment Rate  
July 2007 – January 2016**



The General Appropriation Act for FY16 is based on a consensus tax revenue estimate of approximately \$25.479 billion, an increase of \$547 million, or 2.2%, from FY15 actual tax collections. Of that amount, \$21.696 billion represents taxes available for budget after adjusting for \$3.784 billion in total tax revenue that is allocated to state pension contributions (\$1.972 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$985 million) and the Massachusetts School Building Authority (\$804 million) and revenue transferred to the non-budgetary Workforce Training Fund (\$22.4 million). The FY16 tax revenue estimate was further adjusted to \$25.711 billion (including \$100 million in tax settlements), of which \$21.927 billion was available for budget, as a result of several tax law changes included in the FY16 budget or enacted separately. That represented an increase of \$779 million, or 3.1%, from FY15 actual tax collections.

Based on tax revenue collections through December 2015, the Secretary for Administration and Finance increased the FY16 tax revenue estimate by \$140 million above the amount upon which the enacted budget was based. Through April 30, 2016, preliminary tax revenue collections were reported by the Department of Revenue to have been \$261 million below the year-to-date benchmark based on the FY16 upwardly revised official tax revenue estimate.

**REQUESTS FOR INFORMATION**

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



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# *Basic Financial Statements*

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

**Statement of Net Position**

June 30, 2015

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Current assets:				
Cash, cash equivalents and short-term investments .....	\$ 3,206,633	\$ 1,010,314	\$ 4,216,947	\$ 2,842,328
Cash with fiscal agent .....	197,836	—	197,836	—
Assets held in trust .....	—	—	—	148,066
Receivables, net of allowance for uncollectibles:				
Taxes .....	3,084,006	—	3,084,006	—
Federal grants and reimbursements receivable .....	2,135,280	100,702	2,235,982	155,141
Loans .....	8,998	47,616	56,614	424,108
Other receivables .....	435,791	549,743	985,534	305,440
Due from cities and towns .....	19,722	—	19,722	—
Due from component units .....	488	383	871	—
Due from primary government .....	—	—	—	689,469
Other current assets .....	—	51,711	51,711	57,046
<b>Total current assets</b> .....	<b>9,088,754</b>	<b>1,760,469</b>	<b>10,849,223</b>	<b>4,621,598</b>
Noncurrent assets:				
Cash and cash equivalents - restricted .....	—	752,683	752,683	855,081
Long-term investments .....	—	914,457	914,457	1,708,327
Investments, restricted investments and annuity contracts .....	2,662,627	843	2,663,470	165,392
Receivables, net of allowance for uncollectibles:				
Taxes .....	463,648	—	463,648	—
Federal grants and reimbursements receivable .....	48,735	—	48,735	—
Loans .....	101,218	9,292	110,510	4,199,099
Other receivables .....	43,757	47,909	91,666	22,147
Due from component units .....	9,508	—	9,508	—
Non-depreciable capital assets .....	1,822,239	878,231	2,700,470	8,905,874
Depreciable capital assets, net .....	2,780,083	5,805,985	8,586,068	25,247,444
Other noncurrent assets .....	—	20,955	20,955	36,894
Other noncurrent assets - restricted .....	—	1,008,476	1,008,476	—
<b>Total noncurrent assets</b> .....	<b>7,931,815</b>	<b>9,438,831</b>	<b>17,370,646</b>	<b>41,140,258</b>
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps .....	329,833	46,111	375,944	241,180
Deferred loss on refunding .....	142,805	114,672	257,477	363,301
Deferred outflows related to pension .....	1,827,615	74,097	1,901,712	163,903
<b>Total deferred outflows of resources</b> .....	<b>2,300,253</b>	<b>234,880</b>	<b>2,535,133</b>	<b>768,384</b>
<b>Total assets and deferred outflows</b> .....	<b>19,320,822</b>	<b>11,434,180</b>	<b>30,755,002</b>	<b>46,530,240</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>				
Current liabilities:				
Accounts payable and other liabilities .....	3,314,917	280,168	3,595,085	1,156,283
Accrued payroll .....	212,696	200,958	413,654	1,946
Compensated absences .....	371,870	146,271	518,141	26,739
Accrued interest payable .....	367,821	22,915	390,736	221,782
Tax refunds and abatements payable .....	1,058,406	46,600	1,105,006	—
Due to component units .....	637,298	224	637,522	—
Due to primary government .....	—	—	—	871
Due to federal government .....	24,504	—	24,504	—
Claims and judgments .....	11,819	—	11,819	—
Unearned revenue .....	—	22,665	22,665	308,721



**Statement of Net Position**

June 30, 2015

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Deposits and unearned revenue .....	—	74,510	74,510	—
School construction grants payable .....	357,100	—	357,100	—
Capital leases .....	7,876	2,471	10,347	4,569
Massachusetts School Building Authority notes payable.....	435,000	—	435,000	—
Massachusetts School Building Authority bonds and unamortized premiums .....	173,529	—	173,529	—
Bonds payable and unamortized premiums .....	1,743,338	250,229	1,993,567	739,773
Environmental remediation liability .....	10,932	11	10,943	—
<b>Total current liabilities</b> .....	<b>8,727,106</b>	<b>1,047,022</b>	<b>9,774,128</b>	<b>2,460,684</b>
<b>Noncurrent liabilities:</b>				
Compensated absences .....	205,446	66,729	272,175	21,598
Accrued interest payable.....	—	—	—	215,127
Due to primary government.....	—	—	—	9,508
Due to federal government - grants .....	—	10,692	10,692	—
Unearned revenue .....	—	—	—	38,722
Prizes payable .....	1,243,000	—	1,243,000	—
Capital leases .....	35,052	7,424	42,476	61,246
Bonds payable and unamortized premiums .....	23,047,571	4,302,876	27,350,447	10,944,888
Massachusetts School Building Authority bonds and unamortized premiums .....	6,027,865	—	6,027,865	—
School construction grants payable .....	723,919	—	723,919	—
Environmental remediation liability .....	197,047	—	197,047	—
Liability for derivative instruments .....	329,833	72,517	402,350	483,309
Net pension liability.....	24,531,950	403,393	24,935,343	1,399,888
Post-employment benefits obligations (other than pensions).....	5,605,000	—	5,605,000	856,556
Other noncurrent liabilities .....	468,795	120,314	589,109	228,974
<b>Total noncurrent liabilities</b> .....	<b>62,415,478</b>	<b>4,983,945</b>	<b>67,399,423</b>	<b>14,259,816</b>
<b>Deferred inflows of resources:</b>				
Deferred service concession arrangements.....	—	16,923	16,923	—
Deferred inflows related to pension.....	2,969,528	90,883	3,060,411	82,917
Deferred gain on refunding.....	62,151	122	62,273	300
Governmental voluntary nonexchange transactions .....	—	3,000	3,000	—
Total deferred inflows of resources.....	3,031,679	110,928	3,142,607	83,217
<b>Total liabilities and deferred inflows</b> .....	<b>74,174,263</b>	<b>6,141,895</b>	<b>80,316,158</b>	<b>16,803,717</b>
<b>NET POSITION</b>				
Net investment in capital assets .....	(553,272)	3,055,444	2,502,172	27,480,236
Restricted for:				
Unemployment benefits.....	—	1,320,347	1,320,347	—
Retirement of indebtedness .....	1,164,045	—	1,164,045	—
Higher education endowment funds.....	—	18,920	18,920	—
Higher education academic support and programs .....	—	2,961	2,961	—
Higher education scholarships and fellowships:				
Nonexpendable.....	—	3,553	3,553	—
Expendable.....	—	6,442	6,442	—
Other nonexpendable purposes.....	—	3,536	3,536	—
Capital projects - expendable purposes .....	—	2,206	2,206	—
Other purposes.....	377,521	181,820	559,341	3,772,412
Unrestricted (deficits) .....	(55,841,735)	697,056	(55,144,679)	(1,526,125)
<b>Total net position</b> .....	<b>\$ (54,853,441)</b>	<b>\$ 5,292,285</b>	<b>\$ (49,561,156)</b>	<b>\$ 29,726,523</b>

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

(concluded)

**Statement of Activities**  
Fiscal Year Ended June 30, 2015  
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
<b>Primary government:</b>								
Governmental Activities:								
General government .....	\$ 2,703,519	\$ 634,289	\$ 643,770	\$ —	\$ (1,425,460)	\$ —	\$ (1,425,460)	\$ —
Judiciary .....	1,026,429	105,521	1,213	—	(919,695)	—	(919,695)	—
Direct local aid .....	5,469,412	—	—	—	(5,469,412)	—	(5,469,412)	—
Medicaid .....	15,086,742	1,052,170	8,709,401	80,237	(5,244,934)	—	(5,244,934)	—
Group health insurance .....	1,657,018	755,712	—	—	(901,306)	—	(901,306)	—
Energy and environmental affairs .....	671,801	253,856	496,978	—	79,033	—	79,033	—
Housing and economic development .....	1,314,980	164,438	56,780	—	(1,093,762)	—	(1,093,762)	—
Health and human services .....	7,605,180	405,710	2,499,315	—	(4,700,155)	—	(4,700,155)	—
Transportation and public works .....	2,689,975	577,430	217	1,238	(2,111,090)	—	(2,111,090)	—
Early elementary and secondary education .....	4,654,161	7,649	1,192,664	—	(3,453,848)	—	(3,453,848)	—
Public safety and homeland security .....	2,486,107	256,596	178,224	—	(2,051,287)	—	(2,051,287)	—
Labor and workforce development .....	309,091	175,130	171,665	—	37,704	—	37,704	—
Lottery .....	4,109,611	5,193,545	—	—	1,083,934	—	1,083,934	—
Interest (unallocated) .....	1,263,218	—	—	—	(1,263,218)	—	(1,263,218)	—
<b>Total governmental activities .....</b>	<b>51,047,244</b>	<b>9,582,046</b>	<b>13,950,227</b>	<b>81,475</b>	<b>(27,433,496)</b>	<b>—</b>	<b>(27,433,496)</b>	<b>—</b>
Business-Type Activities:								
Unemployment Compensation .....	1,598,084	1,492,067	59,941	—	—	(46,076)	(46,076)	—
Higher Education:								
University of Massachusetts .....	2,809,062	1,602,043	517,360	62,582	—	(627,077)	(627,077)	—
State Universities .....	994,341	583,671	105,881	104,146	—	(200,643)	(200,643)	—
Community Colleges .....	891,906	266,956	253,735	39,400	—	(331,815)	(331,815)	—
<b>Total business-type activities .....</b>	<b>6,293,393</b>	<b>3,944,737</b>	<b>936,917</b>	<b>206,128</b>	<b>—</b>	<b>(1,205,611)</b>	<b>(1,205,611)</b>	<b>—</b>
<b>Total primary government .....</b>	<b>\$ 57,340,637</b>	<b>\$ 13,526,783</b>	<b>\$ 14,887,144</b>	<b>\$ 287,603</b>	<b>(27,433,496)</b>	<b>(1,205,611)</b>	<b>(28,639,107)</b>	<b>—</b>
Component Units:								
Massachusetts Department of Transportation .....	\$ 5,485,652	\$ 1,419,950	\$ 2,122,152	\$ 3,087,321	—	—	—	\$ 1,143,771
Commonwealth Health Insurance Connector .....	576,085	501,008	80,436	—	—	—	—	5,359
Massachusetts Clean Water Trust .....	148,939	154,534	30,375	76,099	—	—	—	112,069
Other nonmajor component units .....	513,557	388,965	107,169	(54,708)	—	—	—	(72,131)
<b>Total component units .....</b>	<b>\$ 6,724,233</b>	<b>\$ 2,464,457</b>	<b>\$ 2,340,132</b>	<b>\$ 3,108,712</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,189,068</b>

(continued)

	<b>Primary Government</b>			Component Units
	Governmental Activities	Business- Type Activities	Total	
General revenues:				
Taxes:				
Income .....	14,326,957	—	14,326,957	—
Sales taxes .....	5,832,151	—	5,832,151	—
Corporate taxes .....	2,264,787	—	2,264,787	—
Motor and special fuel taxes .....	757,503	—	757,503	—
Other taxes .....	2,028,428	—	2,028,428	—
Miscellaneous:				
Investment earnings/(loss) .....	26,972	(132,238)	(105,266)	4,751
Tobacco settlement .....	241,025	—	241,025	—
Contribution from municipalities .....	61,991	—	61,991	—
Other revenue .....	921,205	139,774	1,060,979	234,170
Transfers .....	(1,429,174)	1,429,174	—	—
<b>Total general revenues and transfers .....</b>	<b>25,031,845</b>	<b>1,436,710</b>	<b>26,468,555</b>	<b>238,921</b>
<b>Change in net position .....</b>	<b>(2,401,651)</b>	<b>231,099</b>	<b>(2,170,552)</b>	<b>1,427,989</b>
Net position (deficits) - beginning, as restated .....	(52,451,790)	5,061,186	(47,390,604)	28,298,534
<b>Net position (deficits) - ending .....</b>	<b>\$ (54,853,441)</b>	<b>\$ 5,292,285</b>	<b>\$ (49,561,156)</b>	<b>\$ 29,726,523</b>

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

*(concluded)*



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# *Governmental Fund Financial Statements*

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**  
**(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash, cash equivalents and short-term investments.....	\$ 1,373,877	\$ 44,992	\$ 151,393	\$ 1,636,371	\$ 3,206,633
Cash with fiscal agent .....	—	—	—	197,836	197,836
Investments and restricted investments .....	264,426	—	1,155,201	—	1,419,627
Receivables, net of allowance for uncollectibles:					
Taxes.....	3,324,359	—	58,759	164,536	3,547,654
Due from federal government.....	1,783,883	—	—	400,132	2,184,015
Loan receivable.....	—	—	107,898	2,318	110,216
Other receivables .....	260,881	5,137	75,732	131,375	473,125
Due from cities and towns .....	19,722	—	—	—	19,722
Due from other funds .....	83,559	—	—	94,421	177,980
Due from component units.....	488	—	—	—	488
Total assets.....	<b>\$ 7,111,195</b>	<b>\$ 50,129</b>	<b>\$ 1,548,983</b>	<b>\$ 2,626,989</b>	<b>\$ 11,337,296</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ 2,459,202	\$ 42,754	—	\$ 782,436	\$ 3,284,392
Accrued payroll.....	191,194	—	—	21,502	212,696
Compensated absences.....	11,105	—	—	9	11,114
Tax refunds and abatements payable.....	1,057,772	—	294	340	1,058,406
Due to other funds.....	—	—	—	177,980	177,980
Due to component units .....	79,160	—	—	558,138	637,298
Due to federal government.....	24,504	—	—	—	24,504
Claims and judgments.....	11,819	—	—	—	11,819
School construction grants payable .....	—	—	27,203	—	27,203
Other accrued liabilities .....	—	—	—	30,525	30,525
<b>Total liabilities</b> .....	<b>3,834,756</b>	<b>42,754</b>	<b>27,497</b>	<b>1,570,930</b>	<b>5,475,937</b>
Deferred inflows of resources .....	532,966	5,253	—	17,921	556,140
<b>Total liabilities and deferred inflows of resources.</b>	<b>4,367,722</b>	<b>48,007</b>	<b>27,497</b>	<b>1,588,851</b>	<b>6,032,077</b>
Fund balances:					
Nonspendable.....	—	—	—	2,318	2,318
Restricted .....	—	—	1,155,201	634,942	1,790,143
Committed.....	1,252,501	2,122	—	1,120,398	2,375,021
Assigned.....	210,347	—	366,285	—	576,632
Unassigned (deficits) .....	1,280,625	—	—	(719,520)	561,105
<b>Fund balances</b> .....	<b>2,743,473</b>	<b>2,122</b>	<b>1,521,486</b>	<b>1,038,138</b>	<b>5,305,219</b>
<b>Total liabilities and fund balances</b> .....	<b>\$ 7,111,195</b>	<b>\$ 50,129</b>	<b>\$ 1,548,983</b>	<b>\$ 2,626,989</b>	<b>\$ 11,337,296</b>

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

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

June 30, 2015

(Amounts in thousands)

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**Total fund balances - governmental funds** ..... \$ **5,305,219**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Capital assets not being depreciated .....	1,822,239	
Capital assets being depreciated, net .....	2,780,083	
Capital assets, net of accumulated depreciation .....		4,602,322

Deferred inflows of resources are not reported in the governmental funds:

Revenues are not available soon enough after year end to pay for the current period's expenditures and therefore are unavailable deferred inflows of resources in the governmental funds .....	556,140	
Gain on refunding .....	(62,151)	
Pension related .....	(2,969,528)	
Total deferred inflow of resources .....		(2,475,539)

Deferred outflows of resources are not reported in the governmental funds:

Loss on refunding .....	142,805	
Pension related .....	1,827,615	
Total deferred outflow of resources .....		1,970,420

Massachusetts School Building Authority assets and deferred outflows ..... 6,423

Lottery annuity contracts ..... 1,243,000

Due from component units ..... 9,508

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:

Retirement systems' net pension liability .....	(24,531,950)	
Net post-employment benefits obligations .....	(5,605,000)	
Commonwealth bonded debt .....	(23,826,301)	
Unamortized bond premiums .....	(964,608)	
Accrued interest on bonds .....	(367,821)	
Massachusetts School Building Authority notes payable .....	(435,000)	
Massachusetts School Building Authority bonded debt .....	(6,201,394)	
Massachusetts School Building Authority grants to municipalities .....	(1,053,816)	
Prizes payable .....	(1,243,000)	
Capital leases .....	(42,928)	
Environmental remediation liability .....	(207,979)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims .....	(1,034,997)	
Long-term liabilities (including current portions) .....		(65,514,794)

**Total net (deficit) - governmental activities** ..... **\$ (54,853,441)**

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, 2015  
 (Amounts in thousands)

	General	Lotteries	Massachusetts School Building	Other Governmental	Total
<b>REVENUES</b>					
Taxes .....	\$ 21,865,343	\$ 568	\$ 767,361	\$ 2,624,882	\$ 25,258,154
Assessments .....	402,465	—	—	623,337	1,025,802
Federal grants and reimbursements .....	9,608,825	—	—	4,436,205	14,045,030
Departmental .....	2,568,537	5,193,531	—	1,318,580	9,080,648
Miscellaneous .....	584,342	962	60,548	554,100	1,199,952
<b>Total revenues .....</b>	<b>35,029,512</b>	<b>5,195,061</b>	<b>827,909</b>	<b>9,557,104</b>	<b>50,609,586</b>
<b>EXPENDITURES</b>					
Current:					
Legislature .....	60,465	—	—	—	60,465
Judiciary .....	843,572	—	—	1,414	844,986
Inspector General .....	4,521	—	—	460	4,981
Governor and Lieutenant Governor .....	6,368	—	—	—	6,368
Secretary of the Commonwealth .....	44,891	—	—	5,428	50,319
Treasurer and Receiver-General .....	217,337	4,108,519	14,825	1,261,383	5,602,064
Auditor of the Commonwealth .....	17,769	—	—	—	17,769
Attorney General .....	21,750	—	—	19,677	41,427
Ethics Commission .....	1,914	—	—	—	1,914
District Attorney .....	108,677	—	—	9,853	118,530
Office of Campaign and Political Finance .....	1,433	—	—	1,055	2,488
Sheriff's Departments .....	581,390	—	—	11,778	593,168
Disabled Persons Protection Commission .....	2,724	—	—	—	2,724
Board of Library Commissioners .....	25,301	—	—	2,916	28,217
Massachusetts Gaming Commission .....	—	—	—	22,562	22,562
Comptroller .....	13,568	—	—	1,990	15,558
Administration and Finance .....	2,154,045	—	—	336,075	2,490,120
Energy and Environmental Affairs .....	210,991	—	—	206,140	417,131
Health and Human Services .....	5,295,310	—	—	1,915,632	7,210,942
Massachusetts Department of Transportation .....	—	—	—	2,610,619	2,610,619
Executive Office of Education .....	2,311,953	—	—	1,008,425	3,320,378
Center for Health and Information Analysis .....	26,541	—	—	1,837	28,378
Massachusetts School Building Assistance .....	—	—	732,159	—	732,159
Public Safety and Homeland Security .....	1,116,228	—	—	217,954	1,334,182
Housing and Economic Development .....	498,503	—	—	522,895	1,021,398
Labor and Workforce development .....	31,927	—	—	237,511	269,438
Medicaid .....	14,115,809	—	—	970,933	15,086,742
Post employment benefits .....	901,647	—	393	—	902,040
Direct local aid .....	5,469,412	—	—	—	5,469,412
Capital outlay:					
Capital acquisition and construction .....	—	—	—	1,205,098	1,205,098
Debt service .....	—	—	467,566	2,500,305	2,967,871
Principal on current refundings .....	—	—	—	202,895	202,895
<b>Total expenditures .....</b>	<b>34,084,046</b>	<b>4,108,519</b>	<b>1,214,943</b>	<b>13,274,835</b>	<b>52,682,343</b>
<b>Excess (deficiency) of revenues over (under) expenditures .....</b>	<b>945,466</b>	<b>1,086,542</b>	<b>(387,034)</b>	<b>(3,717,731)</b>	<b>(2,072,757)</b>
<b>OTHER FINANCING SOURCES</b>					
Bonds premium .....	—	—	3,713	375,027	378,740
Issuance of general and special obligation bonds .....	—	—	841,796	2,918,817	3,760,613
Issuance of current refunding bonds .....	—	—	—	202,895	202,895
Issuance of advance refunding bonds .....	—	—	—	429,445	429,445
Proceeds of capital leases .....	30,809	—	—	—	30,809
Transfers in for debt service .....	—	—	—	2,453,728	2,453,728
Transfers in .....	1,645,790	—	—	1,147,031	2,792,821
<b>Total other financing sources .....</b>	<b>1,676,599</b>	<b>—</b>	<b>845,509</b>	<b>7,526,943</b>	<b>10,049,051</b>
<b>OTHER FINANCING USES</b>					
Payments to refunding bond escrow agent .....	—	—	110,295	504,491	614,786
Transfers out .....	438,078	1,086,469	—	1,220,633	2,745,180
Transfers of appropriations .....	1,290,225	—	—	3,807	1,294,032
Transfers of bond proceeds .....	—	—	—	182,783	182,783
Transfers out for debt service .....	985,603	—	—	1,468,125	2,453,728
<b>Total other financing uses .....</b>	<b>2,713,906</b>	<b>1,086,469</b>	<b>110,295</b>	<b>3,379,839</b>	<b>7,290,509</b>
<b>Total other financing sources and uses .....</b>	<b>(1,037,307)</b>	<b>(1,086,469)</b>	<b>735,214</b>	<b>4,147,104</b>	<b>2,758,542</b>
<b>Net change in fund balances (deficits) .....</b>	<b>(91,841)</b>	<b>73</b>	<b>348,180</b>	<b>429,373</b>	<b>685,785</b>
Fund balances at beginning of year .....	2,835,314	2,049	1,173,306	608,765	4,619,434
<b>Fund balances at end of year .....</b>	<b>\$ 2,743,473</b>	<b>\$ 2,122</b>	<b>\$ 1,521,486</b>	<b>\$ 1,038,138</b>	<b>\$ 5,305,219</b>

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



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

For the fiscal year ended June 30, 2015

(Amounts in thousands)

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 685,785</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions .....	296,265
Current year depreciation expense .....	(266,563)
Amounts presented in the statement of activities, but not in the change in fund balances due to difference in revenue and expense recognition under different bases of accounting.....	(126,061)
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.....	(1,735,422)
Decrease in capital leases.....	12,950
Massachusetts School Building Authority .....	(302,239)
Net pension costs .....	(157,299)
Net underfunding of post employment benefit obligations .....	(773,000)
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 .....	(36,067)
<b>Change in net position of governmental activities .....</b>	<b><u>\$ (2,401,651)</u></b>

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



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# *Proprietary Fund Financial Statements*

**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**  
**(Amounts in thousands)**

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>ASSETS AND DEFERRED OUTFLOWS:</b>					
Current assets:					
Cash and cash equivalents.....	\$ 21,539	\$ 117,562	\$ 408,101	\$ 105,268	\$ 652,470
Short-term investments .....	—	265,248	24,121	68,475	357,844
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	—	92,805	1,598	6,299	100,702
Loans .....	—	45,066	2,472	78	47,616
Other receivables .....	362,148	111,646	22,679	35,807	532,280
Due from affiliates.....	—	17,463	—	—	17,463
Due from foundation.....	—	59	36	288	383
Other current assets.....	—	42,830	4,520	4,361	51,711
<b>Total current assets.....</b>	<b>383,687</b>	<b>692,679</b>	<b>463,527</b>	<b>220,576</b>	<b>1,760,469</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	—	712,464	40,219	—	752,683
Long-term investments.....	—	737,788	134,649	42,020	914,457
Investments, restricted investments and annuity contracts.....	—	—	843	—	843
Accounts receivable, net.....	—	44,657	3,252	—	47,909
Loans receivable, net.....	—	—	8,871	421	9,292
Non-depreciable capital assets.....	—	535,720	224,967	117,544	878,231
Depreciable capital assets, net.....	—	3,798,041	1,636,483	371,461	5,805,985
Other noncurrent assets .....	—	6,512	14,427	16	20,955
Other noncurrent assets - restricted.....	1,008,476	—	—	—	1,008,476
<b>Total noncurrent assets.....</b>	<b>1,008,476</b>	<b>5,835,182</b>	<b>2,063,711</b>	<b>531,462</b>	<b>9,438,831</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	—	44,648	—	1,463	46,111
Deferred outflows related to pensions.....	—	47,039	15,791	11,267	74,097
Loss on debt refunding.....	—	86,723	27,949	—	114,672
<b>Total deferred outflows of resources.....</b>	<b>—</b>	<b>178,410</b>	<b>43,740</b>	<b>12,730</b>	<b>234,880</b>
<b>Total assets and deferred outflows.....</b>	<b>1,392,163</b>	<b>6,706,271</b>	<b>2,570,978</b>	<b>764,768</b>	<b>11,434,180</b>
<b>LIABILITIES AND DEFERRED INFLOWS:</b>					
Current liabilities:					
Accounts payable and other liabilities.....	\$ 25,216	\$ 179,917	\$ 42,887	\$ 32,148	\$ 280,168
Accrued payroll .....	—	127,341	40,183	33,434	200,958
Compensated absences.....	—	76,634	34,970	34,667	146,271
Accrued interest payable .....	—	22,650	128	137	22,915
Tax refunds and abatements payable.....	46,600	—	—	—	46,600
Unearned revenue.....	—	—	19,904	2,761	22,665
Student deposits and unearned revenues.....	—	45,530	7,121	21,859	74,510
Due to Foundation.....	—	203	—	21	224
Capital leases.....	—	170	1,155	1,146	2,471
Environmental remediation liability.....	—	—	11	—	11
Bonds, notes payable and other obligations.....	—	204,485	41,949	3,795	250,229
<b>Total current liabilities.....</b>	<b>71,816</b>	<b>656,930</b>	<b>188,308</b>	<b>129,968</b>	<b>1,047,022</b>
Noncurrent liabilities:					
Compensated absences.....	—	31,813	17,844	17,072	66,729
Due to federal government - grants.....	—	—	10,684	8	10,692
Capital leases.....	—	562	5,940	922	7,424
Bonds, notes payable and other obligations.....	—	2,884,765	1,358,950	59,161	4,302,876
Liability for derivative instruments.....	—	71,054	—	1,463	72,517
Net pension liability.....	—	237,135	89,852	76,406	403,393
Other noncurrent liabilities.....	—	107,911	7,337	5,066	120,314
<b>Total noncurrent liabilities.....</b>	<b>—</b>	<b>3,333,240</b>	<b>1,490,607</b>	<b>160,098</b>	<b>4,983,945</b>
Deferred inflows of resources:					
Deferred service concession arrangements.....	—	—	16,187	736	16,923
Deferred inflows related to pensions.....	—	48,753	20,180	21,950	90,883
Gain on refunding.....	—	—	122	—	122
Governmental voluntary nonexchange transactions.....	—	—	—	3,000	3,000
<b>Total deferred inflows of resources.....</b>	<b>—</b>	<b>48,753</b>	<b>36,489</b>	<b>25,686</b>	<b>110,928</b>
<b>Total liabilities and deferred inflows.....</b>	<b>71,816</b>	<b>4,038,923</b>	<b>1,715,404</b>	<b>315,752</b>	<b>6,141,895</b>

## Statement of Net Position

### Proprietary Funds

June 30, 2015

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>NET POSITION:</b>					
Net investment in capital assets .....	—	1,887,941	741,487	426,016	3,055,444
Restricted for:					
Unemployment benefits .....	1,320,347	—	—	—	1,320,347
Higher education endowment funds .....	—	18,378	170	372	18,920
Higher education academic support and programs .....	—	—	890	2,071	2,961
Higher education scholarships and fellowships:					
Nonexpendable .....	—	—	3,297	256	3,553
Expendable .....	—	—	5,373	1,069	6,442
Other nonexpendable purposes .....	—	—	3,536	—	3,536
Capital projects - expendable purposes .....	—	—	2,206	—	2,206
Other purposes .....	—	169,591	10,674	1,555	181,820
Unrestricted .....	—	591,438	87,941	17,677	697,056
<b>Total net position .....</b>	<b>\$ 1,320,347</b>	<b>\$ 2,667,348</b>	<b>\$ 855,574</b>	<b>\$ 449,016</b>	<b>\$ 5,292,285</b>

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

# Statement of Revenues, Expenses and Changes in Net Position

## Proprietary Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution .....	\$ 1,459,359	\$ —	\$ —	\$ —	\$ 1,459,359
Net tuition and fees.....	—	765,218	360,709	205,444	1,331,371
Grants and reimbursements .....	—	510,741	72,866	253,735	837,342
Auxiliary enterprises .....	—	362,193	109,828	18,667	490,688
Sales & services.....	—	369,398	99,924	27,936	497,258
Miscellaneous .....	32,708	105,234	13,210	14,909	166,061
<b>Total operating revenues.....</b>	<b>1,492,067</b>	<b>2,112,784</b>	<b>656,537</b>	<b>520,691</b>	<b>4,782,079</b>
<b>Operating expenses:</b>					
Unemployment compensation .....	1,598,084	—	—	—	1,598,084
Instruction.....	—	712,430	298,186	308,910	1,319,526
Research .....	—	431,586	1,510	6	433,102
Academic support.....	—	165,533	84,149	97,772	347,454
Student services .....	—	127,988	97,858	121,026	346,872
Scholarships and fellowships .....	—	49,300	25,101	73,499	147,900
Public service .....	—	72,910	5,437	9,442	87,789
Operation and maintenance of plant.....	—	218,869	91,349	76,178	386,396
Institutional support.....	—	240,305	106,555	124,568	471,428
Other operating expenses .....	—	268,653	3,092	5	271,750
Depreciation .....	—	221,043	87,125	32,404	340,572
Auxiliary operations .....	—	273,680	135,222	18,421	427,323
<b>Total operating expenses.....</b>	<b>1,598,084</b>	<b>2,782,297</b>	<b>935,584</b>	<b>862,231</b>	<b>6,178,196</b>
<b>Operating income/(loss) .....</b>	<b>(106,017)</b>	<b>(669,513)</b>	<b>(279,047)</b>	<b>(341,540)</b>	<b>(1,396,117)</b>
<b>Nonoperating revenues/(expenses):</b>					
Other federal revenues.....	37,665	6,619	33,015	—	77,299
Other revenues.....	—	139,774	—	—	139,774
Other expenses .....	—	(26,765)	(58,757)	(29,675)	(115,197)
Investment income/(loss) .....	22,276	(88,662)	(43,443)	(133)	(109,962)
<b>Total nonoperating revenues/(expenses).....</b>	<b>59,941</b>	<b>30,966</b>	<b>(69,185)</b>	<b>(29,808)</b>	<b>(8,086)</b>
<b>Income/(loss) before capital grants and contributions and transfers .....</b>	<b>(46,076)</b>	<b>(638,547)</b>	<b>(348,232)</b>	<b>(371,348)</b>	<b>(1,404,203)</b>
Capital grants and contributions.....	—	62,582	104,146	39,400	206,128
Transfers, net .....	—	663,924	400,805	364,445	1,429,174
<b>Total capital grants and contributions and transfers.....</b>	<b>—</b>	<b>726,506</b>	<b>504,951</b>	<b>403,845</b>	<b>1,635,302</b>
<b>Change in net position .....</b>	<b>(46,076)</b>	<b>87,959</b>	<b>156,719</b>	<b>32,497</b>	<b>231,099</b>
Total net position - beginning, as restated.....	1,366,423	2,579,389	698,855	416,519	5,061,186
<b>Total net position - ending .....</b>	<b>\$ 1,320,347</b>	<b>\$ 2,667,348</b>	<b>\$ 855,574</b>	<b>\$ 449,016</b>	<b>\$ 5,292,285</b>

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

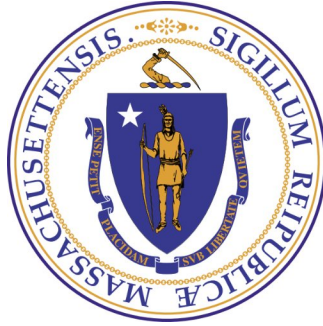
**Statement of Cash Flows**  
**Proprietary Funds**  
**June 30, 2015**  
**(Amounts in thousands)**

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Collection of unemployment contributions.....	\$ 1,488,168	\$ —	\$ —	\$ —	\$ 1,488,168
Tuition, residence, dining and other student fees.....	—	802,554	370,295	227,736	1,400,585
Research grants and contracts.....	—	778,001	165,893	277,860	1,221,754
Payments to suppliers.....	—	(1,046,986)	(253,430)	(221,080)	(1,521,496)
Payments to employees.....	—	(1,648,032)	(481,334)	(477,756)	(2,607,122)
Payments to students.....	—	(55,193)	(20,866)	(74,074)	(150,133)
Payments for unemployment benefits.....	(1,585,647)	—	—	—	(1,585,647)
Collection of loans to students and employees.....	—	8,668	1,332	63	10,063
Income from contract services.....	—	—	5,459	2,147	7,606
Maintenance costs.....	—	—	(897)	—	(897)
Auxiliary enterprise charges.....	—	354,192	63,514	(989)	416,717
Other receipts.....	32,708	428,104	11,224	28,333	500,369
<b>Net cash used by operating activities.....</b>	<b>(64,771)</b>	<b>(378,692)</b>	<b>(138,810)</b>	<b>(237,760)</b>	<b>(820,033)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	—	645,142	243,726	262,002	1,150,870
Grants and contracts.....	37,665	76,539	1,817	985	117,006
Student organizations agency transactions.....	—	(431)	—	170	(261)
Principal on notes payable.....	—	—	—	(299)	(299)
<b>Net cash provided by non-capital financing activities.....</b>	<b>37,665</b>	<b>721,250</b>	<b>245,543</b>	<b>262,858</b>	<b>1,267,316</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	—	62,497	8,494	8,324	79,315
Purchases of capital assets.....	—	(482,699)	(170,153)	(36,573)	(689,425)
Proceeds from sales of capital assets.....	—	—	11,747	—	11,747
Proceeds from debt issuance.....	—	365,501	171,262	6,095	542,858
Other capital asset activity.....	—	49,410	(63,066)	1,067	(12,589)
Investments held by bond trustee, net.....	—	—	(660)	—	(660)
Principal paid on capital debt and leases.....	—	(161,296)	(39,960)	(8,693)	(209,949)
Interest paid on capital debt and leases.....	—	(106,625)	(67,696)	(2,644)	(176,965)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>—</b>	<b>(273,212)</b>	<b>(150,032)</b>	<b>(32,424)</b>	<b>(455,668)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	—	876,156	151,826	69,253	1,097,235
Purchases of investments.....	—	8,651	(79,669)	(76,638)	(147,656)
Investment earnings.....	22,276	(928,361)	8,432	593	(897,060)
<b>Net cash provided by (used by) investing activities.....</b>	<b>22,276</b>	<b>(43,554)</b>	<b>80,589</b>	<b>(6,792)</b>	<b>52,519</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(4,830)</b>	<b>25,792</b>	<b>37,290</b>	<b>(14,118)</b>	<b>44,134</b>
Cash and cash equivalents at the beginning of the fiscal year.....	26,369	804,234	411,030	119,386	1,361,019
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ 21,539</b>	<b>\$ 830,026</b>	<b>\$ 448,320</b>	<b>\$ 105,268</b>	<b>\$ 1,405,153</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (106,017)</b>	<b>\$ (669,513)</b>	<b>\$ (279,047)</b>	<b>\$ (341,540)</b>	<b>\$ (1,396,117)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	—	221,043	87,125	32,404	340,572
Fringe benefits paid by the Commonwealth.....	—	—	59,768	70,747	130,515
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	52,641	34,123	(678)	908	86,994
Accounts payable, accrued liabilities and benefits.....	12,437	22,090	(5,336)	702	29,893
Student deposits and other unearned and deferred revenues.....	—	9,991	1,375	1,027	12,393
Other noncurrent assets - restricted and liabilities.....	(23,832)	3,574	(2,017)	(2,008)	(24,283)
<b>Net cash used by operating activities.....</b>	<b>\$ (64,771)</b>	<b>\$ (378,692)</b>	<b>\$ (138,810)</b>	<b>\$ (237,760)</b>	<b>\$ (820,033)</b>

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

The University System had approximately \$343 million of non-cash activities (including \$302 million in project and revenue bonds issued to refund debt) and the State Universities and Community Colleges had approximately \$261 million and \$93 million, respectively, of non-cash activities, including new capital leases.

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



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# *Fiduciary Fund*

## *Financial Statements*

## Statement of Net Position

Fiduciary Funds

June 30, 2015

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
Cash and short-term investments .....	\$ —	\$ —	\$ 666	\$ 597,435
Assets held in trust for post-employment benefits:				
Cash and short-term investments .....	264,709	—	—	—
Net investment in PRIT at fair value .....	49,921,857	11,321,888	—	—
Assets held in trust for pool participants:				
Cash and short-term investments .....	—	2,386,707	—	—
Investments, restricted investments and annuity contracts .....	—	—	—	1,819,862
Receivables, net of allowance for uncollectibles:				
Taxes .....	—	—	—	2,012
Other receivables .....	100,146	—	—	127,838
Other assets .....	15,495	—	—	—
<b>Total assets</b> .....	<b>\$ 50,302,207</b>	<b>\$ 13,708,595</b>	<b>\$ 666</b>	<b>\$ 2,547,147</b>
<b>LIABILITIES</b>				
Accounts payable and other accrued liabilities .....	\$ 55,541	\$ —	\$ —	\$ 66,197
Due to cities and towns .....	—	—	—	42,183
Lottery prizes payable .....	—	—	—	1,243,000
Agency liabilities .....	—	—	—	1,195,767
<b>Total liabilities</b> .....	<b>55,541</b>	<b>—</b>	<b>—</b>	<b>\$ 2,547,147</b>
<b>NET POSITION</b>				
Restricted for employees' post-employment benefits .....	50,246,666	—	—	
Restricted for external investment trust fund participants .....	—	13,708,595	—	
Restricted for private purposes .....	—	—	666	
<b>Total net position</b> .....	<b>\$ 50,246,666</b>	<b>\$ 13,708,595</b>	<b>\$ 666</b>	

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

## Statement of Changes in Net Position

### Fiduciary Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions - Commonwealth and MassDOT .....	\$ 1,100,489	\$ —	\$ —
Non-employer contributions - Commonwealth .....	1,035,525	—	—
Employer contributions - other employers .....	15,808	—	—
Employee contributions .....	1,219,434	—	—
Boston teachers' contribution from Commonwealth .....	109,485	—	—
Other additions .....	249,733	802,252	—
Proceeds from sale of units .....	—	17,882,621	—
<b>Total contributions</b> .....	<b>3,730,474</b>	<b>18,684,873</b>	<b>—</b>
Net investment gain/(loss):			
Investment gain/(loss) .....	1,929,815	447,230	—
Less: investment expense .....	(261,822)	(78,049)	—
<b>Net investment gain/(loss)</b> .....	<b>1,667,993</b>	<b>369,181</b>	<b>—</b>
<b>Total additions</b> .....	<b>5,398,467</b>	<b>19,054,054</b>	<b>—</b>
<b>DEDUCTIONS</b>			
Administration .....	39,596	—	153
Retirement benefits and refunds .....	4,981,877	768,507	—
Payments to State Boston Retirement System .....	109,485	—	—
Other deductions .....	95,453	—	—
Cost of units redeemed .....	—	18,243,698	—
Distribution to unit holders .....	—	4,798	—
<b>Total deductions</b> .....	<b>5,226,411</b>	<b>19,017,003</b>	<b>153</b>
<b>Net increase/(decrease)</b> .....	<b>172,056</b>	<b>37,051</b>	<b>(153)</b>
Net position - beginning .....	50,074,610	13,671,544	819
<b>Net position - ending</b> .....	<b>\$ 50,246,666</b>	<b>\$ 13,708,595</b>	<b>\$ 666</b>

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



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***Discretely Presented  
Component Unit  
Financial Statements***

## Statement of Net Position

Component Units

June 30, 2015

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 340,728	\$ 40,085	\$ 451,885	\$ 166,247	\$ 998,945
Short-term investments.....	—	—	46,526	245,256	291,782
Restricted cash and investments.....	1,367,931	5,612	—	178,058	1,551,601
Assets held in trust.....	—	—	1,690	146,376	148,066
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	73,103	17,604	64,340	94	155,141
Loans.....	—	5,279	368,201	50,628	424,108
Other receivables.....	141,998	67,269	57,459	38,714	305,440
Due from primary government.....	581,499	28,586	—	79,384	689,469
Inventory.....	—	—	—	118	118
Other current assets.....	48,982	1,334	—	6,612	56,928
<b>Total current assets.....</b>	<b>2,554,241</b>	<b>165,769</b>	<b>990,101</b>	<b>911,487</b>	<b>4,621,598</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	755,352	—	—	99,729	855,081
Long-term investments.....	—	—	1,002,359	705,968	1,708,327
Restricted investments and annuity contracts.....	—	—	—	165,392	165,392
Accounts receivables, net.....	13,515	—	—	8,632	22,147
Loans receivables, net.....	—	—	3,591,902	607,197	4,199,099
Non-depreciable capital assets.....	8,575,384	—	—	330,490	8,905,874
Depreciable capital assets, net.....	24,397,691	612	—	849,141	25,247,444
Other noncurrent assets.....	24,961	—	1,928	10,005	36,894
<b>Total noncurrent assets.....</b>	<b>33,766,903</b>	<b>612</b>	<b>4,596,189</b>	<b>2,776,554</b>	<b>41,140,258</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	235,538	—	5,642	—	241,180
Deferred loss on refunding.....	260,591	—	102,710	—	363,301
Deferred outflows related to pension.....	161,751	—	—	2,152	163,903
<b>Total deferred outflows of resources.....</b>	<b>657,880</b>	<b>—</b>	<b>108,352</b>	<b>2,152</b>	<b>768,384</b>
<b>Total assets and deferred outflows.....</b>	<b>36,979,024</b>	<b>166,381</b>	<b>5,694,642</b>	<b>3,690,193</b>	<b>46,530,240</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	968,568	45,841	1,939	139,935	1,156,283
Accrued payroll.....	—	591	—	1,355	1,946
Compensated absences.....	23,633	372	—	2,734	26,739
Accrued interest payable.....	159,007	—	61,186	1,589	221,782
Due to primary government.....	—	—	—	871	871
Unearned revenue.....	65,292	22,740	28,834	191,855	308,721
Capital leases.....	4,427	—	—	142	4,569
Bonds, notes payable and other obligations.....	435,536	60,126	226,465	17,646	739,773
<b>Total current liabilities.....</b>	<b>1,656,463</b>	<b>129,670</b>	<b>318,424</b>	<b>356,127</b>	<b>2,460,684</b>
Noncurrent liabilities:					
Compensated absences.....	20,017	—	—	1,581	21,598
Accrued interest payable.....	214,838	—	—	289	215,127
Due to primary government.....	—	—	—	9,508	9,508
Unearned revenue.....	—	—	—	38,722	38,722
Capital leases.....	61,246	—	—	—	61,246
Bonds, notes payable and other obligations.....	7,299,027	—	3,105,887	539,974	10,944,888
Net pension liability.....	1,375,064	—	—	24,824	1,399,888
Post-employment benefits obligations.....	845,127	3,705	—	7,724	856,556
Liability for derivative instruments.....	477,667	—	5,642	—	483,309
Other noncurrent liabilities.....	172,451	—	25,233	31,290	228,974
<b>Total noncurrent liabilities.....</b>	<b>10,465,437</b>	<b>3,705</b>	<b>3,136,762</b>	<b>653,912</b>	<b>14,259,816</b>
Deferred inflows of resources:					
Deferred gain on refundings.....	300	—	—	—	300
Deferred inflows related to pension.....	77,822	—	—	5,095	82,917
<b>Total liabilities and deferred inflows.....</b>	<b>12,200,022</b>	<b>133,375</b>	<b>3,455,186</b>	<b>1,015,134</b>	<b>16,803,717</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	26,333,993	612	—	1,145,631	27,480,236
Restricted for:					
Clean energy trusts.....	—	—	—	225,677	225,677
Economic development financing.....	—	—	—	175,201	175,201
Other purposes.....	768,119	—	1,866,407	737,008	3,371,534
Unrestricted.....	(2,323,110)	32,394	373,049	391,542	(1,526,125)
<b>Total net position.....</b>	<b>\$ 24,779,002</b>	<b>\$ 33,006</b>	<b>\$ 2,239,456</b>	<b>\$ 2,675,059</b>	<b>\$ 29,726,523</b>

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

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

Component Units

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>Operating revenues:</b>					
Charges for services .....	\$ 1,419,950	\$ 500,777	\$ 7,465	\$ 294,906	\$ 2,223,098
Other .....	—	231	147,069	94,059	241,359
<b>Total operating revenues .....</b>	<b>1,419,950</b>	<b>501,008</b>	<b>154,534</b>	<b>388,965</b>	<b>2,464,457</b>
<b>Operating expenses:</b>					
Cost of services .....	3,534,401	489,059	143,016	332,715	4,499,191
Administration costs .....	896,063	86,894	5,923	120,876	1,109,756
Depreciation .....	1,055,188	132	—	59,966	1,115,286
<b>Total operating expenses .....</b>	<b>5,485,652</b>	<b>576,085</b>	<b>148,939</b>	<b>513,557</b>	<b>6,724,233</b>
<b>Operating income/(loss) .....</b>	<b>(4,065,702)</b>	<b>(75,077)</b>	<b>5,595</b>	<b>(124,592)</b>	<b>(4,259,776)</b>
<b>Nonoperating revenues/(expenses):</b>					
Operating grants .....	2,122,152	80,436	30,375	107,169	2,340,132
Interest income/(loss) .....	20,611	44	—	(15,904)	4,751
Other nonoperating revenue/(expense) .....	18,763	529	—	214,878	234,170
<b>Nonoperating revenues/(expenses), net .....</b>	<b>2,161,526</b>	<b>81,009</b>	<b>30,375</b>	<b>306,143</b>	<b>2,579,053</b>
<b>Income/(loss) before contributions .....</b>	<b>(1,904,176)</b>	<b>5,932</b>	<b>35,970</b>	<b>181,551</b>	<b>(1,680,723)</b>
Capital contributions .....	3,087,321	—	76,099	(54,708)	3,108,712
<b>Change in net position/(deficits) .....</b>	<b>1,183,145</b>	<b>5,932</b>	<b>112,069</b>	<b>126,843</b>	<b>1,427,989</b>
Net position - beginning, as restated .....	23,595,857	27,074	2,127,387	2,548,216	28,298,534
<b>Net position - ending .....</b>	<b>\$ 24,779,002</b>	<b>\$ 33,006</b>	<b>\$ 2,239,456</b>	<b>\$ 2,675,059</b>	<b>\$ 29,726,523</b>

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



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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

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

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

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

**The Massachusetts School Building Authority (MSBA)** is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth, that starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. The MSBA's bonded debt is secured by these sales tax revenues. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

**The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net position totaling approximately \$11.322 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

**The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net position is approximately \$2.387 billion at June 30, 2015, and is reported as an external investment trust within the fiduciary fund type.

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

**The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver-General,

operates the Commonwealth's lottery. The net position of the Commission and results thereon are presented as a major governmental fund.

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

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

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

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

*Major component units:*

**The Massachusetts Department of Transportation (MassDOT)** incorporates the former Massachusetts Turnpike Authority and has jurisdiction over the Massachusetts Bay Transportation Authority (MBTA) and the Regional Transit Authorities. 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 (including the former Turnpike Authority (MTA)) 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 Massachusetts Clean Water Trust** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

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

*Related Organizations*

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

*Availability of Financial Statements*

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

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

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

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

### *Government-Wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column. The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

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

**Governmental Funds – Fund financial statements** account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus

and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal reimbursements, revenues are accrued when the qualifying expenditure is incurred. For 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 activities of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

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

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

The proprietary funds include the following:

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

**College and University Funds**, are presented aggregated by the University's activity, the State Universities' activity and the Community Colleges' activity.

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

**Post-Employment Benefit Trust Funds** report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in Note 9 to the basic financial statements on pages 104 – 117.

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

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

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

#### **Fund Balances:**

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

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

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

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

**Assigned** balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Massachusetts Legislature has the authority to assign or modify previously assigned fund balance. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, i.e., the Legislature and Governor, and

the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year.

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

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

Detail of FY15 ending fund balances is shown below.

**Governmental Fund Balances at June 30, 2015**

*(amounts in thousands)*

	Nonexpendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
<b>General Fund</b>						
General Government .....	\$ —	\$ —	\$ —	\$ —	\$ 1,280,625	\$ 1,280,625
Stabilization Fund .....	—	—	1,252,501	—	—	1,252,501
FY15 Appropriations Reappropriated in FY16.....	—	—	—	210,347	—	210,347
<b>Subtotals, General Fund .....</b>	<b>—</b>	<b>—</b>	<b>1,252,501</b>	<b>210,347</b>	<b>1,280,625</b>	<b>2,743,473</b>
<b>Lottery Funds</b>						
Lottery Operations.....	—	—	2,122	—	—	2,122
<b>Subtotals, Lottery Funds .....</b>	<b>—</b>	<b>—</b>	<b>2,122</b>	<b>—</b>	<b>—</b>	<b>2,122</b>
<b>Massachusetts School Building Authority (MSBA)</b>						
Debt Service .....	—	1,143,444	—	—	—	1,143,444
Grants to Cities, Towns and Local School Districts.....	—	11,757	—	366,285	—	378,042
<b>Subtotals, MSBA.....</b>	<b>—</b>	<b>1,155,201</b>	<b>—</b>	<b>366,285</b>	<b>—</b>	<b>1,521,486</b>
<b>Other Governmental Funds</b>						
Restricted by Federal Grantors.....	—	35,228	—	—	—	35,228
Child Support -- Restricted by Federal Grantors .....	—	24,260	—	—	—	24,260
Environmental .....	—	—	20,904	—	—	20,904
Public Safety -- Enhanced 911 Services.....	—	—	92,180	—	—	92,180
Public Safety -- Other.....	—	—	3,602	—	—	3,602
Universal Health Care - Distressed Hospital Relief.....	—	—	101,725	—	—	101,725
Universal Health Care - Non-Institutional Long-Term Care .....	—	62,948	—	—	—	62,948
Universal Health Care - Other.....	—	—	35,594	—	—	35,594
Other Health Care.....	—	—	24,068	—	—	24,068
Workforce Training .....	—	—	38,244	—	—	38,244
Convention Centers.....	—	—	133,856	—	—	133,856
General Government Capital Projects Fund.....	—	—	—	—	(402,565)	(402,565)
Highway Capital Projects Fund.....	—	—	—	—	(245,912)	(245,912)
General Government Debt Service .....	—	20,601	—	—	—	20,601
Transportation (GANS*/Commonwealth Transportation Fund).....	—	100,361	54,546	—	—	154,907
Gaming .....	—	—	8,401	—	—	8,401
Expendable Trusts .....	—	391,544	193,300	—	—	584,844
Other.....	2,318	—	413,978	—	(71,043)	345,253
<b>Subtotals, Other Governmental Funds .....</b>	<b>2,318</b>	<b>634,942</b>	<b>1,120,398</b>	<b>—</b>	<b>(719,520)</b>	<b>1,038,138</b>
<b>Totals.....</b>	<b>\$ 2,318</b>	<b>\$ 1,790,143</b>	<b>\$ 2,375,021</b>	<b>\$ 576,632</b>	<b>\$ 561,105</b>	<b>\$ 5,305,219</b>

\*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those funds that are authorized to end a fiscal year in deficit are discussed in Note 8 to the basic financial statements, "Individual Fund Deficits" on page 104.



**Stabilization Fund Arrangements:**

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization (“Rainy Day”) Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth’s “consolidated net surplus” (the sum of the “undesignated” balances in certain specific state budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion (adjusted annually for economic growth) during a fiscal year to the Stabilization Fund. Starting in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed \$10 million. For FY15, this statute was suspended by budgetary legislation enacted during the fiscal year and all settlements and judgments revenue was retained in the General Fund.

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

The Stabilization Fund ended FY15 with a balance of \$1.252 billion. For the fiscal year ending June 30, 2015, the Stabilization Fund’s balance increased by \$4 million as a result of inflows, including \$20 million from Gaming license fees to reimburse the Stabilization fund for start-up costs for the Massachusetts Gaming Commission, \$124 million from budgeted funds as part of the FY15 close out and transfer of the consolidated net surplus and approximately \$1 million in statutorily mandated deposits of withholding taxes on certain Lottery proceeds, offset by \$140 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

*Fiscal Year-End*

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

*Program Revenue*

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

*Operating and non-operating revenues and expenses*

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

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

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

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth’s short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Portfolio. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Portfolio investments are carried at fair value.

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

The post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT) are required to invest in the PRIT Fund and comprise approximately 39.2%, 41.2% and 1.1% respectively, of the net position of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in domestic and international equities (marketable securities) and fixed income securities, as well as the following alternative investments: real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities are reported at fair value based upon quoted market prices. Investments in fixed income securities, including U.S. government agency obligations, are reported at fair value using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and rating, supplemented by deal quotations. Alternative investments are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Alternative investment securities comprise approximately 34.8% of the total investments of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. PRIT funds invested in the MMDT are accounted for separately. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

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

### ***E. RECEIVABLES***

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

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

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

Included in receivables for FY15 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 \$122 million, representing 50% of the amounts expected to be received during FY16 and is included as part of other non-major governmental fund activity.

**F. DUE FROM CITIES AND TOWNS**

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

The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY43. This program is designed to assist school districts with unanticipated inflationary construction costs over the district’s original amount budgeted for a project. The loans outstanding as of June 30, 2015 were \$107.9 million, of which \$6.7 million is due in FY16. During FY15, the MSBA collected \$6.7 million of scheduled principal payments.

**G. CAPITAL ASSETS**

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

*Methods used to value capital assets*

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

*Capitalization policies*

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

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

*Depreciation and useful lives*

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

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

### *Road and Bridge Assets*

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

### *Construction in process*

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

## **H. INTERFUND / INTRAFUND TRANSACTIONS**

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

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

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

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

Under the former school building assistance program (prior to the creation of the MSBA) the Commonwealth reimbursed 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation to municipalities and regional school districts for 728 previously approved projects noted by MSBA as Prior Grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects, \$802 million as of June 30, 2015, will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings of debt related to the project. In addition, the MSBA is retiring the liabilities and commitments related to 428 school projects that were maintained on a waiting list for funding under the former program (prior to the creation of the MSBA). The MSBA funds projects on the waiting list via a lump sum, annual payments, or through progress payments. Each funding method has different eligibility requirements and is determined in part by the method of finance used by the local district to fund the capital project. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects on the waiting list that receive annual payments, because the local district had permanently financed both the local and Commonwealth share, have a liability that is recognized based on the final audit conducted by the MSBA, which liability will be reduced over time through annual payments and any savings from refundings of debt related to the project. Projects not recognized are noted as commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. As of June 30, 2015, MSBA had an outstanding

liability of \$126 million, and \$8.4 million of commitments outstanding, for the waiting list projects. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement in order to receive grants. These New Program projects are funded via the progress payment method, and a liability is generally recognized once a grantee requests reimbursement from the MSBA. Outstanding grants for projects that have approved funding agreements with the MSBA, but for which eligible project costs have not been submitted, are considered commitments of the MSBA. As of June 30, 2015, MSBA had an outstanding liability of \$152.7 million, and \$1.0 billion of commitments outstanding, for the New Program projects. The Commonwealth dedicates a 1% statewide sales tax (drawn from the existing statewide 6.25% sales tax), excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales, to the School Modernization and Reconstruction Trust Fund (the "SMART Fund"), in support of these grant programs and for all other operations of the MSBA, including debt service.

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

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30<sup>th</sup> but paid for after year-end, the largest of which is Medicaid for \$1.522 billion.

#### ***K. COMPENSATED ABSENCES***

Compensated absences are recorded as a long-term liability in the statement of net position. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2015 but paid after the fiscal year end are also reported in the funds.

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

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

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

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

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections B and C of Note 7, on pages 94-95.

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), subject to an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Legislation approved by the Governor on October 31, 2014 increased the amount statutorily required to be credited to the MBTA by \$160 million annually, starting in fiscal 2015. The \$160 million increase in the dedicated sales tax revenue amount and the amount included in the inflation-adjusted floor was intended to replace the \$160 million annual state appropriation the MBTA received from fiscal 2010 through fiscal 2014. In FY15, total dedicated sales tax revenue that was directed to the MBTA was approximately \$971 million, \$47 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY15 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.05% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1.0% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY15, approximately \$767 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, 2015, taxes within the Convention Center districts support approximately \$619 million of outstanding principal and approximately \$388 million of interest on debts related to these Convention Centers. Taxes collected in FY15 were approximately \$124 million, while debt service on the bonds was approximately \$56 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the general fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY15, approximately \$510 million in sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$123 million was dedicated to funding the operations of the MBTA while an additional \$40 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

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

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

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

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

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

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

Net position has been restricted as follows:

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

“Restricted for retirement of indebtedness” – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2O of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

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

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

As of June 30, 2015, the government-wide statement of net position reports the following as restricted net position (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Restricted for:			
Unemployment benefits .....	\$ —	\$ 1,320,347	\$ 1,320,347
Retirement of indebtedness .....	1,164,045	—	1,164,045
Restricted for other purposes including:			
Higher education endowment funds .....	—	18,920	18,920
Higher education academic support and programs .....	—	2,961	2,961
Higher education scholarships and fellowships:			
Nonexpendable .....	—	3,553	3,553
Expendable .....	—	6,442	6,442
Other nonexpendable purposes .....	—	3,536	3,536
Capital projects - expendable trusts .....	—	2,206	2,206
Other purposes .....	377,521	181,820	559,341
Total restricted net position .....	<u>\$ 1,541,566</u>	<u>\$ 1,539,785</u>	<u>\$ 3,081,351</u>

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

#### ***P. RECLASSIFICATIONS***

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

#### ***Q. ESTIMATES***

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

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

**R. PENSIONS**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and the Massachusetts Teachers' Retirement System (MTRS) and additions to/deductions from the SERS and the MTRS fiduciary net position have been determined on the same basis as the are reported by SERS and MTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**S. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS**

The Commonwealth has implemented the following GASB Statements during FY15:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 68 requires participating employers to record their proportionate share of the plan's net pension liability (or NPL) measured as the total pension liability, as of a determined measurement date, less the amount of the pension plan's fiduciary net position.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement requires employers in a cost-sharing plan implementing the requirements of GASB Statement No. 68 to account for its contributions to the plan after the measurement date as a deferral to the NPL. This statement is required to be implemented in conjunction with GASB Statement No. 68.

The following table details the restatements (amounts in thousands):

	Governmental Activities	Business-Type Activities	Discretely Presented Component Units
Net position/(deficit) as of June 30, 2014, as previously reported .....	\$ (28,959,690)	\$ 5,487,641	\$ 29,450,395
Plus:			
Other Restatements .....	—	—	3,751
Less:			
Implementation of GASB Statement No. 68 .....	(23,484,085)	(426,037)	(1,155,612)
Other Restatements .....	(8,015)	(418)	—
Net position/(deficit) as of July 1, 2014, as restated.....	<u>\$ (52,451,790)</u>	<u>\$ 5,061,186</u>	<u>\$ 28,298,534</u>



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

### Primary Government

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

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash and cash equivalents.....	\$ 1,717,533	\$ 652,470	\$ 2,370,003	\$ 862,810
Short-term investments .....	1,489,100	357,844	1,846,944	—
Cash with fiscal agent .....	197,836	—	197,836	—
Total.....	<u>\$ 3,404,469</u>	<u>\$ 1,010,314</u>	<u>\$ 4,414,783</u>	<u>\$ 862,810</u>

### Lottery Annuity Contracts

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver-General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. As of June 30, 2015, the amortized cost of annuities is approximately \$116 million. At June 30, 2015, the Commonwealth held these investments with a maturity value of approximately \$1.017 billion and with a carrying value of approximately \$1.127 billion. Approximately 89.8% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 4.7% of the overall portfolio.

### MSBA Deposits and Investments

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

As of June 30, 2015, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	81,043
Cash and cash equivalents held in pooled cash.....		70,350
Restricted investments .....		1,155,201
Total.....	<u>\$</u>	<u>1,306,594</u>

### Custodial Credit Risk – Pooled Cash

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

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral or a letter of credit. For programs

created by the Treasury, such as the Small Business Banking Program, eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver General.

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

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

The Institutions of Higher Education have investment policies that may vary by institution for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2015, the bank balances of uninsured deposits totaled approximately \$519 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, 2015, all MSBA bank balances were fully protected against loss.

#### *Interest Rate Risk – MMDT*

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

The MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 57 days on July 1, 2014 to 50 days on June 30, 2015.

Investments in the MMDT Short Term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Short Term Bond Portfolio by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights.

For the MMDT Short Term Bond Portfolio, the duration fluctuated from 2.18 to 2.40 years. At June 30, 2015, investments in the MMDT Short Term Bond Portfolio had a total net position of \$599 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2015, the Short Term Bond Portfolio's effective maturity schedule was as follows:

Securities with an Effective Maturity of	Percentage of Total Net Position
Less than one year.....	14.60%
One to five years .....	78.40%
Six to ten years.....	5.00%
Greater than ten years .....	0.20%
Total* .....	98.20%

\*The remaining 1.8% consists of cash equivalents and other assets.

*Interest Rate Risk – Higher Education*

As of June 30, 2015, the Institutions of Higher Education had debt investments stated at fair value of approximately \$300 million and had investment maturities ranging from less than one year to more than ten years, with approximately 21.5% of the investment's fair values maturing in less than 1 year, approximately 58.9% from one to five years, approximately 9.4% from six to ten years, and approximately 10.1% 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, 2015, the MSBA had approximately \$200 million invested in a collateralized guaranteed investment contract and approximately \$437 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2043. These investments represent approximately 55% of the MSBA's total investments.

*Interest Rate Risk – Agency Funds*

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2015, these investments had a fair value of approximately \$577 million with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 24.5% has maturities of less than one year, 40.3% from one to five years, 18.4% from six to ten years and 16.8% greater than ten years.

*Credit Risk – MMDT*

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

The Treasury cash portfolio is invested only in First Tier and Second Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the [Investment Company Act of 1940](#). The Treasury does have additional policies regarding credit ratings of investments which can be found at <http://www.mymmdt.com/MMDT/daf/pdf/products/regulatory/G44885-27.pdf>. At June 30, 2015, the Cash Portfolio's securities were rated as follows: First tier 97.0% and Second Tier 3.0%.

At June 30, 2015, the Short Term Bond Portfolio's follows:

Portfolio Composition	Percentage of Total Net Position
AAA.....	67.50%
AA.....	4.50%
A.....	13.30%
BBB.....	12.90%
Total* .....	98.20%

\* The remaining 1.8% consists of cash equivalents and other assets.

*Credit Risk – Higher Education*

For the Institutions of Higher Education presented in the Business-Type Activities, fair values of debt investments were approximately \$102 million at AAA, approximately \$65 million from AA+ to A- and approximately \$133 million either unrated, BBB+ or less.

*Credit Risk – MSBA*

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance. As of June 30, 2015, the guaranteed investment contracts were not rated; however, the issuer was rated AA by Standard & Poor's and A2 by Moody's and the guaranteed investment contracts were collateralized.

As of June 30, 2015, the MSBA's investments in municipal bonds were rated AA+ or above.

*Credit Risk – Agency Funds*

The agency funds debt investments with a fair value of \$577 million, of which approximately \$126 million were in U.S. Government securities. The remaining \$451 million were unrated as of June 30, 2015.

*Interest Rate Risk – PRIT Funds*

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

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

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately \$16.123 billion at fair value with an effective weighted average duration range from 0.14 to 24.23 years at June 30, 2015.

*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 A- at June 30, 2015.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$2.890 billion, BBB+ to B- investments with a fair value of approximately \$2.655 billion, \$165 million rated CCC+ to D, \$5.554 billion are unrated and the remaining \$5.417 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, 2015 were approximately \$253 million in cash and investments, \$12.773 billion in equities, \$1.896 billion in fixed income investments, \$1.298 billion in private equity investments and \$172 million in timber investments. An additional \$2.772 billion is invested in international investments denominated in U. S. dollars.

*Concentration of Credit Risk – PRIT*

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

MMDT and PRIT have no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2015.

**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, 2015, PRIT had open foreign exchange contracts with combined net unrealized losses of approximately \$12 million with various delivery dates.

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

*Futures Contracts*

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

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

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

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

PRIT held contracts outstanding at June 30, 2015 with various expirations from FY16 to FY17. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2015 was approximately \$2.814 billion with a fair value of \$2.780 billion, yielding an unrealized net loss of approximately \$34 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, 2015, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.583 billion to various investment banks that had maturity dates from FY16 to FY46. The contracts have an aggregate fair value loss of approximately \$4 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 BBB+ and various other banks with other ratings. Open swap contracts as of June 30, 2015 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Inflation Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Bank of America NA.....	A	\$ 966	\$ (2)	\$ 33,385	\$ (2,259)	\$ —	\$ —
Barclays Bank PLC .....	A-	47,978	160	31,513	(590)	54,860	(279)
CME Group Inc .....	AA-	212,920	636	—	—	—	—
Citibank NA.....	A	21,807	52	10,213	(339)	—	—
Deutsche Bank AG.....	BBB+	6,899	68	26,300	(153)	—	—
LCH. Clearnet Ltd.....	A+	386,810	1,541	—	—	—	—
UBS AG.....	BBB+	23,797	(361)	21,071	(3)	—	—
U.S. Bank National Association....	AA-	500,000	303	—	—	—	—
All Others .....	Various	134,191	272	64,100	(2,333)	6,354	(320)
Totals.....		<u>\$ 1,335,368</u>	<u>\$ 2,669</u>	<u>\$ 186,582</u>	<u>\$ (5,677)</u>	<u>\$ 61,214</u>	<u>\$ (599)</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 position, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

<i>Primary Government</i>	<b>Taxes Receivable</b>	<b>Federal Grants and Reimbursements</b>	<b>Loans</b>	<b>Other Receivables</b>	<b>Total</b>
<u>Governmental Activities:</u>					
Gross receivables.....	\$ 4,662,186	\$ 2,313,577	\$ 110,216	\$ 1,705,112	\$ 8,791,091
Less: allowance for uncollectibles .....	(1,114,532)	(129,562)	—	(1,225,564)	(2,469,658)
Receivables, net allowance for uncollectibles...	3,547,654	2,184,015	110,216	479,548	6,321,433
Less: current portion.....	(3,084,006)	(2,135,280)	(8,998)	(435,791)	(5,664,075)
Noncurrent receivables.....	<u>\$ 463,648</u>	<u>\$ 48,735</u>	<u>\$ 101,218</u>	<u>\$ 43,757</u>	<u>\$ 657,358</u>
<u>Business-Type activities:</u>					
Gross receivables.....	\$ —	\$ 102,887	\$ 58,813	\$ 949,715	\$ 1,111,415
Less: allowance for uncollectibles .....	—	(2,185)	(1,905)	(352,063)	(356,153)
Receivables, net allowance for uncollectibles...	—	100,702	56,908	597,652	755,262
Less: current portion.....	—	(100,702)	(47,616)	(549,743)	(698,061)
Noncurrent receivables.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,292</u>	<u>\$ 47,909</u>	<u>\$ 57,201</u>

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

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from the Stabilization Fund to fund current operations and various other transfers for operations, largely for Institutions of Higher Education.

Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

	General	Lotteries	Other Governmental Funds	Total
<b>Governmental funds:</b>				
<u>Transfers in:</u>				
Debt service .....	\$ —	\$ —	\$ 2,453,728	\$ 2,453,728
Transfers in .....	1,645,790	—	1,147,031	2,792,821
Subtotal .....	1,645,790	—	3,600,759	5,246,549
<u>Transfers out:</u>				
Appropriations .....	(1,290,225)	—	(3,807)	(1,294,032)
Transfer of bond proceeds .....	—	—	(182,783)	(182,783)
Debt service .....	(985,603)	—	(1,468,125)	(2,453,728)
Transfers out .....	(438,078)	(1,086,469)	(1,220,633)	(2,745,180)
Subtotal .....	(2,713,906)	(1,086,469)	(2,875,348)	(6,675,723)
<b>Total governmental funds .....</b>	<b>(1,068,116)</b>	<b>(1,086,469)</b>	<b>725,411</b>	<b>(1,429,174)</b>
<b>Proprietary funds:</b>				
	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds.....	692,863	410,539	373,413	1,476,815
<u>Transfers out:</u>				
Transfers out to the General Fund .....	(28,939)	(9,734)	(8,968)	(47,641)
<b>Total proprietary funds .....</b>	<b>\$ 663,924</b>	<b>\$ 400,805</b>	<b>\$ 364,445</b>	<b>1,429,174</b>
<b>Net transfers in/(out) between funds .....</b>				<b>\$ —</b>

Due to/from component units on the Statement of Net Position reflects a timing difference for payments of approximately \$52 million at year end.

Remaining receivables and payables between funds as of June 30, 2015 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2015. 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, 2015 (amounts in thousands):

Receivable Fund	Payable Fund	Amount
<b>Governmental Funds:</b>		
General	Nonmajor Governmental Funds .....	\$ 83,559
Non-major Governmental Funds	Nonmajor Governmental Funds .....	94,421
<b>Total Governmental Funds .....</b>		<b>\$ 177,980</b>



## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2015 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2014 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2015 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 842,713	\$ 20,080	\$ (1,306)	\$ 861,487
Construction in process .....	866,236	271,755	(177,239)	960,752
Total capital assets not being depreciated .....	<u>1,708,949</u>	<u>291,835</u>	<u>(178,545)</u>	<u>1,822,239</u>
Capital assets being depreciated:				
Buildings .....	5,451,499	99,135	(126,767)	5,423,867
Machinery and equipment .....	1,103,393	138,023	(55,782)	1,185,634
Infrastructure non - central artery/tunnel project .....	365,254	40,240	—	405,494
Total capital assets being depreciated.....	<u>6,920,146</u>	<u>277,398</u>	<u>(182,549)</u>	<u>7,014,995</u>
Less, accumulated depreciation:				
Buildings .....	(2,967,882)	(147,243)	77,424	(3,037,701)
Machinery and equipment .....	(857,427)	(109,987)	10,701	(956,713)
Infrastructure non - central artery/tunnel project .....	(231,165)	(9,333)	—	(240,498)
Total accumulated depreciation.....	<u>(4,056,474)</u>	<u>(266,563)</u>	<u>88,125</u>	<u>(4,234,912)</u>
Total capital assets being depreciated, net.....	<u>2,863,672</u>	<u>10,835</u>	<u>(94,424)</u>	<u>2,780,083</u>
Governmental activity capital assets, net .....	<u>4,572,621</u>	<u>302,670</u>	<u>(272,969)</u>	<u>4,602,322</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	114,530	3,885	—	118,415
Construction in process .....	1,139,836	679,496	(1,060,712)	758,620
Historical treasures .....	1,162	34	—	1,196
Total capital assets not being depreciated .....	<u>1,255,528</u>	<u>683,415</u>	<u>(1,060,712)</u>	<u>878,231</u>
Capital assets being depreciated:				
Buildings .....	7,562,918	1,129,937	(18,675)	8,674,180
Machinery and equipment .....	1,025,440	76,414	(35,591)	1,066,263
Library collections, not including historical treasures .....	104,700	686	(11,305)	94,081
Total capital assets being depreciated.....	<u>8,693,058</u>	<u>1,207,037</u>	<u>(65,571)</u>	<u>9,834,524</u>
Less, accumulated depreciation:				
Buildings .....	(3,437,875)	(285,807)	30,226	(3,693,456)
Machinery and equipment .....	(297,205)	(54,285)	33,068	(318,422)
Library collections, not including historical treasures .....	(17,357)	(480)	1,176	(16,661)
Total accumulated depreciation.....	<u>(3,752,437)</u>	<u>(340,572)</u>	<u>64,470</u>	<u>(4,028,539)</u>
Total capital assets being depreciated, net.....	<u>4,940,621</u>	<u>866,465</u>	<u>(1,101)</u>	<u>5,805,985</u>
Business - type activity capital assets, net.....	<u>6,196,149</u>	<u>1,549,880</u>	<u>(1,061,813)</u>	<u>6,684,216</u>
<b>Total Primary Government capital assets, net.....</b>	<b><u>\$ 10,768,770</u></b>	<b><u>\$ 1,852,550</u></b>	<b><u>\$ (1,334,782)</u></b>	<b><u>\$ 11,286,538</u></b>

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

Function	Amount
General government.....	\$ 52,500
Judiciary.....	33,195
Health and human services .....	72,384
Early elementary and secondary education .....	682
Public safety and homeland security .....	99,788
Housing and economic development.....	42
Labor and workforce development.....	7,972
	<hr/>
Total depreciation, governmental activities.....	\$ 266,563
	<hr/> <hr/>
University of Massachusetts.....	\$ 221,043
State universities.....	87,125
Community colleges.....	32,404
	<hr/>
Total depreciation, business-type activities.....	\$ 340,572
	<hr/> <hr/>

## 6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

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

### A. GENERAL FUND

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.2 billion by selling RANs in September, 2014. All of the \$1.2 billion in RANs were retired in April, May and June 2015.

On August 1, 2014, the Commonwealth issued \$200 million in tax-exempt commercial paper bond anticipation notes (BANs) in anticipation of the issuance of bonds. These notes were redeemed with a portion of the long-term tax-exempt General Obligation Bonds, Consolidated Loan of 2014, Series D-1 and D-2, dated August 5, 2014. The bonds mature annually starting in FY2039 through FY2044 and carry variable rates of interest based on the SIFMA rate.

On August 28, 2014, the Commonwealth issued \$200 million in taxable commercial paper bond anticipation notes (BANs) in anticipation of the issuance of bonds. These notes were redeemed with a portion of the long-term taxable General Obligation Bonds, Consolidated Loan of 2014, Series G, dated October 29, 2014. The bonds mature annually starting in FY2016 through FY2020 and carry fixed interest rates ranging from 0.25% to 1.85%.

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

	Beginning Balance July 1, 2014	Issued/ Drawn	Redeemed/ Repaid	Ending Balance June 30, 2015
<b>General Fund:</b>				
Revenue anticipation notes.....	\$ —	\$ 1,200,000	\$ (1,200,000)	\$ —
<b>Capital Projects Funds:</b>				
Commercial paper - Bond anticipation notes ....	—	400,000	(400,000)	—
Total primary government.....	\$ —	\$ 1,600,000	\$ (1,600,000)	\$ —

## **B. CREDIT FACILITIES**

During FY15, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$200 million. The Commonwealth started FY15 with one credit facility to provide such liquidity support, in the amount of \$200 million. The facilities expire in FY18. In addition, to credit facility for commercial paper, the Commonwealth maintained standby bond purchase agreements for Variable Rate (VR) Demand Bonds sold from FY97 through FY06. These VR bonds require external liquidity support because bond holders have the right to sell the bonds back to the Commonwealth at par at any time. As of June 30, 2015, these agreements totaled \$703 million.

## **7. LONG-TERM OBLIGATIONS**

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

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

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

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

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth’s primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT), which is structured similarly to an SEC – registered money market fund (for more information please see the notes on the Commonwealth’s short-term

investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth's bond counsel.

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

As of June 30, 2015, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

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

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General obligation bonds, net proceeds.....	\$ 21,571,968
Special obligation bonds (including GANs), net proceeds .....	3,218,941
Outstanding Commonwealth bonds, net proceeds .....	24,790,909
MSBA bonds, net proceeds .....	6,201,394
<b>Total governmental activities, net proceeds .....</b>	<b>30,992,303</b>
Less:	
Unamortized premiums on general obligation bonds.....	(770,012)
Unamortized premiums on special obligation bonds .....	(194,596)
Unamortized premiums on MSBA bonds.....	(486,984)
<b>Total governmental activities, principal .....</b>	<b>\$ 29,540,711</b>

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, and debt assumed from former counties. The special obligation (SO) bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders, as defined in the trust agreement. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise taxes and Registry of Motor Vehicle fees and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2015, there were four different special obligation bond programs with bonds outstanding. It should be noted that two of the four bond programs have closed liens, meaning that no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of GO bonds principal outstanding as of June 30, 2015, (amounts in thousands):

<b>General Obligation Bonds</b>	<b>Principal Outstanding</b>	<b>Percent of Total GO</b>
Fixed rate bonds .....	\$ 17,083,376	82.1%
Variable rate bonds.....	3,718,580	17.9%
Total .....	<u>\$ 20,801,956</u>	<u>100.0%</u>

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

<b>Variable Rate GO Bonds</b>	<b>Principal Outstanding</b>	<b>Percent of Total GO</b>
Direct purchase bonds .....	\$ 441,115	2.1%
Variable rate demand bonds.....	703,495	3.4%
Auction rate securities .....	401,500	1.9%
CPI-index bonds .....	100,000	0.5%
LIBOR index bonds.....	845,795	4.1%
SIFMA index bonds.....	826,675	4.0%
Multi-Modal .....	400,000	1.9%
Total.....	<u>\$ 3,718,580</u>	<u>17.9%</u>

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

	<b>Principal Outstanding</b>	<b>Percent of Total GO</b>
Hedged variable rate GO bonds .....	\$ 2,699,320	72.6%
Unhedged variable rate GO bonds .....	1,019,260	27.4%
Total variable rate GO bonds.....	<u>\$ 3,718,580</u>	<u>100.0%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2015, (amounts in thousands):

<b>Special Obligation Bonds</b>	<b>Principal Outstanding</b>	<b>Percent of Total SO</b>
Fixed rate bonds .....	\$ 2,841,265	93.9%
Variable rate bonds.....	183,080	6.1%
Total.....	<u>\$ 3,024,345</u>	<u>100.0%</u>

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

<b>Special Obligation Bonds</b>	<b>Amount Outstanding</b>
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds .....	\$ 535,714
CPI variable rate convention center bonds .....	86,590
Total convention center bonds, net proceeds.....	622,304
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds .....	114,828
CPI variable rate gas tax bonds .....	96,490
Total gas tax bonds, net proceeds.....	211,318
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program .....	1,573,152
Special obligation federal highway grant anticipation notes and accelerated bridge program .....	812,167
Total special obligation bonds, net proceeds.....	3,218,941
Less: unamortized premiums .....	(194,596)
Outstanding special obligation principal.....	<u>\$ 3,024,345</u>

#### **A. GENERAL OBLIGATION BONDS**

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

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2015, the Commonwealth had approximately \$142 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds. Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2015, approximately 82.1% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 17.9% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. For example, most of the Commonwealth's outstanding variable rate debt is in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2015, the Commonwealth had approximately \$703 million in outstanding VRDBs. This accounts for approximately 3.4% of total GO debt and approximately 18.9% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2015, none of the Commonwealth's outstanding

VRDBs have been subject to failed remarketing and “put” back to the Commonwealth; consequently, there have not been any draws on any of the outstanding bank liquidity facilities.

The Commonwealth has also issued GO variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a “put” feature and therefore do not require a supporting credit facility from a commercial bank. The Commonwealth’s outstanding auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic “Dutch auction” process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008, however, and continuing through FY15, all of the Commonwealth’s outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401.5 million in total outstanding debt obligations, including Commonwealth of Massachusetts GO Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

A portion of the Commonwealth's outstanding bonds have been directly purchased by banks (or "direct purchase bonds"). These variable rate, direct purchase bonds bear interest at an index rate and are payable on the first business day of each month until maturity. As of June 30, 2015, the Commonwealth had \$441 million direct purchase bonds outstanding. This includes \$200 million of the Commonwealth's Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series B. Those bonds were tendered by the Commonwealth in FY2013, converted to direct purchase bonds from variable rate demand bonds, and purchased by JP Morgan Chase Bank and TD Bank, NA. The final portion of outstanding direct purchase bonds were purchased from the Commonwealth by Royal Bank of Canada in FY12 and were replaced by Bank of America in FY15. All of the bonds are subject to bondholder agreements.

The following table details the general obligation direct purchase bonds (amounts in thousands):

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2001 Series B Refunding Bonds	\$ 241,115	1/1/2021	1 Month LIBOR/ Monthly Pay	Bank of America Merrill	8/1/2014	8/1/2017
2006 Series B, Subseries B-1	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	JP Morgan Chase Bank*	5/17/2013	5/31/2016
2006 Series B, Subseries B-2	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	TD Bank*	5/17/2013	5/31/2016
Total	<u>\$ 441,115</u>					

\* - On May 5, 2016, these direct purchase bonds were terminated and purchased by Bank of America with final maturity on March 1, 2026 and the expiration of the agreement on March 1, 2019. The reset mode and payment frequency is the same as the previous bonds.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2015, the Commonwealth had approximately \$100 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 \$827 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 0.5%, 4.1% and 4.0% of total outstanding general obligation indebtedness, respectively.

To fund the FY15 capital budget and prior capital spending, the Commonwealth borrowed by issuing \$2.919 billion in long-term bonds, \$2.472 billion of which was general obligation debt, and \$447 million of which was special obligation debt secured by federal highway reimbursements and/or motor fuels taxes and motor vehicle license and registration fees. In addition, \$632 million in refunding bonds were issued in two separate transactions; one current refunding transaction executed for programmatic reasons and one advanced refunding transactions executed for savings.

The present value savings of these refunding transactions are immaterial to these financial statements.

#### *MSBA Debt*

As of June 30, 2015, the MSBA had outstanding approximately \$5.714 billion of Dedicated Sales Tax bonds, including approximately \$487 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 2.0% to 5.715% and each series is payable semiannually with the latest maturity occurring in FY45. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.714 billion of debt outstanding as of June 30, 2015, \$450 million is taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the United States Treasury. In addition, \$293 million of the Subordinated Dedicated Sales Tax Bonds was issued as “Qualified School Construction Bonds” for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the United States Treasury. During FY15, the federal government continued automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. On September 30, 2013, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the FY14 sequestration rate of 7.2%. The notice was updated in September 2014 to announce that subsidy payments processed on or after October 1, 2014 and on or before September 20, 2015 will be reduced by the FY15 sequestration rate of 7.3%. The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise modifies the sequester. The reductions were approximately \$1.7 million on the 2009 Series B Bonds, 2010 Series A Bonds and 2011 Series A Bonds in FY15. On August 5, 2015, the IRS announced that the sequestration rate for the federal fiscal year ending September, 2016 would be 6.8%.

### **B. SPECIAL OBLIGATION BONDS**

#### *Commonwealth Transportation Fund (CTF)*

The largest amount of special obligation bonds outstanding (by par) are bonds secured by certain revenues of the Commonwealth Transportation Fund. In FY15, the Commonwealth issued approximately \$100 million in special obligation bonds under the Accelerated Bridge Program (ABP). These bonds mature from FY16 to FY44 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited into the CTF. These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2015, approximately \$1.495 billion in principal was outstanding on the ABP bonds and approximately \$1.212 billion of interest (net of the federal subsidy) was expected to be paid through maturity.

#### *Motor Fuels Tax Bonds*

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 24 cent per gallon gasoline tax. As of June 30, 2015 bonds secured by these pledged funds totaled approximately \$211 million of principal and approximately \$41 million in interest. These bonds mature from FY16 to FY22 and were issued in various series. Principal and interest paid during FY15 amounted to approximately \$39 million and \$13 million, respectively.

#### *Convention Center Fund*

Chapter 152 of the Acts of 1997, as amended, authorized \$694 million of special obligation bonds to be issued for the purpose of building a new convention center in Boston (\$609 million), the Springfield Civic Center (\$66 million) and the Worcester Convention Center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by that legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of



June 30, 2015, taxes within the Convention Center districts support approximately \$619 million of outstanding principal and approximately \$388 million of interest on debts related to these Convention Centers. Taxes collected in FY15 were approximately \$124 million, while debt service on the bonds was approximately \$56 million.

### ***C. FEDERAL GRANT ANTICIPATION NOTES***

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011, 2014, and 2015 and refunding notes in fiscal 2003 and fiscal 2011. During FY15, the Commonwealth issued approximately \$347 million in GANs for new-money needs under the Commonwealth's Accelerated Bridge Program. As of June 30, 2015, total principal remaining to be paid is approximately \$700 million. Maturities are from FY16 through FY27. Debt service paid during FY15 was approximately \$207 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such GANs remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the GANs have been met. If the United States Congress reduces the aggregate amount appropriated nationwide to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that an additional 10 cents per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2027. Under the trust agreement securing the notes, aggregate annual debt service on GANs may not exceed \$216 million unless the rating agencies rating the notes confirm that exceeding \$216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

### ***D. THE BUILD AMERICA BOND PROGRAM***

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program issuers, including the Commonwealth, issued taxable bonds in calendar years 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% of the interest costs on the bonds, depending on whether the proceeds are used for projects in economically distressed areas. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as "direct pay to issuer", meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2015, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$811 million. The Commonwealth's repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds' debt service is budgeted at the net-of-interest-rate subsidy rate. Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth's BABs sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

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

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth's variable-rate debt outstanding of approximately \$3.719 billion, approximately \$2.697 billion were hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.534 billion are for G.O. bonds and the remainder on outstanding special obligation bonds.

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

#### *Objective of the Interest Rate Swap Agreements*

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

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2015, 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 2016 to 2037. The swaps' total notional value of approximately \$2.697 billion effectively matches the par amount of the related variable-rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.616% to 5.250% 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, 2015, 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 swaps' fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

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

Associated Bond Issue	Notional Amounts Outstanding	Effective Date	Replacement Agreement Effective Date	Terms		Fair value at June 30			Final Termination Date	Counterparty	Counterparty Credit Rating Moody's/S&P/Fitch
				Fixed Rate Paid (Range)	Variable Rate Received	2015	2014	Change in Fair Value			
<i>General Obligation Bonds:</i>											
Series 1997B (refunding)	\$ 22,074	8/12/1997	8/12/1997	4.659%	Cost of Funds	\$ (176)	\$ (1,427)	\$ 1,251	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2/AAA/NA
Series 1997B (refunding)	14,716	8/12/1997	9/1/2010	4.659%	SIFMA	(116)	(938)	822	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3/A+/A-
Series 1998A (refund) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	80,700	9/17/1998	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(1,637)	(2,155)	518	9/1/2016	Deutsche Bank AG	Aa3/AA-/AA-
Series 1998A	34,098	9/17/1998	9/3/2013	4.174%	Cost of Funds	(751)	(5,208)	4,457	9/1/2016	Wells Fargo Bank	A2/A/A+
Series 2000A	100,658	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(5,430)	(8,713)	3,283	8/1/2018	Merrill Lynch Cap Svcs	Baa2/A-/A
Series 2000A	50,892	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(2,735)	(4,224)	1,489	8/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/A+
Series 2001B & C	482,230	2/20/2001	2/20/2001	4.15%	Cost of Funds	(51,165)	(61,534)	10,369	1/1/2021	Morgan Stanley Capital Services	Baa2/A-/A
Series 2006B, Series 2000D	294,000	11/25/2008	4/2/2009	4.515%	67% 3-Month LIBOR	(81,690)	(80,716)	(974)	6/15/2033	Barclays Bank PLC	A2/A/A
Series 2006C (refunding)	100,000	1/1/2007	9/1/2013	3.73%-3.85%	CPI-based formula	(5,795)	(2,762)	(3,033)	11/1/2020	Wells Fargo Bank	Aa3/AA-/AA-
Series 2007A	400,000	5/30/2007	10/8/2008	4.42%	67% 3-Month LIBOR + 0.57%	(25,376)	(35,836)	10,460	5/1/2037	Barclays Bank PLC	A2/A/A
Series 2007A (refunding)	31,665	5/30/2007	10/8/2008	3.936%	67% 3-Month LIBOR + 0.46%	(3,786)	(64,950)	61,164	11/1/2020	Deutsche Bank AG	A2/A/A+
Series 2007A (refunding)	414,130	5/30/2007	10/8/2008	4.083%	67% 3-Month LIBOR + 0.55%	(62,871)	(4,212)	(58,659)	11/1/2025	Bank of NY Mellon	Aa2/AA-/AA-
Series 2012A, 2013A, 2014B, 2014D & 2014E (refunding)	508,915	3/15/2005	9/1/2013	3.616% - 4.004%	SIFMA	(79,637)	(73,991)	(5,646)	2/1/2028	Wells Fargo Bank	Aa3/AA-/AA-
Subtotal	2,534,078					(321,165)	(346,666)	25,501			
<i>Special Obligation Dedicated Tax Revenue Bonds:</i>											
Series 2004 (Convention Ctr)	22,198	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,145)	(932)	(213)	1/1/2018	Goldman Sachs Cap Markets	A2/A-/A
Series 2004 (Convention Ctr)	22,199	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,145)	(942)	(203)	1/1/2018	JP Morgan formerly Bear Stearns	A3/A/A+
Series 2004 (Convention Ctr)	22,198	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,147)	(940)	(207)	1/1/2018	JPMorgan Chase Bank	Aa3/A+/A+
Series 2005A (Gas Tax)	96,490	1/12/2005	1/12/2005	4.771% - 5.059%	CPI-based formula	(5,231)	(4,157)	(1,074)	6/1/2022	Merrill Lynch Cap Serv	Baa2/A-/A
Subtotal	163,085					(8,668)	(6,971)	(1,697)			
Total	\$ 2,697,163					\$329,833	\$353,637	\$ 23,804			

#### *Fair value of the Interest Rate Swap Agreements*

The aggregate fair value balance of interest rate swaps at June 30, 2015 is negative \$330 million and is reflected on the statement of net position as a liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on

the swaps. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2015 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 FY15, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

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

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

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bonds being hedged by the \$294 million notional hedge agreement with Barclays and the 2011A bonds being hedged by the \$509 million notional swap with Wells Fargo Bank. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

#### *Termination Risk of the Interest Rate Swap Agreements*

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

rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

#### ***F. OUTSTANDING SWAPPED DEBT***

##### *Security for Interest Rate Swap Agreements*

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

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2015 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, 2015. 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, 2015 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2016.....	\$ 238,668	\$ 8,461	\$ 98,748	\$ 345,877
2017.....	343,700	7,996	89,120	440,816
2018.....	114,840	7,748	78,789	201,377
2019.....	205,290	7,356	73,102	285,748
2020.....	262,505	6,724	64,867	334,096
2021-2025.....	947,005	23,983	203,762	1,174,750
2026-2030.....	332,545	9,876	76,616	419,037
2031-2035.....	195,640	4,654	27,001	227,295
2036-2040.....	56,970	426	2,119	59,515
Total.....	<u>\$ 2,697,163</u>	<u>\$ 77,224</u>	<u>\$ 714,124</u>	<u>\$ 3,488,511</u>

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

The University System and Community Colleges have various swaps. At June 30, 2015, the fair value liability of the Universities' and Community Colleges' outstanding interest rate swaps were \$71 million and \$1 million, respectively.

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, 2015, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$478 million. For complete details, see separate MassDOT financial statements.

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

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Long-term debt principal outstanding and debt authorized and unissued at June 30, 2015 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs .....	\$ 699,855	2016-2027	\$ —
Capital projects:			
General .....	10,362,550	2016-2045	13,487,768
Highway .....	11,012,197	2016-2045	15,567,735
Local aid .....	1,132,994	2016-2038	15,836
Other .....	618,705	2016-2034	—
Subtotal .....	23,126,446		29,071,339
Subtotal - governmental activities debt (exclusive of MSBA) .....	23,826,301		\$ 29,071,339
MSBA debt .....	5,714,410		
Governmental activities debt .....	\$ 29,540,711		

Interest rates on the Commonwealth's outstanding debt at the end of FY15 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized and unissued for the year ended June 30, 2015 are as follows (amounts in thousands):

	Governmental Funds Debt - Primary Government	MSBA	Governmental Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2014 .....	\$ 22,419,852	\$ 5,632,470	28,052,322	\$ 26,255,768
Plus: Increases in bonds authorized .....	—	—	—	5,912,469
General and special obligation bonds:				
Proceeds, as defined as principal, premium				
less discount .....	3,926,184	401,575	4,327,759	(3,096,898)
Less: Net premium .....	(375,027)	(25,070)	(400,097)	—
Less: Principal on refunded bonds .....	(658,465)	(178,010)	(836,475)	—
Less: Bonds retired .....	(1,486,243)	(116,555)	(1,602,798)	—
Outstanding principal June 30, 2015 .....	\$ 23,826,301	\$ 5,714,410	\$ 29,540,711	\$ 29,071,339

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

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

At June 30, 2015, debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt			Revenue Obligation	
	Principal	Interest *	Principal	Interest	Interest subsidies (1)	Principal	Interest
2016.....	\$ 1,694,516	\$ 1,017,391	\$ 131,580	\$ 277,626	\$ (22,602)	\$ 250,229	\$ 197,067
2017.....	1,553,981	953,804	64,725	275,795	(22,567)	138,443	190,801
2018.....	1,328,729	893,101	137,530	270,849	(24,213)	144,532	183,272
2019.....	1,202,467	838,758	160,300	264,326	(24,213)	147,325	182,051
2020.....	1,251,389	784,254	152,030	256,113	(24,213)	153,112	176,029
2021 - 2025 .....	5,757,278	3,081,872	830,355	1,161,055	(121,065)	748,555	728,415
2026 - 2030 .....	4,486,220	1,905,829	1,149,775	922,429	(85,862)	791,497	605,069
2031 - 2035 .....	2,779,876	1,091,980	1,313,080	597,138	(37,910)	704,876	419,086
2036 - 2040 .....	2,082,930	610,154	1,246,425	274,463	(13,822)	811,944	222,341
2041 - 2045 .....	1,688,915	175,745	528,610	51,579	—	484,509	62,058
2046 - 2050 .....	—	—	—	—	—	178,083	67,961
Total long - term debt.....	23,826,301	11,352,888	5,714,410	4,351,373	(376,467)	4,553,105	3,034,150
Less: current portion .....	(1,694,516)	(1,017,391)	(131,580)	(277,626)	22,602	(250,229)	(197,067)
Long - term debt.....	<u>\$ 22,131,785</u>	<u>\$ 10,335,497</u>	<u>\$ 5,582,830</u>	<u>\$ 4,073,747</u>	<u>\$ (353,865)</u>	<u>\$ 4,302,876</u>	<u>\$ 2,837,083</u>

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

(1) FY16 and FY17 interest subsidies reflect announced sequestration reductions. There may be sequestration reductions in future years as well.

#### H. PRIOR DEFEASANCE

The Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus operating funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2015, approximately \$2.313 billion of bonds outstanding from advance refunding activities is considered defeased.

#### Business - Type Activities

The University of Massachusetts (UMass) and the Massachusetts State College Building Authority (MSCBA) defeased various bonds by issuing refunding bonds and placing the proceeds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust assets and the liabilities of the defeased bonds are not included in the business type activity financial statements. As of June 30, 2015, approximately \$11 million and \$120 million of bonds outstanding from advanced refunding transactions are considered defeased for UMass and MSCBA, respectively.

#### I. STATUTORY DEBT LIMIT

The Massachusetts General Laws, as recently amended, establishes limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY15 was approximately \$19.761 billion. Outstanding debt subject to the limit at June 30, 2015 was approximately \$18.915 billion.

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

	Principal Outstanding
Statutory debt June 30, 2015 .....	\$ 23,826,301
Less amounts excluded:	
Central artery project bonds.....	(1,197,127)
Accelerated bridge program.....	(2,195,004)
MBTA forward funding.....	(207)
SMART bonds.....	(689,446)
Convention center bonds .....	(618,705)
Special obligation gas bonds .....	(210,635)
Outstanding direct debt.....	<u>\$ 18,915,177</u>

#### ***J. ADMINISTRATION DEBT LIMIT***

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

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2015. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

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

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and debt service as a percentage of budgeted revenues, (amounts in thousands):

	Fiscal 2015
Bond cap as approved by the Governor .....	\$ 2,125,000
Total annual debt service obligations.....	2,488,422
Budgeted fund revenues.....	38,971,862
Debt service as % of budgeted revenues.....	6.4%



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

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

**Changes in Long Term Liabilities - Governmental Activities:**

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 527,200	\$ 577,316	\$ (527,200)	\$ 577,316	\$ 371,870
Claims and judgments.....	35,703	—	(23,884)	11,819	11,819
Prizes payable.....	1,370,277	180,657	(307,934)	1,243,000	—
School construction grants payable.....	1,324,558	613,609	(857,148)	1,081,019	357,100
Post employment benefit obligations.....	4,832,000	1,410,000	(637,000)	5,605,000	—
Environmental remediation liability.....	217,346	—	(9,367)	207,979	10,932
Lottery instant grand prizes.....	30,574	918	—	31,492	—
Workers' compensation.....	273,432	57,954	(56,957)	274,429	39,243
Arbitrage rebate - MSBA.....	11,064	3,765	(1,226)	13,603	—
Group insurance claims.....	97,021	1,657,017	(1,646,089)	107,949	105,935
Cost of living adjustment.....	200,800	8,914	(23,214)	186,500	—
Net pension liability.....	25,502,264	1,999,214	(2,969,528)	24,531,950	—
<b>Total other long-term obligations.....</b>	<b>34,422,239</b>	<b>6,509,364</b>	<b>(7,059,547)</b>	<b>33,872,056</b>	<b>896,899</b>
Liability for derivative instruments.....	353,639	329,833	(353,639)	329,833	—
Bonded Debt:					
Bonds and notes payable - non MSBA.....	22,419,852	3,551,157	(2,144,708)	23,826,301	1,694,516
Unamortized bond and note premiums - non MSBA..	678,597	375,027	(89,016)	964,608	48,822
MSBA Bonds and notes payable excluding premium	5,632,470	376,505	(294,565)	5,714,410	131,580
Unamortized bond and note premiums - MSBA.....	510,776	3,713	(27,505)	486,984	41,949
MSBA other liabilities.....	—	435,000	—	435,000	435,000
Other financing arrangements:					
Capital leases.....	55,878	30,809	(43,759)	42,928	7,876
<b>Total bonded debt and other financing arrangements....</b>	<b>29,297,573</b>	<b>4,772,211</b>	<b>(2,599,553)</b>	<b>31,470,231</b>	<b>2,359,743</b>
<b>Long-term liabilities, governmental activities.....</b>	<b>\$ 64,073,451</b>	<b>\$ 11,611,408</b>	<b>\$ (10,012,739)</b>	<b>\$ 65,672,120</b>	<b>\$ 3,256,642</b>

**Changes in Major Long Term Liabilities - Business-Type Activities:**

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 205,361	\$ 106,830	\$ (99,191)	\$ 213,000	\$ 146,271
Environmental remediation liability.....	1,447	—	(1,436)	11	11
Net pension liability.....	426,037	69,291	(91,935)	403,393	—
<b>Total other long-term obligations.....</b>	<b>632,845</b>	<b>176,121</b>	<b>(192,562)</b>	<b>616,404</b>	<b>146,282</b>
Liability for derivative instruments.....	70,145	2,372	—	72,517	—
Bonded Debt:					
Bonds and notes payable, including MSCBA.....	4,243,731	839,767	(530,393)	4,553,105	250,229
Other financing arrangements:					
Capital leases.....	14,529	1,036	(5,670)	9,895	2,471
<b>Total bonded debt and other financing arrangements....</b>	<b>4,258,260</b>	<b>840,803</b>	<b>(536,063)</b>	<b>4,563,000</b>	<b>252,700</b>
<b>Long-term liabilities, business - type activities.....</b>	<b>\$ 4,961,250</b>	<b>\$ 1,019,296</b>	<b>\$ (728,625)</b>	<b>\$ 5,251,921</b>	<b>\$ 398,982</b>

\*as restated and more fully described in footnote 1

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

**Discretely Presented Component Units** – The change in bonds and notes outstanding at June 30, 2015, net of unamortized discounts and premiums, compensated absences and net pension liability are as follows (amounts in thousands):

Discretely Presented Component Units			July 1, 2014 Beginning Balance*	Increases	Decreases	June 30, 2015 Ending Balance	Due Within One Year	Long Term
		Interest Rates	Maturities					
Major component units:								
MassDOT .....	0.00 - 7.00%	2016 - 2041	\$ 8,052,548	\$ 60,000	\$ (377,985)	\$ 7,734,563	\$ 435,536	\$ 7,299,027
MCWT .....	1.00 - 6.375%	2016 - 2043	3,389,010	268,686	(325,344)	3,332,352	226,465	3,105,887
Nonmajor component units ..	1.00 - 6.50%	2016 - 2038	692,990	88,850	(224,220)	557,620	17,646	539,974
Total bonds and notes payable .....			12,134,548	417,536	(927,549)	11,624,535	679,647	10,944,888
Compensated absences, net .....			52,490	6,616	(10,769)	48,337	26,739	21,598
Net pension liability .....			1,331,560	342,112	(273,784)	1,399,888	—	1,399,888
Total long term liabilities .....			<u>\$ 13,518,598</u>	<u>\$ 766,264</u>	<u>\$ (1,212,102)</u>	<u>\$ 13,072,760</u>	<u>\$ 706,386</u>	<u>\$ 12,366,374</u>

\*As restated and more fully described in footnote 1

The net pension liability of \$1.400 billion includes \$1.005 billion related to the MBTA and RTAs and \$395 million related to entities that participate in SERS. See the MassDOT financial statements for further information regarding the MBTA and RTA pension plans and see pages 110-114 of this report for the SERS pension disclosures.

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, 2015. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Government land bank fund .....	\$ (35,033)
Community preservation trust fund .....	(3,815)
General capital projects fund .....	(402,565)
Highway capital projects fund .....	(245,912)
Other capital project funds:	
Federal highway construction program capital projects fund .....	(31,698)

## 9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

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

## A. PLAN DESCRIPTIONS

### *Plan administration*

The Massachusetts *State Employees' Retirement System* (SERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to SERS. SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the SERS is vested in the Massachusetts State Retirement Board (the SRB), which consists of five members—two elected by current and active SERS members, one by the remaining members of the SRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chairman of the SRB.

Benefits are recorded when due and payable.

The Massachusetts *Teachers' Retirement System* (MTRS) is a PERS that administers a cost-sharing multi-employer defined benefit plan managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts and Quincy College. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves as ex-officio and is the Chairman of the MTRB.

The *State-Boston Retirement System* (SBRS) is a PERS that administers a cost-sharing multi-employer defined benefit plan managed by the City of Boston Retirement Board covering all City of Boston departments and agencies as well as the School Department, the Boston Redevelopment Authority, the Boston Housing Authority, the Public Health Commission and the Boston Water and Sewer Commission. The SBRS is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth.

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. The net pension liability related to the SBRS-Teachers is included in the Commonwealth's net pension liability in this report.

Management of the SBRS is vested with in a Board of Trustees, which consists of five members—two elected by the active and retired members of the system, the City Auditor as ex-officio, one member appointed by the Mayor of Boston and one member who is elected by the other four members. The SBRS issues a stand-alone audited financial report. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at (617) 635-4305, or you may download this report at <http://www.cityofboston.gov/retirement/investment.asp>.

**Plan membership.** As of January 1, 2015, the date of the most recent valuation, plan membership consisted of the following:

	SERS	MTRS	SBRS
Retirees and beneficiaries currently receiving benefits .....	57,774	62,312	14,341
Terminated employees entitled to benefits but not yet receiving them.....	4,340	—	808
Terminated employees entitled to a return of contributions.....	—	—	7,983
Subtotal .....	62,114	62,312	23,132
Current members.....	88,508	90,070	20,278
Total.....	<u>150,622</u>	<u>152,382</u>	<u>43,410</u>

**Benefits provided.** SERS, MTRS and SBRS provide retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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

Member contributions for SERS, MTRS and SBRS vary depending on the most recent date of membership:

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

## **B. INVESTMENTS**

**Investment Policy.** Investment of assets in the SERS and MTRS are with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The Massachusetts legislature enacted Section 17 of Chapter 112 of the Acts of 2010 which requires the SBRS to invest all assets, current and future, related to SBRS-Teachers in the PRIT pooled fund. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy

statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2014. See note 1 (D) for a description of the fair value policies of PRIT's investments.

The following was the PRIT Fund asset allocation as of June 30, 2015 (SERS and MTRS) and December 31, 2014 (SBRS-Teachers):

Asset Class	Target Allocation		
	SERS	MTRS	SBRS-Teachers
Global Equity.....	40.0%	40.0%	40.0%
Core Fixed Income .....	13.0%	13.0%	13.0%
Private Equity .....	10.0%	10.0%	10.0%
Real Estate .....	10.0%	10.0%	10.0%
Value Added Fixed Income.....	10.0%	10.0%	10.0%
Hedge Funds .....	9.0%	9.0%	9.0%
Portfolio Completion Strategies .....	4.0%	4.0%	4.0%
Timber/Natural Resources .....	4.0%	4.0%	4.0%
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses for fiscal 2015 was 3.4% for SERS, 3.4% for MTRS and for the year ended December 31, 2014, 5.7% for SBRS-Teachers. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

### C. NET PENSION LIABILITY OF THE SYSTEMS REQUIRED BY GASB 67

The components of the net pension liability for SERS and MTRS at June 30, 2015 are as follows (amounts in thousands):

	SERS	MTRS
Total pension liability.....	\$ 34,492,414	\$ 44,728,711
Plan fiduciary net position.....	(24,042,585)	(25,429,068)
Net pension liability .....	<u>\$ 10,449,829</u>	<u>\$ 19,299,643</u>
Fiduciary net position as a percentage of the total pension liability .....	69.7%	56.9%

Additional information regarding changes in the net pension liability can be found in the Required Supplementary Information section of these financial statements.

**Actuarial assumptions.** The total pension liability, for both SERS and MTRS, was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 7.75% investment rate of return, a decrease of 0.25% from the rate used in the January 1, 2014 actuarial valuation, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group

and length of service.

3. Change in benefit terms:

a. SERS:

- In May, 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (ERI) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS has increased by approximately \$230 million as of June 30, 2015.

4. Experience studies were performed as follows:

a. SERS:

- Dated February 27, 2014 and encompasses the period January 2006 to January 2012.

b. MTRS:

- Dated July 21, 2014 and encompasses the period January 2006 to January 2012.

5. Mortality rates were as follows:

a. SERS:

- Pre-retirement mortality reflects RP-2000 Employees table projected generationally with Scale BB and a base year 2009 (gender distinct).
- Post-retirement mortality reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year 2009 (gender distinct).
- For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct).

b. MTRS:

- Pre-retirement mortality reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
- Post-retirement mortality reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2009 (gender distinct).
- For disabled members, the mortality rate is assumed to be in accordance with RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	
	SERS	MTRS
Private Equity.....	8.5%	8.5%
Global Equity.....	6.9%	6.9%
Timberland/Natural Resources.....	6.6%	6.6%
Real Estate.....	6.5%	6.5%
Value Added Fixed Income.....	5.8%	5.8%
Hedge Funds.....	5.8%	5.8%
Portfolio Completion Strategies.....	5.5%	5.5%
Core Fixed Income.....	2.4%	2.4%

**Discount rate.** The discount rate used to measure the pension liability for SERS and MTRS was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the SERS and MTRS net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for SERS and MTRS.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the net pension liability of SERS and MTRS, calculated using the discount rate of 7.75%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate (amounts in thousands):

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
SERS net pension liability.....	\$ 14,205,331	\$ 10,449,829	\$ 7,211,692
MTRS net pension liability.....	23,959,568	19,299,643	15,271,501

#### **D. NET PENSION LIABILITY OF THE SYSTEMS REQUIRED BY GASB 68**

During fiscal 2015, the Commonwealth implemented GASB Statement No. 68, *Accounting and Reporting for Pensions*, which determines how employers and nonemployer contributing entities report their pension liabilities on their financial statements.

#### **Contributions**

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 January 2014, the amortization payments are designed to eliminate the unfunded liability by FY36 according to the following schedule: annual appropriation increases of 10% per year until FY17 decreasing to 7% thereafter until FY36 (four years before the statutory deadline of FY40). The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

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 is subject to legislative approval.

Contributions by the Commonwealth of \$1.476 billion were made during to SERS and MTRS as of the measurement date. In addition, approximately \$109 million representing the nonemployer contributions to SBRS-Teachers were made as of the measurement date.

### ***Proportionate Share of Net Pension Liability***

As of the respective measurement dates below, the net pension liability for SERS, MTRS and SBRS were \$7.424 billion, \$15.896 billion and \$3.848 billion, respectively. The net pension liabilities for SERS and MTRS were determined by an actuarial valuation as of January 1, 2014 and rolled forward to June 30, 2014. The SBRS net pension liability was determined by an actuarial valuation as of January 1, 2014 and rolled forward to December 31, 2014. The SERS, MTRS and SBRS actuarial valuations were rolled forward to their respective measurement dates using generally accepted actuarial procedures.

The Commonwealth (the primary government) reported the following net pension liabilities for its proportionate share of the SERS, MTRS and SBRS-Teachers net pension liabilities (amounts in thousands):

System	Measurement Date	Proportionate Share	Net Pension Liability
State Employees' Retirement System .....	June 30, 2014	93.9%	\$ 6,972,443
Massachusetts Teachers' Retirement System.....	June 30, 2014	100.0%	15,896,354
State Boston Retirement System - Teachers.....	December 31, 2014	53.7%	<u>2,066,546</u>
Total net pension liability.....			<u>\$ 24,935,343</u>

Certain of the Commonwealth's discretely presented component units (the Massachusetts Convention Center Authority (MCCA) and the Massachusetts Department of Transportation (MassDOT)) participate in SERS. As of the measurement date the proportionate share of the SERS net pension liability for the discretely presented component units was as follows (amounts in thousands):

System	Measurement Date	Proportionate Share	Net Pension Liability
State Employees' Retirement System .....	June 30, 2014	5.3%	<u>\$ 394,619</u>

### ***Deferred Outflows and Inflows of Resources***

As of the measurement dates, the Commonwealth (primary government) recognized pension expense of approximately \$1.793 billion and the discretely presented component units recognized approximately \$30 million of pension expense. The following details the components of deferred outflows of resources and deferred inflows of resources related to pension expense (amounts in thousands):



	Primary Government		Discretely Presented Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions.....	\$ 239,333	\$ —	\$ 4,436	\$ —
Changes in proportion .....	—	—	5,238	—
Net difference between projected and actual earnings on pension investments .....	—	3,019,744	—	38,683
Differences between expected and actual experience.....	—	—	41,011	—
Changes in proportion .....	—	4,655	—	—
Payments made after the measurement date.....	1,626,367	—	68,984	—
Totals .....	<u>\$ 1,865,700</u>	<u>\$ 3,024,399</u>	<u>\$ 119,669</u>	<u>\$ 38,683</u>

The statements reflect changes in proportion due to internal allocations between the governmental and business type activities which are eliminated for footnote presentation.

The \$1.626 billion and \$69 million reported as deferred outflows of resources in the primary government and the discretely presented component units, respectively, are the contributions made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the next fiscal year. Other amounts reported above as deferred outflows of resources and deferred inflows of resource related to pension will be recognized in pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2016.....	\$ (638,140)	\$ 3,164
2017.....	(638,141)	2,593
2018.....	(638,140)	2,594
2019.....	(638,141)	2,597
2020.....	(240,976)	1,064
Thereafter .....	8,472	(10)
Totals.....	<u>\$ (2,785,066)</u>	<u>\$ 12,002</u>

The *SERS* and *MTRS* total pension liabilities were based on an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.

3. Mortality rates were as follows:

SERS:

- Pre-retirement - reflects RP-2000 Employees Table projected 22 years with Scale AA (gender distinct).
- Post-retirement - reflects Healthy Annuitant table projected 17 years with Scale AA (gender distinct).
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Table projected 7 years with Scale AA (gender distinct) set forward 3 years for males.

MTRS:

- Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA (gender distinct).
- Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct).
- Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 7 years with Scale AA set forward forward 3 years for males.

The *SBRS-Teachers* total pension liability was based on an actuarial valuation as of January 1, 2014 rolled forward to December 31, 2014, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
  - Healthy - reflects RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2014.
  - Disabled - reflects RP-2014 Healthy Annuitant Mortality Table set forward four years projected generationally using Scale BB2D from 2014.

***Investment Policy***

Investment of assets in the SERS, MTRS and SBRS-Teachers are with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2014. See Note 1 (D) for a description of the fair value policies of PRIT's investments.

The following was the PRIT Fund asset allocation as of the measurement date:

Asset Class	Target Allocation		
	SERS	MTRS	SBRS-Teachers
Global Equity .....	43.0%	43.0%	43.0%
Core Fixed Income.....	13.0%	13.0%	13.0%
Private Equity.....	10.0%	10.0%	10.0%
Real Estate .....	10.0%	10.0%	10.0%
Hedge Funds .....	10.0%	10.0%	10.0%
Value Added Fixed Income.....	10.0%	10.0%	10.0%
Timber/Natural Resources .....	4.0%	4.0%	4.0%
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses as of the measurement date was 17.13% for SERS, 17.12% for MTRS and 5.72% for SBRS-Teachers. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

***Sensitivity of the proportionate share of the net pension liability to changes in the discount rate.*** The following presents the net pension liability of SERS, MTRS and SBRS-Teachers calculated using the discount rate of 8.0%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
SERS net pension liability.....	\$ 10,092,372	\$ 6,972,443	\$ 4,292,169
MTRS net pension liability .....	20,247,000	15,896,354	12,200,000
SBRS-Teachers net pension liability.....	2,459,535	2,066,546	1,737,927

**E. STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION**

The following table displays the Statement of Net Position and the Statement of Changes in Net Position for the SERS, the MTRS and the SRBT as of June 30, 2015, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 55,281	\$ 92,839	\$ 116,589	\$ 264,709
Net investment in PRIT at fair value .....	23,980,187	25,241,023	700,647	49,921,857
Other receivables .....	10,480	89,666	—	100,146
Other assets .....	20	15,475	—	15,495
<b>Total assets</b> .....	<b>24,045,968</b>	<b>25,439,003</b>	<b>817,236</b>	<b>50,302,207</b>
<b>LIABILITIES</b>				
Accounts payable .....	3,383	9,935	42,223	55,541
<b>Net position available for post-employment benefits</b> .....	<b>\$ 24,042,585</b>	<b>\$ 25,429,068</b>	<b>\$ 775,013</b>	<b>\$ 50,246,666</b>
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contributions:				
Employer contributions - Commonwealth and MassDOT .....	\$ 606,376	\$ —	\$ 494,113	\$ 1,100,489
Non-employer contributions - Commonwealth .....	13,595	1,021,930	—	1,035,525
Employer and non-employer contributions - other .....	15,808	—	—	15,808
Employee contributions .....	549,493	669,941	—	1,219,434
Boston teachers' contributions from Commonwealth .....	—	109,485	—	109,485
Other additions .....	92,503	81,440	75,790	249,733
<b>Total contributions</b> .....	<b>1,277,775</b>	<b>1,882,796</b>	<b>569,903</b>	<b>3,730,474</b>
Net investment gain/(loss):				
Investment gain/(loss) .....	926,560	978,081	25,174	1,929,815
Less: investment expense .....	(125,674)	(132,578)	(3,570)	(261,822)
<b>Net investment gain/(loss)</b> .....	<b>800,886</b>	<b>845,503</b>	<b>21,604</b>	<b>1,667,993</b>
<b>Total additions</b> .....	<b>2,078,661</b>	<b>2,728,299</b>	<b>591,507</b>	<b>5,398,467</b>
<b>DEDUCTIONS</b>				
Administration .....	15,966	23,444	186	39,596
Retirement benefits and refunds .....	1,876,451	2,684,049	421,377	4,981,877
Payments to State Boston Retirement System .....	—	109,485	—	109,485
Other deductions .....	74,554	20,899	—	95,453
<b>Total deductions</b> .....	<b>1,966,971</b>	<b>2,837,877</b>	<b>421,563</b>	<b>5,226,411</b>
<b>Net increase/(decrease)</b> .....	<b>111,690</b>	<b>(109,578)</b>	<b>169,944</b>	<b>172,056</b>
Net position available for post-employment benefits				
at beginning of year .....	23,930,895	25,538,646	605,069	50,074,610
<b>Net position available for post-employment benefits at end of year</b> .....	<b>\$ 24,042,585</b>	<b>\$ 25,429,068</b>	<b>\$ 775,013</b>	<b>\$ 50,246,666</b>

**F. RESERVES**

Chapter 32 of the MGL establishes certain legally required reserve accounts for both SERS and MTRS. These reserves are used to account for the accumulation of resources according to purpose for which they are received, acquired or held. The reserve accounts can only be modified or changed by legislation.

The balances of legally required reserves at June 30, 2015 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund .....	\$ 5,853,641	\$ 6,431,101	Active members' contribution balance
Annuity Reserve Fund .....	1,597,583	2,497,337	Retired members' contribution account
Special Military Service Fund ...	43	221	Members' contribution account while on military leave
Pension Reserve Fund .....	16,591,318	16,500,409	Amounts appropriated to fund future retirement benefits
Total	<u>\$ 24,042,585</u>	<u>\$ 25,429,068</u>	

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

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

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

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The liability for MassDOT (including former MTA employees) is included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. On December 17, 2014, the Trustees voted to transfer the assets of the trust, approximately \$75 million, to the State Retiree Benefits Trust Fund (SRBTF) for the exclusive benefit and use of the members of the MTA Retirement System and their beneficiaries pending acceptance by the SRBT Board. Since the final acceptance and transfer of the MTA assets occurred after January 1, 2015, no adjustment was 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 FY15 General Appropriation Act transferred approximately \$420 million to the Trust for the purpose of benefits payments.

*Funding Policy*

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2015 and as of the valuation date (January 1, 2015), 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 FY15 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY15 totaled approximately \$637 million. There

are approximately 152,187 participants eligible to receive benefits at June 30, 2015.

Effective beginning FY13, the Commonwealth by statute is required to allocate, to the SRBTF, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in FY13 to 100% by FY23. In FY15, 30% of tobacco settlement proceeds or approximately \$74 million was allocated to the SRBTF.

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

The Commonwealth is not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of GASB Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For FY15, the Commonwealth's annual OPEB contribution of approximately \$637 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 FY15 are as follows from the valuation calculated as of January 1, 2015 (amounts in millions except percentages):

<u>2015</u>	SRBT
Annual required contribution (ARC).....	\$ 1,361
Interest on net OPEB obligation .....	217
Adjustment to annual required contribution .....	(168)
Annual OPEB cost (AOC).....	1,410
Less: Contributions made* .....	(637)
Increase in net OPEB obligation.....	773
Net OPEB obligation as reported at beginning of year .....	4,832
Net OPEB obligation - end of year.....	<u>\$ 5,605</u>
Percentage of annual OPEB cost contribution.....	45.2%
<u>2014</u>	
Annual OPEB cost.....	\$ 1,293
Percentage of annual OPEB cost contributed.....	47.0%
Net OPEB obligation - end of year.....	\$ 4,832
<u>2013</u>	
Annual OPEB cost.....	\$ 1,286
Percentage of annual OPEB cost contributed.....	45.5%
Net OPEB obligation - end of year.....	\$ 4,147

\*Includes approximately \$34 in Medicare Part D Retiree Drug Subsidy Payments and approximately \$74 million in tobacco settlement revenues.

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
Actuarial Valuation as of January 1, 2015 ...	\$ 610,000	\$ 16,502,800	\$ 15,892,800	3.7%	\$ 5,591,911	284.2%

\* The covered payroll amount approximates the employer payroll

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment,

mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBT and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in the GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in the GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2018.

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/comptroller/publications-and-reports/financial-reports/opeb.html>. There is currently no separate, audited GAAP-basis postemployment benefit plan report available for the Commonwealth.

#### *MSBA*

The MSBA has a separate OPEB trust fund. The amount of assets and actuarial accrued liabilities related to MSBA's OPEB plan are not material to the Commonwealth (approximately \$2.5 million) and are therefore, not included in these financial statements.

## **10. LEASES**

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#### *Primary Government*

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY15, these additions are approximately \$31 million. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

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

The Institutions of Higher Education lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Institutions of Higher Education – reported as a business-type activity, for the fiscal year ended June 30, 2015 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business - Type Activities Total
	Principal	Interest				Principal	Interest		
2016 .....	\$ 7,876	\$ 3,296	\$ 191,352	\$ 895	\$ 203,419	\$ 2,471	\$ 402	\$ 238,905	\$ 241,778
2017 .....	7,591	3,178	132,907	1,043	144,719	2,066	320	80,697	83,083
2018 .....	7,130	2,986	113,859	1,068	125,043	860	283	27,000	28,143
2019 .....	3,525	1,476	95,225	1,092	101,318	608	232	25,564	26,404
2020 .....	2,706	1,134	64,182	1,117	69,139	424	205	23,695	24,324
2021 - 2025 .....	12,487	5,229	104,603	5,953	128,272	2,515	635	163,354	166,504
2026 - 2030 .....	1,613	676	19,709	—	21,998	951	46	1,178	2,175
2031 - 2035 .....	—	—	9,623	—	9,623	—	—	—	—
2035 - 2039 .....	—	—	6,334	—	6,334	—	—	—	—
2040 - 2045 .....	—	—	4,846	—	4,846	—	—	—	—
Total lease obligations .....	42,928	17,975	742,640	11,168	814,711	9,895	2,123	560,393	572,411
Less: current portion .....	(7,876)	(3,296)	(191,352)	(895)	(203,419)	(2,471)	(402)	(238,905)	(241,778)
Long - term lease obligations ...	<u>\$ 35,052</u>	<u>\$ 14,679</u>	<u>\$ 551,288</u>	<u>\$ 10,273</u>	<u>\$ 611,292</u>	<u>\$ 7,424</u>	<u>\$ 1,721</u>	<u>\$ 321,488</u>	<u>\$ 330,633</u>

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

Asset type:	Primary Government	
	Governmental Activities	Business - Type Activities
Buildings .....	\$ —	\$ 12,297
Machinery and equipment .....	59,129	12,153
Total assets .....	59,129	24,450
Less: accumulated depreciation .....	(16,063)	(13,438)
Total .....	<u>\$ 43,066</u>	<u>\$ 11,012</u>

## 11. OTHER LONG-TERM LIABILITIES

### A. 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.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2015 is estimated to be \$274 million of which approximately \$39 million is expected to be paid during FY16.



Changes in the Commonwealth's liability relating to workers' compensation claims in FY15 and FY14 were (amounts in thousands):

	FY15	FY14
Claim liability, beginning of year .....	\$ 273,432	\$ 282,694
Increase in liability estimate .....	57,954	43,035
Payments and decreases in liability estimate .....	(56,957)	(52,297)
Claims liability, end of year .....	<u>\$ 274,429</u>	<u>\$ 273,432</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 \$154 million, net of the employees' reserve of \$83 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY15 and FY14 were (amounts in thousands):

	FY15	FY14
Claim liability, beginning of year .....	\$ 97,021	\$ 96,356
Increase in liability estimate .....	1,657,017	1,403,590
Payments and decreases in liability estimate .....	(1,646,089)	(1,402,925)
Claims liability, end of year .....	<u>\$ 107,949</u>	<u>\$ 97,021</u>

## **B. OTHER CLAIMS & JUDGMENTS**

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Commonwealth records a liability for those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid. A short term liability of approximately \$12 million is recorded based on; 1) historical payments made and 2) actual claims settled and to be paid prior to June 30, 2016.

The following amounts were recognized for claims and judgments in FY15 and FY14 (amounts in thousands):

	FY15	FY14
Unpaid claims, beginning of year .....	\$ 35,703	\$ 12,831
Incurred claims .....	—	36,137
Claim payments and reductions .....	(23,884)	(13,265)
Unpaid claims end of year .....	<u>\$ 11,819</u>	<u>\$ 35,703</u>

### C. ENVIRONMENTAL REMEDIATION

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

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

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

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

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

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

	Governmental Activities	Business-Type Activities	Government-Wide Total
Environmental remediation liability, beginning of year.....	\$ 217,346	\$ 1,447	\$ 218,793
Expected additional future outlays, changes in liability estimates.....	(140)	—	(140)
FY15 outlays for environmental remediation .....	(9,227)	(1,436)	(10,663)
Environmental remediation liability, end of year.....	<u>\$ 207,979</u>	<u>\$ 11</u>	<u>\$ 207,990</u>

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

damages and response actions may cost at least tens of millions of dollars. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

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

#### **D. COST OF LIVING ADJUSTMENTS**

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

Payments of approximately \$23 million for COLAs granted to participants in retirement systems of cities, towns and counties were made during fiscal year 2015.

As of June 30, 2015, the Commonwealth's liability for COLA was approximately \$187 million.

## **12. CONTINGENCIES/COMMITMENTS**

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 FY15 totaled approximately \$81 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

*Drug Testing Laboratory disputes.* On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may have been affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court and plead guilty in 2013. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. In addition, there may be substantial costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As the statute of limitations arguably does not expire until October 2015, and the number of specific cases affected by the chemist's misconduct has not been definitively determined, there is not sufficient information to fully estimate these additional state costs.

**A. PRIMARY GOVERNMENT**

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2015, totaling approximately \$230 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, 2015, the University of Massachusetts Building Authority has approximately \$2.924 billion, of outstanding debt, of which approximately \$122 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.370 billion of outstanding debt, of which approximately \$11 million is guaranteed by the Commonwealth.

**B. TOBACCO SETTLEMENT**

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

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions and adjustments.

In FY15, the Commonwealth received approximately \$246 million or 66.4% of the estimated amounts shown in the MSA. During FY15, 30.0% of tobacco settlement payments, or approximately \$74 million, was deposited in the State Retiree Benefits Trust (SRBT) to fund the Commonwealth's liability for retiree health care, with the remainder deposited in the General Fund. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase by 10.0% per year until it reaches 100% in FY23. While the fiscal 2012 legislation required that 30% of fiscal 2015 tobacco settlement proceeds be transferred to SRBT, the fiscal 2015 budget, as approved by the Governor on July 15, 2014, included provisions that temporarily changed the funding source for this transfer for fiscal 2015. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the SRBT, up to 30% of the value of fiscal 2015 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 30% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 30% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the SRBT. Amounts received in FY15 continued to be less than had previously been projected as payments under the MSA, primarily because the payment amounts are related to national tobacco sales volumes, which have continued to decline since the settlement. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is \$8.96 billion, which is subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA and, from FY06 to the present, certain manufacturers have withheld portions of the payments due to the states. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from any downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025, minus an offset for amounts received by the attorneys from the tobacco companies pursuant to an arbitration award. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2015, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

### ***C. 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. MDFA, through its subsidiary MassDevelopment/Saltonstall Building Redevelopment Corporation (M/SBRC), issued debt to finance renovation of the Building and its surrounding area, a portion of which was leased back to the Commonwealth for office space and related parking and the remainder of which was developed as private office space, housing and retail use. The Commonwealth's lease obligation with respect to the Building was not a general obligation or a pledge of credit of the Commonwealth and its lease payments were subject to annual appropriation.

The ground lease on the Building was sold by M/SBRC on March 17, 2015 and the debt associated with the Building was retired. The Commonwealth lease payments with respect to that agreement were terminated at the time of the sale. In connection with the sale, MDFA transferred a portion of the sale proceeds to the Commonwealth in the amount of approximately \$89 million. The proceeds of the sale are reflected in the audited financial statements of the MDFA.

### ***D. OTHER CONSTRUCTION COMMITMENTS***

At June 30, 2015, the Commonwealth had commitments of approximately \$630 million related to ongoing construction projects.

### ***E. CONTRACTUAL ASSISTANCE TO AUTHORITIES***

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

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

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

**F. MSBA**

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2015 to be \$8.4 million and \$1.0 billion, respectively.

**G. SOCIAL IMPACT BONDS**

In January 2014, the Commonwealth entered into a “pay for success contract” (Social Impact Bonds) with a nonprofit intermediary organization and a nonprofit social service agency to reduce the re recidivism rate of young men in the juvenile justice system or on probation. The Commonwealth is obligated to make success payments totaling \$28 million through calendar year 2019 and the Commonwealth’s obligation to make such payments is a general obligation for which the Commonwealth’s full faith and credit are pledged. Payments are only made based upon successful achievement of specified outcomes based on defined performance targets contained in the contract. The Commonwealth entered into a second such contract in December 2014 to address chronic individual homelessness. The contract obligates the Commonwealth to make up to \$6 million in success payments, in the aggregate, through fiscal 2021. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. As the amount required to be paid as of June 30, 2015 cannot be determined until performance targets have been achieved as determined by independent evaluators, no liability has been accrued in these financial statements for these contracts.

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


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

The following entities are presented in the basic financial statements (all having a June 30, 2015 fiscal year end) (entities marked with an \* are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

**Entities Audited by KPMG LLP:**

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

**\*Community Colleges:**

Greenfield Community College  
 Middlesex Community College  
 North Shore Community College

**Entities Audited by Other Auditors:**

\*The University of Massachusetts System

\*Community Colleges (in addition to the three Community Colleges audited by KPMG LLP, above):

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

\*State Universities

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

Massachusetts Convention Center Authority (MCCA)

Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Massachusetts Clean Energy Center (CEC)

Massachusetts Housing Partnership (MHP)

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

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

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

Berkshire Community College Foundation  
 Bristol Community College Foundation  
 Bunker Hill Community College Foundation  
 Cape Cod Community College Educational Foundation, Inc.  
 Greenfield Community College Foundation, Inc.  
 Holyoke Community College Foundation  
 Massachusetts Bay Community College Foundation, Inc.  
 Massasoit Community College Foundation  
 Middlesex Community College Foundation, Inc.

North Shore Community College Foundation  
Springfield Technical Community College Foundation  
The Mount Wachusett Community College Foundation, Inc.  
The Northern Essex Community College Foundation, Inc.  
The Quinsigamond Community College Foundation, Inc.  
The Roxbury Community College Foundation, Inc

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

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

Westfield State University Foundation, Inc.  
Worcester State Foundation

The University of Massachusetts System Foundation

#### 14. SUBSEQUENT EVENTS

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##### ***BOND ISSUANCES***

On July 1, 2015, the MSBA issued \$315 million of additional Commercial Paper for school construction and renovation projects. The Commercial Paper matures at various dates ranging from 33 to 97 days and interest is payable at maturity. The interest rate on this issuance of commercial paper ranges from 0.06% - 0.12%.

On July 16, 2015, the Commonwealth issued approximately \$702 million in General Obligation (GO) Refunding Bonds 2015 Series A. These bonds were issued to advance refund approximately \$711 million of various GO Bonds and to refund on a current basis approximately \$9 million of GO Consolidated Loan 2005, Series C bonds. The refunding bonds carry interest rates from 2.00% - 5.00% with final maturity on July 1, 2037. The refundings resulted in reduced debt service principal of approximately \$73 million and a present value savings of approximately \$55 million over the life of the bonds.

On July 16, 2015, the Commonwealth issued \$250 million in GO Bonds 2015 Series C. These bonds carry interest rates from 4.00% - 5.00% with the first payment due on July 1, 2018 and final maturity on July 1, 2045.

On August 1, 2015, the Commonwealth issued approximately \$9 million in GO Bonds, Consolidated Loan of 2015 (College Opportunity Bonds). These bonds carry an interest rate of 0.50% with the first principal payment due on August 1, 2020 and final maturity on August 1, 2035.

On July 16, 2015, the MSBA retired \$300 million of Subordinated Dedicated Sales Tax Bond Anticipation Notes (2014 Series A BANS).

On September 29, 2015, the Commonwealth issued \$1.2 billion in GO Revenue Anticipation Notes (RANs) in three \$400 million notes, 2015 Series A, 2015 Series B and 2015 Series C. The RANs carry interest rates of 2.00% and mature on April 27, 2016, May 25, 2016 and June 22, 2016, respectively.

On October 14, 2015 the MBTA issued \$358 million of Senior Sales Tax Series 2015A and Series 2015B bonds.



Principal is payable on July 1, 2019 through July 1, 2045. The first interest payment on these bonds is January 1, 2016. The Series 2015A Sales Tax Bonds were issued for use to finance system-wide improvements, vehicle replacements and other capital projects. The 2015B Sales Tax Bonds were issued to refund \$58 million of 2006 Series C Senior Sales Tax Bonds, \$56 million of 2005 Series A Assessment Bonds and \$83 million of 2008 Series A Assessment Bonds.

On November 18, 2015, the Commonwealth issued \$500 million in Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program) 2015 Series A. These bonds carry interest rates from 3.00% - 5.00%. The Commonwealth will pay interest only starting on June 1, 2016 with the first principal payment on June 1, 2017, with final maturity on June 1, 2045.

On December 2, 2015, the MSBA used funds on hand to defease \$35.9 million of the 2007 Dedicated Sales Tax Bonds outstanding.

On December 7, 2015, the Commonwealth issued \$150 million in GO Bonds, Consolidated Loan of 2015 Series D. These bonds carry interest rates from 3.00% - 5.00%. The Commonwealth will pay interest only starting on September 1, 2016 with the first principal payment on September 1, 2026, with final maturity on September 1, 2035.

On December 7, 2015, the Commonwealth issued \$400 million in GO Bonds, Consolidated Loan of 2015 Series E. These bonds carry interest rates from 3.25% - 4.00%. The Commonwealth will pay interest only starting on September 1, 2016 with the first principal payment on September 1, 2036, with final maturity on September 1, 2045.

On December 8, 2015, the MSCBA issued approximately \$16 million in Project Revenue Bonds, Series 2015A. These bonds carry interest rates from 2.00% - 5.00%, with final maturity on May 1, 2036.

On December 15, 2015, the MSBA refunded \$1.1 billion of 2007 Dedicated Sales Tax Bonds by issuing \$738.4 million of Senior Sales Tax Refunding Bonds (2015 Series C Bonds) and \$291.1 million of Senior Sales Tax Refunding Bonds (2015 Series D Bonds). The Bonds mature on August 15, 2037 and the interest on the bonds is payable semi-annually on February 15th and August 15th. The coupons on the bonds range from 4.00% - 5.00%. The refunding resulted in reduced debt service of \$150.3 million and a present value savings of \$108 million over the life of the debt.

On December 23, 2015, the Commonwealth issued \$125 million in GO SIFMA Series B refunding bonds and \$125 million in GO SIFMA Series C refunding bonds, both through a direct purchase agreement with J.P. Morgan Chase to refund specific maturities of various GO Refunding (SIFMA Index) Bonds. The Series B bonds carry interest rates of the SIFMA interest rate plus 48 basis points and the Commonwealth will pay interest only starting on January 4, 2016 with principal maturity on February 1, 2018. The Series C bonds carry interest rates of the SIFMA interest rate plus 55 basis points. The Commonwealth will pay interest only starting on January 4, 2016 with principal maturity on February 1, 2019.

On January 20, 2016, the MSBA issued \$150 million of Senior Dedicated Sales Tax Bonds (2016 Series A Bonds). The Bonds mature at various dates through November 2045 and interest is due semi-annually each May 15th and November 15th. The interest rate on the bonds is 5.00%.

On February 17, 2016, the MSCBA issued approximately \$177 million of Refunding Revenue Bonds, Series 2016A. These bonds carry interest rates from 4.00% - 5.00% with final maturity on May 1, 2049. The bonds were issued to refund, on an advanced basis, various maturities of the Series 2008A and 2009A Project Revenue Bonds. The refunding resulted in reduced debt service of \$44 million and a present value savings of \$28 million over the life of the debt.

On March 3, 2016, the Commonwealth issued \$600 million in GO Bonds, Consolidated Loan of 2016 Series A and \$511 million of GO Refunding Bonds 2016 Series A. The Consolidated Loan Bonds carry interest rates from 3.00% - 5.00% with final maturity on March 1, 2046. The refunding bonds carry interest rates from 1.50% - 5.00% with final maturity on July 1, 2033. The refunding bonds were issued to refund, on an advanced basis, various maturities of the 2007C, 2008A and 2009A, B and C Consolidated Loans. The refunding resulted in reduced debt service of \$87 million and a present value savings of \$66 million over the life of the debt.

All debt issues were sold as tax exempt.

*PENSION*

The Massachusetts State Employees Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) (collectively referred to as the Retirement Systems) in conjunction with the Commonwealth are evaluating whether certain Massachusetts General Laws (MGL) may be in conflict with the exclusive benefit rule of Section 401 (a)(2) of the Internal Revenue Code (Code) or other Code requirements relating to operation of tax-exempt pension plans.

The activities being reviewed are: (1) the statutorily directed funding of the budget for the Public Employee Retirement Administration Commission (PERAC) solely from the investment income accounts of MSERS and MTRS; (2) the statutorily directed contributions made from the assets of MSERS in the Pension Reserves Investment Trust Fund (PRIT or PRIT Fund) to the Optional Retirement Plan (ORP), a statutorily authorized retirement plan available to certain employees of the Commonwealth's Higher Education System; (3) the statutorily mandated reimbursements issued from MSERS to local retirement systems and municipalities for local cost of living adjustments (COLA's) issued to participants of those systems who retired between 1981 and 1994; (4) deposits of reimbursement revenues received from local retirement systems, i.e. so-called G.L. c. 32, §3(8)(c) payments, to the Commonwealth's General Fund rather than to MTRS and MSERS assets in the PRIT fund; and, (5) deposits of federal grant fringe payments to the Commonwealth's General Fund rather than to MTRS and MSERS assets in the PRIT fund.

The Retirement Systems have engaged outside tax counsel, who is reviewing each of the aforementioned activities to determine whether and to what degree (1) pension assets were expended for non-Retirement Systems' employees or their beneficiaries and (2) revenues or reimbursements were redirected from the Retirement Systems to the General Fund of the Commonwealth.

However, until such time as outside counsel's analysis is more advanced and all considerations are evaluated, it is not possible to determine the extent of conflict with the Code, if any, and whether corrective actions need to be taken in-whole or in-part for each of the aforementioned activities.

Corrective actions, if necessary, could include amendments to MGL, prospective corrections and/or retrospective corrections. If any corrections are required, they could include a repayment of funds (with interest) from the General Fund to the Retirement Systems that could be substantial. It will not be known whether any corrections will be required until further analysis by management and outside tax counsel is completed and discussions with the IRS are completed.

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

(Unaudited)

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

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

*Notes to Required Supplementary Information – Budgetary Reporting  
Required Pension Schedules*

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

General Fund

Fiscal Year Ended June 30, 2015

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 21,717,500	\$ 21,717,500	\$ 21,854,902	\$ 137,402
Assessments.....	414,208	414,208	403,138	(11,070)
Federal grants and reimbursements.....	9,551,184	9,551,184	9,388,840	(162,344)
Tobacco settlement revenue.....	253,628	253,628	245,839	(7,789)
Departmental.....	2,421,790	2,421,790	2,624,850	203,060
Miscellaneous.....	241,136	241,136	262,623	21,487
<b>Total revenues.....</b>	<b>34,599,446</b>	<b>34,599,446</b>	<b>34,780,192</b>	<b>180,746</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	347,023	347,023	329,606	(17,417)
Lottery reimbursements.....	91,375	91,375	104,238	12,863
Lottery distributions.....	955,865	955,865	947,250	(8,615)
Operating transfers in.....	343,257	343,257	405,730	62,473
Stabilization transfer.....	150,650	150,650	144,806	(5,844)
<b>Total other financing sources.....</b>	<b>1,888,170</b>	<b>1,888,170</b>	<b>1,931,630</b>	<b>43,460</b>
<b>Total revenues and other financing sources.....</b>	<b>36,487,616</b>	<b>36,487,616</b>	<b>36,711,822</b>	<b>224,206</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	83,258	83,287	60,465	22,822
Judiciary.....	845,235	849,435	839,454	9,981
Inspector General.....	4,608	4,608	4,521	87
Governor and Lieutenant Governor.....	10,380	10,380	6,368	4,012
Secretary of the Commonwealth.....	45,390	45,582	44,891	691
Treasurer and Receiver-General.....	1,293,288	230,190	203,312	26,878
Auditor of the Commonwealth.....	17,778	17,778	17,768	10
Attorney General.....	44,199	44,209	43,134	1,075
Ethics Commission.....	1,925	1,925	1,914	11
District Attorney.....	108,921	108,975	108,677	298
Office of Campaign & Political Finance.....	1,460	1,460	1,433	27
Sheriff's Departments.....	575,213	596,962	581,157	15,805
Disabled Persons Protection Commission.....	2,725	2,725	2,724	1
Board of Library Commissioners.....	25,323	25,323	25,301	22
Comptroller.....	8,837	14,109	13,568	541
Administration and finance.....	8,029,764	2,402,765	2,303,838	98,927
Energy and environmental affairs.....	215,109	216,978	209,625	7,353
Health and human services.....	18,959,393	5,526,321	5,398,933	127,388
Executive office of education.....	2,218,364	2,250,302	2,214,194	36,108
Center for Health Information and Analysis.....	34,524	34,524	26,405	8,119
Public safety and homeland security.....	1,059,928	1,132,130	1,091,441	40,689
Housing and economic development.....	496,400	525,840	497,516	28,324
Labor and workforce development.....	51,915	72,965	43,198	29,767
Direct local aid.....	—	5,421,728	5,420,412	1,316
Medicaid.....	—	13,709,008	13,655,213	53,795
Post employment benefits.....	—	2,213,361	2,213,361	—
Debt service:				
Principal retirement.....	555,927	566,467	555,122	11,345
Interest and fiscal charges.....	446,465	446,465	438,987	7,478
<b>Total expenditures.....</b>	<b>35,136,329</b>	<b>36,555,802</b>	<b>36,022,932</b>	<b>532,870</b>
<b>Other financing uses:</b>				
Operating transfers out.....	9,653	209,976	162,669	47,307
State Retiree Benefits transfer.....	—	—	42,584	(42,584)
Medical assistance transfer.....	639,500	639,500	70,975	568,525
Stabilization transfer.....	—	284,850	193,612	91,238
Delivery system transformation initiatives trust transfer.....	218,962	218,962	116,171	102,791
Other fund deficit support.....	—	—	42,896	(42,896)
<b>Total other financing uses.....</b>	<b>868,115</b>	<b>1,353,288</b>	<b>628,907</b>	<b>724,381</b>
<b>Total expenditures and other financing uses.....</b>	<b>36,004,444</b>	<b>37,909,090</b>	<b>36,651,839</b>	<b>1,257,251</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>483,172</b>	<b>(1,421,474)</b>	<b>59,983</b>	<b>1,481,457</b>
Fund balances (deficit) at beginning of year.....	1,402,793	1,402,793	1,402,793	—
Fund balances (deficits) at end of year.....	<u>\$ 1,885,965</u>	<u>\$ (18,681)</u>	<u>\$ 1,462,776</u>	<u>\$ 1,481,457</u>

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

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

	<b>General</b>
<b>REVENUES</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules .....	\$ 34,780,192
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue.....	10,442
Federal reimbursements and other receivables.....	204,606
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(49,427)
Inflows from component units and other miscellaneous financing sources .....	83,699
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances -     Governmental Funds .....</b>	<b>\$ 35,029,512</b>
 <b>OTHER FINANCING SOURCES</b>	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 1,931,630
Adjustments:	
Consolidation of transfers between funds.....	(195,182)
Inflows from component units and other miscellaneous financing sources .....	(59,849)
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund     Balances - Governmental Funds .....</b>	<b>\$ 1,676,599</b>
 <b>EXPENDITURES</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 36,022,932
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	373,300
Compensated absences and other accrued liabilities .....	18,925
Reclassifications:	
Capital lease additions are additions to expenditures for GAAP purposes on a fund perspective.....	30,809
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 .....	(994,109)
Expenditures are reported in the Community First Trust Fund on a GAAP basis.....	(25,087)
Higher education expenditures are reclassified for GAAP reporting.....	(1,342,724)
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund     Balances - Governmental Funds .....</b>	<b>\$ 34,084,046</b>
 <b>OTHER FINANCING USES</b>	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 628,907
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(195,182)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,286,072
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 .....	994,109
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund     Balances - Governmental Funds .....</b>	<b>\$ 2,713,906</b>

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

### Note to Required Supplementary Information – Budgetary Reporting

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

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

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget. The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

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

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

The following table summarizes budgetary activity for FY15 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 165 of the Acts of 2014:		
Direct appropriations.....	\$ 36,493,300	\$ 35,752,750
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2014.....	—	1,243,492
Total original budget .....	36,493,300	36,996,242
Supplemental Acts of 2014:		
Chapter 188 .....	—	15,710
Chapter 259 .....	—	4,500
Chapter 287 .....	—	79,360
Chapter 359 .....	—	257,218
Supplemental Acts of 2015:		
Chapter 2 .....	—	2,500
Chapter 10 .....	—	404,447
Chapter 119 .....	—	440,259
Total budgeted revenues and expenditures per Legislative action .....	—	1,203,994
Chapter 2 section 9C .....	—	(411,144)
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending.....	2,155,122	2,201,106
Budgeted revenues and expenditures as reported.....	\$ 38,648,422	\$ 39,990,198

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

## Schedule of Funding Progress and Contributions - Other Post Employment Benefits

(Amounts in thousands except for percentages)

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

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2015.....	\$ 610,000	\$ 16,502,800	\$ 15,892,800	3.7%	\$ 5,591,911	284.2%
Actuarial Valuation as of January 1, 2014.....	511,200	15,670,200	15,159,000	3.3%	5,344,510	283.6%
Actuarial Valuation as of January 1, 2013.....	406,700	15,784,100	15,377,400	2.6%	5,183,195	296.7%
Actuarial Valuation as of January 1, 2012.....	360,500	16,659,400	16,298,900	2.2%	4,922,388	331.1%
Actuarial Valuation as of January 1, 2011.....	350,500	16,568,600	16,218,100	2.1%	4,808,250	337.3%
Actuarial Valuation as of January 1, 2010.....	309,800	15,166,300	14,856,500	2.0%	4,711,563	315.3%

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

Fiscal Year	Annual Required Contribution	Percentage Contributed
2015.....	\$ 1,361,000	46.8%
2014.....	1,251,000	48.6%
2013.....	1,251,000	46.8%
2012.....	1,286,000	43.4%
2011.....	1,276,000	43.7%
2010.....	1,163,000	32.0%

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 Changes in the State Employees' Retirement System (SERS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2015	2014
Total pension liability, July 1.....	\$ 31,355,000	\$ 29,988,000
Service cost.....	700,012	631,634
Interest.....	2,411,551	2,405,204
Change in benefit terms.....	230,302	—
Differences between expected and actual experience.....	275,000	—
Changes of assumptions.....	1,397,000	102,000
Benefit payments, including refunds of member contributions.....	(1,876,451)	(1,771,838)
Net change in total pension liability.....	3,137,414	1,367,000
Total pension liability, June 30 (a).....	<u>\$ 34,492,414</u>	<u>\$ 31,355,000</u>
Plan fiduciary net position, July 1.....	\$ 23,930,895	\$ 21,084,958
Contributions:		
Employers - Commonwealth and MassDOT.....	606,376	550,483
Non-employer contributions - Commonwealth.....	13,595	21,293
Employer and non-employer contributions - other.....	15,808	6,048
Plan members.....	549,493	501,106
Other additions.....	92,503	68,967
Total contributions.....	1,277,775	1,147,897
Net investment income.....	800,886	3,551,012
Benefit payments, including refunds of plan member contributions.....	(1,876,451)	(1,771,838)
Administrative expense.....	(15,966)	(12,705)
Other changes.....	(74,554)	(68,429)
Net change in plan fiduciary net position.....	111,690	2,845,937
Plan fiduciary net position, June 30 (b).....	<u>\$ 24,042,585</u>	<u>\$ 23,930,895</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 10,449,829</u>	<u>\$ 7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability.....	69.7%	76.3%
Covered employee payroll.....	\$ 5,591,911	\$ 5,344,510
Net pension liability as a percentage of covered employee payroll.....	186.9%	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available. Certain amounts for FY14 were reclassified to conform to current year presentation.

See Independent Auditor's Report and notes to the schedule

## NOTES TO THE SERS SCHEDULE

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### **Changes in Benefit Terms:**

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (ERI) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS has increased by approximately \$230 million as of June 30, 2015.

### **Changes of assumptions:**

#### Change in the investment rate of return

The State Employees' Retirement System (SERS) investment rate of return contained in the January 1, 2015 Actuarial Valuation reflected a rate 7.75%, a decrease of 0.25% from the prior valuation. This decrease was based on the most recent Pension Reserve Investment Management (PRIM) study available which was released in early 2014 and the general trend of this assumption both in Massachusetts and nationally.

#### Change in mortality

The following mortality assumption changes were made in the January 1, 2015 Actuarial Valuation for SERS:

- Pre-retirement - was changed to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP-2000 Employees table projected 22 years with Scale AA.
- Post-retirement - was changed to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP-2000 Healthy Annuitant table projected 17 years with Scale AA.
- Disabled members - was changed to be assumed to be in accordance with RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct) from RP-2000 Healthy Annuitant table projected 7 years with Scale AA set forward 3 years for males.

See Independent Auditor's Report

**Schedule of Changes in the Massachusetts Teachers' Retirement  
System (MTRS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2015	2014
Total pension liability, July 1.....	\$ 41,435,000	\$ 39,931,000
Service cost.....	768,032	720,712
Interest.....	3,166,728	3,227,025
Differences between expected and actual experience.....	153,000	—
Changes of assumptions.....	1,890,000	108,000
Benefit payments, including refunds of member contributions.....	(2,684,049)	(2,551,737)
Net change in total pension liability.....	3,293,711	1,504,000
Total pension liability, June 30 (a).....	<u>\$ 44,728,711</u>	<u>\$ 41,435,000</u>
Plan fiduciary net position, July 1.....	\$ 25,538,646	\$ 22,697,302
Contributions:		
Non-employer.....	1,021,930	930,079
Plan members.....	669,941	653,328
Other additions.....	190,925	178,998
Total contributions.....	1,882,796	1,762,405
Net investment income.....	845,503	3,771,883
Benefit payments, including refunds of plan member contributions.....	(2,684,049)	(2,551,737)
Administrative expense.....	(23,444)	(20,499)
Other changes.....	(130,384)	(120,708)
Net change in plan fiduciary net position.....	(109,578)	2,841,344
Plan fiduciary net position, June 30 (b).....	<u>\$ 25,429,068</u>	<u>\$ 25,538,646</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 19,299,643</u>	<u>\$ 15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability.....	56.9%	61.6%
Covered employee payroll.....	\$ 6,204,274	\$ 5,962,650
Net pension liability as a percentage of covered employee payroll.....	311.1%	266.6%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available. Certain amounts for FY14 were reclassified to conform to current year presentation.

See Independent Auditor's Report and notes to the schedule

## NOTES TO THE MTRS SCHEDULE

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### Changes of assumptions:

#### Change in the investment rate of return

The Massachusetts Teachers' Retirement System (MTRS) investment rate of return contained in the January 1, 2015 Actuarial Valuation reflected a rate 7.75%, a decrease of 0.25% from the prior valuation. This decrease was based on the most recent Pension Reserve Investment Management (PRIM) study available which was released in early 2014 and the general trend of this assumption both in Massachusetts and nationally.

#### Change in mortality

The following mortality assumption changes were made in the January 1, 2015 Actuarial Valuation for SERS:

- Pre-retirement - was changed to RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct) from RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA.
- Post-retirement - was changed to RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct) from RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA.
- Disabled members - was changed to be assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years from RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 7 years with Scale AA set forward 3 years for males .

See Independent Auditor's Report

### Schedule of Investment Returns

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	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense - SERS.....	3.40%	17.13%
Annual money-weighted rate of return, net of investment expense - MTRS.....	3.40%	17.12%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

**Schedule of Proportionate Share of the Net Pension Liability and Contributions**

**State Employees' Retirement System**

Last 10 Years  
(amounts in thousands)

<b>Proportionate Share of the Net Pension Liability</b>	2015 (measurement date June 30, 2014)
Proportion of the net pension liability .....	93.9%
Proportionate share of the net pension liability .....	\$ 6,972,443
Plan net position as a percentage of the total pension liability .....	76.3%
Covered payroll .....	\$ 4,975,346
Net pension liability as a percentage of covered payroll .....	140.1%

	Fiscal Year Ending June 30	
	2015	2014
<b>Contributions</b>		
Statutorily required contribution .....	\$ 619,971	\$ 571,776
Contributions in relation to the statutorily required contribution .....	619,971	571,776
Annual contribution (deficiency)/excess.....	<u>\$ —</u>	<u>\$ —</u>
Covered payroll .....	\$ 5,133,767	\$ 4,975,346
Contributions as a percentage of covered payroll .....	12.1%	11.5%

The State Employees' Retirement System (SERS) is included in the CAFR as a pension trust fund in the fiduciary fund type. SERS is a defined-benefit multiple employer, cost-sharing public employee retirement system.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

**Schedule of Proportionate Share of the Net Pension Liability and Contributions**

**Massachusetts Teachers' Retirement System**

Last 10 Years  
(amounts in thousands)

<b>Proportionate Share of the Net Pension Liability</b>	2015 (measurement date June 30, 2014)
Proportion of the net pension liability .....	100.0%
Proportionate share of the net pension liability .....	\$ 15,896,354
Plan net position as a percentage of the total pension liability .....	61.6%

	Fiscal Year Ending June 30	
	2015	2014
<b>Contributions</b>		
Statutorily required contribution .....	\$ 1,021,930	\$ 930,079
Contributions in relation to the statutorily required contribution .....	1,021,930	930,079
Annual contribution (deficiency)/excess .....	<u>\$ —</u>	<u>\$ —</u>

The Massachusetts Teachers' Retirement System (MTRS) is included in the CAFR as a pension trust fund in the fiduciary fund type. MTRS is a defined-benefit multiple employer, cost-sharing public employee retirement system.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

**Schedule of Proportionate Share of the Net Pension Liability and Contributions**

**State Boston Retirement System - Teachers**

Last 10 Years  
(amounts in thousands)

<b>Proportionate Share of the Net Pension Liability</b>	<b>2015</b> (measurement date December 31, 2014)	
	Proportion of the net pension liability .....	53.7%
Proportionate share of the net pension liability .....	\$	2,066,546
Plan net position as a percentage of the total pension liability.....	59.6%	
	<b>Year Ending December 31</b>	
<b>Contributions</b>	2014	2013
Statutorily required contribution .....	\$ 109,485	\$ 99,532
Contributions in relation to the statutorily required contribution.....	109,485	99,532
Annual contribution (deficiency)/excess .....	<u>\$ —</u>	<u>\$ —</u>

\* - The State-Boston Retirement System (SBRS) is included in the City of Boston's CAFR. The Boston Teachers' portion of the SBRS total pension liability is reported in the Commonwealth's CAFR as a part of the total net pension liability.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule



**NOTES TO THE SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS**

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SERS and MTRS:

In accordance with Chapter 32 of the Massachusetts General Laws (MGL), the Commonwealth’s statutorily determined contributions to SERS and MTRS are based on a three-year funding schedule adopted by the legislature based upon the previous year’s actuarial valuation. The most recent funding schedule was adopted in January 2014 (for fiscal years 2015 through 2017) based upon the January 1, 2013 actuarial valuation as prepared by the Public Employee Retirement Administration Commission (PERAC) using the following assumptions:

1. The annual required contribution for FY2015 was determined as part of the January 1, 2013 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 8.00% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year.
3. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.
5. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased-in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc., so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
6. Normal costs are amortized using level percentage of payroll, closed.
7. The remaining amortization period for the unfunded pension liability at January 1, 2013 was 28 years to FY40.

SBRS-Teachers:

The actuarially determined contributions were calculated as of December 31, 2013. The funding requirements are established for the employers' fiscal year ended June 30, 2015 and later years and are analyzed based on the preceding two years' experience. The following actuarial methods and assumptions were used to determine the required contribution rates:

Actuarial cost method.....	Entry age normal cost method
Amortization method.....	Prior year's contribution increased by 10% for fiscal 2015, 2016 and 2017, and 7% per year thereafter for Boston Teachers
Remaining amortization period ...	22 years remaining as of January 1, 2014 for Boston Teachers
Asset valuation method .....	Sum of actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at end of year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.
Inflation .....	4.5%
Salary increases .....	Varies by length of service with ultimate rate of 4.00% for Boston Teachers
Investment rate of return .....	8.00% for Boston Teachers



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# *Other Supplementary Information*

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

## Combining Balance Sheet

### Other Governmental Funds

June 30, 2015

(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Massachusetts Tourism	Gaming Control
<b>ASSETS</b>							
Cash and short-term investments .....	\$ 428	\$ —	\$ 239,365	\$ 20,947	\$ 63,291	\$ 4,724	\$ 9,623
Cash with fiscal agent .....	13,903	—	—	—	—	—	—
Receivables, net of allowance for uncollectibles:							
Taxes .....	65,506	—	13,616	85	—	5,862	—
Due from federal government .....	—	291,033	—	2,009	—	—	—
Loans receivable .....	—	—	—	—	—	—	—
Other receivables .....	355	—	90,724	211	—	—	1,800
Due from other funds .....	—	—	—	—	—	—	—
<b>Total assets .....</b>	<b>\$ 80,192</b>	<b>\$ 291,033</b>	<b>\$ 343,705</b>	<b>\$ 23,252</b>	<b>\$ 63,291</b>	<b>\$ 10,586</b>	<b>\$ 11,423</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable .....	\$ 428	\$ 207,359	\$ 12,280	\$ 1,910	\$ 333	\$ 2,974	\$ 2,754
Accrued payroll .....	—	12,195	388	438	10	69	268
Compensated absences .....	—	—	—	—	—	9	—
Tax refunds and abatements payable .....	—	—	—	—	—	—	—
Due to other funds .....	—	36,251	—	—	—	—	—
Due to component units .....	11,315	—	28,586	—	—	—	—
Other accrued liabilities .....	—	—	30,525	—	—	—	—
<b>Total liabilities .....</b>	<b>11,743</b>	<b>255,805</b>	<b>71,779</b>	<b>2,348</b>	<b>343</b>	<b>3,052</b>	<b>3,022</b>
Deferred inflows of resources .....	—	—	17,921	—	—	—	—
<b>Total liabilities and deferred inflows of resources .....</b>	<b>11,743</b>	<b>255,805</b>	<b>89,700</b>	<b>2,348</b>	<b>343</b>	<b>3,052</b>	<b>3,022</b>
Fund balances:							
Nonspendable .....	—	—	—	—	—	—	—
Restricted .....	13,903	35,228	—	—	62,948	—	—
Committed .....	54,546	—	254,005	20,904	—	7,534	8,401
Unassigned (deficits) .....	—	—	—	—	—	—	—
<b>Fund balances (deficits) .....</b>	<b>68,449</b>	<b>35,228</b>	<b>254,005</b>	<b>20,904</b>	<b>62,948</b>	<b>7,534</b>	<b>8,401</b>
<b>Total liabilities and fund balances .....</b>	<b>\$ 80,192</b>	<b>\$ 291,033</b>	<b>\$ 343,705</b>	<b>\$ 23,252</b>	<b>\$ 63,291</b>	<b>\$ 10,586</b>	<b>\$ 11,423</b>

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Special Revenue								
Gaming Revenue	Gaming Licensing	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Health Information Technology Trust	
\$ —	\$ —	\$ 84,579	\$ 22,554	\$ 7,068	\$ 2,792	\$ 103,142	\$ 5,984	
—	—	—	—	—	—	—	—	
—	—	58,759	—	—	—	—	—	—
—	—	—	—	1,198	—	—	4,524	—
—	—	—	—	—	—	—	—	—
—	—	—	10,000	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<b>\$ —</b>	<b>\$ —</b>	<b>\$ 143,338</b>	<b>\$ 32,554</b>	<b>\$ 8,266</b>	<b>\$ 2,792</b>	<b>\$ 103,142</b>	<b>\$ 10,508</b>	
\$ —	\$ —	\$ 58,652	\$ 36,346	\$ 4,704	\$ 65	\$ 10,778	\$ 4,092	
—	—	—	23	11	312	184	218	
—	—	—	—	—	—	—	—	
—	—	294	—	—	—	—	—	
—	—	—	—	—	—	—	—	
—	—	84,392	—	—	—	—	—	
—	—	—	—	—	—	—	—	
—	—	<b>143,338</b>	<b>36,369</b>	<b>4,715</b>	<b>377</b>	<b>10,962</b>	<b>4,310</b>	
—	—	—	—	—	—	—	—	
—	—	<b>143,338</b>	<b>36,369</b>	<b>4,715</b>	<b>377</b>	<b>10,962</b>	<b>4,310</b>	
—	—	—	—	—	—	—	—	
—	—	—	—	—	—	—	—	
—	—	—	—	3,551	2,415	92,180	6,198	
—	—	—	(3,815)	—	—	—	—	
—	—	—	<b>(3,815)</b>	<b>3,551</b>	<b>2,415</b>	<b>92,180</b>	<b>6,198</b>	
<b>\$ —</b>	<b>\$ —</b>	<b>\$ 143,338</b>	<b>\$ 32,554</b>	<b>\$ 8,266</b>	<b>\$ 2,792</b>	<b>\$ 103,142</b>	<b>\$ 10,508</b>	

continued

## Combining Balance Sheet

### Other Governmental Funds

June 30, 2015

(Amounts in thousands)

	Special Revenue						
	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center	Grant Anticipation Note Trust	Debt Defeasance Trust
<b>ASSETS</b>							
Cash and short-term investments .....	\$ 36,080	\$ 32,929	\$ 22,848	\$ 5,039	\$ 51,774	\$ 2,965	\$ 113,200
Cash with fiscal agent.....	—	—	—	—	88,256	83,493	—
Receivables, net of allowance for uncollectibles:							
Taxes.....	—	5,408	—	—	15,300	—	—
Due from federal government .....	—	—	3,054	—	—	94,421	—
Loans receivable.....	—	—	—	—	—	—	—
Other receivables.....	—	—	3,553	7,420	—	—	—
Due from other funds .....	—	—	—	—	—	—	—
<b>Total assets .....</b>	<b>\$ 36,080</b>	<b>\$ 38,337</b>	<b>\$ 29,455</b>	<b>\$ 12,459</b>	<b>\$ 155,330</b>	<b>\$ 180,879</b>	<b>\$ 113,200</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable .....	\$ 2,277	\$ 36	\$ 4,491	\$ 59	\$ 21,474	\$ —	\$ —
Accrued payroll.....	67	11	704	—	—	—	—
Compensated absences.....	—	—	—	—	—	—	—
Tax refunds and abatements payable.....	—	46	—	—	—	—	—
Due to other funds .....	—	—	—	—	—	94,421	—
Due to component units.....	—	—	—	—	—	—	—
Other accrued liabilities.....	—	—	—	—	—	—	—
<b>Total liabilities.....</b>	<b>2,344</b>	<b>93</b>	<b>5,195</b>	<b>59</b>	<b>21,474</b>	<b>94,421</b>	<b>—</b>
Deferred inflows of resources .....	—	—	—	—	—	—	—
<b>Total liabilities and deferred inflows of resources.....</b>	<b>2,344</b>	<b>93</b>	<b>5,195</b>	<b>59</b>	<b>21,474</b>	<b>94,421</b>	<b>—</b>
Fund balances:							
Nonspendable .....	—	—	—	—	—	—	—
Restricted.....	—	—	24,260	—	—	86,458	—
Committed.....	33,736	38,244	—	12,400	133,856	—	113,200
Unassigned (deficits).....	—	—	—	—	—	—	—
<b>Fund balances (deficits) .....</b>	<b>33,736</b>	<b>38,244</b>	<b>24,260</b>	<b>12,400</b>	<b>133,856</b>	<b>86,458</b>	<b>113,200</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 36,080</b>	<b>\$ 38,337</b>	<b>\$ 29,455</b>	<b>\$ 12,459</b>	<b>\$ 155,330</b>	<b>\$ 180,879</b>	<b>\$ 113,200</b>

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Special Revenue			Capital Projects						
Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total	
\$ 614,401	\$ 126,362	\$ 8,417	\$ —	\$ 8,393	49,456	\$ —	\$ 10	\$ 1,636,371	
—	—	12,184	—	—	—	—	—	197,836	
—	—	—	—	—	—	—	—	164,536	
386	—	—	3,507	—	—	—	—	400,132	
914	1,404	—	—	—	—	—	—	2,318	
17,207	85	—	—	—	—	20	—	131,375	
—	—	—	—	—	—	94,421	—	94,421	
<b>\$ 632,908</b>	<b>\$ 127,851</b>	<b>\$ 20,601</b>	<b>\$ 3,507</b>	<b>\$ 8,393</b>	<b>49,456</b>	<b>\$ 94,441</b>	<b>\$ 10</b>	<b>\$ 2,626,989</b>	
\$ 44,502	\$ 22,047	\$ —	\$ 344,368	\$ —	\$ —	\$ —	\$ 507	\$ 782,436	
2,648	1,898	—	2,058	—	—	—	—	21,502	
—	—	—	—	—	—	—	—	9	
—	—	—	—	—	—	—	—	340	
—	—	—	40,885	—	—	6,423	—	177,980	
—	—	—	18,761	—	295,368	119,716	—	558,138	
—	—	—	—	—	—	—	—	30,525	
<b>47,150</b>	<b>23,945</b>	<b>—</b>	<b>406,072</b>	<b>—</b>	<b>295,368</b>	<b>126,139</b>	<b>507</b>	<b>1,570,930</b>	
—	—	—	—	—	—	—	—	17,921	
<b>47,150</b>	<b>23,945</b>	<b>—</b>	<b>406,072</b>	<b>—</b>	<b>295,368</b>	<b>126,139</b>	<b>507</b>	<b>1,588,851</b>	
914	1,404	—	—	—	—	—	—	2,318	
391,544	—	20,601	—	—	—	—	—	634,942	
193,300	137,535	—	—	8,393	—	—	—	1,120,398	
—	(35,033)	—	(402,565)	—	(245,912)	(31,698)	(497)	(719,520)	
<b>585,758</b>	<b>103,906</b>	<b>20,601</b>	<b>(402,565)</b>	<b>8,393</b>	<b>(245,912)</b>	<b>(31,698)</b>	<b>(497)</b>	<b>1,038,138</b>	
<b>\$ 632,908</b>	<b>\$ 127,851</b>	<b>\$ 20,601</b>	<b>\$ 3,507</b>	<b>\$ 8,393</b>	<b>\$ 49,456</b>	<b>\$ 94,441</b>	<b>\$ 10</b>	<b>\$ 2,626,989</b>	

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

Other Governmental Funds  
Fiscal Year Ended June 30, 2015  
(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Massachusetts Tourism	Gaming Control
<b>REVENUES</b>							
Taxes .....	\$ 1,266,547	\$ —	\$ 155,842	\$ 987	\$ —	\$ 53,365	\$ —
Assessments .....	21,052	—	399,832	—	—	—	—
Federal grants and reimbursements.....	—	3,582,892	—	9,369	99,470	—	—
Departmental.....	645,144	—	197,270	8,734	—	—	7,150
Miscellaneous.....	—	—	38,257	45	—	—	—
<b>Total revenues</b> .....	<b>1,932,743</b>	<b>3,582,892</b>	<b>791,201</b>	<b>19,135</b>	<b>99,470</b>	<b>53,365</b>	<b>7,150</b>
<b>OTHER FINANCING SOURCES</b>							
Bonds premium.....	—	—	—	—	—	—	—
Issuance of general and special obligation.....	—	—	—	—	—	—	—
Issuance of current refunding bonds.....	—	—	—	—	—	—	—
Issuance of advance refunding bonds.....	—	—	—	—	—	—	—
Transfers in for debt service.....	—	—	—	—	—	—	—
Transfers in.....	71,484	751	233,161	187	—	2,513	—
<b>Total other financing sources</b> .....	<b>71,484</b>	<b>751</b>	<b>233,161</b>	<b>187</b>	<b>—</b>	<b>2,513</b>	<b>—</b>
<b>Total revenues and other financing sources</b> .....	<b>2,004,227</b>	<b>3,583,643</b>	<b>1,024,362</b>	<b>19,322</b>	<b>99,470</b>	<b>55,878</b>	<b>7,150</b>
<b>EXPENDITURES</b>							
Current:							
Judiciary.....	—	965	—	—	—	—	—
Inspector General.....	—	—	460	—	—	—	—
Secretary of the Commonwealth.....	—	749	—	—	—	—	—
Treasurer and Receiver-General.....	—	1,111	—	—	—	—	—
Attorney General.....	—	11,368	—	—	—	—	399
District Attorney.....	—	1,497	—	—	—	—	—
Office campaign and political finance.....	—	—	—	—	—	—	—
Sheriff's Departments.....	—	4,040	—	—	—	—	—
Board of Library Commissioners.....	—	2,916	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	17,167
Comptroller.....	—	—	—	—	—	—	—
Administration and Finance.....	125,000	5,590	12,307	94	—	—	—
Energy and Environmental Affairs.....	—	48,968	—	16,805	—	—	—
Health and Human Services.....	—	1,721,841	29,142	—	25,087	—	127
Massachusetts Department of Transportation..	623,415	150	—	—	—	—	—
Executive Office of Education.....	—	991,992	—	—	—	—	—
Center for Health and Information Analysis...	—	789	355	—	—	—	—
Public Safety and Homeland Security.....	—	122,703	—	—	—	—	—
Housing and Economic Development.....	—	463,054	—	—	—	21,713	—
Labor and Workforce development.....	—	150,453	1,455	—	—	—	—
Medicaid.....	—	—	923,189	—	391	—	—
Capital outlay:							
Capital acquisition and construction.....	—	—	—	—	—	—	—
Debt service.....	—	—	—	—	—	—	—
Principal on current refundings.....	—	—	—	—	—	—	—
<b>Total expenditures</b> .....	<b>748,415</b>	<b>3,528,186</b>	<b>966,908</b>	<b>16,899</b>	<b>25,478</b>	<b>21,713</b>	<b>17,693</b>
<b>OTHER FINANCING USES</b>							
Payments to refunding bond escrow agent.....	—	—	—	—	—	—	—
Transfers out.....	66,346	99,081	56,245	2,369	11,044	31,893	2,844
Transfers of appropriations.....	—	—	—	—	—	—	—
Transfers of bond proceeds.....	—	—	—	—	—	—	—
Transfers out for debt service.....	1,196,296	—	—	—	—	—	—
<b>Total other financing uses</b> .....	<b>1,262,642</b>	<b>99,081</b>	<b>56,245</b>	<b>2,369</b>	<b>11,044</b>	<b>31,893</b>	<b>2,844</b>
<b>Total expenditures and other financing uses</b> .....	<b>2,011,057</b>	<b>3,627,267</b>	<b>1,023,153</b>	<b>19,268</b>	<b>36,522</b>	<b>53,606</b>	<b>20,537</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b> .....	<b>(6,830)</b>	<b>(43,624)</b>	<b>1,209</b>	<b>54</b>	<b>62,948</b>	<b>2,272</b>	<b>(13,387)</b>
Fund balances (deficits) at beginning of year.....	75,279	78,852	252,796	20,850	—	5,262	21,788
<b>Fund balances (deficits) at end of year</b> .....	<b>\$ 68,449</b>	<b>\$ 35,228</b>	<b>\$ 254,005</b>	<b>\$ 20,904</b>	<b>\$ 62,948</b>	<b>\$ 7,534</b>	<b>\$ 8,401</b>

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Special Revenue							
Gaming Revenue	Gaming Licensing	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Health Information Technology Trust
\$ 1,961	\$ —	\$ 974,208	\$ 23,608	\$ —	\$ —	\$ —	\$ —
—	—	160,136	—	—	—	—	—
—	—	—	—	9,692	—	—	39,812
—	170,000	—	—	—	9,976	75,701	—
—	—	—	—	—	—	95	—
<b>1,961</b>	<b>170,000</b>	<b>1,134,344</b>	<b>23,608</b>	<b>9,692</b>	<b>9,976</b>	<b>75,796</b>	<b>39,812</b>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	11,390	—	—	—	8,153
—	—	—	<b>11,390</b>	—	—	—	<b>8,153</b>
<b>1,961</b>	<b>170,000</b>	<b>1,134,344</b>	<b>34,998</b>	<b>9,692</b>	<b>9,976</b>	<b>75,796</b>	<b>47,965</b>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	1,134,344	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	3,833	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	37,919	—	—	886	—
—	—	—	—	—	—	—	—
—	—	—	—	14,134	—	59	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	80,084	—
—	—	—	—	—	8,194	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	47,353
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	<b>1,134,344</b>	<b>37,919</b>	<b>14,134</b>	<b>8,194</b>	<b>84,862</b>	<b>47,353</b>
—	—	—	—	—	—	—	—
1,961	171,838	—	50	545	1,897	3,923	416
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<b>1,961</b>	<b>171,838</b>	<b>—</b>	<b>50</b>	<b>545</b>	<b>1,897</b>	<b>3,923</b>	<b>416</b>
<b>1,961</b>	<b>171,838</b>	<b>1,134,344</b>	<b>37,969</b>	<b>14,679</b>	<b>10,091</b>	<b>88,785</b>	<b>47,769</b>
—	(1,838)	—	(2,971)	(4,987)	(115)	(12,989)	196
—	1,838	—	(844)	8,538	2,530	105,169	6,002
<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (3,815)</b>	<b>\$ 3,551</b>	<b>\$ 2,415</b>	<b>\$ 92,180</b>	<b>\$ 6,198</b>

continued

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

Other Governmental Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Special Revenue						
	Regional Greenhouse Gas Initiative (RGGI) Auction	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center	Grant Anticipation Note Trust	Debt Defeasance Trust
<b>REVENUES</b>							
Taxes.....	\$ —	\$ 22,929	\$ —	\$ —	\$ 124,052	\$ —	\$ —
Assessments.....	—	—	—	2,706	—	—	—
Federal grants and reimbursements.....	—	—	33,170	—	—	510,855	—
Departmental.....	60,703	—	5,168	6,543	—	—	—
Miscellaneous.....	—	—	62	5	1,677	806	—
<b>Total revenues.....</b>	<b>60,703</b>	<b>22,929</b>	<b>38,400</b>	<b>9,254</b>	<b>125,729</b>	<b>511,661</b>	<b>—</b>
<b>OTHER FINANCING SOURCES</b>							
Bonds premium.....	—	—	—	—	—	—	—
Issuance of general and special obligation bonds...	—	—	—	—	—	—	—
Issuance of current refunding bonds.....	—	—	—	—	—	—	—
Issuance of advance refunding bonds.....	—	—	—	—	—	—	—
Transfers in for debt service.....	—	—	—	—	—	—	—
Transfers in.....	—	—	—	—	—	32,087	113,200
<b>Total other financing sources.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>32,087</b>	<b>113,200</b>
<b>Total revenues and other financing sources...</b>	<b>60,703</b>	<b>22,929</b>	<b>38,400</b>	<b>9,254</b>	<b>125,729</b>	<b>543,748</b>	<b>113,200</b>
<b>EXPENDITURES</b>							
Current:							
Judiciary.....	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	285	—	—	675	—
Attorney General.....	—	—	—	—	—	—	—
District Attorney.....	—	—	215	—	—	—	—
Office campaign and political finance.....	—	—	—	—	—	—	—
Sheriff's Departments.....	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—
Comptroller.....	—	—	—	—	—	—	—
Administration and Finance.....	—	—	51,647	—	53,474	—	—
Energy and Environmental Affairs.....	67,629	—	—	—	—	—	—
Health and Human Services.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—
Executive Office of Education.....	—	—	—	—	—	—	—
Center for Health and Information Analysis.....	—	—	—	—	—	—	—
Public Safety and Homeland Security.....	—	—	—	—	—	—	—
Housing and Economic Development.....	—	—	—	—	—	—	—
Labor and Workforce development.....	—	15,151	—	245	—	—	—
Medicaid.....	—	—	—	—	—	—	—
Capital outlay:							
Capital acquisition and construction.....	—	—	—	—	—	—	—
Debt service.....	—	—	—	—	—	—	—
Principal on current refundings.....	—	—	—	—	—	—	—
<b>Total expenditures.....</b>	<b>67,629</b>	<b>15,151</b>	<b>52,147</b>	<b>245</b>	<b>53,474</b>	<b>675</b>	<b>—</b>
<b>OTHER FINANCING USES</b>							
Payments to refunding bond escrow agent.....	—	—	—	—	—	—	—
Transfers out.....	—	104	3,126	22,381	—	468,040	—
Transfers of appropriations.....	—	—	—	—	—	—	—
Transfers of bond proceeds.....	—	—	—	—	—	—	—
Transfers out for debt service.....	—	—	—	—	56,110	207,458	—
<b>Total other financing uses.....</b>	<b>—</b>	<b>104</b>	<b>3,126</b>	<b>22,381</b>	<b>56,110</b>	<b>675,498</b>	<b>—</b>
<b>Total expenditures and other financing uses..</b>	<b>67,629</b>	<b>15,255</b>	<b>55,273</b>	<b>22,626</b>	<b>109,584</b>	<b>676,173</b>	<b>—</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(6,926)</b>	<b>7,674</b>	<b>(16,873)</b>	<b>(13,372)</b>	<b>16,145</b>	<b>(132,425)</b>	<b>113,200</b>
Fund balances (deficits) at beginning of year.....	40,662	30,570	41,133	25,772	117,711	218,883	—
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 33,736</b>	<b>\$ 38,244</b>	<b>\$ 24,260</b>	<b>\$ 12,400</b>	<b>\$ 133,856</b>	<b>\$ 86,458</b>	<b>\$ 113,200</b>

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Special Revenue			Capital Projects					Total
Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	
\$ —	\$ 1,383	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,624,882
19,885	19,726	—	—	—	—	—	—	623,337
21,792	1,053	46,625	80,237	—	—	1,238	—	4,436,205
69,440	61,998	—	—	—	—	753	—	1,318,580
508,571	4,004	233	—	—	345	—	—	554,100
<b>619,688</b>	<b>88,164</b>	<b>46,858</b>	<b>80,237</b>	<b>—</b>	<b>345</b>	<b>1,991</b>	<b>—</b>	<b>9,557,104</b>
—	—	75,046	156,244	—	143,734	—	3	375,027
—	—	—	1,430,559	—	1,486,850	—	1,408	2,918,817
—	—	202,895	—	—	—	—	—	202,895
—	—	429,445	—	—	—	—	—	429,445
—	—	2,453,728	—	—	—	—	—	2,453,728
17,289	133,367	—	—	—	—	523,449	—	1,147,031
<b>17,289</b>	<b>133,367</b>	<b>3,161,114</b>	<b>1,586,803</b>	<b>—</b>	<b>1,630,584</b>	<b>523,449</b>	<b>1,411</b>	<b>7,526,943</b>
<b>636,977</b>	<b>221,531</b>	<b>3,207,972</b>	<b>1,667,040</b>	<b>—</b>	<b>1,630,929</b>	<b>525,440</b>	<b>1,411</b>	<b>17,084,047</b>
447	2	—	—	—	—	—	—	1,414
—	—	—	—	—	—	—	—	460
1	4,678	—	—	—	—	—	—	5,428
110,346	—	—	8,229	—	6,393	—	—	1,261,383
7,374	536	—	—	—	—	—	—	19,677
8,023	118	—	—	—	—	—	—	9,853
—	1,055	—	—	—	—	—	—	1,055
3,327	578	—	—	—	—	—	—	11,778
—	—	—	—	—	—	—	—	2,916
1,490	3,905	—	—	—	—	—	—	22,562
416	1,574	—	—	—	—	—	—	1,990
24,254	24,904	—	—	—	—	—	—	336,075
48,059	24,679	—	—	—	—	—	—	206,140
104,976	20,266	—	—	—	—	—	—	1,915,632
—	—	—	126,343	—	1,310,993	549,718	—	2,610,619
13,458	2,975	—	—	—	—	—	—	1,008,425
693	—	—	—	—	—	—	—	1,837
7,571	7,596	—	—	—	—	—	—	217,954
18,806	11,128	—	—	—	—	—	—	522,895
66,531	3,676	—	—	—	—	—	—	237,511
—	—	—	—	—	—	—	—	970,933
—	—	—	1,182,872	—	19,895	588	1,743	1,205,098
—	—	2,500,305	—	—	—	—	—	2,500,305
—	—	202,895	—	—	—	—	—	202,895
<b>415,772</b>	<b>107,670</b>	<b>2,703,200</b>	<b>1,317,444</b>	<b>—</b>	<b>1,337,281</b>	<b>550,306</b>	<b>1,743</b>	<b>13,274,835</b>
—	—	504,491	—	—	—	—	—	504,491
108,275	100,134	—	12,609	—	55,494	18	—	1,220,633
3,807	—	—	—	—	—	—	—	3,807
—	—	—	182,783	—	—	—	—	182,783
—	8,261	—	—	—	—	—	—	1,468,125
<b>112,082</b>	<b>108,395</b>	<b>504,491</b>	<b>195,392</b>	<b>—</b>	<b>55,494</b>	<b>18</b>	<b>—</b>	<b>3,379,839</b>
<b>527,854</b>	<b>216,065</b>	<b>3,207,691</b>	<b>1,512,836</b>	<b>—</b>	<b>1,392,775</b>	<b>550,324</b>	<b>1,743</b>	<b>16,654,674</b>
109,123	5,466	281	154,204	—	238,154	(24,884)	(332)	429,373
476,635	98,440	20,320	(556,769)	8,393	(484,066)	(6,814)	(165)	608,765
<b>\$ 585,758</b>	<b>\$ 103,906</b>	<b>\$ 20,601</b>	<b>\$ (402,565)</b>	<b>\$ 8,393</b>	<b>\$ (245,912)</b>	<b>\$ (31,698)</b>	<b>\$ (497)</b>	<b>\$ 1,038,138</b>

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

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes .....	\$ 1,296,700	\$ 1,296,700	\$1,265,166	\$ (31,534)	\$ 1,000	\$ 1,000	\$ 986	\$ (14)
Assessments .....	23,578	23,578	22,178	(1,400)	—	—	—	—
Federal grants and reimbursements .....	—	—	—	—	5,600	5,600	8,095	2,495
Departmental .....	652,570	652,570	645,810	(6,760)	8,746	8,746	8,723	(23)
Miscellaneous .....	—	—	225	225	32	32	45	13
Total revenues .....	1,972,848	1,972,848	1,933,379	(39,469)	15,378	15,378	17,849	2,471
Other financing sources:								
Operating transfers in .....	75,000	75,000	—	(75,000)	130	130	187	57
Other fund deficit support .....	—	—	71,485	71,485	—	—	—	—
Total other financing sources .....	75,000	75,000	71,485	(3,515)	130	130	187	57
Total revenues and other financing sources .....	2,047,848	2,047,848	2,004,864	(42,984)	15,508	15,508	18,036	2,528
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Treasurer and Receiver-General .....	200,495	—	—	—	—	—	—	—
Administration and Finance .....	—	—	—	—	126	125	94	32
Energy and Environmental Affairs .....	—	—	—	—	17,520	17,520	16,805	715
Massachusetts Department of Transportation .....	122,553	122,553	122,553	—	—	—	—	—
Housing and Economic Development .....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement .....	—	748,804	735,408	13,396	—	—	—	—
Interest and fiscal charges .....	—	486,315	460,888	25,427	—	—	—	—
Total expenditures .....	323,048	1,357,672	1,318,849	38,823	17,646	17,645	16,899	747
Other financing uses:								
Fringe benefit cost assessment .....	—	—	—	—	1,939	1,939	2,369	(430)
Operating transfers out .....	463,631	660,155	655,328	4,827	—	—	—	—
Stabilization transfer .....	—	—	—	—	—	—	—	—
State Retiree Benefits transfer .....	—	—	31,168	(31,168)	—	—	—	—
Other fund deficit support .....	—	—	—	—	—	—	—	—
Total other financing uses .....	463,631	660,155	686,496	(26,341)	1,939	1,939	2,369	(430)
Total expenditures and other financing uses .....	786,679	2,017,827	2,005,345	12,482	19,585	19,584	19,268	317
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses .....	1,261,169	30,021	(481)	(30,502)	(4,077)	(4,076)	(1,232)	2,211
Fund balances/(deficit) at beginning of year .....	14,384	14,384	14,384	—	19,832	19,832	19,832	—
Fund balances/(deficit) at end of year .....	\$ 1,275,553	\$ 44,405	\$ 13,903	\$ (30,502)	\$ 15,755	\$ 15,756	\$ 18,600	\$ 2,211

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Community First Trust Fund				Massachusetts Tourism Fund				Totals			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ —	\$ —	\$ —	\$ —	\$ 49,600	\$ 49,600	\$ 52,745	\$ 3,145	\$ 1,347,300	\$ 1,347,300	\$ 1,318,897	\$ (28,403)
—	—	—	—	—	—	—	—	23,578	23,578	22,178	(1,400)
—	—	83,470	83,470	—	—	—	—	5,600	5,600	91,565	85,965
—	—	—	—	—	—	—	—	661,316	661,316	654,533	(6,783)
—	—	—	—	—	—	—	—	32	32	270	238
—	—	83,470	83,470	49,600	49,600	52,745	3,145	2,037,826	2,037,826	2,087,443	49,617
—	—	—	—	1,690	1,690	2,513	823	76,820	76,820	2,700	(74,120)
—	—	—	—	—	—	—	—	—	—	71,485	71,485
—	—	—	—	1,690	1,690	2,513	823	76,820	76,820	74,185	(2,635)
—	—	83,470	83,470	51,290	51,290	55,258	3,968	2,114,646	2,114,646	2,161,628	46,982
—	—	—	—	—	—	—	—	200,495	—	—	—
—	—	—	—	—	—	—	—	126	125	94	32
—	—	—	—	—	—	—	—	17,520	17,520	16,805	715
—	—	—	—	—	—	—	—	122,553	122,553	122,553	—
—	—	—	—	22,885	23,385	21,704	1,681	22,885	23,385	21,704	1,681
—	—	—	—	—	—	—	—	—	748,804	735,408	13,396
—	—	—	—	—	—	—	—	—	486,315	460,888	25,427
—	—	—	—	22,885	23,385	21,704	1,681	363,579	1,398,702	1,357,452	41,251
—	—	—	—	—	356	494	(138)	1,939	2,295	2,863	(568)
—	—	11,037	(11,037)	—	—	—	—	463,631	660,155	666,365	(6,210)
—	—	—	—	—	—	19,337	(19,337)	—	—	19,337	(19,337)
—	—	—	—	—	—	—	—	—	—	31,168	(31,168)
—	—	—	—	—	—	12,062	(12,062)	—	—	12,062	(12,062)
—	—	11,037	(11,037)	—	356	31,893	(31,537)	465,570	662,450	731,795	(69,345)
—	—	11,037	(11,037)	22,885	23,741	53,597	(29,856)	829,149	2,061,152	2,089,247	(28,094)
—	—	72,433	94,507	28,405	27,549	1,661	(25,888)	1,285,497	53,494	72,381	40,328
—	—	—	—	20	20	20	—	34,236	34,236	34,236	—
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 72,433</u>	<u>\$ 94,507</u>	<u>\$ 28,425</u>	<u>\$ 27,569</u>	<u>\$ 1,681</u>	<u>\$ (25,888)</u>	<u>\$ 1,319,733</u>	<u>\$ 87,730</u>	<u>\$ 106,617</u>	<u>\$ 40,328</u>

**Combining Budget to GAAP Reconciliation**  
**Other Budgeted Nonmajor Governmental Funds**

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Massachusetts Tourism Fund
Total actual revenues - budgetary basis (pages 154-155).....	\$ 1,933,379	\$ 17,849	\$ 52,745
Adjustments:			
Taxes receivable, net .....	1,381	1	620
Tax refunds and abatements payable, net.....	(1,126)	—	—
Federal grants and other receivables, net .....	(891)	1,285	—
Nonbudgeted fund included on a GAAP basis.....	—	—	—
Total actual revenues - GAAP basis (pages 150-153).....	<u>\$ 1,932,743</u>	<u>\$ 19,135</u>	<u>\$ 53,365</u>
Total actual other financing sources - budgetary basis (pages 154-155).....	\$ 71,485	\$ 187	\$ 2,513
Adjustments:			
Miscellaneous adjustments.....	(1)	—	—
Total actual other financing sources - GAAP basis (pages 150-153).....	<u>\$ 71,484</u>	<u>\$ 187</u>	<u>\$ 2,513</u>
Total actual expenditures- budgetary basis (pages 154-155).....	\$ 1,318,849	\$ 16,899	\$ 21,704
Adjustment:			
Due to component units accrual, net .....	5,712	—	—
Reclassification:			
Compensated absences .....	—	—	9
MassDOT transfers out is reclassified to expenditures .....	620,150	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund .....	(1,196,296)	—	—
Nonbudgeted fund included on a GAAP basis.....	—	—	—
Expenditures reported in the Community First Trust Fund on a GAAP basis.....	—	—	—
Total actual expenditures - GAAP basis (pages 150-153).....	<u>\$ 748,415</u>	<u>\$ 16,899</u>	<u>\$ 21,713</u>
Total actual other financing uses - budgetary basis (pages 154-155).....	\$ 686,496	\$ 2,369	\$ 31,893
Reclassification:			
MassDOT transfers out is reclassified to expenditures .....	(620,150)	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund .....	1,196,296	—	—
Nonbudgeted fund included on a GAAP basis.....	—	—	—
Total actual other financing uses - GAAP basis (pages 150-153).....	<u>\$ 1,262,642</u>	<u>\$ 2,369</u>	<u>\$ 31,893</u>

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Community First Trust Fund	Totals
\$ 83,470	\$ 2,087,443
—	2,002
—	(1,126)
—	394
16,000	16,000
<u>\$ 99,470</u>	<u>\$ 2,104,713</u>
\$ —	\$ 74,185
—	(1)
<u>\$ —</u>	<u>\$ 74,184</u>
\$ —	\$ 1,357,452
—	5,712
—	9
—	620,150
—	(1,196,296)
391	391
25,087	25,087
<u>\$ 25,478</u>	<u>\$ 812,505</u>
\$ 11,037	\$ 731,795
—	(620,150)
—	1,196,296
7	7
<u>\$ 11,044</u>	<u>\$ 1,307,948</u>

**Combining Statement of Net Position Available for Post-Employment Benefits**

Pension Trust Funds

June 30, 2015

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 55,281	\$ 92,839	\$ 116,589	\$ 264,709
Net investment in PRIT at fair value .....	23,980,187	25,241,023	700,647	49,921,857
Other receivables .....	10,480	89,666	—	100,146
Other assets .....	20	15,475	—	15,495
<b>Total assets</b> .....	<b>24,045,968</b>	<b>25,439,003</b>	<b>817,236</b>	<b>50,302,207</b>
<b>LIABILITIES</b>				
Accounts payable .....	3,383	9,935	42,223	55,541
<b>Net position available for post-employment benefits</b> .....	<b>\$ 24,042,585</b>	<b>\$ 25,429,068</b>	<b>\$ 775,013</b>	<b>\$ 50,246,666</b>

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## Combining Statement of Changes in Net Position Available for Post-Employment Benefits

### Pension Trust Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
<b>ADDITIONS</b>				
Contributions:				
Employer contributions - Commonwealth and MassDOT .....	\$ 606,376	\$ —	\$ 494,113	\$ 1,100,489
Non-employer contributions - Commonwealth .....	13,595	1,021,930	—	1,035,525
Employer and non-employer contributions - other .....	15,808	—	—	15,808
Employee contributions .....	549,493	669,941	—	1,219,434
Boston teachers' contribution from Commonwealth .....	—	109,485	—	109,485
Other additions .....	92,503	81,440	75,790	249,733
<b>Total contributions .....</b>	<b>1,277,775</b>	<b>1,882,796</b>	<b>569,903</b>	<b>3,730,474</b>
Net investment gain/(loss):				
Investment gain/(loss) .....	926,560	978,081	25,174	1,929,815
Less: investment expense .....	(125,674)	(132,578)	(3,570)	(261,822)
<b>Net Investment gain/(loss) .....</b>	<b>800,886</b>	<b>845,503</b>	<b>21,604</b>	<b>1,667,993</b>
<b>Total additions .....</b>	<b>2,078,661</b>	<b>2,728,299</b>	<b>591,507</b>	<b>5,398,467</b>
<b>DEDUCTIONS</b>				
Administration .....	15,966	23,444	186	39,596
Retirement benefits and refunds .....	1,876,451	2,684,049	421,377	4,981,877
Payments to State Boston Retirement System .....	—	109,485	—	109,485
Other deductions .....	74,554	20,899	—	95,453
<b>Total deductions .....</b>	<b>1,966,971</b>	<b>2,837,877</b>	<b>421,563</b>	<b>5,226,411</b>
<b>Net increase/(decrease) .....</b>	<b>111,690</b>	<b>(109,578)</b>	<b>169,944</b>	<b>172,056</b>
Net position available for post-employment benefits at beginning of year .....	23,930,895	25,538,646	605,069	50,074,610
<b>Net position available for post-employment benefits at end of year .....</b>	<b>\$ 24,042,585</b>	<b>\$ 25,429,068</b>	<b>\$ 775,013</b>	<b>\$ 50,246,666</b>

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**Combining Statement of Net Position Held in Trust for Pool Participants**

External Investment Trust Funds

June 30, 2015

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ASSETS</b>			
Assets held in trust for pension benefits:			
Net investment in PRIT at fair value.....	\$ —	\$ 11,321,888	\$ 11,321,888
Assets held in trust for pool participants:			
Cash and short-term investments .....	2,386,707	—	2,386,707
<b>Total assets .....</b>	<b>2,386,707</b>	<b>11,321,888</b>	<b>13,708,595</b>
<b>LIABILITIES</b>			
Accounts payable .....	—	—	—
<b>Net position held in trust for pool/pension participants .....</b>	<b>\$ 2,386,707</b>	<b>\$ 11,321,888</b>	<b>\$ 13,708,595</b>

See Independent Auditor's Report

**Combining Statement of Changes in Net Position Held in Trust for Pool Participants**  
**External Investment Trust Funds**  
**Fiscal Year Ended June 30, 2015**  
**(Amounts in thousands)**

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ADDITIONS</b>			
Contributions:			
Other participant contributions.....	\$ —	\$ 802,252	\$ 802,252
Proceeds from sale of units .....	17,882,621	—	17,882,621
<b>Total contributions .....</b>	<b>17,882,621</b>	<b>802,252</b>	<b>18,684,873</b>
Net investment gain/(loss):			
Investment gain/(loss) .....	5,828	441,402	447,230
Less: investment expense .....	(1,194)	(76,855)	(78,049)
<b>Net Investment gain/(loss).....</b>	<b>4,634</b>	<b>364,547</b>	<b>369,181</b>
<b>Total additions .....</b>	<b>17,887,255</b>	<b>1,166,799</b>	<b>19,054,054</b>
<b>DEDUCTIONS</b>			
Cost of units redeemed .....	18,243,698	—	18,243,698
Distributions to unit holders from net interest income .....	4,798	—	4,798
Retirement benefits and refunds .....	—	768,507	768,507
<b>Total deductions .....</b>	<b>18,248,496</b>	<b>768,507</b>	<b>19,017,003</b>
<b>Net increase/(decrease).....</b>	<b>(361,241)</b>	<b>398,292</b>	<b>37,051</b>
Net position held in trust for pool/participants at beginning of year.....	2,747,948	10,923,596	13,671,544
<b>Net position held in trust for pool/participants at end of year .....</b>	<b>\$ 2,386,707</b>	<b>\$ 11,321,888</b>	<b>13,708,595</b>

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**Combining Statement of Changes in Assets and Liabilities**

Agency Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 406,996	\$ 10,158,944	\$ (10,241,804)	\$ 324,136
Investments, restricted investments and annuity contracts .....	1,370,277	180,657	(307,934)	1,243,000
Taxes receivable.....	2,183	2,012	(2,183)	2,012
Other receivables .....	12,927	6,559	(12,927)	6,559
<b>Total assets .....</b>	<b>\$ 1,792,383</b>	<b>\$ 10,348,172</b>	<b>\$ (10,564,848)</b>	<b>\$ 1,575,707</b>
<b>LIABILITES</b>				
Accounts payable .....	\$ 130,657	\$ 4,033,003	\$ (4,097,616)	\$ 66,044
Due to cities and towns .....	33,065	555,922	(546,804)	42,183
Due to federal government.....	—	61	(61)	—
Lottery prizes payable.....	1,370,277	180,657	(307,934)	1,243,000
Agency liabilities .....	252,027	4,251,628	(4,279,175)	224,480
Other liabilities.....	6,357	—	(6,357)	—
<b>Total liabilities .....</b>	<b>\$ 1,792,383</b>	<b>\$ 9,021,271</b>	<b>\$ (9,237,947)</b>	<b>\$ 1,575,707</b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 158,926	\$ 1,495,203	\$ (1,481,682)	\$ 172,447
Other receivables .....	121,565	121,279	(121,565)	121,279
<b>Total assets .....</b>	<b>\$ 280,491</b>	<b>\$ 1,616,482</b>	<b>\$ (1,603,247)</b>	<b>\$ 293,726</b>
<b>LIABILITES</b>				
Accounts payable .....	\$ 242	\$ 1,909,687	\$ (1,909,776)	\$ 153
Agency liabilities .....	280,249	932,358	(919,034)	293,573
<b>Total liabilities .....</b>	<b>\$ 280,491</b>	<b>\$ 2,842,045</b>	<b>\$ (2,828,810)</b>	<b>\$ 293,726</b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 113,677	\$ 632,891	\$ (645,716)	\$ 100,852
Investments, restricted investments and annuity contracts .....	590,354	5,451	(18,943)	576,862
<b>Total assets .....</b>	<b>\$ 704,031</b>	<b>\$ 638,342</b>	<b>\$ (664,659)</b>	<b>\$ 677,714</b>
<b>LIABILITES</b>				
Agency liabilities .....	\$ 704,031	\$ 592,976	\$ (619,293)	\$ 677,714

See Independent Auditor's Report

## Combining Statement Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments .....	\$ 679,599	\$ 12,287,038	\$ (12,369,202)	\$ 597,435
Investments, restricted investments and annuity contracts .....	1,960,631	186,108	(326,877)	1,819,862
Taxes receivable.....	2,183	2,012	(2,183)	2,012
Other receivables .....	134,492	127,838	(134,492)	127,838
<b>Total assets .....</b>	<b><u>\$ 2,776,905</u></b>	<b><u>\$ 12,602,996</u></b>	<b><u>\$ (12,832,754)</u></b>	<b><u>\$ 2,547,147</u></b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 130,899	\$ 5,942,690	\$ (6,007,392)	\$ 66,197
Due to cities and towns .....	33,065	555,922	(546,804)	42,183
Due to federal government.....	—	61	(61)	—
Lottery prizes payable.....	1,370,277	180,657	(307,934)	1,243,000
Agency liabilities .....	1,236,307	5,776,962	(5,817,502)	1,195,767
Other liabilities.....	6,357	—	(6,357)	—
<b>Total liabilities .....</b>	<b><u>\$ 2,776,905</u></b>	<b><u>\$ 12,456,292</u></b>	<b><u>\$ (12,686,050)</u></b>	<b><u>\$ 2,547,147</u></b>

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## Combining Statement of Net Position

### Nonmajor Component Units

June 30, 2015

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>								
Current assets:								
Cash and cash equivalents .....	\$ 24,477	\$ 17,958	\$ 18,177	\$ 220	\$ 16,161	\$ 67,220	\$ 22,034	\$ 166,247
Short-term investments .....	—	125,125	—	44,953	—	3,252	71,926	245,256
Restricted cash and investment .....	619	28,675	—	—	58,353	88,437	1,974	178,058
Assets held in trust .....	—	—	146,376	—	—	—	—	146,376
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable .....	—	—	—	—	—	94	—	94
Loans .....	332	20,899	2,196	—	16,845	10,356	—	50,628
Other receivables .....	4,623	14,346	2,955	588	2,157	6,479	7,566	38,714
Due from primary government .....	21,715	659	—	3,131	—	53,655	224	79,384
Inventory .....	—	59	—	—	—	59	—	118
Other current assets .....	1,654	1,229	546	455	—	1,553	1,175	6,612
<b>Total current assets .....</b>	<b>53,420</b>	<b>208,950</b>	<b>170,250</b>	<b>49,347</b>	<b>93,516</b>	<b>231,105</b>	<b>104,899</b>	<b>911,487</b>
Noncurrent assets:								
Cash and cash equivalents - restricted .....	—	13,534	79,707	4,470	—	—	2,018	99,729
Long - term investments .....	—	103,503	10,587	—	—	1,728	590,150	705,968
Restricted investment .....	—	—	122,885	—	—	—	42,507	165,392
Accounts receivables, net .....	—	—	—	—	—	702	7,930	8,632
Loans receivables, net .....	16,763	75,147	—	—	475,600	39,687	—	607,197
Non-depreciable capital assets .....	207,521	14,999	92,545	342	—	—	15,083	330,490
Depreciable capital assets, net .....	602,187	92,074	29,581	84,733	—	12,033	28,533	849,141
Other noncurrent assets .....	—	7,603	—	—	1,076	746	580	10,005
<b>Total noncurrent assets .....</b>	<b>826,471</b>	<b>306,860</b>	<b>335,305</b>	<b>89,545</b>	<b>476,676</b>	<b>54,896</b>	<b>686,801</b>	<b>2,776,554</b>
Deferred outflows of resources:								
Deferred outflows related to pension .....	2,152	—	—	—	—	—	—	2,152
<b>Total assets and deferred outflows .....</b>	<b>882,043</b>	<b>515,810</b>	<b>505,555</b>	<b>138,892</b>	<b>570,192</b>	<b>286,001</b>	<b>791,700</b>	<b>3,690,193</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>								
Current liabilities:								
Accounts payable and other liabilities .....	18,501	7,396	7,694	11,109	877	61,465	32,893	139,935
Accrued payroll .....	—	—	—	—	875	480	—	1,355
Compensated absences .....	1,184	947	—	—	—	603	—	2,734
Accrued interest payable .....	—	—	—	—	1,571	—	18	1,589
Due to primary government .....	—	488	—	—	—	—	383	871
Unearned revenue .....	11,207	—	150,058	—	—	28,832	1,758	191,855
Capital lease .....	—	—	—	—	—	—	142	142
Bonds, notes payable and other obligations .....	—	355	—	—	12,367	3,863	1,061	17,646
<b>Total current liabilities .....</b>	<b>30,892</b>	<b>9,186</b>	<b>157,752</b>	<b>11,109</b>	<b>15,690</b>	<b>95,243</b>	<b>36,255</b>	<b>356,127</b>
Noncurrent liabilities:								
Compensated absences .....	1,470	—	—	—	—	111	—	1,581
Accrued interest payable .....	—	289	—	—	—	—	—	289
Due to primary government .....	—	9,508	—	—	—	—	—	9,508
Unearned revenue .....	—	6,641	—	—	31,843	238	—	38,722
Bonds, notes payable and other obligations .....	—	6,753	—	—	459,887	59,626	13,708	539,974
Net pension liability .....	24,824	—	—	—	—	—	—	24,824
Net OPEB liability .....	7,724	—	—	—	—	—	—	7,724
Other noncurrent liabilities .....	6,179	6,207	—	—	14,355	872	3,677	31,290
<b>Total noncurrent liabilities .....</b>	<b>40,197</b>	<b>29,398</b>	<b>—</b>	<b>—</b>	<b>506,085</b>	<b>60,847</b>	<b>17,385</b>	<b>653,912</b>
Deferred inflows of resources:								
Deferred inflows related to pension .....	5,095	—	—	—	—	—	—	5,095
<b>Total liabilities and deferred inflows .....</b>	<b>76,184</b>	<b>38,584</b>	<b>157,752</b>	<b>11,109</b>	<b>521,775</b>	<b>156,090</b>	<b>53,640</b>	<b>1,015,134</b>
<b>NET POSITION</b>								
Net investment in capital asset .....	809,708	89,731	122,126	85,075	922	12,762	25,307	1,145,631
Restricted for:								
Clean energy trusts .....	—	—	225,677	—	—	—	—	225,677
Economic development financing .....	—	161,319	—	—	—	13,882	—	175,201
Other purposes .....	619	—	—	30,092	19,025	46,602	640,670	737,008
Unrestricted .....	(4,468)	226,176	—	12,616	28,470	56,665	72,083	391,542
<b>Total net position .....</b>	<b>\$ 805,859</b>	<b>\$ 477,226</b>	<b>\$ 347,803</b>	<b>\$ 127,783</b>	<b>\$ 48,417</b>	<b>\$ 129,911</b>	<b>\$ 738,060</b>	<b>\$ 2,675,059</b>

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

### Nonmajor Component Units

Fiscal Year Ended June 30, 2015

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>Operating revenues:</b>								
Charges for services.....	\$ 64,942	\$ 50,645	\$ 2,994	\$ 2,340	\$ 8,135	\$ 148,490	\$ 17,360	\$ 294,906
Other .....	765	23,530	23,372	21,462	8,464	1,172	15,294	94,059
<b>Total operating revenues.....</b>	<b>65,707</b>	<b>74,175</b>	<b>26,366</b>	<b>23,802</b>	<b>16,599</b>	<b>149,662</b>	<b>32,654</b>	<b>388,965</b>
<b>Operating expenses:</b>								
Cost of services.....	57,226	53,432	31,303	29,924	7,554	153,276	—	332,715
Administration costs.....	32,691	10,421	10,260	47	5,547	14,715	47,195	120,876
Depreciation.....	47,493	8,052	1,719	549	150	912	1,091	59,966
<b>Total operating expenses.....</b>	<b>137,410</b>	<b>71,905</b>	<b>43,282</b>	<b>30,520</b>	<b>13,251</b>	<b>168,903</b>	<b>48,286</b>	<b>513,557</b>
<b>Operating income/(loss).....</b>	<b>(71,703)</b>	<b>2,270</b>	<b>(16,916)</b>	<b>(6,718)</b>	<b>3,348</b>	<b>(19,241)</b>	<b>(15,632)</b>	<b>(124,592)</b>
<b>Nonoperating revenues/(expenses):</b>								
Operating grants .....	53,142	430	34,669	—	—	18,928	—	107,169
Interest income/(loss) .....	777	5,518	4,109	97	—	145	(26,550)	(15,904)
Other nonoperating revenue/(expense).....	1,044	148,675	—	—	—	4,824	60,335	214,878
<b>Nonoperating revenues/(expenses), net..</b>	<b>54,963</b>	<b>154,623</b>	<b>38,778</b>	<b>97</b>	<b>—</b>	<b>23,897</b>	<b>33,785</b>	<b>306,143</b>
<b>Income/(loss) before contributions .....</b>	<b>(16,740)</b>	<b>156,893</b>	<b>21,862</b>	<b>(6,621)</b>	<b>3,348</b>	<b>4,656</b>	<b>18,153</b>	<b>181,551</b>
Capital contributions.....	—	(85,979)	28,800	—	—	2,471	—	(54,708)
<b>Change in net position/(deficits) .....</b>	<b>(16,740)</b>	<b>70,914</b>	<b>50,662</b>	<b>(6,621)</b>	<b>3,348</b>	<b>7,127</b>	<b>18,153</b>	<b>126,843</b>
Net position - beginning, as restated.....	822,599	406,312	297,141	134,404	45,069	122,784	719,907	2,548,216
<b>Net position - ending .....</b>	<b>\$ 805,859</b>	<b>\$ 477,226</b>	<b>\$ 347,803</b>	<b>\$ 127,783</b>	<b>\$ 48,417</b>	<b>\$ 129,911</b>	<b>\$ 738,060</b>	<b>\$ 2,675,059</b>

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# *Statistical Section*

*(Unaudited)*

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

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## Schedule of Net Position by Component

Last Ten Fiscal Years

(Amounts in thousands)

	2015	2014	2013	2012	2011
<b>Governmental activities</b>					
Net investment in capital asset .....	\$ (553,272)	\$ (502,370)	\$ (592,483)	\$ (849,338)	\$ (722,469)
Restricted .....	1,541,566	1,455,704	1,386,416	1,456,715	1,520,702
Unrestricted .....	(55,841,735)	(29,913,024)	(26,733,809)	(24,905,165)	(23,631,098)
<b>Total governmental activities net position...</b>	<b>\$ (54,853,441)</b>	<b>\$ (28,959,690)</b>	<b>\$ (25,939,876)</b>	<b>\$ (24,297,788)</b>	<b>\$ (22,832,865)</b>
<b>Business-type activities</b>					
Net investment in capital assets .....	\$ 3,055,444	\$ 2,794,845	\$ 2,605,263	\$ 2,366,038	\$ 2,026,223
Restricted .....	1,539,785	1,590,545	1,209,630	1,576,865	1,364,646
Unrestricted .....	697,056	1,102,251	1,026,230	969,309	978,043
<b>Total business-type activities net position ...</b>	<b>\$ 5,292,285</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>\$ 4,912,212</b>	<b>\$ 4,368,912</b>
<b>Commonwealth net position</b>					
Net investment in capital assets .....	\$ 2,502,172	\$ 2,292,475	\$ 2,012,780	\$ 1,516,700	\$ 1,303,754
Restricted .....	3,081,351	3,046,249	2,596,046	3,033,580	2,885,348
Unrestricted .....	(55,144,679)	(28,810,773)	(25,707,579)	(23,935,856)	(22,653,055)
<b>Total Commonwealth net position .....</b>	<b>\$ (49,561,156)</b>	<b>\$ (23,472,049)</b>	<b>\$ (21,098,753)</b>	<b>\$ (19,385,576)</b>	<b>\$ (18,463,953)</b>

\*Restated to reclassify MSBA and expendable trust fund balance classifications

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2010*	2009*	2008*	2007*	2006*
\$ (885,593)	\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510
1,403,877	1,377,951	1,413,968	1,271,051	2,010,373
(22,891,629)	(13,721,519)	(11,022,084)	(11,357,260)	(12,409,269)
<b>\$ (22,373,345)</b>	<b>\$ (12,153,655)</b>	<b>\$ (9,161,450)</b>	<b>\$ (9,596,777)</b>	<b>\$ (10,297,385)</b>
\$ 1,767,434	\$ 1,698,825	\$ 1,562,002	\$ 1,392,363	\$ 1,283,570
1,148,751	1,609,145	2,390,206	2,295,507	1,816,066
857,263	621,952	644,363	645,211	548,774
<b>\$ 3,773,448</b>	<b>\$ 3,929,922</b>	<b>\$ 4,596,571</b>	<b>\$ 4,333,081</b>	<b>\$ 3,648,410</b>
\$ 881,841	\$ 1,888,738	\$ 2,008,668	\$ 1,881,795	\$ 1,385,080
2,552,628	2,987,096	3,804,174	3,566,558	3,826,439
(22,034,366)	(13,099,567)	(10,377,721)	(10,712,049)	(11,860,495)
<b>\$ (18,599,896)</b>	<b>\$ (8,223,733)</b>	<b>\$ (4,564,879)</b>	<b>\$ (5,263,696)</b>	<b>\$ (6,648,975)</b>

**Changes in Net Position**  
**Last Ten Fiscal Years**  
(Amounts in thousands)

	2015	2014 (1)	2013 (1)	2012 (1)	2011 (1)
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government.....	\$ 2,703,519	\$ 2,521,394	\$ 2,571,685	\$ 2,384,142	\$ 2,312,037
Judiciary.....	1,026,429	1,007,234	983,314	936,113	1,000,902
Direct local aid.....	5,469,412	5,353,521	5,179,104	4,991,532	4,845,738
Medicaid.....	15,086,742	14,034,862	12,286,342	11,708,397	12,124,261
Group health insurance.....	1,657,018	1,403,590	1,282,661	1,218,079	1,113,544
Energy and environmental.....	671,801	615,854	524,632	568,898	689,258
Housing and economic development*.....	1,314,980	1,289,156	1,250,008	1,246,213	1,365,368
Health and human services*.....	7,605,180	7,308,295	7,737,736	7,619,987	7,139,948
Transportation and public works.....	2,689,975	2,379,178	1,868,020	1,759,589	2,270,136
Early elementary and secondary education*.....	4,654,161	4,714,555	4,493,537	4,336,326	3,585,958
Public safety and homeland security.....	2,486,107	2,451,881	2,391,982	2,323,452	2,295,561
Labor and workforce development*.....	309,091	352,454	385,757	472,044	498,560
Lottery.....	4,109,611	3,980,980	3,982,700	3,877,305	3,661,834
Interest (unallocated).....	1,263,218	1,197,709	1,206,542	1,202,772	1,177,569
<b>Total governmental activities.....</b>	<b>51,047,244</b>	<b>48,610,664</b>	<b>46,144,020</b>	<b>44,644,849</b>	<b>44,080,673</b>
<b>Business-type Activities:</b>					
Unemployment compensation.....	1,598,084	2,036,431	2,718,447	3,466,500	4,388,360
Higher Education:					
University of Massachusetts.....	2,809,062	2,925,013	2,759,488	2,684,039	2,865,015
State Universities.....	994,341	922,383	864,161	851,118	834,453
Community Colleges.....	891,906	852,946	814,245	801,038	772,883
<b>Total business-type activities.....</b>	<b>6,293,393</b>	<b>6,736,773</b>	<b>7,156,341</b>	<b>7,802,695</b>	<b>8,860,711</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 57,340,637</b>	<b>\$ 55,347,437</b>	<b>\$ 53,300,361</b>	<b>\$ 52,447,544</b>	<b>\$ 52,941,384</b>
<b>REVENUES</b>					
<b>Program Revenues:</b>					
<b>Governmental Activities:</b>					
<b>Charges for services:</b>					
General government.....	\$ 634,289	\$ 361,105	\$ 352,291	\$ 458,320	\$ 443,869
Judiciary.....	105,521	108,766	111,384	114,170	120,293
Medicaid.....	1,052,170	1,226,108	471,539	297,566	258,032
Group health insurance.....	755,712	660,359	619,982	495,377	431,078
Energy and environmental.....	253,856	262,339	228,019	214,340	270,449
Housing and economic development*.....	164,438	165,365	150,690	142,320	142,387
Health and human services*.....	405,710	483,080	1,143,551	931,535	896,328
Transportation and public works.....	577,430	530,853	567,348	505,842	502,004
Early elementary and secondary education*.....	7,649	10,067	6,748	6,783	6,645
Public safety and homeland security.....	256,596	228,730	218,643	205,546	193,983
Labor and workforce development*.....	175,130	150,394	246,577	237,772	142,731
Lottery.....	5,193,545	5,049,536	5,041,329	4,940,151	4,630,205
<b>Total Charges for services.....</b>	<b>9,582,046</b>	<b>9,236,702</b>	<b>9,158,101</b>	<b>8,549,722</b>	<b>8,038,003</b>
Operating grants and contributions.....	13,950,227	13,121,648	12,836,122	12,909,908	14,217,481
Capital grants and contributions.....	81,475	30,699	18,726	79,733	168,912
<b>Total governmental activities.....</b>	<b>23,613,748</b>	<b>22,389,049</b>	<b>22,012,948</b>	<b>21,539,363</b>	<b>22,424,397</b>
<b>Business-type Activities:</b>					
<b>Charges for services:</b>					
Unemployment Compensation.....	1,492,067	1,897,495	1,923,476	1,982,602	1,945,801
Higher Education:					
University of Massachusetts.....	1,602,043	1,697,585	1,640,296	1,519,496	1,685,386
State Universities.....	583,671	558,170	533,347	523,979	530,078
Community Colleges.....	266,956	270,512	281,428	275,778	250,341
Operating grants and contributions.....	936,917	1,347,423	1,791,196	2,525,342	3,500,210
Capital grants and contributions.....	206,128	122,081	123,396	162,271	42,819
<b>Total business-type activities.....</b>	<b>5,087,782</b>	<b>5,893,266</b>	<b>6,293,139</b>	<b>6,989,468</b>	<b>7,954,635</b>
<b>Total Commonwealth program revenues.....</b>	<b>\$ 28,701,530</b>	<b>\$ 28,282,315</b>	<b>\$ 28,306,087</b>	<b>\$ 28,528,831</b>	<b>\$ 30,379,032</b>
<b>General Revenues and Other Changes in Net Position (all types consolidated):</b>					
<b>Governmental Activities:</b>					
Taxes (all types).....	\$ 25,209,826	\$ 23,319,168	\$ 22,599,332	\$ 21,403,426	\$ 21,066,430
Investment earnings and miscellaneous.....	1,251,193	1,131,754	985,713	1,393,094	991,230
Gain on sale of capital assets.....	—	—	—	—	—
Transfers.....	(1,429,174)	(1,205,141)	(1,096,061)	(1,155,955)	(860,904)
Transfers to/from MassDOT.....	—	—	—	—	—
<b>Total governmental activities.....</b>	<b>25,031,845</b>	<b>23,245,781</b>	<b>22,488,984</b>	<b>21,640,565</b>	<b>21,196,756</b>
<b>Business-type Activities:</b>					
Investment earnings and miscellaneous.....	\$ 7,536	\$ 306,690	\$ 271,832	\$ 214,056	\$ 652,489
Other losses.....	—	—	—	—	(10,746)
Transfers.....	1,429,174	1,205,141	1,096,061	1,155,955	860,904
<b>Total business-type activities.....</b>	<b>1,436,710</b>	<b>1,511,831</b>	<b>1,367,893</b>	<b>1,370,011</b>	<b>1,502,647</b>
<b>Total Commonwealth general revenues.....</b>	<b>\$ 26,468,555</b>	<b>\$ 24,757,612</b>	<b>\$ 23,856,877</b>	<b>\$ 23,010,576</b>	<b>\$ 22,699,403</b>
<b>CHANGES IN NET POSITION</b>					
Governmental activities.....	\$ (2,401,651)	\$ (2,975,834)	\$ (1,642,088)	\$ (1,464,923)	\$ (459,521)
Business-type activities.....	231,099	668,324	504,691	556,784	596,571
Current year restatements.....	—	—	—	—	—
<b>Total changes in net position including restatements.....</b>	<b>\$ (2,170,552)</b>	<b>\$ (2,307,510)</b>	<b>\$ (1,137,397)</b>	<b>\$ (908,139)</b>	<b>\$ 137,050</b>

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

(1) - Prior year amounts were reclassified to conform to current year presentation.

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	2010 (1)	2009 (1)	2008 (1)	2007 (1)	2006 (1)
\$	2,317,016	\$ 2,591,953	\$ 2,329,454	\$ 2,197,089	\$ 2,037,041
	991,310	1,089,569	1,003,754	849,719	723,968
	5,030,363	5,210,451	5,118,858	5,081,359	4,682,027
	10,677,999	10,842,549	9,769,893	9,044,420	8,150,576
	1,092,178	977,565	828,297	1,033,796	970,150
	305,233	407,289	541,840	487,917	435,533
	1,291,142	1,036,891	900,577	519,142	669,667
	5,880,366	7,326,979	6,753,620	6,408,043	6,564,479
	2,062,054	1,319,110	1,202,748	1,270,759	1,284,048
	3,806,149	3,574,455	2,854,730	1,888,271	2,008,442
	2,292,163	2,462,398	2,118,161	1,758,283	1,752,672
	470,878	463,901	342,907	640,614	385,406
	3,649,396	3,693,318	3,910,362	3,689,221	3,708,713
	1,090,471	1,116,278	1,152,162	1,079,551	985,474
	<b>40,956,717</b>	<b>42,112,704</b>	<b>38,827,362</b>	<b>35,948,184</b>	<b>34,358,196</b>
	5,435,611	3,475,027	1,554,885	1,430,130	1,337,565
	2,640,134	2,474,797	2,274,312	2,233,634	2,116,226
	762,043	736,972	733,842	624,470	568,592
	716,526	671,923	685,235	627,400	592,310
	<b>9,554,314</b>	<b>7,358,719</b>	<b>5,248,274</b>	<b>4,915,634</b>	<b>4,614,693</b>
\$	<b>50,511,031</b>	<b>49,471,424</b>	<b>44,075,636</b>	<b>40,863,818</b>	<b>38,972,889</b>
\$	464,592	\$ 436,344	\$ 414,614	\$ 564,347	\$ 451,753
	128,198	123,819	124,542	118,652	115,443
	185,463	180,380	176,471	172,136	702,104
	349,870	230,456	209,008	151,604	131,611
	214,269	226,754	162,639	168,789	156,074
	221,340	178,011	185,019	1,892	6,245
	797,929	718,628	601,483	538,543	613,780
	517,045	494,733	477,420	461,217	448,349
	9,661	15,728	10,766	8,042	6,346
	202,427	175,069	153,641	126,962	135,846
	38,319	37,728	31,758	187,256	213,078
	4,626,777	4,643,592	4,905,509	4,656,110	4,726,339
	7,755,891	7,461,243	7,452,873	7,155,550	7,706,968
	12,771,164	12,059,019	9,271,936	8,849,046	8,347,822
	779,403	853,221	484,172	487,365	481,780
	<b>21,306,458</b>	<b>20,373,482</b>	<b>17,208,980</b>	<b>16,491,961</b>	<b>16,536,570</b>
	1,727,964	1,671,098	1,587,543	1,698,249	1,741,101
	1,527,880	1,419,932	1,160,513	1,194,393	1,076,875
	479,900	442,685	400,369	287,195	272,918
	235,865	219,986	204,190	190,808	175,418
	4,020,351	1,721,199	710,974	746,385	684,108
	48,684	56,377	35,893	90,115	31,843
	<b>8,040,644</b>	<b>5,531,277</b>	<b>4,099,482</b>	<b>4,207,145</b>	<b>3,982,263</b>
\$	<b>29,347,102</b>	<b>25,904,759</b>	<b>21,308,462</b>	<b>20,699,106</b>	<b>20,518,833</b>
\$	19,034,227	\$ 18,499,273	\$ 21,174,430	\$ 20,001,189	\$ 18,668,322
	1,474,995	1,489,018	2,057,309	1,318,008	1,396,033
	—	—	—	—	26,300
	(864,697)	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)
	(8,983,955)	—	—	—	—
	<b>10,660,570</b>	<b>18,917,639</b>	<b>22,053,709</b>	<b>20,151,830</b>	<b>19,068,335</b>
\$	504,404	\$ 83,850	\$ 234,252	\$ 225,793	\$ 215,338
	(12,125)	(11,530)	—	—	—
	864,697	1,070,652	1,178,030	1,167,367	1,022,320
	<b>1,356,976</b>	<b>1,142,972</b>	<b>1,412,282</b>	<b>1,393,160</b>	<b>1,237,658</b>
\$	<b>12,017,546</b>	<b>20,060,611</b>	<b>23,465,991</b>	<b>21,544,990</b>	<b>20,305,993</b>
\$	(10,219,688)	\$ (2,821,583)	\$ 435,327	\$ 695,608	\$ 1,246,707
	(156,694)	(684,470)	263,490	684,671	605,228
	—	(152,800)	—	—	—
\$	<b>(10,376,382)</b>	<b>(3,658,853)</b>	<b>698,817</b>	<b>1,380,279</b>	<b>1,851,935</b>

## Fund Balances, Governmental Funds

Last Ten Fiscal Years

*(Modified accrual basis of accounting)*

(Amounts in thousands)

	2015	2014	2013	2012	2011
<b>Total Unreserved general fund</b> .....	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>All Other Governmental Funds</b>					
Reserved .....	—	—	—	—	—
Unreserved:					
Special Revenue Funds .....	—	—	—	—	—
Capital Projects Funds .....	—	—	—	—	—
Permanent Trust Funds .....	—	—	—	—	—
<b>Total Unreserved</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total all other governmental funds</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total governmental fund balances</b> .....	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

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

**Fund balances (deficits) GASB 54 :**

Nonspendable .....	\$ 2,318	\$ 1,116	\$ 914	\$ 914	\$ 914
Restricted .....	1,790,143	1,517,555	1,557,928	2,195,287	1,675,055
Committed .....	2,375,021	2,249,906	2,324,228	2,404,158	2,020,009
Assigned .....	576,632	510,353	595,085	574,621	750,462
Unassigned .....	561,105	340,505	391,795	1,143,978	821,188
<b>Total governmental fund balances</b> .....	<b>\$5,305,219</b>	<b>\$4,619,434</b>	<b>\$4,869,950</b>	<b>\$6,318,958</b>	<b>\$5,267,628</b>

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2010*	2009*	2008*	2007*	2006*
\$ —	\$ 1,734,822	\$ 3,171,278	\$ 4,899,154	\$ 4,922,074
—	1,401,985	1,809,058	1,496,094	1,361,980
—	2,044,674	2,437,897	1,587,596	1,476,440
—	(125,138)	(360,570)	(251,985)	(497,300)
—	5,000	5,000	5,000	—
—	1,924,536	2,082,327	1,340,611	979,140
—	3,326,521	3,891,385	2,836,705	2,341,120
\$ —	\$ 5,061,343	\$ 7,062,663	\$ 7,735,859	\$ 7,263,194

\$ 5,914  
 1,905,749  
 2,166,175  
 156,483  
 351,395

**\$ 4,585,716**

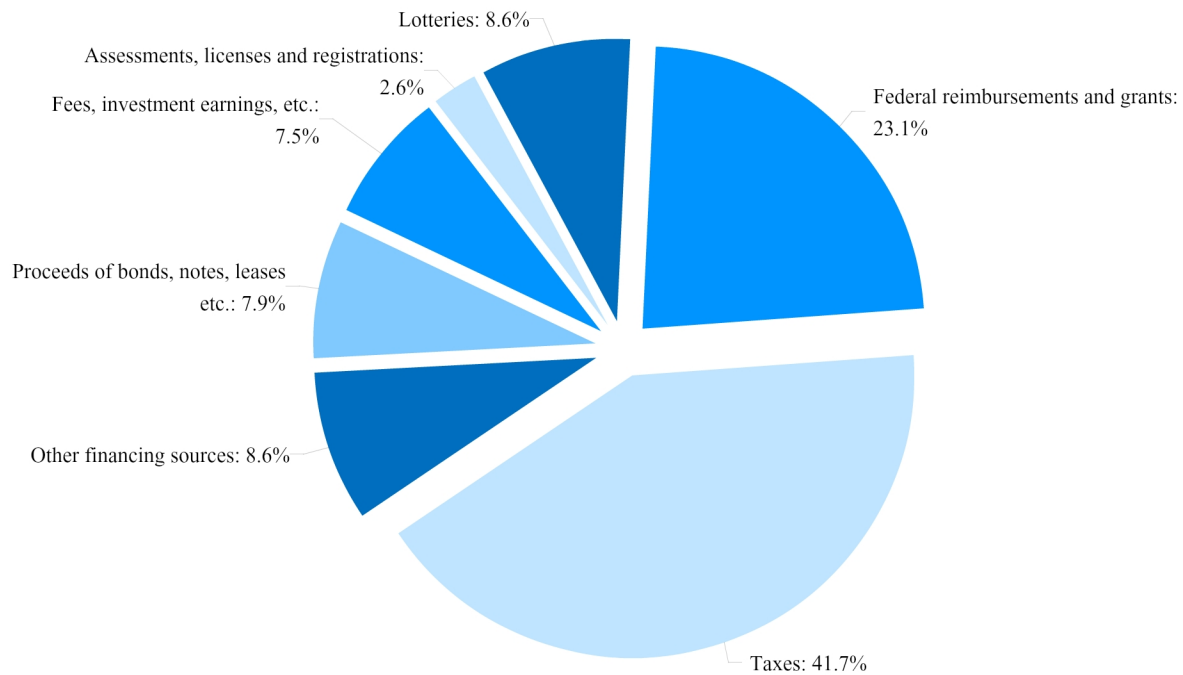
**Ten-Year Schedule of Revenues and Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2015	% Total	2014	% Total	2013	% Total	2012	% Total	2011	% Total
Taxes.....	\$ 25,258	41.7	\$ 23,786	41.6	\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7
Federal reimbursements.....	10,462	17.2	9,417	16.5	8,981	16.2	8,934	16.4	10,066	18.8
Federal grants.....	3,583	5.9	3,730	6.5	3,887	7.0	4,051	7.5	4,311	8.0
Lotteries.....	5,194	8.6	5,049	8.8	5,042	9.1	4,944	9.1	4,631	8.6
Assessments.....	1,026	1.7	1,080	1.8	1,093	2.0	1,024	1.9	980	1.8
Motor vehicle licenses and registrations.....	546	0.9	495	0.9	487	0.9	474	0.9	461	0.9
Fees, investment earnings, etc.....	4,540	7.5	4,152	7.3	3,750	6.8	3,823	7.0	3,246	6.0
Issuance of general and special obligation bonds.....	3,761	6.2	2,360	4.1	1,471	2.7	2,902	5.3	2,233	4.1
Issuance of refunding bonds.....	632	1.0	1,236	2.2	1,913	3.5	388	0.7	888	1.6
Bond premiums.....	379	0.6	193	0.3	398	0.7	260	0.5	130	0.2
Proceeds of capital lease.....	31	0.1	11	—	1	—	4	—	12	—
Other financing sources.....	5,247	8.6	5,701	10.0	5,876	10.6	6,033	11.1	6,086	11.3
<b>Total revenues and other financing sources.....</b>	<b>\$ 60,659</b>	<b>100.0</b>	<b>\$ 57,210</b>	<b>100.0</b>	<b>\$ 55,290</b>	<b>100.0</b>	<b>\$ 54,370</b>	<b>100.0</b>	<b>\$ 53,898</b>	<b>100.0</b>

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**Apportionment of Revenues by Source -  
Fiscal Year Ended June 30, 2015**

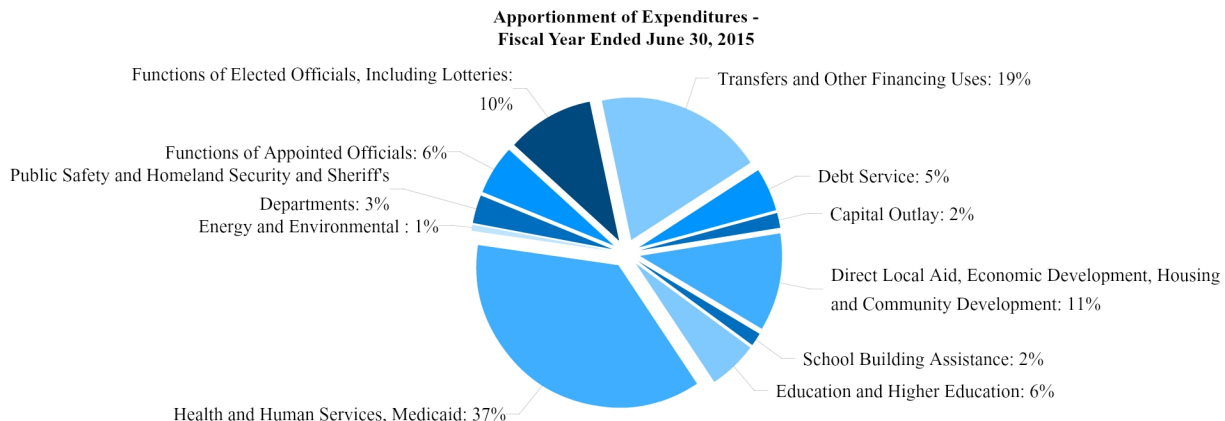


	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total
\$	18,991	37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.4	\$ 18,754	39.6
	9,453	18.5	9,392	18.9	7,037	14	6,847	13.8	6,350	13.5
	4,097	8.0	3,510	7	2,681	5.4	2,489	5	2,479	5.3
	4,628	9.1	4,650	9.3	4,915	9.8	4,670	9.4	4,739	10
	965	2.0	929	1.9	858	1.8	860	1.7	850	1.9
	463	0.9	383	0.8	376	0.7	380	0.8	361	0.8
	3,365	6.6	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0
	2,419	4.7	2,042	4.1	1,281	2.6	3,104	6.3	4,445	9.3
	538	1.1	390	0.8	—	—	1,428	2.9	633	1.3
	16	0.0	99	0.2	25	—	129	0.3	47	0.1
	17	0.0	18	—	17	—	21	—	30	0.1
	6,027	11.8	6,817	13.7	8,280	16.5	6,743	13.6	5,232	11.1
\$	50,979	100.0	\$ 49,788	100.0	\$ 50,136	100.0	\$ 49,531	100.0	\$ 47,190	100.0

**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)

	2015	%	2014	%	2013	%	2012	%	2011	%
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Legislature.....	\$ 61	0.1	\$ 56	0.1	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1
Judiciary.....	845	1.4	816	1.4	792	1.4	757	1.4	771	1.4
Inspector General.....	5	—	6	—	6	—	3	—	4	—
Governor and Lieutenant Governor.....	6	—	5	—	6	—	7	—	5	—
Secretary of the Commonwealth.....	50	0.1	51	0.1	49	0.1	41	0.1	45	0.1
Treasurer and Receiver-General.....	5,602	9.7	5,327	9.5	5,307	9.5	5,282	9.9	5,084	9.6
Auditor of the Commonwealth.....	18	—	18	—	18	—	17	—	18	—
Attorney General.....	41	0.1	88	0.2	76	0.1	55	0.1	34	0.1
Ethics Commission.....	2	—	2	—	2	—	2	—	2	—
District Attorney.....	119	0.2	115	0.2	115	0.2	110	0.2	104	0.2
Office of Campaign and Political Finance.....	3	—	1	—	1	—	1	—	3	—
Sheriff's Department.....	593	1.0	565	1.0	541	1.0	529	1.0	514	1.0
Disabled Persons Protection Commission.....	3	—	2	—	2	—	2	—	2	—
Board of Library Commissioners.....	28	—	25	—	25	—	24	—	25	—
Massachusetts Gaming Commission.....	23	—	23	—	14	—	1	—	—	—
Comptroller.....	16	—	16	—	14	—	14	—	14	—
Administration and finance.....	2,490	4.2	2,296	4.0	2,295	4.1	1,949	3.7	1,852	3.3
Energy and environmental.....	417	0.7	410	0.7	365	0.6	351	0.7	368	0.7
Housing and communities development.....	—	—	—	—	—	—	—	—	—	—
Early education and care.....	—	—	—	—	—	—	—	—	—	—
Health and human services.....	7,211	12.0	6,957	12.1	7,384	13.1	7,301	13.6	6,791	12.8
Transportation and public works.....	—	—	—	—	—	—	—	—	—	—
Massachusetts department of transportation.....	2,611	4.4	2,296	4.0	1,785	3.1	1,679	3.1	2,086	3.9
Executive office of education*.....	3,320	5.5	3,201	5.6	3,008	5.3	3,069	5.8	3,232	6.1
Center for Health and Information Analysis.....	28	—	26	—	9	—	—	—	—	—
Massachusetts school building assistance.....	732	1.2	869	1.5	1,037	1.8	975	1.8	791	1.5
Higher education.....	—	—	—	—	—	—	—	—	—	—
Public safety and homeland security.....	1,334	2.2	1,274	2.2	1,296	2.3	1,208	2.3	1,146	2.2
Housing and economic development*.....	1,021	1.7	1,035	1.8	988	1.7	999	1.9	1,082	2.0
Labor and workforce development*.....	269	0.4	330	0.6	350	0.6	455	0.9	478	0.9
Medicaid.....	15,087	25.2	14,035	24.4	12,286	21.7	11,708	22.0	12,124	22.8
Pension.....	902	1.5	865	1.5	878	1.5	801	1.5	744	1.4
Direct local aid.....	5,469	9.1	5,353	9.3	5,179	9.1	4,991	9.4	4,846	9.1
Capital outlay:										
Local aid.....	—	—	—	—	—	—	—	—	—	—
Capital acquisition and construction.....	1,205	2.0	999	1.7	854	1.5	847	1.6	885	1.7
Debt service.....	2,968	4.9	2,769	4.8	2,754	4.9	2,504	4.7	2,220	4.2
Principal on current refunding.....	203	0.3	159	0.3	230	0.4	—	—	—	—
Other financing uses:										
Payments to refunding bond escrow agent.....	615	1.0	562	1.0	2,046	3.6	388	0.7	945	1.8
Transfers.....	6,676	11.1	6,907	12.0	6,972	12.3	7,189	13.5	6,947	13.1
Total expenditures and other financing uses.....	<u>\$ 59,973</u>	<u>100.0</u>	<u>\$ 57,461</u>	<u>100.0</u>	<u>\$ 56,739</u>	<u>100.0</u>	<u>\$ 53,319</u>	<u>100.0</u>	<u>\$ 53,217</u>	<u>100.0</u>
Change in Governmental Fund Balance.....	<u>\$ 686</u>		<u>\$ (251)</u>		<u>\$ (1,448)</u>		<u>\$ 1,051</u>		<u>\$ 681</u>	

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.  
See Independent Auditor's Report



2010	%	2009	%	2008	%	2007	%	2006	%
Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
\$ 59	0.1	\$ 60	0.1	\$ 58	0.1	\$ 59	0.1	\$ 55	0.1
769	1.5	797	1.5	796	1.6	799	1.6	660	1.5
4	—	3	—	3	—	3	—	3	—
5	—	8	—	9	—	5	—	5	—
52	0.1	51	0.1	51	0.1	52	0.1	44	0.1
4,862	9.4	5,097	9.8	5,089	10	4,712	9.6	4,803	10.7
18	—	19	—	19	—	18	—	18	—
52	0.1	53	0.1	45	0.1	62	0.1	52	0.1
2	—	2	—	2	—	2	—	1	—
102	0.2	112	0.2	111	0.2	102	0.2	94	0.2
1	—	1	—	1	—	2	—	1	—
394	0.8	296	0.6	295	0.6	272	0.6	247	0.5
2	—	3	—	2	—	2	—	2	—
28	0.1	37	0.1	36	0.1	10	—	8	—
—	—	—	—	—	—	—	—	—	—
13	—	14	—	14	—	14	—	14	—
1,686	3.3	1,709	3.4	1,528	3.1	1,849	3.9	1,651	3.9
403	0.8	352	0.7	312	0.6	318	0.6	282	0.6
—	—	—	—	—	—	402	0.8	536	1.2
—	—	—	—	560	1.1	518	1.1	482	1.1
6,655	12.9	6,684	12.9	6,423	12.6	5,907	12.1	5,865	13
474	0.9	389	0.8	347	0.7	350	0.7	282	0.6
1,209	2.3	—	—	—	—	—	—	—	—
2,968	5.8	2,920	5.6	2,205	4.3	2,048	4.2	1,978	4.4
—	—	—	—	—	—	—	—	—	—
973	1.9	657	1.3	765	1.5	1,411	2.9	2,330	5.2
—	—	—	—	131	0.3	126	0.3	106	0.2
1,282	2.5	1,416	2.7	1,407	2.8	1,238	2.5	1,165	2.6
1,060	2.1	793	1.5	710	1.4	512	1	384	0.9
447	0.9	398	0.8	308	0.6	81	0.2	—	—
10,678	20.8	10,843	20.9	9,770	19.2	9,044	18.5	8,151	18.1
587	1.1	647	1.2	368	0.7	373	0.8	346	0.8
5,030	9.8	5,208	10.1	5,108	10.1	5,072	10.4	4,674	10.4
—	—	—	—	—	—	—	—	—	—
1	—	3	—	10	—	9	—	8	—
1,300	2.5	2,514	4.9	1,698	3.3	1,724	3.5	1,754	3.9
2,407	4.7	2,410	4.7	2,486	4.9	2,538	5.2	2,088	4.6
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
537	1.0	410	0.8	—	—	1,520	3.1	633	1.4
7,395	14.4	7,887	15.2	10,141	20	7,781	15.9	6,253	13.9
<u>\$ 51,455</u>	<u>100.0</u>	<u>\$ 51,789</u>	<u>100.0</u>	<u>\$ 50,810</u>	<u>100.0</u>	<u>\$ 48,935</u>	<u>100.0</u>	<u>\$ 44,975</u>	<u>100.0</u>
<u>\$ (476)</u>		<u>\$ (2,001)</u>		<u>\$ (674)</u>		<u>\$ 467</u>		<u>\$ 2,215</u>	

**Personal Income by Industry**  
**Last Ten Calendar Years**

(Amounts in millions)

	2014	2013	2012	2011	2010
<b>Total personal income.....</b>	<b>\$ 396,206</b>	<b>\$ 381,271</b>	<b>\$ 363,944</b>	<b>\$ 352,243</b>	<b>\$ 336,400</b>
Unearned income .....	94,494	91,615	87,333	83,338	81,190
Farm earnings.....	178	151	150	136	186
Nonfarm earnings.....	301,534	289,505	276,461	268,769	255,024
<b>Private earnings.....</b>	<b>262,843</b>	<b>252,939</b>	<b>243,502</b>	<b>236,763</b>	<b>223,784</b>
Agricultural services, forestry, fishing.....	354	373	426	409	383
Mining .....	270	201	113	124	97
Construction.....	15,481	14,759	13,426	12,526	11,687
<b>Manufacturing .....</b>	<b>25,921</b>	<b>25,341</b>	<b>26,375</b>	<b>25,387</b>	<b>25,108</b>
Durable goods .....	18,224	17,977	19,223	18,319	18,053
Nondurable goods .....	7,697	7,364	7,152	7,069	7,055
Transportation and utilities .....	7,295	7,083	6,742	6,604	6,208
Wholesale trade .....	13,546	13,483	12,979	13,082	12,501
Retail trade.....	14,137	13,565	13,333	12,891	12,599
Services.....	185,839	178,134	170,109	165,740	155,202
<b>Government .....</b>	<b>38,691</b>	<b>36,567</b>	<b>32,959</b>	<b>32,006</b>	<b>31,240</b>
Federal, civilian .....	5,007	4,792	5,442	5,426	5,431
Military .....	874	943	1,221	1,245	1,260
State and local.....	32,810	30,832	26,296	25,335	24,550
Personal income tax revenue (fiscal year, statutory basis) ..	\$ 13,202	\$ 12,831	\$ 11,911	\$ 11,576	\$ 10,110
Total personal income.....	\$ 396,206	\$ 381,271	\$ 363,944	\$ 352,243	\$ 336,400
Average Effective Rate.....	3.3%	3.4%	3.3%	3.3%	3.0%
Highest Earned Income Tax Rate .....	5.3%	5.3%	5.3%	5.3%	5.3%

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

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

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2009	2008	2007	2006	2005
<b>\$ 324,680</b>	<b>\$ 335,722</b>	<b>\$ 322,543</b>	<b>\$ 304,855</b>	<b>\$ 282,368</b>
78,336	80,365	71,529	65,384	55,211
137	180	135	131	126
246,208	255,176	250,878	239,340	227,030
<b>215,396</b>	<b>225,122</b>	<b>222,302</b>	<b>211,900</b>	<b>200,639</b>
376	383	405	396	400
101	181	301	363	311
11,717	13,671	14,900	15,193	14,460
<b>23,290</b>	<b>25,449</b>	<b>25,865</b>	<b>24,698</b>	<b>24,485</b>
16,466	18,170	18,464	17,639	17,539
6,824	7,280	7,401	7,059	6,947
6,029	6,235	5,891	5,706	5,456
12,458	13,412	13,025	12,538	11,478
12,255	12,545	12,960	12,952	13,188
149,171	153,246	148,954	140,056	130,864
<b>30,812</b>	<b>30,054</b>	<b>28,577</b>	<b>27,439</b>	<b>26,392</b>
5,314	5,157	5,045	4,873	4,700
1,220	1,092	1,025	1,005	1,009
24,278	23,806	22,507	21,561	20,683
<b>\$ 10,584</b>	<b>\$ 12,484</b>	<b>\$ 11,400</b>	<b>\$ 10,483</b>	<b>\$ 9,690</b>
<b>\$ 324,680</b>	<b>\$ 335,722</b>	<b>\$ 322,543</b>	<b>\$ 304,855</b>	<b>\$ 282,368</b>
3.3%	3.7%	3.5%	3.4%	3.4%
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 2013 and 2004**

(Amounts, except income level are in thousands)

**Calendar Year 2013 (or Fiscal Year 2014)**

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	685,914	18.9%	\$ 8,547,135	70.4%
\$75,001 - \$100,000.....	291,759	8.0%	1,088,602	9.0%
\$50,001 - \$75,000.....	466,046	12.8%	1,184,509	9.8%
\$25,001 - \$50,000.....	773,149	21.4%	1,015,375	8.3%
\$10,001 - \$25,000.....	672,885	18.6%	271,784	2.2%
\$10,000 and lower.....	737,335	20.3%	31,216	0.3%
Total.....	<u>3,627,088</u>	<u>100.0%</u>	<u>\$ 12,138,621</u>	<u>100.0%</u>

**Calendar Year 2004 (or Fiscal Year 2005)**

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	442,551	13.4%	\$ 5,324,659	59.4%
\$75,001 - \$100,000.....	270,812	8.2%	1,026,616	11.5%
\$50,001 - \$75,000.....	448,419	13.5%	1,160,455	13.0%
\$25,001 - \$50,000.....	792,312	23.9%	1,105,411	12.3%
\$10,001 - \$25,000.....	669,959	20.2%	311,447	3.5%
\$10,000 and lower.....	690,528	20.8%	25,812	0.3%
Total.....	<u>3,314,581</u>	<u>100.0%</u>	<u>\$ 8,954,400</u>	<u>100.0%</u>

*Source: Massachusetts Department of Revenue - 2013 is the most recent tax year for which complete data is available.*

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

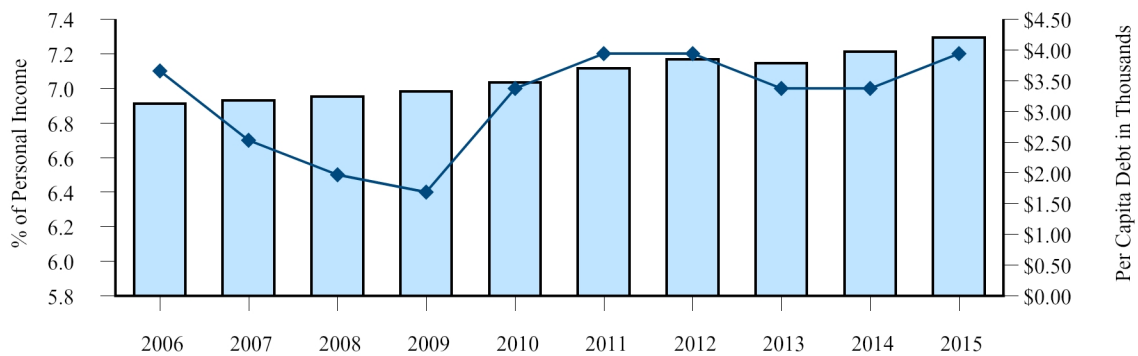
(Amounts in thousands, except for percentages)

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population (4)	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt (1)	Capital Leases (2)	Bonded Debt (2)	Capital Leases					
2015	\$23,826,301	\$42,928	\$4,553,105	\$9,895	\$28,432,229	\$396,206,000	6,745	7.2%	\$4.22
2014	22,419,852	55,878	4,243,731	14,529	26,733,990	381,271,000	6,709	7.0%	3.99
2013	21,513,039	50,831	3,736,432	19,299	25,319,601	363,943,750	6,656	7.0%	3.81
2012	21,907,683	60,457	3,370,389	23,327	25,361,856	352,242,750	6,612	7.2%	3.87
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,564	7.2%	3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,518	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,469	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,432	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

- (1) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. For fiscal 2006 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.
- (2) Governmental capital leases exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.
- (3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.
- (4) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. *Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)*

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



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

(Amounts in thousands)

	2015 (3)	2014 (3)	2013 (3)	2012	2011
Outstanding principal as of June 30 (1).....	\$ 23,826,301	\$ 22,419,852	\$ 21,513,039	\$ 21,433,553	\$ 20,875,056
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs .....	—	—	—	474,130	335,078
Total net proceeds/principal .....	23,826,301	22,419,852	21,513,039	21,907,683	21,210,134
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds .....	(1,197,127)	(1,241,263)	(1,303,013)	(1,342,841)	(1,356,606)
Accelerated bridge program .....	(2,195,004)	(1,756,395)	(1,088,605)	(1,095,385)	(676,125)
County debt assumed.....	—	—	—	(75)	(150)
(Premium)/discount .....	—	—	—	(474,130)	(335,078)
Grant anticipation notes (2).....	—	(178,390)	(349,100)	(510,385)	(666,790)
School Modernization and Reconstruction Trust Bonds...	(689,446)	(723,917)	(764,337)	(795,009)	(824,279)
Convention center bonds .....	(618,705)	(638,700)	(638,700)	(638,700)	(643,715)
MBTA forward funding bonds.....	(207)	(207)	(207)	(207)	(44,472)
Special obligation gas bonds .....	(210,635)	(249,705)	(296,395)	(337,545)	(371,665)
Outstanding direct debt, net proceeds/principal .....	18,915,177	17,631,275	17,072,682	16,713,406	16,291,254
Statutory debt limit* .....	19,760,659	18,819,675	17,923,500	17,070,000	18,042,424
Debt margin (debt limit less direct debt).....	<u>\$ 845,482</u>	<u>\$ 1,188,400</u>	<u>\$ 850,818</u>	<u>\$ 356,594</u>	<u>\$ 1,751,170</u>
Debt margin as a percentage of direct debt limit.....	<u>4.3%</u>	<u>6.3%</u>	<u>4.7%</u>	<u>2.1%</u>	<u>9.7%</u>

(1) Exclusive of the Massachusetts School Building Authority debt

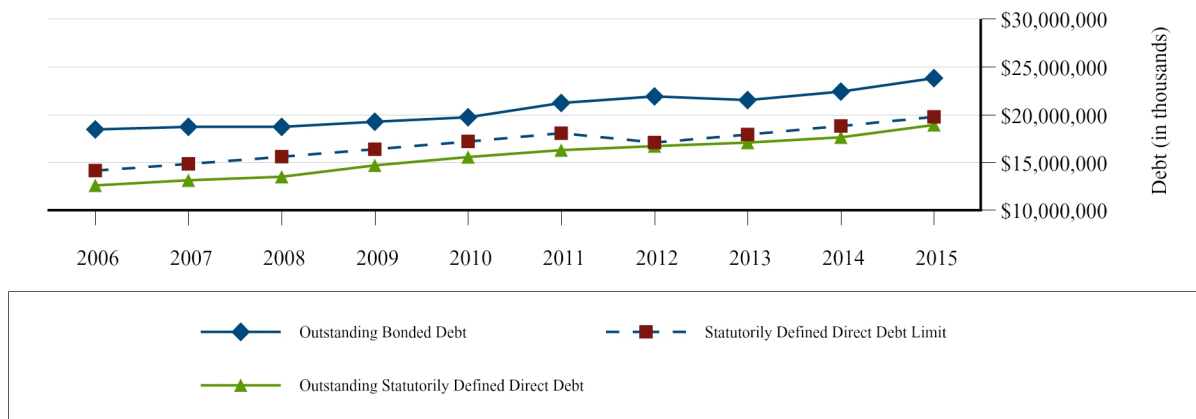
(2) Inclusive of crossover refunding amounts

(3) For fiscal 2006 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

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

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**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2006 - 2015**



2010	2009	2008	2007	2006
19,509,819	\$ 19,047,679	\$ 18,611,105	\$ 18,634,913	\$ 18,348,733
216,688	216,890	123,335	102,048	112,673
19,726,507	19,264,569	18,734,440	18,736,961	18,461,406
(1,243,250)	(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)
—	—	—	—	—
(225)	(300)	(375)	(450)	(525)
216,688	216,890	123,335	102,048	112,673
(997,467)	(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)
(894,502)	(921,751)	(946,285)	(946,285)	(1,000,002)
(643,715)	(643,715)	(643,715)	(643,715)	(643,715)
(165,559)	(231,000)	(309,203)	(368,873)	(416,830)
(419,785)	(456,984)	(482,953)	(617,226)	(647,551)
15,578,692	14,691,331	13,504,384	13,132,900	12,599,293
17,183,261	16,365,011	15,585,725	14,843,547	14,136,712
1,604,569	\$ 1,673,680	\$ 2,081,341	\$ 1,710,647	\$ 1,537,419
9.3%	10.2%	13.4%	11.5%	10.9%

**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)

	2015	2014	2013	2012	2011
<b>Highway Bonds</b>					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the 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.					
<u>Pre-2010 Bond Issues</u>					
Tax Receipts.....	\$ 187,913	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 187,913	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763
Annual Debt Service.....	\$ 52,225	\$ 52,228	\$ 58,922	\$ 58,939	\$ 59,453
Debt Service Coverage Ratio.....	3.60	3.59	3.17	3.23	3.19
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA, Aa1, AAA
<u>Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</u>					
Receipts.....	\$ 1,201,056	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 1,201,056	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619
Annual Debt Service.....	\$ 81,054	\$ 69,921	\$ 58,108	\$ 32,623	\$ 14,318
Debt Service Coverage Ratio.....	14.82	16.44	20.14	34.38	43.76
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA
<u>Convention Center Bonds</u>					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	\$ 124,937	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 124,937	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905
Annual Debt Service.....	\$ 56,110	\$ 36,722	\$ 36,469	\$ 36,345	\$ 35,391
Debt Service Coverage Ratio.....	2.23	2.99	2.76	2.59	2.40
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A
<u>Grant Anticipation Notes (GANS)</u>					
Notes issued prior to December 2010 ("Senior Federal Highway Notes") are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation. Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") are secured by all federal highway reimbursements after payment of debt service on the Senior Federal Highway Notes and also by any revenues pledged to the payment of pre-2010 and December 2010 Highway Bonds (as described above) in excess of debt service paid on those bonds. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<u>Pre-2010 GANS</u>					
Receipts.....	\$ 559,178	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 559,178	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410
Annual Debt Service.....	\$ 178,390	\$ 176,215	\$ 174,467	\$ 184,394	\$ 188,379
Debt Service Coverage Ratio.....	3.13	3.40	3.65	4.1	3.31
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1,
Amount Appropriated for National Federal Highway Spending (Federal Fiscal Year) (billions) (1).....	\$ 43,269	\$ 42,952	\$ 43,427	\$ 43,896	\$ 44,323
<u>Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)</u>					
Receipts.....	\$ 1,500,790	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 1,500,790	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546
Annual Debt Service.....	\$ 33,472	\$ 4,268	\$ 4,973	\$ 4,271	\$ 2,039
Debt Service Coverage Ratio.....	44.84	352.22	316.76	392.06	446.01
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	AA+, Aa2,

(1) Source: The Federal Budget for Fiscal 2016, Historical Tables, Table 9.6 2015 is estimated. \*Uninsured rating, if available.

(2) Reflects rating recalibration

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2010	2009	2008	2007	2006
------	------	------	------	------

\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469
N/A	N/A	N/A	N/A	N/A
\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469
\$ 58,931	\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545
3.2	3.21	3.45	2.51	4.24
AA, Aa2, AA+	AA+, Aa3, AA+	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA

\$ 75,432	\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052
N/A	N/A	N/A	N/A	N/A
\$ 75,432	\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052
\$ 36,296	\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964
2.08	2.04	2.22	1.92	1.62
NA, A1, A	NA, A1, A	NA, A2, A	A2, A	A2, A

\$ 761,351	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
N/A	N/A	N/A	N/A	N/A
\$ 761,351	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
\$ 196,248	\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712
3.88	4.05	2.19	2.18	2.13
AA+(2), Aa2, AA	AA, Aa3, AA+	Aa3, AA	Aa3, AA	Aa3, AA

\$ 43,040	\$ 39,358	\$ 36,747	\$ 34,373	\$ 33,975
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**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures  
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

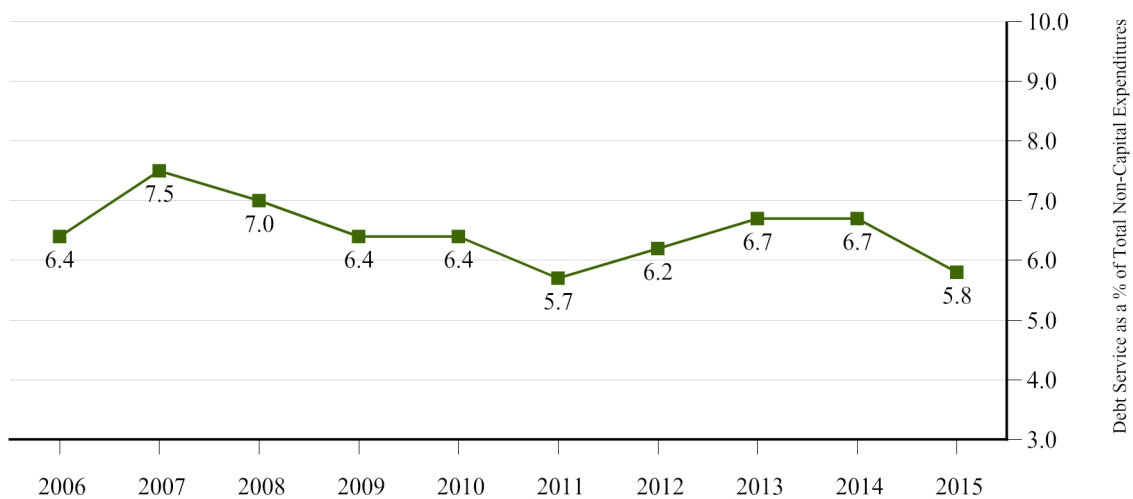
(Amounts in thousands)

Fiscal year ended June 30	Debt service (1)	Total Non-capital expenditures (2)	Ratio (%)
2015	\$2,703,200	\$46,601,933	5.8
2014	2,928,801	43,953,346	6.7
2013	2,753,715	41,403,978	6.7
2012	2,504,253	40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,486,403	35,608,652	7.0
2007	2,538,134	33,918,074	7.5
2006	2,028,441	31,831,391	6.4

- (1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.
- (2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

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**Debt Service to Non-Capital Expenditures Ratio 2006 - 2015**



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

(Amounts in thousands)

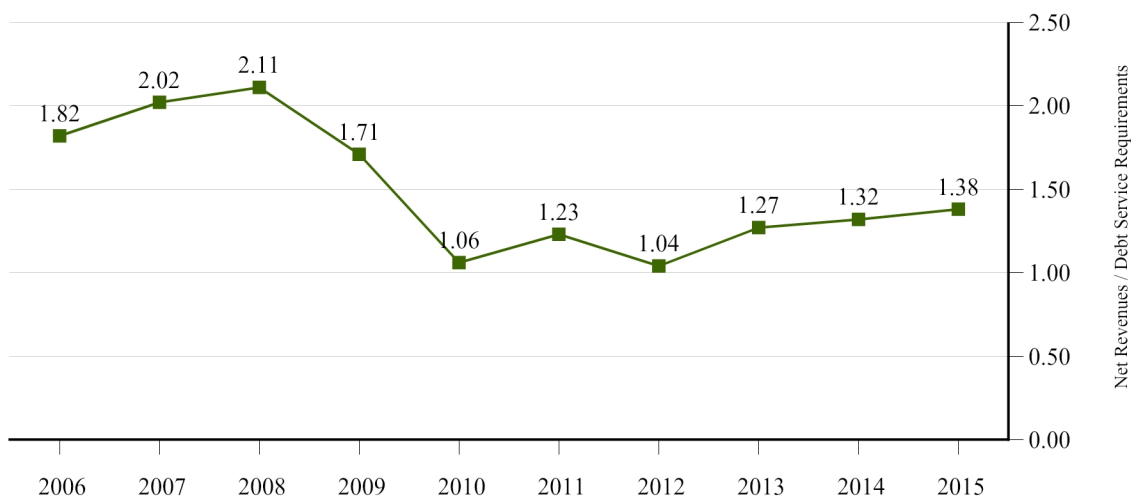
Fiscal year ended June 30	Net Revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio (%)
2015	\$1,950,292	\$1,417,420	1.38
2014	1,481,374	1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	1.06
2009	1,825,018	1,066,175	1.71
2008	1,753,149	831,978	2.11
2007	1,725,941	853,752	2.02
2006	1,499,896	825,170	1.82

- (1) Net revenues represent revenue pledged and available for the repayment of revenue bonds. In most cases, revenue pledged for the bonds is available prior to use for any other purposes. Thus operating expenses paid from these revenue sources are not applicable when calculating debt service coverage and are not subtracted from pledged revenues.
- (2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

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**Component Units Revenue Bond Coverage 2006 - 2015**



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

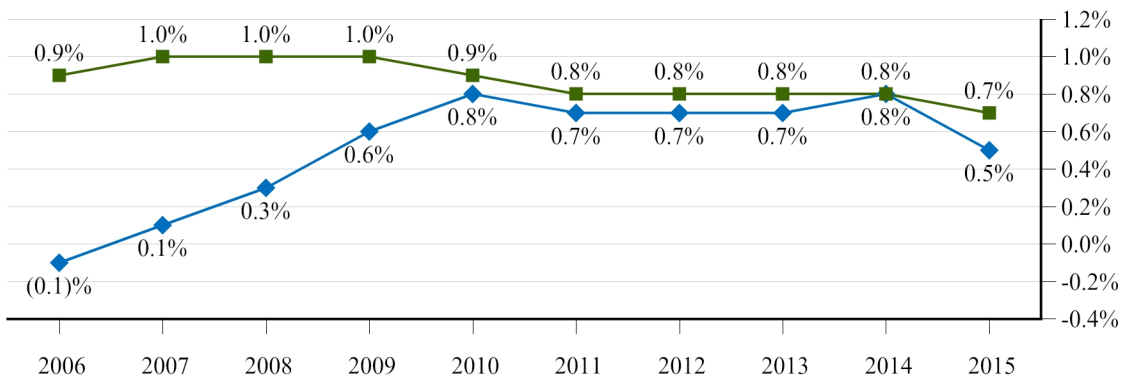
(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2015	318,857	0.7%	6,745	0.5%	2.1%
2014	316,498	0.8%	6,709	0.8%	2.1%
2013	314,112	0.8%	6,656	0.7%	2.1%
2012	311,722	0.8%	6,612	0.7%	2.1%
2011	309,347	0.8%	6,564	0.7%	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%

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

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**Massachusetts and United States Estimated Year-to-Year Population Change  
2006 - 2015**





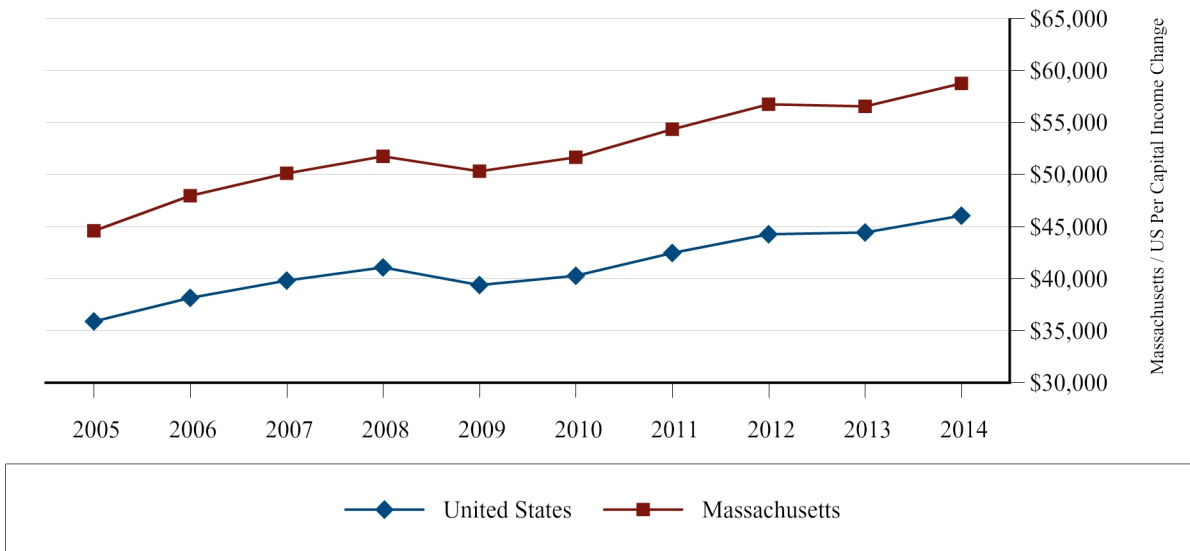
## Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2014	\$ 46,049	3.6 %	\$ 58,737	3.9 %	127.6%
2013	44,438	0.4 %	56,549	(0.4)%	127.3%
2012	44,266	4.3 %	56,752	4.5 %	128.2%
2011	42,453	5.4 %	54,327	5.2 %	128.0%
2010	40,277	2.3 %	51,643	2.7 %	128.2%
2009	39,376	(4.2)%	50,296	(2.8)%	127.7%
2008	41,082	3.2 %	51,742	3.3 %	125.9%
2007	39,821	4.4 %	50,103	4.5 %	125.8%
2006	38,144	6.2 %	47,940	7.5 %	125.7%
2005	35,904	4.6 %	44,596	4.5 %	124.2%

Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on September 30, 2015.

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**Massachusetts and United States Estimated Year-to-Year Population Change  
2005 - 2014**



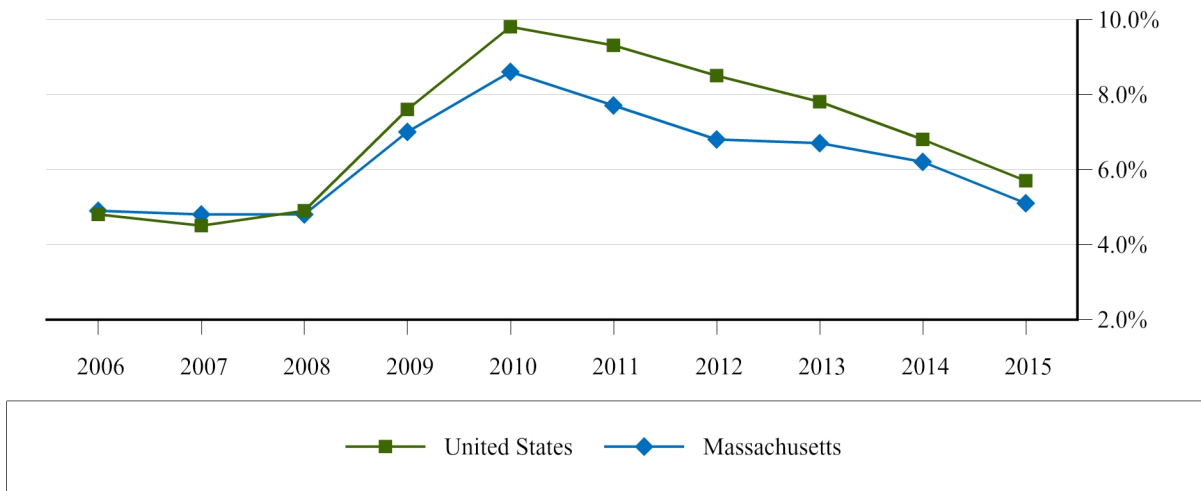
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,  
Unemployment and Unemployment Rates  
For Massachusetts and the United States**  
(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2015	3,598	185	5.1%	156,613	8,915	5.7%	90.3%
2014	3,526	217	6.2%	155,482	10,513	6.8%	91.0%
2013	3,492	234	6.7%	155,336	12,076	7.8%	86.2%
2012	3,472	237	6.8%	154,301	13,150	8.5%	80.1%
2011	3,463	267	7.7%	153,624	14,254	9.3%	83.1%
2010	3,470	300	8.6%	153,906	15,009	9.8%	88.7%
2009	3,470	244	7.0%	154,559	11,767	7.6%	92.4%
2008	3,434	165	4.8%	153,680	7,593	4.9%	97.2%
2007	3,424	164	4.8%	152,438	6,904	4.5%	105.8%
2006	3,392	165	4.9%	150,353	7,252	4.8%	100.9%

Source: Federal Bureau of Labor Statistics, October 2015. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

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**Massachusetts and United States Average Unemployment Rates  
FY2006 to FY2015**



## Largest Private Sector Massachusetts Employers 2015 and 2006

(Alphabetical Order)

2015			2006		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	Friendly Ice Cream Corporation	Wilbraham	Food Service
Harvard University	Cambridge	University	General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University	Harvard University	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
The Stop & Shop Supermarkets , Co.	Quincy	Supermarket	S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
The TJX Companies, Inc.	Framingham	Retail	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

*Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2015 survey. In addition, Bank of America NA, Home DepotUSA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.*

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

Functions / Programs	2015	2014	2013	2012	2011
General government .....	7,696	7,637	7,627	7,408	8,020
Judiciary .....	7,264	7,195	7,297	7,087	7,111
Energy and environmental affairs .....	2,689	2,629	2,684	2,685	2,737
Health and human services.....	22,060	21,496	21,996	21,042	21,011
Transportation and construction.....	4,357	4,301	4,243	4,230	4,209
Education.....	970	1,099	928	922	1,037
Public safety and homeland security .....	17,057	17,215	16,907	16,503	15,785
Housing and economic development .....	884	891	868	845	831
Higher Education:					
University of Massachusetts.....	14,670	14,066	14,688	14,159	14,159
State universities.....	5,422	4,969	4,856	4,747	4,487
Community colleges.....	4,692	4,990	5,111	4,834	4,684
<b>Totals.....</b>	<b>87,760</b>	<b>86,488</b>	<b>87,205</b>	<b>84,462</b>	<b>84,070</b>
<b>Percentage change .....</b>	<b>1.5%</b>	<b>(0.8)%</b>	<b>3.2%</b>	<b>0.5%</b>	<b>(0.9)%</b>

Source: Office of the State Comptroller

"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and construction includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security (see pages 20-21 of Management's Discussion and Analysis for details).

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2010	2009	2008	2007	2006	Change - 2015 from 2006
8,280	6,277	6,368	6,204	6,177	24.6 %
7,388	7,821	8,021	7,993	7,635	(4.9)%
2,783	2,955	2,928	2,847	2,686	0.1 %
21,401	22,605	23,322	22,972	22,935	(3.8)%
4,127	3,043	2,892	1,903	2,708	60.9 %
1,575	844	615	617	651	49.0 %
15,857	13,951	14,242	14,550	13,517	26.2 %
846	2,314	2,302	2,339	2,264	(61.0)%
14,031	13,814	13,651	13,602	13,360	9.8 %
4,282	4,650	4,519	4,495	4,301	26.1 %
4,276	4,781	4,775	4,689	4,603	1.9 %
<b>84,846</b>	<b>83,055</b>	<b>83,636</b>	<b>82,211</b>	<b>80,837</b>	8.6 %
<b>2.2%</b>	<b>(0.7)%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>2.1%</b>	

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

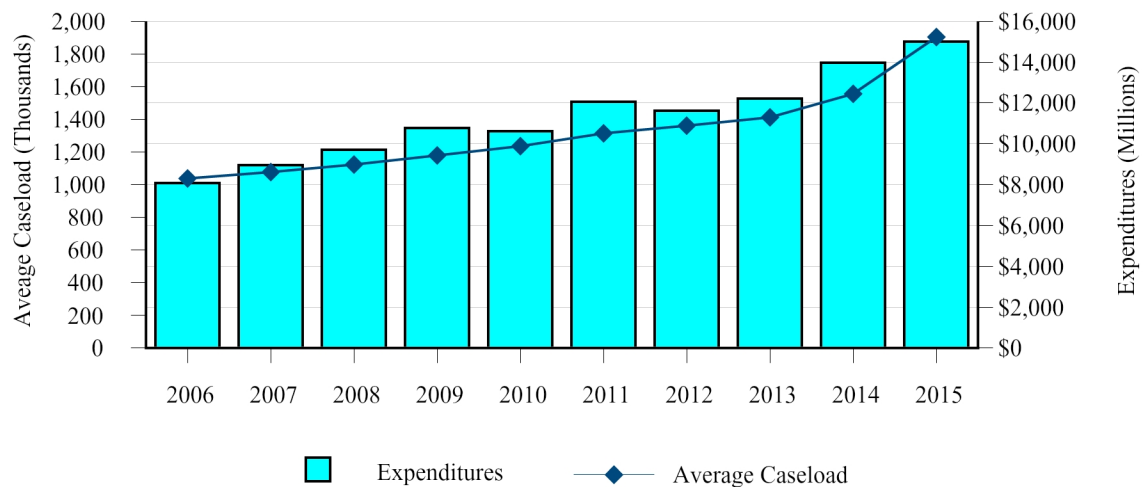
(Caseload amount in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2015*	1,903	\$15,087	\$7,928
2014*	1,556	14,035	9,020
2013	1,413	12,286	8,695
2012	1,361	11,708	8,602
2011	1,315	12,124	9,220
2010	1,263	10,678	8,454
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853

\* Includes members in transitional coverage program starting January 1, 2014.

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**Average Annual Caseload and Medicaid Expenditures 2006 - 2015**



**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
2014	3,211	15,645	9,048	44,472	72,376	(0.01)%	85.7%	14.3%
2013	3,211	15,674	9,058	44,438	72,381	0.16%	85.7%	14.3%
2012	3,212	15,639	9,038	44,379	72,268	0.13%	85.8%	14.2%
2011	3,212	15,051	9,611	44,300	72,174	0.2%	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.2%	81.1%	18.9%
2009	3,212	14,974	9,589	44,112	71,887	0.3%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.4%	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%	19%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81%	19%

\*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*

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

Functions/Programs	Survey Year 2015	Survey Year 2014	Survey Year 2013	Survey Year 2012	Survey Year 2011
<b>General Government:</b>					
Total Acreage.....	2,574	3,114	3,101	3,039	2,993
Number of Improvements .....	173	513	333	279	255
Gross square footage .....	6,803,498	10,916,681	9,076,550	7,690,761	7,206,548
<b>Judiciary:</b>					
Total Acreage.....	153	149	148	148	141
Number of Improvements .....	75	74	73	73	68
Gross square footage .....	4,843,949	5,310,049	4,700,920	4,700,920	4,787,564
<b>Energy and environmental affairs</b>					
Total Acreage.....	674,046	668,631	652,400	642,799	627,286
Number of Improvements .....	2,186	1,806	2,192	2,191	2,182
Gross square footage .....	8,134,142	6,507,161	7,287,961	7,283,666	7,295,922
<b>Housing and economic development:</b>					
Total Acreage.....	2	—	2	2	2
Number of Improvements .....	6	4	5	5	6
Gross square footage .....	78,012	57,812	68,412	68,412	77,642
<b>Health and human services:</b>					
Total Acreage.....	5,623	5,834	5,829	6,407	6,449
Number of Improvements .....	627	907	792	855	866
Gross square footage .....	8,360,310	10,995,096	9,759,611	10,923,090	10,834,266
<b>Transportation and public works:</b>					
Total Acreage.....	6,966	7,014	6,965	6,972	7,013
Number of Improvements .....	929	675	921	919	918
Gross square footage .....	4,919,282	1,989,583	4,876,689	4,876,689	4,873,783
<b>Education:</b>					
Total Acreage.....	208	208	208	208	233
Number of Improvements .....	40	40	43	43	43
Gross square footage .....	207,633	205,503	272,352	272,352	272,352
<b>Public safety and homeland security:</b>					
Total Acreage.....	19,150	19,166	19,169	19,172	19,158
Number of Improvements .....	1,014	1,083	997	990	991
Gross square footage .....	13,376,555	14,402,161	12,213,112	12,191,229	12,141,396
<b>Higher Education:</b>					
Total Acreage.....	7,243	7,128	7,473	7,254	7,178
Number of Improvements .....	1,076	873	1,009	1,007	987
Gross square footage .....	38,411,260	29,666,140	32,594,800	32,523,400	32,144,815
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage.....</b>	<b>715,965</b>	<b>711,244</b>	<b>695,295</b>	<b>686,001</b>	<b>670,454</b>
<b>Number of Improvements.....</b>	<b>6,126</b>	<b>5,975</b>	<b>6,365</b>	<b>6,362</b>	<b>6,316</b>
<b>Gross square footage.....</b>	<b>85,134,641</b>	<b>80,050,186</b>	<b>80,850,407</b>	<b>80,530,519</b>	<b>79,634,288</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage.....</b>	<b>0.7%</b>	<b>2.3 %</b>	<b>1.4%</b>	<b>2.3%</b>	<b>0.6 %</b>
<b>Improvement.....</b>	<b>2.5%</b>	<b>(6.1)%</b>	<b>—%</b>	<b>0.7%</b>	<b>— %</b>
<b>Gross square footage.....</b>	<b>6.4%</b>	<b>(1)%</b>	<b>0.4%</b>	<b>1.1%</b>	<b>(0.1)%</b>

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. See <http://www.mass.gov/anf/property-mgmt-and-construction/sale-and-lease-of-state-assets/comprehensive-real-estate-serv/massets-reports.html>

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Survey Year 2010	Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006
2,373	2,495	1,858	1,681	2,050
227	240	163	84	232
6,797,819	6,660,792	5,736,028	4,767,751	6,745,962
141	141	145	135	118
68	69	71	71	68
4,787,564	4,826,836	5,080,836	4,889,645	4,351,128
623,952	606,662	591,511	586,173	569,282
2,183	2,170	2,162	2,156	2,159
7,299,322	7,246,280	7,242,870	7,185,678	7,057,840
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	77,642	77,642
7,196	7,166	7,259	7,604	7,615
866	902	980	1,059	1,001
10,809,259	11,214,034	12,270,433	13,371,858	12,333,804
6,966	7,050	6,930	6,933	7,217
918	915	915	914	910
4,876,689	4,876,936	4,876,936	4,856,942	4,845,365
233	233	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
18,693	18,331	18,324	18,319	17,530
1,029	1,028	1,023	1,031	1,026
12,685,447	12,632,897	12,631,497	12,768,250	12,885,742
7,169	7,151	7,149	7,133	7,089
975	937	940	932	933
32,117,854	31,101,329	31,197,929	30,947,996	30,870,743
<b>666,725</b>	<b>649,231</b>	<b>633,412</b>	<b>628,212</b>	<b>611,136</b>
<b>6,315</b>	<b>6,310</b>	<b>6,303</b>	<b>6,296</b>	<b>6,378</b>
<b>79,723,948</b>	<b>78,909,098</b>	<b>79,386,523</b>	<b>79,138,114</b>	<b>79,440,578</b>
2.7%	2.5 %	0.8%	2.8 %	1.8 %
0.1%	0.1 %	0.1%	(1.3)%	(1.3)%
1%	(0.6)%	0.3%	(0.4)%	(3)%

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

Academic Year	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
<b><u>ENROLLMENT</u></b>					
<b><u>University System</u></b>					
Undergraduate (FTE).....	49,725	48,893	48,136	47,432	48,018
Graduate (FTE).....	12,576	12,442	12,202	12,048	11,734
<b>System Enrollment.....</b>	<b>62,301</b>	<b>61,335</b>	<b>60,338</b>	<b>59,480</b>	<b>59,752</b>
<b><u>State University System</u></b>					
Undergraduate (FTE).....	35,507	35,429	34,773	35,639	36,721
Graduate (FTE).....	7,507	7,704	7,894	6,224	7,227
<b>System Enrollment.....</b>	<b>43,014</b>	<b>43,133</b>	<b>42,667</b>	<b>41,863</b>	<b>43,948</b>
<b><u>Community College System</u></b>					
Undergraduate (FTE).....	58,764	64,584	62,445	64,586	64,971
<b><u>DEGREES CONFERRED</u></b>					
	2015	2014	2013	2012	2011
<b><u>University System</u></b>					
Certificates (MD's).....	N/A	376	426	348	246
Associate's.....	N/A	96	121	97	100
Bachelors.....	N/A	11,544	10,910	10,399	9,958
Masters.....	N/A	3,559	3,442	3,360	3,242
Doctoral.....	N/A	502	486	450	414
Cert. of Adv. Grad. Study.....	N/A	77	62	89	87
Post-Bacc. Certificate.....	N/A	691	664	659	550
First Professional.....	N/A	79	103	43	47
<b>Total Degrees.....</b>	<b>N/A</b>	<b>16,924</b>	<b>16,214</b>	<b>15,445</b>	<b>14,644</b>
<b><u>State University System</u></b>					
Certificates.....	N/A	34	37	29	35
Bachelors.....	N/A	8,184	8,024	7,722	7,190
Masters.....	N/A	2,478	2,327	2,404	2,376
Cert. of Adv. Grad. Study.....	N/A	114	108	143	116
Post-Bacc. Certificate.....	N/A	327	371	362	408
<b>Total Degrees.....</b>	<b>N/A</b>	<b>11,137</b>	<b>10,867</b>	<b>10,660</b>	<b>10,125</b>
<b><u>Community College System</u></b>					
Certificates.....	N/A	3,365	2,929	2,888	3,020
Associates.....	N/A	11,341	10,772	10,404	9,693
<b>Total Degrees.....</b>	<b>N/A</b>	<b>14,706</b>	<b>13,701</b>	<b>13,292</b>	<b>12,713</b>
<b>Total All Systems - Degrees.....</b>	<b>N/A</b>	<b>42,767</b>	<b>40,782</b>	<b>39,397</b>	<b>37,482</b>

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

N/A - Data not available for degrees issued in the 2015 academic year.

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Fall 2009	Fall 2008	Fall 2007	Fall 2006	Fall 2005	Change - 2014 from 2005
44,543	42,768	40,806	47,432	48,018	3.6 %
10,177	9,460	9,328	12,048	11,734	7.2 %
<b>54,720</b>	<b>52,228</b>	<b>50,134</b>	<b>59,480</b>	<b>59,752</b>	<b>4.3 %</b>
34,129	33,040	32,106	35,639	36,721	(3.3)%
4,582	4,495	4,428	6,224	7,227	3.9 %
<b>38,711</b>	<b>37,535</b>	<b>36,534</b>	<b>41,863</b>	<b>43,948</b>	<b>(2.1)%</b>
60,602	54,228	51,257	64,586	64,971	(9.6)%
2010	2009	2008	2007	2006	Change - 2015 from 2006
329	280	270	268	260	N/A
111	103	96	117	99	N/A
9,362	8,763	8,437	8,191	8,089	N/A
3,029	2,882	2,808	2,503	2,484	N/A
400	381	390	443	371	N/A
79	70	86	77	97	N/A
509	173	133	146	115	N/A
—	—	—	—	—	N/A
<b>13,819</b>	<b>12,652</b>	<b>12,220</b>	<b>11,745</b>	<b>11,515</b>	<b>N/A</b>
572	605	597	615	556	N/A
6,886	6,621	6,328	6,207	5,885	N/A
2,467	2,343	2,318	2,201	2,190	N/A
170	157	224	151	179	N/A
362	406	347	431	361	N/A
<b>10,457</b>	<b>10,132</b>	<b>9,814</b>	<b>9,605</b>	<b>9,171</b>	<b>N/A</b>
2,770	2,587	2,495	2,297	2,422	N/A
9,257	8,549	8,247	7,942	8,024	N/A
<b>12,027</b>	<b>11,136</b>	<b>10,742</b>	<b>10,239</b>	<b>10,446</b>	<b>N/A</b>
<b>36,303</b>	<b>33,920</b>	<b>32,776</b>	<b>31,589</b>	<b>31,132</b>	<b>N/A</b>

## Calculation of Transfers: Stabilization Fund - Statutory Basis

June 30, 2015  
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c and Section 53A of Chapter 119 of the Acts of 2015, which superseded certain parts of Section 5c . It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Commonwealth Transportation	Massachusetts Tourism	Local Capital Projects	Gaming Local Aid	Manufacturing	Community College	Total
Budgeted Fund Undesignated Balances .....	\$ 111,702	\$ (71,484)	\$ 31,399	\$ 39,675	\$ (17,994)	\$ 21,713	\$ 28,498	\$143,507
Fund Balance Deficit Elimination Transfers Per Section 5C of Ch. 29 .....	(42,896)	71,484	(12,062)	(15,238)	17,994	(8,339)	(10,943)	—
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus).....	68,806	—	19,337	24,437	—	13,374	17,555	143,507
<u>Disposition of Consolidated Net Surplus per Section 53A of Ch. 119 of the Acts of 2015:</u>								
To the Massachusetts Community Preservation Trust Fund .....	(10,000)	—	—	—	—	—	—	(10,000)
To the Massachusetts Life Sciences Investment Fund .....	(10,000)	—	—	—	—	—	—	(10,000)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Section 53A of Ch. 119 of the Acts of 2015 .....	<u>\$ 48,806</u>	<u>\$ —</u>	<u>\$ 19,337</u>	<u>\$ 24,437</u>	<u>\$ —</u>	<u>\$ 13,374</u>	<u>\$ 17,555</u>	<u>\$123,507</u>

**Stabilization Balance Reconciliation:**

Balance as of July 1, 2014 .....	<b>\$ 1,248,435</b>
Reimbursement of Massachusetts Gaming Commission start-up funds per Section 94 of Ch. 194 of the Acts of 2011 .....	20,000
Transfer of investment income, certain tax revenues, and other recoveries to the General Fund, per Ch. 165 of the Acts of 2014.....	6,695
Adjustment to General Fund transfer for change in market value and other accruals.....	(1,402)
Less Transfers from Stabilization Fund:	
Investment Income to General Fund per Sec.259(b) of Ch. 165 of the Acts of 2014.....	(4,806)
To General Fund Per Sec. 259(a) of Ch. 165 of the Acts of 2014 .....	(140,000)
Total Transfers from Stabilization Fund during FY 2015 .....	(144,806)
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above .....	123,507
<b>Stabilization Fund Balance as of June 30, 2015 .....</b>	<b><u>\$ 1,252,429</u></b>

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**Calculation Of Transfers: Tax Reduction Fund - Statutory Basis**

June 30, 2015

(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 .....	\$ 1,252,429
Allowable Stabilization Fund balance .....	<u>5,735,471</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ —</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,252,429
Transfer to Tax Reduction Fund.....	<u>—</u>
Stabilization Fund balance after transfer to Tax Reduction Fund .....	<u>\$ 1,252,429</u>

Part 3: Status of Tax Reduction Fund after transfers:

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

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**MASSACHUSETTS GENERAL INFORMATION**

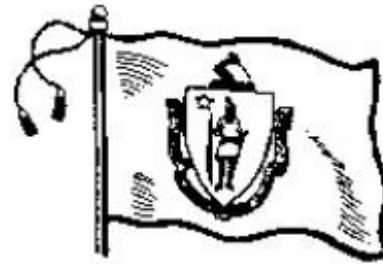
**Admitted to Union (6th State):** 1788  
**Population:** 6,745,408

**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."

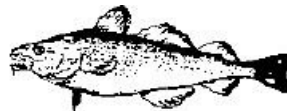
The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

**The State Flower**



**The Mayflower**

**The State Fish**



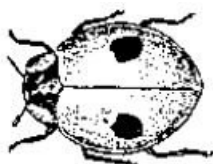
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**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