

SUPPLEMENT DATED JANUARY 16, 2018

TO

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

DATED DECEMBER 13, 2017



Except as specifically provided herein, the Commonwealth Information Statement, dated December 13, 2017 (the “Information Statement”), has not been updated or supplemented. The Information Statement contains information only through its date, except as specifically set forth in this Supplement. The Information Statement, together with this Supplement, should be read in its entirety.

The Information Statement is supplemented as of the date hereof as set forth below.

COMMONWEALTH REVENUES - Tax Revenue Forecasting

Under the heading, “COMMONWEALTH REVENUES - Tax Revenue Forecasting,” the following two paragraphs are added to the end of the section:

On January 12, 2018, a fiscal 2019 consensus tax revenue estimate of \$27.594 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 2019 consensus tax revenue estimate represents revenue growth of 3.5% from the revised fiscal 2018 estimate of \$26.661 billion certified by the Secretary also on January 12, 2018. The \$27.594 billion figure for fiscal 2019 includes allocations of \$2.609 billion for pension funding, \$1.032 billion in dedicated sales tax receipts for the MBTA, \$858.9 million in dedicated sales tax receipts for the MSBA, and \$24.1 million for the Workforce Training Fund. The total amount of off-budget allocations was \$4.612 billion. Accordingly, after taking into account these off-budget allocations the Secretary and Committee chairs agreed that \$22.982 billion would be the maximum amount of tax revenue available for the fiscal 2019 budget. The consensus tax revenue estimate for fiscal 2019 assumes that another income tax trigger will go into effect on January 1, 2019, lowering the state personal income tax rate on most classes of taxable income to 5.05% from 5.10%, but does not take into account any potential effects from certain pending initiative petitions regarding the income tax and the sales and use tax. See, “THE GOVERNMENT – Initiative Petitions,” and “COMMONWEALTH REVENUES – State Taxes; *Income Tax*” and “*Sales and Use Tax*.”

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means also agreed upon a potential gross state product (PGSP) estimate of 3.6% for calendar year 2019, which is identical to the PGSP figure that was adopted for calendar years 2016 through 2018. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth’s health care cost growth benchmark. See “COMMONWEALTH EXPENDITURES – Medicaid and the Health Connector; *Health Care Cost Containment*.”

Under the heading “COMMONWEALTH EXPENDITURES – Medicaid and the Health Connector; MassHealth,” the first paragraph is deleted and replaced with the following paragraph:

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). The federal CHIP funding expired on September 30, 2017, and in December, 2017 Congress passed a short-term funding bill temporarily extending CHIP funding. The Commonwealth’s CHIP allotment is projected to run out in April, 2018. The administration is working with the Commonwealth’s Congressional

delegation on the reauthorization of CHIP and has joined a bipartisan group of governors who are urging the federal delegation and members of Congress to reauthorize CHIP as soon as possible. Under the ACA, beginning January 1, 2014, MassHealth began receiving enhanced federal reimbursement for spending on the new adult group (generally, childless adults with incomes under 133% of the federal poverty limit). In calendar 2016, the federal reimbursement rate for this group was 85%, and in calendar 2017, the federal reimbursement rate is 86%. The reimbursement rate for this group is scheduled to increase each year through 2019, and then to level off at 90% in 2020 and beyond.

THE COMMONWEALTH OF MASSACHUSETTS

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated December 13, 2017

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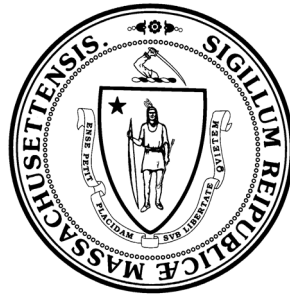
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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Charles D. BakerGovernor
Karyn E. PolitoLieutenant 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

Harriette L. Chandler.....Acting President of the Senate
Robert A. DeLeo.....Speaker of the House

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

December 13, 2017

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 10, 2017. 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, 2017 and the Commonwealth's Comprehensive Annual Financial Report (reported in accordance with generally accepted accounting principles (GAAP)) for the year ended June 30, 2016.

Specific reference is made to 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.macomptroller.org> by clicking on "Financial Reports" on the Comptroller's homepage.

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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.

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

Governor’s Cabinet. The Governor’s Cabinet, which assists the Governor in administration and policy making, comprises the secretaries who head the eight 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, the Executive Office of Education, and the Executive Office of Technology Services and Security. 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 eight 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 procurement management 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, and 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, 2017, attached hereto as Exhibit B, was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2016, 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 enacted 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 No. 14 and No. 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 2016, 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 2016 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 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.

On September 6, 2017, the Attorney General certified four different initiative petitions that, if approved, would reduce the sales tax rate in Massachusetts from 6.25% to either 4.5% or 5%. See "COMMONWEALTH

REVENUES – State Taxes; Sales and Use Tax.” On December 6, 2017, the sponsors of the petitions submitted signatures to the Secretary of the Commonwealth on the petition that would reduce the sales tax rate to 5% and institute an annual sales tax holiday. The Secretary has not yet ruled on the sufficiency of the signatures. As described above, if there are sufficient signatures, the petition will be submitted to the Legislature for consideration, and if the Legislature takes no action, the sponsors will have the opportunity to place the petition on the November, 2018 ballot by collecting further signatures in the summer of 2018.

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 – 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. Opponents of the petition have filed a lawsuit in the Supreme Judicial Court claiming that the Attorney General’s certification of the petition in 2015 was unconstitutional. Oral arguments are scheduled for February 5, 2018. If the measure survives the legal challenge and is supported by at least 25% of the Legislature at the 2017-18 Constitutional Convention, 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 GAAP, as defined by 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 98.7% of the statutory basis budgeted operating fund outflows in fiscal 2017 were made. The remaining approximately 1.3% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Community First Trust Fund, the Gaming Local Aid Fund and the Local Aid Stabilization Fund. There were also 17 budgeted funds which were authorized by law but had no activity in fiscal 2017: 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 Massachusetts Tourism 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 Manufacturing Fund, the Community College Fund, the Agricultural Reserve and Security Fund, and the Marijuana Regulation 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, with revisions, 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 – 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 warrant requirement under state finance law does not apply to debt service appropriations.

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 2017 AND FISCAL 2018 – 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 2017 AND FISCAL 2018 – Cash Flows."

Fiscal Control, Accounting and Reporting Practices of the 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 the 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; a provision in the fiscal 2018 budget requires that the Comptroller record in fiscal 2018 on the statutory basis certain sales tax revenues received in July, 2018, that under Massachusetts General Law and the Comptroller's revenue recognition policy would normally be recorded as fiscal 2019 revenue. The result of this provision is that thirteen months of such sales tax revenue would be recorded in fiscal 2018. The fiscal 2018 sales revenue estimate includes \$125 million to account for this provision. The provision does not currently extend past fiscal 2018; if the provision is not extended beyond fiscal 2018, only eleven months of such sales tax revenue would be recorded in fiscal 2019 on a statutory basis. 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, 2016; 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 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

This section contains a description of the major categories of Commonwealth revenues. See “COMMONWEALTH EXPENDITURES” for a description of the major categories of Commonwealth expenditures. All percentages and amounts for fiscal 2018 are projected.

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 2017, on a statutory basis, approximately 57.0% of the Commonwealth’s budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 26.0% of such revenues, with the remaining 17.0% provided from departmental revenues and transfers from non-budgeted funds.

The Commonwealth’s executive and legislative branches establish the Commonwealth’s budget using the statutory basis of accounting, which differs from a GAAP basis. See “SELECTED FINANCIAL DATA – Statutory Basis Distribution of Budgetary Revenues and Expenditures” and “- GAAP Basis.”

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 57.2% of total tax revenues in fiscal 2017, the sales and use tax, which accounted for approximately 24.2% in fiscal 2017, and the corporations and other business and excise taxes (including taxes on insurance companies and financial institutions), which accounted for approximately 10.0% in fiscal 2017. Other tax and excise sources accounted for the remaining 8.6% of total fiscal 2017 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.

The U. S. House of Representatives and the U. S. Senate have each passed legislation which, if enacted, would make substantial changes to the federal income tax code, affecting both business and individual taxpayers. The two bills that have been passed differ in significant respects. The House and Senate currently are reconciling the differences in the two bills, and no final bill has been enacted by the U. S. Congress. It is not possible to predict with any certainty at this time if and how federal tax law may change, when any such changes will take effect, or whether and how any such changes will affect taxpayer behavior in a manner that could indirectly affect the Commonwealth’s tax revenues. Therefore, it is not possible to predict the corresponding impact that any such actions could have on the Commonwealth’s tax revenues. The discussions of the Commonwealth’s tax revenues that appear in this Information Statement should be read with the understanding that significant changes could occur in calendar 2018 and beyond affecting the matters discussed.

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. 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, 2017, the Department of Revenue certified that the fiscal 2017 inflation-adjusted baseline tax revenue growth over fiscal 2016 was 0.059%, and, therefore, the 2.5% fiscal 2017 growth threshold needed to trigger a further tax rate reduction effective January 1, 2018 was not met.

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.

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 2018, 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</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 (1)</u>
5.3% to 5.25%	\$114	\$119	\$124	\$130	\$136	\$142
5.25% to 5.20%	-	65	133	138	145	151
5.20% to 5.15%	-	-	70	145	152	158
5.15% to 5.10%	-	-	-	74	152	159

Source: Department of Revenue.

(1) Income tax revenue impact in fiscal 2018 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 Component of the Income 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 for adjusting the personal income tax rate 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, 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 in 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. On December 28, 2016, the Department of Revenue certified that the fiscal 2018 capital gains tax collections threshold is approximately \$1.169 billion.

In fiscal years 2015 and 2016, the Commonwealth temporarily suspended the requirement to transfer capital gains tax collections above the threshold to the Stabilization Fund, with all capital gains tax collections to remain in the General Fund.

The fiscal 2017 capital gains tax collections threshold had been determined to be approximately \$1.128 billion. The fiscal 2017 budget included language requiring the Comptroller to transfer all capital gains tax collections above \$1.278 billion to the Stabilization Fund in fiscal 2017. On July 21, 2017, the Department of Revenue certified that fiscal 2017 tax revenues collected from capital gains income were \$1.19 billion, therefore resulting in no transfer of capital gains tax revenues to the Stabilization Fund in fiscal 2017 under this provision. On November 30, 2017, the Department of Revenue certified that fiscal 2017 tax revenues collected from capital gains income were \$1.185 billion.

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 commencing in 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.

On September 6, 2017, the Attorney General certified four different initiative petitions that, if approved, would reduce the sales tax rate in Massachusetts from 6.25% to either 4.5% or 5%. See “THE GOVERNMENT – Initiative Petitions.”

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads 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 assigned 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 or 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 assigned to Massachusetts is taxed at 9.0%. In general, financial institutions apportion their income to Massachusetts based on the proportion of receipts, payroll and property within the Commonwealth.

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.

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. On November 8, 2016, voters approved an initiative petition that, among other things, imposes an excise tax, in addition to the regular sales tax, on retail sales of recreational marijuana and marijuana products, which that petition legalized. Legislation approved by the Governor on December 30, 2016 delayed the effective date of the new tax, and the first tax collections are now expected to occur in fiscal 2019. Legislation approved by the Governor on July 28, 2017 increased the maximum state and local tax rate on recreational marijuana from 12% to 20%.

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 25, 2017 appears below:

Fiscal 2018 Tax Expenditure Budget Summary (in millions)

<u>Tax Type</u>	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Personal Income Tax	\$6,095.9	\$6,527.0	\$6,721.8	\$7,101.6	\$7,437.5
Corporate and Other Business Excise	1,667.5	1,828.7	1,860.3	1,953.1	2,064.4
Sales and Use Tax	<u>4,710.8</u>	<u>4,673.4</u>	<u>4,551.1</u>	<u>4,688.5</u>	<u>4,864.1</u>
Total	\$12,474.1	\$13,029.1	\$13,133.2	\$13,723.2	\$14,366.0

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 10-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 \$16.5 million in fiscal 2013, \$16.5 million in fiscal 2014, \$19.6 million in fiscal 2015, \$15.5 million in fiscal 2016, and \$18.8 million in fiscal 2017. The Massachusetts Life Sciences Center board has approved \$20 million in tax incentives that are expected to be utilized in fiscal 2018.

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 and “PENSION AND OPEB FUNDING.”

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. PGSP is a measure of the “full employment” output of the Commonwealth’s economy. 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 2013 to 2017. Figures for fiscal 2018 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)

	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Projected Fiscal 2018</u>
Consensus forecast	\$21,950	\$22,334	\$24,337	\$25,479	\$26,860	\$27,072
GAA estimate of tax-related settlements and judgments exceeding \$10 million	-	-	204	100	125	125
Total taxes per enacted budget	<u>\$22,011</u>	<u>\$22,797</u>	<u>\$24,591</u>	<u>\$25,711</u>	<u>\$26,356</u>	<u>\$26,604</u> (3)
October revision	21,496 (2)	-	-	-	26,056	
January revision	-	23,200	24,325	25,751	-	
Actual budgeted operating tax revenues (1)	<u>\$22,123</u>	<u>\$23,370</u>	<u>\$24,932</u>	<u>\$25,425</u>	<u>\$25,662</u>	
Actual revenues as a percentage of consensus forecast	101%	105%	102%	99.8%	95.5%	
Actual revenues as a percentage of total taxes per enacted budget	101%	103%	102%	98.7%	98.5%	

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

(1) Actual revenues include tax-related settlements exceeding \$10 million each.

(2) Revised on December 4, 2012.

(3) See discussion below. The Executive Office for Administration and Finance currently projects that tax-related settlements and judgments exceeding \$10 million will be \$100 million in fiscal 2018.

On January 12, 2017, a fiscal 2018 consensus tax revenue estimate of \$27.072 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 2018 consensus tax revenue estimate represents revenue growth of 3.9% from the fiscal 2017 estimate of \$26.056 billion. The \$27.072 billion figure included allocations of \$2.395 billion for pension funding, \$1.007 billion in dedicated sales tax receipts for the MBTA, \$841 million in dedicated sales tax receipts for the MSBA and \$22.9 million for the Workforce Training Fund. The total amount of off-budget allocations was \$4.368 billion. Accordingly, after taking into account these off-budget allocations the Secretary and Committee chairs agreed that \$22.704 billion would be the maximum amount of tax revenue available for the fiscal 2018 budget and they based their respective budget recommendations on that number. On July 17, 2017, the Governor approved the fiscal 2018 budget, which assumed total tax revenues of \$26.504 billion (excluding tax-related settlements and judgments), based on the consensus estimate of \$27.072 billion adjusted down by \$749 million (including a \$35 million reduction on account of a change in the return filing deadline for corporate and business taxpayers and an \$83 million increase from the personal Part B tax rate reduction not triggering, as assumed in the consensus update), and up by \$181 million for the incremental impact of various tax law changes. On October 13, 2017, the Secretary of Administration and Finance announced that the fiscal 2018 estimate of \$26.504 billion was being kept unchanged.

On December 6, 2017, 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 2019. The Commissioner of Revenue provided a forecast that fiscal 2019 tax revenue collections will be \$27.374 billion to \$27.582 billion, reflecting actual growth of 3.3% to 4.1%, and baseline growth of 4.1% to 4.9% from the fiscal 2018 benchmark, which represents growth of \$0.870 billion to \$1.078 billion over the fiscal 2018 benchmark. The Commissioner also provided a hybrid forecast of 27.392 billion for fiscal 2019, reflecting actual growth of 3.4%, and baseline growth of 4.2% from the fiscal 2018 benchmark, which represents an actual growth of \$0.888 billion over the fiscal 2018 benchmark.

The Secretary of Administration and Finance and the Committees on Ways and Means also heard public testimony from economists and state budget experts from Northeastern University, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute, who provided a range of forecasts for fiscal 2019 tax revenue collections, from \$27.581 billion to \$28.697 billion.

Fiscal 2017 and Fiscal 2018 Tax Revenues

Fiscal 2017. Tax revenues for fiscal 2017 totaled approximately \$25.662 billion, including \$58.0 million in one-time tax-related settlements and judgments, exceeding \$10 million each, an increase of approximately \$237 million, or 0.9%, over fiscal 2016. The following table shows the tax collections for fiscal 2017 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 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	1,590.6
September	2,756.9	205.4	8.0	83.3	67.7	2,605.9
October	1,792.3	128.8	7.7	83.4	70.0	1,638.8
November	1,490.4	(182.7)	(10.9)	75.9	62.5	1,352.0
December	2,489.6	62.6	2.6	88.8	65.9	2,334.8
January	2,720.2	131.4	5.1	96.3	82.9	2,540.9
February	1,172.4	(100.8)	(7.9)	72.0	58.7	1,041.7
March	2,290.2	18.4	0.8	79.8	59.9	2,150.5
April	2,854.3	(92.4)	(3.1)	78.9	65.6	2,709.9
May	1,921.1	56.6	3.0	82.9	69.6	1,768.5
June	2,732.1	(33.1)	(1.2)	86.2	75.8	2,570.0
Total (1)	<u>\$25,661.7</u>	<u>\$237.2</u>	<u>0.9%</u>	<u>\$992.2</u>	<u>\$816.8</u>	<u>\$23,852.7</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

The tax revenue increase of approximately \$237 million from fiscal 2016 to fiscal 2017 is attributable, in large part, to an increase of approximately \$542.8 million, or 4.8%, in withholding collections and an increase of approximately \$156.5 million, or 2.6%, in sales and use tax collections, which were partly offset by a decrease of approximately \$148.6 million, or 5.5%, in corporate and business tax collections, a decrease of approximately \$135.0 million, or 5.4% in income tax cash estimated payments, a decrease of approximately \$101.9 million, or 5.0%, in income tax payments with bills and returns, and a net decrease of approximately \$60.7 million, or 2.7%, in all other taxes. Fiscal 2017 tax collections, without tax-related settlements, were approximately \$452 million below the benchmarks associated with the revised fiscal 2017 tax revenue estimate of \$26.056 billion.

On July 6, 2017, the Department of Revenue and the Office of the Attorney General jointly certified that fiscal 2017 tax-related settlement and judgment payments totaled \$58.0 million and non-tax related settlement and judgment payments totaled \$53.6 million.

Fiscal 2018. The fiscal 2018 General Appropriations Act was based on estimated tax collections of \$26.504 billion, including revenues dedicated to the MBTA, the MSBA and the Workforce Training Fund, excluding large tax-related settlements and judgments. Preliminary tax revenues (including large tax-related settlements) for the first five months of fiscal 2018, ended November 30, 2017, totaled \$9.921 billion, an increase of approximately \$38.6 million, or 4.6%, over the same period in fiscal 2017.

The table on the following page shows the tax collections for the first five months of fiscal 2018 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.

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Fiscal 2018 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	\$1,797.1	\$91.7	5.4%	\$83.5	\$70.2	\$1,643.4
August	1,711.9	(25.2)	(1.4)	82.8	69.4	1,559.7
September	2,837.0	80.1	2.9	85.4	68.3	2,683.3
October	1,837.5	45.3	2.5	84.1	70.8	1,682.7
November (1)	1,737.1	246.7	16.6	81.7	68.3	1,587.1
Total (2)	<u>\$9,920.6</u>	<u>\$438.6</u>	<u>4.6%</u>	<u>\$417.5</u>	<u>\$347.0</u>	<u>\$9,156.2</u>

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 \$438.6 million through November, 2017 from the same period in fiscal 2017 is attributable, in large part, to an increase of approximately \$263.2 million, or 5.6%, in withholding collections, an increase of approximately \$15.9 million, or 6.7%, in income tax payments with bills and returns, an increase of approximately \$68.8 million, or 10.7%, in corporate and business tax collections, an increase of approximately \$81.3 million, or 3.1%, in sales and use tax collections, and a net increase of approximately \$30.9 million, or 3.3%, in all other taxes, which were partly offset by an increase of approximately \$22.0 million, or 8.2%, in income cash refunds. Year-to-date fiscal 2018 tax collections through November, 2017 were approximately \$204 million above the year-to-date benchmark associated with the fiscal 2018 tax revenue estimate of \$26.504 billion.

A provision in the fiscal 2018 budget requires that the Comptroller record in fiscal 2018 on the statutory basis certain sales tax revenues received in July, 2018, that under Massachusetts General Law and the Comptroller’s revenue recognition policy would normally be recorded as fiscal 2019 revenue. The result of this provision is that 13 months of such sales tax revenue would be recorded in fiscal 2018. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller – Statutory Basis of Accounting.”

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 2017 were \$10.858 billion and are projected to be \$11.556 billion in fiscal 2018.

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, and reimbursements. For fiscal 2017, departmental and other non-tax revenues were \$4.382 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2017 included \$1.259 billion in drug rebates, recoveries and other fees, \$819 million in reimbursements from cities, towns and non-state entities for retiree benefits, \$597 million for Registry of Motor Vehicles fees, fines and assessments, and \$255 million from filing, registration and other fees paid to the Secretary of State’s office. Departmental and other non-tax revenues are projected to be \$4.698 billion in fiscal 2018.

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 \$1.050 billion, \$1.069 billion, \$1.086 billion, \$1.092 billion, and \$1.136 billion in fiscal 2013 through 2017, 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 2018.

Fiscal 2018 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	\$402,164	\$278,909	\$23,114	\$100,141	\$3,387	\$96,754
August	514,130	369,704	29,314	115,112	6,666	108,447
September	376,517	268,338	21,550	86,629	9,787	76,842
October	384,068	284,551	21,941	77,576	5,317	72,259
November	-	-	-	-	-	-
December	-	-	-	-	-	-
January	-	-	-	-	-	-
February	-	-	-	-	-	-
March	-	-	-	-	-	-
April	-	-	-	-	-	-
May	-	-	-	-	-	-
June	-	-	-	-	-	-
Total	\$1,676,879	\$1,201,502	\$95,918	\$379,458	\$25,157	\$354,302
YTD prize accrual	-	6,050	-	(6,050)	-	(6,050)
Adj Totals	\$1,676,879	\$1,207,552	\$95,918	\$373,408	\$25,157	\$348,251

Source: State Lottery Commission; Monthly values from the State Lottery Commission Statement of Operations.
(1) Preliminary and subject to change.

A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2018.

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

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2018 (1)	5,233,733	1,070,041	968,756
2017	5,097,765	1,136,203	1,039,697
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

Source: State Lottery Commission

(1) Fiscal 2018 figures are projected. These numbers are under review and may be adjusted. 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, was payable in equal annual installments during the years 2008 through 2017, inclusive. Massachusetts received its final Strategic Contribution Fund payment in April, 2017.

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)."

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	242.4
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
2017	-	254.5	254.5
Total	<u>\$434.0</u>	<u>\$4,395.0</u>	<u>\$4,829.0</u>

SOURCE: Office of the Comptroller.

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

(2) Payments received for both 1999 and 2000.

Settlements and Judgments. 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. These amounts totaled approximately \$133.8 million in fiscal 2013, \$436.5 million in fiscal 2014, \$226.1 million in fiscal 2015, \$155.3 million in fiscal 2016, and \$111.6 million in fiscal 2017. The threshold applicable in fiscal 2018 is \$213 million (average of fiscal 2013 through fiscal 2017).

In fiscal 2013 and fiscal 2014, projected tax-related settlements or judgments were included as part of the consensus revenue estimate. Beginning in fiscal 2015, such settlements or judgments have been counted separately from the consensus revenue estimate in the General Appropriations Act.

On November 3, 2017, the Commissioner of Revenue and the Attorney General certified that the Commonwealth had received \$25.6 million in settlement and judgment payments (all of which were non-tax-related) during the first four months of fiscal 2018. The next certification, which will be issued in early January, will reflect

settlements received through December 31, 2017. The Executive Office for Administration and Finance estimates that the settlement and judgment payments will be below the fiscal 2018 threshold described above.

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 District Court, and the Mashpee Wampanoag filed a motion to intervene, which was granted. In December, 2016, the U. S. Department of the Interior and the Mashpee Wampanoag each filed a notice of appeal to the U. S. Court of Appeals for the First Circuit. On April 24, 2017, the Mashpee Wampanoag filed an assent to motion to stay briefing pending the revised decision from the Department of the Interior. On May 8, 2017, the federal appellants in this matter moved to withdraw their appeal. The Department of the Interior has not issued a revised decision, but instead has requested further briefing from the parties. The Mashpee Wampanoag have asked the court to further stay the matter pending a decision from the Department of the Interior and the court has agreed to the requested stay. The Commission will continue to monitor this matter.

The Category 2 slot facility opened on June 24, 2015. In fiscal 2017, the facility generated approximately \$158.3 million in gross gaming revenue, resulting in \$63.4 million in budgetary fund taxes collected by the Commonwealth.

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 Commission and agreed to dismiss all of its litigation pertaining to the Region A Category 1 license. The 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. That claim and those appeals were argued before the Supreme Judicial Court in November, 2016. On March 10, 2017, the court issued a decision affirming a Mohegan Sun’s intervenor claim, reversing the Superior Court’s dismissal of the open meeting law claim and remanding the case to the Superior Court for further proceedings. Briefing on Mohegan Sun’s intervenor claim is expected to be completed in January, 2018, with arguments before the Superior Court to follow. Discovery on the open meeting law claim is continuing. The Commission is proceeding with its defense of these claims.

On November 14, 2016, the Commission was sued for tortious interference with respect to the plaintiff’s agreement to sell property to the licensee for the Category 1 facility in Everett. The plaintiff is requesting damages as determined at trial. On April 7, 2017, the Commission filed a motion to dismiss the suit, which was granted by the court on June 7, 2017; however, the plaintiff filed an amended complaint while the court was in the process of

issuing its decision. The court’s decision stands and the Commission filed a motion to dismiss the claims in the amended complaint. The Commission’s motion to dismiss was argued in October, 2017. The court denied the Commission’s motion in part and asked for further briefing on a jurisdictional issue from both parties. That briefing was filed with the court in December, 2017. The Commission is proceeding with its defense of this claim.

In November, 2017, the Massachusetts Legislature enacted legislation that allows the Commission, in its discretion, to exempt certain gaming service employees by job position from certain registration requirements. The Commission is currently reviewing the legislation and will make a determination regarding exemption of job positions at a future public meeting.

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 2013 through fiscal 2017.

	<u>Net State Tax Revenues</u>	<u>Allowable State Tax Revenues</u>	<u>Net State Tax Revenues (under) Allowable State Tax Revenues</u>
2017	\$26,044,206,400	\$31,095,184,910	(\$5,050,978,510)
2016	25,801,807,368	29,477,204,724	(3,675,397,356)
2015	25,239,065,862	28,071,638,151	(2,832,572,289)
2014	23,666,801,084	27,048,676,153	(3,381,875,070)
2013	22,397,185,749	26,074,941,366	(3,677,755,617)
2012	21,384,338,828	25,236,379,381	(3,852,040,553)

SOURCES: State Auditor’s Office.

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COMMONWEALTH EXPENDITURES

This section contains a description of the major categories of Commonwealth expenditures. All percentages and amounts for fiscal 2017 are unaudited. All percentages and amounts for fiscal 2018 are projected.

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 2018 provides \$6.142 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 2018 budget includes state funding for so-called “Chapter 70” public education aid of \$4.746 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 \$30 per pupil, and is an increase of \$118 million over fiscal 2017.

The other major component of direct local aid is unrestricted general governmental aid, which provides unrestricted funds for municipal use. The fiscal 2018 budget provides for \$1.061 billion in unrestricted general government aid, which was allocated to provide a 3.9% increase over fiscal 2017 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 2017, the aggregate property tax levy grew from \$3.347 billion to \$15.831 billion, a compound annual growth rate of 4.40%.

Medicaid and the Health Connector

Many of the Commonwealth’s healthcare programs and expenditures are governed by the federal Affordable Care Act (ACA), to which strong opposition has been expressed by President Trump, the Secretary of the U. S. Department of Health and Human Services, and legislative leaders in Congress, and which has been the subject of several, to date unsuccessful, federal legislative efforts to repeal or substantially amend the same. While it is not possible to predict with any certainty whether or when the ACA may be, in whole or in part, repealed, withdrawn or modified, any such measures could have a material adverse effect on the Commonwealth’s healthcare programs and expenditures. Accordingly, the following discussion should be read with the understanding that significant changes could occur in the near future and beyond with respect to many of the programs discussed. See “FISCAL 2017 AND FISCAL 2018 – Fiscal 2018.”

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). The federal CHIP funding expired on September 30, 2017, and Congress has not yet reauthorized the program. Since October 1, 2017, the Commonwealth has been using a combination of federal fiscal 2017 carry-over funds and redistribution funding from CMS to continue to claim on CHIP expenditures; the Commonwealth’s

CHIP allotment is projected to run out in January, 2018. The administration is working with the Commonwealth's Congressional delegation on the reauthorization of CHIP and has joined a bipartisan group of governors who are urging the federal delegation and members of Congress to reauthorize CHIP as soon as possible. Under the ACA, beginning January 1, 2014, MassHealth began receiving enhanced federal reimbursement for spending on the new adult group (generally, childless adults with incomes under 133% of the federal poverty limit). In calendar 2016, the federal reimbursement rate for this group was 85%, and in calendar 2017, the federal reimbursement rate is 86%. The reimbursement rate for this group is scheduled to increase each year through 2019, and then to level off at 90% in 2020 and beyond.

The fiscal 2018 budget as approved in July, 2017 includes \$16.2 billion in funding for non-administrative spending for the MassHealth program. The \$16.2 billion included \$15.6 billion in programmatic spending, including costs related to the settlement of a claim against the Commonwealth. See "LEGAL MATTERS – Programs and Services; *Hutchinson et al. v. Patrick et al.*" The \$16.2 billion also included approximately \$639 million to support supplemental payments to providers. The November, 2017 supplemental budget included an additional \$295 million to support fiscal 2017 supplemental payments to providers that were pushed into fiscal 2018 due to timing of federal approval. Therefore, the fiscal 2018 budget now includes \$16.5 billion in funding for non-administrative spending. As of December, 2017, estimated non-administrative spending exceeds the fiscal 2018 budget as approved in July, 2017 by \$56 million net.

Budgeted Operating Funds Medicaid Expenditures and Enrollment (in millions)

	<u>Fiscal 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015 (2)</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 (3)</u>
Medicaid program expenses	\$10,799.1	\$11,900.8	\$13,681.9	\$14,851.0	\$15,251.7	\$15,695.6
Medicaid administrative expenses	\$84.6	\$86.7	\$87.3	\$93.0	\$97.3	\$102.3
Total expenditures (4)	\$10,883.7	\$11,987.5	\$13,769.2	\$14,944.0	\$15,349.0	\$15,797.9
Annual percentage growth in total expenditures	3.5%	10.1%	14.9%	8.5%	2.7%	2.9%
Enrollment (in average member months) (5)	1,403,225	1,592,050	1,907,366	1,862,988	1,892,887	1,864,840
Annual percentage growth in enrollment	3.5%	13.5%	19.8%	(2.3%)	1.6%	(1.5%)

SOURCE: Fiscal 2013-2017 (excluding Medicaid administrative expense and enrollment), Office of the Comptroller; fiscal 2018 and fiscal 2013-2017 (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 fiscal 2018 estimated spending as of December, 2017; account restructuring in fiscal 2018 budget shifted spending for the Choices program (\$214 million in fiscal 2017) from MassHealth to Elder Affairs.

(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 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 2017. 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 2018 budget for the Health Connector is expected to be fully funded from dedicated revenues in the CCTF. Total Health Connector gross spending in fiscal 2018 is projected to be \$288.9 million, an increase of \$52.0 million from fiscal 2017 gross spending of \$236.9 million. Fiscal 2018 spending for the Health Connector, net of federal revenue, is projected to be \$178.4 million, an increase of \$25.0 million compared to \$153.4 million in fiscal 2017.

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 November 4, 2016. The renewal consisted of an amendment to the current 1115 waiver, which was effective through June 30, 2017, as well as a five-year waiver extension. This waiver extension is authorized from July 1, 2017 through June 30, 2022. The waiver extension is a \$52.4 billion agreement that supports a restructuring of the MassHealth program and is expected to bring in significant federal investment to support health care delivery system reforms. The agreement also extends eligibility and benefit provisions authorized under the waiver, such as coverage for diversionary behavioral health benefits and for individuals with HIV. The waiver extension includes more than \$29 billion in revenue to the Commonwealth through federal financial participation. Additionally, the waiver extension expands services for substance use disorder treatment.

The 1115 waiver extension also preserves and maintains the stability of the Safety Net Care Pool (SNCP) for the full five years of the waiver period with an \$8 billion authorization. This authorization includes a \$1.8 billion investment of new Delivery System Reform Incentive Program (DSRIP) funding that will support MassHealth's payment reform objectives. The SNCP renews authority for the Health Safety Net program, 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. Under the new SNCP, supplemental payments for safety net hospitals have been restructured and linked to delivery system reform participation. The number of hospitals eligible for these payments increased from seven in the previous waiver to 14 in the waiver extension. In addition, the SNCP expands authority for federal match to include cost-sharing affordability subsidies and enrollment gap coverage for Health Connector enrollees up to 300% of the Federal Poverty Level. Lastly, the SNCP establishes non-state public hospital payments and incentive programs for Cambridge Health Alliance, tied to delivery system reform performance.

MassHealth also recently submitted a request to amend the 1115 waiver to align coverage for non-disabled adults with commercial plans and adopt widely-used commercial tools to obtain lower drug prices and enhanced rebates. These updates are expected to ensure the sustainability of the MassHealth program while retaining access for vulnerable populations. MassHealth plans to work toward approval of these requests with CMS over the coming months.

Health Care Cost Containment. The Center for Health Information and Analysis (CHIA) is an independent state agency, funded through an industry assessment, to monitor the Massachusetts health care system through data collection and research and to release reliable information and meaningful analysis to a wide variety of audiences.

The Health Policy Commission (HPC) is an 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. Beginning in fiscal 2017, the HPC is funded through an annual assessment on the health care industry, similar to CHIA's assessment.

As required by statute, the health care cost growth benchmark has been equal to PGSP, or 3.6%, for calendar years 2013 to 2017. Each year, the HPC, in collaboration with CHIA, releases a report on the Commonwealth's performance under the benchmark. The 2016 Cost Trends Report provides that total health care expenditures in the Commonwealth grew in 2015 by 4.1% (similar to growth in 2014 of 4.2%). Factors contributing to growth exceeding the benchmark in 2015 included continued growth in prescription drug spending, hospital spending, enrollment shifts, and spending on long-term services and supports. Pursuant to statute, the benchmark in calendar year 2018 must be set at PGSP minus a half of a percent, or 3.1%.

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.

Other Health and Human Services

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

<u>Expenditure Category</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 (1)</u>
Office of Health Services						
Department of Mental Health	\$638.1	\$663.0	\$682.4	\$712.5	\$739.2	\$777.6
Department of Public Health	507.8	547.7	518.7	525.2	553.8	609.2
Division of Healthcare and Finance Policy (2)	3.6	0.0	0.0	0.0	0.0	0.0
Sub Total	\$1,149.6	\$1,210.7	\$1,201.2	\$1,237.7	\$1,293.0	\$1,386.8
Office of Children, Youth, and Family Services						
Department of Children and Families	\$748.8	\$795.5	\$876.4	\$920.0	\$958.9	\$978.3
Department of Transitional Assistance	723.3	693.8	660.9	630.2	608.1	642.4
Department of Youth Services	150.8	160.6	168.3	169.2	171.7	178.1
Office for Refugees and Immigrants	0.4	0.9	1.1	1.1	1.3	0.4
Sub Total	\$1,623.2	\$1,650.8	\$1,706.7	\$1,720.5	\$1,740.0	\$1,799.2
Office of Disabilities and Community Services						
Department of Developmental Services	\$1,352.2	\$1,466.8	\$1,678.9	\$1,735.4	\$1,813.5	\$1,867.7
Other (3)	120.5	124.1	129.9	79.5	86.0	77.2
Sub Total	\$1,472.6	\$1,590.9	\$1,808.8	\$1,814.9	\$1,899.5	\$1,944.9
Executive Office of Elder Affairs (4)	\$248.2	\$260.1	\$291.7	\$312.0	\$308.2	\$527.2
Executive Office of Health and Human Services (5)	242.0 (3)	254.6	278.1	283.5	295.2	318.3
Department of Veterans' Services (6)	33.3	12.6	14.4	64.4	65.5	68.8
Sub Total	\$523.5	\$527.2	\$584.2	\$659.9	668.9	\$914.3
Budgeted Expenditures and Other Uses	\$4,768.9	\$4,979.5	\$5,300.8	\$5,433.0	\$5,601.4	\$6,045.2

SOURCES: Fiscal 2013-2017 Office of the State Comptroller; fiscal 2018, Executive Office for Administration and Finance.

- (1) Based on the fiscal 2018 budget.
- (2) Cost containment legislation enacted in 2012 dissolved the Division and shifted its responsibilities to EHS, MassHealth and CHIA.
- (3) Includes Massachusetts Rehabilitation Commission, Massachusetts Commission for the Blind, Massachusetts Commission for the Deaf and Hard of Hearing, and, prior to fiscal 2016, the Chelsea Soldiers' Home, and the Holyoke Soldiers' Home.
- (4) Account restructuring in fiscal 2018 budget shifted spending for the Choices program from MassHealth to Elder Affairs.
- (5) Includes Medicaid program administration.
- (6) The fiscal 2015 budget transferred the Chelsea Soldiers' Home and the Holyoke Soldiers' Home from the Office of Disabilities and Community Services to Veterans' Services. Fiscal 2016 and later years include the Chelsea Soldiers' Home and the 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, and in partnership with families and communities, ensuring that children are able to grow and thrive in a safe and nurturing environment. DCF serves approximately 47,000 children at any given time, primarily children through age 18, and youth ages 18-22 who are transitioning from DCF custody to independent living. DCF is currently undergoing an agency improvement initiative to implement new programmatic policies, review agency management structure, and strengthen workforce capacity.

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), 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, and 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 26,000 veterans, veterans' spouses and parents with annuity and benefit payments. The Department also oversees the Chelsea Soldiers' Home and the 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 21st century public education system that prepares students for higher education, work and life in a world economy and global society.

Department of Elementary and Secondary Education. The Department of Elementary and Secondary Education serves the student population from kindergarten through 12th 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 11 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 is governed by 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 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 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 (EEC) is the agency responsible for all early education and care services and funding in the Commonwealth, including licensing and oversight of and technical assistance to programs for infants, toddlers, preschoolers, and school age children during out-of-school time; group homes; foster care and adoption placement agencies; and residential schools for children with special needs. EEC also oversees home visiting programs, and community-based family engagement networks that provide literacy and other developmental activities for children and parents in libraries and adult education centers. EEC licenses approximately 9,000 child care programs, residential facilities, and foster care/adoption placement agencies that have the capacity to serve an estimated 230,000 children. EEC supports an average of 55,000 children from low-income or at-risk families to attend family or group child care programs, including referrals from the Commonwealth's Department of Children and Families and Department of Transitional Assistance.

Public Safety

Eleven state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 16 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, the Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner, and five other public safety related agencies.

Energy and Environmental Affairs

The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcement services, and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates 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 contribute 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, 2017, the GIC provides health insurance to employees and retirees of 56 municipal entities: 11 cities, 34 towns, eight regional school districts, two regional districts and one educational collaborative.

Fiscal 2018 GIC appropriations total \$1.750 billion, approximately \$610 million of which are offset by municipal revenue and \$210 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 2018 budget authorizes transfers of up to \$432 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 effective in fiscal 2018 that is designed to encourage greater use of primary care physicians in lower-cost provider systems and to lower the utilization of higher-cost services (the highest-cost hospitals, physician groups and prescription drugs). The average fiscal 2018 premium rates for GIC state and municipal members are projected to increase by 3.7% over fiscal 2017.

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 2018 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, the Executive Office of Technology Services and Security, and various other programs.

SELECTED FINANCIAL DATA

The table below in this section presents combined revenues and expenditures in the budgeted operating funds. The measurement of revenues for the budgeted operating funds is on a statutory basis and differs from governmental revenues on a GAAP basis. See “Statutory Basis Distribution of Budgetary Revenues and Expenditures” and “GAAP Basis” below.

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 2013 through 2017. Projections for fiscal 2018 have been prepared by the Executive Office for Administration and Finance.

The following table sets forth the Commonwealth’s budgeted operating funds revenues and expenditures for fiscal 2013 through fiscal 2017 and projected revenues and expenditures for fiscal 2018. Projected revenues and expenditures for fiscal 2018 are based on the fiscal 2018 budget and on (i) the Executive Office’s most recent estimate of tax revenue (as officially issued) and non-tax revenue, (ii) enacted appropriations adjusted for projected reversions, and (iii) other spending the Executive Office reasonably projects. See “FISCAL 2017 AND FISCAL 2018.”

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

	<u>Fiscal 2013</u>	<u>Fiscal 2014 (2)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Projected Fiscal 2018</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$170.4	\$297.1	\$190.0	\$226.0	\$126.0	\$117.4
Stabilization Fund	1,652.1	1,556.7	1,248.4	1,252.4	1,291.5	1,300.7
Undesignated	<u>167.2</u>	<u>20.6</u>	<u>12.1</u>	<u>92.3</u>	<u>64.5</u>	<u>29.7</u>
Total	<u>\$1,989.7</u>	<u>\$1,874.4</u>	<u>\$1,450.5</u>	<u>\$1,570.7</u>	<u>\$1,482.0</u>	<u>\$1,447.7</u>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	76.3	78.8	80.8	83.4	85.4	86.2
Banks	78.0	135.8	51.9	23.5	(0.1)	0.2
Cigarettes	440.1	520.7	510.3	505.6	490.3	487.2
Corporations	1,821.9	2,049.1	2,172.1	2,312.0	2,196.7	2,107.0
Deeds	188.9	223.1	238.3	281.9	297.2	308.5
Income	12,830.9	13,201.6	14,448.7	14,393.7	14,683.7	15,316.1
Inheritance and Estate	313.4	401.5	340.9	399.4	336.6	332.1
Insurance	426.0	368.1	391.4	429.6	421.9	431.6
Motor Fuel	651.6	732.2	756.1	766.6	769.4	766.8
Public Utilities (3)	(11.5)	9.8	3.4	(1.6)	(0.1)	-
Room Occupancy	129.2	138.3	150.7	162.2	156.7	164.1
<u>Sales:</u>						
Regular	3,595.9	3,810.6	3,986.6	4,156.9	4,226.1	4,446.7
Meals	901.2	948.9	998.8	1,063.8	1,132.5	1,181.1
Motor Vehicles	<u>666.9</u>	<u>736.4</u>	<u>789.1</u>	<u>833.9</u>	<u>852.5</u>	<u>844.4</u>
Sub-Total-Sales	5,163.9	5,495.9	5,774.4	6,054.6	6,211.1	6,472.3
Miscellaneous	14.2	15.1	12.8	13.6	12.9	31.9
Settlements and Judgments (4)	-	-	-	-	-	100.0
Total Tax Revenues (5)	<u>\$22,123.0</u>	<u>\$23,370.0</u>	<u>\$24,932.2</u>	<u>\$25,424.5</u>	<u>\$25,661.7</u>	<u>\$26,604.0</u>
MBTA Transfer (6)	(786.9)	(799.3)	(970.6)	(986.2)	(992.2)	(1,006.8)
MSBA Transfer	(682.0)	(727.5)	(764.1)	(798.5)	(816.8)	(846.6)
Workforce Training Fund Transfer (7)	(22.2)	(21.2)	(23.6)	(22.8)	(24.4)	(24.5)
Total Budgeted Operating Tax Revenues	<u>\$20,631.9</u>	<u>\$21,822.0</u>	<u>\$23,173.8</u>	<u>\$23,616.9</u>	<u>\$23,828.3</u>	<u>\$24,726.2</u>
Federal Reimbursements	8,228.4	8,372.1	9,480.4	10,642.7	10,857.8	11,556.3
Departmental and Other Revenues	3,370.5	3,712.4	3,852.8	4,257.2	4,382.1	4,697.7
Inter-fund Transfers from Non-budgeted Funds and other sources (8)	<u>1,548.1</u>	<u>1,555.2</u>	<u>1,729.5</u>	<u>1,848.7</u>	<u>2,099.1</u>	<u>1,864.2</u>
Budgeted Revenues and Other Sources	<u>\$33,778.9</u>	<u>\$35,461.7</u>	<u>\$38,236.5</u>	<u>\$40,365.5</u>	<u>\$41,167.3</u>	<u>43,528.8</u>
Inter-fund Transfers	<u>1,456.6</u>	<u>1,757.0</u>	<u>735.4</u>	<u>472.9</u>	<u>617.4</u>	<u>684.6</u>
Total Budgeted Revenues and Other Sources	<u>\$35,235.5</u>	<u>\$37,218.7</u>	<u>\$38,971.9</u>	<u>\$40,838.4</u>	<u>\$41,784.7</u>	<u>\$43,258.8</u>
<u>Expenditures and Uses</u>						
Direct Local Aid	5,115.7	5,292.5	5,420.4	5,567.7	5,703.0	5,892.1
Medicaid	10,799.7	11,900.8	13,655.2	14,851.0	15,251.7	15,695.6
Other Health and Human Services	4,768.9	4,979.5	5,300.8	5,433.0	5,601.4	6,045.2
Group Insurance	1,278.5	1,402.9	1,665.1	1,629.7	1,662.5	1,749.6
Department of Elementary and Secondary Education	489.2	515.3	514.9	539.3	523.2	527.5
Higher Education	990.8	1,091.5	1,161.6	1,194.3	1,168.3	1,177.5
Department of Early Education and Care	483.4	509.6	537.7	547.6	540.0	586.3
Public Safety	960.0	1,010.4	1,040.7	1,065.6	1,059.6	1,114.0
Energy and Environmental Affairs	201.8	215.0	225.0	221.4	222.1	242.1

	<u>Fiscal 2013</u>	<u>Fiscal 2014 (2)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Projected Fiscal 2018</u>
Debt Service	2,117.2	2,122.0	2,190.4	2,174.3	2,284.7 (9)	2,415.0
Post -Employment Benefits (10)	1,967.0	2,050.4	2,213.4	2,503.4	2,659.7	2,852.0
Other Program Expenditures	<u>3,006.7</u>	<u>3,293.7</u>	<u>3,113.1</u>	<u>3,240.7</u>	<u>3,235.0</u>	<u>3,220.2</u>
Total - Programs and Services before transfers to Non-budgeted funds	<u>\$32,178.7</u>	<u>\$34,383.6</u>	<u>\$37,038.3</u>	<u>\$38,968.0</u>	<u>\$39,911.2</u>	<u>41,516.7</u>
<u>Inter-fund Transfers to Non- budgeted Funds</u>						
Commonwealth Care Trust Fund (11)	661.2	390.1	-	-	-	-
Medical Assistance Trust Fund	390.9	395.0	71.0	665.6	403.4	747.1
Massachusetts Transportation Trust Fund	161.7	270.1	588.6	566.8	484.7	447.4
Other	<u>501.8</u>	<u>446.7</u>	<u>418.4</u>	<u>253.8</u>	<u>402.3</u>	<u>297.1</u>
Total Inter-Fund Transfers to Non-Budgeted Funds	<u>\$1,715.6</u>	<u>\$1,501.9</u>	<u>\$1,078.0</u>	<u>\$1,486.2</u>	<u>\$1,290.4</u>	<u>1,1491.6</u>
Budgeted Expenditures and Other Uses	<u>\$33,894.3</u>	<u>\$35,885.5</u>	<u>\$38,116.3</u>	<u>\$40,454.2</u>	<u>\$41,201.6</u>	<u>43,008.4</u>
Inter-fund Transfers	<u>1,456.6</u>	<u>1,757.0</u>	<u>735.4</u>	<u>472.9</u>	<u>617.4</u>	<u>684.6</u>
Total Budgeted Expenditures and Other Uses	<u>\$35,350.9</u>	<u>\$37,642.5</u>	<u>\$38,851.7</u>	<u>\$40,927.1</u>	<u>\$41,819.0</u>	<u>43,693.0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(\$115.4)</u>	<u>(\$423.8)</u>	<u>\$120.2</u>	<u>(\$88.7)</u>	<u>(\$34.3)</u>	<u>(164.2)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated (12)	297.1	190.0	226.0	126.0	117.3	63.4
Stabilization Fund	1,556.7	1,248.4	1,252.4	1,291.5	1,300.7	1,370.9
Undesignated (13)	<u>20.6</u>	<u>12.1</u>	<u>92.3</u>	<u>64.5</u>	<u>29.7</u>	<u>(150.7)</u>
Total	<u>\$1,874.4</u>	<u>\$1,450.5</u>	<u>\$1,570.7</u>	<u>\$1,482.0</u>	<u>\$1,447.7</u>	<u>\$1,283.6</u>

SOURCES: Fiscal 2013-2017, Office of the Comptroller; fiscal 2018, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Some fiscal 2014 amounts were reclassified to conform to the fiscal 2015 presentation in the Statutory Basis Financial Report.
- (3) 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.
- (4) For fiscal 2013 through 2017, tax and non-tax revenue from judgments and settlements in excess of \$10 million is included in specific tax and non-tax revenue categories. See "COMMONWEALTH REVENUES – Federal and Other Non-Tax Revenues; *Settlements and Judgments.*"
- (5) The total tax revenues for fiscal 2018 reflect the level projected in the fiscal 2018 budget, and the Executive Office for Administration and Finance current estimate of tax-related settlements and judgments.
- (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 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, abandoned property proceeds and other inter-fund transfers.
- (9) Fiscal 2016 budgeted Debt Service excluded \$113 million in payments made from a non-budgeted fund that was made from budgeted funds in other years.
- (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 equivalent to a specified percentage of tobacco settlement payments of approximately \$25 million in fiscal 2013, \$56 million in fiscal 2014, \$73 million in fiscal 2015 and \$77 million in fiscal 2016. In fiscal 2018, Post-Employment Benefits includes a transfer to the SRBTF equivalent to 10% of tobacco settlement revenue (approximately \$25 million) paid out of debt service reversions. See "PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB)."
- (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) Consists largely of appropriations authorized to be expended in the following year.

(13) 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 for fiscal 2018 will achieve statutory balance.

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. The fiscal 2017 budget required the Comptroller to transfer all capital gains tax collections that are above \$1.278 billion to the Stabilization Fund in fiscal 2017; however, capital gains tax collections for fiscal 2017 did not exceed this amount.

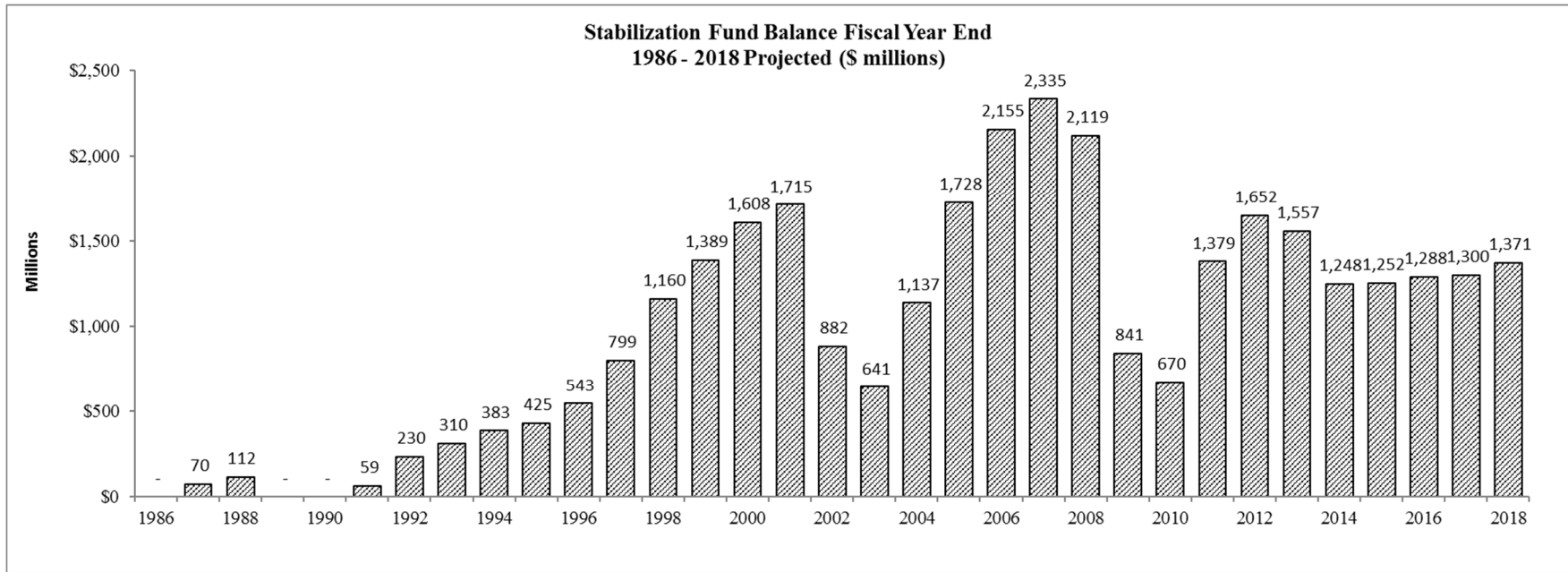
State finance law requires the Comptroller to transfer 75% of the growth in unclaimed property revenue relative to the prior year to the Stabilization Fund; however, in fiscal 2017, there was no growth in such revenue and therefore no transfer was made to the Stabilization Fund.

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 – 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 2017 (actual) and fiscal 2018 (projected).

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SOURCE: Fiscal 1986-fiscal 2017, Office of the Comptroller; fiscal 2018 (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 2013 through fiscal 2017:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017 (3)
Beginning fund balances	\$1,652,118	\$1,556,657	\$1,248,435	\$1,252,429	\$1,291,514
Revenues and Other Sources					
Deposit of the remaining consolidated net surplus	-	-	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	32,498	414,310	-	-	-
Lottery transfer taxes	1,291	867	647	744	377
Investment income	5,322	7,259	4,646	11,241	8,787
Excess permissible tax revenue	-	-	-	-	-
Total Revenues and Other Sources	506,611	467,893	148,800	39,085	9,164
Total Expenditures and Other Uses					
	602,072	776,115	144,806	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(95,461)	(308,222)	3,994	39,085	9,164
Ending fund balances	\$1,556,657	\$1,248,435	\$1,252,429	\$1,291,514	\$1,300,678
Allowable Stabilization Fund Balance	\$5,066,844	\$5,320,973	\$5,735,471	\$6,047,764	\$6,175,099

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.

(3) Unaudited.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2016, attached 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 the 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 "government-wide" 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 capital 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)

Governmental Funds-Statutory Basis,	
June 30, 2016	
Budgeted Fund Balance	\$1,482.0
Non-budgeted special revenue fund balance	2,066.9
Capital Projects Fund Balance	<u>(334.7)</u>
Governmental Fund Balance-Statutory Basis, June 30, 2016	\$3,214.2
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes	638.3
Less: Massachusetts Department of Transportation Funds	<u>(1,275.7)</u>
Adjusted Statutory Governmental Fund Balance	\$2,576.8
Short term accruals, net of allowances and deferrals for increases/(decreases):	
Taxes, net of refunds and abatements	1,912.5
Tobacco settlement agreement receivable	126.0
Medicaid	(601.7)
Assessments and other receivables	273.0
Amounts due to authorities and municipalities, net	(580.7)
Claims, judgments and other risks	(11.4)
Amounts due to healthcare providers and insurers	(60.4)
Workers' compensation and group insurance	(147.6)
Compensated absences	(11.1)
Other accruals, net	<u>283.6</u>
Net increase to governmental funds balances	\$1,182.2
Massachusetts School Building Authority fund balance	<u>1,514.3</u>
Total changes to governmental funds	\$2,696.5
Governmental fund balance (fund perspective)	5,273.3
Plus: Capital assets including infrastructure, net of accumulated depreciation	
	4,743.7
Deferred revenue, net of other eliminations	503.4
Long term accruals:	
Net pension liability	(32,855.7)
Net deferred (inflows)/outflows related to pensions	6,025.4
Post-employment benefits other than pensions cumulative over/(under) funding	(6,466.0)
Environmental remediation liability	(530.8)
Massachusetts School Building Authority debt and school construction payables	(7,498.3)
Long term debt, unamortized premiums and deferred losses on debt refundings	(26,445.8)
Compensated Absences	(592.4)
Capital leases	(41.3)
Accrued interest on bonds	(350.7)
Other long term liabilities	<u>(404.7)</u>
Total governmental net position/(deficit) (government-wide perspective)	<u>(\$58,639.9)</u>

SOURCE: Office of the Comptroller

The deficit of \$58.640 billion in government-wide net position can be largely attributed to two factors: first, the Commonwealth's net (or unfunded) pension liability, which, starting in fiscal 2015, has been placed on the Commonwealth's books in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement required, among other things, the Commonwealth to include the long-term net pension liability on the Government-wide Statement of Net Position. As of June 30, 2016 the Commonwealth reported a net pension liability of approximately \$32.856 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 2016, MassDOT held \$33.890 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 \$5.891 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>
Total net position:			
Fiscal 2015	(\$54,853,441)	\$5,292,285	(\$49,561,156)
Fiscal 2016	(58,639,945)	5,736,165	(52,903,780)
Change in net position	<u>(\$3,786,504)</u>	<u>\$443,880</u>	<u>(\$3,342,624)</u>

SOURCE: Office of the Comptroller

During the fiscal year, approximately \$1.478 billion in restricted net position was set aside for unemployment benefits and an additional approximate \$1.217 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 on a government-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2016:

Comparison of Fiscal 2016 Governmental Revenues (in millions)

	<u>Governmental Funds</u>	<u>GAAP Basis – Governmental</u>	
	<u>Statutory Basis</u>	<u>Fund Perspective</u>	<u>Government-wide Perspective</u>
Taxes	\$25,800	\$25,746	\$25,676
Federal Revenue	13,891	15,233	15,244
Departmental and Miscellaneous Revenue	<u>20,771</u>	<u>26,771</u>	<u>11,469</u>
Total	<u>\$60,462</u>	<u>\$67,750</u>	<u>\$52,389</u>

SOURCE: Office of the Comptroller

The following table provides financial results on a GAAP basis for all governmental funds of the Commonwealth for fiscal 2012 through fiscal 2016.

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

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Beginning fund balances	\$5,267.6	\$6,318.9	\$4,869.9	\$4,619.4	\$5,305.2
Revenues and Financing Sources	54,370.1	55,289.9	57,210.0	60,658.6	67,749.6
Expenditures and Financing Uses	53,318.8	56,738.9	57,460.5	59,972.8	67,781.5
Excess/(deficit)	<u>1,051.3</u>	<u>(1,449.0)</u>	<u>(250.5)</u>	<u>685.8</u>	<u>(31.9)</u>
Ending fund balances—GAAP fund perspective	<u>\$6,318.9</u>	<u>\$4,869.9</u>	<u>\$4,619.4</u>	<u>\$5,305.2</u>	<u>\$5,273.3</u>

SOURCE: Office of the Comptroller.

Financial Reports. The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements. These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is usually published by the Comptroller by October 31 and the CAFR is usually published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2017 and the CAFR for the year ended June 30, 2016 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 2016 and the CAFR for fiscal 1995 through fiscal 2016 are also available on the web site of the Comptroller of the Commonwealth located at <http://www.macomptroller.org> by clicking on “Financial Reports” on the Comptroller’s homepage.

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 2016 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 2016 marked the 27th 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 financial reports on the statutory basis (reviewed) and on a GAAP basis (audited). See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports.*” Without limiting the generality of the references to the SBFR for the year ended June 30, 2017 and the CAFR for the year ended June 30, 2016, attention is called in particular to the portion of the CAFR under the heading “Management’s Discussion and Analysis.”

Auditors' Report on Fiscal 2016 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2016 were audited by KPMG LLP (KPMG). The KPMG audit report dated January 6, 2017 on the general purpose financial statements included in the CAFR for the year ended June 30, 2016 contained an unqualified opinion. A copy of the audit report of KPMG dated January 6, 2017 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 2018

On January 12, 2017, a fiscal 2018 consensus tax revenue estimate of \$27.072 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. This estimate reflected a projection of 3.9% tax revenue growth over the then-current projected fiscal 2017 tax revenue figure (\$26.056 billion), and also assumed that the state income tax rate would decrease from 5.1% to 5.05% on January 1, 2018, in accordance with the statutory mechanism. Also on January 12, 2017, the Secretary of Administration and Finance filed the triennial funding schedule for the Commonwealth's employee retirement obligations with the House and Senate Committees on Ways and Means, which provides for a fiscal 2018 transfer amount of \$2.394 billion, an increase of \$196 million or 8.9% over the fiscal 2017 transfer amount. See "PENSION AND OPEB FUNDING – Funding Schedule." After accounting for statutorily required transfers for pensions, and to the MBTA, the MSBA and the Workforce Training Fund, the Secretary and Committee chairs agreed that \$22.704 billion would be the maximum amount of tax revenue available for the fiscal 2018 budget. See "COMMONWEALTH REVENUES – Fiscal 2017 and 2018 Tax Revenues; *Fiscal 2018*."

An interim budget of approximately \$5.15 billion for the first month of fiscal 2018 was approved by the Governor on June 26, 2017. The interim budget was superseded by the fiscal 2018 budget when it was approved by the Governor on July 17, 2017.

The fiscal 2018 budget, as approved by the Governor, totals approximately \$39.4 billion, after accounting for \$193 million in net line-item vetoes, and excluding transfers to the Medical Assistance Trust Fund. The fiscal 2018 budget as approved by the Governor is approximately \$652 million, or 1.7%, greater than fiscal 2017 estimated spending levels at the time of its approval. The fiscal 2018 budget is based on a projection of \$26.504 billion in tax revenue, excluding large tax-related settlements and judgments. The fiscal 2018 budget also projects a deposit of \$98.4 million to the Stabilization Fund in fiscal 2018. At the time he approved the budget, the Governor also filed a supplemental budget for fiscal 2018, which proposed additional appropriations for expected deficiencies totaling \$94 million, net of offsetting revenues.

On July 17, 2017, the Governor returned certain provisions of the enacted legislative budget relating to MassHealth and Employer Medical Assistance Contributions (EMAC) with amendments. These legislative proposals would temporarily increase EMAC contributions, resulting in approximately \$200 million of revenue in fiscal 2018; realign benefits with commercial products; transition non-disabled adults to Health Connector plans; impose a temporary moratorium on new mandated benefits; and make other changes intended to maintain the Commonwealth's commitment to affordable health care coverage and the stability and sustainability of the MassHealth program. The Legislature rejected the Governor's amendments and, on August 1, 2017, the Governor signed into law the temporary increase to EMAC contributions, without the longer-term changes the Legislature had rejected. The Legislature continues to consider reforms to the MassHealth program.

Subsequently, the Legislature passed overrides to the Governor's vetoes with an aggregate net budgetary impact of \$118 million. On December 4, 2017, the Governor signed a supplemental appropriation for the Cannabis Control Commission with a budgetary impact of \$2.7 million.

On January 20, 2017, the President of the United States issued an executive order that requires all federal agencies with authorities and responsibilities under the ACA to "exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay" parts of the ACA that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers. Ongoing efforts at the federal level to modify, repeal or otherwise change elements of the ACA may have a material adverse impact on the Commonwealth. However, it is not possible to predict with any certainty at this time whether or when the ACA or any specific provision of the federal law or implementing regulations will be repealed, withdrawn, modified or replaced in any significant respect. Therefore, it is not possible to predict the corresponding impact that any such actions could have on the Commonwealth's healthcare programs and expenditures. The discussions of the Commonwealth's health care programs and services, including the Federal 1115 MassHealth Demonstration Waiver, and their corresponding costs appearing in this Information Statement should be read with the understanding that significant changes could occur in calendar 2018 and beyond affecting the matters discussed.

Ongoing efforts at the federal level to modify elements of the federal income tax code also may have a material adverse impact on the Commonwealth. See “COMMONWEALTH REVENUES – State Taxes.”

Current estimates indicate that the variance between revenues and spending in fiscal 2018 is less than 1%. 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 for fiscal 2018 will achieve statutory balance. See the “Fiscal 2018” column of the table entitled “Budgeted Operating Funds - Statutory Basis” in “SELECTED FINANCIAL DATA – Statutory Basis Distribution of Budgetary Revenues and Expenditures.”

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 utilized the commercial paper program for additional liquidity, as necessary, since 2002.

The Commonwealth ended fiscal 2017 with a non-segregated cash balance of \$2.058 billion. Fiscal 2018 is projected to end with a balance of approximately \$2.277 billion.

The fiscal 2018 cash flow statement released on December 8, 2017 is summarized in the table below. 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. Cash Portfolio investments are carried at amortized cost, which approximates fair value. 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 U. S. dollar-denominated money market instruments (eligible under GASB Statement No. 79) of domestic and foreign issuers, United States government securities and repurchase agreements. As of October 31, 2017, the Cash Portfolio holdings were made up of Asset Backed Commercial Paper (36.9%), Certificates of Deposit (30.5%), Financial Company Commercial Paper (13.5%), Non-Negotiable Time Deposits (13.5%), Other Instruments (.7%), Other Asset Back Securities (.8%), U.S Government Agency Repurchase Agreements (3.4%) and Variable Rate Demand Notes (.7%). As of October 31, 2017 the Cash Portfolio’s monthly weighted average life was 81 days, and the monthly weighted average maturity was 51 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 October 31, 2017, the Short Term Bond Fund holdings were made up of U. S. Treasury securities (52.9%), Financial Institutions – Banking (6.6%), FHLMC MBS (2.7%), Technology (3.3%), Utility – Electric (3.2%), Consumer Non-Cyclical Pharmaceuticals (2.5%), FNMA MBS (1.4%), Consumer Non-Cyclical Food/Beverage (2.0%), Financial Institution – Insurance – Life (1.4%), Consumer Cyclical – Automotive (1.3%) and Other (22.7%). 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.

For cash flow needs for fiscal 2018, the State Treasurer issued \$1.5 billion in revenue anticipation notes on August 10, 2017. As in previous years, the notes will be repaid in April, May and June, 2018.

The fiscal 2018 capital plan currently projects \$4.408 billion of spending on capital projects, including \$2.26 billion of bond cap spending, approximately \$351.9 million of special obligation bond spending authorized under the Accelerated Bridge Program (ABP) and the Rail Enhancement Program (REP), approximately \$1.128 billion in federal reimbursements and grants, approximately \$70.7 million of spending on projects funded by anticipated savings or revenues, approximately \$326.9 million from non-commonwealth sources such as contributions from campuses, and approximately \$269.7 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 February 28, 2018.

The following table provides General Fund ending cash balances by month for fiscal 2014 through fiscal 2018.

Month End General Fund Cash Balances (in millions)

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
July	\$ 1,253.7	\$ 768.9	\$1,380.2	\$1,885.9	\$1,307.3
August	1,065.1	948.9	551.4	2,414.1	2,258.6
September	1,918.9	1,762.7	1,951.6	2,670.8	2,709.8
October	1,744.4	1,453.2	1,421.0	2,437.6	2,096.6
November	1,272.2	1,240.7	787.7	2,146.4	1,992.4 (1)
December	1,437.6	991.5	1,029.8	1,766.5	1,815.8 (1)
January	1,186.3	953.9	1,487.5	1,835.7	2,306.4 (1)
February	603.2	414.1	862.0	1,432.7	1,387.7 (1)
March	749.5	743.0	1,280.0	1,332.0	1,363.4 (1)
April	1,204.6	1,860.9	2,044.2	2,074.6	2,385.0 (1)
May	703.9	1,691.2	2,276.6	1,647.1	1,672.3 (1)
June	1,340.8	2,140.5	2,397.8	2,058.0	2,276.6 (1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2018 ending balances are estimated for November through June.

The tables on the following pages provide cash flow detail for fiscal 2017 and fiscal 2018.

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Overview of Fiscal 2017 Non-Segregated Operating Cash Flow (in millions) (1)

	<u>Jul-16</u>	<u>Aug-16</u>	<u>Sep-16</u>	<u>Oct-16</u>	<u>Nov-16</u>	<u>Dec-16</u>	<u>Jan-17</u>	<u>Feb-17</u>	<u>Mar-17</u>	<u>Apr-17</u>	<u>May-17</u>	<u>June-17</u>	<u>Total FY 2017</u>
Opening Non-Segregated Operating Cash Balance	\$2,397.8	\$1,885.9	\$2,414.1	\$2,670.8	\$2,437.6	\$2,146.4	\$1,766.5	\$1,835.6	\$1,432.8	\$1,332.0	\$2,074.6	\$1,647.2	\$2,397.8
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(27.1)
Total Budgetary Revenue/Inflows	3,142.5	3,038.8	3,862.2	3,251.6	3,130.4	3,537.6	3,770.6	2,981.3	3,944.2	4,519.7	3,491.7	3,814.5	42,485.1
Total Budgetary Expenditures/Outflows	4,126.3	3,555.2	3,112.8	3,410.9	3,260.3	3,428.7	3,362.7	3,723.6	3,940.4	3,696.7	3,177.3	2,724.4	41,519.1
Net Budgetary Funds	(983.8)	(516.4)	749.5	(159.3)	(129.9)	108.8	407.9	(742.2)	3.8	823.1	314.4	1,090.1	966.0
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	1,195.1	801.5	695.7	842.9	970.0	1,071.2	733.0	1,277.1	1,169.0	1,276.8	904.0	1,119.6	12,055.9
Total Non Budgetary Expenditures/Outflows	1,146.7	1,166.7	1,220.5	1,040.4	1,127.8	1,568.8	1,124.3	1,013.4	1,241.4	904.1	1,137.2	1,320.1	14,011.6
Net Non Budgetary Funds	48.4	(365.3)	(524.8)	(197.6)	(157.8)	(497.6)	(391.3)	263.7	(72.4)	372.6	(233.3)	(200.5)	(1,955.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	2.4	2.6	17.5	4.1	52.8	4.6	4.7	3.9	4.0	(10.1)	4.4	8.0	98.8
Net Operating Activities	(\$933.0)	(\$879.1)	\$242.2	(\$352.8)	(\$234.9)	(\$384.2)	\$21.2	(\$474.6)	(\$64.6)	\$1,185.5	\$85.6	\$897.7	(\$890.9)
Federal Grants:													
Total Federal Grants Revenue/Inflows	77.9	256.0	168.1	167.2	114.3	192.9	190.7	232.2	179.0	246.6	212.8	303.1	2,340.6
Total Federal Grants Expenditures/Outflows	197.1	235.6	156.3	168.4	170.6	206.5	212.8	178.6	239.2	204.5	216.0	248.2	2,433.9
Net Federal Grants	(\$119.2)	\$20.4	\$11.8	(\$1.3)	(\$56.4)	(\$13.6)	(\$22.1)	\$53.6	(\$60.2)	\$42.1	(\$3.2)	\$54.8	(\$93.3)
Capital Funds:													
Total Capital Revenue/Inflows	856.5	280.3	307.9	415.1	276.3	284.8	274.2	214.4	200.5	165.7	231.5	283.1	3,790.3
Total Capital Expenditures/Outflows	316.3	393.5	305.1	294.2	276.3	266.9	204.1	196.3	176.4	144.2	234.1	316.2	3,123.6
Net Capital Funds	\$540.3	(\$113.2)	\$2.8	\$120.9	\$0.0	\$17.9	\$70.0	\$18.1	\$24.0	\$21.5	(\$2.6)	(\$33.2)	\$666.7
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</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
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total 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	508.5	1,522.3
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	508.5	1,522.3
Net Financing Activities	\$0.0	\$1,500.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$506.5)	(\$507.3)	(\$508.5)	(\$22.3)
Ending Non-Segregated Operating Cash Balance	\$1,885.9	\$2,414.1	\$2,670.8	\$2,437.6	\$2,146.4	\$1,766.5	\$1,835.6	\$1,432.8	\$1,332.0	\$2,074.6	\$1,647.1	\$2,058.0	\$2,058.0

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2018 Non-Segregated Operating Cash Flow (in millions) (1)

	<u>Jul-17</u>	<u>Aug-17</u>	<u>Sep-17</u>	<u>Oct-17</u>	<u>Nov-17 (2)</u>	<u>Dec-17 (2)</u>	<u>Jan-18 (2)</u>	<u>Feb-18 (2)</u>	<u>Mar-18 (2)</u>	<u>Apr-18 (2)</u>	<u>May-18 (2)</u>	<u>June-18 (2)</u>	Total FY 2018 (2)
Opening Non-Segregated Operating Cash Balance	\$2,058.0	\$1,307.3	\$2,258.6	\$2,709.8	\$2,096.6	\$1,992.4	\$1,815.8	\$2,306.4	\$1,387.7	\$1,363.4	\$2,385.0	\$1,672.3	\$2,058.0
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Budgetary Revenue/Inflows	3,443.5	3,135.6	4,243.8	2,884.8	3,085.6	3,736.4	4,007.5	2,917.0	3,748.6	5,340.9	3,624.3	4,263.7	44,431.7
Total Budgetary Expenditures/Outflows	4,009.6	3,802.5	3,039.0	3,275.4	3,543.4	3,447.4	3,428.8	3,556.7	3,536.6	3,518.3	3,349.6	2,821.7	41,329.1
Net Budgetary Funds	(566.1)	(667.0)	1,204.8	(390.6)	(457.8)	289.0	578.7	(639.7)	212.0	1,822.6	247.7	1,442.0	3,102.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	1,037.1	1,470.8	1,479.0	931.6	1,304.0	1,016.5	904.2	811.4	873.5	859.3	702.8	837.7	12,227.8
Total Non Budgetary Expenditures/Outflows	1,177.4	1,281.9	2,276.6	1,176.6	1,049.4	1,471.8	1,047.3	1,104.1	1,052.1	1,186.3	1,149.1	1,068.1	15,040.6
Net Non Budgetary Funds	(140.4)	188.9	(797.5)	(245.0)	254.6	(455.3)	(143.1)	(292.7)	(178.6)	(327.0)	(446.3)	(230.4)	(2,812.8)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	3.2	18.6	5.2	6.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	48.0
Net Operating Activities	(\$703.3)	(\$459.5)	\$412.4	(\$628.9)	(\$201.3)	(\$164.5)	\$437.4	(\$930.6)	\$35.2	\$1,497.3	(\$169.8)	\$1,213.4	\$337.8
Federal Grants:													
Total Federal Grants Revenue/Inflows	167.8	162.4	176.7	141.4	200.0	230.0	210.0	190.0	190.0	210.0	225.0	270.0	2,373.3
Total Federal Grants Expenditures/Outflows	199.2	206.5	128.8	185.0	212.0	230.0	206.0	216.0	223.0	214.0	217.0	234.0	2,471.5
Net Federal Grants	(\$31.4)	(\$44.1)	\$47.9	(\$43.7)	(\$12.0)	\$0.0	\$4.0	(\$26.0)	(\$33.0)	(\$4.0)	\$8.0	\$36.0	(\$98.2)
Capital Funds:													
Total Capital Revenue/Inflows	327.2	386.7	222.2	312.4	419.1	316.9	299.2	243.9	210.6	230.3	217.8	366.6	3,552.9
Total Capital Expenditures/Outflows	343.2	431.9	231.3	253.0	310.0	329.0	250.0	206.0	237.0	195.0	261.0	503.0	3,550.4
Net Capital Funds	(\$16.0)	(\$45.2)	(\$9.1)	\$59.4	\$109.1	(\$12.1)	\$49.2	\$37.9	(\$26.4)	\$35.3	(\$43.2)	(\$136.4)	\$2.5
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	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	507.0	507.8	508.7	1,523.5
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	507.0	507.8	508.7	1,523.5
Net Financing Activities	\$0.0	\$1,500.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$507.0)	(\$507.8)	(\$508.7)	(\$23.5)
Ending Non-Segregated Operating Cash Balance	\$1,307.3	\$2,258.6	\$2,709.8	\$2,096.6	\$1,992.4	\$1,815.8	\$2,306.4	\$1,387.7	\$1,363.4	\$2,385.0	\$1,672.3	\$2,276.6	\$2,276.6

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

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 2013</u>	<u>June 2014</u>	<u>June 2015</u>	<u>June 2016 (2)</u>	<u>June 2017</u>
Executive Office	68	70	75	75	74
Office of the Comptroller	111	113	109	107	106
Executive Departments					
Administration and Finance	2,823	2,882	2,983	2,595	2,607
Energy and Environmental Affairs	1,915	1,900	1,907	1,773	1,736
Health and Human Services	19,379	19,699	20,096	19,556	19,844
Board of Library Commissioners	10	10	11	-	-
Housing and Economic Development	684	702	699	673	640
Labor and Workforce Development	236	250	234	236	231
Executive Office of Education	359	523	399	370	334
Public Safety and Security	8,626	8,815	8,627	8,380	8,000
Elder Affairs	<u>38</u>	<u>39</u>	36	-	-
Subtotal under Governor's Authority	34,249	35,004	35,173	33,765	33,392
Judiciary	7,217	7,188	7,256	7,257	7,205
Higher Education (1)	12,981	13,858	14,225	14,810	14,753
Other (3)	<u>10,356</u>	<u>10,606</u>	<u>10,701</u>	<u>10,747</u>	<u>10,770</u>
Subtotal funded by the Operating Budget	<u>64,803</u>	<u>66,655</u>	<u>67,358</u>	<u>66,579</u>	<u>66,300</u>
Federal Grant, Trust and Capital Funded (4)	<u>20,612</u>	<u>19,929</u>	<u>20,243</u>	<u>19,293</u>	<u>17,254</u>
Total (5)	<u>85,415</u>	<u>86,584</u>	<u>87,601</u>	<u>85,872</u>	<u>83,554</u>

SOURCE: Executive Office for Administration and Finance.

- (1) June 2013-2017 values have been revised to reflect updated Higher Education totals.
- (2) June, 2016 figures include the Board of Library Commissioners in Other and Elder Affairs in Health and Human Services.
- (3) 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.
- (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 35,175 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 29 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, ran from July, 2014 to June, 2017 and provided increases of 3%, 3% and 3% in January, 2015, October, 2015 and July, 2016, respectively. The total estimated cost of the contract was \$96.3 million. This contract has expired, and negotiations are ongoing.

2. The contract with the Service Employees International Union, representing employees in units 8 and 10, ran from December 31, 2013 through December 31, 2016 and provided 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. The total estimated cost of the contract was \$107.1 million. This contract has expired, and negotiations are ongoing.

3. The contract with the American Federation of State, County and Municipal Employees, representing unit 2, ran from July, 2014 through June, 2017 and provided 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. The total estimated cost of the contract was \$53.3 million. This contract has expired, and negotiations are ongoing.

4. The contract with the Massachusetts Organization of State Engineers and Scientists, representing unit 9, ran from July, 2014 through June, 2017 and provided 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). The total estimated cost of the contract was \$20.0 million. This contract has expired, and negotiations are ongoing.

5. The contract with the New England Police Benevolent Association, representing unit 4A, ran from July 1, 2014 through June 30, 2017 and provided semi-annual increases of 1.5% each July and January. The total estimated cost of the contract was \$1.2 million. This contract has expired, and negotiations are ongoing.

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. 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%. 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 runs from July 1, 2015 through June 30, 2018 and provides annual increases of 2%, 3%, and 3%. The total estimated cost of the contract is \$2.3 million.

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%. 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)

<u>Contract Unit</u>	<u>Bargaining Union</u>	<u>Type of Employee</u>	<u>FTEs</u>	<u>Contract Expiration Dates</u>
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	9,663	6/30/17 (2)
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	7,905	6/30/17 (2)
4	Massachusetts Correction Officers Federated Union	Corrections	3,563	6/30/18
4A	New England Police Benevolent Association	Corrections	64	6/30/17
5	Coalition of Public Safety	Law enforcement	178	6/30/18
5A	State Police Association of Massachusetts	State Police	1,961	12/31/17
7	Massachusetts Nurses Association	Health professionals	1,560	12/31/17
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	8,485	12/31/16 (2)
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,736	6/30/17 (2)
11	International Association of Fire Fighters	Fire fighters	60	12/31/17
		Total	35,175	

SOURCE: Executive Office for Administration and Finance.

- (1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of November 11, 2017 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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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 Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The Commonwealth is also responsible for cost-of-living adjustments (COLAs) granted by local systems from 1981 to 1996. 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 10-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, 2017, the date of the most recent combined valuation, is as follows:

Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
Retirees and beneficiaries currently receiving benefits	62,259	65,036
Terminated employees entitled to benefits but not yet receiving them	4,094	N/A
Subtotal	66,353	65,036
Current Members	90,014	92,128
Total	156,367	157,164

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 10 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 10 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 Boston Retirement System (BRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the BRS is the responsibility of the City of Boston. The BRS 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 BRS. The Commonwealth's actuarially determined contribution to the BRS was \$132.5 million for fiscal 2017.

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 2018. 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 or practices governing the systems may have been 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 Commonwealth, PERAC, MSERS and the MTRS have each engaged outside tax counsel to review these activities. On March 28, 2017, the Governor approved legislation to address prospectively certain aspects of the issues described above. Additional corrective legislation was approved as part of the Commonwealth's General Appropriations Act for fiscal 2018, approved on July 17, 2017. The Executive Office for Administration and Finance expects to submit for Internal Revenue Service consideration a request for a closing agreement in which the Commonwealth describes the activities listed above, explains the corrective actions already taken by legislation, and requests an affirmation that these activities do not adversely affect the tax qualification of the MSERS and MTRS in light of the corrections already made.

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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):

<u>MTRS (1)</u>			
<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	129	0.1%
1975-1983	7	545	0.6
1984-June 30, 1996	8	6,681	7.3
July 1, 1996-Present	9	14,627	15.9
July 1, 2001-Present	11	<u>70,146</u>	<u>76.1</u>
Totals		<u>92,128</u>	<u>100.0%</u>

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2017 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.

<u>MSERS (1)</u>			
<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	517	0.6%
1975-1983	7	3,612	4.0
1984-June 30, 1996	8	17,067	19.0
July 1, 1996-Present	9	68,155	75.7
State Police 1996-Present	12	<u>663</u>	<u>0.7</u>
Totals		<u>88,081</u>	<u>100.0%</u>

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2017 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 recent funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 13, 2017. The assumptions underlying the funding schedule include valuation of assets and liabilities as of January 1, 2016, an annual rate of return on assets of 7.5%, and appropriation increases of 8.94% per year until the final amortization payment in fiscal 2036 (four years before the statutory requirement). The funding schedule also fully amortizes by fiscal 2027 the liabilities attributable to the employee retirement incentive program approved by the Governor on May 4, 2015.

Current Funding Schedule for Pension Obligations (in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2018	2,394,498	2028	5,635,069
2019	2,608,453	2029	6,138,577
2020	2,841,525	2030	6,687,075
2021	3,095,422	2031	7,284,583
2022	3,372,006	2032	7,935,479
2023	3,673,304	2033	8,644,535
2024	4,001,523	2034	9,416,947
2025	4,359,070	2035	10,258,375
2026	4,748,564	2036	11,174,988
2027	5,172,860	2037	1,370,935

SOURCE: Executive Office for Administration and Finance

Actuarial Valuations

PERAC's most recent valuation report for the Commonwealth's total pension obligation is dated September 20, 2017. In this report, the unfunded actuarial accrued liability for the Commonwealth's total pension obligation as of January 1, 2017, based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2016, was approximately \$39.622 billion, including approximately \$13.544 billion for the MSERS, \$23.555 billion for the MTRS, \$2.376 billion for Boston teachers that are members of the BRS, and \$146.3 million for cost-of-living increases reimbursable to local systems. This valuation estimates the total actuarial accrued liability as of January 1, 2017 to be approximately \$91.574 billion (comprised of \$38.317 billion for MSERS, \$49.194 billion for MTRS, \$3.917 billion for Boston teachers and \$146.3 million for cost-of-living increases reimbursable to local systems).

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.

Total assets were valued on an actuarial basis at approximately \$51.952 billion based on a five-year average valuation method, which equaled 101.7% of the December 31, 2016 total asset market value. During 2016 there was an overall actuarial gain of \$1.1 billion. There was a non-investment related gain on actuarial liability of approximately \$595 million. There was a gain of approximately \$522 million on the actuarial value of assets.

The January 1, 2017 valuation used the same 7.5% investment return assumption used in the January 1, 2016 report. The investment return assumption had previously decreased from 8.25% as of January 1, 2012 to 7.5% as of January 1, 2016. After consideration, PERAC maintained the 7.5% investment return assumption. PERAC is expected to revisit the question of reducing the investment return assumption in connection with the January 1, 2018 valuation.

For the January 1, 2015 valuation, a fully generational mortality assumption was adopted that reflected expected future mortality improvements (increasing life expectancy). This assumption was adopted based on a review of retiree mortality in 2012, 2013 and 2014. In preparing this valuation, PERAC performed an updated analysis of retiree mortality in 2015 and 2016. Based on those results, this assumption was adjusted for the January 1, 2017 valuation. This change in assumption increased the actuarial liability by \$1.574 billion.

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.

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 is 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.) The actuarial value of assets as of January 1, 2017 was 101.7% of the market value. This figure was 101.2% as of January 1, 2016.

The following table shows, with respect to the Commonwealth's aggregate pension obligations, a 10-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>
2017	\$51,952	\$51,107	101.7%	56.7%	55.8%
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 Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
MSERS						
Actuarial Valuation as of Jan. 1						
2017	\$24,773,042	\$38,316,719	\$13,543,677	64.7%	\$5,927,012	228.6%
2016	23,465,963	36,966,278	13,500,315	63.5	5,792,288	233.1
2015	22,720,160	33,679,150	10,958,990	67.5	5,591,911	196.0
2014	21,581,133	30,679,600	9,098,467	70.3	5,344,510	170.2
2013	20,317,389	29,385,442	9,068,053	69.1	5,183,195	175.0
2012	20,507,604	27,784,731	7,277,127	73.8	4,922,388	185.7
2011	21,244,900	26,242,776	4,997,876	81.0	4,808,250	103.9
2010	19,019,062	24,862,421	5,843,359	76.5	4,711,563	124.0
2009	16,992,214	23,723,240	6,731,026	71.6	4,712,655	142.8
2008	20,400,656	22,820,502	2,419,846	89.4	4,574,233	52.9
MTRS						
Actuarial Valuation as of Jan. 1						
2017	\$25,638,136	\$49,193,503	\$23,555,367	52.1%	\$6,583,871	357.8%
2016	24,593,787	46,562,807	21,969,020	52.8	6,388,732	343.9
2015	23,946,759	44,115,769	20,169,010	54.3	6,204,274	325.1
2014	22,940,196	40,741,695	17,801,499	56.3	5,962,650	298.6
2013	21,787,470	39,135,218	17,347,748	55.7	5,783,294	300.0
2012	22,141,475	36,483,027	14,341,552	60.7	5,655,353	253.6
2011	23,117,952	34,890,991	11,773,039	66.3	5,558,311	211.8
2010	21,262,462	33,738,966	12,476,504	63.0	5,509,698	226.4
2009	18,927,731	32,543,782	13,616,051	58.2	5,389,895	252.6
2008	22,883,553	30,955,504	8,071,951	73.9	5,163,498	156.3
Aggregate Commonwealth Pension Obligations (1)						
Actuarial Valuation as of Jan. 1						
2017	\$51,952,206	\$91,573,998	\$39,621,792	56.7%	\$13,059,709	303.4%
2016	49,535,323	87,401,722	37,866,399	56.7	12,702,727	298.1
2015	48,105,862	81,535,003	33,429,141	59.0	12,302,162	271.7
2014	45,894,034	74,936,994	29,042,960	61.2	11,793,788	246.3
2013	43,517,498	71,865,832	28,348,334	60.6	11,408,407	248.5
2012	43,941,682	67,546,587	23,604,905	65.1	11,011,466	214.4
2011	45,630,507	64,219,135	18,588,628	71.1	10,811,975	171.9
2010	41,589,706	61,575,676	19,985,970	67.5	10,655,881	187.6
2009	37,057,703	59,142,155	22,084,452	62.7	10,537,212	209.6
2008	44,531,652	56,636,710	12,105,058	78.6	10,156,252	119.2

SOURCE: Public Employee Retirement Administration Commission.

(1) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments from 1981 to 1996.

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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)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
MSERS						
Actuarial Valuation as of Jan. 1						
2017	\$24,366,420	\$38,316,719	\$13,950,299	63.6%	\$5,927,012	235.4%
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
MTRS						
Actuarial Valuation as of Jan. 1						
2017	\$25,225,451	\$49,193,503	\$23,968,052	51.3%	\$6,583,871	364.0%
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
Aggregate Commonwealth Pension Obligations (1)						
Actuarial Valuation as of Jan. 1						
2017	\$51,107,139	\$91,573,998	\$40,466,859	55.8%	\$13,059,709	309.9%
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

SOURCE: Public Employee Retirement Administration Commission.

(1) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments from 1981-1996.

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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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Annual required contribution (ARC) (1)	\$2,011,147	\$2,217,130	\$2,600,000	\$3,060,000	\$3,292,000
Contributions made	<u>\$1,630,000</u>	<u>\$1,793,000</u>	<u>\$2,001,093</u>	<u>\$2,198,093</u>	<u>\$2,394,000</u>
% of ARC funded for the fiscal year	81%	75%	77%	72%	73%
ARC as ratio of total government expenditures (2)	5.3%	5.7%	6.4%	7.2%	7.6%

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 2016 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 years 2014, 2015 and 2016.

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 2016 CAFR as well as the inflows and outflows that under GASB 68 are recognized either in the fiscal 2016 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 2016 CAFR it would use the pension valuation information as of June 30, 2015. The Commonwealth will use the June 30, 2016 pension information for its fiscal 2017 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 2016, 2015 and 2014

(Amounts in thousands, except for percentages)

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014 (1)</u>
Total pension liability (as of July 1)	\$45,918,711	\$41,435,000	\$ 39,931,000
Service cost	843,800	768,032	720,712
Interest	3,402,525	3,166,728	3,227,025
Differences between expected and actual experience	(74,025)	153,000	-
Changes of assumptions (2), (3)	-	3,080,000	108,000
<u>Benefit payments, including refunds of member contributions</u>	<u>(2,791,011)</u>	<u>(2,684,049)</u>	<u>(2,551,737)</u>
Net change in total pension liability	1,381,289	4,483,711	1,504,000
Total pension liability (as of June 30)	\$47,300,000	\$45,918,711	\$ 41,435,000
Plan fiduciary net position (as of July 1)	\$25,429,068	\$25,538,646	\$ 22,697,302
Contributions:			
Non-employer - Commonwealth	1,124,583	1,021,930	930,079
Plan members	699,422	669,941	653,328
<u>Other additions</u>	<u>202,796</u>	<u>190,925</u>	<u>178,998</u>
Total contributions	2,026,801	1,882,796	1,762,405
Net investment income	441,363	845,503	3,771,883
Benefit payments, including refunds of plan member contributions	(2,791,011)	(2,684,049)	(2,551,737)
Administrative expense	(24,220)	(23,444)	(20,499)
<u>Other changes</u>	<u>(139,929)</u>	<u>(130,384)</u>	<u>(120,708)</u>
Net change in plan fiduciary net position	(486,996)	(109,578)	2,841,344
Plan fiduciary net position (as of June 30)	\$24,942,072	\$25,429,068	\$25,538,646
Plan net pension liability/(asset) (as of June 30)	\$22,357,928	\$20,489,643	\$15,896,354
Plan fiduciary net position as a percentage of the total pension liability	52.7%	55.4%	61.6%
<u>Covered employee payroll (4)</u>	<u>\$6,388,732</u>	<u>\$6,204,274</u>	<u>\$ 5,962,650</u>
Net pension liability/(asset) as a percentage of covered employee payroll	350.0%	330.3%	266.6%

SOURCE: Office of the Comptroller

- (1) Certain 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 (discount rate) from 8.0% to 7.75% in the January 1, 2015 actuarial valuation and (ii) improved future mortality.
- (3) Subsequent to the issuance of the fiscal 2015 CAFR, the Commonwealth further reduced its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the fiscal 2015 CAFR. This change resulted in an increase of approximately \$1.190 billion which affected the net pension liability as of and for the fiscal year ended June 30, 2015.
- (4) 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 2016 (7/1/14- 6/30/15)

Service cost	\$768,032
Interest	3,166,728
Employee contributions	(669,941)
Projected earnings on plan investments	(1,921,527)
Recognized portion of difference between expected and actual experience	24,677
Recognized portion of difference in projected and actual earnings on investments	(183,459)
Recognized portion of plan benefit changes	-
Recognized portion of assumption changes	514,479
Transfers and reimbursements from other systems	(44,899)
Member make up, redeposit and payments from rollovers	(32,888)
Administrative expense	23,444
<u>Other changes (net)</u>	<u>17,246</u>
Pension expense	\$1,661,892

Deferred Outflows/Inflows of Resources

	<u>Year of Deferral</u>	<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	2015	\$128,323	-	\$153,000	6.2	\$24,677
Assumption changes	2014	72,590	-	108,000	6.1	17,705
	2015	2,583,226		3,080,000	6.2	496,774
Net difference between projected and actual earnings on plan investments	2014	-	(1,195,992)	(1,993,320)	5	(398,664)
	2015	<u>860,819</u>		<u>1,076,024</u>	5	<u>215,205</u>
Total		3,644,958	(1,195,992)	-		
Net		\$2,448,966	-	\$2,423,704		\$355,697

Projected Recognition of Deferred Outflows/(Inflows)

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Difference between expected and actual experience	\$24,677	\$24,677	\$24,677	\$24,677	\$24,677	\$4,936
Assumption changes	514,479	514,479	514,479	514,479	498,544	99,355
Net difference between projected and actual earnings on plan investments	<u>(183,459)</u>	<u>(183,459)</u>	<u>(183,459)</u>	<u>215,205</u>	<u>0</u>	<u>0</u>
Total	\$355,697	\$355,697	\$355,697	\$754,361	\$523,221	\$104,291

(1) Fiscal 2015 information is used in the fiscal 2016 CAFR; fiscal 2016 information is to be used in the fiscal 2017 CAFR.

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

Fiscal 2016, 2015 and 2014

(Amounts in thousands, except for percentages)

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014 (1)</u>
Total pension liability (as of July 1)	\$35,425,414	\$31,355,000	\$ 29,988,000
Service cost	813,975	700,012	631,634
Interest	2,638,929	2,411,551	2,405,204
Changes in benefit terms (2)	400,000	230,302	-
Differences between expected and actual experience	589,009	275,000	-
Changes of assumptions (3), (4)	-	2,330,000	102,000
<u>Benefit payments, including refunds of member contributions</u>	<u>(2,107,327)</u>	<u>(1,876,451)</u>	<u>(1,771,838)</u>
Net change in total pension liability	2,334,586	4,070,414	1,367,000
Total pension liability (as of June 30)	\$37,760,000	\$35,425,414	\$ 31,355,000
Plan fiduciary net position (as of July 1)	\$24,042,585	\$23,930,895	\$ 21,084,958
Contributions:			
Employers – Commonwealth and MassDOT	660,818	601,931	550,438
Non-employer contributions – Commonwealth	21,830	18,040	21,293
Employers and non-employers – other	16,642	15,808	6,048
ERIP funding contribution - Commonwealth	29,093	-	-
Plan members	591,948	549,493	501,106
<u>Other additions</u>	<u>397,077</u>	<u>92,503</u>	<u>68,967</u>
Total contributions	1,717,408	1,277,775	1,147,897
Net investment income	422,938	800,886	3,551,012
Benefit payments, including refunds of plan member contributions	(2,107,327)	(1,876,451)	(1,771,838)
Administrative expense	(20,624)	(15,966)	(12,705)
<u>Other changes</u>	<u>(83,824)</u>	<u>(74,554)</u>	<u>(68,429)</u>
Net change in plan fiduciary net position	(71,429)	111,690	\$2,845,937
Plan fiduciary net position (as of June 30)	\$23,971,156	\$24,042,585	\$23,930,895
Plan net pension liability/(asset) (as of June 30)	\$13,788,844	\$11,382,829	\$7,424,105
Plan fiduciary net position as a percentage of the total pension liability	63.5%	67.9%	76.3%
<u>Covered employee payroll (5)</u>	<u>\$5,792,288</u>	<u>\$5,591,911</u>	<u>\$5,344,510</u>
Net pension liability/(asset) as a percentage of covered employee payroll	238.1%	203.6%	138.9%

SOURCE: Office of the Comptroller

- (1) Certain fiscal 2015 amounts were reclassified to conform to current year presentation
- (2) Fiscal 2015 change in benefit terms reflects costs associated with the retirement incentive program approved in May, 2015. Fiscal 2016 change in benefit terms reflect costs related to Optional Retirement Plan members transferring to the State Employees' Retirement System pursuant to Chapter 176 of the Acts of 2011.
- (3) The changes in assumptions in fiscal 2015 were due to (1) a decrease in the investment rate of return (discount rate) from 8.0% to 7.75% in the January 1, 2015 actuarial valuation and (2) improved future mortality.
- (4) Subsequent to the issuance of the fiscal 2015 CAFR, the Commonwealth further reduced its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the fiscal 2015 CAFR. This change resulted in an increase of approximately \$933 million which affected the net pension liability as of and for the fiscal year ended June 30, 2015.
- (5) Reflects compensation in the January 1 actuarial valuation for each fiscal year.

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

(Amounts in thousands)

Pension Expense for Fiscal 2016 (7/1/14 - 6/30/15)

Service cost	\$700,012
Interest	2,411,551
Employee contributions	(549,493)
Projected earnings on plan investments	(1,820,569)
Recognized portion of difference between expected and actual experience	50,000
Recognized portion of difference in projected and actual earnings on investments	(177,011)
Recognized portion of assumption change	442,182
Change in benefit terms	230,302
Transfers and reimbursements from other systems	(59,075)
Member make up, redeposit and payments from rollovers	(9,461)
COLA reimbursements	(23,214)
Other reimbursements	(755)
Administrative expense	15,966
<u>Other expenses that do not reduce the total pension liability</u>	<u>74,556</u>
Pension expense	\$1,284,991

Deferred Outflows/Inflows of Resources

	<u>Year of Deferral</u>	<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	2015	\$225,000	-	\$275,000	5.5	\$50,000
Assumption changes	2014	64,909	-	102,000	5.5	18,546
	2015	1,906,364	-	2,330,000	5.5	423,636
Net difference between projected and actual earnings on plan investments	2014	-	(1,142,841)	(1,904,736)	5.0	(380,948)
	2015	<u>815,746</u>	-	<u>1,019,683</u>	5.0	<u>203,937</u>
Total		3,012,019	(1,142,841)	-		-
Net		-	(\$1,869,178)	\$1,821,947		\$315,171

Projected Recognition of Deferred Outflows/(Inflows)

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Difference between expected and actual experience	\$50,000	\$50,000	\$50,000	\$50,000	\$25,000
Assumption changes	442,182	442,182	442,182	432,909	211,818
Net difference between projected and actual earnings on plan investments	<u>(177,011)</u>	<u>(177,011)</u>	<u>(177,011)</u>	<u>203,937</u>	-
Total	\$315,171	\$315,171	\$315,171	\$686,846	\$236,818

(1) Fiscal 2015 information is used in the fiscal 2016 CAFR; fiscal 2016 information is to be used in the fiscal 2017 CAFR.

Prospective Funded Status of the Pension System

The following tables project the funded status of the MSERS', the MTRS', the Boston teachers', and the Commonwealth's aggregate pension liabilities through fiscal 2021. The fiscal 2016 actuarial results reflect assumptions outlined in the January 1, 2016 actuarial valuation report. All projections are estimates and will vary based on actual investment returns and plan experience. The projections in this table assume that all assumptions will be realized exactly. The actuarially determined contributions for fiscal 2016 and fiscal 2017 were the amounts required by the funding schedule approved in 2014, plus the additional \$29.1 million appropriations made on account of the employee retirement incentive program. For fiscal 2018 and beyond, these figures reflect the funding schedule filed in 2017. Under this schedule, appropriations increase by 8.94% per year until fiscal 2036. The allocations to individual retirement systems for fiscal 2018 and beyond are estimated, as reallocations to fund each system's unfunded liability in fiscal 2036 have not yet been completed. 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, 2016 was 101.2% of the market value of assets. The actuarial value of assets on January 1, 2017 is estimated to be 101.6% of the market value of assets. The actuarial value of assets on January 1, 2018 is assumed to be 101% of the market value of assets. The actuarial value of assets on January 1, 2019, 2020 and 2021 is assumed to be 100% of the market value of assets. 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, 2016 to January 1, 2017 using standard methodology. Projections beyond January 1, 2017 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 13, 2017.

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 3.85% compound annual growth rate of budgeted revenues from fiscal 2007 to estimated fiscal 2017. 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.

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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>
<u>MSERS</u>						
2016	\$723	\$23,466	\$36,966	\$13,500	63.5%	1.8%
2017	792	24,773	38,515	13,742	64.3	1.9
2018	863	25,618	40,132	14,514	63.8	2.0
2019	940	26,458	41,778	15,320	63.3	2.1
2020	1,024	27,653	43,449	15,795	63.6	2.2
2021	1,116	28,949	45,187	16,238	64.1	2.3
<u>MTRS</u>						
2016	\$1,132	\$24,594	\$46,563	\$21,969	52.8%	2.8%
2017	1,246	25,638	48,091	22,453	53.3	2.9
2018	1,357	26,340	49,726	23,386	53.0	3.1
2019	1,479	27,024	51,367	24,343	52.6	3.2
2020	1,611	28,065	53,011	24,946	52.9	3.4
2021	1,755	29,210	54,680	25,470	53.4	3.5
<u>Boston Teachers</u>						
2016	\$120	\$1,475	\$3,711	\$2,236	39.7%	0.3%
2017	132	1,539	3,821	2,282	40.3	0.3
2018	144	1,566	3,947	2,381	39.7	0.3
2019	157	1,584	4,073	2,489	38.9	0.3
2020	171	1,610	4,200	2,590	38.3	0.4
2021	186	1,627	4,330	2,703	37.6	0.4
<u>Aggregate Commonwealth Pension Obligations (2)</u>						
2016 (3)	\$2,001	\$49,535	\$87,401	\$37,866	56.7%	4.9%
2017 (4)	2,198	51,950	90,575	38,625	57.4	5.2
2018	2,395	53,525	93,942	40,417	57.0	5.4
2019	2,609	55,066	97,343	42,278	56.6	5.7
2020	2,842	57,328	100,775	43,447	56.9	6.1
2021	3,095	59,786	104,303	44,517	57.3	6.0

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

- (1) Actuarial results reflect figures and assumption outlined in the January 1, 2016 Commonwealth Actuarial Valuation Report.
- (2) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments.
- (3) 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.
- (4) Legislation approved in August, 2015 mandated 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 and projections, by the year 2040 the PRIT Fund plans to 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 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 PRIT 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 PRIT Fund's long-term nature and objectives. PRIM has been informed that the current target actuarial rate of return is 7.5%. The PRIM Board does not determine this rate of return, but this rate of return is a key input into the PRIM Board's asset allocation decisions.

The actual asset allocation mix invariably deviates from the PRIT Fund's target allocations 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 14, 2017.

PRIT Fund Asset Allocation

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Target</u>
Domestic Equity	20.8%	19.0%	19.2%	18.7%	19.8%	18.0%
International Equity	18.0	17.1	16.9	16.5	18.0	16.0
Emerging Markets Equity	6.5	7.0	6.6	7.0	7.9	6.0
Core Fixed Income	12.6	13.9	13.7	13.9	12.0	12.0
Value-Added Fixed Income	8.9	8.5	8.3	8.4	8.1	10.0
Private Equity	11.7	11.1	11.3	11.1	10.6	11.0
Real Estate	8.2	8.9	10.0	10.4	9.1	10.0
Timber/Natural Resources	4.0	3.9	3.8	3.3	3.7	4.0
Hedge Funds	9.2	9.6	9.1	8.6	8.4	0.0
Portfolio Completion Strategies	n/a	0.0	0.2	1.2	1.1	13.0

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 10 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>
2017	13.20%	2012	(0.08)%
2016	2.29	2011	22.30
2015	3.86	2010	12.82
2014	17.53	2009	(23.87)
2013	12.69	2008	(1.81)
	3yr average		6.34%
	5yr average		9.76%
	10yr average		5.08%

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 OPEB 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, 2017, 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. See “COMMONWEALTH EXPENDITURES – Employee Benefits; *Group Insurance*. According to the most recent actuarial valuation as of January 1, 2017, the GIC had 155,247 state enrollees as of January 1, 2017. As of that date, the Commonwealth was responsible for the OPEB liability of 129,017 of those enrollees.

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.

For fiscal 2017, governmental GAAP reporting is governed by two standards that have different requirements for calculating discount rates. Under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016 (*i.e.*, for fiscal 2017), OPEB plans are required to discount retiree health care liabilities, based on a blend of 30-year municipal bond rates and the expected return for assets in the trust, “blended,” or weighted, by the funding level of the OPEB trust relative to OPEB liabilities. The rate of return for assets in the OPEB trust is assumed to be 7.50%, consistent with the rate used for the Commonwealth’s pension trust, while the relevant municipal bond rate is 3.58%, resulting in a 3.63% blended discount rate, weighted towards the lower municipal bond rate due to the relatively low funding level of the OPEB trust in relation to the Commonwealth’s OPEB liability. Under GASB Statement No. 45, which governs how OPEB liabilities are discounted in the Commonwealth’s financial statements through fiscal 2017, the Commonwealth is required to discount retiree health care liabilities at the estimated long-term yield on investments that are expected to be used to finance the payment of benefits. Since the Commonwealth’s OPEB plan is not pre-funded, the discount rate is based on the portfolio of the general assets used to pay these benefits. Historical monthly yields for this portion of the portfolio are derived from the rate of return of the Massachusetts Municipal Depository Trust (MMDT). While the calculations under GASB Statement No. 45 and GASB Statement No. 74 result in different discount rates, in the interest of consistency and clarity the same rate was used for both calculations, based on the GASB Statement No. 74 requirements.

The January 1, 2017 actuarial valuation was issued on November 10, 2017. According to the report, the Commonwealth’s actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 3.63%, was approximately \$19.446 billion as of January 1, 2017. As noted above, the 3.63% discount rate was calculated in accordance with GASB 74 requirements.

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, 2017, this net OPEB obligation as reflected on the Commonwealth's statement of net position is \$7.581 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 \$25.4 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 a transfer of approximately \$76 million. The Governor's proposal was not acted upon by the Legislature, and expired at the end of the legislative session. Accordingly, under the fiscal 2012 provision cited above, 50% of fiscal 2017 tobacco settlement proceeds, or approximately \$127 million, will be required to be transferred to the State Retirees Benefits Trust Fund unless that provision is modified or waived by a legislative change. The Governor included a proposal in the February 2017 supplemental budget to transfer the equivalent of 10% of fiscal 2017 tobacco settlement proceeds. That proposal was adopted by the Legislature, and approximately \$25.4 million was transferred to the State Retirees Benefits Trust Fund for fiscal 2017.

The fiscal 2018 budget enacted by the Legislature requires that transfers be made equivalent to 10% of the fiscal 2018 tobacco proceeds, or approximately \$25.4 million. The 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.

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, but reinstated for fiscal 2017. As the fiscal 2017 capital gains tax revenues did not exceed the statutory capital gains threshold, no deposits were made to the State Retiree Benefits Trust Fund in fiscal 2017.

The actuarial value of plan assets as of January 1, 2017 was approximately \$817 million.

State Retiree Benefits Trust
(amounts in thousands)

Actuarial Valuation as of January 1:	Actuarial Value of Plan Assets	Actuarial Liability	Accrued Unfunded Liability (UAAL)	Actuarial Ratio Covered	Funded Payroll	Annual Covered Payroll as % of UAAL
2017	\$817,400	\$20,263,500	\$19,446,100	4.0%	\$5,927,012	328.1%
2016	760,400	17,082,900	16,322,500	4.5	5,792,288	281.8
2015	610,000	16,502,800	15,892,800	3.7	5,591,911	284.2
2014	511,200	15,670,200	15,159,000	3.3	5,344,500	283.6
2013	406,700	15,784,100	15,377,400	2.6	5,183,195	296.7
2012	360,500	16,559,400	16,298,900	2.2	4,922,388	331.1
2011	350,500	16,568,600	16,218,100	2.1	4,808,250	337.3
2010	309,800	15,166,300	14,856,500	2.0	4,711,563	315.3
2009	273,500	15,305,100	15,031,600	1.8	4,712,655	319.0
2008	-	9,812,000	9,812,000	0.0	4,574,233	214.5

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

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COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan on a rolling basis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. The capital investment plan for fiscal 2018 through fiscal 2022 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. In May, 2017, the Governor announced the five-year capital investment plan for fiscal 2018 through fiscal 2022 and an administrative bond cap of \$2.26 billion. This increase represents a 3.2% increase over fiscal 2017, 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 2018:

Fiscal Year 2018 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	\$123.9	\$5.0	\$0.0	\$118.6	\$247.4
Capital Asset Management	522.5	12.5	0.5	32.0	567.4
Education	19.0	-	-	12.0	31.0
Energy and Environmental Affairs	210.1	2.5	59.1	54.5	326.1
Housing and Community Development	210.8	-	3.0	10.0	223.8
Housing and Economic Development	131.9	-	-	26.5	158.4
MassIT	138.5	42.5	120.3	8.3	309.7
Public Safety	19.2	1.2	-	-	20.4
MassDOT	<u>884.1</u>	<u>0.0</u>	<u>910.8</u>	<u>686.7</u>	<u>2,481.6</u>
Total (1)	\$2,260.0	\$63.7	\$1,093.7	\$948.5	\$4,365.9

SOURCE: Executive Office for Administration as of May 11, 2017.

(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, matching funds from cities and towns, 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 2013 through fiscal 2017 according to these categories.

Commonwealth Historical Capital Spending (in millions) (1)

Investment Category:	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017 (3)</u>
Information technology	\$ 129	\$133	\$190	\$207	\$169	\$154
Infrastructure/facilities	518	452	457	449	526	510
Environment	131	130	138	221	238	202
Housing	185	183	182	188	185	213
Public safety	17	17	22	26	18	17
Transportation	1,618	1,528	1,790	2,041	2,081	1,895
Other	<u>125</u>	<u>183</u>	<u>227</u>	<u>242</u>	<u>215</u>	<u>269</u>
Total (2)	<u>\$2,724</u>	<u>\$2,626</u>	<u>\$3,006</u>	<u>\$3,374</u>	<u>\$3,432</u>	<u>\$3,260</u>

SOURCE: Fiscal 2013-2017, Office of the State Comptroller.

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

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 completed a comprehensive review of the project in May, 2016, 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 was developed. The MassDOT Board of Directors and 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 Administration (FTA). MassDOT and the MBTA submitted an updated finance plan to the FTA in June, 2017. Following receipt of the FTA’s concurrence on the updated project’s revised scope, cost estimate and schedule, the MBTA initiated a procurement process for a design-build entity to design and construct the project. On November 20, 2017, the FMCB voted to approve and authorize the MBTA to execute a design-build contract with GLX Constructors for a not-to-exceed contract price of \$1.082 billion. The notice to proceed under the contract will be issued once the FTA obligates the Capital Investment Grant funds for the project, as anticipated in the January, 2015 Full Funding Grant Agreement. The state share of this project is funded by special obligation bonds. 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 2018 capital budget, the Governor increased the administrative bond cap to \$2.260 billion from \$2.190 billion in fiscal 2017. The fiscal 2018 debt affordability analysis was based on debt service as described above and assumed growth of budgeted revenues at a rate of 3.5% annually. 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 2018 through fiscal 2022, 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 2018</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Total Debt Service (1)	\$2,724,262	\$2,741,171	\$3,018,799	\$3,210,532	\$3,275,906
Estimated Budgeted Revenues (2)	\$43,425,700	\$44,945,600	\$46,518,695	\$48,146,850	\$49,831,990
Debt Service as % of Net Budgeted Revenues	6.27%	6.10%	6.49%	6.67%	6.57%

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 2018-2022. 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 this Information Statement, and does not take into account the State Treasurer’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 3.5% annually. For purposes of the 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. The committee determined that up to \$2.26 billion of capital debt issuance within the bond cap could be prudently authorized for fiscal 2018. On December 11, 2017, the committee determined that up to \$2.34 billion of capital debt issuance within the bond cap could be prudently authorized for fiscal 2019.

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 of 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, MassDOT 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 2018 is \$22,875,432,585. 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.

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Calculation of the Debt Limit
(in thousands)

	<u>Fiscal 2013</u>	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017 (5)</u>	<u>Fiscal 2018 (6)</u>
Total principal balance	\$21,513,039	\$22,419,852	\$23,826,301	\$25,079,591	\$26,445,665	\$26,756,999
Less: principal of direct debt excluded from the statutory debt limit:						
Special obligation debt (1)	(935,095)	(888,405)	(829,340)	(768,365)	(703,690)	(703,690)
Accelerated bridge program	(988,605)	(1,403,850)	(1,495,150)	(1,535,890)	(1,642,730)	(1,679,155)
Rail enhancement program (2)		-	-	-	(644,540)	(944,540)
Federal grant anticipation notes (1)	(449,100)	(530,935)	(699,855)	(657,040)	(738,010)	(809,280)
Assumed county debt	-	-	-	-	-	-
MBTA forward funding	(207)	(207)	(207)	(207)	(207)	(207)
Transportation Infrastructure Fund	(1,303,013)	(1,241,263)	(1,197,127)	(1,150,296)	(1,110,195)	(1,095,939)
School Building Assistance (SBA)	(764,338)	(723,917)	(689,446)	(652,197)	(632,348)	(598,985)
Outstanding direct debt, principal (3)	<u>\$17,072,681</u>	<u>\$17,631,275</u>	<u>\$18,915,176</u>	<u>\$20,315,596</u>	<u>\$20,973,945</u>	<u>\$20,925,203</u>
Statutory Debt Limit	<u>\$17,923,500</u>	<u>\$18,819,675</u>	<u>\$19,760,659</u>	<u>\$20,748,692</u>	<u>\$21,786,126</u>	<u>\$22,875,433</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 accretion of capital appreciation bonds.
- (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 as of June 30, 2017 and are unaudited.
- (6) Amounts are as of November 30, 2017 and are unaudited.

General Obligation Debt

As of November 30, 2017, the Commonwealth had approximately \$22.6 billion in general obligation bonds outstanding, of which \$19.0 billion, or approximately 84% was fixed rate debt and \$3.6 billion, or 16%, 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 \$576.4 million of outstanding general obligation debt as of November 30, 2017, 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 \$1.6 billion, or approximately 7% 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 \$2.0 billion or approximately 9% 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 November 30, 2017, the Commonwealth had outstanding approximately \$149.1 million (\$79.8 million principal and including a discount equal to \$69.3 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 November 30, 2017 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 – 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 November 30, 2017, the Commonwealth had outstanding approximately \$128.3 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 November 30, 2017, the Commonwealth had outstanding approximately \$2.6 billion of CTF Bonds, which are secured by a pledge of registry fees and a specified portion of the motor fuels excise tax, \$1.7 billion of which have been issued in support of the ABP and \$944.5 million of which have been 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 \$575.4 million remained outstanding as of November 30, 2017.

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 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 November 30, 2017, \$738.0 million of GANs was outstanding.

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 increased to 6.9%, and for federal fiscal year 2018, this reduction has been decreased to 6.6%. Such interest subsidy payments could become subject to a much larger sequestration reduction, and potentially be eliminated altogether, under the Statutory Pay-As-You-Go (PAYGO) Act of 2010, which is designed to limit federal deficit spending. Since the enactment of the PAYGO Act, the U. S. Congress has consistently acted to prevent its implementation, but there can be no assurance that it will continue to do so.

Beginning in fiscal 2012, federal interest 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 November 30, 2017, \$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 \$77.0 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 2013 through fiscal 2017, exclusive of unamortized bond premiums:

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

	<u>Fiscal 2013</u>	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017 (5)</u>
Beginning Balance as of July 1	\$21,433,553	\$21,513,039	\$22,419,852	\$23,826,301	\$25,079,591
Debt Issued	1,470,473	2,359,899	2,918,817	2,766,419	2,877,265
Subtotal	<u>22,904,026</u>	<u>23,672,983</u>	<u>25,338,669</u>	<u>26,592,720</u>	<u>27,956,856</u>
Debt retired or defeased, exclusive of refunded debt	(1,386,527)	(1,434,511)	(1,486,243)	(1,446,444)	(1,389,581)
Refunding debt issued, net of refunded debt (3)	(4,460)	(18,575)	(26,125)	(66,685)	(121,610)
Ending Balance June 30 (2)	<u>\$21,513,039</u>	<u>\$22,419,852</u>	<u>\$23,826,301</u>	<u>\$25,079,591</u>	<u>\$26,445,665</u>

SOURCE: Office of the Comptroller.

(1) Including 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 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017 (2)</u>
General Obligation Debt	\$19,140,239	\$19,596,662	\$20,801,956	\$21,668,296	\$22,716,695
Special Obligation Debt	1,923,700	2,292,255	2,324,490	2,754,255	2,990,960
Federal Grant Anticipation Notes	<u>449,100</u>	<u>530,935</u>	<u>699,855</u>	<u>657,040</u>	<u>738,010</u>
TOTAL	<u>\$21,513,039</u>	<u>\$22,419,852</u>	<u>\$23,826,301</u>	<u>\$25,079,591</u>	<u>\$26,445,665</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 November 30, 2017, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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Debt Service Requirements on Commonwealth Bonds as of November 30, 2017 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
6/30/2018	\$667,195	\$567,117	\$ -	(\$20,851)	\$546,266	\$1,213,461	\$47,150	\$36,654	(\$1,147)	\$35,507	\$82,657
6/30/2019	1,361,150	964,899	4,852	(36,557)	928,342	2,294,344	62,985	37,477	(973)	36,504	99,489
6/30/2020	1,270,519	908,209	4,410	(36,300)	871,909	2,146,839	66,015	34,447	(782)	33,665	99,680
6/30/2021	1,231,278	845,722	4,265	(35,014)	810,708	2,046,251	78,485	31,191	(577)	30,614	109,099
6/30/2022	1,192,285	789,597	4,436	(32,698)	756,899	1,953,621	82,375	27,302	(357)	26,945	109,320
6/30/2023	1,032,048	736,065	4,532	(31,412)	704,653	1,741,233	86,470	23,205	(122)	23,083	109,553
6/30/2024	998,931	684,530	4,195	(31,412)	653,118	1,656,243	89,510	19,290	-	19,290	108,800
6/30/2025	992,664	637,567	4,303	(31,177)	606,390	1,603,356	93,985	14,815	-	14,815	108,800
6/30/2026	918,327	593,059	4,414	(30,776)	562,283	1,485,024	98,685	10,115	-	10,115	108,800
6/30/2027	823,475	551,008	4,605	(30,203)	520,805	1,348,886	103,620	5,181	-	5,181	108,801
6/30/2028	786,137	513,853	4,842	(28,953)	484,900	1,275,878	-	-	-	-	-
6/30/2029	842,906	477,656	4,433	(26,687)	450,969	1,298,308	-	-	-	-	-
6/30/2030	804,819	440,171	4,148	(22,892)	417,279	1,226,245	-	-	-	-	-
6/30/2031	808,937	397,557	3,985	(16,808)	380,749	1,193,671	-	-	-	-	-
6/30/2032	717,883	366,760	3,709	(14,776)	351,984	1,073,576	-	-	-	-	-
6/30/2033	537,010	338,837	2,836	(12,440)	326,397	866,243	-	-	-	-	-
6/30/2034	532,354	315,179	2,149	(11,068)	304,111	838,614	-	-	-	-	-
6/30/2035	540,406	292,691	1,483	(9,647)	283,044	824,933	-	-	-	-	-
6/30/2036	573,908	268,252	887	(8,177)	260,075	834,870	-	-	-	-	-
6/30/2037	598,896	241,430	548	(6,654)	234,776	834,220	-	-	-	-	-
6/30/2038	563,711	214,565	279	(5,077)	209,488	773,478	-	-	-	-	-
6/30/2039	569,255	189,144	-	(3,445)	185,699	754,954	-	-	-	-	-
6/30/2040	565,500	163,872	-	(1,609)	162,263	727,763	-	-	-	-	-
6/30/2041	569,630	139,502	-	-	139,502	709,132	-	-	-	-	-
6/30/2042	633,140	116,277	-	-	116,277	749,417	-	-	-	-	-
6/30/2043	676,130	91,004	-	-	91,004	767,134	-	-	-	-	-
6/30/2044	603,725	62,881	-	-	62,881	666,606	-	-	-	-	-
6/30/2045	478,485	42,775	-	-	42,775	521,260	-	-	-	-	-
6/30/2046	449,320	23,041	-	-	23,041	472,361	-	-	-	-	-
6/30/2047	211,000	6,125	-	-	6,125	217,125	-	-	-	-	-
Totals (1)	\$22,551,023	\$11,979,345	\$69,311	(\$484,634)	\$11,494,711	\$34,115,045	\$809,280	\$239,677	(\$3,957)	\$235,719	\$1,044,999

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)

Period Ending	Principal	Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2018	\$23,310	\$15,582	\$38,892	\$13,600	\$76,164	(\$12,314)	\$68,849	\$77,449
6/30/2019	24,475	30,126	54,601	15,350	81,721	(12,314)	69,406	84,756
6/30/2020	23,380	28,842	52,222	16,595	80,984	(12,314)	68,670	85,265
6/30/2021	24,610	27,673	52,283	17,950	80,154	(12,314)	67,840	85,790
6/30/2022	25,970	26,380	52,350	21,475	79,257	(12,314)	66,942	88,417
6/30/2023	27,440	24,952	52,392	29,925	78,215	(12,314)	65,900	95,825
6/30/2024	28,990	23,443	52,433	39,535	76,730	(12,314)	64,416	103,951
6/30/2025	30,625	21,848	52,473	51,370	74,756	(11,937)	62,819	114,189
6/30/2026	32,360	20,164	52,524	53,970	72,149	(11,529)	60,620	114,590
6/30/2027	34,190	18,384	52,574	56,035	69,309	(11,065)	58,244	114,279
6/30/2028	36,125	16,504	52,629	51,115	66,351	(10,575)	55,776	106,891
6/30/2029	38,170	14,517	52,687	54,240	63,677	(10,058)	53,619	107,859
6/30/2030	40,330	12,418	52,748	54,150	61,066	(9,512)	51,554	105,704
6/30/2031	42,610	10,199	52,809	59,875	58,313	(8,935)	49,378	109,253
6/30/2032	45,020	7,856	52,876	62,950	55,094	(8,316)	46,778	109,728
6/30/2033	47,565	5,380	52,945	66,195	51,708	(7,661)	44,046	110,241
6/30/2034	50,250	2,764	53,014	69,455	48,318	(6,970)	41,348	110,803
6/30/2035	-	-	-	69,480	44,828	(6,239)	38,589	108,069
6/30/2036	-	-	-	72,995	41,331	(5,466)	35,865	108,860
6/30/2037	-	-	-	80,985	37,654	(4,650)	33,004	113,989
6/30/2038	-	-	-	80,520	33,616	(3,718)	29,898	110,418
6/30/2039	-	-	-	84,765	29,596	(2,546)	27,050	111,815
6/30/2040	-	-	-	89,105	25,240	(1,308)	23,932	113,037
6/30/2041	-	-	-	93,740	20,646	-	20,646	114,386
6/30/2042	-	-	-	98,580	16,696	-	16,696	115,276
6/30/2043	-	-	-	102,315	12,739	-	12,739	115,054
6/30/2044	-	-	-	108,520	8,007	-	8,007	116,527
6/30/2045	-	-	-	8,670	2,637	-	2,637	11,307
6/30/2046	-	-	-	55,695	2,260	-	2,260	57,955
Totals (1)	\$575,420	\$307,032	\$882,452	\$1,679,155	\$1,449,214	(\$206,686)	\$1,242,528	\$2,921,683

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

Special Obligation Revenue Bonds
(Gas Tax)

Special Obligation Revenue Bonds
(CTF – Rail Enhancement Program)

Period Ending	Principal	Interest	Debt Service	Principal	Interest	Debt Service
6/30/2018	\$23,040	\$6,785	\$29,825	\$23,435	\$36,769	\$60,204
6/30/2019	24,300	5,518	29,818	26,495	42,576	69,071
6/30/2020	25,640	4,182	29,822	27,195	41,369	68,564
6/30/2021	26,905	2,916	29,821	27,965	40,074	68,039
6/30/2022	28,385	1,436	29,821	26,715	38,694	65,409
6/30/2023	-	-	-	24,240	37,438	61,678
6/30/2024	-	-	-	17,295	36,255	53,550
6/30/2025	-	-	-	8,200	35,449	43,649
6/30/2026	-	-	-	8,555	35,051	43,606
6/30/2027	-	-	-	9,695	34,636	44,331
6/30/2028	-	-	-	18,005	34,151	52,156
6/30/2029	-	-	-	18,340	33,300	51,640
6/30/2030	-	-	-	21,900	32,383	54,283
6/30/2031	-	-	-	19,800	31,445	51,245
6/30/2032	-	-	-	20,860	30,455	51,315
6/30/2033	-	-	-	21,965	29,412	51,377
6/30/2034	-	-	-	23,120	28,313	51,433
6/30/2035	-	-	-	27,655	27,157	54,812
6/30/2036	-	-	-	28,745	25,960	54,705
6/30/2037	-	-	-	25,770	24,523	50,293
6/30/2038	-	-	-	31,460	23,234	54,694
6/30/2039	-	-	-	32,665	21,669	54,334
6/30/2040	-	-	-	34,150	20,052	54,202
6/30/2041	-	-	-	35,650	18,361	54,011
6/30/2042	-	-	-	36,435	16,692	53,127
6/30/2043	-	-	-	38,275	15,072	53,347
6/30/2044	-	-	-	38,505	13,366	51,871
6/30/2045	-	-	-	145,435	11,656	157,091
6/30/2046	-	-	-	105,015	5,426	110,441
6/30/2047	-	-	-	21,000	1,050	22,050
Totals (1)	\$128,270	\$20,837	\$149,107	\$944,540	\$821,986	\$1,766,526

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 November 30, 2017, approximately \$1.6 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 \$77.3 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, 2017, 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 2033. The total notional value of approximately \$1.6 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 3.724% to 4.515% 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 November 30, 2017.

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 11/30/2017	Counterparty
<i>General Obligation Bonds:</i>								
Series 2001B & C Refunding	327,870	LIBOR/SIFMA	4.150%	Cost of Funds	2/20/2001	1/1/2021	(17,293,509)	Morgan Stanley Capital Services
Series 2015B, 2015C, 2017A & 2017B (refunding)	438,490	SIFMA	3.724% - 4.004%	SIFMA	3/15/2005	2/1/ 2028	(53,445,617)	Wells Fargo Bank
Series 2006C (refunding)	100,000	CPI	3.73% - 3.85%	CPI-based formula	1/1/2007	11/1/2020	(2,158,303)	Wells Fargo Bank
Series 2007A (refunding)	31,665	LIBOR	3.936%	67% 3-Month LIBOR + 0.46%	10/8/2008	11/1/2020	(1,865,668)	Wells Fargo Bank
Series 2007A (refunding)	414,130	LIBOR	3.936% - 4.083%	67% 3-Month LIBOR + 0.46-0.55%	10/8/2008	11/1/2025	(42,830,469)	Bank of NY Mellon
Series 2000A	13,492	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	8/1/2018	(296,981)	Merrill Lynch Capital Services
Series 2000A	6,583	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	8/1/2018	(145,886)	JP Morgan formerly Bear Stearns
Series 2006B, Series 2016C	<u>\$293,985</u>	LIBOR	4.515%	67% 3-Month LIBOR	4/2/2009	6/15/2033	<u>(\$72,246,006)</u>	Barclays Bank PLC
Subtotal	<u>\$1,626,215</u>						<u>(\$190,282,439)</u>	

Special Obligation Dedicated Tax Revenue Bonds

Series 2004 (Convention Ctr)	7,770	CPI	4.45%	CPI-based formula	6/29/2004	1/1/2018	(74,704)	Goldman Sachs Capital Markets
Series 2004 (Convention Ctr)	7,770	CPI	4.45%	CPI-based formula	6/29/2004	1/1/2018	(73,500)	JP Morgan formerly Bear Stearns
Series 2004 (Convention Ctr)	7,770	CPI	4.45%	CPI-based formula	6/29/2004	1/1/2018	(73,498)	JPMorgan Chase Bank
			4.771%					
Series 2005A (Gas Tax)	<u>54,025</u>	CPI	5.059%	CPI-based formula	1/12/2005	6/1/2022	<u>(2,589,493)</u>	Merrill Lynch Capital Services
<u>Subtotal</u>	<u>\$77,335</u>						<u>(\$2,811,195)</u>	
<u>Total</u>	<u>\$1,703,550</u>						<u>(\$193,093,635)</u>	

SOURCE: Office of the Treasurer and Receiver General.

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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 November 30, 2017.

<u>Variable Rate Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Bank</u>	<u>Termination Date</u>
2000 Series A	\$200,000	Citibank	4/24/2018
2000 Series B	75,590	Bank of America	4/24/2018
2001 Series C (Refunding)	163,935	Barclays Bank	1/01/2021
2006 Series A	136,880	Barclays Bank	8/03/2020

SOURCE: Office of the Treasurer and Receiver General.

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

<u>Commercial Paper Series</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Bank</u>	<u>Termination Date</u>
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 November 30, 2017.

<u>Direct Purchase Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Mandatory Tender Date</u>
2001 Series B (Refunding) ⁽¹⁾	\$163,935	1/01/2021
2006 Series B	182,605	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 MassDOT, as successor to the Turnpike Authority, which are capped at \$25 million annually and extend until June 30, 2050, which is the end of the 40th fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Turnpike 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 October 31, 2017, the Trust had approximately \$3.0 billion of bonds outstanding. Approximately 6.61% 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 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, the Van Ness project in Boston, and the University Station project in Westwood. As of November 30, 2017, total "I-Cubed" program bonds were outstanding in the amount of approximately \$106.0 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 November 30, 2017, approximately \$24.8 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 2018 and each fiscal year thereafter pursuant to contracts with the Massachusetts Clean Water Trust, MassDOT (as successor to the Turnpike Authority), and MassDevelopment (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>
2018	\$57,952	\$125,000	\$7,845	\$6,451	\$193,787
2019	46,489	125,000	8,513	9,100	182,943
2020	40,782	125,000	8,511	24,200	186,062
2021	33,714	125,000	8,515	4,435	170,898
2022	24,305	125,000	8,519	400	159,532
2023	24,468	125,000	8,510	50	157,452
2024	16,192	125,000	8,511	-	148,072
2025	12,015	125,000	8,518	-	143,950
2026	9,636	125,000	8,514	-	141,614
2027 through 2049	<u>46,320 (1)</u>	<u>1,875,000</u>	150,491	-	<u>2,053,098</u>
Total (4)	<u>\$311,873</u>	<u>\$3,125,000 (2)</u>	<u>\$226,447</u>	<u>\$ 44,636</u>	<u>\$3,730,544</u>

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 2047.
- (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.
- (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, 2016 are set forth in the table below.

Long-Term Leases (in thousands)

<u>Fiscal Year</u>	<u>Leases (1)</u>
2017	\$221,960
2018	155,749
2019	128,954
2020	95,359
2021	62,189
2022	43,396
2023	37,087
2024	32,808
2025	24,468
2026	14,232
2027	11,860
2028 through 2050	<u>197,405</u>
Total	<u>\$1,025,467</u>

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 August 31, 2017, the MBTA had approximately \$194.9 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, 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 Steamship 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 Steamship 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 30, 2017, the Steamship Authority had approximately \$71.6 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 Building Authority, including dormitory rental income and student fees, are pledged to pay the Building Authority’s bonds. As of August 31, 2017, the Building Authority had approximately \$115.3 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>
2013	\$13,762,257
2014	26,255,768
2015	29,071,339
2016	26,145,997
2017	22,716,302 (1)

SOURCE: Office of the Comptroller.
 (1) Amount is 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.

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 in-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; instead MassHealth has implemented all required program changes. Although the monitoring period had been set to expire December 31, 2012, the court has subsequently extended the monitoring period several times, most recently through December 31, 2018. MassHealth estimates that its implementation of program changes in compliance with the court's remedial orders will continue to increase its costs, including administrative costs, prospectively by over \$20 million annually. The Commonwealth maintains that it is in full compliance with the court's judgment. A status conference is scheduled for January 16, 2018.

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. Year five of the Agreement began on July 1, 2017. The fiscal 2018 appropriation for funding of the Agreement is approximately \$71.7 million. 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.

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 1,100 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 patient's specific medical needs and the appropriate medication regimen, for the typical 12-week course of treatment, although that cost has very recently come down for certain patients as new drugs gain FDA approval and shorter treatment durations become possible. 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 \$90-\$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. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. In 2017, a change in state law was made to the hospital assessment making a federal waiver for the hospital assessment unnecessary. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. By the end of Health Safety Net fiscal year 2017, the Commonwealth will have collected an estimated \$6.234 billion in acute hospital assessments since 1990 and an estimated \$2.857 billion in surcharge payments since 1998.

In re: Office of the Inspector General Report Number: A-01-12-0006 (Claiming the correct Federal medical assistance percentage for claim adjustments made to the Form CMS-64). On April 6, 2012, the federal Office of the Inspector General (OIG) initiated an audit of MassHealth's federal reporting of certain claims with dates of service between January 1, 2006 and December 31, 2010. The OIG issued a draft report on June 3, 2014. MassHealth responded on July 3, 2014. The OIG draft report concludes that during the audit period MassHealth over-claimed \$105 million in federal financial participation due to timing issues associated with the temporary Federal Medical Assistance Percentages 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.

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 \$201 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. 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. On November 10, 2017, the Board issued its Findings of Fact and Report. As to the issues the parties conceded during trial, the Board ruled that it was incumbent upon the parties to calculate the numerical consequences of such concessions. On November 20, 2017, the parties filed a Joint Motion for Additional Findings of Fact and to Amend the Judgment. The filing of the motion is to ensure that the numerical consequences are resolved prior to the filing of a notice of appeal. Following a hearing on the motion, the parties agreed that they would present the Board by mid-December, 2017 with a final computation of the refund required as a result of the Commissioner's concessions during trial. The Commonwealth expects to issue a partial refund of the claim in the next several weeks due to certain issues conceded by the Commonwealth at trial.

Northeastern University, et al. v. Commissioner of Revenue (Appeals Court, Suffolk Superior Court) and related Brownfields Credits Claims. The plaintiffs in a Superior Court case, three Massachusetts universities, allege that the Commissioner of Revenue ("Commissioner") wrongfully denied their requests for Brownfields Tax Credits. Legislation in 2006 made not-for-profit institutions eligible, for the first time, to claim tax credits for work those institutions performed to remediate an environmentally contaminated site. (Because not-for-profits do not typically pay corporate excise taxes, against which such a credit may be applied, the legislation also made it possible, for the first time, for taxpayers granted such a credit to "sell" that credit to individuals or corporations who do incur tax liability, so that the buyer can make use of the credit. The law specifies that any unused portion of a credit, as reduced from year to year, can be carried over and applied to a tax liability for any subsequent year, not to exceed five years.) The sole issue in the *Northeastern University* litigation, filed in August, 2014, is whether the nonprofits may receive a Brownfields Tax Credit for site remediation achieved 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 had been achieved prior to the taxable year commencing on or after June 24, 2006. The plaintiffs 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. There is also an unrelated Superior Court case filed by Abodez Acorn CW LLC seeking a Brownsfield Credit claim; the plaintiff is seeking \$698,636 in tax credits. In addition, Stoughton Recycling Technologies filed a petition at the Appellate Tax Board in June 2014 with respect to a Brownfields Credit claim; the potential refund loss in that case is estimated at \$1.25 million. In the category of Brownfields Credits claims not yet docketed at the Appellate Tax Board, the Department of Revenue estimates \$41.3 million worth of potential revenue loss, with none of the 33 individual credit amount claims exceeding \$10 million. The Appeals Court argument in the *Northeastern University* case was held on February 14, 2017, and the case is now under advisement.

Other Revenues

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

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

(a) (2004 NPM Adjustment) The PMs seek to reduce, by approximately \$1.1 billion, the MSA payments they made to the States for 2004 sales and so they deposited a portion of this amount into a disputed payment 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 and the States are arbitrating the 2004 NPM Adjustment. In June, 2017, however, the PMs decided not to contest the Commonwealth’s diligence in 2004. Accordingly, the Commonwealth no longer has any risk of loss concerning the 2004 NPM Adjustment.

(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. 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 \$797 million, the MSA payments they made to the States for 2012 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 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 \$300,000, 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 \$823 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 \$824 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 \$895 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.

(m) (2016 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$901 million, the MSA payments they made to the States for 2016 sales. This amount is subject to revision until a Final Calculation in March, 2021. 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, 2021, 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

McHugh et al v. Commonwealth et al., Suffolk Superior Court. Four Massachusetts Department of Environmental Protection ("DEP") contract employees have filed a purported class action suit against the Commonwealth, DEP, and the Commissioner of DEP, Martin Suuberg. The suit alleges that Commonwealth entities (including but not limited to DEP) are hiring and employing contract employees as long-term replacements for full-time state employees and not providing them employment benefits. Plaintiffs purport to bring suit on behalf of approximately 3,330 to 7,600 similarly situated individuals who are or have been employed by the Commonwealth or DEP for a period of three or more years. Plaintiffs assert claims under the United States and Massachusetts Constitutions, a variety of Massachusetts statutes, and the common law. Plaintiffs seek monetary damages as well as declaratory and injunctive relief. Defendants have moved to dismiss all claims brought against them. That motion is set for hearing on February 8, 2018.

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. On January 18, 2017, the Supreme Judicial Court, in *Bridgeman, et al. v. District Attorney for the Suffolk District, et al.*, SJC-12157, held that, in order to resolve the ongoing issues relating to the rights of criminal defendants potentially affected by Ms. Dookhan's misconduct in some 20,000-24,000 cases, the state's district attorneys, within 90 days of the order, were required to review those cases to determine which they could and would re-prosecute, and then move to vacate and dismiss the rest. Defendants in the cases that remain shall receive a judicially-approved notice, after which the Committee for Public Counsel Services shall assign counsel, at state expense, to all indigent defendants who wish to pursue vacatur or a new trial. In mid-April, prosecutors announced that they would be moving to vacate and/or dismiss approximately 21,500 cases, and only a few hundred would remain open for re prosecution.

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. Many thousands of criminal prosecutions may have been affected. In December, 2016, the Hampden County Superior Court held an evidentiary hearing on motions for new trial or to withdraw guilty pleas and motions to dismiss filed by a small group of 10 defendants whose cases the Court had consolidated for purposes of evidentiary hearings. On June 26, 2017, the court (Carey, J.) vacated the convictions or dismissed the indictments of six defendants and allowed another to withdraw a guilty plea. The court found that two former prosecutors "tampered with the fair administration of justice" and perpetrated "a fraud upon the court" by deliberately concealing documents which arguably showed that Ms. Farak's drug abuse (and, inferentially, tampering in the lab) had begun earlier than previously acknowledged and by making misrepresentations in connection with discovery motions that had been decided by another judge. With respect to certain other criminal prosecutions, the court found that their misconduct has systemic ramifications. With regard to the Amherst lab, while the court found that Ms. Farak's drug use impaired her ability to test and analyze controlled substances and to check the equipment and instruments used to analyze suspected drugs on occasions which cannot be identified, the court also found that, with the exception of Ms. Farak's work, the Amherst lab was "free from any deficiency in analytical procedure, was kept in an orderly fashion, and that work flowed through the lab smoothly."

In September, 2017, the Committee for Public Counsel Services filed a petition under G.L. c. 211, § 3, and c. 231A, § 1, against the Attorney General and the 11 Massachusetts District Attorneys' Offices, seeking to vacate and dismiss with prejudice convictions of defendants allegedly tainted by Ms. Farak's misconduct. *Committee for Public Counsel Services, et al. v. Attorney General of Massachusetts, et al.*, SJ-2017-0347. That same month, one of the defendants whose criminal charges were dismissed in the case heard by Judge Carey initiated a civil action in the United States District Court for the District of Massachusetts. *Penate v. Kaczmarek et al.*, Civil Action No. 3:17-cv-30119-KAR. Penate's complaint alleges, among other claims, constitutional rights violations under 42 U.S.C. § 1983 against former state employees, employees of the Springfield Police Department, the City of Springfield, and two former and one current Assistant Attorneys General. The complaint seeks compensatory and punitive damages, interest, costs, and attorneys' fees.

Given the tens of 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, but not limited to: vendor costs for maintaining an electronic document review platform; costs to defend civil complaints alleging state liability in both state and federal court; and for potential judgments. In addition, on April 19, 2017, the United States Supreme Court ruled, in a case out of Colorado, that when a criminal conviction is invalidated by a reviewing court and no retrial will occur, a state is obliged to refund fees, court costs, and any restitution exacted from a defendant upon, and as a consequence of, the conviction. If this ruling is applicable to the facts and legal circumstances of the Dookhan and Farak defendants' cases, it could require the Commonwealth to budget for a million dollars or more worth of refundable exactions and administrative expenses.

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, 9th Floor, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at <http://www.macomptroller.org> by clicking on "Financial Reports" on the Comptroller's homepage.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every three 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 Rule 15c2-12, as amended, adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, 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 Standard & Poor's 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, on twitter at twitter.com/BuyMassBonds and on the Commonwealth's "Mass. Investor Disclosure" mobile app.

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MISCELLANEOUS

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

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

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

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

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

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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, Deputy 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/ Michael J. Heffernan
Michael J. Heffernan
Secretary of Administration and Finance

December 13, 2017

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 2018



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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 10th, 2017.** 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

Population (p. A-2)

Massachusetts United States

Estimated Percent Change in Population, July 1, 2010 - July 1, 2016	3.8%	4.5%
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Personal Income, Consumer Prices, and Poverty (p. A-8)

Per Capita Personal Income, 2016	\$64,235	\$49,246
Average Annual Pay, All Industries, 2016	\$67,432	\$53,621
Percent Change in CPI-U*, 2015-2016	1.5%	1.3%
Percent Change in CPI-U*, Sept 2016 - Sept 2017	2.7%	2.2%
Poverty Rate, 2016	10.4%	14.0%
Average Weekly Earnings, Manufacturing Production Workers: 2016	\$946	\$856
Percent Change from previous year	4.5%	1.6%

Employment (p. A-18)

Percent Change in Nonfarm Payroll Employment, January 2016 - January 2017 (not seasonally adjusted)	1.7%	1.9%
Unemployment Rate, 2016	3.7%	4.9%
Unemployment Rate, Aug 2017 (not seasonally adjusted)	3.7%	4.5%

Education (p. A-24)

Expenditure Per Pupil K-12 Public, 2016	\$15,789	\$11,536
Percent of Adults with a Bachelor’s Degree or Higher, 2016	42.7%	31.3%

Economic Base and Performance (p. A-30)

Percent Change in Gross Domestic Product, 2015-2016	2.0%	1.5%
Percent Change in International Exports, 2015-2016	1.1%	-4.7%
Percent Change in Housing Permits Authorized, 2015-2016	-6.5%	2.0%

*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 4.2 percent, compared to the national rate of 4.4 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

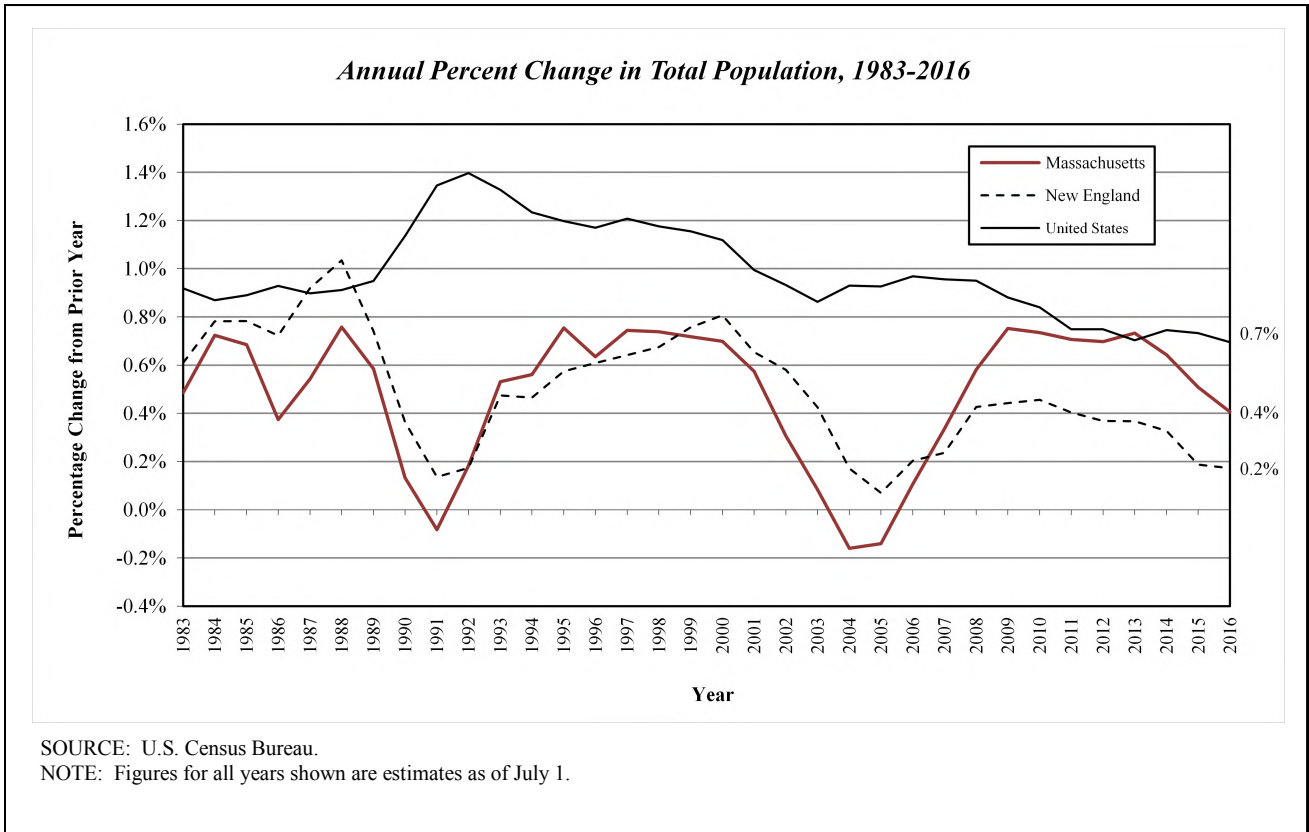
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2016 to be 873.3 persons per square mile, as compared to 91.5 for the United 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, 2016 population estimated at 673,184 or 9.9 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, 2016 estimated at 4,794,447, or 32.5 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, 2016 estimated at 2,368,792, while the Boston, MA Metropolitan division is the second largest component, with a total population estimated at 1,994,976.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2016 population estimated at 935,781. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2016 estimated population of 184,508, 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, 2016 population estimated at 630,283. Springfield, the third largest city in the Commonwealth with a July 1, 2016 estimated population of 154,074, 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 2016, Massachusetts' growth has more closely resembled that of the U.S. as a whole than that of New England, although growth has continued to slow since 2013. According to the Census Bureau's latest revised estimates released in July 2016, the Massachusetts population has grown only by 7.1 percent since Census 2000, while the U.S. has grown 14.5 percent.



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, 1976-2016</i>						
<i>(in thousands)</i>						
	Massachusetts		New England		United States	
Year	Total	Percent Change	Total	Percent Change	Total	Percent Change
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	6,566	0.7%	14,469	0.5%	309,348	0.8%
2011	6,612	0.7%	14,528	0.4%	311,663	0.7%
2012	6,658	0.7%	14,581	0.4%	313,998	0.7%
2013	6,707	0.7%	14,635	0.4%	316,205	0.7%
2014	6,750	0.6%	14,683	0.3%	318,563	0.7%
2015	6,784	0.5%	14,710	0.2%	320,897	0.7%
2016	6,812	0.4%	14,736	0.2%	323,128	0.7%

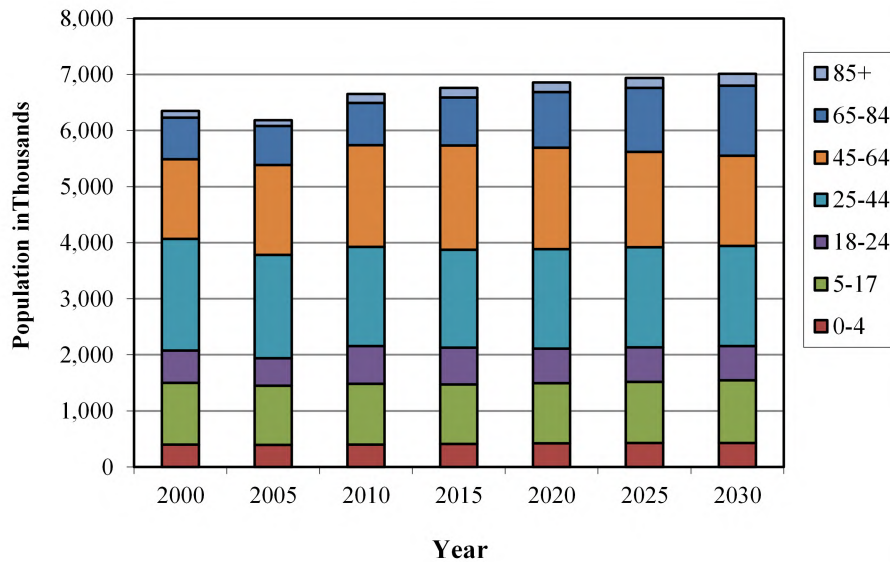
SOURCE: U.S. Department of Commerce, Census Bureau.

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

*Projected Massachusetts Population by Age Group
2000-2030*



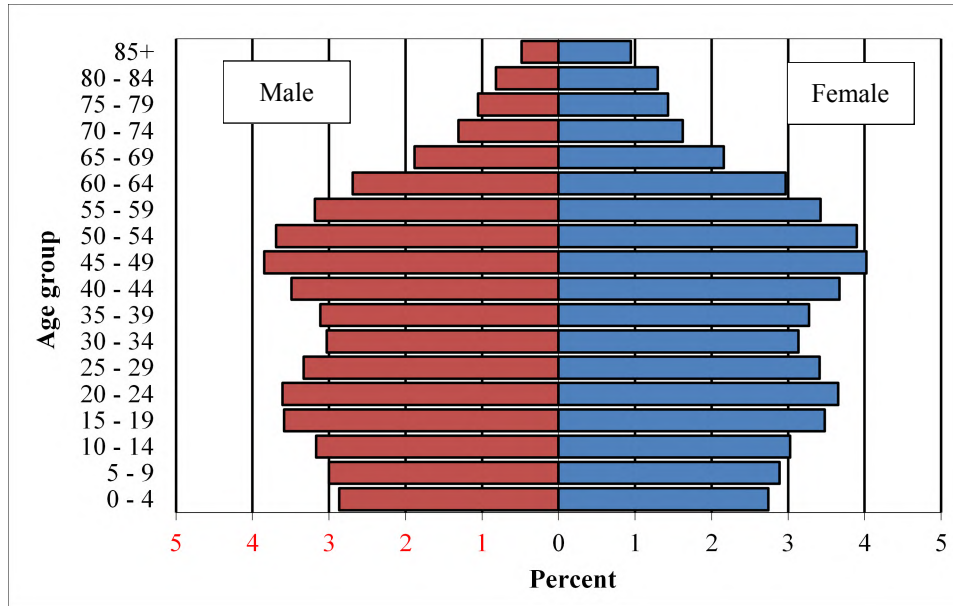
SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

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.

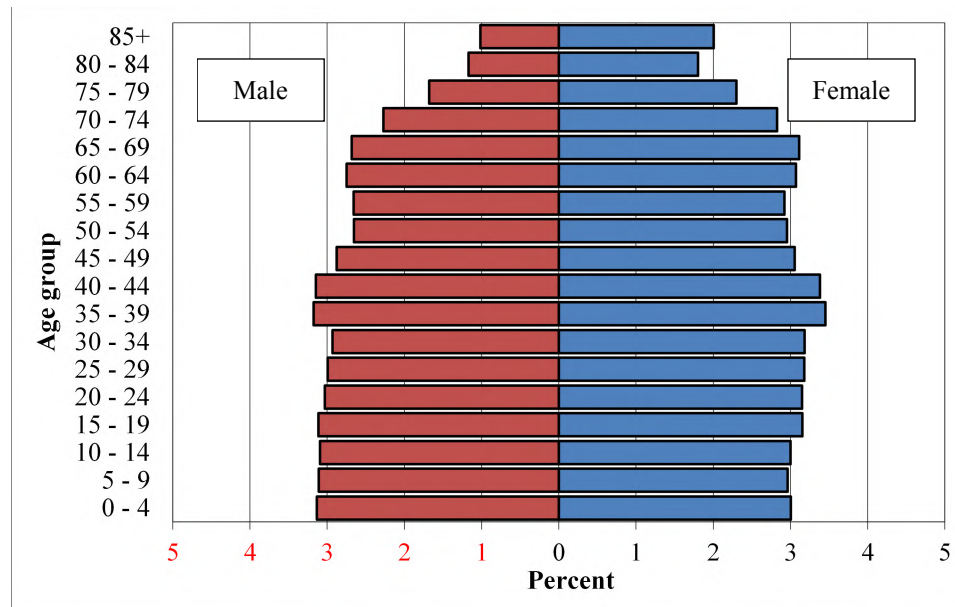
Population Pyramids of Massachusetts Percent of Total Population

2010



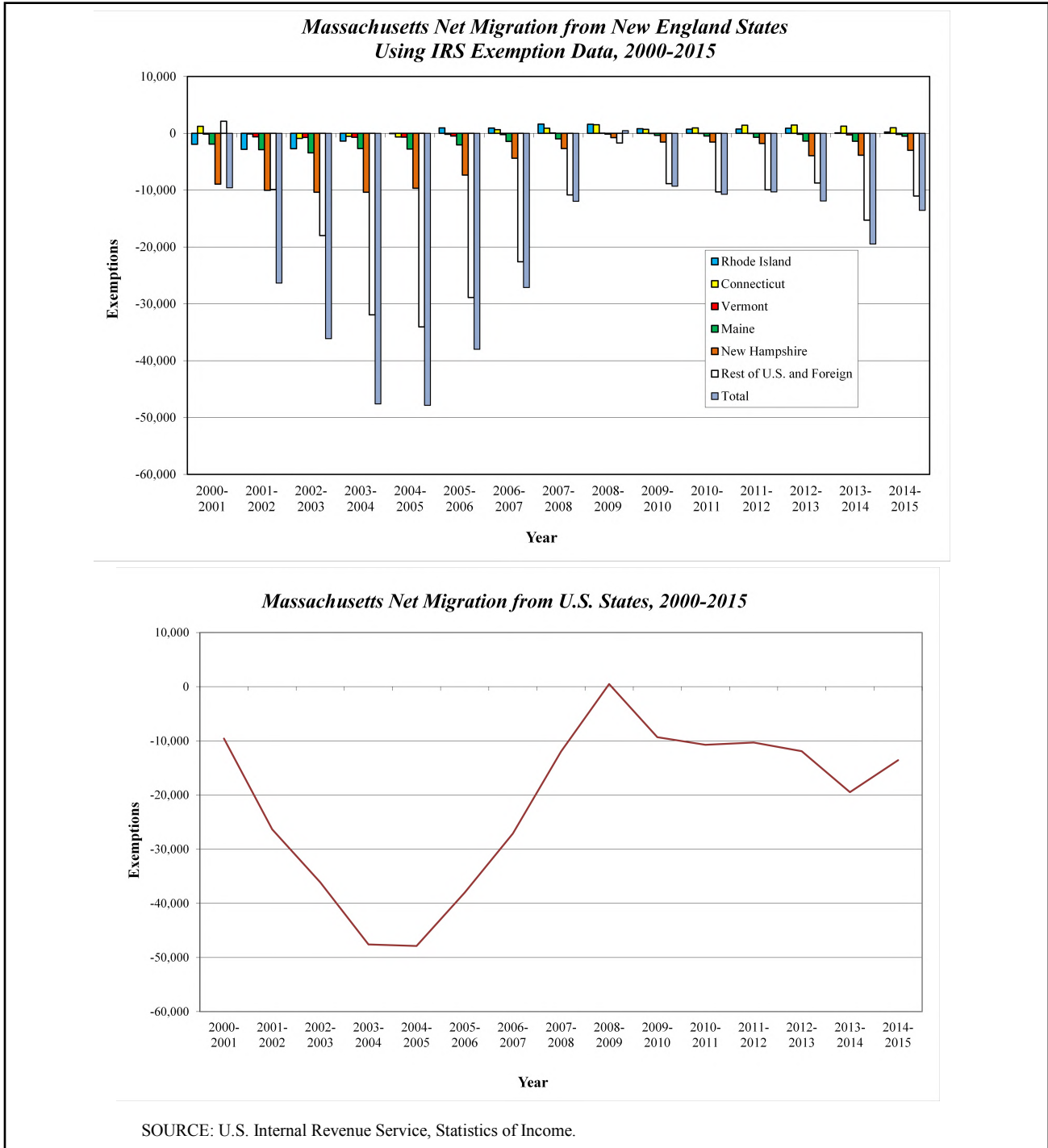
SOURCE: U.S. Census Bureau, 2010 Census.

2030



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

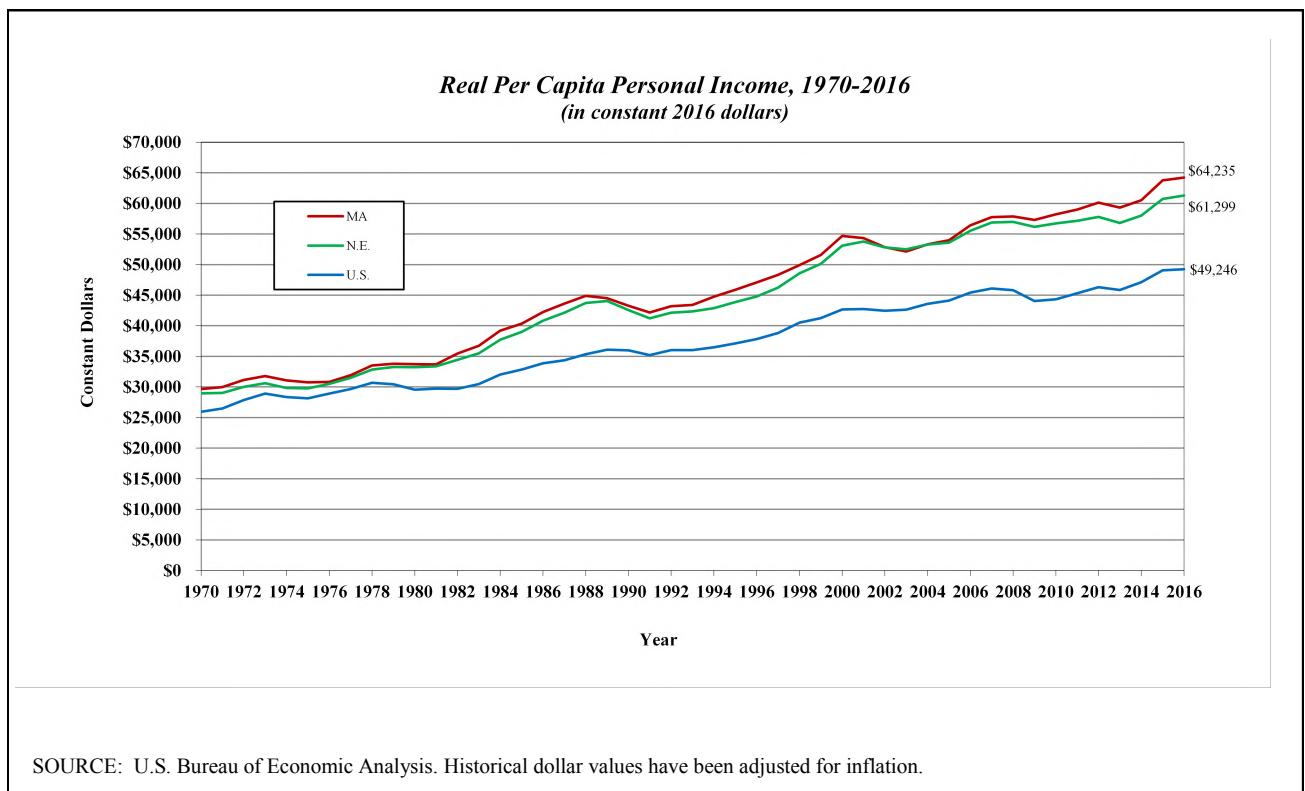
Migration. Migration is one of several components of annual population change in Massachusetts. The movement of people from place to place is often linked to economic opportunities or downturns. These data are derived from the filing addresses and number of exemptions submitted with federal tax returns. 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.



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 2016, real per capita income rose in the state, New England, and the nation. Massachusetts per capita personal income remains higher than New England and continues to outpace the nation. At the state level in 2016, only the District of Columbia and Connecticut had higher levels of per capita personal income.

The following graph illustrates these changes in real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1971-2016.

<i>Per Capita Personal Income, 1970-2016</i>									
Year	Nominal Income (in nominal dollars)			Real Income (in 2016 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	\$29,646	\$28,970	\$25,955	4.3%	3.2%	4.8%
1971	\$4,859	\$4,795	\$4,468	\$29,994	\$29,026	\$26,478	1.2%	0.2%	2.0%
1972	\$5,228	\$5,156	\$4,853	\$31,164	\$30,000	\$27,865	3.9%	3.4%	5.2%
1973	\$5,647	\$5,589	\$5,352	\$31,772	\$30,631	\$28,931	1.9%	2.1%	3.8%
1974	\$6,108	\$6,056	\$5,824	\$31,076	\$29,852	\$28,353	-2.2%	-2.5%	-2.0%
1975	\$6,592	\$6,516	\$6,312	\$30,774	\$29,760	\$28,158	-1.0%	-0.3%	-0.7%
1976	\$7,098	\$7,061	\$6,856	\$30,817	\$30,500	\$28,919	0.1%	2.5%	2.7%
1977	\$7,733	\$7,701	\$7,494	\$31,924	\$31,502	\$29,680	3.6%	3.3%	2.6%
1978	\$8,547	\$8,527	\$8,338	\$33,531	\$32,826	\$30,693	5.0%	4.2%	3.4%
1979	\$9,500	\$9,501	\$9,212	\$33,808	\$33,260	\$30,454	0.8%	1.3%	-0.8%
1980	\$10,695	\$10,716	\$10,153	\$33,729	\$33,224	\$29,573	-0.2%	-0.1%	-2.9%
1981	\$11,868	\$11,914	\$11,262	\$33,677	\$33,366	\$29,736	-0.2%	0.4%	0.6%
1982	\$13,005	\$12,939	\$11,947	\$35,474	\$34,421	\$29,714	5.3%	3.2%	-0.1%
1983	\$14,067	\$13,896	\$12,652	\$36,717	\$35,485	\$30,488	3.5%	3.1%	2.6%
1984	\$15,755	\$15,472	\$13,860	\$39,199	\$37,732	\$32,016	6.8%	6.3%	5.0%
1985	\$16,938	\$16,591	\$14,719	\$40,332	\$39,006	\$32,831	2.9%	3.4%	2.5%
1986	\$18,197	\$17,795	\$15,459	\$42,248	\$40,820	\$33,853	4.8%	4.7%	3.1%
1987	\$19,608	\$19,182	\$16,265	\$43,619	\$42,143	\$34,364	3.2%	3.2%	1.5%
1988	\$21,403	\$20,900	\$17,426	\$44,890	\$43,730	\$35,354	2.9%	3.8%	2.9%
1989	\$22,437	\$22,218	\$18,653	\$44,514	\$44,030	\$36,104	-0.8%	0.7%	2.1%
1990	\$23,080	\$22,764	\$19,591	\$43,285	\$42,564	\$35,975	-2.8%	-3.3%	-0.4%
1991	\$23,468	\$23,056	\$19,985	\$42,161	\$41,234	\$35,217	-2.6%	-3.1%	-2.1%
1992	\$24,639	\$24,360	\$21,060	\$43,192	\$42,146	\$36,027	2.4%	2.2%	2.3%
1993	\$25,487	\$25,152	\$21,698	\$43,422	\$42,338	\$36,039	0.5%	0.5%	0.0%
1994	\$26,603	\$26,092	\$22,538	\$44,738	\$42,873	\$36,500	3.0%	1.3%	1.3%
1995	\$27,933	\$27,394	\$23,568	\$45,879	\$43,880	\$37,116	2.5%	2.4%	1.7%
1996	\$29,523	\$28,763	\$24,728	\$47,095	\$44,806	\$37,826	2.7%	2.1%	1.9%
1997	\$31,152	\$30,401	\$25,950	\$48,332	\$46,227	\$38,805	2.6%	3.2%	2.6%
1998	\$32,909	\$32,393	\$27,510	\$49,928	\$48,561	\$40,507	3.3%	5.0%	4.4%
1999	\$34,849	\$34,133	\$28,627	\$51,580	\$50,137	\$41,241	3.3%	3.2%	1.8%
2000	\$38,547	\$37,363	\$30,602	\$54,691	\$53,077	\$42,652	6.0%	5.9%	3.4%
2001	\$39,944	\$38,900	\$31,540	\$54,336	\$53,762	\$42,743	-0.7%	1.3%	0.2%
2002	\$39,856	\$39,000	\$31,815	\$52,836	\$52,812	\$42,445	-2.8%	-1.8%	-0.7%
2003	\$40,805	\$39,859	\$32,692	\$52,131	\$52,496	\$42,643	-1.3%	-0.6%	0.5%
2004	\$42,856	\$41,838	\$34,316	\$53,288	\$53,259	\$43,600	2.2%	1.5%	2.2%
2005	\$44,842	\$43,644	\$35,904	\$53,979	\$53,603	\$44,123	1.3%	0.6%	1.2%
2006	\$48,307	\$46,858	\$38,144	\$56,404	\$55,543	\$45,411	4.5%	3.6%	2.9%
2007	\$50,417	\$49,201	\$39,821	\$57,752	\$56,863	\$46,094	2.4%	2.4%	1.5%
2008	\$52,283	\$51,278	\$41,082	\$57,864	\$56,990	\$45,796	0.2%	0.2%	-0.6%
2009	\$51,412	\$50,537	\$39,376	\$57,288	\$56,158	\$44,051	-1.0%	-1.5%	-3.8%
2010	\$53,054	\$52,060	\$40,277	\$58,204	\$56,731	\$44,332	1.6%	1.0%	0.6%
2011	\$55,232	\$54,056	\$42,461	\$58,995	\$57,163	\$45,305	1.4%	0.8%	2.2%
2012	\$57,192	\$55,728	\$44,282	\$60,138	\$57,804	\$46,290	1.9%	1.1%	2.2%
2013	\$57,182	\$55,517	\$44,493	\$59,313	\$56,813	\$45,839	-1.4%	-1.7%	-1.0%
2014	\$59,296	\$57,461	\$46,494	\$60,530	\$58,004	\$47,136	2.1%	2.1%	2.8%
2015	\$62,846	\$60,088	\$48,451	\$63,772	\$60,723	\$49,062	5.4%	4.7%	4.1%
2016	\$64,235	\$61,299	\$49,246	\$64,235	\$61,299	\$49,246	0.7%	0.9%	0.4%

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.

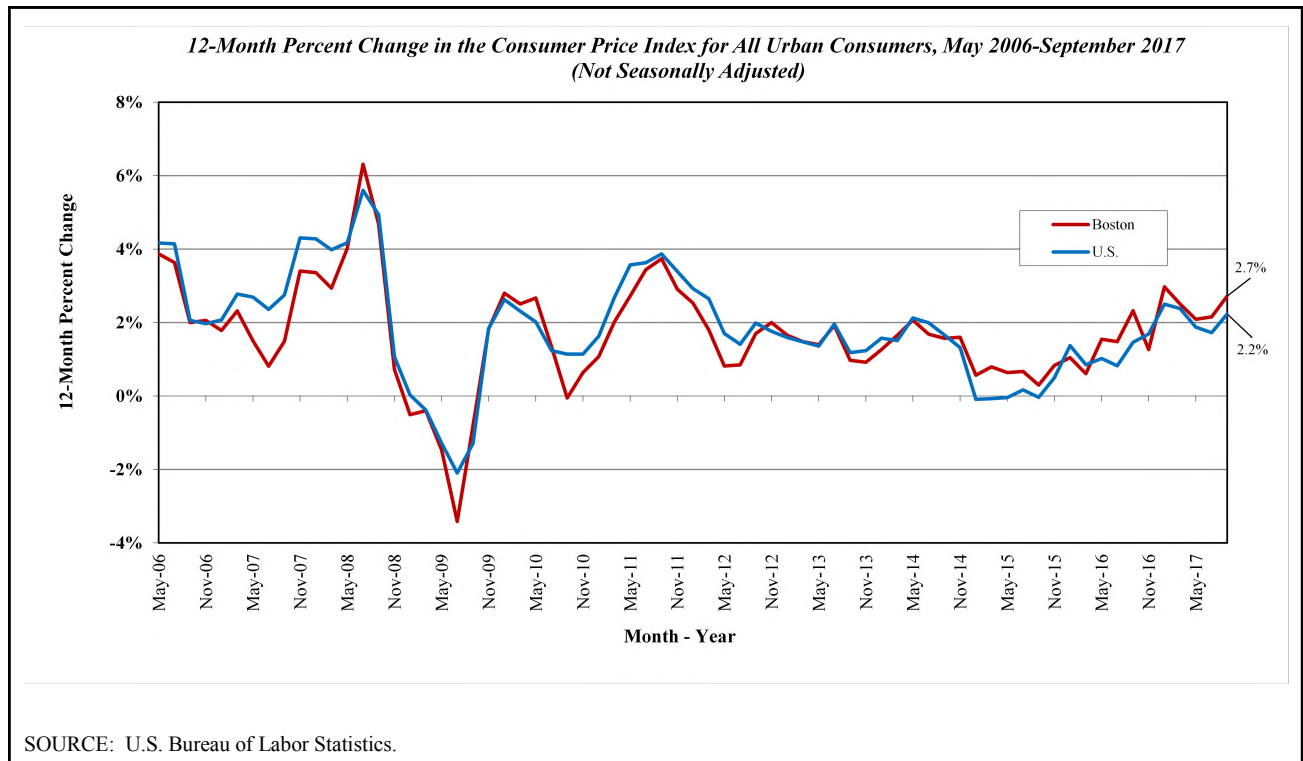
Average Annual Pay. Massachusetts saw steady growth in average annual pay for most of the past fifteen years, adjusted for inflation. It lost ground in 2009, but resumed growth in 2010. Payroll data are reported to the Quarterly Census of Employment and Wages (QCEW) by all employers covered under the 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 0.8 percent, compared to 0.6 percent for the nation. The level of average annual pay in Massachusetts in 2016 was 26 percent higher than the national average: \$66,592 compared to \$52,953.

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 2016, the shares were 52.7 and 3.0 percent respectively.

Annual Wage and Salary Disbursements, 1990-2016					
<i>(in millions of 2015 dollars)</i>					
Year	U.S.	N.E.	MA	MA as a pct. of N.E.	MA as a pct. of U.S.
1990	\$ 5,013	\$312	\$151	48.4%	3.0%
1991	\$ 4,938	\$298	\$144	48.3%	2.9%
1992	\$ 5,072	\$302	\$146	48.3%	2.9%
1993	\$ 5,099	\$302	\$147	48.5%	2.9%
1994	\$ 5,224	\$307	\$149	48.8%	2.9%
1995	\$ 5,376	\$316	\$155	49.0%	2.9%
1996	\$ 5,525	\$324	\$160	49.3%	2.9%
1997	\$ 5,791	\$342	\$168	49.3%	2.9%
1998	\$ 6,151	\$362	\$180	49.5%	2.9%
1999	\$ 6,421	\$381	\$191	50.2%	3.0%
2000	\$ 6,723	\$406	\$208	51.2%	3.1%
2001	\$ 6,708	\$405	\$206	50.7%	3.1%
2002	\$ 6,661	\$396	\$198	50.1%	3.0%
2003	\$ 6,697	\$396	\$196	49.6%	2.9%
2004	\$ 6,883	\$406	\$202	49.6%	2.9%
2005	\$ 6,991	\$406	\$201	49.4%	2.9%
2006	\$ 7,205	\$415	\$206	49.5%	2.9%
2007	\$ 7,398	\$428	\$213	49.9%	2.9%
2008	\$ 7,278	\$421	\$212	50.2%	2.9%
2009	\$ 6,986	\$405	\$203	50.3%	2.9%
2010	\$ 7,010	\$408	\$206	50.6%	2.9%
2011	\$ 7,067	\$411	\$209	50.8%	3.0%
2012	\$ 7,235	\$416	\$213	51.2%	2.9%
2013	\$ 7,324	\$421	\$216	51.4%	3.0%
2014	\$ 7,572	\$434	\$225	51.8%	3.0%
2015	\$ 7,952	\$455	\$238	52.4%	3.0%
2016	\$ 8,080	\$460	\$242	52.7%	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 May 2006 and May 2017. The latest available data for May 2017 show that the CPI-U for the Boston area increased at a rate of 2.1 percent over May 2016. The U.S. index increased at a rate of 1.9 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 2016 U.S. CPI-U increased 10.1 percent since 2010 while Boston’s CPI-U increased 9.7 percent during that period. Between 2014 and 2016, Boston’s Consumer Price Index increased by 2.1 percent while in the United States as a whole, CPI-U increased by 1.4 percent. The table on the following page shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year from 1970 through the present.

Consumer Price Index for All Urban Consumers (CPI-U), 1970-2016

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

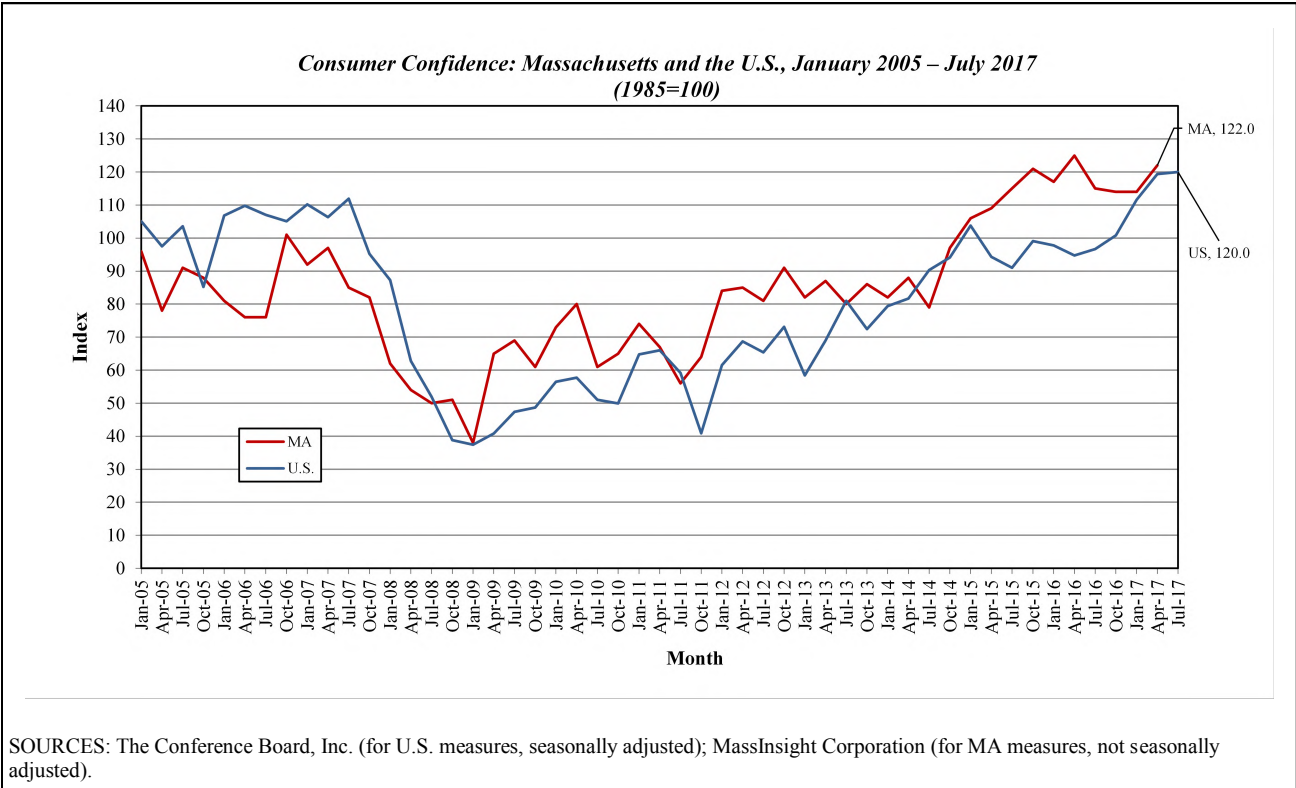
Year	Boston Metro Area		United States	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	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%
2016	260.5	1.5%	240.0	1.3%

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 124.9 in March 2017. The all-time quarterly low reading was 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 brief periods as they tracked closely together in 2011 and experienced slight dips in July 2013 and July 2014.

In the fourth quarter of FY2017, Consumer Confidence for Massachusetts reached 122.0, down from 114.0 in the second quarter. The U.S. has surpassed its pre-recessionary (2007) levels and stood at 120.0 in the first quarter of FY2018. The following graph and table detail the recent record of these measures.

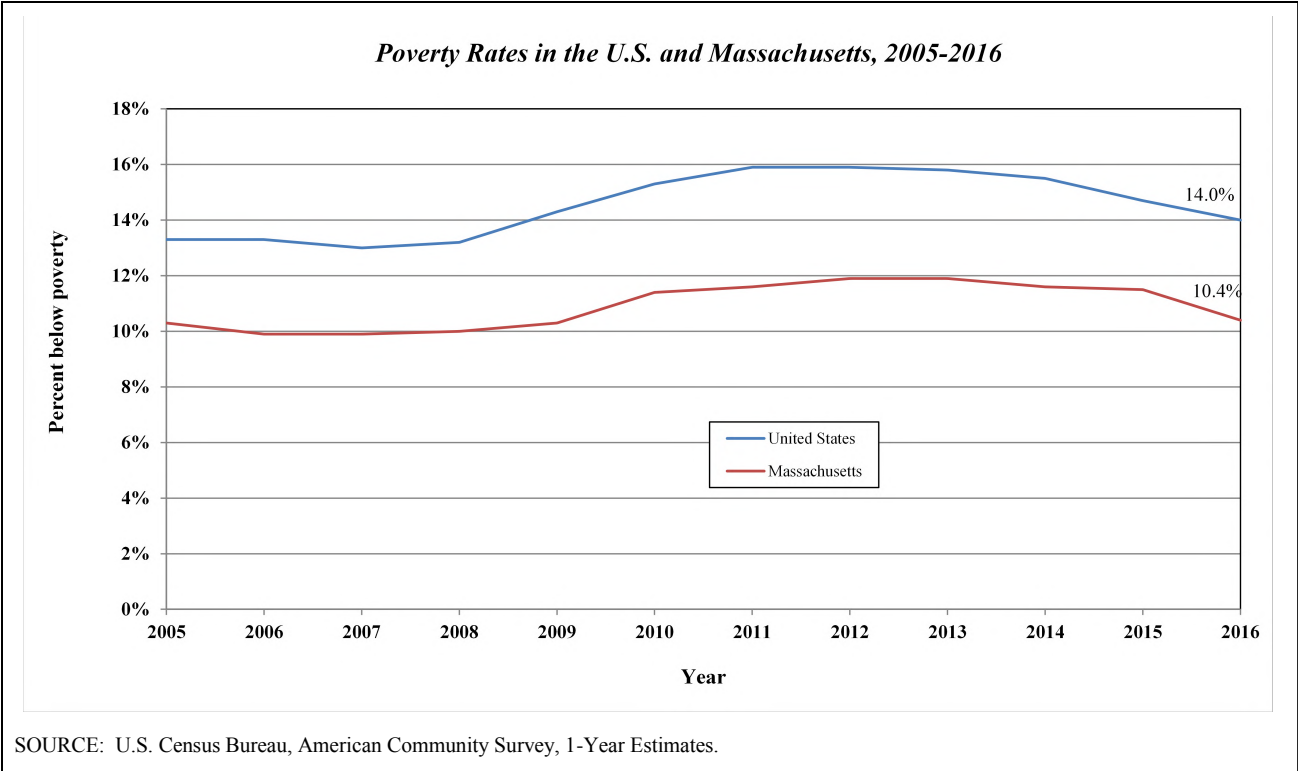


**Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S.
(1985=100)**

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
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
Oct-16	114.0	100.8	120.0	123.1	111.0	86.0
Jan-17	114.0	111.6	128.0	130.0	104.0	99.3
Apr-17	122.0	119.4	139.0	140.3	111.0	105.4

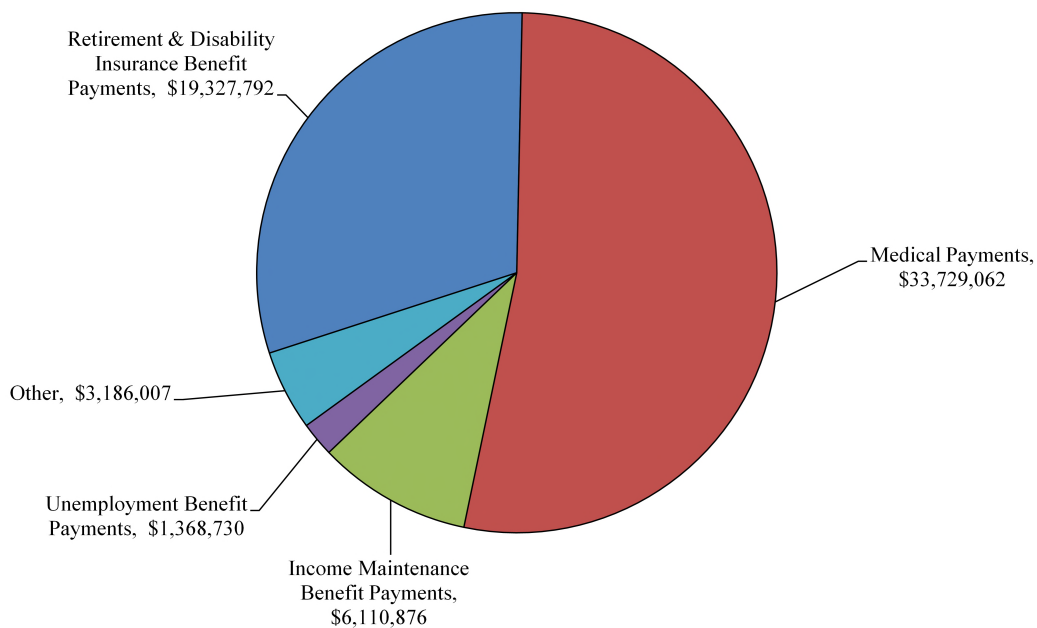
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted); MassInsight Corporation (for MA measures, not seasonally adjusted).

Poverty. Since 2005, the Massachusetts poverty rate, which was 10.4 percent in 2016, has been three to four percentage points lower than the national average, which was 14.0 percent in 2016. Massachusetts ranked 43rd out of the 50 states and the District of Columbia in 2016, 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 2015, dropping from 14.7 percent in 2014. 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 \$63.03 billion for 2015, adjusted for inflation. Fifty-one percent of government transfer payments to individuals were medical payments, up from over 49.7 percent in 2014.

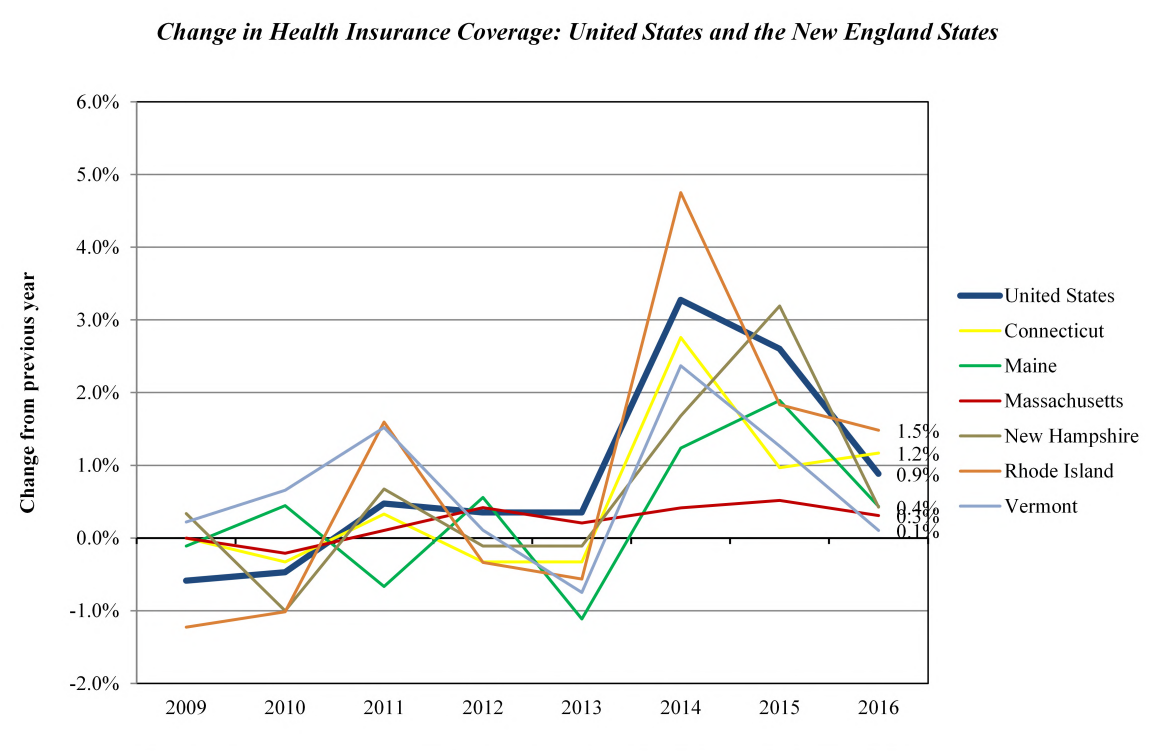
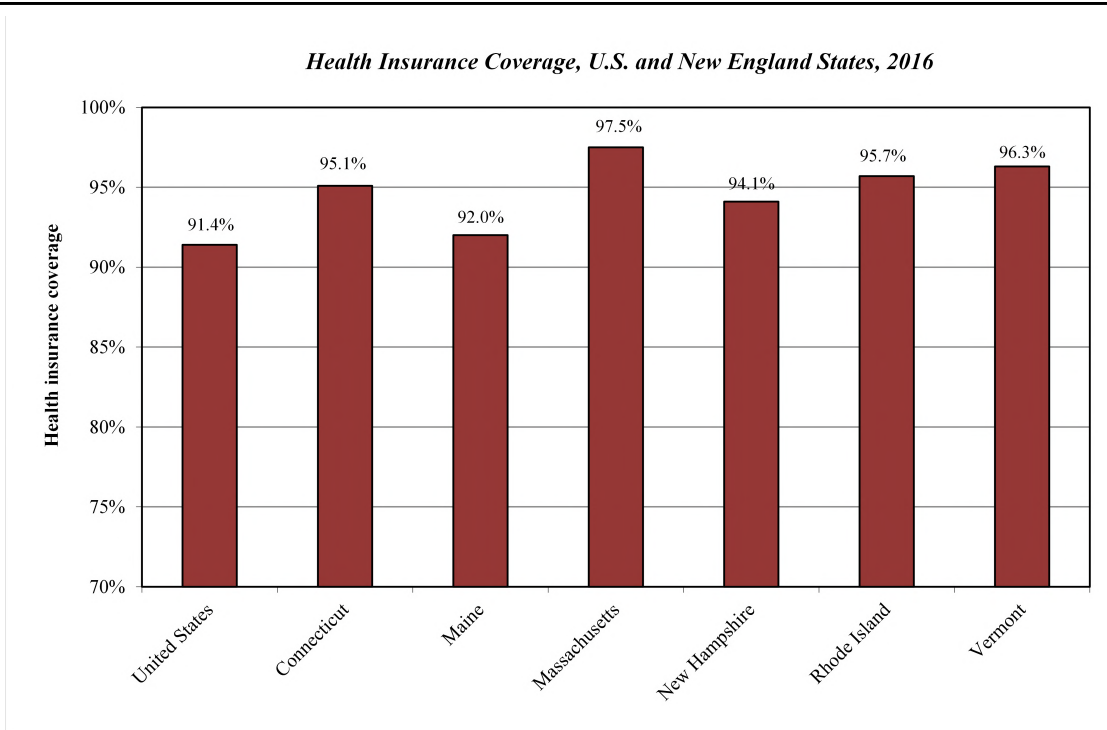
Transfer Payments from Governments to Individuals in Massachusetts in 2016
(From Annual State Personal Income Estimates)
(in thousands of dollars)



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 2016, 97.5 percent of the civilian non-institutionalized population was covered in the state by either private or public insurance, compared with 91.4 percent nationwide. Massachusetts also leads the other New England states in coverage, with Vermont as the next closest at 96.3 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.



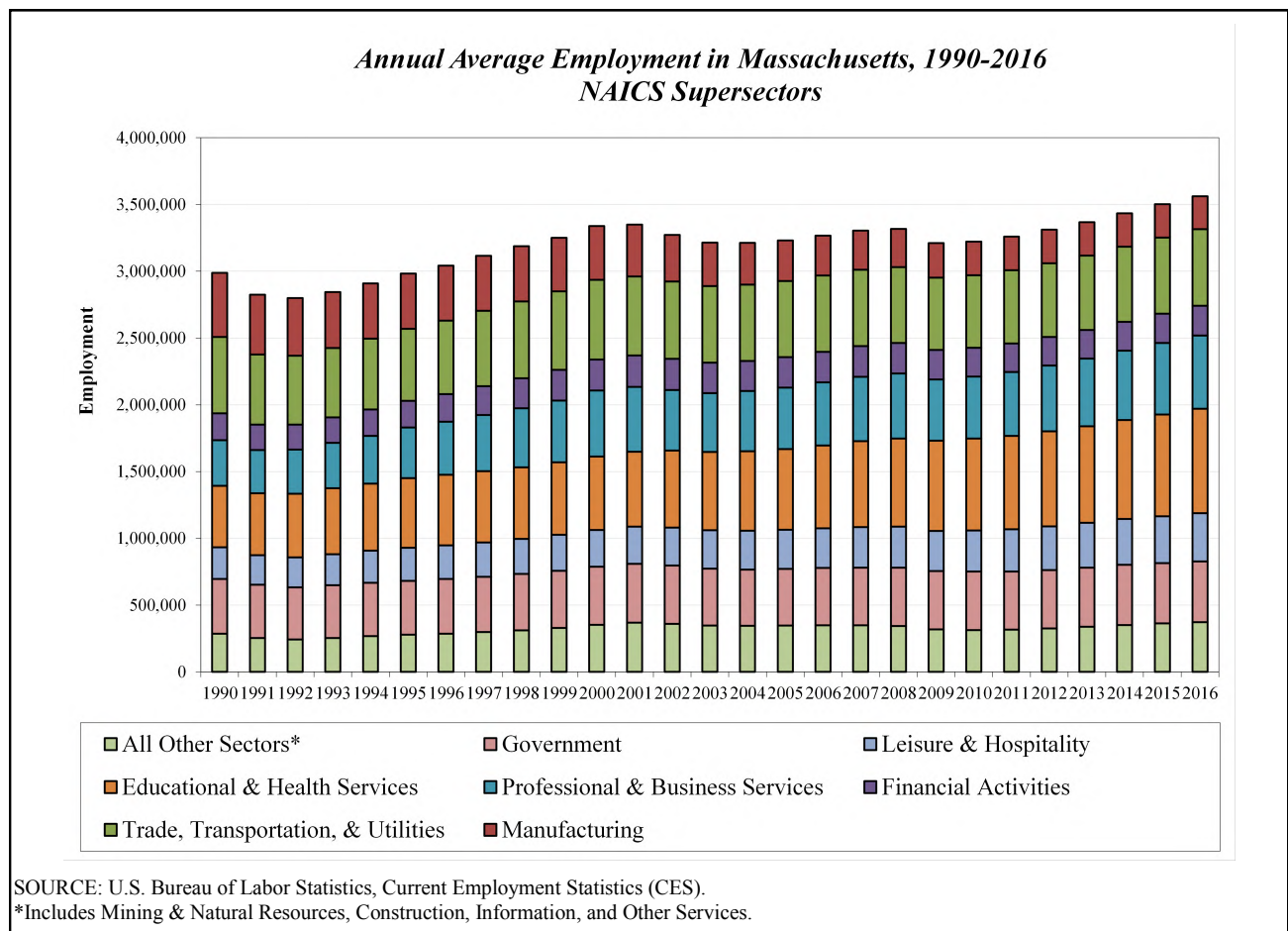
SOURCE: U.S. Census Bureau, American Community Survey, 1-Year Estimates.

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 2016 with the corresponding shares for 1996. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors, Education and Health Services, Professional and Business Services, and Leisure and Hospitality have grown to take the place of manufacturing in driving the Massachusetts economy and now account for almost half of total payroll employment, while Financial Activities, Government, Information, and Trade, Transportation & Utilities have remained relatively level or declined in share.

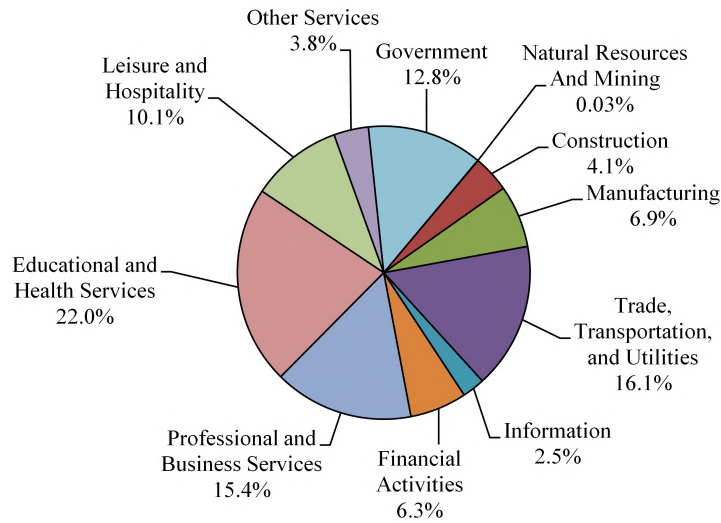
After significant declines in 2009, total non-agricultural employment in Massachusetts eventually increased 0.4 percent and continued to grow steadily, with nonfarm employment increasing 2.0 percent in 2016. With an annual average just under 3.6 million nonfarm employees, 2016 had the highest numbers 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. August 2017 saw manufacturing employment decrease by 0.2 percent since August of 2016. The 2016 manufacturing employment total was slightly lower than 2015 (245.5 thousand compared to 249.1).

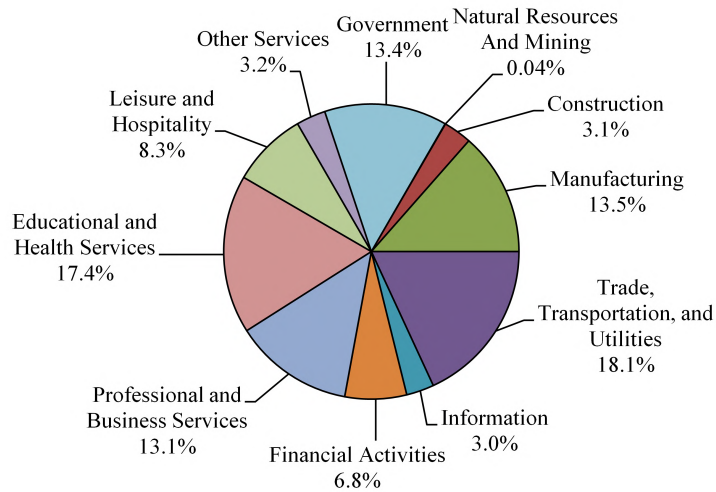


**Massachusetts Nonfarm Payroll Employment
(NAICS Industry basis)**

NAICS Supersectors: 2016 Share



NAICS Supersectors: 1996 Share



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

Largest Employers in Massachusetts. The following inset lists the 19 largest private employers in Massachusetts based upon employment covered by the Unemployment Insurance system for FY 2016. The 2016 list is nearly identical to the 2015 list, except the TJX Companies is among the top 19 and Tufts University is no longer in the top listing. As noted, the list does not include employers whose headquarters are located outside of Massachusetts, and it may not include some employers who do business in the state under multiple legal names or register each facility as a separate employer.

Largest Private Employers Headquartered in Massachusetts in FY 2016
(listed alphabetically)

Bay State Medical Center, Inc	President and Fellows of Harvard College
Beth Israel Deaconess Medical Center	Raytheon Company
Boston Medical Center Corporation	The Stop & Shop Supermarkets Corporation
Boston University	Shaw's Supermarkets, Inc.
Brigham & Women's Hospital, Inc.	Southcoast Hospitals Group, Inc.
DeMoulas Supermarkets, Inc	State Street Bank & Trust Company
EMC Corporation	The Children's Hospital Corporation
General Hospital Corporation	The TJX Companies, Inc.
Massachusetts Institute of Technology	UMass Memorial Medical Center, Inc.
Partners Healthcare Systems, Inc.	

SOURCE: FY2016 Commonwealth of Massachusetts Comprehensive Annual Financial Report (CAFR), p. 197 (<http://www.mass.gov/comptroller/docs/reports-audits/cafr/2016-cafr.pdf>).

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 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. In addition, Bank of America NA, Home Depot USA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc., Wal-Mart Associates, Inc., and Verizon New England are all large Massachusetts employers, but are headquartered outside of Massachusetts.

Massachusetts Companies in the Fortune 500 List. As of June 2017, Massachusetts is home to twelve Fortune 500 companies headquartered here. When comparing the 2016 Fortune 500 list to the 2015 list, nine Massachusetts companies gained and two lost rank. Biogen located in Weston, climbed 50 places on the list, the largest leap for a Massachusetts company, while Waltham-based Global Partners fell 154 places. General Electric relocated its headquarters from Fairfield, CT to Boston in May 2017 and leads the top Fortune 500 companies in the state with \$126.7 billion in revenues.

Massachusetts Companies in the Fortune 500

Rank		Company (location)	Industry	2016 revenues (billions)
2016	2015			
13	N/A	General Electric (Boston)	Industrial Machinery	\$126.7
75	78	Liberty Mutual Ins. Group (Boston)	Insurance: Property & Casualty (Stock)	\$38.3
77	94	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (Mutual)	\$37.8
87	103	TJX (Framingham)	Specialty Retailers: Apparel	\$33.2
116	129	Raytheon (Waltham)	Aerospace and Defense	\$24.1
140	133	Staples (Framingham)	Specialty Retailers: Other	\$20.2
154	181	Thermo Fisher Scientific (Waltham)	Scientific, Photo & Control Equipment	\$18.3
248	298	Biogen (Weston)	Pharmaceuticals	\$11.4
271	278	State Street Corp. (Boston)	Commercial Banks	\$10.6
327	378	Boston Scientific (Natick)	Medical Products & Equipment	\$8.4
334	180	Global Partners (Waltham)	Wholesalers: Diversified	\$8.2
358	367	Eversource Energy (Springfield)	Utilities: Gas and Electric	\$1.2

SOURCE: *Forbes*, June 2017 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, 2017, the preliminary Massachusetts Unemployment Trust Fund had a balance of \$1.144 billion. This balance is the sum of the private contributory account balance of \$1.033 billion and the government contributory account balance of \$111 million. This compares to the August 31, 2016 balance of \$913 million with a private contributory portion of \$798 million. The September 2017 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$1.051 billion by the end of 2021 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 in August 2017 to 3.7 percent, below the national rate of 4.5 percent. 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.

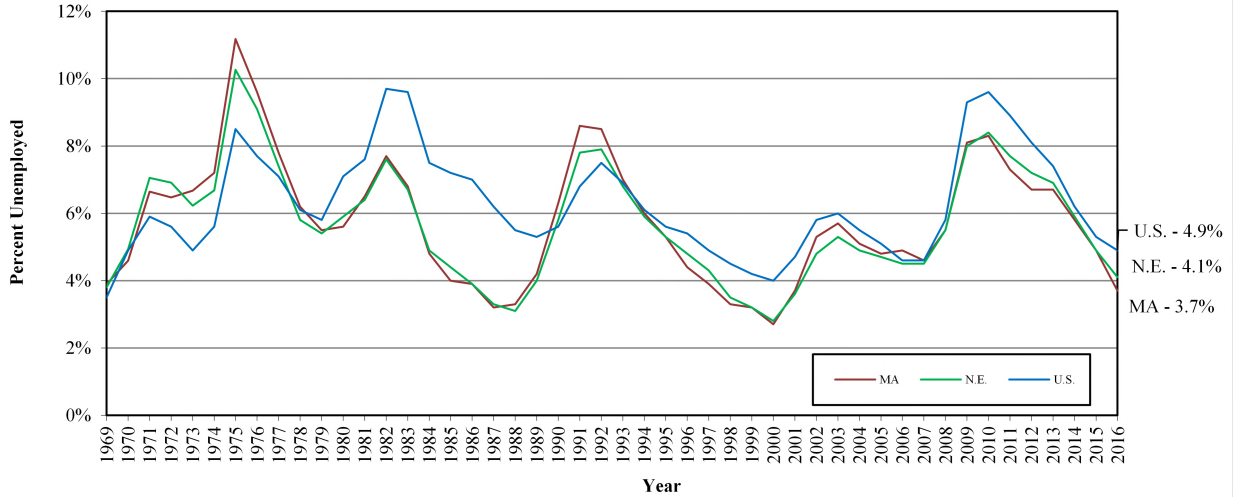
Annual Average Civilian Labor Force and Unemployment, 1969-2016

(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	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	3,485	7,730	154,975	233	559	12,506	6.7%	7.2%	8.1%	82.7%
2013	3,511	7,738	155,389	236	533	11,460	6.7%	6.9%	7.4%	90.5%
2014	3,554	7,778	155,922	205	457	9,617	5.8%	5.9%	6.2%	93.5%
2015	3,580	7,795	157,130	174	383	8,296	4.9%	4.9%	5.3%	92.5%
2016	3,589	7,817	159,187	133	317	7,751	3.7%	4.1%	4.9%	75.5%

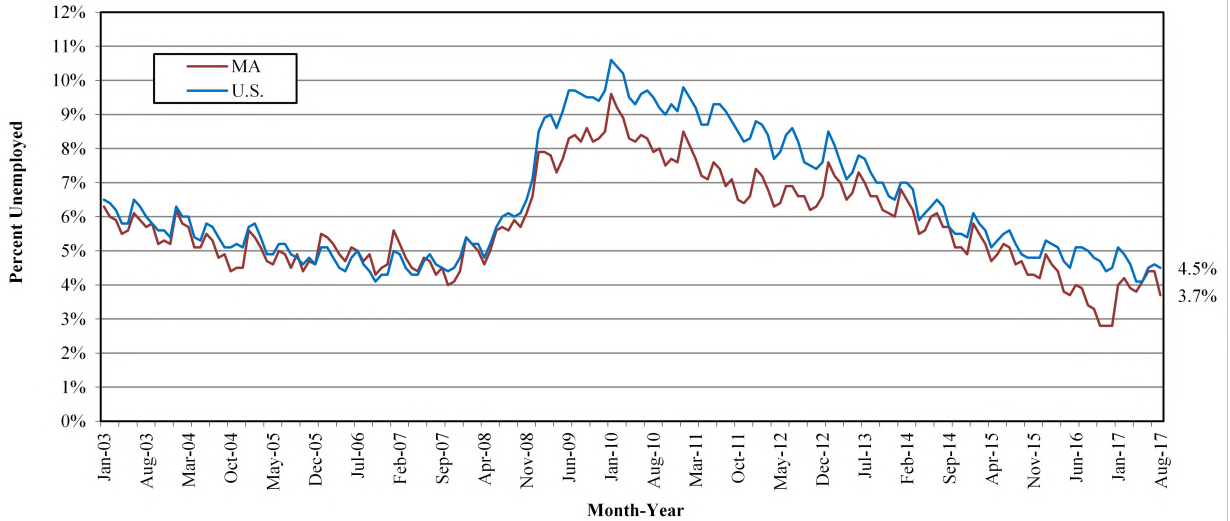
SOURCE: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS) and Current Population Survey (CPS).

*Annual Average Unemployment Rate, 1969-2016
Massachusetts, New England, and the United States*



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

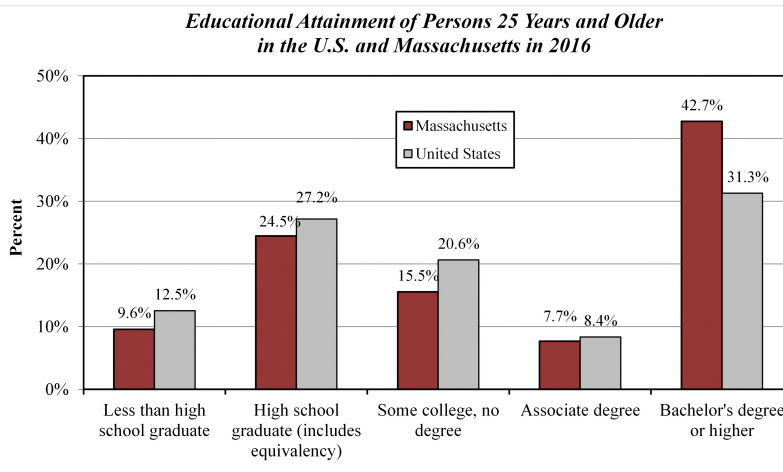
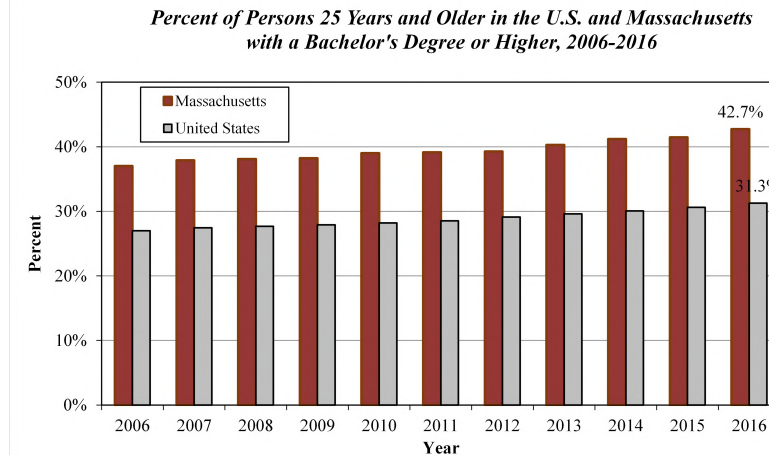
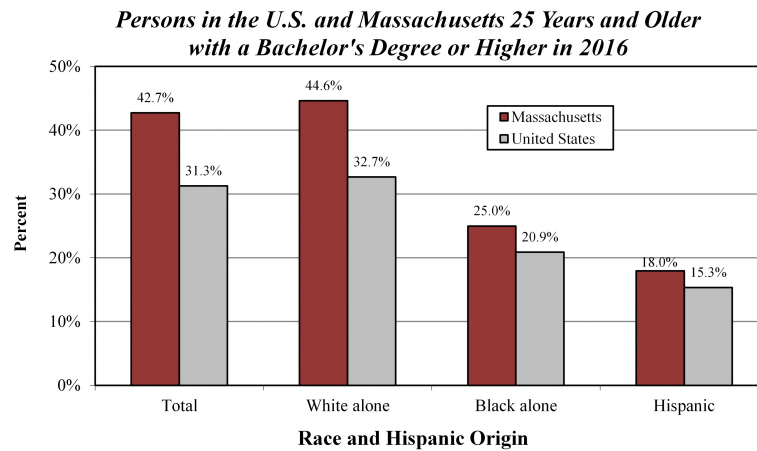
*Monthly Unemployment Rate, May 2006 - August 2017
Massachusetts and the United States
(not seasonally adjusted)*



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 2016, according to the Census Bureau's American Community Survey (ACS). The Census also reported that Massachusetts ranked 32nd in persons who had not completed high school, at 9.6 percent of the population age 25 or older, less than the national average of 12.5 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.



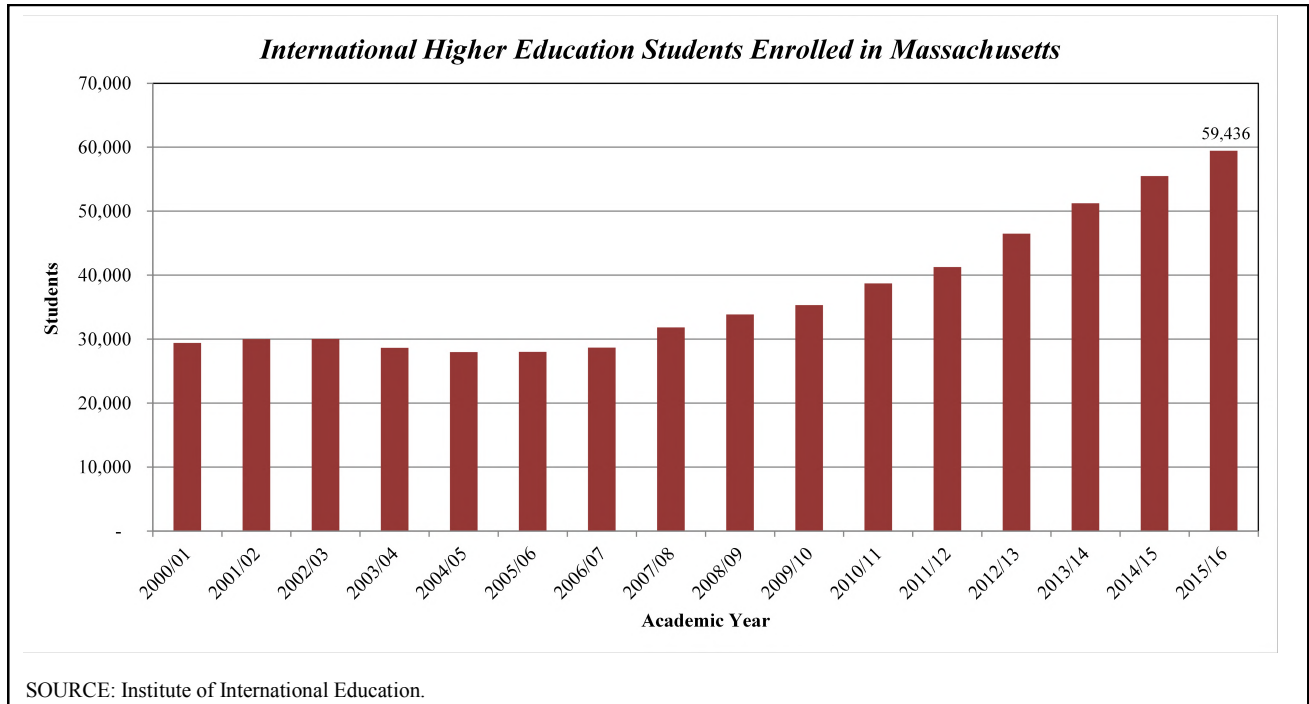
SOURCE: U.S. Census Bureau, American Community Survey.

Higher Education Data. The table below compares Massachusetts residents' higher education enrollment by race and Hispanic origin to the U.S. There were 1.0 percent fewer people enrolled in college in the U.S. in 2016 compared to 2015. The proportion of total enrollment in Massachusetts also fell by 1.4 percent.

<i>Higher Education Enrollment by Race and Hispanic Origin in 2016</i>						Hispanic or Latino
	Total	White alone	Black alone	Asian alone	All other races	
United States	22,606,282	67.0%	14.7%	8.6%	9.7%	17.4%
Massachusetts	585,465	71.6%	9.7%	11.1%	7.7%	11.3%

SOURCE: U.S. Census Bureau, American Community Survey, 2016 1-Year Estimates.
 NOTE: The Hispanic or Latino Origin category includes all Hispanics in the population regardless of race and therefore should not be added to the other categories to avoid double-counting races.

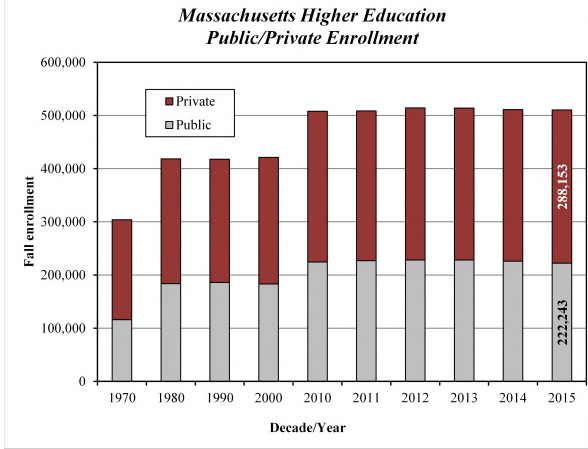
Survey data released by the Institute of International Education state that 59,436 foreign students were enrolled in Massachusetts colleges and universities in the 2015/2016 school year. This was an increase of 7.1 percent from the previous year. The national enrollment also increased 7.1 percent. Massachusetts remains fourth ranked among states for foreign student enrollment.



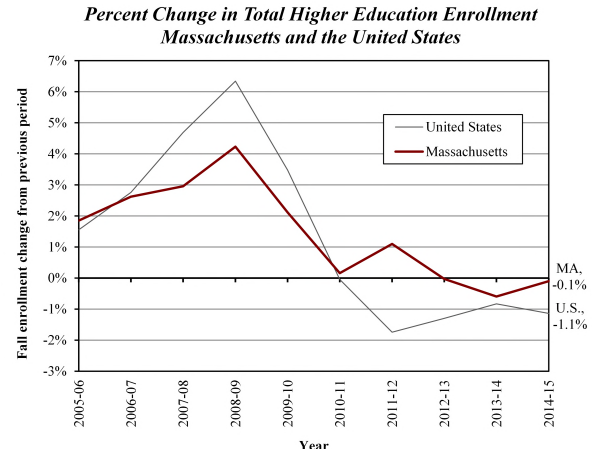
The graphs and table on the following page provide information about higher education enrollment, degrees conferred, and research and development expenditures at colleges and universities.

U.S. Department of Education data show that from 2014 to 2015, higher education enrollment decreased 1.1 percent in the United States and 0.1 percent at Massachusetts institutions. During the 2000-2015 period, enrollment in public higher education increased 24 percent in the United States and 21 percent at Massachusetts institutions. Enrollment in private institutions increased 52 percent in the United States and 21 percent at Massachusetts institutions.

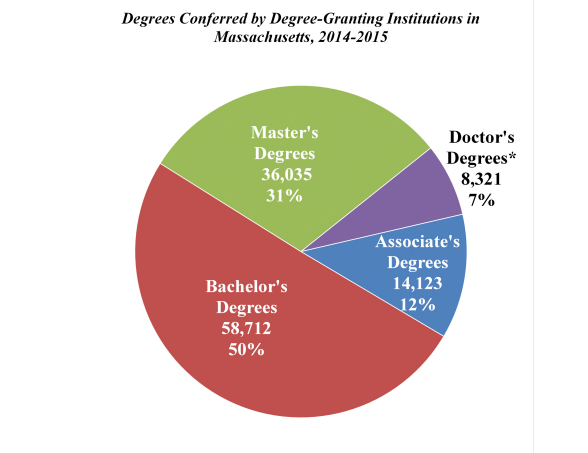
Research and development expenditures at universities and colleges increased 18 percent in the United States and 39 percent in Massachusetts between 2006 and 2015.



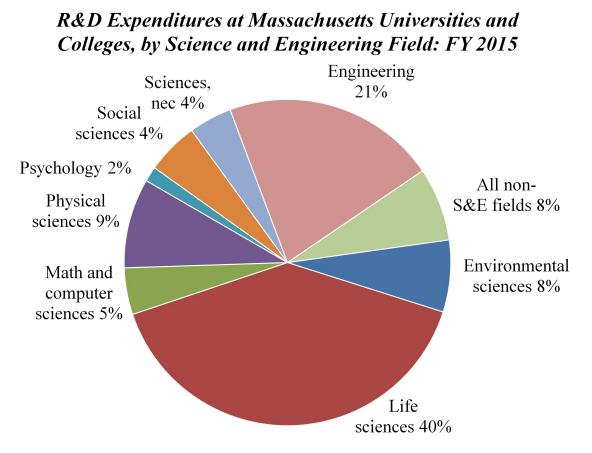
SOURCE: U.S. Department of Education, Digest of Education Statistics.



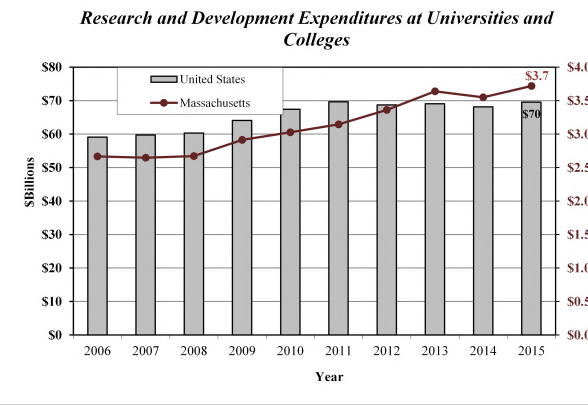
SOURCE: U.S. Department of Education, Digest of Education Statistics.



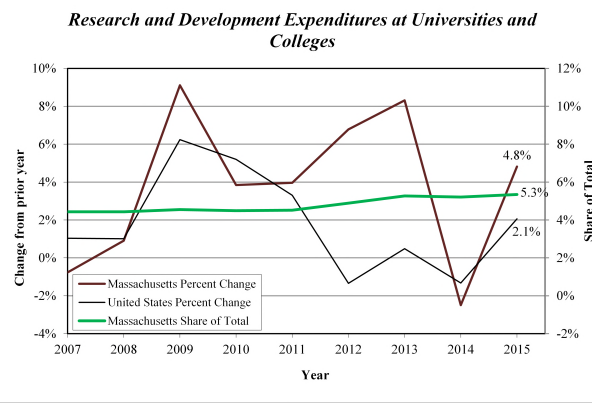
SOURCE: U.S. Department of Education, Digest of Education Statistics. *Includes Ph.D.,



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



SOURCE: National Science Foundation.



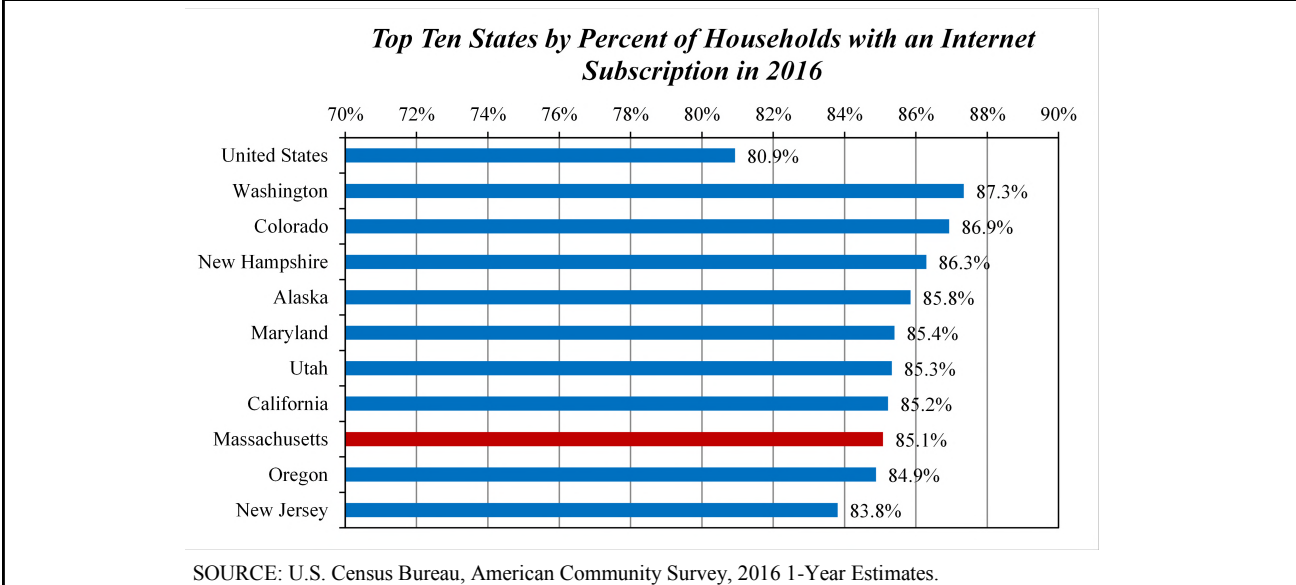
SOURCE: National Science Foundation.

Current Massachusetts Higher Education Rank Among States and the District of Columbia					
Enrollment -2015	MA Rank	Degrees Awarded -2013	MA Rank	Research & Developments - FY 2015	
Total	13	Total	10	Total	5
Public	23	Associate's	21	Environmental sciences	2
Private	7	Bachelor's	9	Life sciences	7
		Master's	6	Math/computer sciences	6
		Professional/Doctorate	7	Physical sciences	3
				Psychology	8
				Social sciences	3
				Sciences, nec	2
				Engineering	5

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

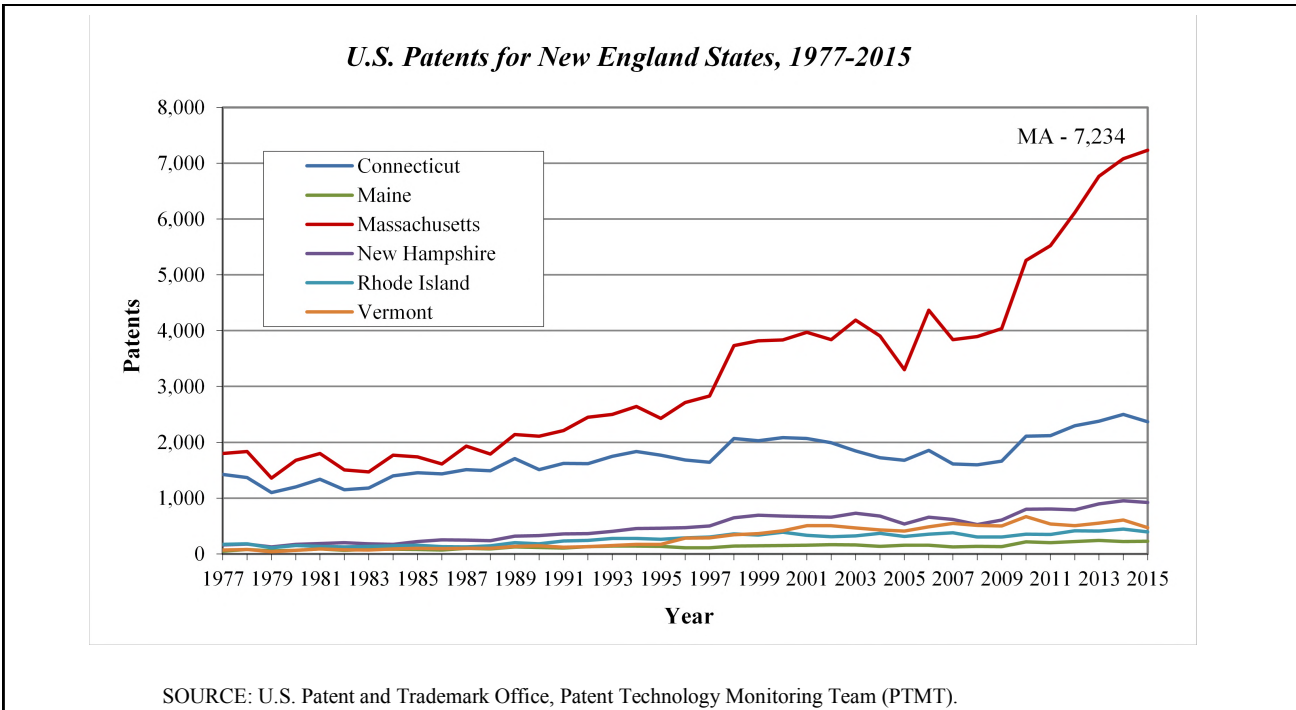
SOURCE: National Science Foundation

Internet Access. Massachusetts has the eighth highest household internet subscription rate in the U.S., according to the Census Bureau’s 2016 American Community Survey.



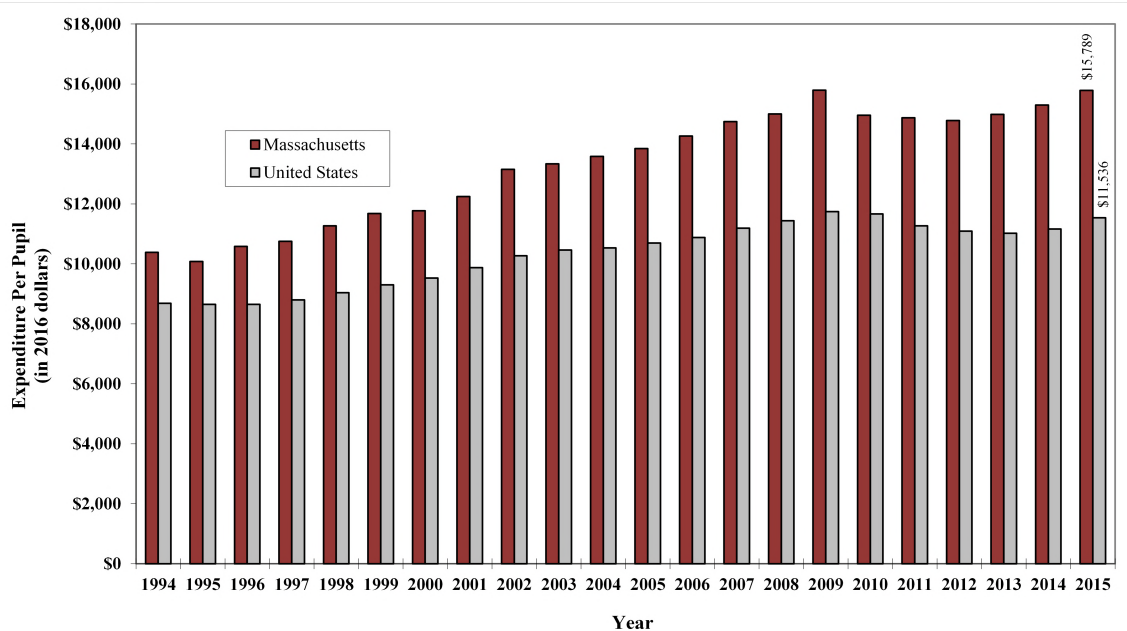
Patents. The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country of 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 2014-2015 school year, the average Massachusetts per student expenditures increased 3.2 percent to \$15,789. Massachusetts was ranked 8th in the nation among states and the District of Columbia in 2015. The table and chart below show expenditures per pupil for Massachusetts and the U.S.

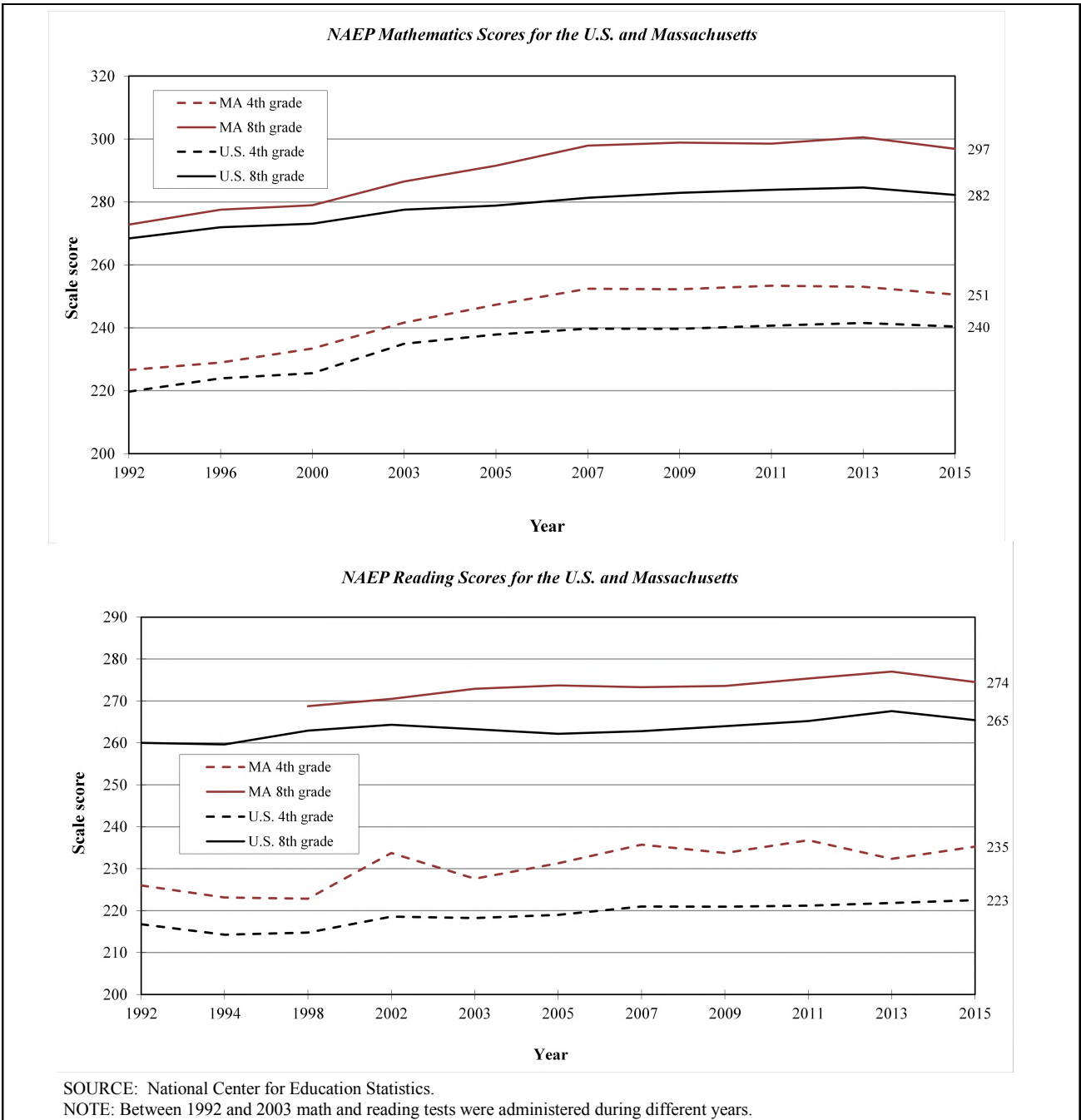
Per Pupil Expenditure in Public Elementary and Secondary Schools (in 2016 adjusted dollars)				
Fiscal Year	Massachusetts	United States	Ratio (MA/ U.S.)	MA change from previous year
1994	\$10,386	\$8,685	1.20	
1995	\$10,077	\$8,652	1.16	-3.0%
1996	\$10,584	\$8,652	1.22	5.0%
1997	\$10,752	\$8,796	1.22	1.6%
1998	\$11,266	\$9,036	1.25	4.8%
1999	\$11,678	\$9,304	1.26	3.7%
2000	\$11,769	\$9,528	1.24	0.8%
2001	\$12,248	\$9,871	1.24	4.1%
2002	\$13,149	\$10,274	1.28	7.4%
2003	\$13,335	\$10,460	1.27	1.4%
2004	\$13,587	\$10,529	1.29	1.9%
2005	\$13,846	\$10,693	1.29	1.9%
2006	\$14,263	\$10,879	1.31	3.0%
2007	\$14,745	\$11,189	1.32	3.4%
2008	\$14,998	\$11,436	1.31	1.7%
2009	\$15,795	\$11,745	1.34	5.3%
2010	\$14,958	\$11,667	1.28	-5.3%
2011	\$14,875	\$11,267	1.32	-0.6%
2012	\$14,783	\$11,089	1.33	-0.6%
2013	\$14,985	\$11,024	1.36	1.4%
2014	\$15,296	\$11,161	1.37	2.1%
2015	\$15,789	\$11,536	1.37	3.2%



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.

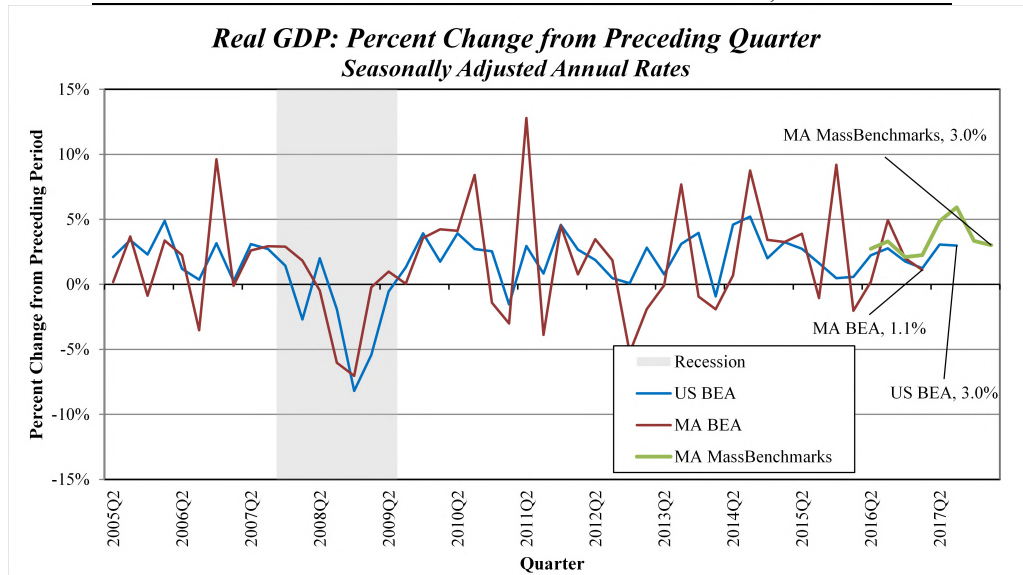


ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

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> (billions of chained 2009 dollars)						
Year	Massachusetts		New England		United States	
	GDP	Annual change	GDP	Annual change	GDP	Annual change
2000	\$348		\$725		\$12,617	
2001	\$353	1.3%	\$736	1.5%	\$12,735	0.9%
2002	\$354	0.5%	\$742	0.8%	\$12,963	1.8%
2003	\$362	2.2%	\$758	2.2%	\$13,296	2.6%
2004	\$370	2.2%	\$785	3.6%	\$13,765	3.5%
2005	\$376	1.7%	\$798	1.7%	\$14,203	3.2%
2006	\$383	1.7%	\$813	1.9%	\$14,585	2.7%
2007	\$392	2.4%	\$830	2.1%	\$14,798	1.5%
2008	\$393	0.2%	\$825	-0.6%	\$14,718	-0.5%
2009	\$386	-1.8%	\$805	-2.4%	\$14,320	-2.7%
2010	\$399	3.5%	\$821	2.0%	\$14,628	2.2%
2011	\$408	2.3%	\$826	0.6%	\$14,834	1.4%
2012	\$416	1.8%	\$834	0.9%	\$15,126	2.0%
2013	\$415	-0.2%	\$830	-0.5%	\$15,348	1.5%
2014	\$422	1.7%	\$838	0.9%	\$15,690	2.2%
2015	\$438	3.7%	\$861	2.8%	\$16,095	2.6%
2016	\$446	2.0%	\$876	1.7%	\$16,343	1.5%



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.

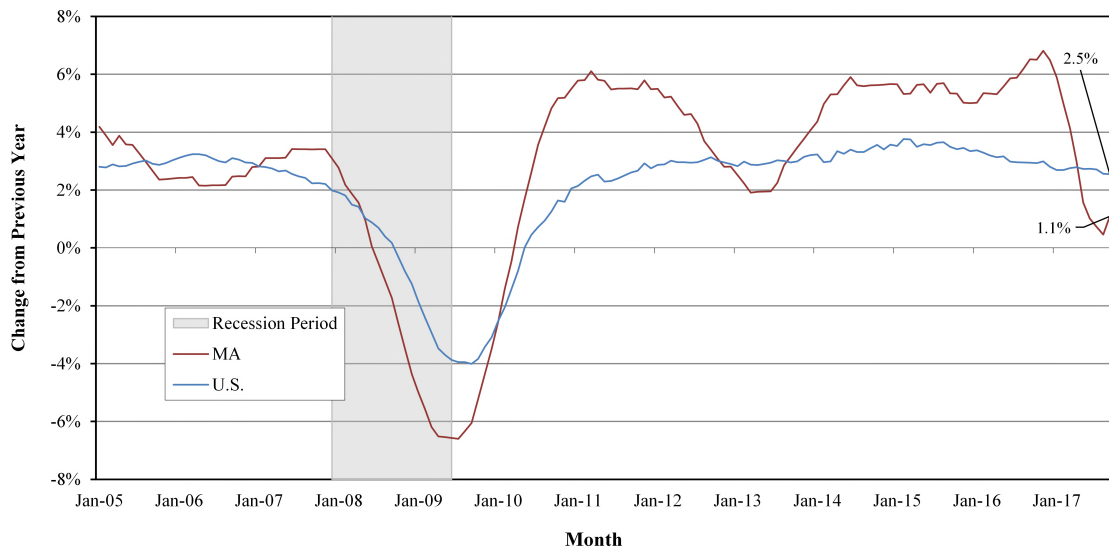
The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements 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.

Comparing the U.S. and New England States Coincident Indexes

Area	September 2017	1-Month Change	3-Month Change	12-Month Change
U.S.	182.7	0.2%	0.6%	2.5%
Massachusetts	212.8	1.1%	1.9%	1.1%
Connecticut	182.7	0.7%	1.3%	2.3%
Maine	167.3	0.2%	-0.9%	2.0%
New Hampshire	245.9	0.1%	1.0%	3.3%
Rhode Island	186.7	0.4%	0.2%	6.2%
Vermont	201.8	0.7%	1.8%	3.6%

Comparing the U.S. and Massachusetts Coincident Indexes



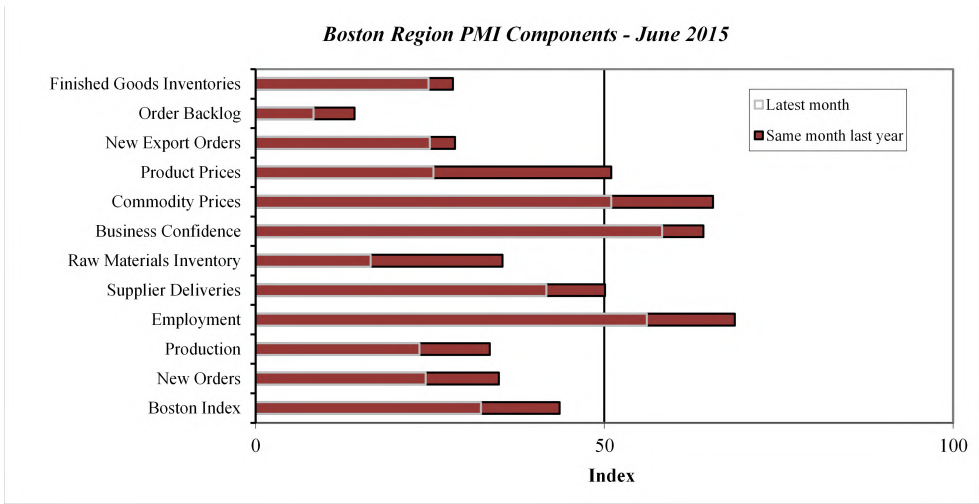
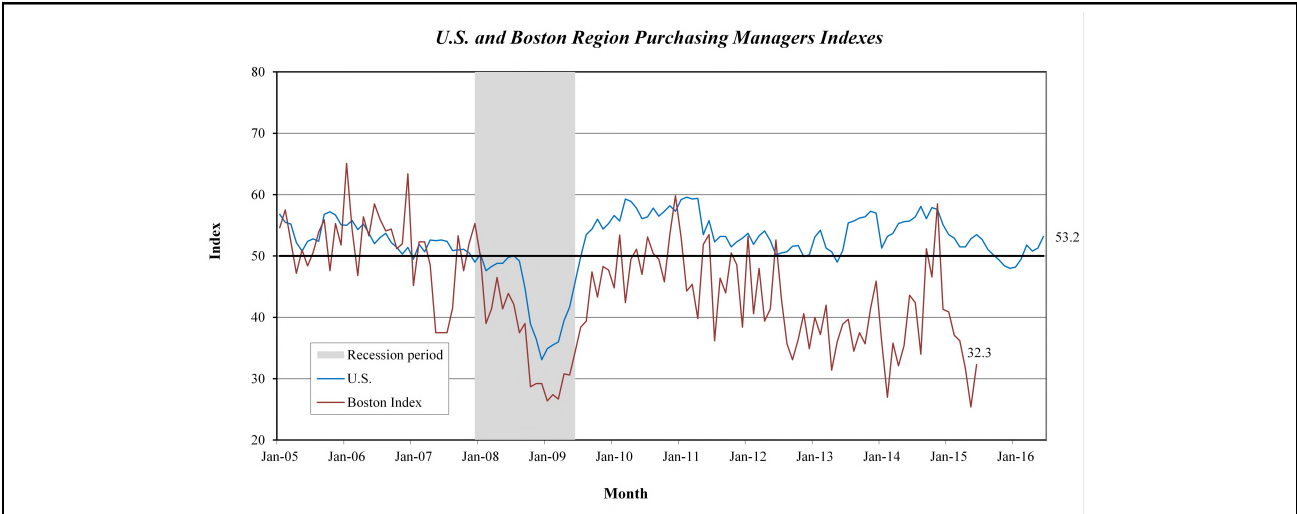
SOURCE: Federal Reserve Bank of Philadelphia. September 2017.

NOTES: Shaded areas are recession periods. Indexes are set to 100 at July 1992. Methodology changes in March 2017 resulted in revised values for historical data.

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.



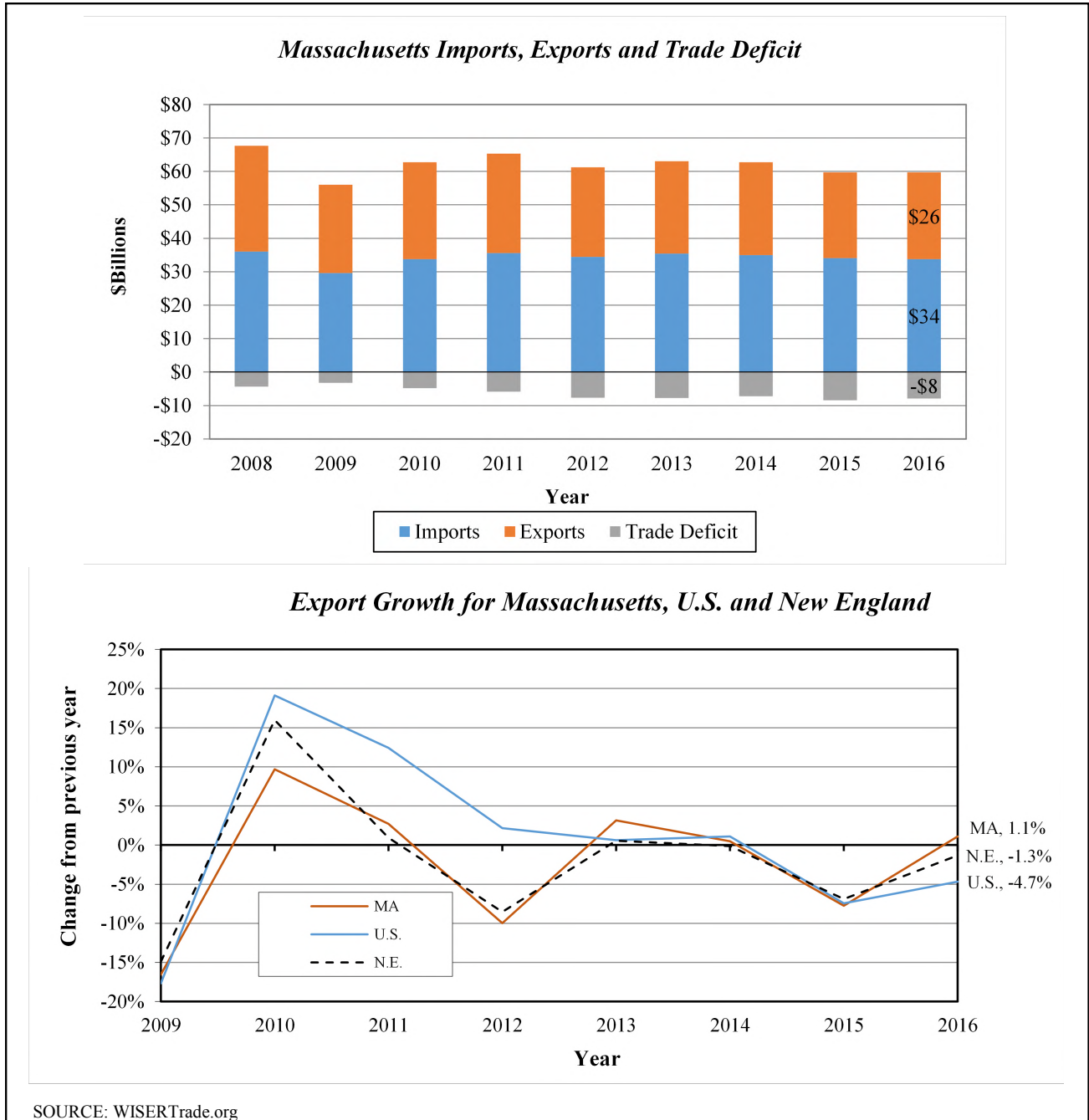
SOURCE: Institute for Supply Management and the Purchasing Management Association of Boston.
NOTE: Shaded areas are recession periods.

ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

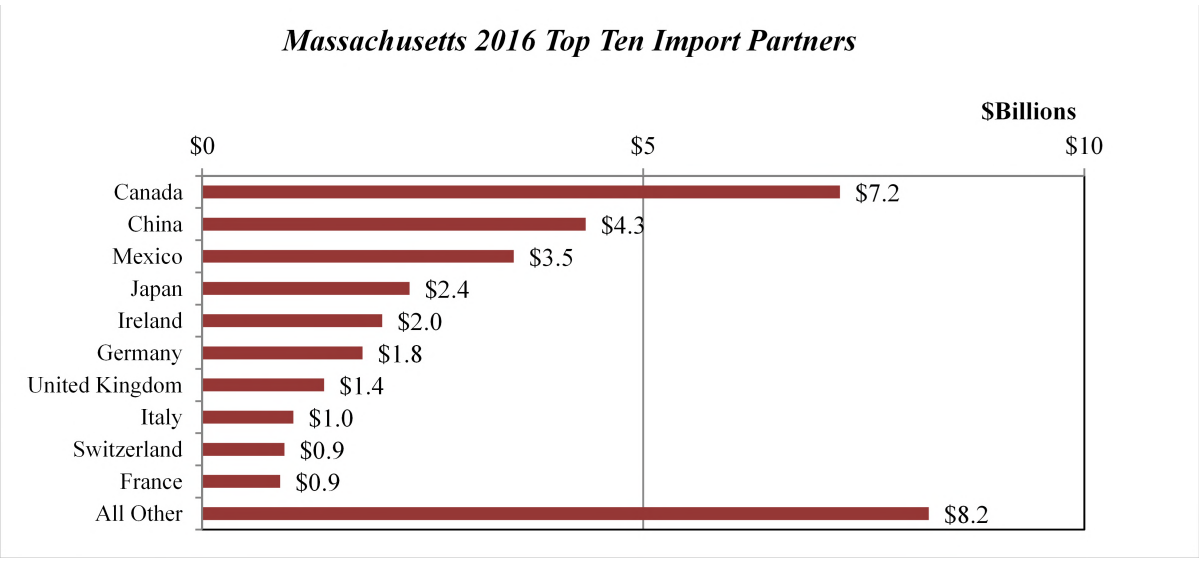
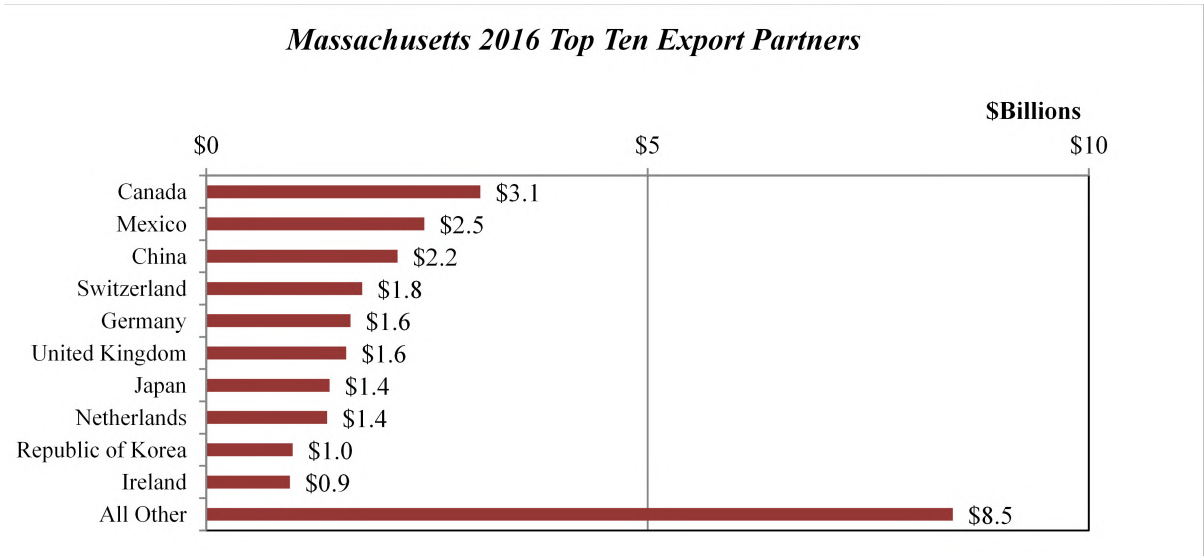
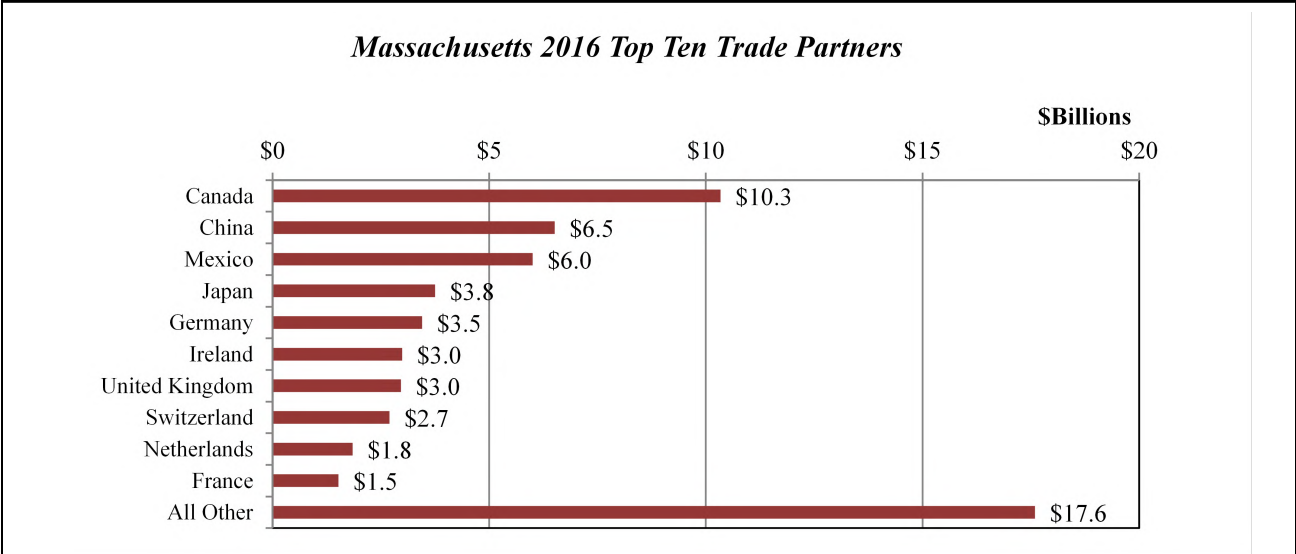
Total Trade Volume. Total trade volume, exports and imports, remained flat at 0.01 percent from 2015 to \$59.7 billion in 2016. Canada's trade volume was \$10.8 billion and, at 18.1 percent of the total state trade, it was by far our most valuable trading partner. Massachusetts trade deficit, \$7.9 billion, decreased 6.6 percent in 2016. See appendix 8 for more trade data.

Exports. Massachusetts ranked 19th in the United States in 2016 and first in New England with \$25.9 billion in exports. This was a 1.1 percent increase from the previous year's export value, while national exports decreased by 4.7 percent. Total exports from New England decreased by 1.3 percent. Canada was again our top export destination in 2016 with \$3.1 billion.

Imports. Imports decreased 0.8 percent to \$33.8 billion in 2016. Canada was also the largest source for Massachusetts imports in 2016, from which we imported \$7.7 billion or 22.8 percent of our total.

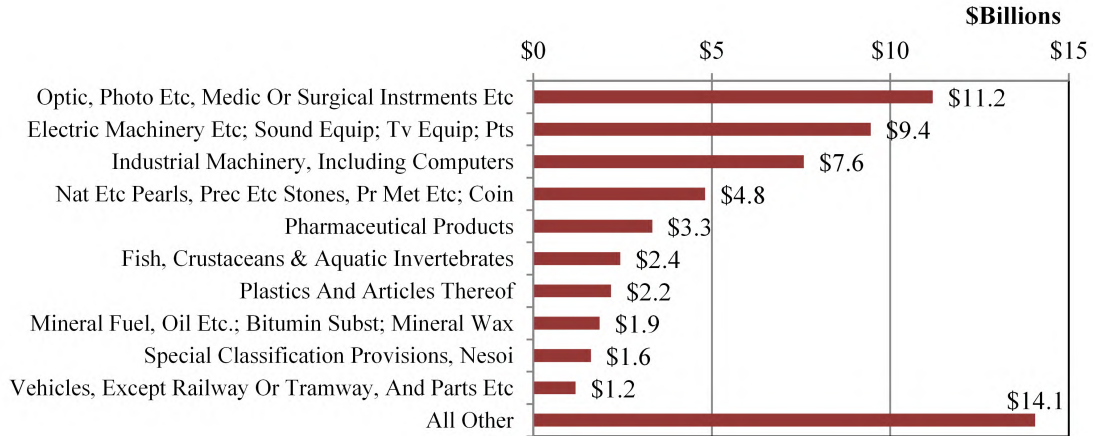


Top Ten Trade Partners by Trade Type from WISERTrade.

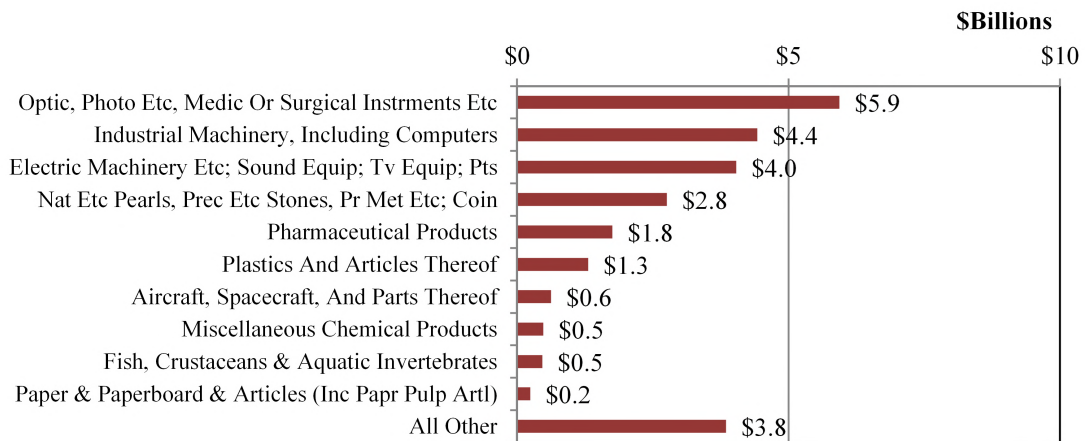


Top Ten Commodities Traded by Trade Type from WISERTrade.

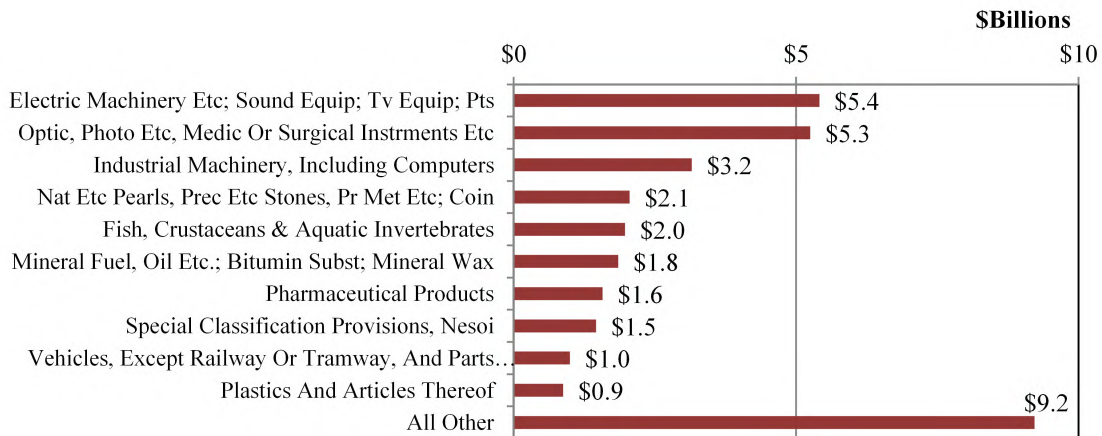
Massachusetts 2016 Top Ten Commodities Imported and Exported



Massachusetts 2016 Top Ten Commodities Exported

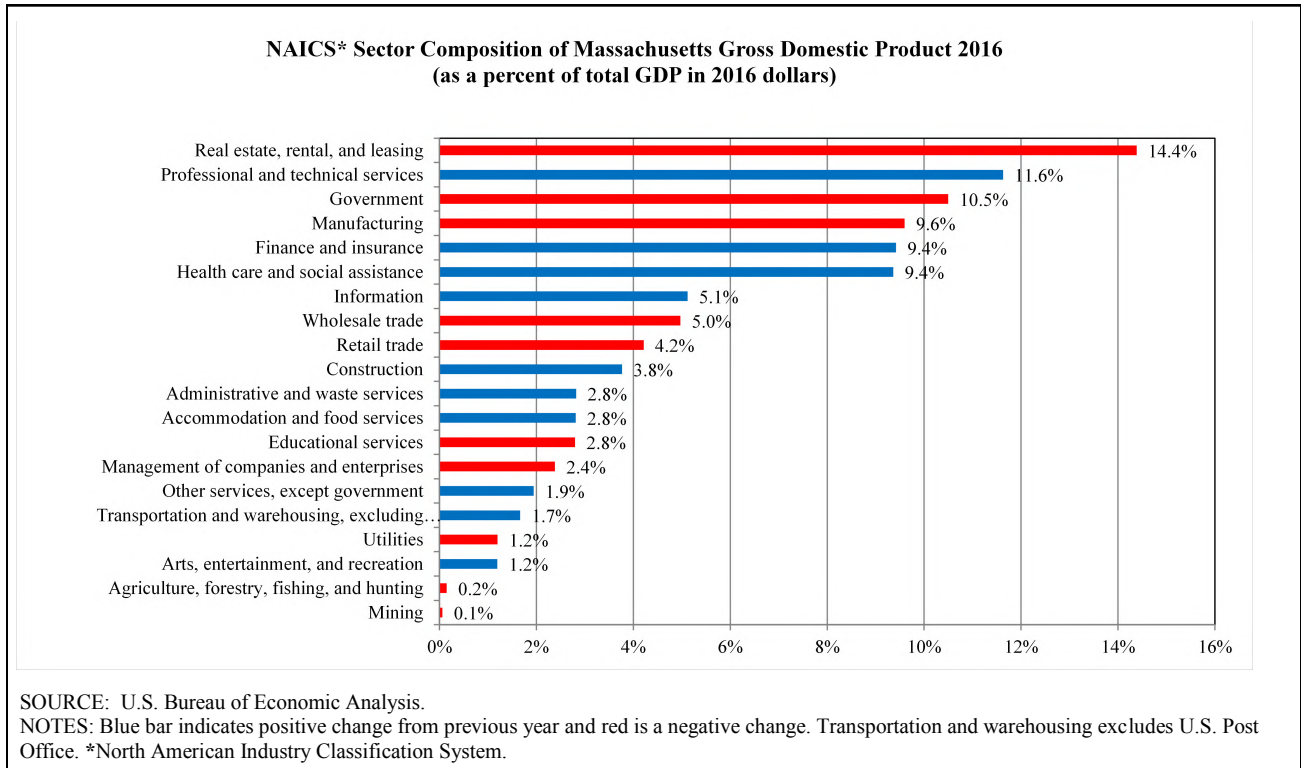


Massachusetts 2016 Top Ten Commodities Imported



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 46.1 percent of the GDP in 2016. The real estate, rental and leasing sector remained the largest contributor in 2016. The following bar chart displays the latest sector contributions to the Massachusetts GDP.



GDP Subsectors. When measured in chained 2009 dollars, the change in Massachusetts total GDP grew 15.8 percent between 2006 and 2015. Between 2006 and 2015 (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
(2016 dollars)

NAICS* Industry Subsector	Percent Change 2006-2015
Oil and gas extraction	300.0%
Support activities for mining	275.0%
Funds, trusts, and other financial vehicles	184.6%
Performing arts, spectator sports, museums, and related activities	109.5%
Chemical products manufacturing	94.5%
Air transportation	92.3%
Social assistance	88.2%
Amusements, gambling, and recreation industries	85.5%

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 2016 dollars)

NAICS* Industry Sector	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
All industry total	\$438,551	\$429,671	\$431,488	\$443,186	\$445,236	\$453,786	\$455,469	\$465,462	\$494,257	\$507,913
Private industries	\$388,961	\$379,478	\$380,121	\$391,681	\$392,011	\$403,138	\$404,614	\$413,532	\$440,685	\$454,604
Agriculture, forestry, fishing, and hunting	\$1,221	\$1,194	\$1,321	\$1,397	\$1,177	\$1,190	\$1,016	\$803	\$795	\$766
Mining	\$288	\$166	\$202	\$184	\$185	\$198	\$210	\$268	\$306	\$312
Utilities	\$5,662	\$6,097	\$5,251	\$5,709	\$5,591	\$5,410	\$5,525	\$5,867	\$5,993	\$6,084
Construction	\$17,431	\$15,794	\$14,505	\$13,654	\$13,925	\$15,082	\$15,946	\$16,425	\$18,055	\$19,137
Manufacturing	\$50,604	\$45,277	\$44,772	\$47,832	\$45,768	\$47,191	\$46,501	\$47,640	\$48,483	\$48,749
Wholesale trade	\$23,955	\$24,032	\$23,555	\$23,847	\$23,537	\$22,892	\$23,432	\$24,055	\$24,932	\$25,247
Retail trade	\$20,311	\$19,192	\$19,386	\$19,862	\$19,350	\$19,273	\$19,504	\$19,794	\$20,836	\$21,406
Transportation and warehousing, excluding Postal Service	\$7,164	\$6,863	\$6,672	\$6,989	\$7,267	\$7,167	\$7,338	\$7,591	\$8,133	\$8,453
Information	\$23,713	\$25,025	\$23,688	\$25,436	\$24,756	\$24,269	\$23,799	\$23,203	\$24,966	\$26,012
Finance and insurance	\$38,935	\$33,670	\$36,903	\$37,037	\$36,760	\$41,395	\$40,105	\$41,215	\$45,908	\$47,845
Real estate, rental, and leasing	\$61,659	\$59,848	\$61,448	\$62,996	\$64,878	\$66,078	\$66,315	\$67,737	\$71,182	\$73,071
Professional and technical services	\$45,175	\$48,651	\$46,522	\$47,963	\$48,665	\$50,629	\$50,715	\$52,071	\$56,161	\$59,068
Management of companies and enterprises	\$9,999	\$9,599	\$9,365	\$9,459	\$10,608	\$10,556	\$10,900	\$10,989	\$12,463	\$12,113
Administrative and waste services	\$12,623	\$12,333	\$11,471	\$11,932	\$12,107	\$12,194	\$12,458	\$12,752	\$13,749	\$14,336
Educational services	\$11,028	\$11,307	\$12,139	\$12,510	\$12,600	\$12,834	\$12,937	\$13,410	\$13,904	\$14,216
Health care and social assistance	\$35,886	\$37,559	\$39,560	\$40,675	\$40,711	\$42,083	\$42,490	\$43,226	\$45,906	\$47,567
Arts, entertainment, and recreation	\$3,482	\$3,471	\$3,728	\$4,170	\$4,103	\$4,046	\$4,431	\$4,952	\$5,780	\$6,061
Accommodation and food services	\$10,729	\$10,601	\$10,852	\$11,323	\$11,416	\$11,930	\$12,269	\$12,518	\$13,603	\$14,283
Other services, except government	\$9,092	\$8,798	\$8,779	\$8,706	\$8,608	\$8,722	\$8,719	\$9,020	\$9,531	\$9,875
Government	\$49,590	\$50,193	\$51,368	\$51,506	\$53,225	\$50,648	\$50,855	\$51,930	\$53,572	\$53,309

Rank of Industry Contribution to GDP in Massachusetts
(millions of 2016 dollars)

NAICS* Industry Sector	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
All industry total										
Private industries										
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17	17	17
Construction	10	10	10	10	10	10	10	10	10	10
Manufacturing	2	4	4	4	4	4	4	4	4	4
Wholesale trade	7	8	8	8	8	8	8	7	8	8
Retail trade	9	9	9	9	9	9	9	9	9	9
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16	16	16	16
Information	8	7	7	7	7	7	7	8	7	7
Finance and insurance	5	6	6	6	6	6	6	6	5	5
Real estate, rental, and leasing	1	1	1	1	1	1	1	1	1	1
Professional and technical services	4	3	3	3	3	3	3	2	2	2
Management of companies and enterprises	14	14	14	14	14	14	14	14	14	14
Administrative and waste services	11	11	12	12	12	12	12	12	12	11
Educational services	12	12	11	11	11	11	11	11	11	13
Health care and social assistance	6	5	5	5	5	5	5	5	6	6
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18	18	18
Accommodation and food services	13	13	13	13	13	13	13	13	13	12
Other services, except government	15	15	15	15	15	15	15	15	15	15
Government	3	2	2	2	2	2	2	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 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

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.

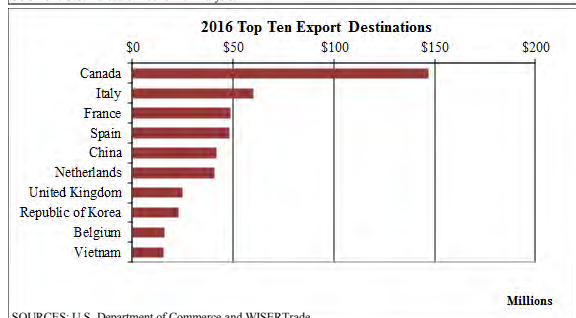
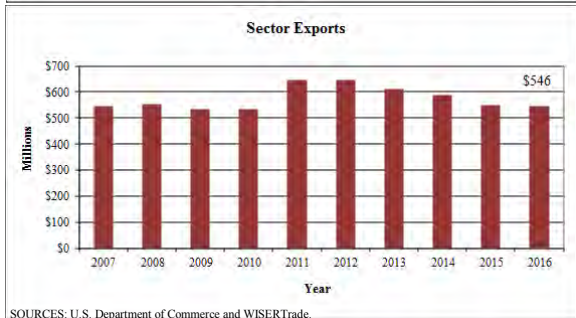
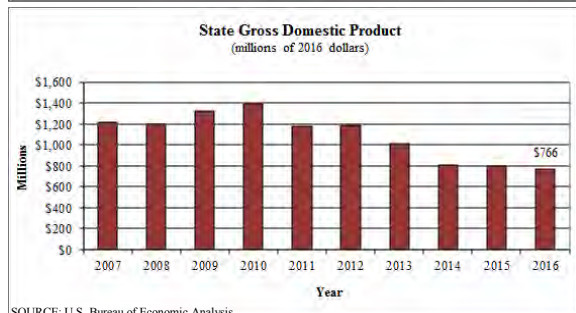
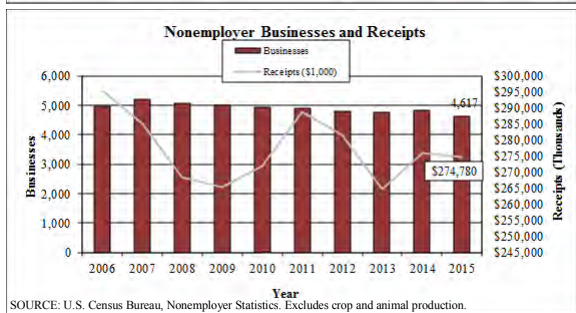
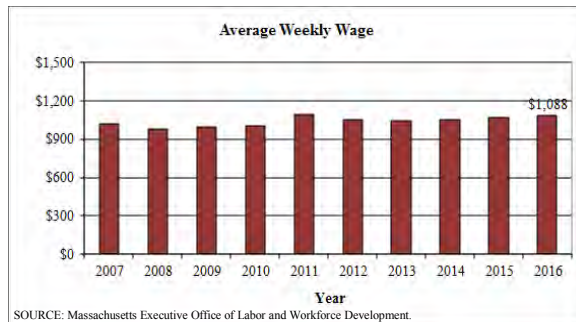
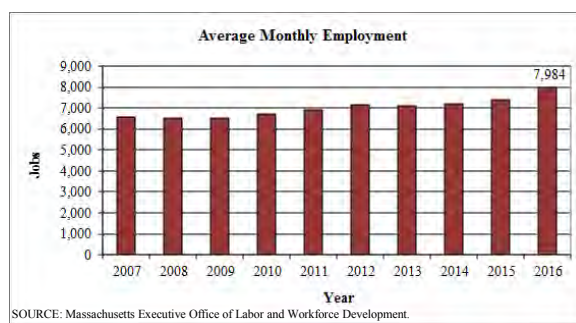
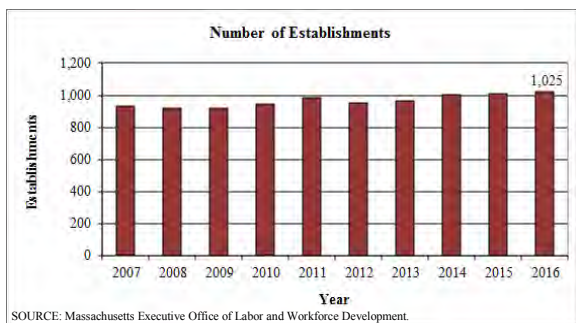
Each sector analysis has a summary at the bottom of each page. The summary provides (when available):

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, State Gross Domestic Product, Average Weekly Wage, Nonemployer Receipts, and Sector Exports are all inflation-adjusted to 2016.

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: **0.2%**

GDP rank: **19 of 20**

Nonemployer to employer establishment ratio: **4.5 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**

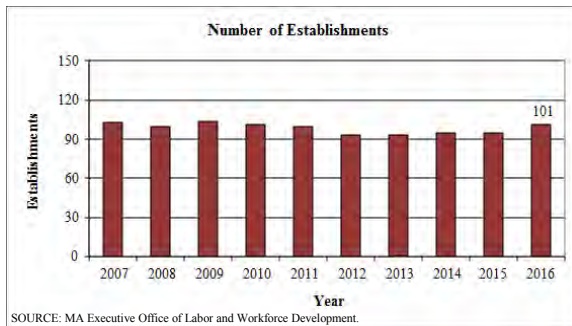
Annual wages: **Fishing**

Average weekly wage: **Fishing**

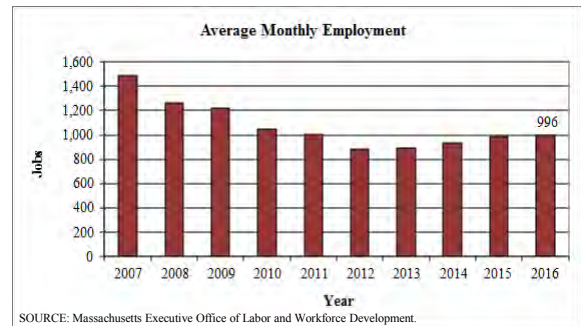
Annual receipts at nonemployer establishments: **Fishing**

Most valuable export: **Fish, Fresh, Chilled, Or Frozen and Other Marine Products**

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



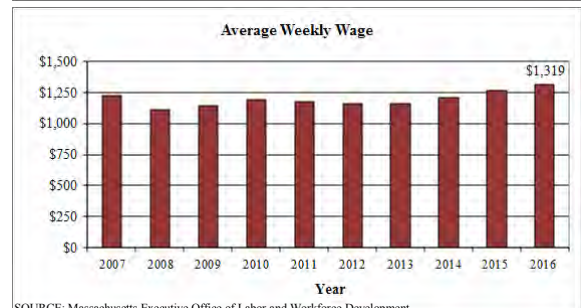
SOURCE: MA Executive Office of Labor and Workforce Development.



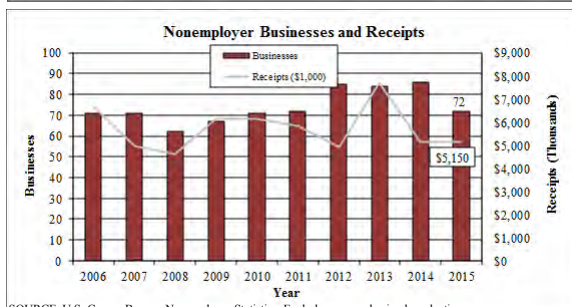
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



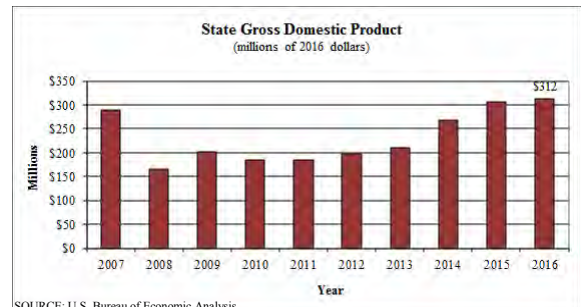
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



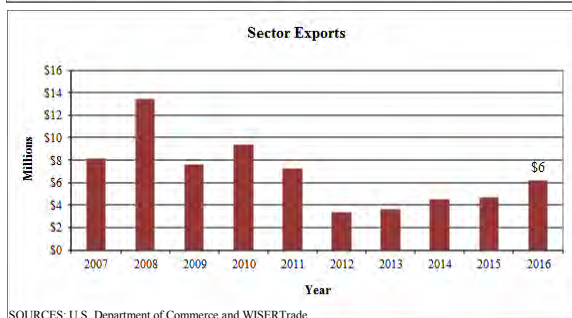
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



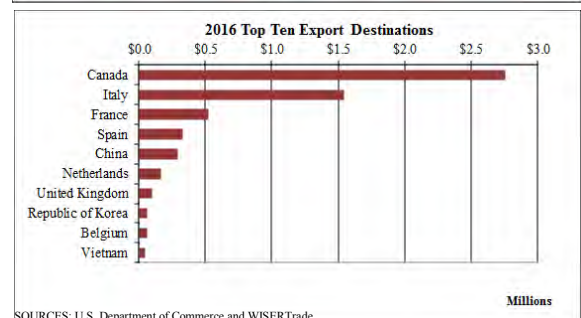
SOURCE: U.S. Census Bureau, Nonemployer Statistics. Excludes crop and animal production.



SOURCE: U.S. Bureau of Economic Analysis.



SOURCES: U.S. Department of Commerce and WISERTrade.



SOURCES: U.S. Department of Commerce and WISERTrade.

Summary.

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

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.7 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**

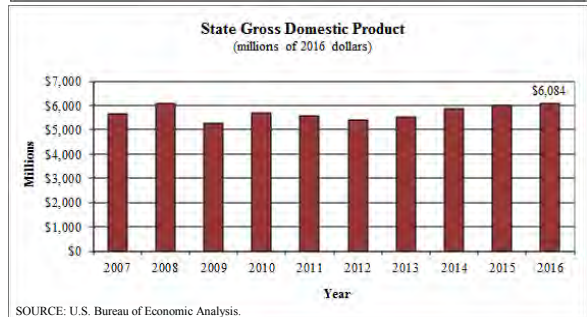
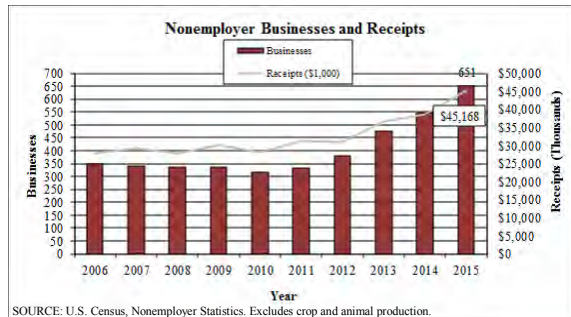
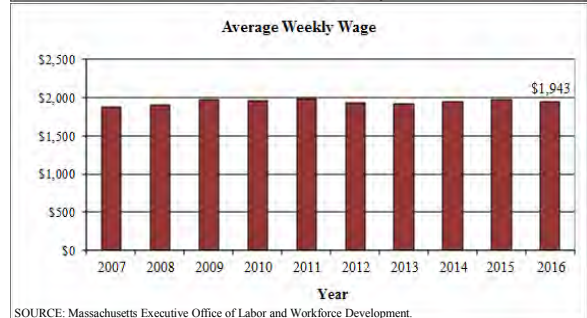
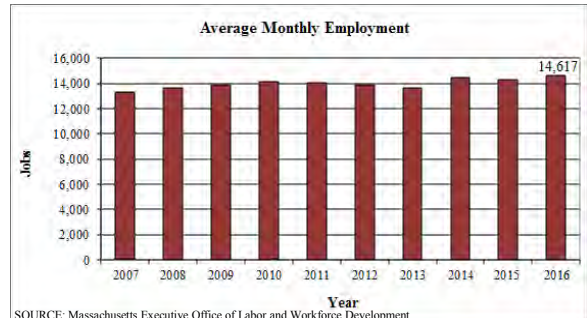
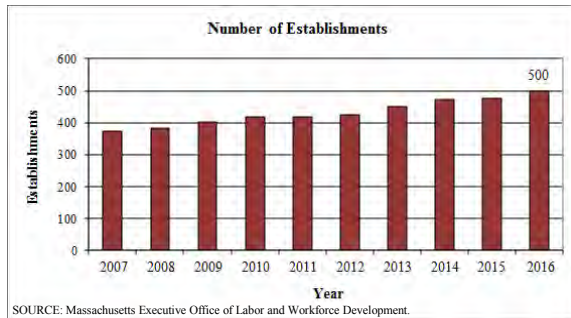
Annual wages: **Nonmetallic mineral mining and quarrying**

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: **1.2%**

GDP rank: **17 of 20**

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

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

Establishments with employees: **Water, sewage and other systems**

Nonemployer establishments: Subsector detail N/A

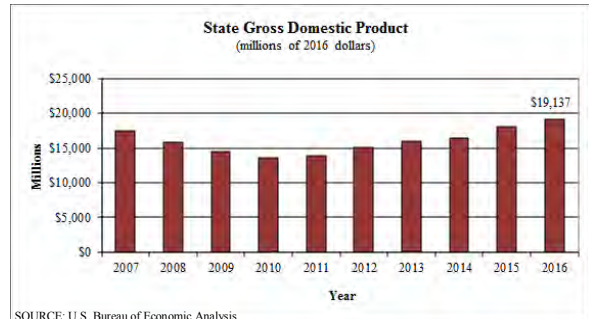
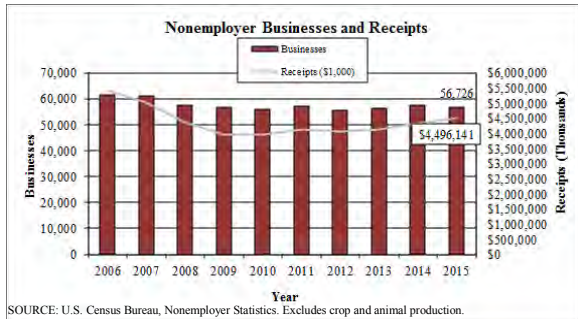
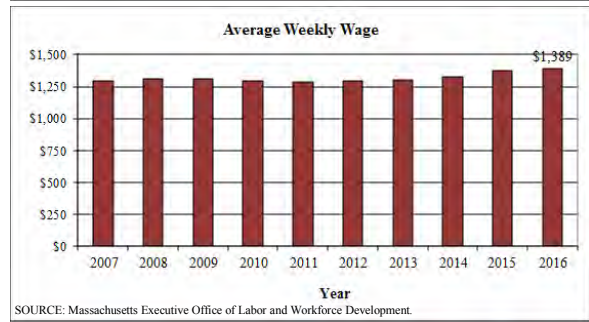
Employees: **Power generation and supply**

Annual wages: **Power generation and supply**

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

Annual receipts at nonemployer establishments: Subsector detail N/A

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: **3.8%**

GDP rank: **10 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: **Building equipment contractors**

Nonemployer establishments: **Building finishing contractors**

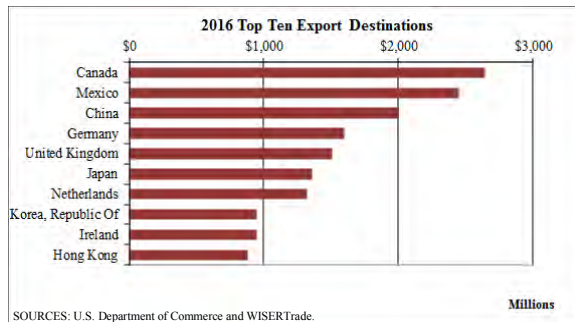
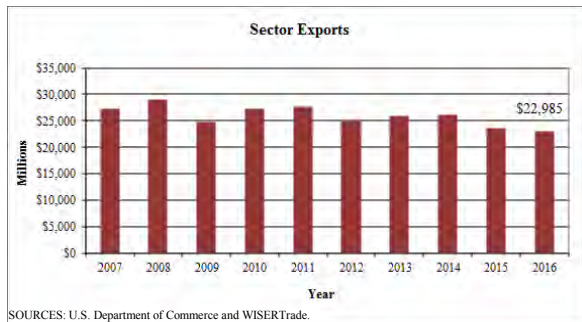
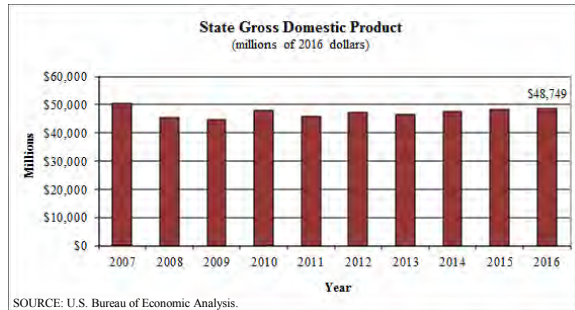
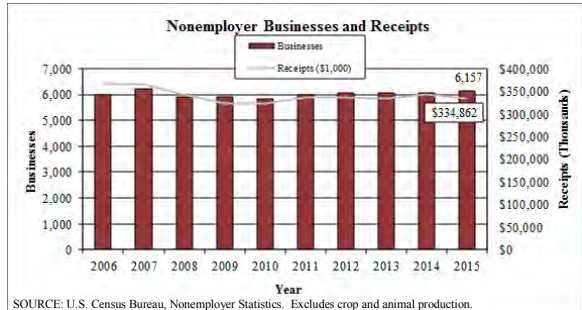
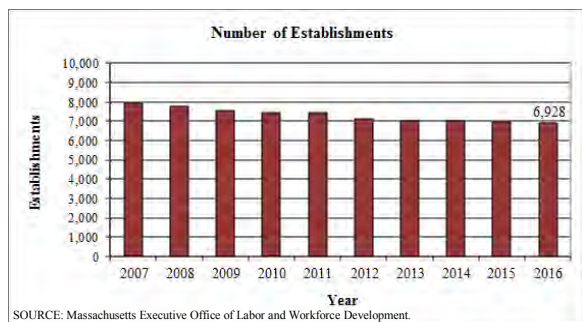
Employees: **Building equipment contractors**

Annual wages: **Building equipment contractors**

Average weekly wage: **Nonresidential building construction**

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: **9.6%**

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**

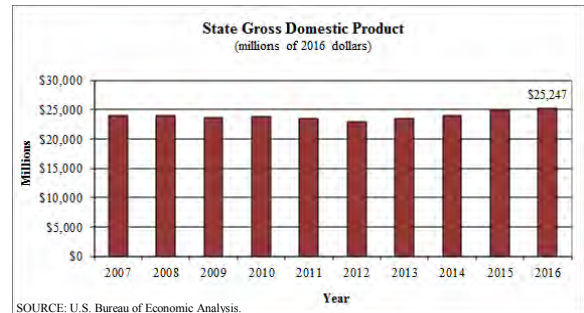
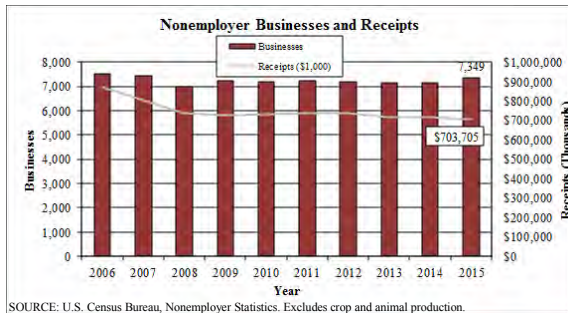
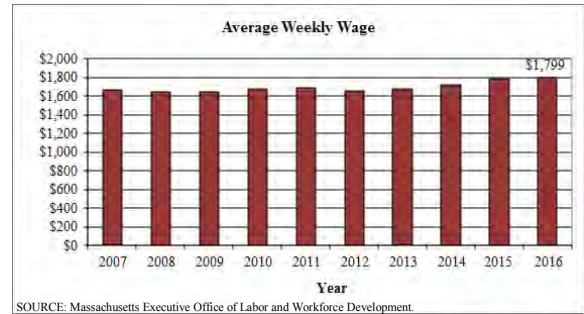
Annual wages: **Electronic instrument manufacturing**

Average weekly wage: **Computer and peripheral equipment mfg.**

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: **5.0%**

GDP rank: **8 of 20**

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

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

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

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

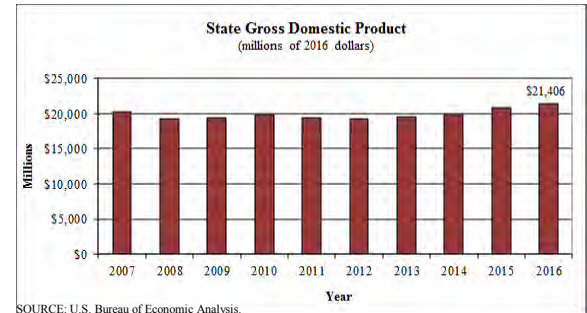
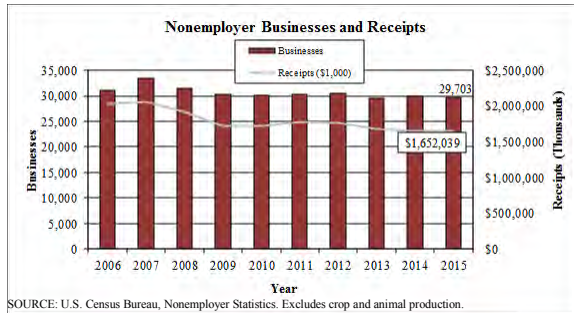
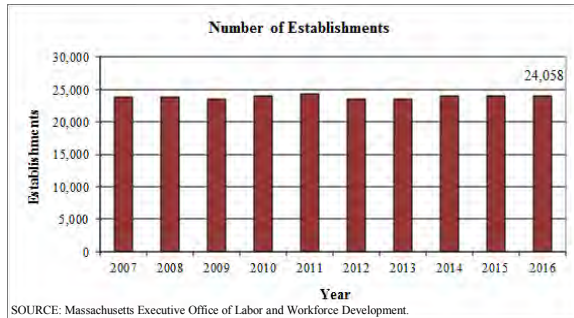
Employees: **Electronic markets and agents/brokers**

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

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

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

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



State export data are not available for this sector.

Summary.

GDP contribution to state total: **4.2%**

GDP rank: **9 of 20**

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

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

Establishments with employees: **Grocery stores**

Nonemployer establishments: **Direct selling establishments**

Employees: **Grocery stores**

Annual wages: **Grocery stores**

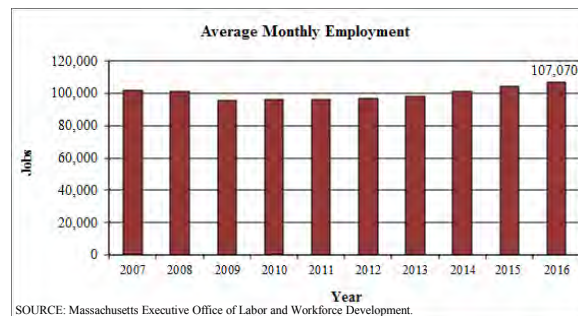
Average weekly wage: **Electronic shopping and mail-order houses**

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

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



SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



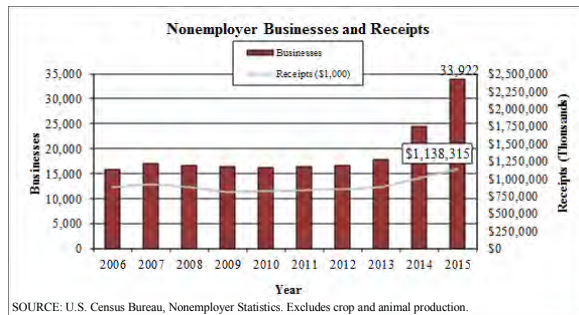
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



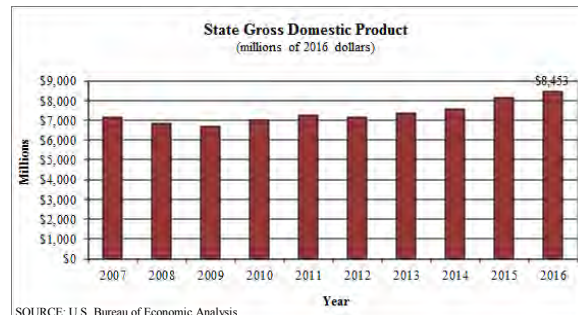
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



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: 1.7%

GDP rank: 16 of 20

Nonemployer to employer establishment ratio: 7.1 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**

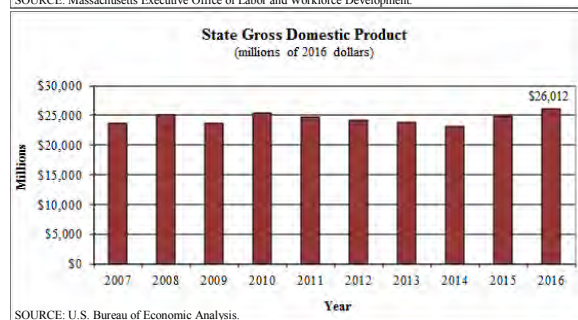
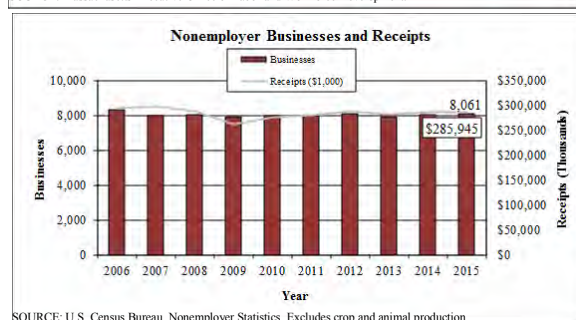
Employees: **School and employee bus transportation**

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: **5.1%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **1.6 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**

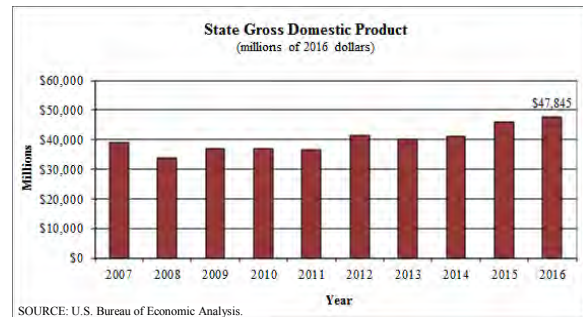
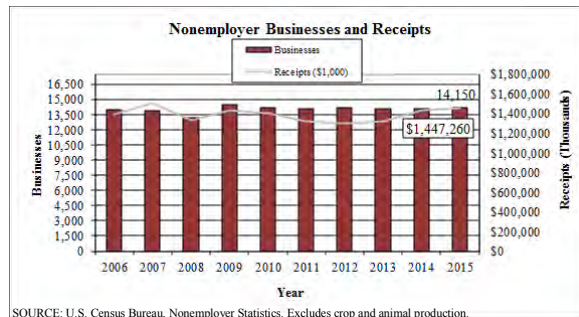
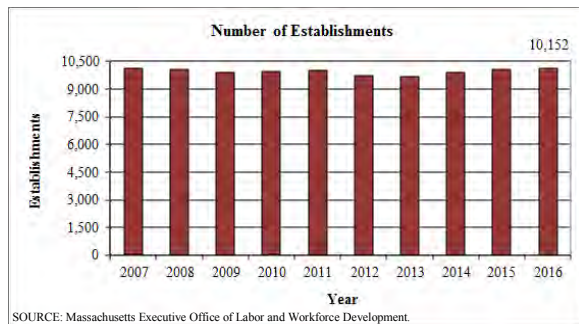
Employees: **Software publishers**

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: **9.4%**

GDP rank: **5 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**

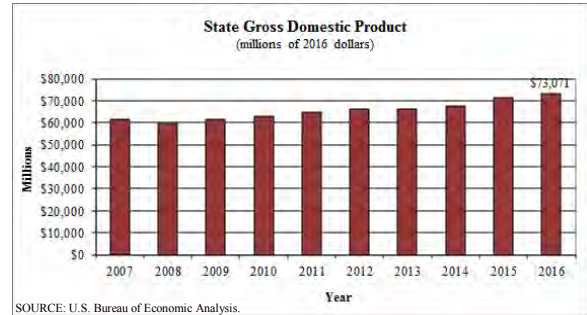
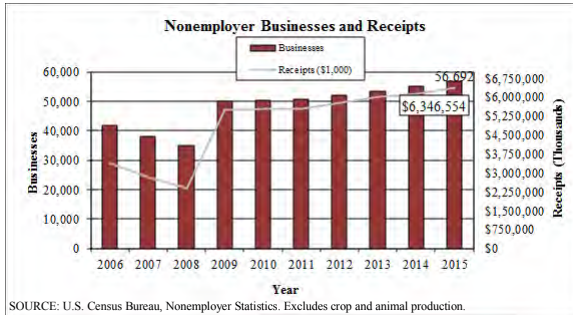
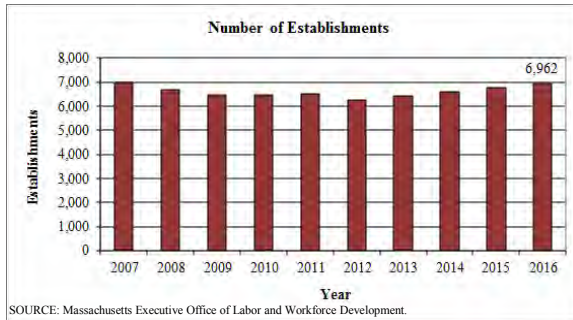
Employees: **Depository credit intermediation**

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: **14.4%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **8.1 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**

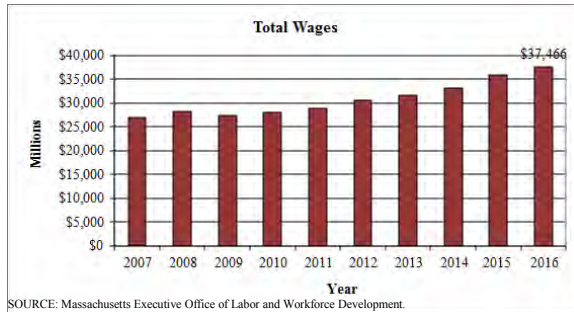
NAICS 54 - Professional and Technical Services. The Professional and Technical Services sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. The establishments in 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.



SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



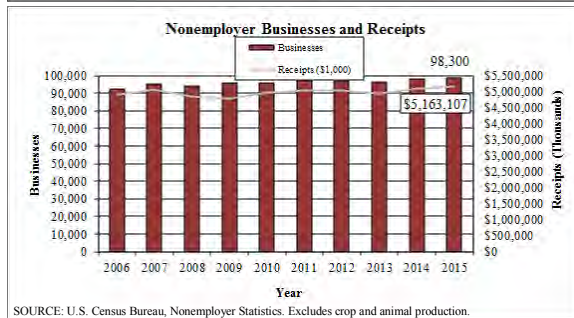
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



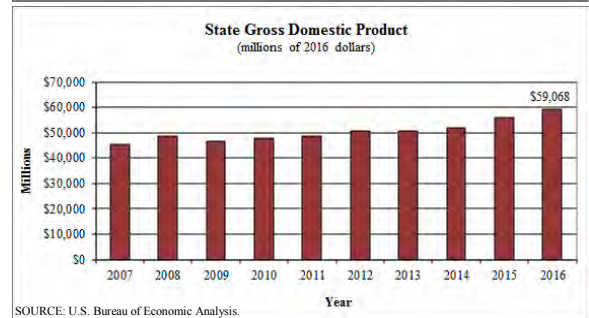
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



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: **11.6%**

GDP rank: **2 of 20**

Nonemployer to employer establishment ratio: **3.0 to 1**

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

Establishments with employees: **Computer systems design and related services**

Nonemployer establishments: **Other professional, scientific, and technical services**

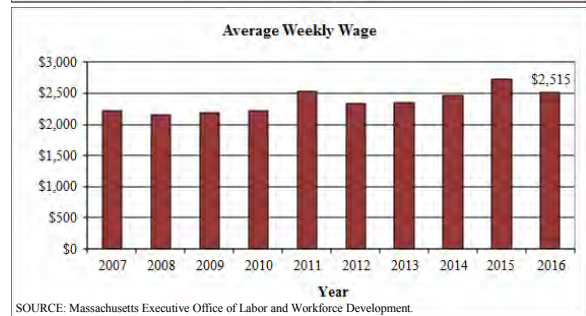
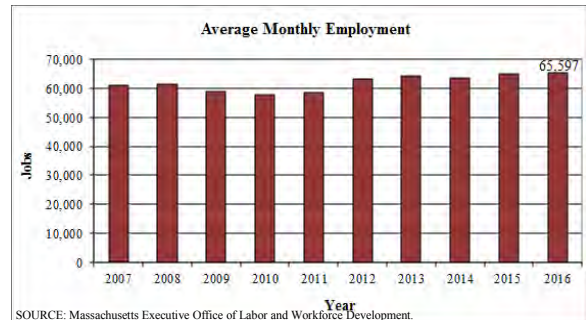
Employees: **Computer systems design and related services**

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

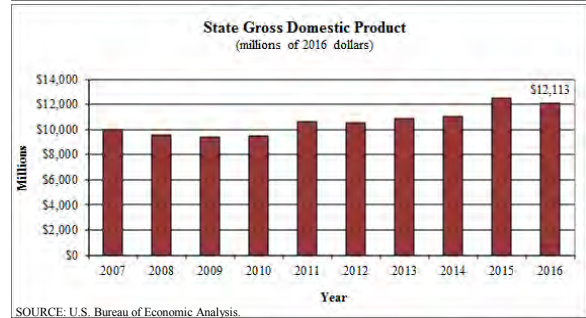
Average weekly wage: **Scientific research and development services**

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: 2.4%

GDP rank: 14 of 20

Nonemployer to employer establishment ratio: N/A

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

Establishments with employees: Subsector detail N/A

Nonemployer establishments: N/A

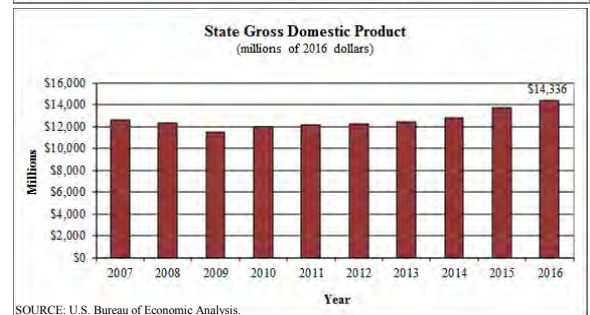
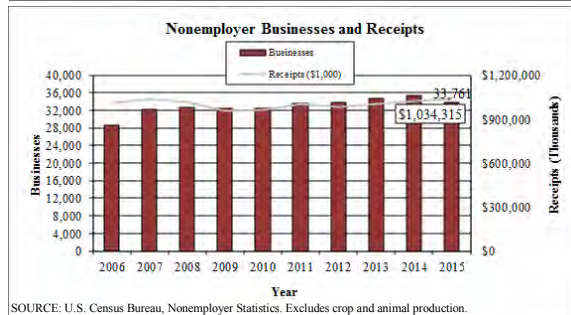
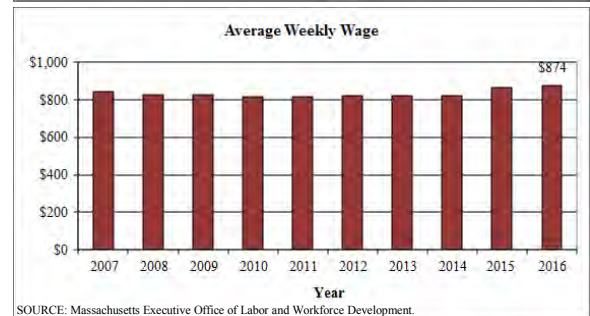
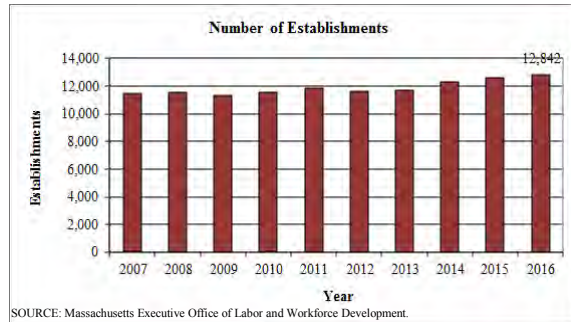
Employees: Subsector detail N/A

Annual wages: Subsector detail N/A

Average weekly wage: Subsector detail N/A

Annual receipts at nonemployer establishments: N/A

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: **2.8%**

GDP rank: **11 of 20**

Nonemployer to employer establishment ratio: **2.6 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**

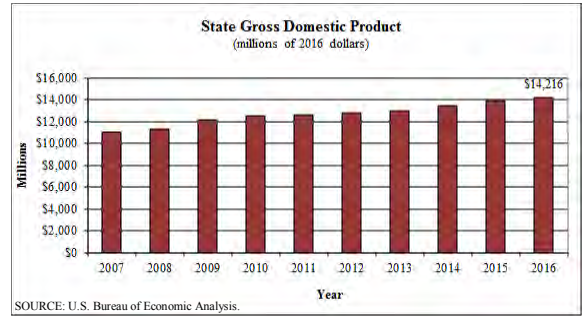
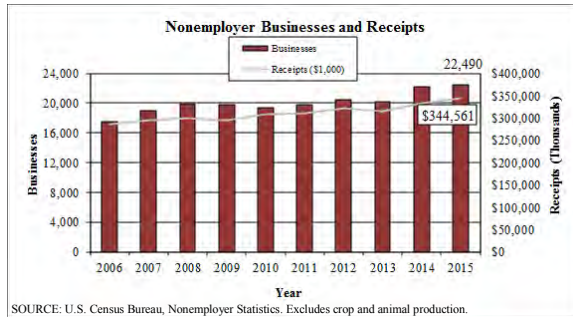
Employees: **Employment services**

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: **2.8%**

GDP rank: **13 of 20**

Nonemployer to employer establishment ratio: **4.9 to 1**

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

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

Nonemployer establishments: Subsector detail N/A

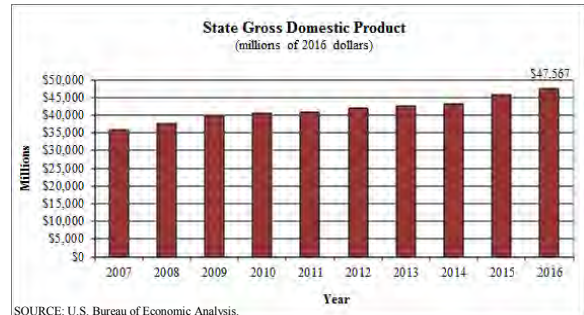
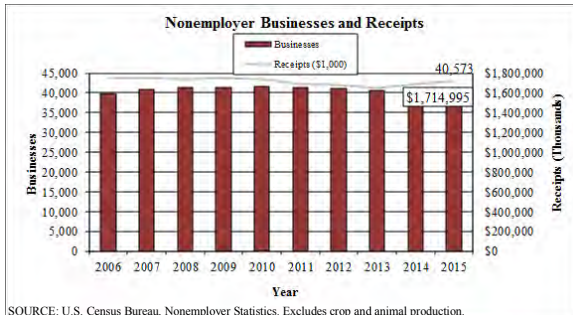
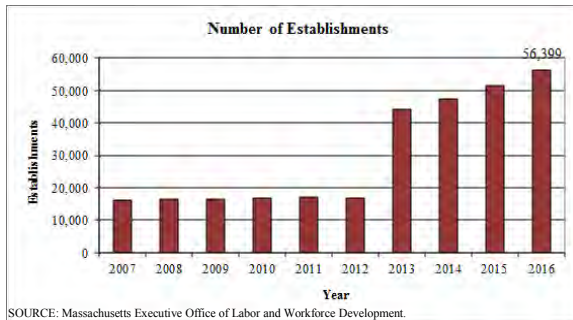
Employees: **Elementary and secondary schools**

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: 6 of 20

Nonemployer to employer establishment ratio: 0.7 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**

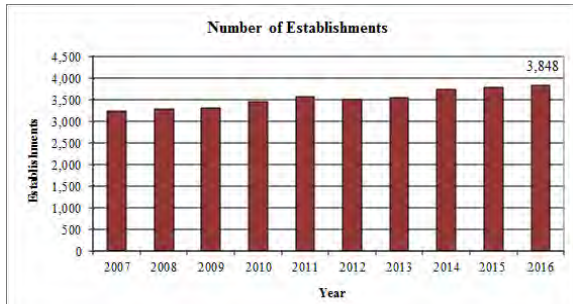
Employees: **General medical and surgical hospitals**

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

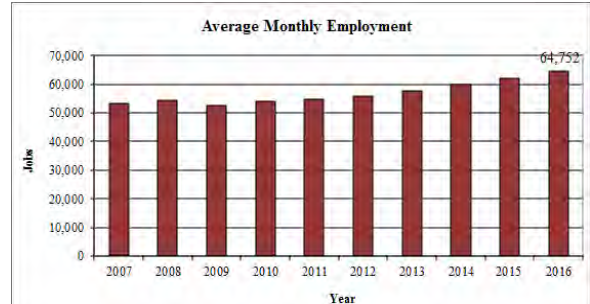
Average weekly wage: **Offices of physicians**

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

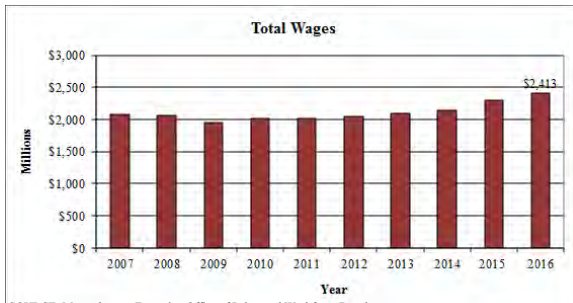
NAICS 71 - Arts, Entertainment, and Recreation. The Arts, Entertainment, and Recreation sector includes a wide range of establishments that: operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons, are involved in producing, promoting, 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.



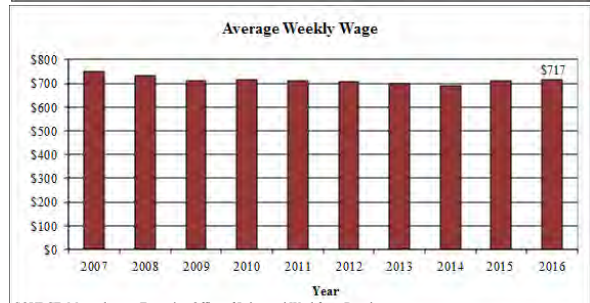
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



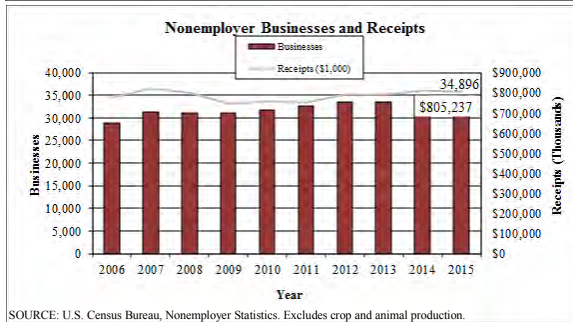
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



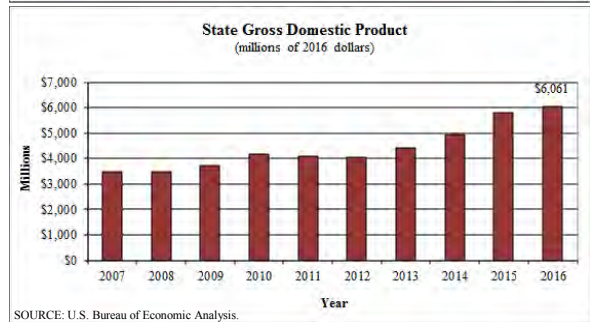
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



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: **1.2%**

GDP rank: **18 of 20**

Nonemployer to employer establishment ratio: **9.1 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**

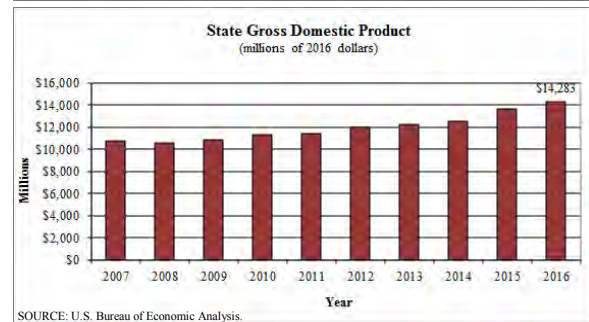
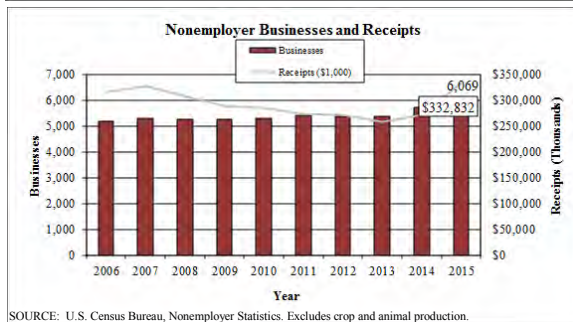
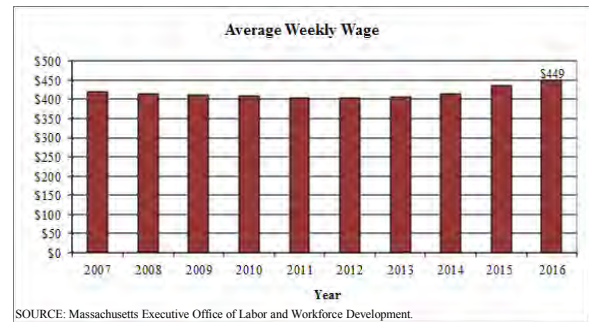
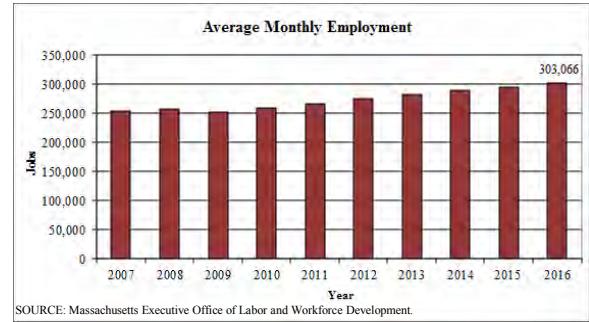
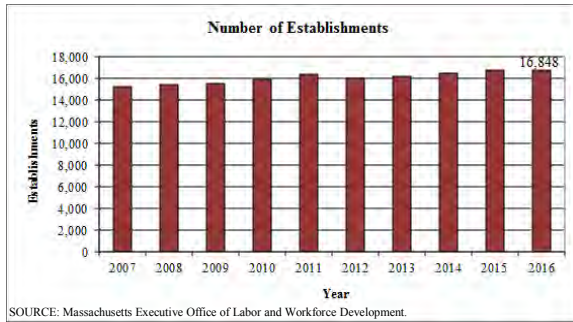
Employees: **Other amusement & recreation industries**

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: **2.8%**

GDP rank: **12 of 20**

Nonemployer to employer establishment ratio: **0.4 to 1**

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

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

Nonemployer establishments: **Special food services**

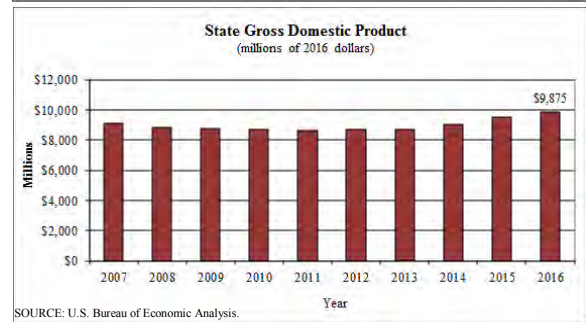
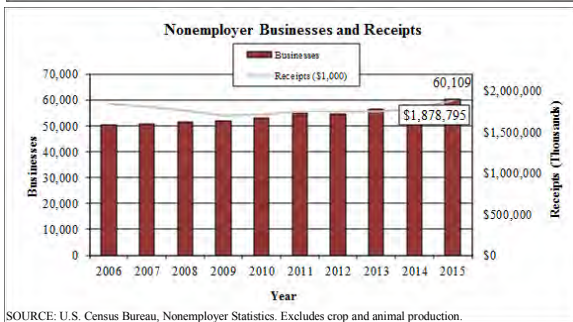
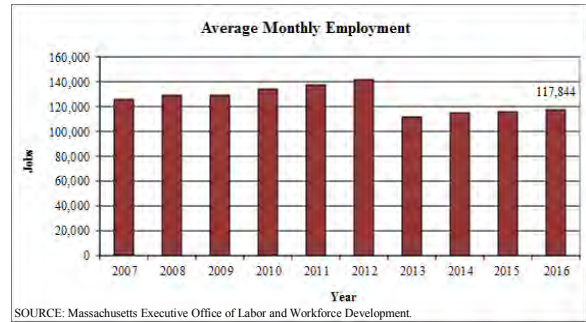
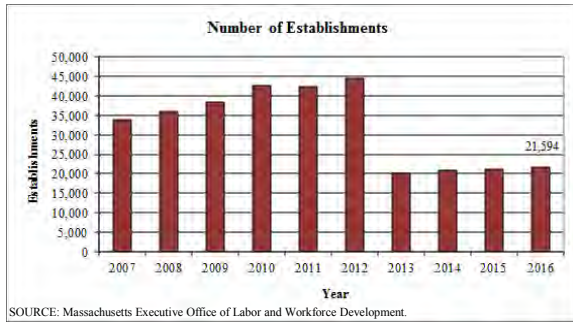
Employees: **Restaurants and other eating places**

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

Average weekly wage: **Traveler accommodation**

Annual receipts at nonemployer establishments: **Restaurants and other eating places**

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

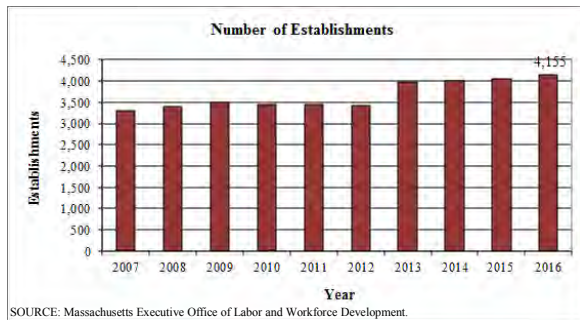
Summary.

GDP contribution to state total: **1.9%**
 GDP rank: **15 of 20**
 Nonemployer to employer establishment ratio: **2.8 to 1**

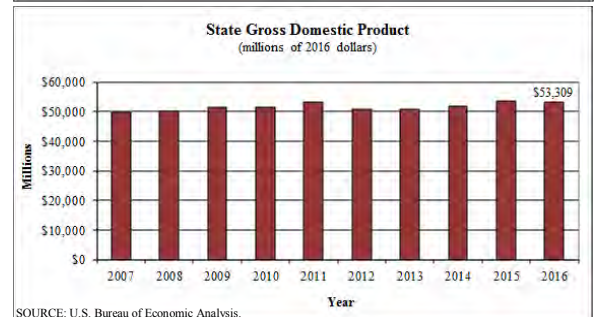
Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Private households**
 Nonemployer establishments: **Other personal services**
 Employees: **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: **10.5%**

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**

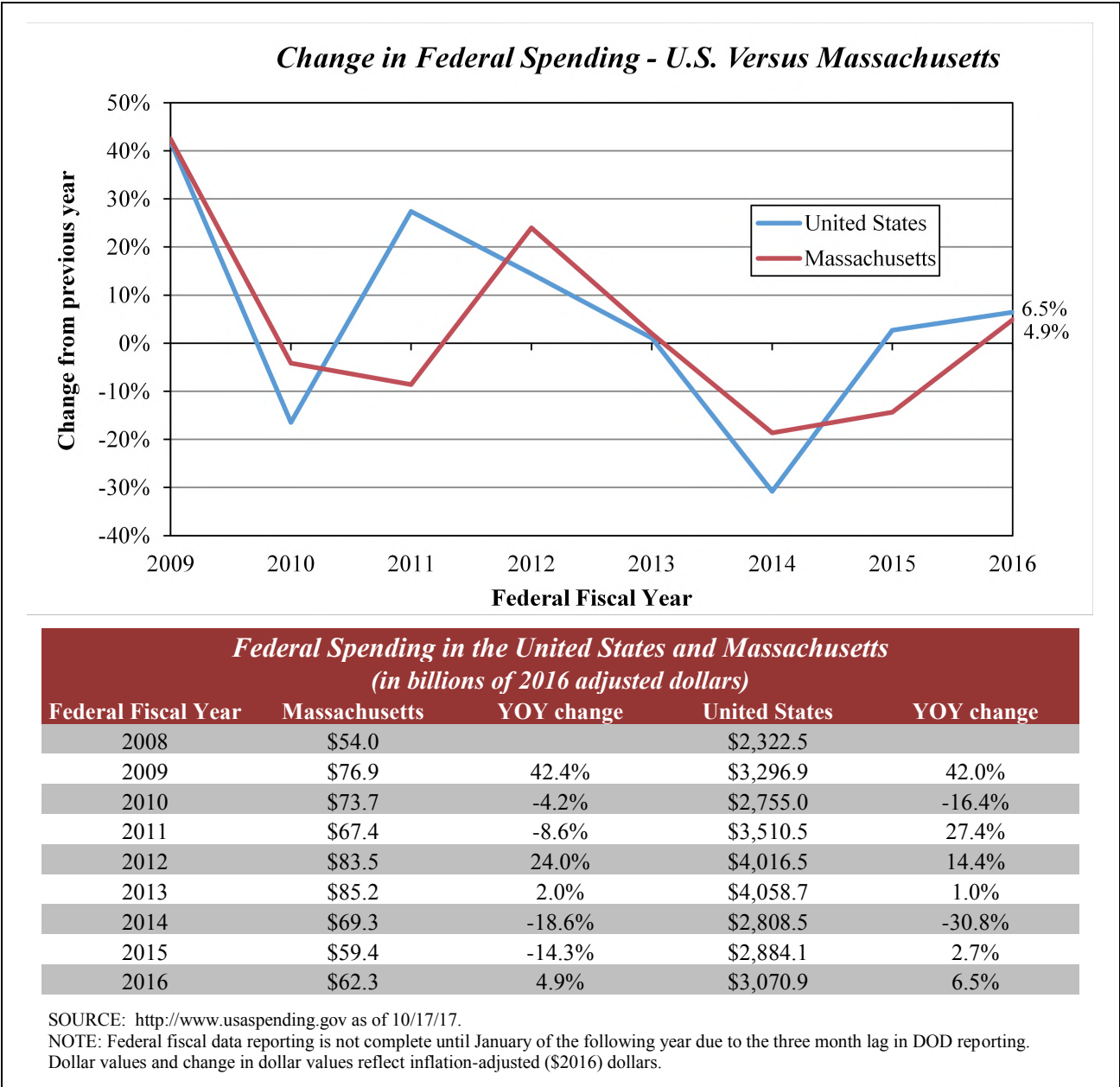
Annual wages: **Justice, public order, and safety activities**

Average weekly wage: **Justice, public order, and safety activities**

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

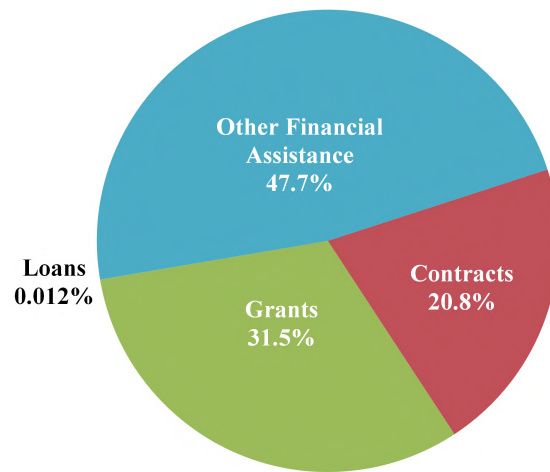
ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING

Federal Spending in Massachusetts. Massachusetts received approximately \$62.3 billion in contracts, grants, direct payments, insurance, loans and guarantees, and other spending from the federal government in federal fiscal year (FFY) 2016. Massachusetts received 2.0 percent of all federal spending in FFY 2016 versus 2.1 percent in FFY 2015. Federal dollars to Massachusetts have dropped since FFY 2012. Massachusetts federal contracts declined from FFY 2012 to FFY 2014, increased 5.2 percent in FFY 2015, and declined 3.8 percent in FFY 2016. The proportion of all Massachusetts federal contracts has averaged 2.9 percent over the last nine years.

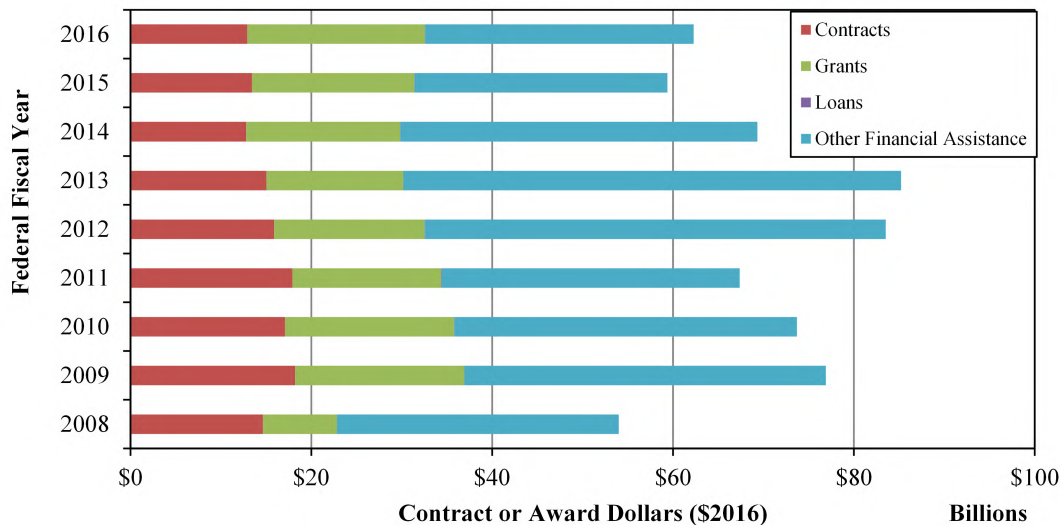


In FFY 2016, the largest portion of federal spending in Massachusetts, 47.7 percent, was for Other Financial Assistance which includes direct payments to individuals (such as Medicare and food stamps), insurance payments (such as unemployment benefits, flood insurance), and other types of assistance payments (such as reimbursements for prescriptions for veterans). Other Financial Assistance increased 6.1 percent, Contracts decreased 3.8 percent, and Grants increased 9.4 percent from FFY 2015. The graphs below describe the most recent complete fiscal year and the last nine 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 2016



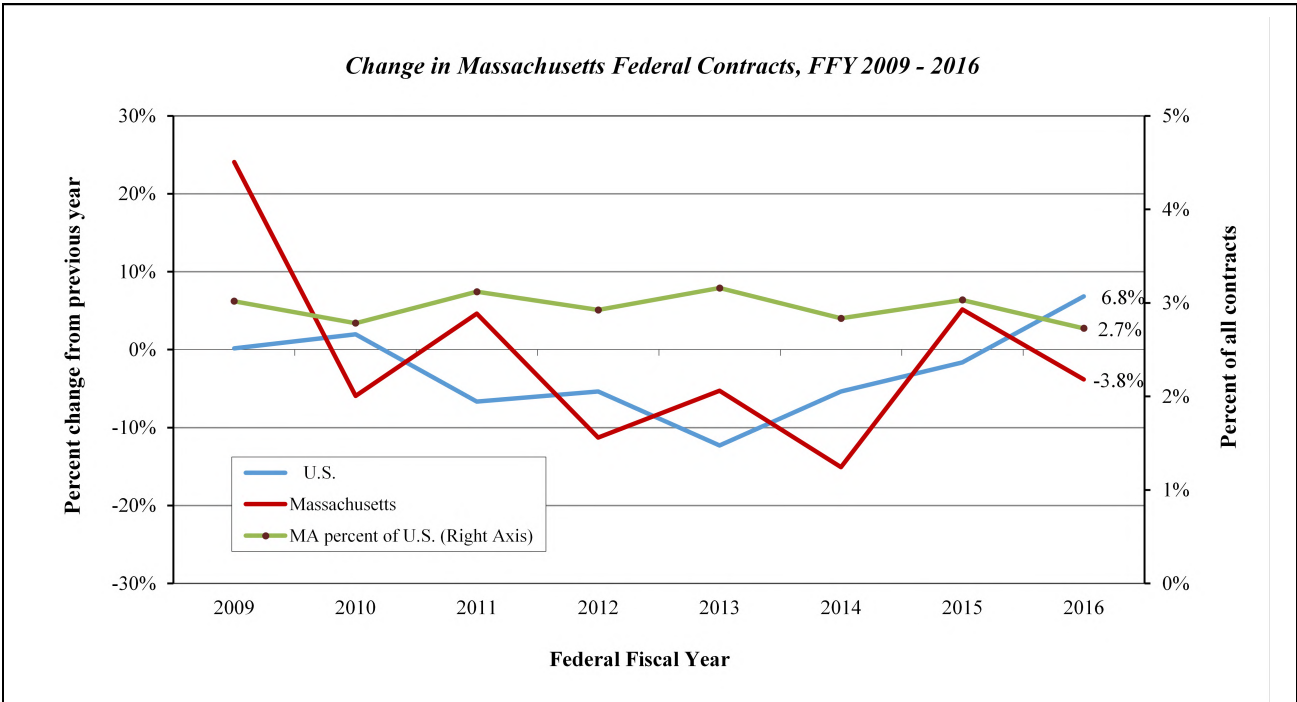
**Composition of Federal Spending Awards to Massachusetts
FFY2008 - 2016**



SOURCE: <http://www.usaspending.gov> as of 10/17/17. 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

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 2016, the latest full year available, 2.7 percent of all federal contract work was performed in Massachusetts. This is slightly less than the 2.9 percent average it has been receiving over the last nine 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.



Federal Contracts Performed in Massachusetts as a Percent of all Federal Contracts (in millions of 2016 adjusted dollars)					
Federal 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	\$14,667		2.4%	\$602,088	
2009	\$18,199	24.1%	3.0%	\$603,142	0.2%
2010	\$17,118	-5.9%	2.8%	\$615,017	2.0%
2011	\$17,908	4.6%	3.1%	\$574,099	-6.7%
2012	\$15,887	-11.3%	2.9%	\$543,259	-5.4%
2013	\$15,052	-5.3%	3.2%	\$476,544	-12.3%
2014	\$12,785	-15.1%	2.8%	\$451,020	-5.4%
2015	\$13,445	5.2%	3.0%	\$443,609	-1.6%
2016	\$12,932	-3.8%	2.7%	\$473,981	6.8%
Total	\$137,993			\$4,782,757	

SOURCE: <http://www.usaspending.gov> as of 10/17/17. 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 (\$2016) dollars.

Summary of Federal Contracts Performed in Massachusetts

FFY 2008 to FFY 2016

Total Dollars:	\$137,993,127,704
Number of Transactions:	1,142,737

Top 5 Prime Award Contractors

Raytheon Company	\$37,154,159,140
General Electric Company	\$12,416,427,912
Massachusetts Institute of Technology	\$9,636,744,453
General Dynamics Corporation	\$8,257,349,008
Coins 'N Things Inc.	\$6,169,406,702

Top 5 Contract Sub-Awardees

Cobham Plc	\$2,486,036,524
Bae Systems Information And Electronic Systems Integration, Inc.	\$906,481,811
General Dynamics Advanced Information Systems, Inc.	\$449,083,136
Raytheon Company	\$324,687,081
Mercury Systems, Inc.	\$227,624,042

SOURCE: <http://www.usaspending.gov> as of 10/17/17. 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 (\$2016) dollars.

Federal Contracts Performed in Massachusetts

Federal Fiscal Year: 2016

Total Contract Funds Awarded:	\$12,932,348,644
Total Contract Funds to Sub-Awardees:	\$683,155,604

This amount is 2.7% percent of all dollars awarded nationally for the federal fiscal year.

Number of Transactions:	103,393
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Top 5 Prime Award Contractors

Raytheon Company	\$3,327,236,386
Massachusetts Institute of Technology	\$1,032,241,924
General Electric Company	\$946,289,749
Coins 'N Things, Inc.	\$860,924,025
General Dynamics C4 Systems, Inc.	\$735,417,656

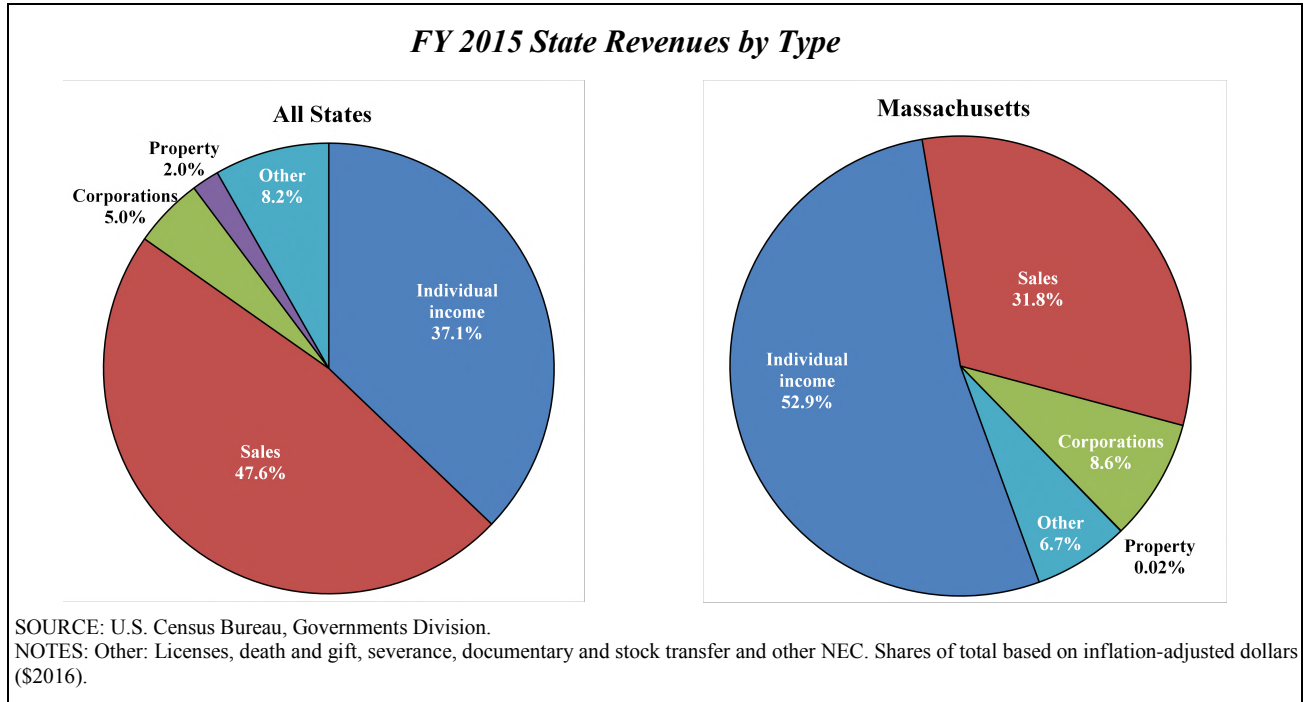
Top 5 Contract Sub-Awardees

General Dynamics Corporation	\$78,361,761
Mercury Systems, Inc.	\$57,981,431
Rolls-Royce Holdings Plc	\$31,235,862
Bae Systems Plc	\$22,971,598
The Charles Stark Draper Laboratory, Inc.	\$22,203,528

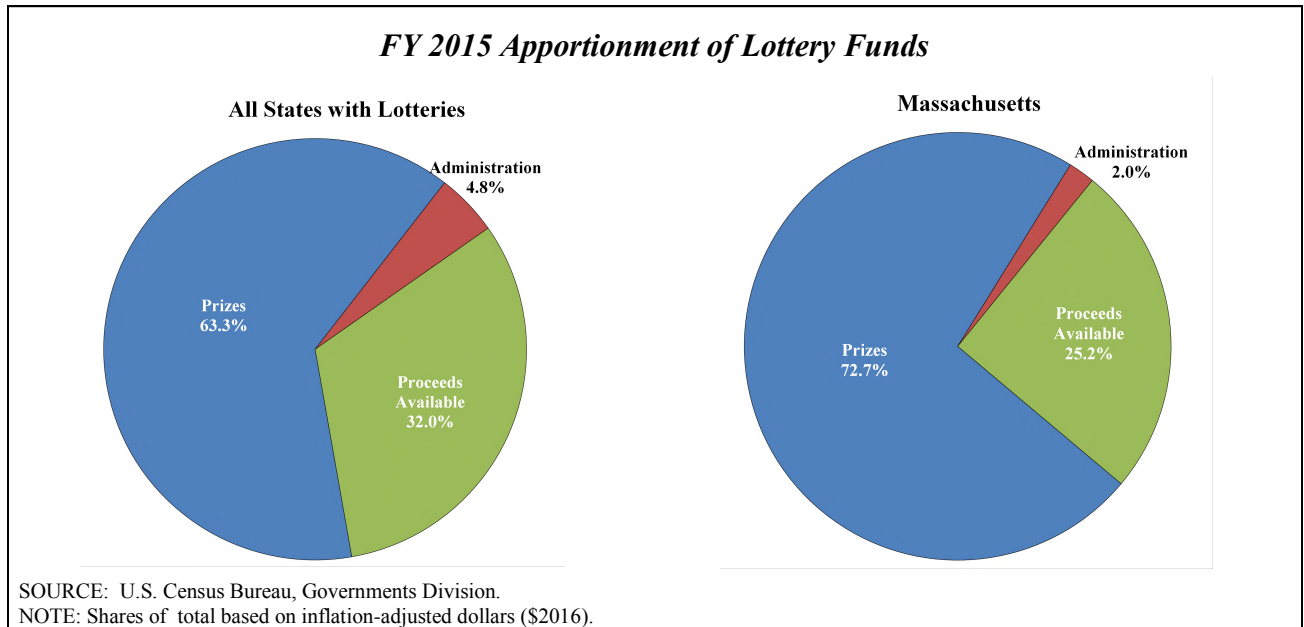
SOURCE: <http://www.usaspending.gov> as of 10/17/17. Annual federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting.

State Revenues. Taxes collected by all states in FY 2015 totaled \$916.5 billion, 5.7 percent more than FY 2014. Massachusetts collected \$27.0 billion in FY 2015, 6.9 percent more than in FY 2014. Massachusetts ranked tenth in the nation in total taxes collected in 2015, down from ninth in 2014.

In FY 2015, the national average of tax collection from individual income tax and sales and gross receipts tax was 83.9 percent of total revenue. Massachusetts collected most of its revenue, 48.7 percent, from sales and gross receipts tax while overall states collected 47.1 percent of their revenue from sales and gross receipts tax. Seven states do not have an individual income tax.



State Lottery Proceeds. Massachusetts ranked third in revenue, \$4.64 billion, and third in prize money awarded, \$3.52 billion, among the 43 states with lotteries in FY 2015. Massachusetts lottery revenue held flat compared to the previous year.



State Expenditures. The following table and graph depict FY 2014 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 eighth in the nation in per capita expenditures, \$8,648 in 2014, while it ranked sixth and spent \$8,775 in 2012. This represents a 1.4 percent decrease in per capita expenditures from 2012 levels, with the largest per capita dollar increase in the Natural Resource, Parks and Recreation function.

Massachusetts Per Capita State Government General Expenditures, by Type

General expenditures, by function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Education	\$1,654	\$1,668	\$1,898	\$1,838	\$1,941	\$1,997	\$1,992	\$2,036	\$1,998	\$2,024	\$1,969
Public Welfare	\$2,112	\$2,194	\$2,172	\$2,176	\$2,271	\$2,315	\$2,376	\$2,389	\$2,390	\$2,502	\$2,805
Health & Hospitals	\$218	\$223	\$262	\$263	\$265	\$259	\$263	\$252	\$252	\$246	\$304
Highways	\$339	\$311	\$309	\$385	\$329	\$328	\$308	\$324	\$308	\$335	\$422
Police & Corrections	\$273	\$295	\$317	\$326	\$329	\$307	\$292	\$289	\$296	\$307	\$299
Natural Resource, Parks & Recreation	\$94	\$96	\$101	\$99	\$108	\$100	\$95	\$85	\$96	\$94	\$100
Administration, Insurance Trust & Other*	\$2,040	\$2,012	\$2,187	\$2,119	\$2,378	\$2,815	\$2,655	\$3,025	\$2,934	\$2,847	\$3,103
Interest on General Debt	\$535	\$579	\$599	\$622	\$628	\$575	\$506	\$485	\$445	\$403	\$434
Total	\$7,264	\$7,379	\$7,847	\$7,829	\$8,249	\$8,696	\$8,487	\$8,886	\$8,719	\$8,757	\$9,436

SOURCE: U.S. Census Bureau, Governments Division

Now in factfinder: <http://factfinder.census.gov/bkmk/table/1.0/en/SGF/2013/SGF003>

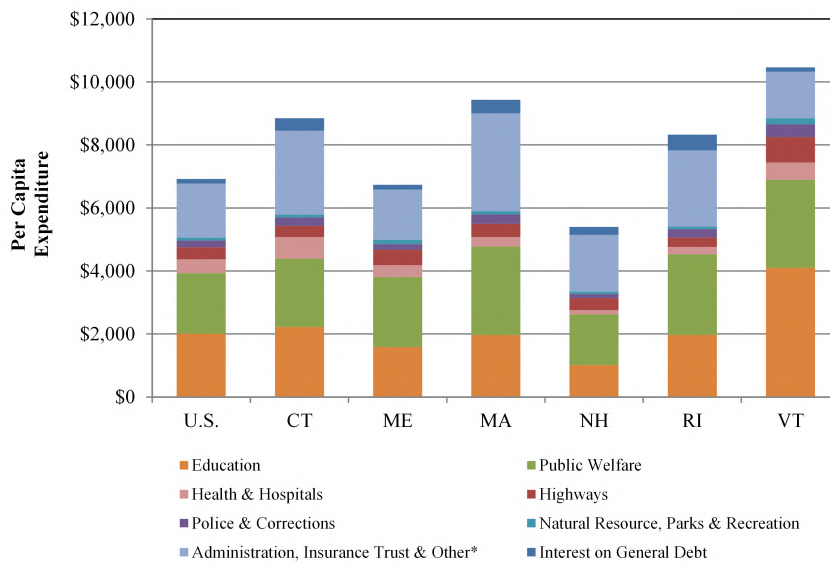
Source for population estimates: <http://factfinder.census.gov/bkmk/table/1.0/en/PEP/2013/PEPANNRES/0100000US/0100000US.04000>

*Fiscal Year 2015 Per Capita State Government General Expenditures, by Type
(for the U.S. and the New England States)*

General expenditures, by function	U.S.	CT	ME	MA	NH	RI	VT
Education	\$2,012	\$2,224	\$1,586	\$1,969	\$1,014	\$1,969	\$4,099
Public Welfare	\$1,922	\$2,169	\$2,222	\$2,805	\$1,608	\$2,564	\$2,796
Health & Hospitals	\$438	\$686	\$375	\$304	\$130	\$227	\$545
Highways	\$382	\$352	\$490	\$422	\$385	\$305	\$811
Police & Corrections	\$214	\$269	\$179	\$299	\$130	\$262	\$403
Natural Resource, Parks & Recreation	\$90	\$90	\$137	\$100	\$78	\$88	\$195
Administration, Insurance Trust & Other*	\$1,719	\$2,659	\$1,590	\$3,103	\$1,802	\$2,412	\$1,475
Interest on General Debt	\$142	\$401	\$155	\$434	\$254	\$497	\$140
Total	\$6,918	\$8,850	\$6,735	\$9,436	\$5,400	\$8,323	\$10,463
State's rank of total per capita expenditures		9	30	8	44	12	4

SOURCE: U.S. Census Bureau, Governments Division

*Fiscal Year 2015 Per Capita State Government General Expenditures, by Type
(U.S. and the New England States)*



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

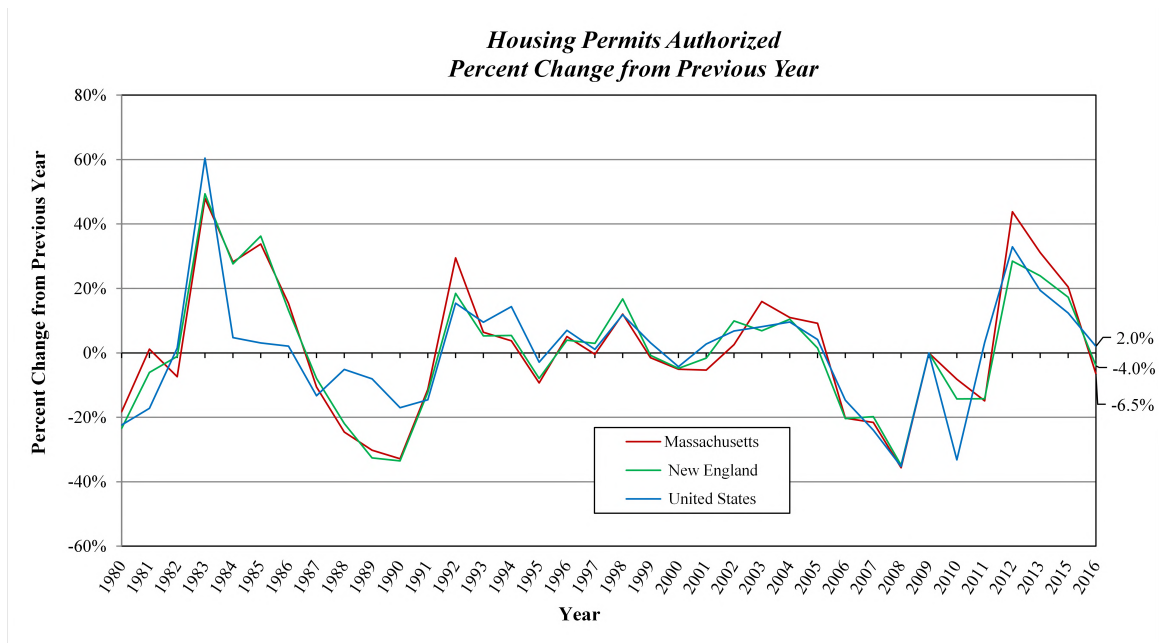
*Other includes utility, liquor store, other and unallocable expenditures.

NOTE: Per capita dollars are adjusted for inflation (\$2016).

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.

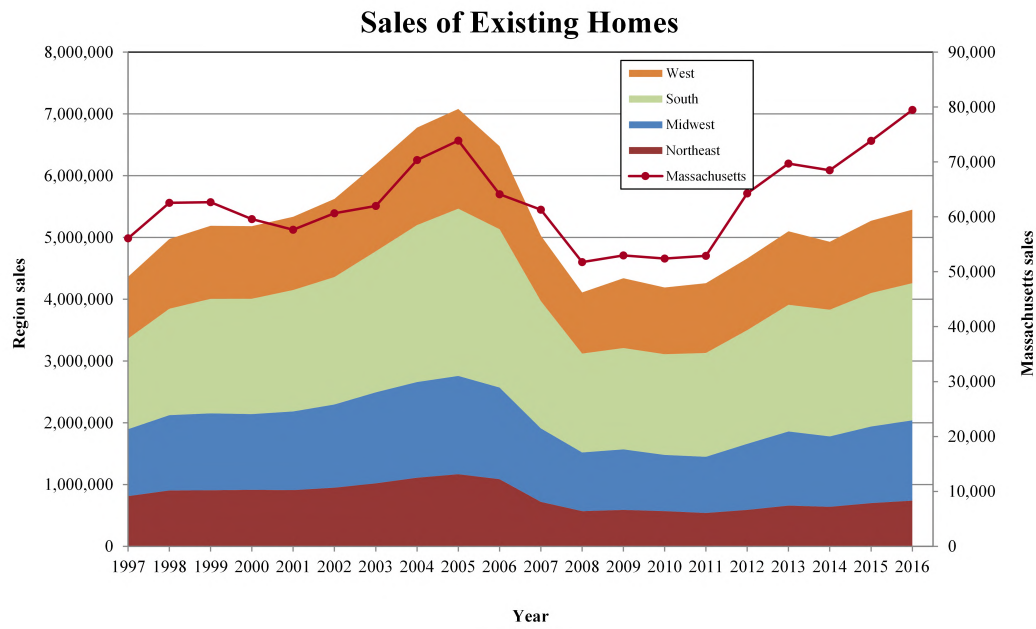
Housing Permits Authorized						
Year	Massachusetts		New England		United States	
	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,480	-18.3%	41,079	-23.4%	1,190,600	-22.4%
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%
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	9,883	0.0%	24,454	0.0%	905,359	0.0%
2010	9,075	-8.2%	20,964	-14.3%	604,610	-33.2%
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	14,467	-0.7%	28,949	1.1%	1,052,124	6.2%
2015	17,424	20.4%	33,959	17.3%	1,182,582	12.4%
2016	16,288	-6.5%	32,595	-4.0%	1,206,642	2.0%



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.

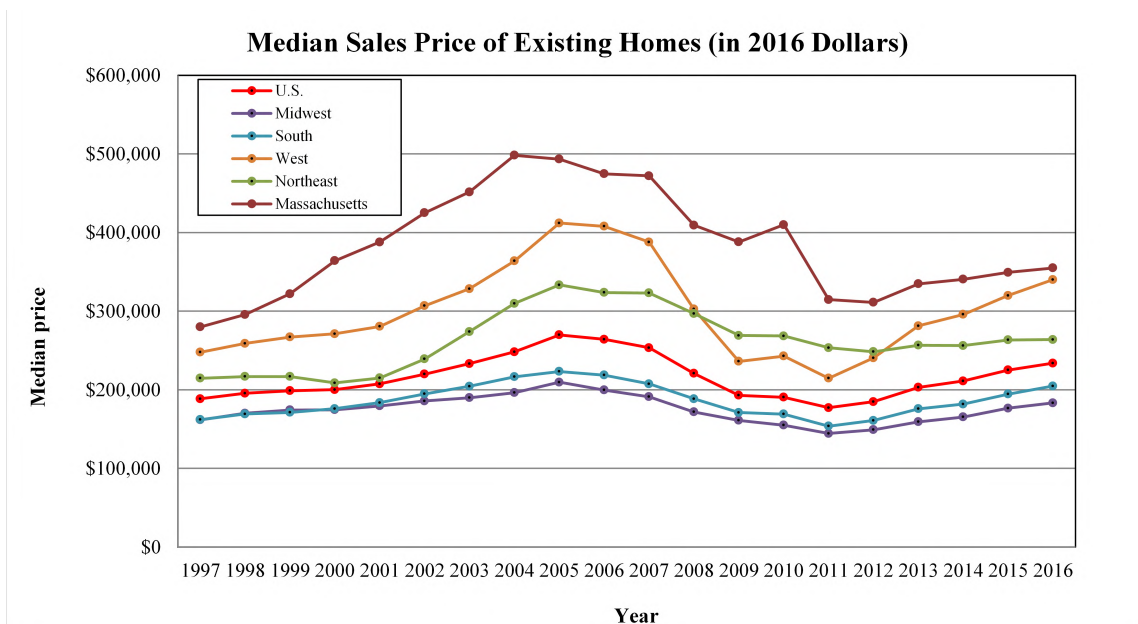
<i>Sales of Existing Homes United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1991	3,146,000	596,000	867,000	1,070,000	633,000	31,379
1992	3,431,000	667,000	967,000	1,127,000	680,000	38,847
1993	3,737,000	714,000	1,031,000	1,257,000	745,000	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	73,858
2016	5,450,000	740,000	1,300,000	2,220,000	1,190,000	79,459



SOURCES: National Association of Realtors and Massachusetts Association of Realtors. 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.

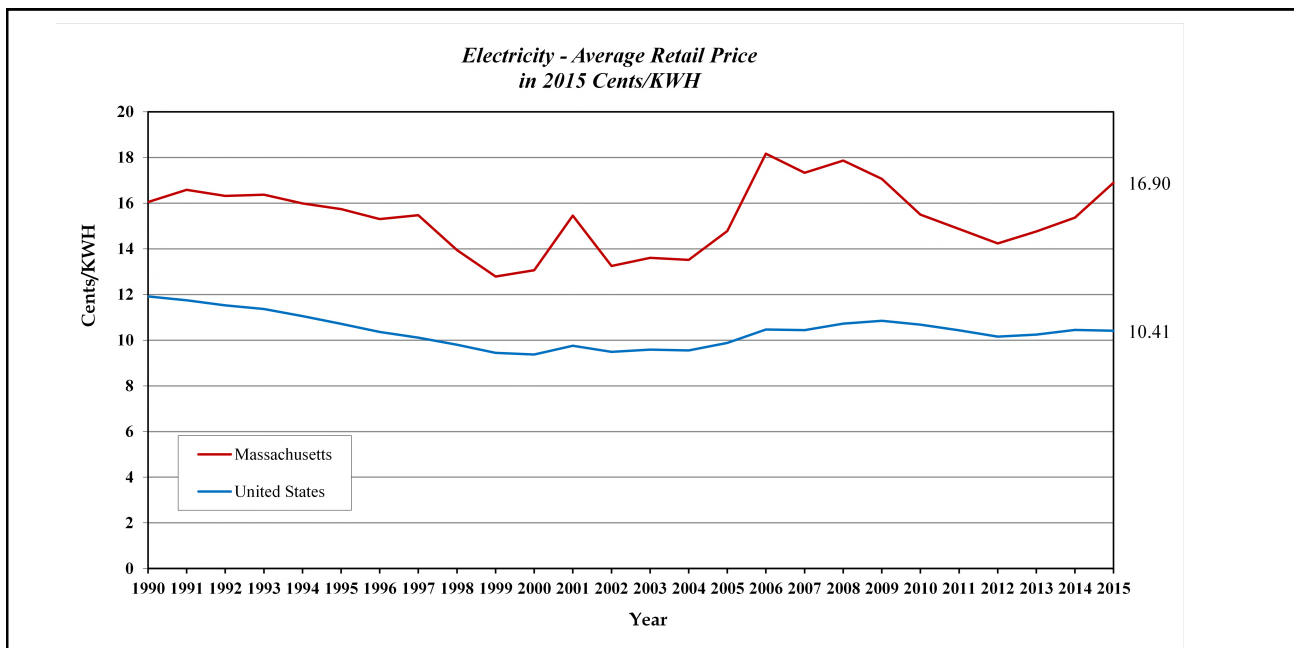
Home prices. Massachusetts sales prices are much higher than the national median but they are 29.9 percent less than the 2004 peak.

<i>Median Sales Price of Existing Homes (in 2016 Dollars)</i>						
<i>United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1990	\$177,021	\$259,656	\$140,111	\$155,536	\$254,514	\$332,787
1991	\$178,684	\$253,047	\$141,854	\$155,247	\$254,633	\$297,621
1992	\$177,910	\$243,942	\$144,038	\$155,842	\$241,547	\$279,337
1993	\$178,054	\$236,021	\$144,502	\$155,631	\$235,522	\$270,492
1994	\$180,248	\$229,156	\$146,725	\$153,689	\$241,626	\$271,222
1995	\$180,478	\$218,117	\$151,343	\$152,603	\$237,172	\$270,405
1996	\$183,409	\$213,544	\$156,486	\$156,639	\$240,313	\$273,103
1997	\$188,566	\$214,735	\$161,799	\$162,098	\$247,783	\$279,953
1998	\$195,539	\$216,890	\$170,214	\$169,330	\$259,001	\$295,768
1999	\$198,805	\$216,813	\$174,315	\$171,290	\$267,091	\$322,112
2000	\$200,145	\$208,787	\$174,639	\$176,033	\$271,227	\$364,182
2001	\$207,482	\$215,071	\$179,565	\$183,630	\$280,528	\$387,964
2002	\$219,995	\$239,207	\$185,842	\$194,781	\$306,846	\$425,114
2003	\$233,224	\$273,921	\$189,919	\$204,397	\$328,444	\$451,591
2004	\$248,266	\$309,760	\$196,427	\$216,502	\$363,886	\$498,362
2005	\$269,870	\$333,405	\$209,653	\$223,294	\$412,055	\$493,468
2006	\$264,174	\$323,700	\$199,768	\$218,697	\$407,988	\$474,720
2007	\$253,502	\$323,070	\$191,110	\$207,547	\$387,892	\$472,076
2008	\$220,830	\$296,967	\$171,782	\$188,614	\$302,652	\$409,313
2009	\$192,979	\$269,052	\$161,208	\$171,164	\$236,162	\$388,108
2010	\$190,525	\$268,453	\$154,974	\$169,172	\$242,917	\$409,931
2011	\$177,227	\$253,409	\$144,470	\$153,860	\$214,784	\$314,761
2012	\$184,819	\$248,481	\$149,172	\$160,985	\$240,536	\$311,254
2013	\$203,065	\$256,639	\$159,279	\$175,866	\$281,365	\$334,836
2014	\$211,178	\$256,192	\$165,455	\$181,777	\$295,832	\$340,643
2015	\$225,206	\$263,482	\$176,600	\$194,523	\$319,986	\$349,352
2016	\$233,800	\$263,900	\$183,300	\$204,800	\$340,200	\$355,000

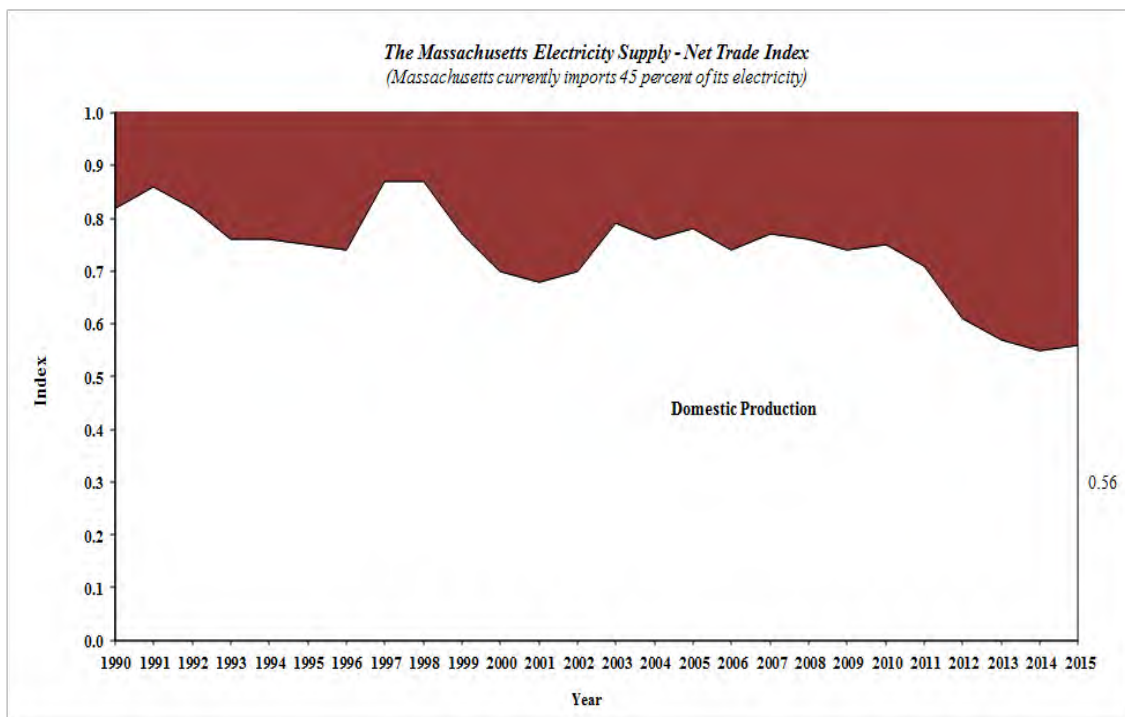


SOURCE: National Association of Realtors and Massachusetts Association of Realtors. The Massachusetts sales price reflects only that of single-family homes. Sales prices of the other regions represent the average of both single- and multi-family homes.

Electricity Prices, Supply and Capacity by Source. Massachusetts had the fifth highest electric rate in the country in 2015, 16.90 cents per kilowatt hour in 2015 dollars, while the U.S. average was 10.41. Adjusted for inflation, this was an increase of 10.0 percent for Massachusetts and an increase of 0.4 percent for the U.S. from the previous year. Massachusetts electric utilities generated \$9.3 billion in revenue in 2015. This was 10.3 percent more than in 2014, while they sold 0.3 percent more electricity. The Massachusetts Net Electricity Trade Index, which represents the state's electricity self-sufficiency, was 0.56 in 2015, the latest data available. In 2015, 65.5 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.
 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>

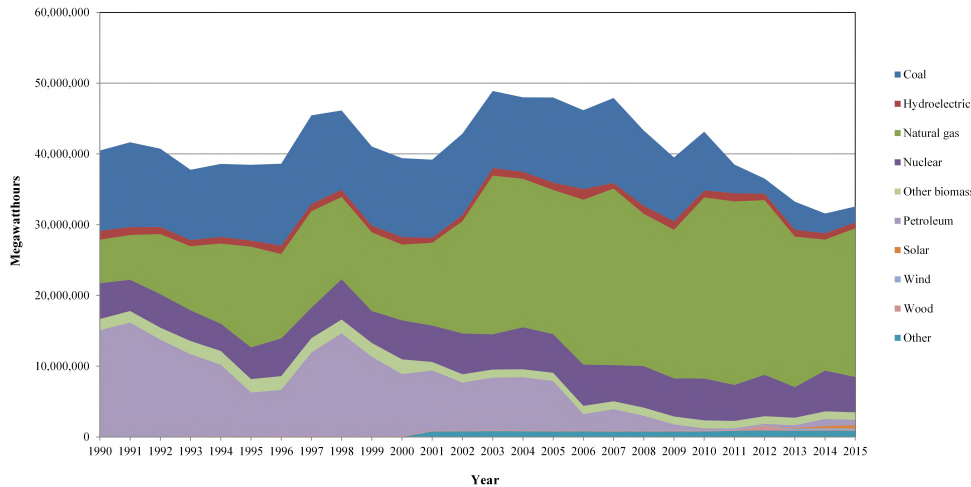


SOURCE: U.S. Department of Energy, http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html.

**Electric Power Industry Generation by Primary Energy Source
2006 to 2015 (in Megawatt-hours)**

Energy Source	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total electric industry	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	32,085,969
Coal	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	2,252,664
Hydroelectric	1,512,645	797,482	1,155,811	1,201,076	996,339	1,148,762	912,482	991,504	902,077	827,184
Natural gas	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	21,007,411
Nuclear	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	4,994,806
Other biomass	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	1,047,103
Petroleum	2,328,246	3,051,604	2,107,999	897,078	295,736	196,503	174,494	390,311	1,004,834	777,075
Solar	0	0	80	43	928	4,765	29,614	106,457	306,321	451,366
Wind	0	0	3,672	5,956	22,068	61,385	89,673	204,898	224,971	214,666
Wood	125,258	119,157	122,580	115,384	125,412	101,295	658,991	76,531	125,237	119,769
Other	782,278	748,033	772,928	760,909	770,629	859,514	906,429	875,926	878,130	867,806
Pumped storage	-578,898	-830,547	-798,400	-533,636	-337,069	-440,231	-307,545	-367,906	-458,158	-473,881

Electric Power Generation by Primary Energy Source, 1990 to 2015



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 5.7 percent increase in 2016 museum and attraction attendance compared to 2015, with 12.2 million visitors. Museum attendance was up 4.1 percent in June 2017 for the calendar year compared to June 2016. For June FY 2017 year-to-date, net room occupancy tax collections totaled \$255.5 million, a 3.6 percent increase from the same period in FY 2016.

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 2016, Logan Airport was the most active airport in New England and the 17th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of August 2017 year-to-date, total airport flight operations were up 2.1 percent and total airport passengers were up 6.2 percent from the same period in 2016. According to the FAA, in calendar year 2016, Logan Airport ranked 27th in the nation in total air cargo volume. As of August 2017 year-to-date, Massport reported the airport handled 435.5 million pounds of cargo; a 9.9 percent increase from the same period in 2016. Massport reported that total express mail was up 5.4 percent from the same period in 2016. Please refer to the Aviation Activity charts on the following page.

Massport's Port of Boston properties processed 208,118 full TEUs (twenty-foot equivalent units) of containerized cargo in 2016, an increase of 5.8 percent from calendar year 2015. It also processed 53,854 automobiles, a decrease of 10.2 percent, and 309,027 cruise passengers, a 5.9 percent decrease, compared to 2015.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2015 decreased by 1.4 percent to 18.5 million short tons from 2014. Waterborne cargo in New England decreased 2.3 percent while the U.S. increased 2.8 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

Passenger Boardings	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Logan International	13,783,297	12,820,489	12,566,797	13,561,814	14,180,730	14,293,695	14,810,153	15,507,561	16,290,362	17,759,044
Nantucket Memorial	282,197	258,214	204,981	201,390	169,352	179,128	183,557	170,361	155,952	126,197
Barnstable Municipal	204,152	191,906	138,858	124,560	100,596	95,717	87,648	85,184	65,790	31,027
Worcester Regional	460	3,182	17,241	35,833	53,541	10,750	8,007	5,718	59,624	57,800
Martha's Vineyard	49,205	45,002	42,248	43,904	49,095	50,484	56,313	52,362	49,853	54,084
Provincetown Municipal	12,459	11,468	10,747	11,450	10,967	11,580	11,288	10,410	10,841	10,074
New Bedford Regional	14,567	13,908	11,680	12,363	11,152	12,256	10,604	8,159	7,271	7,022
Hanscom Field	16,568	8,385	7,350	7,952	10,893	11,097	12,621	11,116	15,313	15,105
Total	14,362,905	13,352,554	12,999,902	13,999,266	14,586,326	14,664,707	15,180,191	15,902,971	16,655,006	18,060,353

Cargo - Gross Landed Weig	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Logan International	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	893,960,700	980,954,930

Change in Aviation Activity at Massachusetts Primary Airports

Passenger Boardings	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Logan International	1.8%	-7.0%	-2.0%	7.9%	4.6%	0.8%	3.6%	4.7%	5.0%	9.0%
Nantucket Memorial	1.9%	-8.5%	-20.6%	-1.8%	-15.9%	5.8%	2.5%	-7.2%	-8.5%	-19.1%
Barnstable Municipal	-1.4%	-6.0%	-27.6%	-10.3%	-19.2%	-4.9%	-8.4%	-2.8%	-22.8%	-52.8%
Worcester Regional	-96.9%	591.7%	441.8%	107.8%	49.4%	-79.9%	-25.3%	622.1%	3.1%	-3.1%
Martha's Vineyard	7.2%	-8.5%	-6.1%	3.9%	11.8%	2.8%	11.5%	-7.0%	-4.8%	8.3%
Provincetown Municipal	9.5%	-8.0%	-6.3%	6.5%	4.2%	5.6%	-2.5%	-7.8%	4.1%	-7.1%
New Bedford Regional	-4.2%	-4.5%	-16.0%	5.8%	-9.8%	9.9%	-13.5%	-23.1%	-10.9%	-3.4%
Hanscom Field	13.8%	-49.4%	-12.3%	8.2%	37.0%	1.9%	13.7%	-11.9%	37.8%	-1.4%
Total	1.6%	-7.0%	-2.6%	7.7%	4.2%	0.5%	3.3%	4.8%	4.7%	8.4%

Cargo	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Logan International	-3.7%	3.8%	-24.0%	-2.2%	-1.3%	-3.2%	11.0%	5.0%	-1.8%	9.7%

SOURCE: Federal Aviation Administration. http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/.

Waterborne Tonnage by State - Percent Change from Previous Year

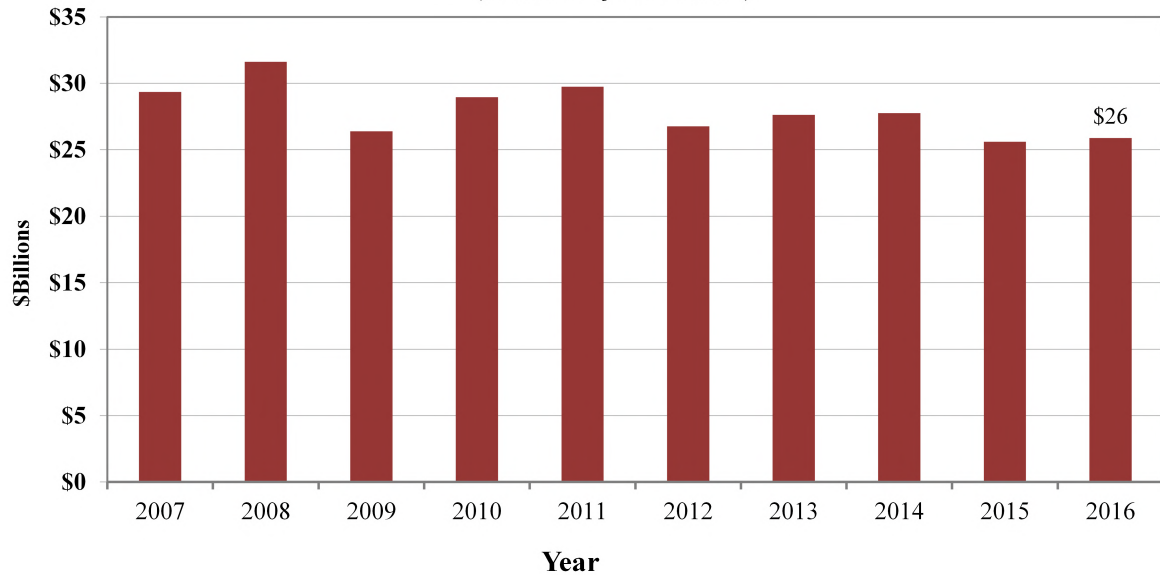
State	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2013-2015
U.S. total	2.4%	-0.9%	-3.4%	-10.8%	5.6%	1.4%	-2.6%	-1.4%	3.1%	-2.8%
Massachusetts	-4.9%	2.3%	-7.3%	-3.8%	-9.4%	-8.9%	-16.2%	9.1%	-0.7%	-1.4%
Maine	-13.1%	-4.5%	-7.8%	-7.1%	-9.1%	-26.3%	-1.8%	-6.9%	-15.0%	-13.0%
Connecticut	-1.4%	4.2%	-9.7%	-7.9%	-3.2%	-20.0%	-18.0%	6.8%	17.1%	2.6%
Rhode Island	0.4%	1.5%	-6.0%	-20.1%	-1.1%	0.8%	-9.7%	19.9%	-3.5%	2.5%
New Hampshire	-8.2%	-16.5%	-4.8%	-6.5%	-17.3%	12.9%	-27.7%	10.7%	4.6%	-1.1%
Vermont	-	-	-	-	-	-	-	-	-	-
New England	-6.5%	-0.5%	-7.7%	-7.8%	-7.4%	-14.5%	-12.7%	5.7%	-0.9%	-2.3%

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

State	2002	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
U.S. total	2,340,292	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	2,278,974
Massachusetts	26,117	27,411	28,043	25,993	25,018	22,661	20,646	17,298	18,866	18,733	18,464
Maine	29,140	28,103	26,839	24,747	22,996	20,907	15,411	15,127	14,078	11,964	10,414
Connecticut	17,610	19,340	20,148	18,196	16,767	16,229	12,977	10,645	11,368	13,313	13,664
Rhode Island	8,437	11,016	11,184	10,517	8,404	8,315	8,378	7,567	9,072	8,754	8,976
New Hampshire	4,108	4,823	4,026	3,833	3,583	2,964	3,347	2,419	2,679	2,803	2,771
Vermont	-	-	-	-	-	-	-	-	-	-	-
New England	85,412	90,693	90,240	83,286	76,768	71,076	60,759	53,056	56,063	55,567	54,289

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC), <http://www.navigationdatacenter.us/wcsc/wcsc.htm>.

Massachusetts Annual Exports
(in billions of 2016 dollars)



Massachusetts Top Export Partners

(top ten export destinations ranked by value of 2016 exports, in millions of 2016 dollars)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Canada	\$4,028	\$4,355	\$3,452	\$3,570	\$4,051	\$3,631	\$3,847	\$3,752	\$3,205	\$3,107
Mexico	\$1,152	\$1,296	\$1,010	\$1,401	\$1,534	\$1,682	\$1,918	\$2,350	\$2,655	\$2,471
China	\$1,592	\$1,743	\$1,535	\$2,416	\$2,228	\$1,962	\$2,040	\$2,326	\$2,081	\$2,167
Switzerland	\$244	\$498	\$405	\$518	\$601	\$454	\$1,320	\$815	\$1,038	\$1,769
Germany	\$2,743	\$2,775	\$1,958	\$2,061	\$2,184	\$1,885	\$1,892	\$1,875	\$1,935	\$1,635
United Kingdom	\$2,670	\$3,906	\$4,530	\$3,537	\$3,505	\$2,706	\$1,451	\$2,381	\$1,194	\$1,585
Japan	\$2,507	\$2,706	\$1,920	\$2,251	\$2,181	\$2,084	\$1,815	\$1,875	\$1,495	\$1,400
Netherlands	\$2,564	\$2,982	\$2,217	\$1,865	\$1,181	\$1,125	\$1,329	\$1,347	\$1,417	\$1,370
Republic of Korea	\$951	\$742	\$698	\$982	\$1,099	\$1,076	\$930	\$1,001	\$1,018	\$979
Ireland	\$828	\$612	\$379	\$551	\$553	\$533	\$658	\$805	\$854	\$949
Total Exports, Top Destinations	\$19,279	\$21,615	\$18,103	\$19,134	\$19,115	\$17,138	\$17,198	\$18,527	\$16,891	\$17,432
All other countries	\$10,067	\$10,009	\$8,291	\$9,819	\$10,623	\$9,638	\$10,425	\$9,235	\$8,718	\$8,460
Total Exports	\$29,345	\$31,624	\$26,394	\$28,953	\$29,738	\$26,776	\$27,623	\$27,763	\$25,609	\$25,892

Value of International Shipments from Massachusetts

(top ten industry groups ranked by value of latest exports, in millions of 2016 dollars)

Major Industry Group (3-Digit NAICS)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Computer and Electronic Product Manufacturing	\$8,926	\$8,719	\$7,384	\$8,242	\$8,220	\$7,626	\$7,442	\$8,263	\$7,405	\$6,951
Machinery Manufacturing	\$3,335	\$2,915	\$2,246	\$3,801	\$3,887	\$3,399	\$2,973	\$2,983	\$3,212	\$3,324
Chemical Manufacturing	\$6,086	\$6,147	\$4,321	\$3,991	\$3,589	\$3,604	\$3,722	\$3,554	\$3,456	\$3,317
Miscellaneous Manufacturing	\$2,684	\$3,478	\$3,062	\$3,353	\$3,400	\$3,195	\$3,385	\$3,111	\$3,222	\$3,118
Waste and Scrap	\$982	\$1,530	\$745	\$720	\$1,175	\$819	\$769	\$776	\$1,272	\$2,066
Electrical Equipment, Appliance, and Component Manufacturing	\$891	\$696	\$568	\$614	\$724	\$1,016	\$1,151	\$1,204	\$1,197	\$1,239
Transportation Equipment Manufacturing	\$1,079	\$1,379	\$1,238	\$1,165	\$1,194	\$1,090	\$1,125	\$1,327	\$1,252	\$1,065
Primary Metal Manufacturing	\$1,137	\$2,287	\$3,060	\$2,639	\$2,981	\$2,041	\$2,934	\$2,411	\$530	\$951
Plastics and Rubber Products Manufacturing	\$674	\$654	\$629	\$826	\$865	\$710	\$695	\$740	\$837	\$814
Fabricated Metal Product Manufacturing	\$712	\$804	\$677	\$891	\$922	\$703	\$764	\$799	\$788	\$619
Total Exports, Top Massachusetts Industries	\$26,506	\$28,609	\$23,931	\$26,242	\$26,957	\$24,203	\$24,959	\$25,166	\$23,171	\$23,463
All other exports	\$2,839	\$3,016	\$2,463	\$2,711	\$2,781	\$2,573	\$2,665	\$2,596	\$2,438	\$2,428
Total Exports	\$29,345	\$31,624	\$26,394	\$28,953	\$29,738	\$26,776	\$27,623	\$27,763	\$25,609	\$25,892

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>

U.S. Census Bureau, Nonemployer Statistics

<https://www.census.gov/econ/nonemployer/index.html>

Statistics

<http://www.bls.gov/data/home.htm>

Massport

<http://www.massport.com>

Airports Council International

<http://www.aci.aero>

Federal Aviation Administration

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

Army Corps of Engineers

<http://www.navigationdatacenter.us/wcsc/wcsc.htm>

Federal Reserve Bank of Philadelphia

<https://www.phil.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 award data

<http://www.usaspending.gov>

Large employers by sector

<http://www.mass.gov/comptroller/docs/reports-audits/cafr/2016-cafr.pdf>

Human Resources and Infrastructure

U.S. Census Bureau

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

New England Board of Higher Education

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

National Science Foundation

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

U.S. Department of Education, National Center for Education Statistics

<http://nces.ed.gov>

Institute of International Education

<http://www.iese.org>

U.S. Patent Office

<http://www.uspto.gov>

Exhibit B

Commonwealth of Massachusetts

**STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017**



**THOMAS G. SHACK III, ESQ.
COMPTROLLER**

Minuteman Monument - Lexington - Middlesex County

Commonwealth of Massachusetts



Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2017

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.macomptroller.org

Minuteman Statue - Lexington - Middlesex County

The Lexington Minuteman is a life-size bronze figure of a colonial farmer with musket by Boston sculptor Henry H. Kitson. It stands at the southeast corner of the Lexington Battle Green, facing the route of the British advance. The statue was unveiled on April 19, 1900, the 125th anniversary of the battle.

Photo courtesy of Massachusetts Office of Travel and Tourism

Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2017

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Introductory Section



Comptroller's Letter
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Constitutional, Legislative and Judicial Officers
Organizational Chart of State Government
Advisory Board to the Comptroller
Acknowledgements



The Commonwealth of Massachusetts
Office of the Comptroller

November 16, 2017

The People of Massachusetts
His Excellency Charles D. Baker, Governor
Senator Karen E. Spilka, Chair of the Senate Committee on Ways and Means
Representative Jeffrey Sánchez, Chair of the House Committee on Ways and Means
Secretary Michael J. Heffernan, Executive Office for Administration and Finance

We are pleased to present the Statutory Basis Financial Report (SBFR) for the fiscal year ended June 30, 2017.

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 by October 31st of each year. However, the delayed enactment of the final FY17 Supplemental Appropriation Act on November 3, 2017 created an inherent dilemma. To the extent that the late filing and enactment of the FY17 Supplemental conflicted with filing deadlines, I was compelled to choose completeness over filing expediency in light of the fact that without a final FY Supplemental I was unable to close the FY17 books; therefore, the issuance of the SBFR as of October 31, 2017 was delayed until November 16, 2017.

The Commonwealth's books for FY17 were closed upon the enactment of the Final Supplemental on November 3, 2017. In the ensuing days, this Office implemented the requisite transactions in the State Accounting System, recorded those transactions in the Commonwealth's Statutory Basis Financial Report (SBFR), finalized and submitted the SBFR for review to our external auditors, and today filed the SBFR pursuant to M.G.L. c.7A. While delayed by over two weeks, I am pleased to be able to file this required report and strongly encourage earlier action as part of the FY18 closing so that we are not put in this unenviable position next year.

I remind you that the two months between August 31 and October 31 are necessary for the preparation of financial statements and the SBFR document, noting that this 60 day period is necessary for completion of reporting, reconciliation and independent auditor review of the statements, including the Consolidated Net Surplus (CNS). The issued SBFR then serves as the basis for the FY17 Comprehensive Annual Financial Report (CAFR) required pursuant to M.G.L. c. 7A, s.12, and it becomes increasingly more difficult to complete the CAFR in a timely manner if the SBFR deadline is not met.

Final fiscal year-end supplemental appropriations bill enactment has trended late in recent years. In the past twelve years alone, enactment has been late ten times. This is a troubling pattern that could put the accuracy and integrity of the Commonwealth's accounting and audit responsibilities at risk when compressed against strict statutory filing deadlines. Late fiscal year enactment also has potential downstream effects, with the likelihood and severity of those effects increasing the later final supplemental legislation is enacted. Not only does it prevent the Comptroller's Office from meeting the SBFR statutory filing deadlines, but as noted above, also delays the preparation, external auditor review, and issuance of the Commonwealth's GAAP-based CAFR.

These delays could jeopardize the Commonwealth's ability to qualify for the Governmental Finance Officers Association (GFOA) Certificate of Excellence in Financial Reporting of which the Commonwealth has been awarded for the past 27 years. The CAFR statutory filing deadline of the second Wednesday in January and the Certificate of Excellence are both of known interest to rating agencies and the investment community.

I strongly recommend that the necessary actions to enact the Final FY18 Supplemental Appropriation be taken much sooner to prevent any future negative repercussions for similar delayed filing.

In our opinion, the SBFR provides an independent and unbiased accounting of Commonwealth revenues and expenditures for Fiscal Year 2017. It has also been reviewed in accordance with professional standards established by the American Institute of Certified Public Accountants.

This office will also issue the Commonwealth's Comprehensive Annual Financial Report (CAFR). 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 2017, we 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. We would like to express additional appreciation to Deputy Comptroller Howard Merkwitz and the Financial Reporting and Analysis Team and its leadership Michael Rodino and Pauline Lieu.

Respectfully,

Thomas G. Shack, III, Esq.
Comptroller of the Commonwealth

Jeffrey S. Shapiro, Esq.
First Deputy Comptroller

Report Summary

As of June 30, 2017, the Commonwealth had a budgeted fund balance of approximately \$1.448 billion and completed FY17 with a balanced budget according to state finance law (see below 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 \$9 million, to \$1.301 billion, as a result of investment earnings on the Fund's balance. No funds were drawn from the Stabilization Fund in FY17. (The Budgeted Funds – Operations table on page 8 displays the FY17 summary of budgeted funds compared to FY16. Details of FY17 Stabilization Fund activity are provided on pages 10 and 115.) The total budgeted fund balance of \$1.448 billion reflects a loss (revenues and other financing sources less than expenditures and other financing uses) of approximately \$34 million, subtracted from the FY17 beginning balance of \$1.482 billion. This follows an FY16 operating loss of \$89 million. In addition to the \$1.301 billion reserved in the Stabilization Fund, \$117 million is reserved for continuing appropriations and debt service in fiscal year 2018. The remaining undesignated balance of \$30 million is made up of smaller budgeted fund balances.

During FY17, budgeted fund tax revenues increased by \$211 million, or 0.9%, from FY16, as tax revenue growth due to the continuing expansion of the Massachusetts economy was partially offset by a decline in capital gains and corporate 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 \$802 million, or 2.0%. Budgeted fund expenditures and other financing uses increased by \$747 million, or 1.8%, 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 FY17 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, as 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, pensions, and other-post employment benefits (or OPEB, which are mainly retirees' health insurance benefits) – 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 and the Commonwealth Transportation Fund, which account for approximately 93.8% and 4.9%, respectively of total budgeted fund expenditures and other financing uses. The remaining approximately FY17 1.3% of budgeted fund activity is comprised of 9 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 31st. However, due to the fact that the final FY17 supplemental budget bill was not enacted and signed into law until November 3, 2017, this SBFR is being transmitted on November 16, 2017 in order to provide sufficient time to accurately incorporate the bill's provisions into this report and have the report reviewed by the Commonwealth's independent auditor.

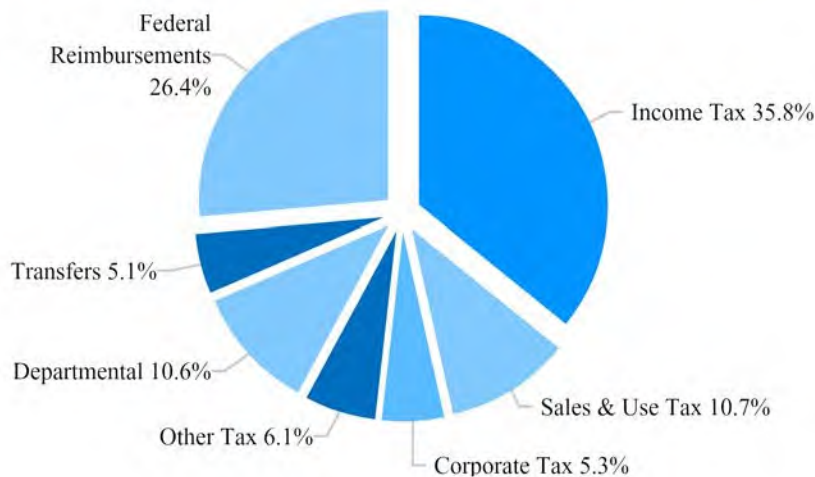
The SBFR for the fiscal year ended June 30, 2017 is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth's books for the fiscal year.

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, which in turn drives the personal income tax, the state's largest revenue source. In FY17, the Commonwealth's economy continued to perform better than the nation's economy. Between June 2016 and June 2017, employment (which is the primary driver of the Commonwealth's largest revenue source, income tax withholding) grew by approximately 67 thousand jobs, or 1.9%, compared to employment growth of 1.5% for the United States as a whole over the same period. As of June 2017, the Massachusetts unemployment rate was 4.3%, compared to 4.4% nationally.

The Budgeted Funds

Budgeted Fund Revenues and Other Sources (Total of \$41.2 billion)



The FY17 legally enacted budget (the General Appropriation Act) included an FY17 tax revenue estimate of \$26.110 billion (a reduction from the FY17 consensus estimate of \$26.860 billion, which had been adjusted downward by \$750 million after tax revenue was below forecast at the end of FY16), further adjusted upward by \$174 million to \$26.284 billion as a result of \$49 million in tax law changes and \$125 million in tax settlements included in the budget. \$24.428 billion of that revenue was to be deposited in the budgeted funds and \$1.856 billion was to be deposited directly into non-budgeted funds for transfers of sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$998 million) and the Massachusetts School Building Authority (\$835 million), and revenue deposited in the non-budgeted Workforce Training Fund (\$23 million). The FY17 budget appropriations also reflected the assumption that a reduction in the personal income tax rate would not be triggered during FY17 (as had been previously projected in the FY17 consensus tax revenue estimate and as reflected in the \$26.110 billion legally adopted tax estimate) as well

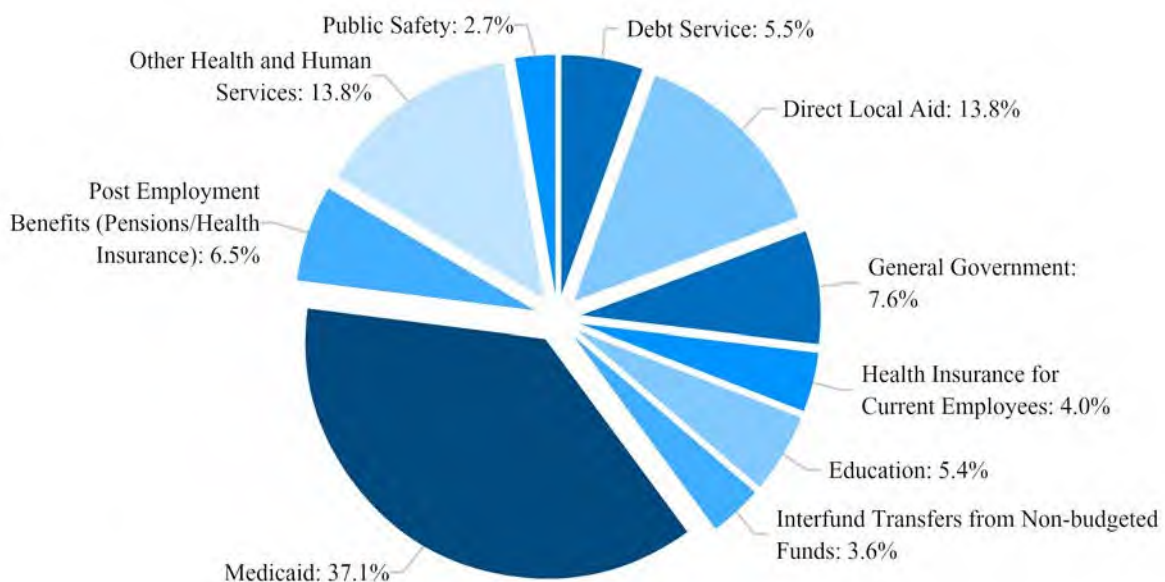
as other technical adjustments, resulting in a further increase of \$72 million in available tax revenues, though that assumption was not reflected in the section of the budget that specified the tax revenue estimate.

As a result of below-forecast revenue performance over the first three months of FY17, in October 2016 the Secretary of Administration and Finance adjusted the FY17 tax revenue estimate downward to \$26.181 billion, (including \$125 million in settlements exceeding \$10 million each, virtually all of which were projected to be tax-related, and the previously mentioned increase of \$72 million due to the income tax rate reduction not being triggered, as well as other technical adjustments), of which \$24.353 billion was to be deposited in the budgeted funds.

FY17 tax revenues upon which the FY17 General Appropriation Act was based ended the year at \$25.662 billion (including \$58 million in tax settlements exceeding \$10 million each -- the Commonwealth also received \$54 million in non-tax settlements), of which \$23.828 billion was deposited in the budgeted funds. Tax revenue deposited in the budgeted funds grew by \$211 million, or 0.9% from FY16, and was \$524 million below the final FY17 tax estimate.

The FY17 General Appropriation Act (GAA) authorized approximately \$39.917 billion in spending, exclusive of approximately \$2.198 billion in required pension contributions and \$109 million in FY16 spending authorized to be continued into FY17 as part of FY16 end-of-year supplemental budgets.

Budgeted Expenditures and Other Uses (Total of \$41.2 billion)



Approximately \$571 million in supplemental appropriations were authorized during FY17, \$486 million of which were enacted prior to June 30, 2017. Subsequent to year end, a supplemental budget was enacted totaling approximately \$86 million in new appropriations, \$50 million of which was for snow and ice removal costs, \$20 million of which was to fund county Sheriffs' payroll expenses in FY17, with virtually all of the remainder continued to FY18 and reappropriated. The year's significant supplemental appropriation activity included:

- \$274 million for transfers to the Medical Assistance Trust Fund;
- \$64 million for snow and ice removal expenses incurred by the Massachusetts Department of Transportation;
- \$52 million for compensation of private counsel representing indigent defendants;

- \$48 million to fund county Sheriffs' payroll expenses
- \$29 million to fund administration and operations of the Department of Corrections;
- \$21 million for family shelter services.

In order to maintain a balanced budget in the face of lower than projected FY17 tax revenue collections, the Governor reduced spending authorizations, or allotments, using his authority under Section 9C of Chapter 29. Those allotment reductions totaled approximately \$116 million. The Executive Office for Administration and Finance in conjunction with state departments also took action in the fourth quarter of FY17 to minimize discretionary spending to maintain a balanced budget. Finally, the following specific actions were taken in FY17 to the maximize the General Fund's balance and thus maintain a statutory balanced budget:

- \$62 million in capital gains tax revenue that under statute was required to be deposited in the Stabilization Fund (\$56 million), the State Pension Fund (\$3 million), and the State Retiree Benefits Trust Fund (\$3 million) was retained in the General Fund, per a provision in the FY17 General Appropriation Act that increased the threshold set in statute;
- \$167 million in revenues was transferred to the General Fund from non-budgeted funds;
- \$102 million was retained in the General Fund by reducing the statutorily required tobacco settlement transfer to the State Retiree Benefits Trust Fund;
- \$13 million in Sheriffs' General Fund payroll expenses was shifted from FY17 to FY18.

FY17 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 \$41.167 billion, an increase of \$802 million, or 2.0%, from FY16. Tax revenue grew by \$211 million, or 0.9%; while the economy continued to expand modestly, growth in withholding and sales tax revenue was offset by a decline in corporate tax revenue and capital gains tax revenue the latter which, according to a preliminary Department of Revenue estimate, dropped by \$180 million, or 13.1%, from \$1.370 billion in FY16 to \$1.190 billion in FY17. (There were also declines in other non-withholding, or non-wage, income taxes, though details on these will not be available until 2016 income tax returns filed on extension are analyzed.) Federal reimbursements totaled \$10.858 billion, an increase of \$215 million, or 2.0%, primarily due to growth in reimbursements for increased Medicaid program spending. Departmental revenue, which consists primarily of assessments and fees for state licenses and state services, totaled \$4.382 billion, an increase of \$125 million, or 2.9%, from FY16, driven largely by an increase of \$169 million in pharmacy rebates paid to the state employee health insurance program. Interfund transfers from non-budgeted funds totaled \$2.099 billion, an increase of \$250 million, or 13.5%, from FY16, due primarily to growth in Lottery revenues and 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 FY17, the Commonwealth received \$254 million in tobacco settlement funds, a decrease of \$3 million from FY16. The \$254 million represented approximately 68.8% 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 FY2022 and after. For FY17, the statutorily required transfer was 50% of tobacco settlement revenues; however, the FY17 budget actions altered the mechanism by which the transfer was made and reduced the percentage of tobacco settlement revenues deposited to the SRBTF from 50% to 10%. That action reduced the FY17 transfer to approximately \$25 million, compared to the statutorily required transfer of \$127 million. For FY18, statute requires a transfer of 60%, or \$151 million, of the \$251 million in estimated FY18 tobacco settlement payments, to the SRBTF; however, the fiscal 2018 enacted budget requires that transfers be made equivalent to 10% of fiscal 2018 tobacco settlement proceeds, or approximately \$25 million.

FY17 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$41.202 billion, an increase of \$747 million, or 1.8%, from FY16, 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 \$34.967 billion, an increase of \$676 million, or 2.0%, from FY16. Medicaid expenditures totaled \$15.252 billion, an increase of \$401 million, or 2.7%, from FY16, primarily due to growth in enrollment, Medicare premium increases, increased health services utilization, and health care cost growth, especially pharmacy costs for emerging drugs.

Spending on state employee health benefits paid through the Group Insurance Commission (excluding benefits paid to retirees) increased by \$33 million, or 2.0%, from \$1.630 billion to \$1.663 billion. Budgeted debt service totaled \$2.285 billion, up \$110 million, or 5.1%, from FY16.

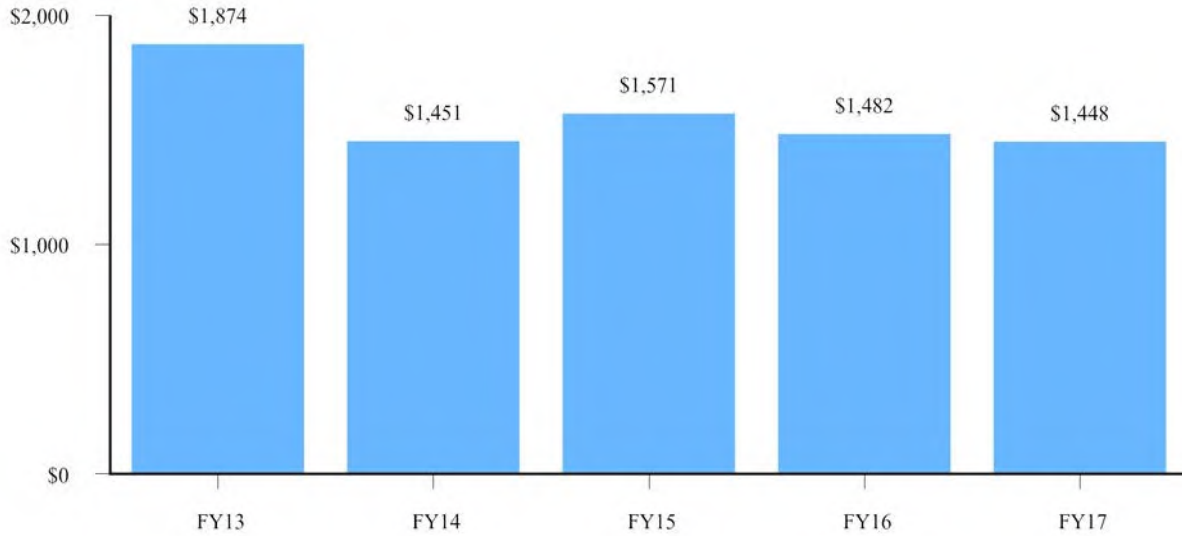
Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.290 billion, a decrease of \$196 million or 13.2%, primarily due to a decline in transfers to the Medical Assistance Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) totaled \$2.660 billion, an increase of \$156 million, or 6.2%, as the Commonwealth increased its pension contribution by 10%, or \$179 million, over FY16. Spending for direct local aid (both education aid and unrestricted aid), at \$5.703 billion, was up \$135 million, or 2.4%, from FY16.

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 FY17, transfers among the Budgeted Funds totaled \$617 million, an increase of \$145 million, or 30.6%, from FY16. 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)

	2017	2016
Beginning fund balances:		
Reserved and designated	\$ 126,018	\$ 225,993
Reserved for Stabilization Fund	1,291,514	1,252,429
Undesignated	64,461	92,264
Total	<u>1,481,993</u>	<u>1,570,686</u>
Revenues and other financing sources:		
Taxes	23,828,296	23,616,920
Federal reimbursements	10,857,830	10,642,720
Departmental and other revenues, including tobacco settlement	4,382,133	4,257,203
Interfund transfers from non-budgeted funds and other financing sources	2,099,068	1,848,709
Budgeted revenues and other financing sources	<u>41,167,327</u>	<u>40,365,552</u>
Intragovernmental Service Fund revenues	417,935	385,270
Interfund transfers among budgeted funds and other financing sources	199,481	87,628
Total revenues and other financing sources	<u>41,784,743</u>	<u>40,838,450</u>
Expenditures and other financing uses:		
Programs and services	34,966,817	34,290,355
Debt service	2,284,677	2,174,307
Post employment benefits	2,659,709	2,503,377
Interfund transfers to non-budgeted funds and other financing uses	1,290,382	1,486,206
Budgeted expenditures and other financing uses	<u>41,201,585</u>	<u>40,454,245</u>
Intragovernmental Service Fund expenditures	417,935	385,270
Interfund transfers among budgeted funds and other financing uses	199,481	87,628
Total expenditures and other financing uses	<u>41,819,001</u>	<u>40,927,143</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(34,258)</u>	<u>(88,693)</u>
Ending fund balances:		
Reserved and designated	117,396	126,018
Reserved for Stabilization Fund	1,300,678	1,291,514
Undesignated	29,661	64,461
Total	<u>\$ 1,447,735</u>	<u>\$ 1,481,993</u>

***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, 2017, the ending balance is comprised mainly of the fund balance of the General Fund and the Stabilization Fund. Due to designations of fund balances, \$117 million of the total budgeted fund balance, exclusive of the Stabilization Fund, is reserved for appropriations and debt service in FY17. The remaining \$30 million is undesignated in the budgeted funds that are not included in the consolidated net surplus calculation, with \$15 million of that balance in various environmental funds and \$12 million 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) declined from \$5.407 billion in FY16 to \$5.258 billion in FY17, a decrease of \$149 million, or 2.8%. Despite the decrease in revenues, 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 FY17 budget, totaled \$1.040 billion, an increase of \$51 million, or 5.2%, from FY16, as prize payments declined. Of that \$1.040 billion in profits, and as mandated in the FY17 General Appropriation Act, approximately \$958 million was transferred to the General Fund to reimburse it for so-called Unrestricted General Government Aid (formerly Lottery Local Aid), \$14.3 million reimbursed the Massachusetts Cultural Council appropriation, and \$1.5 million reimbursed a compulsive gambling prevention program appropriation. The remaining \$66 million after these reimbursements was transferred to the General Fund as unrestricted revenue to fund general state operations. The FY18 General Appropriation Act contains provisions for approximately \$1.062 billion in Unrestricted General Government Aid, of which \$997.4 million is to be paid from the General Fund and reimbursed by Lottery profits.

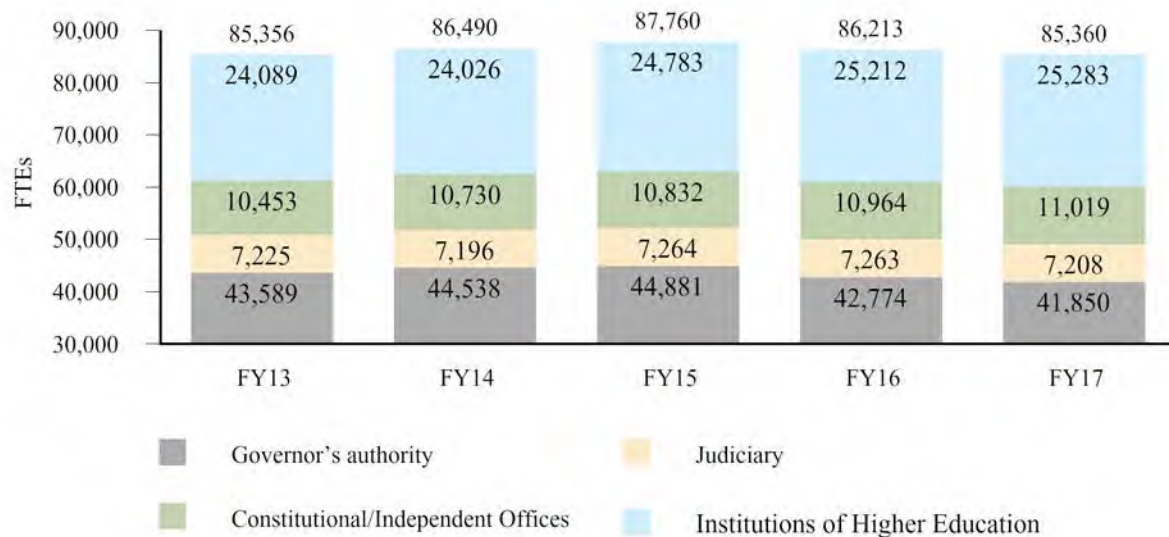
FY17 was the second year in which significant tax revenues were collected on profits generated by slot machines at the Plainridge slots parlor, which opened on June 24, 2015. FY17 budgeted fund tax revenues remitted to the Commonwealth, which are equal to 40% of gross profits (or “gross gaming revenues”) from the slot machines, totaled approximately \$63 million, a decrease of \$1 million from FY16, 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 FY18 budget relies on \$64.3 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 FY17, the number of Commonwealth employees decreased by a net of approximately 854 full-time equivalent employees (FTEs), to a total of 85,359. The largest decreases were in MassDOT (approximately 522 FTEs) and the Department of Corrections (approximately 262 FTEs).

**Full Time Equivalent Workforce
Including Higher Education
June 2013 – June 2017**



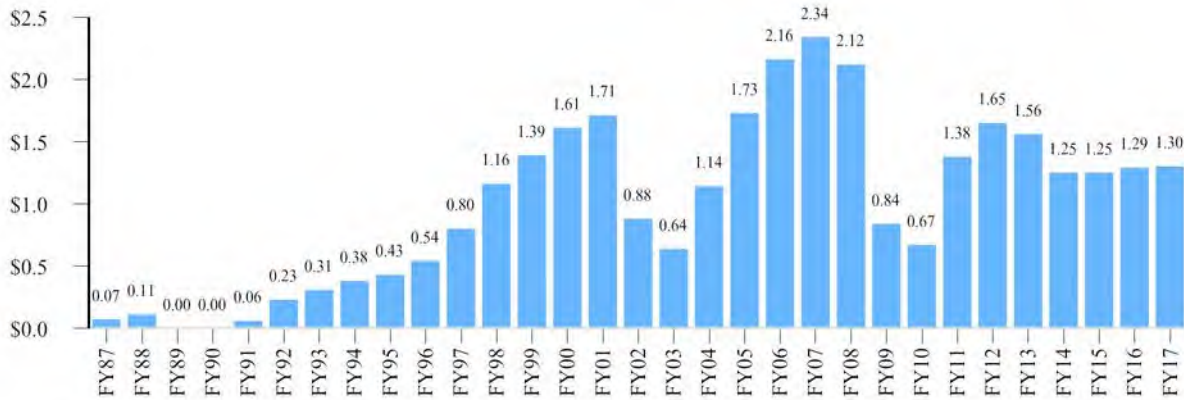
The Stabilization Fund

In FY17, the Commonwealth made no withdrawals from the Stabilization (or rainy day) Fund. During FY17, the Stabilization Fund earned slightly less than \$9 million in investment income and received a small amount of tax revenue. As a result, the balance of the Stabilization Fund increased by \$9 million, to \$1.301 billion, between FY16 and FY17.

As part of an effort to ensure a statutorily balanced budget, the FY17 enacted budget included a provision modifying 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 FY17 capital gains tax threshold, as determined by the Department of Revenue, was \$1.128 billion, but the FY17 enacted budget increased that threshold to \$1.278 billion. In July 2017, the Department of Revenue certified that FY17 tax collections attributable to capital gains totaled \$1.190 billion, meaning that \$62 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 FY18 is \$1.169 billion. The tax revenue estimate assumed in the FY18 enacted budget projects that \$51.5 million of capital gains tax revenue and \$28 million in abandoned property revenues will be transferred to the Stabilization Fund in FY18.

The following chart, which shows the Stabilization Fund balances since the Fund’s inception, indicates that the Fund balance increased by more than \$711 million in FY11 and \$273 million in FY12 as the Commonwealth emerged from the recession, but declined by \$95 million in FY13 and \$309 million in FY14, increased by \$4 million in FY15, \$39 million in FY16, and \$9 million in FY17.

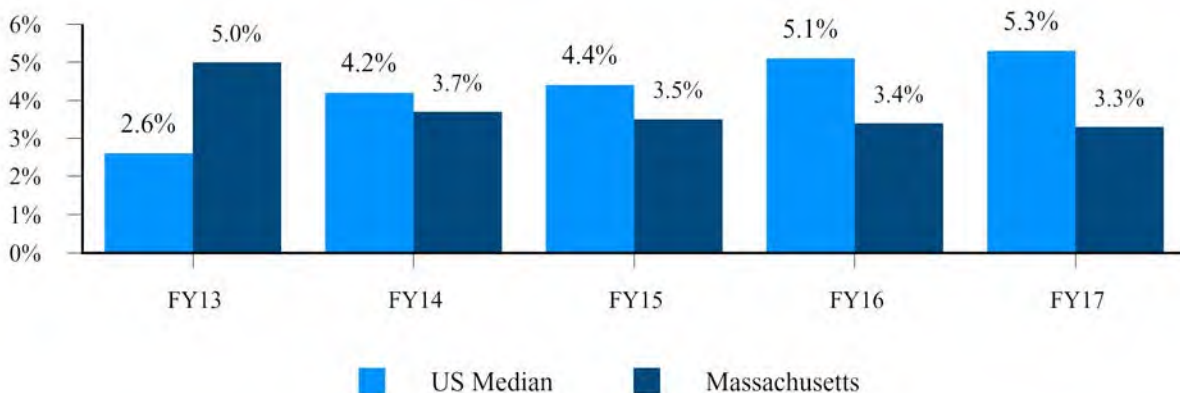
Stabilization Fund Balance
(Amounts in \$ billions)



Cross-state comparisons of rainy day fund balances are typically made in the terms of both the absolute size of those funds and the funds' balances as a percentage of General Fund expenditures, with the latter calculation reflecting the different sizes of states and the different levels of state spending that stabilization funds are required to cover when economic downturns cause unanticipated declines in states' tax revenues and increases in demand for state services. According to The National Association of State Budget Officers' (NASBO) *Spring 2017 Fiscal Survey of the States*, at the close of FY16 (the most recent year for which final rainy day fund balances were available for all states), the Commonwealth Stabilization Fund's balance was the twelfth largest in the nation in absolute size and thirty-fifth in the nation as a percentage of General Fund expenditures. (Six states had no stabilization fund balance at the end of FY16.) According to the *Survey* and the Commonwealth's results shown in this report, Massachusetts will have the thirteenth largest stabilization fund balance at the end of FY17 in absolute size and thirty-fifth largest rainy day fund balance as a percentage of General Fund expenditures once all 50 states close their books on the fiscal year.

The following chart 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 FY17.) By that measure, Massachusetts's Stabilization Fund balance of 3.3% of General Fund expenditures as of the end of FY17 was below the estimated national median rainy day fund balance of 5.3% of expenditures.

Stabilization Fund Percentage of General Fund Expenditures Compared To US Median



While the Commonwealth's Stabilization Fund grew by approximately \$9 million in FY17, and has grown modestly in each of the last three fiscal years, the Fund is still more than \$1 billion below its balance prior to the most recent recession and almost \$350 million below its post-recession high in FY12, 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 inability to build up the rainy day fund balance as the economy has recovered as an area requiring improvement. On a positive note, the FY18 General Appropriation Act assumes that for the third consecutive year the Commonwealth will not withdraw funds from the Stabilization Fund to help balance the operating budget and that a deposit of almost \$80 million will be made to the Fund in FY18 from capital gains tax and abandoned property revenues.

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 FY17, the Commonwealth maintained 98 non-budgeted funds, while another 23 were inactive.

The largest non-budgeted funds in terms of operating revenues include the State Lottery and Gaming Fund, the Federal Grants Fund, the MBTA State and Local Contribution Trust Fund (which accounts for sales tax revenue dedicated to and transferred to the MBTA), the School Modernization Trust Fund (which accounts for sales tax revenue dedicated to and transferred to Massachusetts School Building Authority), the Medical Assistance Trust Fund, and the Commonwealth Care Trust Fund. Other funds that show large inflows include the Grant Anticipation Notes Trust Fund, which is funded by federal highway spending reimbursements.

The following table, Non-Budgeted Special Revenue Funds - Operations, summarizes the FY17 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)

	2017	2016
Beginning fund balance.....	\$ 2,066,898	\$ 2,125,275
Revenues and other financing sources:		
Taxes.....	2,214,074	2,183,221
Assessments.....	754,577	638,305
Federal grants and reimbursements.....	3,255,134	3,162,489
Departmental and miscellaneous.....	6,415,100	6,740,588
Transfers and other financing sources.....	1,334,082	1,535,799
Total revenues and other financing sources	13,972,967	14,260,402
Expenditures and other financing uses:		
Programs and services	11,749,567	11,947,925
Debt service.....	193,876	295,811
Transfers and other financing uses.....	2,205,084	2,075,043
Total expenditures and other financing uses	14,148,527	14,318,779
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(175,560)	(58,377)
Ending fund balance.....	\$ 1,891,338	\$ 2,066,898

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

- \$65 million – Massachusetts Transportation Trust Fund;
- \$49 million – Distressed Hospital Trust Fund;
- \$41 million – Health Information Technology Trust;
- \$38 million – Federal Grants Fund;
- \$26 million – Commonwealth Care Trust Fund;
- \$12 million – Prevention and Wellness Trust Fund;
- \$10.1 million – Transportation Infrastructure and Development Fund.

In FY17, \$44 million of the Commonwealth’s federal transportation funds were dedicated to repaying prior year expenditures of the Central Artery/Tunnel Project (CA/T), which were financed through Federal Grant Anticipation Notes (GANs). In addition, approximately \$36 million in interest payments for the GANs were funded by a General Fund appropriation.

For the thirteen active Universal Health Care funds, revenues and other financing sources were \$1.763 billion in FY17, a decrease of approximately \$147 million from FY16. This decrease was due primarily to a decline in transfers to the Medical Assistance Trust Fund. Expenditures from the Universal Health Care funds totaled \$1.786 billion, a decrease \$33 million from FY16, due primarily to an decline 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 92% of total non-budgeted fund balances include:

- \$753 million – Massachusetts Transportation Trust Fund;
- \$384 million – Central Artery/Tunnel Project Repair and Maintenance Trust Fund;
- \$127 million – Convention and Exhibition Center Fund;
- \$123 million – Enhanced 911 Fund;
- \$103 million – Health Safety Net Trust Fund;
- \$90 million – Grant Anticipation Note Trust Fund;
- \$57 million – MassHealth Delivery System Reform Trust Fund;
- \$36 million – Workforce Training Trust Fund;
- \$34 million – Commonwealth Care Trust Fund;
- \$34 million – Distressed Hospital Trust Fund.

As noted in previous reports, the Government Land Bank Fund has a continuing structural fund deficit. The FY17 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 the capital project 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 FY17 capital budget, the Commonwealth borrowed by issuing \$2.871 billion in long-term bonds, \$2.409 billion of which was general obligation debt and \$462 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$1.853 billion in debt to refund already existing obligations, taking advantage of continued low interest rates in FY17.

The following graph Capital Projects Funds - Fund Balance (Deficit) 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. However, at the end of FY17, the Capital Projects Funds had a \$151 million positive balance, as Commonwealth issued debt at the end of the fiscal year to take advantage of favorable interest rates and to reimburse itself for previous capital expenditures and those anticipated for July 2017.

Capital Projects Funds – Fund Balance (Deficit)
(Amounts in millions)



The Capital Projects Funds - Operations table on the next page includes the FY17 Capital Projects Funds, summarized and compared to FY16. Financial statements for each of the individual funds are included in the financial section of this report.

Capital Projects Funds - Operations
(Amounts in thousands)

	2017	2016
Beginning fund balance (deficit)	\$ (334,696)	\$ (524,860)
Revenues and other financing sources:		
Federal grants and reimbursements	58,354	85,759
Departmental and miscellaneous	4,081	4,274
Proceeds of general and special obligation bonds	3,136,222	3,002,758
Proceeds of refunding bonds	2,269,192	1,674,030
Transfer for federal reimbursements.....	489,130	500,929
Transfers and other financing sources	111,172	93,736
Total revenues and other financing sources.....	6,068,151	5,361,486
Expenditures and other financing uses:		
Acquisition and maintenance of capital assets.....	3,187,010	3,390,064
Payments to advance refunding escrow agent/principal repayment.....	2,269,192	1,674,030
Transfers and other financing uses	126,700	107,228
Total expenditures and other financing uses.....	5,582,902	5,171,322
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	485,249	190,164
Ending fund balance (deficit)	\$ 150,553	\$ (334,696)

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 FY17, significant capital spending included:

- \$230 million in Chapter 90 reimbursements to municipalities for local road and bridge projects;
- \$218 million in transit projects, including the MBTA Green Line Extension and procurement of new vehicles for the MBTA’s Red and Orange Lines;
- \$213 million for affordable housing development and public housing, including \$10 million to preserve affordability in properties aging out of their long-term affordability covenants;
- \$213 million invested in new academic buildings and improvements to existing facilities on several community college, state university and University of Massachusetts campuses, which leveraged an additional \$48 million in additional higher education capital project spending;
- \$210 million in bridge repair projects under the Commonwealth’s Accelerated Bridge Program;
- \$99 million for the MassWorks economic development infrastructure grants to cities and towns;
- \$93 million for “Accelerated Energy Program” projects to improve the efficiency of state facilities’ heating, electrical, and water systems;

- \$51 million for grants from the Massachusetts Life Sciences Center to foster economic development in the life sciences sector;
- \$42 million spent statewide on delegated deferred maintenance and systems renewal for state facilities;
- \$33 million for grants to cities and towns for parks and open space, climate change resiliency and preparedness, critical coastal infrastructure, inland dams and seawalls, and land protection grants;
- \$31 million for maintenance and reconstruction of parkways, including continued design work for reconstruction of Morrissey Boulevard in Boston;
- \$14.5 million for Workforce Skills program grants to vocational high schools and community colleges;
- \$11 million for aid to towns in western Massachusetts to extend high-speed broadband networks;
- \$9.5 million for Seaport Council Grants to foster economic development in coastal communities;
- \$7 million for security improvements to the state's information technology infrastructure;
- \$7 million for MassDevelopment-managed programs to promote economic development in gateway cities and other areas throughout the Commonwealth.

During FY17, the Commonwealth passed or agreed to terms for approximately \$1.501 billion in bond authorizations. There were no deauthorizations of previously enacted bond bills in FY17.

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)

	2017	2016 Restated*
Beginning fund balance, restated	\$ 1,726,660	\$ 1,620,110
Revenues and other financing sources:		
Federal grants and reimbursements.....	515,589	515,907
Departmental revenues.....	2,296,093	2,221,646
Transfers and other financing sources.....	1,930,299	1,900,951
Total revenues and other financing sources	4,741,981	4,638,504
Expenditures and other financing uses:		
Programs and services.....	4,635,233	4,531,954
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	106,748	106,550
Ending fund balance, restated	\$ 1,833,408	\$ 1,726,660

*FY16 was restated by approximately \$4 million for activities previously unreported

The Non-Appropriated Funds of Higher Education – Operations table above includes the FY17 activity in Higher Education funds, summarized and compared to FY16. 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 \$989 million fund balance for the University of Massachusetts, an approximate \$488 million fund balance for the State University (formerly the State College) system and an approximate \$357 million fund balance for the Community Colleges.

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



* Fund balances were restated due to amounts previously unreported

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Maura Healey
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Deborah B. Goldberg
Treasurer and Receiver-General

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President of the Senate

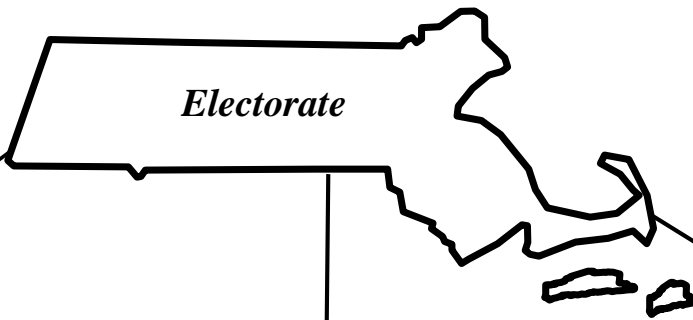
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Speaker of the House

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Chief Justice, Supreme Judicial Court

Mark Green
Acting Chief Justice, Appeals Court

Jonathan Williams
Court Administrator, Trial Court



<i>Legislative Branch</i>	<i>Executive Branch</i>	<i>Judicial Branch</i>
House of Representatives Senate	Governor and Lieutenant Governor [#] Governor's Council Attorney General Sheriffs State Auditor Secretary of the Commonwealth Treasurer and Receiver-General District Attorneys Independent Offices and Commissions*	Supreme Judicial Court Appeals Court Trial Court Committee for Public Counsel Board of Bar Examiners Commission on Judicial Conduct Mental Health Legal Advisors

<i>Executive Branch Independent Offices and Commissions*</i>		
Board of Library Commissioners Campaign and Political Finance Center for Health Information & Analysis Commission Against Discrimination University of Massachusetts System	Commission on the Status of Women Disabled Persons Protection Commission Massachusetts Gaming Commission Office of the Child Advocate	Office of the Comptroller Office of the Inspector General State Ethics Commission State Retiree Benefits Trust Fund Board

<i>Executive Departments Under Gubernatorial Authority[#]</i>		
<p><u>Administration and Finance</u> 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 Massachusetts Office on Disability Massachusetts Office of Information Technology Massachusetts Teachers' Retirement System Operational Services Division Public Employee Retirement Administration Commission</p> <p><u>Education</u> Executive Office of Education Department of Early Education and Care Department of Elementary and Secondary Education Department of Higher Education Community Colleges State Universities</p>	<p><u>Housing and Economic Development</u> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs & Business Regulations Massachusetts Marketing Partnership Department of Housing & Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards</p> <p><u>Energy and Environmental Affairs</u> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities State Reclamation Board</p> <p><u>Transportation and Public Works</u> Executive Office of Transportation and Public Works</p>	<p><u>Executive Office of Labor and Workforce Development</u></p> <p><u>Health and Human Services</u> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts</p> <p><u>Public Safety</u> Executive Office of Public Safety and Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of 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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Secretary of Administration and Finance

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Auditor

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Treasurer and Receiver-General

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Chief Administrator, Trial Court

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Gubernatorial Appointee

Timothy C. Sullivan
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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, 2017, and the 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 describe 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 Matters

The combining and individual fund financial statements - statutory basis and supplemental information 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 responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements – statutory basis. Such information has been subjected to the review procedures applied in our review of combined financial statements – statutory basis. We are not aware of any material modifications that should be made to combining and individual fund financial statements- statutory basis and supplemental information. We have not audited the combining and individual fund financial statements- statutory basis and supplemental information and accordingly, do not express an opinion on such information.

The introductory and statistical sections 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 responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on such information.

Restriction of Use

This report is intended solely for the information and use of management and 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

Boston, Massachusetts
November 16, 2017

Combined Financial Statements - Statutory Basis

Budgeted Funds
 Combined Balance Sheet - Statutory Basis

As of June 30, 2017
 (Amounts in thousands)

	Totals (Memorandum only)	
	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 1,368,250	\$ 1,609,305
Cash with fiscal agent.....	18,080	16,690
Investments.....	272,224	271,744
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	646,986	377,724
Other receivables.....	18,501	38,823
Due from cities and towns.....	12,143	23,268
Total assets.....	<u>\$ 2,336,184</u>	<u>\$ 2,337,554</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ —	\$ 15,108
Accounts payable.....	810,363	777,367
Accrued payroll.....	78,086	63,086
Total liabilities.....	<u>888,449</u>	<u>855,561</u>
Fund equity:		
Combined fund balance:		
Reserved for:		
Continuing appropriations.....	99,316	109,328
Commonwealth Stabilization.....	1,300,678	1,291,514
Debt service.....	18,080	16,690
Unreserved:		
Undesignated.....	29,661	64,461
Total fund equity.....	<u>1,447,735</u>	<u>1,481,993</u>
Total liabilities fund equity.....	<u>\$ 2,336,184</u>	<u>\$ 2,337,554</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, 2017

(Amounts in thousands)

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES			
Revenues:			
Taxes.....	\$ 24,428,400	\$ 23,828,296	\$ (600,104)
Assessments	439,557	454,040	14,483
Federal grants and reimbursements.....	10,759,235	10,857,831	98,596
Tobacco settlement revenue.....	257,500	254,490	(3,010)
Departmental	3,108,189	3,770,951	662,762
Miscellaneous.....	283,595	320,586	36,991
Total revenues.....	<u>39,276,476</u>	<u>39,486,194</u>	<u>209,718</u>
Other financing sources:			
Fringe benefit cost recovery.....	430,883	416,181	(14,702)
Lottery reimbursements	94,490	100,392	5,902
Lottery distributions	1,012,351	1,025,411	13,060
Operating transfers in.....	489,644	535,216	45,572
Commonwealth care trust transfer	—	76,552	76,552
Other fund deficit support	—	144,797	144,797
Total other financing sources.....	<u>2,027,368</u>	<u>2,298,549</u>	<u>271,181</u>
Total revenues and other financing sources.....	<u>41,303,844</u>	<u>41,784,743</u>	<u>480,899</u>
EXPENDITURES AND OTHER FINANCING USES			
Expenditures:			
Legislature.....	99,124	66,754	32,370
Judiciary	914,429	908,488	5,941
Inspector General	4,217	4,207	10
Governor and Lieutenant Governor	7,811	6,567	1,244
Secretary of the Commonwealth.....	47,791	45,849	1,942
Treasurer and Receiver-General.....	212,746	201,093	11,653
Auditor of the Commonwealth.....	18,481	18,227	254
Attorney General.....	47,699	46,283	1,416
Ethics Commission.....	1,969	1,883	86
District Attorney.....	120,542	119,790	752
Office of Campaign & Political Finance.....	1,586	1,521	65
Sheriffs' Departments	610,998	610,062	936
Disabled Persons Protection Commission	3,043	3,043	—
Board of Library Commissioners.....	25,167	25,157	10
Comptroller	14,579	14,064	515
Administration and Finance.....	2,503,222	2,375,592	127,630
Energy and Environmental Affairs.....	235,544	223,582	11,962
Health and Human Services.....	5,844,805	5,700,404	144,401
Massachusetts Department of Transportation.....	187,000	140,250	46,750
Office of the Child Advocate	994	633	361
Executive Office of Education	2,273,460	2,234,045	39,415
Center for Health Information and Analysis.....	30,085	23,031	7,054
Public Safety and Security	1,161,216	1,119,256	41,960
Housing and Economic Development.....	524,723	495,960	28,763
Labor and Workforce Development.....	74,005	44,267	29,738
Direct local aid	5,728,497	5,703,027	25,470
Medicaid.....	15,254,269	15,251,717	2,552
Post employment benefits	2,638,100	2,659,709	(21,609)
Debt service:			
Principal retirement	1,351,251	1,300,497	50,754
Interest and fiscal charges.....	1,041,164	984,180	56,984
Total expenditures.....	<u>40,978,517</u>	<u>40,329,138</u>	<u>649,379</u>
Other financing uses:			
Fringe benefit cost assessment	—	4,440	(4,440)
Operating transfers out.....	699,796	748,110	(48,314)
Medical assistance transfer	736,154	403,367	332,787
Delivery system transformation initiatives trust transfer	196,252	189,149	7,103
Other fund deficit support	—	144,797	(144,797)
Total other financing uses.....	<u>1,632,202</u>	<u>1,489,863</u>	<u>142,339</u>
Total expenditures and other financing uses.....	<u>42,610,719</u>	<u>41,819,001</u>	<u>791,718</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (1,306,875)</u>	<u>(34,258)</u>	<u>\$ 1,272,617</u>
Fund balance (deficit) at beginning of year		1,481,993	
Fund balance (deficit) at end of year.....		<u>\$ 1,447,735</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, 2017
 (Amounts in thousands)

	Non-Budgeted Special Revenue	Capital Projects	Totals (Memorandum only)	
			2017	2016
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 2,214,074	\$ —	\$ 2,214,074	\$ 2,183,221
Assessments	754,577	—	754,577	638,305
Federal grants and reimbursements	3,255,134	58,354	3,313,488	3,248,248
Departmental	6,368,897	2,757	6,371,654	6,405,809
Miscellaneous	46,203	1,324	47,527	339,053
Total revenues	12,638,885	62,435	12,701,320	12,814,636
Other financing sources:				
Issuance of general obligation bonds	—	2,408,675	2,408,675	2,259,209
Bond premiums (discounts) on general obligation bonds	—	210,424	210,424	184,014
Issuance of special obligation bonds	—	461,975	461,975	500,000
Bond premiums (discounts) on special obligation bonds	—	55,148	55,148	59,535
Issuance of current refunding bonds	—	188,490	188,490	250,000
Issuance of advance refunding bonds	—	1,664,790	1,664,790	1,212,655
Bond premiums (discounts) on advance refunding bonds	—	415,912	415,912	211,375
Operating transfers in	741,566	—	741,566	653,328
Health safety net trust transfer	—	—	—	30,000
Medical assistance transfer	—	—	—	665,564
Federal reimbursement transfer in	403,367	489,130	892,497	500,929
State share of federal highway construction	—	111,172	111,172	93,736
Delivery system transformation initiatives trust transfer	189,149	—	189,149	186,907
Total other financing sources	1,334,082	6,005,716	7,339,798	6,807,252
Total revenues and other financing sources	13,972,967	6,068,151	20,041,118	19,621,888
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Judiciary	1,668	18,847	20,515	16,969
Inspector General	218	40	258	264
Governor and Lieutenant Governor	132	—	132	300
Secretary of the Commonwealth	4,864	1,530	6,394	6,360
Treasurer and Receiver-General	6,097,339	14,148	6,111,487	6,278,285
Auditor of the Commonwealth	—	2,936	2,936	2,333
Attorney General	24,515	943	25,458	18,596
Ethics Commission	—	87	87	627
District Attorney	3,042	5	3,047	2,338
Sheriffs' Departments	10,985	3,448	14,433	13,204
Disabled Persons Protection Commission	159	—	159	66
Board of Library Commissioners	2,854	12,435	15,289	22,355
Massachusetts Gaming Commission	36,749	—	36,749	33,692
Comptroller	2,022	137	2,159	2,776
Administration and Finance	392,502	619,824	1,012,326	1,032,317
Energy and Environmental Affairs	117,823	201,141	318,964	403,789
Health and Human Services	1,948,856	61,986	2,010,842	2,122,106
Massachusetts Department of Transportation	1,196,021	1,793,170	2,989,191	3,115,660
Executive Office of Education	991,602	54,352	1,045,954	1,038,729
Center for Health Information and Analysis	208	—	208	222
Public Safety and Security	245,863	40,760	286,623	273,692
Housing and Economic Development	503,427	359,467	862,894	783,949
Labor and Workforce Development	168,718	1,754	170,472	169,359
Debt service:				
Principal retirement	76,797	—	76,797	196,594
Interest and fiscal charges	117,079	—	117,079	99,217
Total expenditures	11,943,443	3,187,010	15,130,453	15,633,799
Other financing uses:				
Payments to advance refunding bonds escrow	—	2,080,702	2,080,702	1,424,030
Principal on current refundings	—	188,490	188,490	250,000
Fringe benefit cost assessment	189,437	15,528	204,965	180,437
Lottery operating reimbursements	100,392	—	100,392	107,935
Lottery distributions	1,025,411	—	1,025,411	975,255
Operating transfers out	324,162	—	324,162	249,499
Commonwealth care trust transfer	76,552	—	76,552	44,482
Health safety net trust transfer	—	—	—	30,000
Federal reimbursement transfer out	489,130	—	489,130	500,928
State share of federal highway construction	—	111,172	111,172	93,736
Total other financing uses	2,205,084	2,395,892	4,600,976	3,856,302
Total expenditures and other financing uses	14,148,527	5,582,902	19,731,429	19,490,101
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	(175,560)	485,249	309,689	131,787
Fund balance (deficit) at beginning of year (restated)	2,066,898	(334,696)	1,732,202	1,600,415
Fund balance (deficit) at end of year	\$ 1,891,338	\$ 150,553	\$ 2,041,891	\$ 1,732,202

See accompanying notes to financial statements and accountants' review report

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1. FINANCIAL STATEMENT PRESENTATION

A. INTRODUCTION

The accompanying combined financial statements (Statutory Basis Financial Report) of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A as amended by Section 4 of Chapter 88 of the Acts of 1997 of the Massachusetts General Laws, as amended most recently by Chapter 26, Section 4 of the Acts of 2009. The Office of the Comptroller also publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America for governments.

The Statutory Basis Financial Report (SBFR) includes the budgeted, non-budgeted, special revenue, and capital projects funds of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles.

The SBFR's financial statements are not intended to include independent authorities, non-appropriated funds of higher education, or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

B. GOVERNMENTAL FUND TYPES

The fund types are organized as follows:

Governmental fund types account for the general governmental activities of the Commonwealth.

Budgeted Funds - are the primary operating funds of the Commonwealth. They account for all budgeted governmental transactions, i.e., those subject to the annual appropriation process. 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 eight 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 Gaming Local Aid Fund, and the Local Aid Stabilization 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 almost entirely 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

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.

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. In some cases the liabilities will have been incurred prior to June 30, but recorded when paid in the following fiscal year, not as statutory payables.

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, except for balances in the Commonwealth Stabilization Fund, which are sequestered. 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. 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, 2015 and 2017. During FY17, the Commonwealth issued approximately \$125 million in GANs for new money needs under the Commonwealth's Accelerated Bridge Program. As of June 30, 2017, total principal remaining to be paid was approximately \$738 million. Maturities are from FY18 through FY27. Debt service paid during FY17 was approximately \$79 million.

In FY17, the Commonwealth issued approximately \$126 million in new money special obligation bonds under the Accelerated Bridge Program (ABP), \$210 million in new money special obligation bonds under the Rail Enhancement Program (REP) and \$104 million in special obligation refunding bonds. These bonds mature from FY18 to FY46 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, 2017, approximately \$1.643 billion and \$645 million in principal was outstanding on the ABP and REP bonds, respectively, and approximately \$1.235 billion and \$536 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 FY17. As of June 30, 2017, bonds secured by these pledged funds totaled approximately \$128 million of principal. These bonds mature from FY18 to FY22 and were issued in multiple series. Principal and interest paid during FY17 amounted to approximately \$42 million and \$9 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 FY17, total dedicated sales tax revenue that was directed to the MBTA was approximately \$992 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 FY17, approximately \$817 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, 2017, taxes within the Convention Center districts support approximately \$575 million of outstanding principal and approximately \$323 million of interest on debts related to these Convention Centers. Taxes collected in FY17 were approximately \$134 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 FY17, approximately \$548 million in motor vehicle sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$140 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 \$17 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 \$416 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, 2016, 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. BEGINNING OF YEAR FUND BALANCE

The beginning fund balance of the University of Massachusetts System, the State Universities and the Community Colleges were restated to reflect activities which were not previously reported.

3. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

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

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the 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 FY17 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 133 of the Acts of 2016:		
Direct appropriations	\$ 39,065,600	\$ 38,655,408
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2016	—	1,261,656
Total original budget	<u>39,065,600</u>	<u>39,917,064</u>
Supplemental Acts of 2016:		
Chapter 283	—	279,191
Supplemental Acts of 2017:		
Chapter 5	—	138,581
Chapter 20	—	41,690
Chapter 41	—	26,158
Chapter 110	—	85,527
Total budgeted revenues and expenditures per Legislative action	<u>—</u>	<u>571,147</u>
Chapter 29, Section 9C Reductions	—	(115,592)
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending	<u>2,238,244</u>	<u>2,238,100</u>
Budgeted revenues and expenditures as reported	<u>\$ 41,303,844</u>	<u>\$ 42,610,719</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):

	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Actual as presented in the combined budget and actual statement - statutory basis	\$ 41,784,743	\$ 41,819,001
Adjustments to revenues and expenditures:		
Transfer of revenues to the Intragovernmental Service Fund	(417,935)	(417,935)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments	(4,440)	(4,440)
Transfer of surplus revenues from the Intragovernmental Service Fund to the General Fund	(5,840)	(5,840)
RMV license plates	(4,213)	(4,213)
Transfers from General Fund to the Commonwealth Transportation Fund	(40,000)	(40,000)
Other fund deficit support	(144,797)	(144,797)
Other	(191)	(191)
Actual as presented on budgetary documents	<u>\$ 41,167,327</u>	<u>\$ 41,201,585</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)

MassDOT is an entity legally separate from the Commonwealth. MassDOT operations are reported separately in the non-budgeted special revenue funds section of this report, which includes all of the Commonwealth's highway and turnpike-related operations as well as the activity of the Registry of Motor Vehicles. MassDOT capital spending and revenue activity are reported in the capital funds section of this report, in the Central Artery Statewide Road and Bridge Infrastructure Fund, the Highway Capital Projects Fund, and the Federal Highway Construction Program Fund.

MassDOT financial activity is included in this report in order to reflect all activity reported on the Commonwealth's MMARS accounting system. For the SBFR, MassDOT is treated as an agency or department of the Commonwealth, as specified in Massachusetts General Laws. However, for GAAP reporting purposes, as reflected in the Commonwealth's CAFR, MassDOT will be included as a discretely presented component unit of the Commonwealth.

5. INDIVIDUAL FUND DEFICITS

The following Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2017, as follows (amounts in thousands) (excludes MassDOT):

Non-Budgeted Special Revenue:	
Federal Grants Fund.....	\$ (47,269)
Other:	
Health Information Technology Trust Fund.....	(45,124)
Government Land Bank Fund	(35,033)
Total Non-Budgeted Special Revenue Funds.....	<u>(127,426)</u>
Capital Projects:	
Highway Capital Projects Fund	(144,116)
Government Land Bank Capital Projects Fund	(500)
Total Capital Projects Funds.....	<u>(144,616)</u>
Total.....	<u>\$ (272,042)</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

Approximately 43.6% of the Commonwealth's budgeted fund spending for programs and services is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. For the fiscal year ended June 30, 2017, the General Fund includes approximately \$15.252 billion in expenditures for Medicaid claims. The combined financial statements - statutory basis includes Medicaid claims processed but unpaid at June 30, 2017 of approximately \$33 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 2017. Any excess undesignated fund balance as calculated by Section 5C of Chapter 29 of the MGL, are also transferred to this fund.

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 surcharge revenues 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, to preserve and promote public safety. The fund is not subject to the requirements of Section 5C of Chapter 29 of the MGL.

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 subject to the requirements of Section 5C of Chapter 29 of the MGL.

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. Even though this fund did not have FY17 activity, it is presented here for comparative purposes as there was FY16 activity.

Gaming Local Aid Fund - to account for gaming tax revenues generated by the tax on casino revenues. The fund is used to 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 subject to the requirements of Section 5C of Chapter 29 of the MGL. Even though this fund did not have FY17 activity, it is presented here for comparative purposes as there was FY16 activity.

The following funds have been enacted in legislation but had no activity in FY17 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.

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.

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.

Manufacturing Fund - To account for a portion of gaming facility license fees.

Community College Fund - to account for a portion of gaming license fees.

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.

Marijuana Regulation Fund - to account for all license and civil penalties collected, revenue generated by the state tax imposed by Section 2 of Chapter 64N of the MGL and interest earned or other income on balances in the fund. Subject to appropriation, unexpended balances may be redeposited in the General Fund after all necessary funds are expended for the implementation, administration and enforcement of Chapter 334, acts of 2016.

Budgeted Funds
Combining Balance Sheet - Statutory Basis
As of June 30, 2017
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control Intragovernmental Service
ASSETS				
Cash and short-term investments	\$ 256,679	\$ 482	\$ 1,028,454	\$ 51,090
Cash with fiscal agent	—	18,080	—	—
Investments.....	—	—	272,224	—
Receivables, net of allowance for uncollectibles:				
Due from federal government.....	646,986	—	—	—
Other receivables	18,501	—	—	—
Due from cities and towns.....	12,143	—	—	—
Total assets	<u>\$ 934,309</u>	<u>\$ 18,562</u>	<u>\$ 1,300,678</u>	<u>\$ 51,090</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deficiency in cash and short-term investments	\$ —	\$ —	\$ —	\$ —
Accounts payable.....	772,220	482	—	36,978
Accrued payroll.....	76,292	—	—	1,593
Total liabilities.....	<u>848,512</u>	<u>482</u>	<u>—</u>	<u>38,571</u>
Fund balance (deficit):				
Reserved for:				
Continuing appropriations	85,797	—	—	12,519
Commonwealth Stabilization	—	—	1,300,678	—
Debt service	—	18,080	—	—
Unreserved:				
Undesignated	—	—	—	—
Total fund equity (deficit)	<u>85,797</u>	<u>18,080</u>	<u>1,300,678</u>	<u>12,519</u>
Total liabilities and fund equity.....	<u>\$ 934,309</u>	<u>\$ 18,562</u>	<u>\$ 1,300,678</u>	<u>\$ 51,090</u>

See accountants' review report

Environmental		Budgeted Other				
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Community First Trust	Massachusetts Tourism	Gaming Local Aid	Local Aid Stabilization
\$ 13,265	\$ 3,302	\$ 2,892	\$ 12,037	\$ —	\$ —	\$ 50
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>\$ 13,265</u>	<u>\$ 3,302</u>	<u>\$ 2,892</u>	<u>\$ 12,037</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
573	111	—	—	—	—	—
190	11	—	—	—	—	—
<u>763</u>	<u>122</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
—	1,000	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
12,502	2,180	2,892	12,037	—	—	50
<u>12,502</u>	<u>3,180</u>	<u>2,892</u>	<u>12,037</u>	<u>—</u>	<u>—</u>	<u>50</u>
<u>\$ 13,265</u>	<u>\$ 3,302</u>	<u>\$ 2,892</u>	<u>\$ 12,037</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50</u>

continued

Budgeted Funds
Combining Balance Sheet - Statutory Basis
As of June 30, 2017
(Amounts in thousands)

	Totals (Memorandum only)	
	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 1,368,250	\$ 1,609,305
Cash with fiscal agent.....	18,080	16,690
Investments.....	272,224	271,744
Receivables, net of allowance for uncollectibles:.....		
Due from federal government.....	646,986	377,724
Other receivables.....	18,501	38,823
Due from cities and towns.....	12,143	23,268
Total assets.....	<u>\$ 2,336,184</u>	<u>\$ 2,337,554</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ —	\$ 15,108
Accounts payable.....	810,363	777,368
Accrued payroll.....	78,086	63,086
Total liabilities.....	<u>888,449</u>	<u>855,561</u>
Fund balance (deficit):		
Reserved for:		
Continuing appropriations.....	99,316	109,328
Commonwealth Stabilization.....	1,300,678	1,291,514
Debt service.....	18,080	16,690
Unreserved:		
Undesignated.....	29,661	64,461
Total fund equity (deficit).....	<u>1,447,735</u>	<u>1,481,993</u>
Total liabilities and fund equity.....	<u>\$ 2,336,184</u>	<u>\$ 2,337,554</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, 2017

(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control
				Intragovernmental Service
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 22,510,107	\$ 1,316,807	\$ 377	\$ —
Assessments	431,576	22,464	—	—
Federal grants and reimbursements.....	10,850,378	—	—	—
Tobacco settlement revenue	254,490	—	—	—
Departmental	2,658,200	666,638	—	436,146
Miscellaneous.....	311,305	240	8,787	—
Total revenues	37,016,056	2,006,149	9,164	436,146
Other financing sources:				
Fringe benefit cost recovery.....	416,180	—	—	—
Lottery reimbursements	100,392	—	—	—
Lottery distributions	1,025,411	—	—	—
Operating transfers in.....	431,583	40,000	—	—
Commonwealth care trust transfer	76,552	—	—	—
Stabilization transfer	—	—	—	—
Other fund deficit support	144,268	—	—	—
Total other financing sources	2,194,386	40,000	—	—
Total revenues and other financing sources	39,210,442	2,046,149	9,164	436,146
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	66,754	—	—	—
Judiciary	908,488	—	—	—
Inspector General	4,207	—	—	—
Governor and Lieutenant Governor	6,567	—	—	—
Secretary of the Commonwealth	45,849	—	—	—
Treasurer and Receiver-General.....	201,093	—	—	—
Auditor of the Commonwealth.....	18,227	—	—	—
Attorney General.....	46,282	—	—	—
Ethics Commission.....	1,883	—	—	—
District Attorney.....	119,790	—	—	—
Office of Campaign & Political Finance.....	1,521	—	—	—
Sheriffs' Departments.....	610,052	—	—	—
Disabled Persons Protection Commission	3,043	—	—	—
Board of Library Commissioners.....	25,157	—	—	—
Comptroller	8,830	—	—	5,234
Administration and Finance	2,131,774	—	—	243,692
Energy and Environmental Affairs.....	206,253	—	—	1,521
Health and Human Services	5,569,829	—	—	98,959
Massachusetts Department of Transportation	—	140,250	—	—
Office of the Child Advocate	633	—	—	—
Executive Office of Education	2,233,278	—	—	767
Center for Health Information and Analysis.....	23,031	—	—	—
Public Safety and Security	1,058,933	—	—	59,653
Housing and Economic Development.....	494,179	—	—	1,781
Labor and Workforce Development.....	44,267	—	—	—
Direct local aid	5,639,056	—	—	—
Medicaid.....	15,251,717	—	—	—
Post employment benefits	2,643,761	15,948	—	—
Debt service:				
Principal retirement	693,349	595,516	—	11,632
Interest and fiscal charges	484,588	499,592	—	—
Total expenditures	38,542,391	1,251,306	—	423,239
Other financing uses:				
Fringe benefit cost assessment	—	—	—	—
Operating transfers out.....	93,614	648,656	—	5,840
Stabilization transfer	—	—	—	—
Medical assistance transfer	403,367	—	—	—
Delivery system transformation initiatives trust transfer	189,149	—	—	—
Other fund deficit support	—	144,797	—	—
Total other financing uses	686,130	793,453	—	5,840
Total expenditures and other financing uses	39,228,521	2,044,759	—	429,079
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use.....	(18,079)	1,390	9,164	7,067
Fund balance (deficit) at beginning of year	103,876	16,690	1,291,514	5,452
Fund balance (deficit) at end of year	\$ 85,797	\$ 18,080	\$ 1,300,678	\$ 12,519

See accountants' review report

Environmental		Budgeted Other				
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Community First Trust	Massachusetts Tourism	Gaming Local Aid	Local Aid Stabilization
\$ 1,007	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—
7,452	—	—	—	—	—	—
—	—	—	—	—	—	—
7,158	1,637	1,171	—	—	—	—
254	—	—	—	—	—	—
15,871	1,637	1,171	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
191	—	—	—	—	63,442	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	528	—
191	—	—	—	—	63,970	—
16,062	1,637	1,171	—	—	63,970	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	1	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	10	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
126	—	—	—	—	—	—
14,808	1,000	—	—	—	—	—
—	—	—	—	31,616	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	670	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	63,970	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
14,934	1,000	681	31,616	—	63,970	—
3,225	159	88	968	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
3,225	159	88	968	—	—	—
18,159	1,159	769	32,584	—	63,970	—
(2,097)	478	402	(32,584)	—	—	—
14,599	2,702	2,490	44,621	—	—	50
\$ 12,502	\$ 3,180	\$ 2,892	\$ 12,037	\$ —	\$ —	\$ 50

continued

Budgeted Funds

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Totals (Memorandum only)	
	2017	2016
REVENUES AND OTHER FINANCING SOURCES		
Revenues:		
Taxes	\$ 23,828,296	\$ 23,616,920
Assessments	454,040	419,382
Federal grants and reimbursements	10,857,831	10,642,720
Tobacco settlement revenue	254,490	257,616
Departmental	3,770,951	3,579,470
Miscellaneous	320,586	386,005
Total revenues	<u>39,486,194</u>	<u>38,902,113</u>
Other financing sources:		
Fringe benefit cost recovery	416,181	365,659
Lottery reimbursements	100,392	107,935
Lottery distributions	1,025,411	975,254
Operating transfers in	535,216	345,200
Commonwealth care trust transfer	76,552	44,482
Stabilization transfer	—	27,100
Other fund deficit support	144,797	70,707
Total other financing sources	<u>2,298,549</u>	<u>1,936,337</u>
Total revenues and other financing sources	<u>41,784,743</u>	<u>40,838,450</u>
EXPENDITURES AND OTHER FINANCING USES		
Expenditures:		
Legislature	66,754	61,368
Judiciary	908,488	878,664
Inspector General	4,207	4,315
Governor and Lieutenant Governor	6,567	6,603
Secretary of the Commonwealth	45,849	39,322
Treasurer and Receiver-General	201,093	205,226
Auditor of the Commonwealth	18,227	18,354
Attorney General	46,283	44,265
Ethics Commission	1,883	2,034
District Attorney	119,790	114,087
Office of Campaign & Political Finance	1,521	1,516
Sheriffs' Departments	610,062	603,220
Disabled Persons Protection Commission	3,043	2,943
Board of Library Commissioners	25,157	25,333
Comptroller	14,064	13,911
Administration and Finance	2,375,592	2,299,220
Energy and Environmental Affairs	223,582	222,851
Health and Human Services	5,700,404	5,530,514
Massachusetts Department of Transportation	140,250	171,437
Office of the Child Advocate	633	595
Executive Office of Education	2,234,045	2,281,321
Center for Health Information and Analysis	23,031	26,625
Public Safety and Homeland Security	1,119,256	1,121,829
Housing and Economic Development	495,960	536,247
Labor and Workforce Development	44,267	45,082
Direct local aid	5,703,027	5,567,738
Medicaid	15,251,717	14,851,007
Post employment benefits	2,659,709	2,503,377
Debt service:		
Principal retirement	1,300,497	1,288,270
Interest and fiscal charges	984,180	886,037
Total expenditures	<u>40,329,138</u>	<u>39,353,310</u>
Other financing uses:		
Fringe benefit cost assessment	4,440	4,485
Operating transfers out	748,110	646,170
Medical assistance transfer	403,367	665,564
Delivery system transformation initiatives trust transfer	189,149	186,907
Other fund deficit support	144,797	70,707
Total other financing uses	<u>1,489,863</u>	<u>1,573,833</u>
Total expenditures and other financing uses	<u>41,819,001</u>	<u>40,927,143</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing use	(34,258)	(88,693)
Fund balance (deficit) at beginning of year	1,481,993	1,570,686
Fund balance (deficit) at end of year	<u>\$ 1,447,735</u>	<u>\$ 1,481,993</u>

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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, 2017

(Amounts in thousands)

	General			Commonwealth Transportation		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ 23,079,900	\$ 22,510,107	\$ (569,793)	\$ 1,347,500	\$ 1,316,807	\$ (30,693)
Assessments	426,261	431,576	5,315	13,296	22,464	9,168
Federal grants and reimbursements.....	10,753,035	10,850,378	97,343	—	—	—
Tobacco settlement revenue.....	257,500	254,490	(3,010)	—	—	—
Departmental	2,435,620	2,658,200	222,580	663,301	666,638	3,337
Miscellaneous.....	277,844	311,305	33,461	217	240	23
Total revenues.....	<u>37,230,160</u>	<u>37,016,056</u>	<u>(214,104)</u>	<u>2,024,314</u>	<u>2,006,149</u>	<u>(18,165)</u>
Other financing sources:						
Fringe benefit cost recovery.....	430,883	416,180	(14,703)	—	—	—
Lottery reimbursements.....	94,490	100,392	5,902	—	—	—
Lottery distributions	1,012,351	1,025,411	13,060	—	—	—
Operating transfers in.....	385,462	431,583	46,121	40,000	40,000	—
Commonwealth care trust transfer	—	76,552	76,552	—	—	—
Other fund deficit support	—	144,268	144,268	—	—	—
Total other financing sources.....	<u>1,923,186</u>	<u>2,194,386</u>	<u>271,200</u>	<u>40,000</u>	<u>40,000</u>	<u>—</u>
Total revenues and other financing sources.....	<u>39,153,346</u>	<u>39,210,442</u>	<u>57,096</u>	<u>2,064,314</u>	<u>2,046,149</u>	<u>(18,165)</u>
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature.....	99,124	66,754	32,370	—	—	—
Judiciary	914,430	908,488	5,942	—	—	—
Inspector General	4,217	4,207	10	—	—	—
Governor and Lieutenant Governor	7,811	6,567	1,244	—	—	—
Secretary of the Commonwealth.....	47,675	45,849	1,826	—	—	—
Treasurer and Receiver-General.....	212,746	201,093	11,653	—	—	—
Auditor of the Commonwealth.....	18,481	18,227	254	—	—	—
Attorney General.....	47,696	46,282	1,414	—	—	—
Ethics Commission.....	1,969	1,883	86	—	—	—
District Attorney.....	120,542	119,790	752	—	—	—
Office of Campaign & Political Finance.....	1,586	1,521	65	—	—	—
Sheriffs' Departments.....	610,988	610,052	936	—	—	—
Disabled Persons Protection Commission.....	3,043	3,043	—	—	—	—
Board of Library Commissioners.....	25,167	25,157	10	—	—	—
Comptroller	8,833	8,830	3	—	—	—
Administration and Finance.....	2,183,656	2,131,774	51,882	—	—	—
Energy and Environmental Affairs.....	214,960	206,253	8,707	—	—	—
Health and Human Services.....	5,692,308	5,569,829	122,479	—	—	—
Massachusetts Department of Transportation.....	—	—	—	187,000	140,250	46,750
Office of the Child Advocate.....	994	633	361	—	—	—
Executive Office of Education	2,271,600	2,233,278	38,322	—	—	—
Center for Health Information and Analysis.....	30,085	23,031	7,054	—	—	—
Public Safety and Security	1,091,415	1,058,933	32,482	—	—	—
Housing and Economic Development.....	517,176	494,179	22,997	—	—	—
Labor and Workforce Development.....	54,964	44,267	10,697	—	—	—
Direct local aid	5,664,525	5,639,056	25,469	—	—	—
Medicaid.....	15,254,269	15,251,717	2,552	—	—	—
Post employment benefits	2,638,100	2,643,761	(5,661)	—	15,948	(15,948)
Debt service:						
Principal retirement	717,975	693,349	24,626	621,644	595,516	26,128
Interest and fiscal charges	501,799	484,588	17,211	539,365	499,592	39,773
Total expenditures	<u>38,958,134</u>	<u>38,542,391</u>	<u>415,743</u>	<u>1,348,009</u>	<u>1,251,306</u>	<u>96,703</u>
Other financing uses:						
Fringe benefit cost assessment	—	—	—	—	—	—
Operating transfers out	55,353	93,614	(38,261)	644,443	648,656	(4,213)
Medical assistance transfer.....	736,154	403,367	332,787	—	—	—
Delivery system transformation initiatives trust transfer ..	196,252	189,149	7,103	—	—	—
Other fund deficit support	—	—	—	—	144,797	(144,797)
Total other financing uses.....	<u>987,759</u>	<u>686,130</u>	<u>301,629</u>	<u>644,443</u>	<u>793,453</u>	<u>(149,010)</u>
Total expenditures and other financing uses.....	<u>39,945,893</u>	<u>39,228,521</u>	<u>717,372</u>	<u>1,992,452</u>	<u>2,044,759</u>	<u>(52,307)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	<u>\$ (792,547)</u>	<u>(18,079)</u>	<u>\$ 774,468</u>	<u>\$ 71,862</u>	<u>1,390</u>	<u>\$ (70,472)</u>
Fund balance (deficit) at beginning of year.....		<u>103,876</u>			<u>16,690</u>	
Fund balance (deficit) at end of year.....		<u>\$ 85,797</u>			<u>\$ 18,080</u>	

See accountants' review report

Budgeted Funds

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Environmental			Budgeted Other		
	Marine Recreational Fisheries Development		Variance Favorable (Unfavorable)	Public Safety Trust		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—
Tobacco settlement revenue.....	—	—	—	—	—	—
Departmental	1,430	1,637	207	800	1,171	371
Miscellaneous.....	—	—	—	—	—	—
Total revenues.....	<u>1,430</u>	<u>1,637</u>	<u>207</u>	<u>800</u>	<u>1,171</u>	<u>371</u>
Other financing sources:						
Fringe benefit cost recovery.....	—	—	—	—	—	—
Lottery reimbursements.....	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—
Operating transfers in.....	—	—	—	—	—	—
Commonwealth care trust 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>1,430</u>	<u>1,637</u>	<u>207</u>	<u>800</u>	<u>1,171</u>	<u>371</u>
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature	—	—	—	—	—	—
Judiciary	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—
Auditor of the Commonwealth.....	—	—	—	—	—	—
Attorney General.....	—	—	—	2	1	1
Ethics Commission.....	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—
Office of Campaign & Political Finance.....	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	10	10	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—
Administration and Finance	—	—	—	—	—	—
Energy and Environmental Affairs.....	2,320	1,000	1,320	—	—	—
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	—	—	—	691	670	21
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>2,320</u>	<u>1,000</u>	<u>1,320</u>	<u>703</u>	<u>681</u>	<u>22</u>
Other financing uses:						
Fringe benefit cost assessment	—	159	(159)	—	88	(88)
Operating transfers out	—	—	—	—	—	—
Medical assistance transfer.....	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer ..	—	—	—	—	—	—
Other fund deficit support	—	—	—	—	—	—
Total other financing uses.....	<u>—</u>	<u>159</u>	<u>(159)</u>	<u>—</u>	<u>88</u>	<u>(88)</u>
Total expenditures and other financing uses	<u>2,320</u>	<u>1,159</u>	<u>1,161</u>	<u>703</u>	<u>769</u>	<u>(66)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (890)</u>	<u>478</u>	<u>\$ 1,368</u>	<u>\$ 97</u>	<u>402</u>	<u>\$ 305</u>
Fund balance (deficit) at beginning of year.....		<u>2,702</u>			<u>2,490</u>	
Fund balance (deficit) at end of year.....		<u>\$ 3,180</u>			<u>\$ 2,892</u>	

See accountants' review report

Budgeted Funds

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Budgeted Other			Totals		
	Local Aid Stabilization			(Memorandum only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ —	\$ —	\$ —	\$ 24,428,400	\$ 23,828,296	\$ (600,104)
Assessments	—	—	—	439,557	454,040	14,483
Federal grants and reimbursements.....	—	—	—	10,759,235	10,857,831	98,596
Tobacco settlement revenue.....	—	—	—	257,500	254,490	(3,010)
Departmental	—	—	—	3,108,189	3,770,951	662,762
Miscellaneous.....	—	—	—	283,595	320,586	36,991
Total revenues.....	—	—	—	39,276,476	39,486,194	209,718
Other financing sources:						
Fringe benefit cost recovery.....	—	—	—	430,883	416,181	(14,702)
Lottery reimbursements.....	—	—	—	94,490	100,392	5,902
Lottery distributions	—	—	—	1,012,351	1,025,411	13,060
Operating transfers in.....	—	—	—	489,644	535,216	45,572
Commonwealth care trust transfer	—	—	—	—	76,552	76,552
Other fund deficit support	—	—	—	—	144,797	144,797
Total other financing sources.....	—	—	—	2,027,368	2,298,549	271,181
Total revenues and other financing sources.....	—	—	—	41,303,844	41,784,743	480,899
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature.....	—	—	—	99,124	66,754	32,370
Judiciary	—	—	—	914,429	908,488	5,941
Inspector General	—	—	—	4,217	4,207	10
Governor and Lieutenant Governor	—	—	—	7,811	6,567	1,244
Secretary of the Commonwealth.....	—	—	—	47,791	45,849	1,942
Treasurer and Receiver-General.....	—	—	—	212,746	201,093	11,653
Auditor of the Commonwealth.....	—	—	—	18,481	18,227	254
Attorney General.....	—	—	—	47,699	46,283	1,416
Ethics Commission.....	—	—	—	1,969	1,883	86
District Attorney.....	—	—	—	120,542	119,790	752
Office of Campaign & Political Finance.....	—	—	—	1,586	1,521	65
Sheriffs' Departments.....	—	—	—	610,998	610,062	936
Disabled Persons Protection Commission.....	—	—	—	3,043	3,043	—
Board of Library Commissioners.....	—	—	—	25,167	25,157	10
Comptroller	—	—	—	14,579	14,064	515
Administration and Finance	—	—	—	2,503,222	2,375,592	127,630
Energy and Environmental Affairs.....	—	—	—	235,544	223,582	11,962
Health and Human Services	—	—	—	5,844,805	5,700,404	144,401
Massachusetts Department of Transportation.....	—	—	—	187,000	140,250	46,750
Office of the Child Advocate.....	—	—	—	994	633	361
Executive Office of Education	—	—	—	2,273,460	2,234,045	39,415
Center for Health Information and Analysis.....	—	—	—	30,085	23,031	7,054
Public Safety and Security	—	—	—	1,161,216	1,119,256	41,960
Housing and Economic Development.....	—	—	—	524,723	495,960	28,763
Labor and Workforce Development.....	—	—	—	74,005	44,267	29,738
Direct local aid	—	—	—	5,728,497	5,703,027	25,470
Medicaid.....	—	—	—	15,254,269	15,251,717	2,552
Post employment benefits	—	—	—	2,638,100	2,659,709	(21,609)
Debt service:						
Principal retirement	—	—	—	1,351,251	1,300,497	50,754
Interest and fiscal charges	—	—	—	1,041,164	984,180	56,984
Total expenditures	—	—	—	40,978,517	40,329,138	649,379
Other financing uses:						
Fringe benefit cost assessment	—	—	—	—	4,440	(4,440)
Operating transfers out	—	—	—	699,796	748,110	(48,314)
Medical assistance transfer.....	—	—	—	736,154	403,367	332,787
Delivery system transformation initiatives trust transfer ..	—	—	—	196,252	189,149	7,103
Other fund deficit support	—	—	—	—	144,797	(144,797)
Total other financing uses.....	—	—	—	1,632,202	1,489,863	142,339
Total expenditures and other financing uses.....	—	—	—	42,610,719	41,819,001	791,718
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	\$ —	—	\$ —	\$ (1,306,875)	(34,258)	\$ 1,272,617
Fund balance (deficit) at beginning of year.....	—	50	—	—	1,481,993	—
Fund balance (deficit) at end of year.....	—	\$ 50	—	—	\$ 1,447,735	—

See accountants' review report



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General Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

ASSETS	<u>2017</u>	<u>2016</u>
Cash and short-term investments.....	\$ 256,679	\$ 487,253
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	646,986	377,724
Other receivables	18,501	23,240
Due from cities and towns.....	12,143	23,268
Total assets.....	<u>\$ 934,309</u>	<u>\$ 911,485</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ 772,220	\$ 746,749
Accrued payroll	76,292	60,860
Total liabilities.....	<u>848,512</u>	<u>807,609</u>
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	85,797	103,876
Total fund balance.....	<u>85,797</u>	<u>103,876</u>
Total liabilities and fund balance.....	<u>\$ 934,309</u>	<u>\$ 911,485</u>

See accountants' review report

General Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 23,079,900	\$ 22,510,107	\$ (569,793)	\$ 22,257,084
Assessments	426,261	431,576	5,315	395,984
Federal grants and reimbursements	10,753,035	10,850,378	97,343	10,585,466
Tobacco settlement revenue	257,500	254,490	(3,010)	257,616
Departmental	2,435,620	2,658,200	222,580	2,505,504
Miscellaneous.....	277,844	311,305	33,461	367,327
Total revenues.....	37,230,160	37,016,056	(214,104)	36,368,981
Other financing sources:				
Fringe benefit cost recovery	430,883	416,180	(14,703)	365,659
Lottery reimbursements.....	94,490	100,392	5,902	107,935
Lottery distributions	1,012,351	1,025,411	13,060	975,254
Operating transfers in	385,462	431,583	46,121	280,653
Commonwealth care trust transfer	—	76,552	76,552	44,482
Other fund deficit support	—	144,268	144,268	30,031
Total other financing sources.....	1,923,186	2,194,386	271,200	1,804,014
Total revenues and other financing sources...	39,153,346	39,210,442	57,096	38,172,995
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	99,124	66,754	32,370	61,368
Judiciary	914,430	908,488	5,942	878,663
Inspector General	4,217	4,207	10	4,315
Governor and Lieutenant Governor	7,811	6,567	1,244	6,576
Secretary of the Commonwealth.....	47,675	45,849	1,826	39,322
Treasurer and Receiver-General.....	212,746	201,093	11,653	205,226
Auditor of the Commonwealth.....	18,481	18,227	254	18,354
Attorney General.....	47,696	46,282	1,414	44,265
Ethics Commission.....	1,969	1,883	86	2,034
District Attorney.....	120,542	119,790	752	114,084
Office of Campaign and Political Finance	1,586	1,521	65	1,516
Sheriffs' Department.....	610,988	610,052	936	603,220
Disabled Persons Protection Commission.....	3,043	3,043	—	2,943
Board of Library Commissioners.....	25,167	25,157	10	25,333
Comptroller	8,833	8,830	3	8,870

continued

General Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
Expenditures (continued):				
Administration and Finance	2,183,656	2,131,774	51,882	2,076,261
Energy and Environmental Affairs.....	214,960	206,253	8,707	203,683
Health and Human Services	5,692,308	5,569,829	122,479	5,383,102
Office of the Child Advocate.....	994	633	361	595
Executive Office of Education	2,271,600	2,233,278	38,322	2,280,888
Center for Health Information and Analysis	30,085	23,031	7,054	26,625
Public Safety and Security	1,091,415	1,058,933	32,482	1,065,606
Housing and Economic Development.....	517,176	494,179	22,997	512,117
Labor and Workforce Development.....	54,964	44,267	10,697	45,082
Direct local aid	5,664,525	5,639,056	25,469	5,462,705
Medicaid.....	15,254,269	15,251,717	2,552	14,851,007
Post employment benefits	2,638,100	2,643,761	(5,661)	2,461,159
Debt service:				
Principal retirement.....	717,975	693,349	24,626	561,002
Interest and fiscal charges	501,799	484,588	17,211	424,579
Total expenditures.....	38,958,134	38,542,391	415,743	37,370,500
Other financing uses:				
Operating transfers out	55,353	93,614	(38,261)	45,572
Medical assistance transfer.....	736,154	403,367	332,787	665,564
Delivery system transformation initiatives trust transfer.....	196,252	189,149	7,103	186,907
Total other financing uses.....	987,759	686,130	301,629	898,043
Total expenditures and other financing uses....	39,945,893	39,228,521	717,372	38,268,543
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (792,547)</u>	<u>(18,079)</u>	<u>\$ 774,468</u>	<u>(95,548)</u>
Fund balance (deficit) at beginning of year		103,876		199,424
Fund balance (deficit) at end of year.....		<u>\$ 85,797</u>		<u>\$ 103,876</u>

See accountants' review report



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Commonwealth Transportation Fund

Balance Sheet - Statutory Basis

As of June 30, 2017

(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 482	\$ —
Cash with fiscal agent.....	18,080	16,690
Receivables, net of allowance for uncollectibles:		
Other receivables	—	15,583
Total assets.....	\$ 18,562	\$ 32,273
LIABILITIES AND FUND BALANCE		
Liabilities:		
Deficiency in cash and short-term investments	\$ —	\$ 15,108
Accounts payable.....	482	475
Total liabilities.....	482	15,583
Fund balance:		
Reserved fund balance:		
Reserved for debt service.....	18,080	16,690
Total fund balance.....	18,080	16,690
Total liabilities and fund balance.....	\$ 18,562	\$ 32,273

See accountants' review report

Commonwealth Transportation Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 1,347,500	\$ 1,316,807	\$ (30,693)	\$ 1,301,318
Assessments	13,296	22,464	9,168	23,398
Departmental	663,301	666,638	3,337	661,268
Miscellaneous	217	240	23	7,371
Total revenues	<u>2,024,314</u>	<u>2,006,149</u>	<u>(18,165)</u>	<u>1,993,355</u>
Other financing sources:				
Operating transfers in	40,000	40,000	—	—
Total other financing sources	<u>40,000</u>	<u>40,000</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources.....	<u>2,064,314</u>	<u>2,046,149</u>	<u>(18,165)</u>	<u>1,993,355</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Massachusetts Department of Transportation	187,000	140,250	46,750	171,417
Post employment benefits	—	15,948	(15,948)	42,218
Debt service:				
Principal retirement	621,644	595,516	26,128	713,596
Interest and fiscal charges	539,365	499,592	39,773	461,458
Total expenditures	<u>1,348,009</u>	<u>1,251,306</u>	<u>96,703</u>	<u>1,388,689</u>
Other financing uses:				
Operating transfers out	644,443	648,656	(4,213)	566,790
Other fund deficit support	—	144,797	(144,797)	35,089
Total other financing uses	<u>644,443</u>	<u>793,453</u>	<u>(149,010)</u>	<u>601,879</u>
Total expenditures and other financing uses	<u>1,992,452</u>	<u>2,044,759</u>	<u>(52,307)</u>	<u>1,990,568</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ 71,862</u>	1,390	<u>\$ (70,472)</u>	2,787
Fund balance (deficit) at beginning of year		<u>16,690</u>		<u>13,903</u>
Fund balance (deficit) at end of year		<u>\$ 18,080</u>		<u>\$ 16,690</u>

See accountants' review report

Commonwealth Stabilization Fund

Balance Sheet - Statutory Basis

As of June 30, 2017

(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 1,028,454	\$ 1,019,769
Investments.....	272,224	271,745
Total assets.....	<u>\$ 1,300,678</u>	<u>\$ 1,291,514</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	<u>—</u>	<u>—</u>
Fund balance:		
Reserved fund balance:		
Reserved for Commonwealth Stabilization	1,300,678	1,291,514
Total fund balance.....	<u>1,300,678</u>	<u>1,291,514</u>
Total liabilities and fund balance.....	<u>\$ 1,300,678</u>	<u>\$ 1,291,514</u>

See accountants' review report

Commonwealth Stabilization Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ —	\$ 377	\$ 377	\$ 744
Miscellaneous	5,500	8,787	3,287	11,240
Total revenues	<u>5,500</u>	<u>9,164</u>	<u>3,664</u>	<u>11,985</u>
Other financing sources:				
Stabilization transfer	—	—	—	27,100
Total other financing sources	—	—	—	27,100
Total revenues and other financing sources.....	<u>5,500</u>	<u>9,164</u>	<u>3,664</u>	<u>39,085</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Administration and Finance	—	—	—	—
Total expenditures	—	—	—	—
Other financing uses:				
Stabilization transfer	—	—	—	—
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	<u>\$ 5,500</u>	9,164	<u>\$ 3,664</u>	39,085
Fund balance (deficit) at beginning of year.....		<u>1,291,514</u>		<u>1,252,429</u>
Fund balance (deficit) at end of year		<u>\$ 1,300,678</u>		<u>\$ 1,291,514</u>

See accountants' review report

Intragovernmental Service Fund

Balance Sheet - Statutory Basis

As of June 30, 2017

(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 51,090	\$ 34,342
Total assets.....	<u>\$ 51,090</u>	<u>\$ 34,342</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 36,978	\$ 26,854
Accrued payroll	1,593	2,036
Total liabilities	<u>38,571</u>	<u>28,890</u>
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	12,519	5,452
Total fund balance.....	<u>12,519</u>	<u>5,452</u>
Total liabilities and fund balance.....	<u>\$ 51,090</u>	<u>\$ 34,342</u>

See accountants' review report

Intragovernmental Service Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ 436,146	\$ 436,146	\$ 402,100
Total revenues	—	436,146	436,146	402,100
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	436,146	436,146	402,100
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Secretary of the Commonwealth	116	—	116	—
Comptroller	5,746	5,234	512	5,041
Administration and Finance	319,404	243,692	75,712	222,855
Energy and Environmental Affairs.....	1,536	1,521	15	1,471
Health and Human Services	120,521	98,959	21,562	97,554
Executive Office of Education	1,860	767	1,093	432
Public Safety and Security	69,111	59,653	9,458	56,223
Housing and Economic Development	7,547	1,781	5,766	1,666
Labor and Workforce Development	19,041	—	19,041	—
Debt service:				
Principal retirement	11,632	11,632	—	13,671
Total expenditures	556,514	423,239	133,275	398,913
Other financing uses:				
Operating transfers out	—	5,840	(5,840)	8,721
Total other financing uses	—	5,840	(5,840)	8,721
Total expenditures and other financing uses	556,514	429,079	127,435	407,634
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (556,514)</u>	7,067	<u>\$ 563,581</u>	(5,534)
Fund balance (deficit) at beginning of year.....		5,452		10,986
Fund balance (deficit) at end of year		<u>\$ 12,519</u>		<u>\$ 5,452</u>

See accountants' review report

Inland Fisheries And Game Fund

Balance Sheet - Statutory Basis

As of June 30, 2017

(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 13,265	\$ 16,569
Total assets.....	<u>\$ 13,265</u>	<u>\$ 16,569</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 573	\$ 1,814
Accrued payroll	190	156
Total liabilities	<u>763</u>	<u>1,970</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	12,502	14,599
Total fund balance.....	<u>12,502</u>	<u>14,599</u>
Total liabilities and fund balance.....	<u>\$ 13,265</u>	<u>\$ 16,569</u>

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, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 1,000	\$ 1,007	\$ 7	\$ 1,001
Federal grants and reimbursements	6,200	7,452	1,252	8,824
Departmental	7,038	7,158	120	7,787
Miscellaneous	34	254	220	66
Total revenues	14,272	15,871	1,599	17,678
Other financing sources:				
Operating transfers in	182	191	9	190
Total other financing sources	182	191	9	190
Total revenues and other financing sources.....	14,454	16,062	1,608	17,868
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Administration and Finance	162	126	36	105
Energy and Environmental Affairs	16,727	14,808	1,919	16,468
Total expenditures	16,889	14,934	1,955	16,573
Other financing uses				
Fringe benefit cost assessment	—	3,225	(3,225)	2,730
Total other financing uses	—	3,225	(3,225)	2,730
Total expenditures and other financing uses	16,889	18,159	(1,270)	19,303
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (2,435)</u>	<u>(2,097)</u>	<u>\$ 338</u>	<u>(1,435)</u>
Fund balance (deficit) at beginning of year		<u>14,599</u>		<u>16,034</u>
Fund balance (deficit) at end of year		<u>\$ 12,502</u>		<u>\$ 14,599</u>

See accountants' review report

Marine Recreational Fisheries Development Fund

Balance Sheet - Statutory Basis

As of June 30, 2017

(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 3,302	\$ 2,825
Total assets.....	\$ 3,302	\$ 2,825
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 111	\$ 115
Accrued payroll	11	8
Total liabilities	122	123
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	1,000	—
Unreserved fund balance:		
Undesignated.....	2,180	2,702
Total fund balance.....	3,180	2,702
Total liabilities and fund balance.....	\$ 3,302	\$ 2,825

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, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ 1,430	\$ 1,637	\$ 207	\$ 1,502
Total revenues	1,430	1,637	207	1,502
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	1,430	1,637	207	1,502
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Energy and Environmental Affairs	2,320	1,000	1,320	1,228
Total expenditures	2,320	1,000	1,320	1,228
Other financing uses				
Fringe benefit cost assessment	—	159	(159)	138
Total other financing uses	—	159	(159)	138
Total expenditures and other financing uses	2,320	1,159	1,161	1,366
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	\$ (890)	478	\$ 1,368	136
Fund balance (deficit) at beginning of year.....		2,702		2,566
Fund balance (deficit) at end of year		\$ 3,180		\$ 2,702

See accountants' review report

Public Safety Training Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 2,892	\$ 2,490
Total assets.....	\$ 2,892	\$ 2,490
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	2,892	2,490
Total fund balance.....	2,892	2,490
Total liabilities and fund balance.....	\$ 2,892	\$ 2,490

See accountants' review report

Public Safety Training Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ 800	\$ 1,171	\$ 371	\$ 1,308
Total revenues	800	1,171	371	1,308
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	800	1,171	371	1,308
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Attorney General	2	1	1	—
Sheriffs' Department	10	10	—	—
Public Safety and Security	691	670	21	—
Total expenditures	703	681	22	—
Other financing uses:				
Fringe benefit cost assessment	—	88	(88)	—
Total other financing uses	—	88	(88)	—
Total expenditures and other financing uses	703	769	(66)	—
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	\$ 97	402	\$ 305	1,308
Fund balance (deficit) at beginning of year.....		2,490		1,182
Fund balance (deficit) at end of year		\$ 2,892		\$ 2,490

See accountants' review report

Community First Trust Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 12,037	\$ 44,621
Total assets.....	<u>\$ 12,037</u>	<u>\$ 44,621</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	<u>—</u>	<u>—</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	12,037	44,621
Total fund balance.....	<u>12,037</u>	<u>44,621</u>
Total liabilities and fund balance.....	<u>\$ 12,037</u>	<u>\$ 44,621</u>

See accountants' review report

Community First Trust Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Federal grants and reimbursements	\$ —	\$ —	\$ —	\$ 48,430
Total revenues	—	—	—	48,430
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	—	—	48,430
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Judiciary	—	—	—	2
District Attorney	—	—	—	3
Health and Human Services	31,976	31,616	360	49,859
Housing and Economic Development	—	—	—	80
Total expenditures	31,976	31,616	360	49,943
Other financing uses:				
Fringe benefit cost assessment	—	968	(968)	1,212
Operating transfers out	—	—	—	25,087
Total other financing uses	—	968	(968)	26,299
Total expenditures and other financing uses	31,976	32,584	(608)	76,242
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (31,976)</u>	<u>(32,584)</u>	<u>\$ (608)</u>	<u>(27,812)</u>
Fund balance (deficit) at beginning of year		44,621		72,433
Fund balance (deficit) at end of year		<u>\$ 12,037</u>		<u>\$ 44,621</u>

See accountants' review report

Massachusetts Tourism Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ —	\$ 1,385
Total assets.....	<u>\$ —</u>	<u>\$ 1,385</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ 1,359
Accrued payroll	—	26
Total liabilities	<u>—</u>	<u>1,385</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	—	—
Total fund balance.....	<u>—</u>	<u>—</u>
Total liabilities and fund balance.....	<u>\$ —</u>	<u>\$ 1,385</u>

See accountants' review report

Massachusetts Tourism Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ —	\$ —	\$ —	\$ 56,772
Total revenues	—	—	—	56,772
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	—	—	56,772
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Governor and Lieutenant Governor	—	—	—	27
Massachusetts Departments of Transportation.....	—	—	—	20
Housing and Economic Development	—	—	—	22,384
Total expenditures	—	—	—	22,431
Other financing uses:				
Fringe benefit cost assessment	—	—	—	404
Other fund deficit support	—	—	—	35,618
Total other financing uses	—	—	—	36,022
Total expenditures and other financing uses	—	—	—	58,453
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>(1,681)</u>
Fund balance (deficit) at beginning of year.....		—		1,681
Fund balance (deficit) at end of year		<u>\$ —</u>		<u>\$ —</u>

See accountants' review report

Gaming Local Aid Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ —	\$ —
Total assets.....	\$ —	\$ —
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	—	—
Total fund balance (deficit).....	—	—
Total liabilities and fund balance.....	\$ —	\$ —

See accountants' review report

Gaming Local Aid Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ —	\$ —	\$ —
Total revenues	—	—	—	—
Other financing sources:				
Operating transfers in	64,000	63,442	(558)	64,356
Other fund deficit support	—	528	528	40,677
Total other financing sources	64,000	63,970	(30)	105,033
Total revenues and other financing sources.....	64,000	63,970	(30)	105,033
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Direct local aid	63,973	63,970	3	105,033
Total expenditures	63,973	63,970	3	105,033
Other financing uses:				
Operating transfers out	—	—	—	—
Total other financing uses	—	—	—	—
Total expenditures and other financing uses	63,973	63,970	3	105,033
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	\$ 27	—	\$ (27)	—
Fund balance (deficit) at beginning of year				—
Fund balance (deficit) at end of year		\$ —		\$ —

See accountants' review report

Local Aid Stabilization Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2017	2016
ASSETS		
Cash and short-term investments.....	\$ 50	\$ 50
Total assets.....	\$ 50	\$ 50
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	50	50
Total fund balance.....	50	50
Total liabilities and fund balance.....	\$ 50	\$ 50

See accountants' review report

Local Aid Stabilization Fund

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

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	2017 Budget	2017 Actual	Variance Favorable (Unfavorable)	2016 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ —	\$ —	\$ —
Total revenues	—	—	—	—
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	—	—	—
EXPENDITURES AND OTHER FINANCING USES				
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	\$ —	—	\$ —	—
Fund balance (deficit) at beginning of year.....		50		50
Fund balance (deficit) at end of year		\$ 50		\$ 50

See accountants' review report



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Non-Budgeted Funds

SPECIAL REVENUE FUNDS:

These funds account for the proceeds of specific revenue sources that are restricted to finance specific functions. Funds that are not subject to appropriation are considered Non-Budgeted Special Revenue Funds.

Federal Grants Fund - to account for federal grants that are designated for specific programs, excluding federal highway construction grants, which are accounted for in the Federal Highway Construction Capital Projects Fund, and federal reimbursement programs, such as Medicaid, which are accounted for in the General Fund.

LOTTERY FUNDS:

The two lottery funds account for the operations of the State and Arts Lotteries.

State Lottery 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 thirteen 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 assessments 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. Funds are credited in 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 from the fund. 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, 5% of the acute hospital assessments and any monies credited or transferred to the fund from any other fund or source. Funds are used to improve the quality and reduce the cost of health care in the Commonwealth.

Distressed Hospital Trust Fund - to account for gifts, grants and donations, interest earnings, 60% of the acute hospital assessments, and any funds provided from other sources. Expenditures support the State's efforts to meet the health care cost growth benchmark 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.

Prevention and Wellness Trust Fund - to account for any revenue from appropriations or other monies authorized by the General Court and specifically designated to be credited to the fund, any fines and penalties allocated to the fund, any gifts, grants and donations to further community-based prevention activities, any interest earnings, and any funds provided from other sources. Also, 26 2/3% of the acute hospital assessments shall be credited to this fund. Expenditures shall support the state's efforts to meet the health care cost growth benchmark and any activities funded by the Healthcare Payment Reform Fund and other health related purposes.

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 and designated thereto; any federal grants or loans; any private gifts, grants or donations made available; and investment income.

MassHealth Delivery System Reform Trust Fund - to account for any transfers from the Health Safety Net Trust Fund, FFP revenues, appropriation or other money authorized and designated to be credited to the fund; and any interest earned. The monies will be expended for approved Medicaid payments, reimbursements for services delivered to MassHealth beneficiaries; and for enhanced service and incentive payments to acute hospitals, and other providers or care organizations.

Community Hospital Reinvestment Trust Fund - to account for income designated to the fund such as gifts, grants, donations, interest earned any other money authorized. To be used to provide financial support to eligible acute care hospitals.

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 including, federal grants; loan repayments; investment earnings 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. Funds shall be used to provide grants or loans to local governmental entities, charitable organizations and private dam owners to finance or refinance costs related to dams and flood or wave control repair or remediation projects.

Department of Telecommunication and Energy Trust Fund - to account for assessments on interstate operating revenue of electric companies and investment income. The expenditures by the Department of Telecommunications and Energy are 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 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.

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 funds appropriated, 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 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 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. Expenditures are 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 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.

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. The secretary may expend from the fund for services provided in prior fiscal years.

Massachusetts Environmental Police Trust Fund - to account for certain administrative surcharges, a 10% maintenance fee charged on private details, any bond proceeds or funds appropriated, interest or investment earnings, and all other amounts credited or transferred to the fund from any other fund or source. Funds may be expended on programs and costs related to the division of law enforcement. 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.

Massachusetts Seafood Marketing Program Fund - to account for a portion of the monies from the sale of commercial harvester and dealer permits issued not to exceed \$250,000 per fiscal year; 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 any investment income. All amounts credited to the fund shall be for the purpose of developing and administering the seafood marketing program. 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 and investment income; 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.

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. The fund shall be exempt from the indirect and fringe benefits that would otherwise be assessed.

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 investment income credited to the fund. Funds shall be used in investigating the preparation for and response to storm and other emergency events by electric companies in the Commonwealth.

Economic Empowerment 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. The fund balance was transferred to the Expendable Trust Fund as of FY2017.

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. 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, gifts, grants, donations and investment income 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, grants and investment income 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, gifts, grants, donations and investment income 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.

Massachusetts State Public Health HIV and Hepatitis 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 and investment income; 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 Trust Fund - to account for licensing fees of medical professionals. Expenditures are for the administration and operation of the Board.

Water Pollution Abatement Projects Administration Fund - to account for transfers from the Massachusetts Clean Water 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 appropriated. 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.

Massachusetts Tourism Trust Fund - to account for the \$10,000,000 collected from the room occupancy excise and revenues under the Gaming Revenue Fund designated by legislation. Spending from the fund will be as follows; 40% to the Massachusetts marketing partnership and 60% to regional tourism councils to promote tourism and for related administrative costs.

Long-Term Facility Quality Improvement Fund - to account for income from legislatively mandated fines and penalties imposed by the department of public health on long-term care facilities, revenues from appropriations, monies authorized by the general court, other designated monies from public or private sources: gifts, grants, donations rebates and settlements. Spending will be used to improve safety and enhance the quality of care provided in long-term care facilities.

Sexual Assault Nurse Examiner Trust Fund - to account for money received from public or private sources such as gifts, grants, donations, bequests, cash, securities and property contributions from any source. Spending will be used to support the sexual assault nurse examiner program costs and provide services for sexual assault patients.

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.

The following funds have been enacted in legislation but were inactive in FY17 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.

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. 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.

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 expired 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 for costs arising under any compact authorized by the general court. No expenditure from the fund shall cause it to become deficient at any point.

Public Records Assistance Fund - to account for revenues collected from punitive damages fines assessed to agencies or municipalities in violation of certain public record laws and other monies designated to be credited to the fund such as appropriations, bond proceeds, gifts, grants, private contributions, operating transfers and earned investment income. To be used to provide grants to municipalities to support information technology capabilities and improve access to public records. Money that is unexpended at the end of each fiscal year shall not revert to the General Fund and shall be available for expenditure by the fund in the subsequent fiscal year.

Olmsted Park Improvement Fund - to account for expenditures by the Department of Conservation & Recreation for activities of the Department related for the purposes of providing rehabilitation and improvement grants to cities and towns with an Olmsted Park within its municipal boundaries. The fund shall consist of public and private sources such as gifts, grants and donations, interest earned on revenues from gifts, grants and donations and any funds provided from other sources.

Transportation Infrastructure Enhancement Trust Fund - to account for assessments received based on the number of annual rides given in a fiscal year by each transportation network company within the commonwealth; $\frac{1}{2}$ of the funds are proportionately distributed to cities and towns, $\frac{1}{4}$ of the funds are distributed to the Massachusetts Development Finance Agency on behalf of small businesses operating in taxicab, livery, or hackney industries, and the final $\frac{1}{4}$ is distributed to the Commonwealth Transportation Fund.



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Non-Budgeted Special Revenue Funds
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
Fiscal Year Ended June 30, 2017
(Amounts in thousands)

	Lotteries			Gaming		Universal Health Care Funds	
	Federal Grants	State Lottery and Gaming	Arts Lottery	Gaming Control	Gaming Revenue	Catastrophic Illness in Children Relief	Commonwealth Care Trust
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes.....	\$ —	\$ 525	\$ —	\$ —	\$ 63,432	\$ —	\$ 145,290
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements.....	2,369,542	—	—	—	—	—	—
Departmental	—	5,205,548	48,952	28,155	10	—	160,570
Miscellaneous	7	2,815	111	—	—	—	—
Total revenues.....	<u>2,369,549</u>	<u>5,208,888</u>	<u>49,063</u>	<u>28,155</u>	<u>63,442</u>	<u>—</u>	<u>305,860</u>
Other financing sources:							
Operating transfers in	—	—	—	—	—	3,046	—
Health safety net trust transfer.....	—	—	—	—	—	—	—
Medical assistance transfer.....	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer..	—	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	3,046	—
Total revenues and other financing sources	<u>2,369,549</u>	<u>5,208,888</u>	<u>49,063</u>	<u>28,155</u>	<u>63,442</u>	<u>3,046</u>	<u>305,860</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary	1,667	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	1,135	—	—	—	—	—	—
Treasurer and Receiver-General.....	2,001	4,082,413	39,335	68	—	—	—
Attorney General	22,521	—	—	1,297	—	—	—
District Attorney.....	2,553	—	—	—	—	—	—
Sheriffs' Departments.....	4,007	—	—	—	—	—	—
Disabled Persons Protection Commission.....	159	—	—	—	—	—	—
Board of Library Commissioners	2,854	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	20,481	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance	5,235	—	—	14	—	—	252,043
Energy and Environmental Affairs.....	36,348	—	—	—	—	—	—
Health and Human Services	464,632	—	—	431	—	2,098	—
Massachusetts Department of Transportation.....	83	—	—	—	—	—	—
Executive Office of Education	990,415	—	—	—	—	—	—
Center for Health Information and Analysis	208	—	—	—	—	—	—
Public Safety and Security	141,829	—	—	7	—	—	—
Housing and Economic Development.....	484,455	—	—	—	—	—	—
Labor and Workforce Development.....	137,428	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—
Total expenditures	<u>2,297,530</u>	<u>4,082,413</u>	<u>39,335</u>	<u>22,298</u>	<u>—</u>	<u>2,098</u>	<u>252,043</u>
Other financing uses:							
Fringe benefit cost assessment	65,869	10,400	—	2,348	—	141	—
Lottery operating reimbursements.....	—	100,392	—	—	—	—	—
Lottery distributions	—	1,015,683	9,728	—	—	—	—
Operating transfers out	43,712	—	—	1,663	63,442	47	3,046
Commonwealth care trust transfer	—	—	—	—	—	—	76,552
Health safety net trust transfer.....	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	—	—	—	—	—
Total other financing uses.....	<u>109,581</u>	<u>1,126,475</u>	<u>9,728</u>	<u>4,011</u>	<u>63,442</u>	<u>188</u>	<u>79,598</u>
Total expenditures and other financing uses.....	<u>2,407,111</u>	<u>5,208,888</u>	<u>49,063</u>	<u>26,309</u>	<u>63,442</u>	<u>2,286</u>	<u>331,641</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(37,562)	—	—	1,846	—	760	(25,781)
Fund balances (deficits) at beginning of year	(9,707)	—	—	3,528	—	3,814	60,279
Fund balances (deficits) at end of year.....	<u>\$ (47,269)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,374</u>	<u>\$ —</u>	<u>\$ 4,574</u>	<u>\$ 34,498</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2017
 (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)
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	4,555	—	—	—	—	—	—
Federal grants and reimbursements	—	—	—	—	—	—	—	—
Departmental	—	—	4,628	2,081	10,625	—	175	1,859
Miscellaneous	657	3	—	11	—	668	—	—
Total revenues.....	<u>657</u>	<u>4,558</u>	<u>4,628</u>	<u>2,092</u>	<u>10,625</u>	<u>668</u>	<u>175</u>	<u>1,859</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>657</u>	<u>4,558</u>	<u>4,628</u>	<u>2,092</u>	<u>10,625</u>	<u>668</u>	<u>175</u>	<u>1,859</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—	—
Attorney General	—	—	—	76	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	437	—	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—	—
Comptroller	—	—	—	2,022	—	—	—	—
Administration and Finance	—	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	5,833	3,523	—	—	—	—	—	—
Health and Human Services	—	—	—	—	3,687	—	125	826
Massachusetts Department of Transportation	—	—	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—	—	—
Public Safety and Security	—	—	4,500	—	—	—	—	—
Housing and Economic Development.....	—	—	—	—	—	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—	—
Total expenditures	<u>5,833</u>	<u>3,523</u>	<u>4,500</u>	<u>2,098</u>	<u>3,687</u>	<u>437</u>	<u>125</u>	<u>826</u>
Other financing uses:								
Fringe benefit cost assessment	—	1,040	275	29	519	—	36	—
Lottery operating reimbursements.....	—	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—	—
Operating transfers out	—	97	—	—	183	1	13	—
Commonwealth care trust transfer	—	—	—	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	—	—	—	—	—	—
Total other financing uses.....	—	<u>1,137</u>	<u>275</u>	<u>29</u>	<u>702</u>	<u>1</u>	<u>49</u>	<u>—</u>
Total expenditures and other financing uses	<u>5,833</u>	<u>4,660</u>	<u>4,775</u>	<u>2,127</u>	<u>4,389</u>	<u>438</u>	<u>174</u>	<u>826</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(5,176)	(102)	(147)	(35)	6,236	230	1	1,033
Fund balances (deficits) at beginning of year	10,851	3,196	5,067	1,876	4,995	107	384	4,952
Fund balances (deficits) at end of year.....	<u>\$ 5,675</u>	<u>\$ 3,094</u>	<u>\$ 4,920</u>	<u>\$ 1,841</u>	<u>\$ 11,231</u>	<u>\$ 337</u>	<u>\$ 385</u>	<u>\$ 5,985</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
\$ 992,220	\$ 26,676	\$ —	\$ 902	\$ —	\$ —	\$ 45	\$ —	\$ —	\$ —
163,998	—	—	573	—	—	—	—	—	—
—	—	14,189	—	—	—	—	—	—	—
—	—	—	650	10,998	446	22	137	127	4,904
—	97	—	583	—	3	—	—	—	—
<u>1,156,218</u>	<u>26,773</u>	<u>14,189</u>	<u>2,708</u>	<u>10,998</u>	<u>449</u>	<u>67</u>	<u>137</u>	<u>127</u>	<u>4,904</u>
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>1,156,218</u>	<u>26,773</u>	<u>14,189</u>	<u>2,708</u>	<u>10,998</u>	<u>449</u>	<u>67</u>	<u>137</u>	<u>127</u>	<u>4,904</u>
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	3,729
1,156,218	—	—	—	—	—	—	—	—	—
—	—	—	—	—	622	—	—	—	—
—	—	—	—	—	275	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	2,478	—	—	—	—	—	—
—	26,860	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	13,821	70	—	—	—	198	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	63	84	—	207	—
—	—	—	—	8,374	—	26	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>1,156,218</u>	<u>26,860</u>	<u>13,821</u>	<u>2,548</u>	<u>8,374</u>	<u>960</u>	<u>110</u>	<u>198</u>	<u>207</u>	<u>3,729</u>
—	29	302	125	1,833	79	27	—	—	537
—	—	—	—	—	—	—	—	—	—
—	13	88	154	565	36	11	—	—	211
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	42	390	279	2,398	115	38	—	—	748
<u>1,156,218</u>	<u>26,902</u>	<u>14,211</u>	<u>2,827</u>	<u>10,772</u>	<u>1,075</u>	<u>148</u>	<u>198</u>	<u>207</u>	<u>4,477</u>
—	(129)	(22)	(119)	226	(626)	(81)	(61)	(80)	427
—	21,667	7,643	1,807	4,792	1,657	393	774	486	1,340
<u>\$ —</u>	<u>\$ 21,538</u>	<u>\$ 7,621</u>	<u>\$ 1,688</u>	<u>\$ 5,018</u>	<u>\$ 1,031</u>	<u>\$ 312</u>	<u>\$ 713</u>	<u>\$ 406</u>	<u>\$ 1,767</u>

continued

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2017
 (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	
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 816,795
Assessments	—	—	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	—	—
Departmental	2,607	—	105,827	—	—	2,445	—	—
Miscellaneous	—	256	196	—	—	—	7	—
Total revenues.....	<u>2,607</u>	<u>256</u>	<u>106,023</u>	<u>—</u>	<u>—</u>	<u>2,445</u>	<u>7</u>	<u>816,795</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>2,607</u>	<u>256</u>	<u>106,023</u>	<u>—</u>	<u>—</u>	<u>2,445</u>	<u>7</u>	<u>816,795</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—	816,795
Attorney General	—	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	4,868	—	—	—	—	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	—	—
Administration and Finance	1,690	—	1,037	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	—	—	1,687	32	—
Health and Human Services	—	—	57	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—	—	—
Public Safety and Security	—	—	95,704	—	—	—	—	—
Housing and Economic Development.....	—	—	—	—	1,084	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—	—
Total expenditures	<u>1,690</u>	<u>—</u>	<u>101,666</u>	<u>—</u>	<u>1,084</u>	<u>1,687</u>	<u>32</u>	<u>816,795</u>
Other financing uses:								
Fringe benefit cost assessment	—	—	2,661	—	—	422	—	—
Lottery operating reimbursements.....	—	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—	—
Operating transfers out	—	—	2,380	—	—	207	3	—
Commonwealth care trust transfer	—	—	—	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	—	—	—	—	—	—
Total other financing uses.....	<u>—</u>	<u>—</u>	<u>5,041</u>	<u>—</u>	<u>—</u>	<u>629</u>	<u>3</u>	<u>—</u>
Total expenditures and other financing uses	<u>1,690</u>	<u>—</u>	<u>106,707</u>	<u>—</u>	<u>1,084</u>	<u>2,316</u>	<u>35</u>	<u>816,795</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	917	256	(684)	—	(1,084)	129	(28)	—
Fund balances (deficits) at beginning of year	2,185	681	123,355	2	1,084	2,670	1,768	—
Fund balances (deficits) at end of year.....	<u>\$ 3,102</u>	<u>\$ 937</u>	<u>\$ 122,671</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2,799</u>	<u>\$ 1,740</u>	<u>\$ —</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2017
 (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
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments.....	—	—	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	—	819
Departmental.....	—	—	1,371	500	14	250	—	450
Miscellaneous.....	—	85	—	—	—	—	—	352
Total revenues.....	<u>—</u>	<u>85</u>	<u>1,371</u>	<u>500</u>	<u>14</u>	<u>250</u>	<u>—</u>	<u>1,621</u>
Other financing sources:								
Operating transfers in.....	3,140	—	—	—	—	—	12,250	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Medical assistance transfer.....	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer.....	—	—	—	—	—	—	—	—
Total other financing sources.....	<u>3,140</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,250</u>	<u>—</u>
Total revenues and other financing sources.....	<u>3,140</u>	<u>85</u>	<u>1,371</u>	<u>500</u>	<u>14</u>	<u>250</u>	<u>12,250</u>	<u>1,621</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary.....	—	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor.....	—	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—	—
Attorney General.....	—	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	—	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—	—
Comptroller.....	—	—	—	—	—	—	—	—
Administration and Finance.....	—	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	453	—	211	—	2,022
Health and Human Services.....	896	124	1,528	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—	—
Executive Office of Education.....	—	—	—	—	—	—	—	—
Center for Health Information and Analysis.....	—	—	—	—	—	—	—	—
Public Safety and Security.....	—	—	—	—	—	—	—	—
Housing and Economic Development.....	159	—	—	—	—	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement.....	—	—	—	—	—	—	10,147	—
Interest and fiscal charges.....	—	—	—	—	—	—	2,103	—
Total expenditures.....	<u>1,055</u>	<u>124</u>	<u>1,528</u>	<u>453</u>	<u>—</u>	<u>211</u>	<u>12,250</u>	<u>2,022</u>
Other financing uses:								
Fringe benefit cost assessment.....	—	—	—	87	—	—	—	381
Lottery operating reimbursements.....	—	—	—	—	—	—	—	—
Lottery distributions.....	—	—	—	—	—	—	—	—
Operating transfers out.....	5,747	—	—	53	—	—	—	5
Commonwealth care trust transfer.....	—	—	—	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	—	—	—	—	—	—
Total other financing uses.....	<u>5,747</u>	<u>—</u>	<u>—</u>	<u>140</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>386</u>
Total expenditures and other financing uses.....	<u>6,802</u>	<u>124</u>	<u>1,528</u>	<u>593</u>	<u>—</u>	<u>211</u>	<u>12,250</u>	<u>2,408</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses....	(3,662)	(39)	(157)	(93)	14	39	—	(787)
Fund balances (deficits) at beginning of year.....	9,791	61	488	93	11	172	(35,033)	2,838
Fund balances (deficits) at end of year.....	<u>\$ 6,129</u>	<u>\$ 22</u>	<u>\$ 331</u>	<u>\$ —</u>	<u>\$ 25</u>	<u>\$ 211</u>	<u>\$ (35,033)</u>	<u>\$ 2,051</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2017
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Victims of Human Trafficking Trust	Department of Public Utilities Storm Trust	Economic Empowerment Trust	Homeless Animal Prevention and Care	Horseneck Beach Reservation Trust	Environmental Trust	Social Innovation Financing Trust
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	384	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	—
Departmental	15	—	—	—	39	729	—
Miscellaneous	—	—	51	365	—	26	—
Total revenues.....	<u>15</u>	<u>384</u>	<u>51</u>	<u>365</u>	<u>39</u>	<u>755</u>	<u>—</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>15</u>	<u>384</u>	<u>51</u>	<u>365</u>	<u>39</u>	<u>755</u>	<u>—</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	25	—	—	—	—
Attorney General	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance	—	—	—	—	—	—	1,926
Energy and Environmental Affairs.....	—	179	—	245	28	983	—
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>179</u>	<u>25</u>	<u>245</u>	<u>28</u>	<u>983</u>	<u>1,926</u>
Other financing uses:							
Fringe benefit cost assessment	—	55	—	7	—	87	—
Lottery operating reimbursements.....	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—
Operating transfers out	—	5	151	—	—	43	—
Commonwealth care trust transfer	—	—	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	—	—	—	—	—
Total other financing uses.....	<u>—</u>	<u>60</u>	<u>151</u>	<u>7</u>	<u>—</u>	<u>130</u>	<u>—</u>
Total expenditures and other financing uses	<u>—</u>	<u>239</u>	<u>176</u>	<u>252</u>	<u>28</u>	<u>1,113</u>	<u>1,926</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	15	145	(125)	113	11	(358)	(1,926)
Fund balances (deficits) at beginning of year	1	151	125	203	74	3,013	5,223
Fund balances (deficits) at end of year.....	<u>\$ 16</u>	<u>\$ 296</u>	<u>\$ —</u>	<u>\$ 316</u>	<u>\$ 85</u>	<u>\$ 2,655</u>	<u>\$ 3,297</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	State Public Health HIV and Hepatitis	Head Injury Treatment Services Trust	Board of Registration in Medicine Trust	Water Pollution Abatement Project Administration	Child Care Quality
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	21,943	—	—	—	—	8,545	—
—	25,166	—	—	—	—	—	—	—	—
—	5,015	—	5,837	—	—	6,974	9,140	—	206
2	131	299	24	270	149	4	—	—	—
2	30,312	299	27,804	270	149	6,978	9,140	8,545	206
—	—	—	—	—	—	1,601	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,601	—	—	—
2	30,312	299	27,804	270	149	8,579	9,140	8,545	206
1	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	7	—	—	—	—	—	—	—	—
—	214	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	30,254	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	4,936	—
—	—	—	—	130	93	7,427	6,505	—	—
—	—	—	—	—	—	—	—	—	—
—	—	300	—	—	—	—	—	—	—
—	—	—	747	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
1	30,475	300	747	130	93	7,427	6,505	4,936	—
—	2,483	—	4,851	—	—	203	1,398	1,476	—
—	—	—	—	—	—	—	—	—	—
—	1,059	—	19,086	—	—	59	486	1,642	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	3,542	—	23,937	—	—	262	1,884	3,118	—
1	34,017	300	24,684	130	93	7,689	8,389	8,054	—
1	(3,705)	(1)	3,120	140	56	890	751	491	206
195	17,570	883	7,056	31	115	6,151	8,888	1,807	797
\$ 196	\$ 13,865	\$ 882	\$ 10,176	\$ 171	\$ 171	\$ 7,041	\$ 9,639	\$ 2,298	\$ 1,003

continued

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2017
 (Amounts in thousands)

	Non-Budgeted Other Funds							
	Convention and Exhibition Center	Firearms Fingerprint Identity Verification Trust	Grant Anticipation Note Trust	Race Horse Development	Community Mitigation	Capital Needs Investment	Tourism Trust	Long-Term Care Facility Quality Improvement
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ 133,789	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,000	\$ —
Assessments	—	—	—	—	—	—	—	—
Federal grants and reimbursements	—	—	536,280	—	—	—	—	—
Departmental	—	2,000	—	14,213	—	—	—	5
Miscellaneous	418	—	590	—	—	—	—	—
Total revenues.....	<u>134,207</u>	<u>2,000</u>	<u>536,870</u>	<u>14,213</u>	<u>—</u>	<u>—</u>	<u>10,000</u>	<u>5</u>
Other financing sources:								
Operating transfers in	—	—	36,046	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Medical assistance transfer.....	—	—	—	—	—	—	—	—
Delivery system transformation initiatives trust transfer ..	—	—	—	—	—	—	—	—
Total other financing sources	—	—	36,046	—	—	—	—	—
Total revenues and other financing sources	<u>134,207</u>	<u>2,000</u>	<u>572,916</u>	<u>14,213</u>	<u>—</u>	<u>—</u>	<u>10,000</u>	<u>5</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	184	—	—	—	—	—
Attorney General	—	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	245	—	—	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	13,345	445	—	—	—
Comptroller	—	—	—	—	—	—	—	—
Administration and Finance	41,295	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	—	—	—	—	—
Health and Human Services	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	—	—	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—	—	—
Center for Health Information and Analysis.....	—	—	—	—	—	—	—	—
Public Safety and Security	—	920	—	—	—	—	—	—
Housing and Economic Development.....	—	—	—	—	—	2,799	6,468	—
Labor and Workforce Development.....	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	22,210	—	44,440	—	—	—	—	—
Interest and fiscal charges	32,330	—	35,919	—	—	—	—	—
Total expenditures	<u>95,835</u>	<u>920</u>	<u>80,543</u>	<u>13,345</u>	<u>690</u>	<u>2,799</u>	<u>6,468</u>	<u>—</u>
Other financing uses:								
Fringe benefit cost assessment	—	—	—	—	—	—	—	—
Lottery operating reimbursements.....	—	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—	—
Operating transfers out	—	—	—	—	—	—	3,100	—
Commonwealth care trust transfer	—	—	—	—	—	—	—	—
Health safety net trust transfer.....	—	—	—	—	—	—	—	—
Federal reimbursement transfer out.....	—	—	489,130	—	—	—	—	—
Total other financing uses.....	—	—	489,130	—	—	—	3,100	—
Total expenditures and other financing uses	<u>95,835</u>	<u>920</u>	<u>569,673</u>	<u>13,345</u>	<u>690</u>	<u>2,799</u>	<u>9,568</u>	<u>—</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	38,372	1,080	3,243	868	(690)	(2,799)	432	5
Fund balances (deficits) at beginning of year	88,827	2,119	86,609	12,964	17,100	3,521	—	—
Fund balances (deficits) at end of year.....	<u>\$ 127,199</u>	<u>\$ 3,199</u>	<u>\$ 89,852</u>	<u>\$ 13,832</u>	<u>\$ 16,410</u>	<u>\$ 722</u>	<u>\$ 432</u>	<u>\$ 5</u>

See accountants' review report

Non-Budgeted Other Funds		MassDOT				Totals (Memorandum only)	
Sexual Assault Nurse Examiner Trust	Massachusetts Transportation Trust	Central Artery/ Tunnel Project Repair and Maintenance Trust	Motor Vehicle Safety Inspection Trust	Transportation Infrastructure and Development	2017	2016	
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,214,074	\$ 2,183,221	
—	—	—	—	—	754,577	638,305	
—	78,230	—	—	—	3,255,134	3,162,489	
—	474,752	—	57,815	—	6,368,897	6,402,887	
—	10,201	1,614	165	201	46,203	337,701	
—	563,183	1,614	57,980	201	12,638,885	12,724,603	
—	653,372	—	—	—	741,566	653,328	
—	—	—	—	—	—	30,000	
—	—	—	—	—	403,367	665,564	
—	—	—	—	—	189,149	186,907	
—	653,372	—	—	—	1,334,082	1,535,799	
—	1,216,555	1,614	57,980	201	13,972,967	14,260,402	
—	—	—	—	—	1,668	2,279	
—	—	—	—	—	218	264	
—	132	—	—	—	132	112	
—	—	—	—	—	4,864	4,825	
—	294	—	—	—	6,097,339	6,264,536	
—	—	—	—	—	24,515	18,231	
—	—	—	—	—	3,042	2,338	
—	1,428	—	—	—	10,985	9,632	
—	—	—	—	—	159	66	
—	—	—	—	—	2,854	2,915	
—	—	—	—	—	36,749	33,692	
—	—	—	—	—	2,022	2,381	
—	6,228	—	—	—	392,502	379,029	
—	3,015	—	3,053	—	117,823	168,668	
—	118	—	—	—	1,948,856	2,074,966	
—	1,166,066	7,405	12,117	10,349	1,196,021	1,113,180	
—	—	—	—	—	991,602	986,175	
—	—	—	—	—	208	222	
—	187	—	—	—	245,863	232,465	
—	61	—	—	—	503,427	487,688	
—	16	—	—	—	168,718	164,260	
—	—	—	—	—	76,797	196,594	
—	—	—	—	—	117,079	99,217	
—	1,177,545	7,405	15,170	10,349	11,943,443	12,243,735	
—	85,611	—	1,505	—	189,437	166,947	
—	—	—	—	—	100,392	107,935	
—	—	—	—	—	1,025,411	975,255	
—	18,829	—	44,435	—	324,162	249,497	
—	—	—	—	—	76,552	44,482	
—	—	—	—	—	—	30,000	
—	—	—	—	—	489,130	500,928	
—	104,440	—	45,940	—	2,205,084	2,075,044	
—	1,281,985	7,405	61,110	10,349	14,148,527	14,318,779	
—	(65,430)	(5,791)	(3,130)	(10,148)	(175,560)	(58,377)	
—	817,996	390,112	8,847	22,760	2,066,898	2,125,275	
\$ —	\$ 752,566	\$ 384,321	\$ 5,717	\$ 12,612	\$ 1,891,338	\$ 2,066,898	



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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 FY17 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, 2017

(Amounts in thousands)

	General Capital Projects	Convention and Exhibition Center Capital	Capital Improvements and Investment Trust	Highway Capital Projects
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Federal grants and reimbursements	\$ 53,308	\$ —	\$ —	\$ —
Departmental.....	—	—	—	—
Miscellaneous	—	—	—	999
Total revenues.....	<u>53,308</u>	<u>—</u>	<u>—</u>	<u>999</u>
Other financing sources:				
Issuance of general obligation bonds.....	1,747,599	—	—	661,076
Bond premiums (discounts) on general obligation bonds	151,740	—	—	58,684
Issuance of special obligation bonds	—	—	—	461,975
Bond premiums (discounts) on special obligation bonds	—	—	—	55,148
Issuance of current refunding bonds.....	53,899	—	1,850	82,577
Issuance of advance refunding bonds.....	1,125,037	—	263	535,984
Bond premiums (discounts) on advance refunding bonds.....	278,444	—	70	136,517
Federal reimbursement transfer in	—	—	—	—
State share of federal highway construction	—	—	—	—
Total other financing sources.....	<u>3,356,719</u>	<u>—</u>	<u>2,183</u>	<u>1,991,961</u>
Total revenues and other financing sources.....	<u>3,410,027</u>	<u>—</u>	<u>2,183</u>	<u>1,992,960</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Judiciary.....	18,847	—	—	—
Inspector General.....	40	—	—	—
Governor and Lieutenant Governor	—	—	—	—
Secretary of the Commonwealth	1,530	—	—	—
Treasurer and Receiver-General	14,148	—	—	—
Auditor of the Commonwealth	2,936	—	—	—
Attorney General	743	—	—	184
Ethics Commission	87	—	—	—
District Attorney	5	—	—	—
Sheriffs' Departments.....	3,448	—	—	—
Board of Library Commissioners	12,435	—	—	—
Comptroller.....	137	—	—	—
Administration and Finance.....	619,123	—	—	200
Energy and Environmental Affairs.....	198,560	—	—	526
Health and Human Services.....	61,937	—	—	—
Massachusetts Department of Transportation.....	102,982	—	—	1,084,137
Executive Office of Education.....	54,352	—	—	—
Public Safety and Security.....	40,760	—	—	—
Housing and Economic Development	354,433	—	—	5,034
Labor and Workforce Development.....	1,754	—	—	—
Total expenditures.....	<u>1,488,257</u>	<u>—</u>	<u>—</u>	<u>1,090,081</u>
Other financing uses:				
Payments to advance refunding bonds escrow	1,403,481	—	333	672,502
Principal on current refundings	53,899	—	1,850	82,577
Fringe benefit cost assessment.....	15,517	—	—	—
Operating transfers out	—	—	—	—
State share of federal highway construction	—	—	—	111,172
Total other financing uses.....	<u>1,472,897</u>	<u>—</u>	<u>2,183</u>	<u>866,251</u>
Total expenditures and other financing uses.....	<u>2,961,154</u>	<u>—</u>	<u>2,183</u>	<u>1,956,332</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	448,873	—	—	36,628
Fund balances (deficits) at beginning of year	(198,836)	8,393	—	(180,744)
Fund balances (deficits) at end of year	<u>\$ 250,037</u>	<u>\$ 8,393</u>	<u>\$ —</u>	<u>\$ (144,116)</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		2017	2016
\$ 5,046	\$ —	\$ —	\$ —	\$ 58,354	\$ 85,759	
2,757	—	—	—	2,757	2,922	
—	—	—	327	1,324	1,352	
7,803	—	—	327	62,435	90,033	
—	—	—	—	2,408,675	2,259,209	
—	—	—	—	210,424	184,014	
—	—	—	—	461,975	500,000	
—	—	—	—	55,148	59,535	
—	—	1,503	48,660	188,490	250,000	
—	3,498	7	—	1,664,790	1,212,655	
—	880	2	—	415,912	211,375	
489,130	—	—	—	489,130	500,929	
111,172	—	—	—	111,172	93,736	
600,302	4,378	1,512	48,660	6,005,716	5,271,453	
608,105	4,378	1,512	48,987	6,068,151	5,361,486	
—	—	—	—	18,847	14,690	
—	—	—	—	40	—	
—	—	—	—	—	188	
—	—	—	—	1,530	1,535	
—	—	—	—	14,148	13,749	
—	—	—	—	2,936	2,333	
15	—	—	—	943	365	
—	—	—	—	87	627	
—	—	—	—	5	—	
—	—	—	—	3,448	3,572	
—	—	—	—	12,435	19,440	
—	—	—	—	137	395	
—	500	1	—	619,824	653,288	
2,055	—	—	—	201,141	235,121	
48	—	—	—	61,986	47,140	
605,974	—	—	78	1,793,170	2,002,480	
—	—	—	—	54,352	52,554	
—	—	—	—	40,760	41,227	
—	—	—	—	359,467	296,261	
—	—	—	—	1,754	5,099	
608,092	500	1	78	3,187,010	3,390,064	
—	4,378	9	—	2,080,702	1,424,030	
—	—	1,503	48,660	188,490	250,000	
11	—	—	—	15,528	13,490	
—	—	—	—	—	2	
—	—	—	—	111,172	93,736	
11	4,378	1,512	48,660	2,395,892	1,781,258	
608,103	4,878	1,513	48,738	5,582,902	5,171,322	
2	(500)	(1)	249	485,249	190,164	
512	—	12	35,967	(334,696)	(524,860)	
\$ 514	\$ (500)	\$ 11	\$ 36,216	\$ 150,553	\$ (334,696)	



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Supplemental Information



Calculation of Transfers – Stabilization and Tax Reduction Funds
Schedule A – FY2017 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 Pension and Post Employment Health Benefits – Last Six Fiscal Years

See review report

Calculation of Transfers: Stabilization Fund*

Fiscal Year Ended June 30, 2017
(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.....	\$ (144,268)	\$ 144,797		\$ (528)	\$ —
Fund Balance Deficit Elimination Transfers Per Section 5C of Ch. 29.....	144,268	(144,797)	—	528	—
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus).....	—	—	—	—	—
<u>Disposition of Consolidated Net Surplus per Section 107 of Ch. 47 of the Acts of 2017:</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	\$ —	\$ —	\$ —	\$ —	\$ —

Stabilization Balance Reconciliation:

Balance as of July 1, 2016	\$ 1,291,514
Capital Gains Tax Transfers to Stabilization Fund during FY2017 per Chapter 29, Section 5G.....	—
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H.....	—
Transfer of certain tax revenues to the Stabilization Fund	377
Stabilization Fund investment income.....	8,787
Less Transfers from Stabilization Fund during FY 2017.....	—
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above	—
Stabilization Fund Balance as of June 30, 2017	\$ 1,300,678

* Excludes funds with no FY17 balances or activity

Note: Details may not add to totals due to rounding

Calculation Of Transfers: Tax Reduction Fund

Fiscal Year Ended June 30, 2017

(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.....	\$ 1,300,678
Allowable Stabilization Fund balance (per Schedule B)	6,175,099
	<hr/>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	\$ —
	<hr/> <hr/>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance	\$ 1,300,678
Transfer to Tax Reduction Fund.....	—
	<hr/>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	\$ 1,300,678
	<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
FY2017 Tax Revenues By Revenue Class

Fiscal Year Ended June 30, 2017
(Amounts in thousands)

Alcoholic beverages.....	\$ 84,468
Cigarette.....	490,308
Cigarette excise - Commonwealth Care	129,129
Corporations	2,196,474
Deeds	297,193
Estate and inheritance	336,633
Health care coverage penalty - Commonwealth Care	16,162
Income	14,683,715
Insurance.....	358,170
Motor and special fuels.....	769,442
Room occupancy	253,947
Sales and use.....	6,240,822
Club alcoholic beverages.....	929
Motor vehicle excise.....	97
Convention center surcharges.....	16,868
Community preservation	26,676
Satellite	10,942
Gaming revenue - Mass Gaming Commission.....	63,432
State racing - Mass Gaming Commission	902
Beano	1,312
Raffles and bazaars.....	955
Boxing.....	45
DOI excess and surplus lines.....	39,349
UI surcharge.....	24,400
FY 2017 state tax revenue	<u>\$ 26,042,370</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

Fiscal Year Ended June 30, 2017
(Amounts in thousands)

Total budgeted revenues and other financial resources pertaining to the budgeted funds.....	\$ 41,784,743
Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C)	<u>(617,416)</u>
Budgeted revenues and other financial resources pertaining to the budgeted funds	<u>41,167,327</u>
Allowable Stabilization Fund balance, 15% of budgeted revenue	<u><u>\$ 6,175,099</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

Fiscal Year Ended June 30, 2017
(Amounts in thousands)

Adjustments to revenues :	
Transfer to the Intragovernmental Service Fund.....	\$ (417,935)
Adjustments to other financing sources and uses:	
Fringe benefit cost assessments.....	(4,440)
Transfer from the Intragovernmental Service Fund to the General Fund	(5,840)
RMV license plates.....	(4,213)
Transfer from General Fund to the Commonwealth Transportation Fund.....	(40,000)
Other fund deficit support	(144,797)
Other	(191)
Elimination of budgetary interfund activity	\$ (617,416)



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Non-Tax Revenue Initiatives

Fiscal Year Ended June 30, 2017
(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 FY17 were (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc.....	\$ 3,506	\$ 461
Allen Daniels	955	144
Premier Credit of North America, LLC.....	689	134
Delta.....	671	104
Financial Asset Management Systems, Inc	196	15
Linebarger, Goggan, Blair & Sampson, LLP.....	42	12
Total	\$ 6,059	\$ 870

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	\$ 3,034	\$ 387
Allen Daniels.....	624	95
Delta	566	87
Premier Credit of North America, LLC	515	97
Total.....	\$ 4,739	\$ 666

II. 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 FY17, the following amounts were generated (amounts in thousands):

State expenditures avoided	\$ 192
Contractor payments	(36)
Net cost savings/avoidance.....	\$ 156

III. 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. FY17 activity (amounts in thousands):

Total Commonwealth intercepts	\$ 17,259
Amounts included above that were intercepted on behalf of the Institutions of Higher Education	\$ 8,908

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
State Employee's Retirement System						
Actuarial Valuation as of January 1, 2017.....	\$ 24,773,042	\$ 38,316,719	\$ 13,543,677	64.7%	\$ 5,927,012	228.5%
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%

Teachers' Retirement System

Actuarial Valuation as of January 1, 2017.....	\$ 25,638,136	\$ 49,193,503	\$ 23,555,367	52.1%	\$ 6,583,871	357.8%
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%

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, 2017.....	\$ 817,400	\$ 20,263,500	\$ 19,446,100	4.0%	\$ 5,927,012	328.1%
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%

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

Fiscal Year Ended June 30, 2017
(Amounts in millions)

	2017	% Total	2016	% Total	2015	% Total	2014	% Total
Taxes	\$ 26,042	42.1	\$ 25,800	42.7	\$ 25,239	44.4	\$ 23,665	43.6
Federal reimbursements	11,801	19.1	11,528	19.1	10,287	18.1	9,265	17.1
Federal grants	2,370	3.8	2,363	3.9	2,269	4.0	2,328	4.3
Lotteries	5,257	8.5	5,407	8.9	5,194	9.1	5,050	9.3
Assessments	1,209	2.0	1,058	1.7	1,033	1.8	1,079	2.0
Motor vehicle licenses and registrations	546	0.9	546	0.9	546	1.0	495	0.9
Fees, investment earnings, etc	4,963	8.0	5,016	8.3	4,409	7.8	4,252	7.9
Proceeds of general and special obligation bonds and related premiums	3,136	5.1	3,003	5.0	3,404	6.0	2,262	4.2
Proceeds of refunding bonds	2,269	3.7	1,674	2.8	707	1.2	722	1.3
Other interfund transfers	4,233	6.8	4,067	6.7	3,748	6.6	5,093	9.4
Total revenues and other financing sources	<u>\$ 61,826</u>	<u>100.0</u>	<u>\$ 60,462</u>	<u>100.0</u>	<u>\$ 56,836</u>	<u>100.0</u>	<u>\$ 54,211</u>	<u>100.0</u>

Certain amounts in fiscal years 2015 to 2008 were reclassified to conform to current presentation.

2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total
\$ 22,396	43.8	\$ 21,384	42.7	\$ 20,776	38.2	\$ 18,792	40.3	\$ 18,513	38.8	\$ 21,009	44.5
9,078	17.8	8,931	17.8	10,151	18.6	9,374	20.1	9,139	19.1	6,937	14.7
2,396	4.7	2,655	5.3	3,097	5.7	3,134	6.7	2,646	5.5	2,065	4.4
5,043	9.9	4,941	9.9	4,632	8.5	4,629	9.9	4,649	9.7	4,915	10.4
1,018	2.0	986	2.0	960	1.8	971	2.1	894	1.9	806	1.7
487	1.0	474	0.9	497	0.9	463	1.0	383	0.8	376	0.8
3,858	7.5	3,580	7.2	3,461	6.4	2,828	6.0	2,798	5.9	3,199	6.8
1,512	3.0	1,921	3.8	2,306	4.2	1,672	3.6	2,141	4.5	1,306	2.8
231	0.5	480	1.0	947	1.7	538	1.2	390	0.8	—	—
4,982	9.8	4,731	9.4	7,618	14.0	4,233	9.1	6,197	13.0	6,538	13.9
<u>\$ 51,001</u>	<u>100.0</u>	<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>

Ten-Year Schedule of Tax Revenues By Source
All Governmental Fund Types - Statutory Basis

Fiscal Year Ended June 30, 2017
(Amounts in millions)

	2017	% Total	2016	% Total	2015	% Total	2014	% Total
Income.....	\$ 14,684	56.3	\$ 14,394	55.9	\$ 14,449	57.2	\$ 13,202	55.8
Sales and use.....	6,241	24.0	6,090	23.6	5,804	23.0	5,519	23.3
Corporations.....	2,196	8.4	2,333	9.0	2,227	8.8	2,195	9.3
Motor fuels.....	769	3.0	767	3.0	756	3.0	732	3.1
Cigarette and tobacco.....	619	2.4	641	2.5	647	2.6	661	2.8
Insurance.....	358	1.4	369	1.4	333	1.3	316	1.3
Estate and inheritance.....	337	1.3	399	1.5	341	1.4	402	1.7
Alcoholic beverages.....	84	0.3	83	0.3	80	0.3	79	0.3
Other.....	754	2.9	724	2.8	602	2.4	559	2.4
Total taxes.....	<u>\$ 26,042</u>	<u>100.0</u>	<u>\$ 25,800</u>	<u>100.0</u>	<u>\$ 25,239</u>	<u>100.0</u>	<u>\$ 23,665</u>	<u>100.0</u>

Certain amounts in fiscal years 2016 to 2008 were reclassified to conform to current presentation.

2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total
\$ 12,831	57.3	\$ 11,911	55.6	\$ 11,576	55.6	\$ 10,110	53.8	\$ 10,584	57.2	\$ 12,484	59.4
5,184	23.1	5,079	23.8	4,921	23.7	4,626	24.6	3,880	21.0	4,098	19.5
1,888	8.4	2,002	9.4	1,931	9.3	1,835	9.8	1,790	9.7	2,180	10.4
651	2.9	662	3.1	661	3.2	655	3.5	654	3.5	673	3.2
558	2.6	574	2.6	599	2.9	597	3.1	603	3.2	437	2.1
373	1.7	318	1.5	296	1.4	285	1.5	309	1.7	369	1.8
313	1.4	293	1.4	310	1.5	221	1.2	260	1.4	254	1.2
77	0.3	77	0.4	73	0.4	72	0.4	73	0.4	72	0.3
521	2.3	468	2.2	409	2.0	391	2.1	360	1.9	442	2.1
<u>\$ 22,396</u>	<u>100.0</u>	<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>

Ten-Year Schedule of Expenditures And Other Financing Uses By Secretariat
All Governmental Fund Types - Statutory Basis

Fiscal Year Ended June 30, 2017

(Amounts in millions)

	2017	% Total	2016	% Total	2015	% Total	2014	% Total
Legislature	\$ 67	0.1	\$ 61	0.1	\$ 60	0.1	\$ 56	0.1
Judiciary	929	1.5	896	1.5	852	1.5	831	1.5
Inspector General	4	—	4	—	5	—	6	—
Governor and Lieutenant Governor	7	—	7	—	7	—	5	—
Secretary of the Commonwealth	52	0.1	45	0.1	52	0.1	53	0.1
Treasurer and Receiver-General	6,314	10.3	6,485	10.7	6,224	11.1	5,893	10.9
Auditor of the Commonwealth	21	—	20	—	21	—	19	—
Attorney General	71	0.1	63	0.1	56	0.1	53	0.1
Ethics Commission	2	—	3	—	2	—	2	—
District Attorney	123	0.2	116	0.2	111	0.2	108	0.2
Office of Campaign and Political Finance	2	—	2	—	2	—	1	—
Sheriffs' Departments	624	1.0	616	1.0	595	1.1	571	1.0
Disabled Persons Protection Commission	3	—	3	—	3	—	2	—
Board of Library Commissioners	40	0.1	48	0.1	49	0.1	45	0.1
Massachusetts Gaming Commission	38	0.1	35	0.1	21	—	23	—
Comptroller	16	—	17	—	20	—	18	—
Administration and Finance	9,016	14.6	8,823	14.8	8,832	15.9	8,862	16.3
Energy and Environmental Affairs	543	0.9	627	1.0	628	1.1	561	1.0
Health and Human Services	23,037	37.6	22,579	37.3	20,398	36.0	18,649	34.1
Transportation and Public Works	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	3,129	5.1	3,287	5.4	3,248	5.8	2,914	5.4
Office of the Child Advocate	1	—	1	—	—	—	—	—
Executive Office of Education	3,280	5.3	3,320	5.5	3,218	5.7	3,130	5.8
Center for Health Information and Analysis	23	—	27	—	28	—	25	—
Public Safety and Security	1,406	2.3	1,396	2.3	1,350	2.4	1,313	2.4
Housing and Economic Development	1,359	2.2	1,320	2.2	1,281	2.3	1,251	2.3
Labor and Workforce Development	214	0.3	214	0.4	223	0.4	237	0.4
Post employment benefits	2,660	4.3	2,503	4.1	2,287	3.9	2,109	3.7
Debt service	2,479	4.0	2,470	4.1	2,507	4.5	2,410	4.4
Payments to advance refunding escrow agent/ Principal on current refunding	2,269	3.7	1,674	2.8	707	1.3	722	1.3
Other fund deficit support	145	0.2	71	0.1	89	0.2	168	0.3
Other interfund transfers	3,677	6.0	3,685	6.1	3,409	6.2	4,673	8.6
Total expenditures and other financing uses	\$ 61,550	100.0	\$ 60,417	100.0	\$ 56,285	100.0	\$ 54,710	100.0

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.

	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total
\$	57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1	\$ 58	0.1
	802	1.5	780	1.6	788	1.5	788	1.7	814	1.6	831	1.7
	6	—	3	—	3	—	4	—	3	—	3	—
	6	—	7	—	5	—	5	—	8	—	9	—
	50	0.1	43	0.1	46	0.1	54	0.1	53	0.1	53	0.1
	5,867	11.3	5,847	11.7	5,610	10.6	5,483	11.5	6,043	12.2	5,640	11.8
	19	—	18	—	17	—	17	—	20	—	19	—
	50	0.1	53	0.1	51	0.1	53	0.1	57	0.1	56	0.1
	2	—	2	—	2	—	2	—	2	—	2	—
	108	0.2	101	0.2	97	0.2	96	0.2	104	0.2	104	0.2
	1	—	1	—	3	—	1	—	1	—	1	—
	543	1.0	532	1.1	511	1.0	378	0.8	295	0.6	296	0.7
	2	—	2	—	2	—	2	—	3	—	2	—
	41	0.1	34	0.1	34	0.1	34	0.1	48	0.1	46	0.1
	14	—	1	—	—	—	—	—	—	—	—	—
	14	—	13	—	14	—	15	—	14	—	14	—
	8,665	16.8	7,456	14.9	7,206	13.7	7,040	14.9	6,892	14.2	7,059	14.8
	490	0.9	456	0.9	482	0.9	529	1.1	526	1.1	473	1.0
	17,447	34.1	17,632	35.1	17,737	33.5	16,044	33.8	16,468	33.3	15,504	32.5
	—	—	—	—	—	—	509	1.1	1,689	3.4	1,378	2.9
	2,439	4.7	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
	2,952	5.7	3,030	6.0	—	—	—	—	—	—	—	—
	9	—	—	—	1,172	2.2	1,308	2.7	1,456	2.9	1,381	2.9
	1,324	2.6	1,236	2.5	—	—	—	—	—	—	—	—
	1,214	2.3	1,203	2.4	1,283	2.4	1,245	2.6	981	2.0	857	1.8
	300	0.6	390	0.8	428	0.8	403	0.8	331	0.7	274	0.6
	1,990	3.8	1,892	3.8	1,839	3.5	1,749	3.7	1,314	2.7	1,399	2.9
	2,351	4.5	2,272	4.5	2,128	4.0	2,117	4.5	2,145	4.3	2,239	4.7
	230	0.4	388	0.8	540	1.0	538	1.1	—	—	—	—
	—	—	—	—	65	0.1	—	—	220	0.4	1,593	3.5
	4,752	9.2	4,352	8.7	7,272	13.8	4,373	9.2	6,456	13.1	5,403	11.3
\$	51,745	100.0	\$ 50,125	100.0	\$ 52,896	100.0	\$ 47,572	100.0	\$ 49,393	100.0	\$ 47,683	100.0

**Ten-Year Schedule of Budgeted Funds Expenditures and Other Financing Uses By
Major Program Category**

Fiscal Year Ended June 30, 2017

(Amounts in millions)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Direct local aid.....	\$ 5,703	\$ 5,568	\$ 5,420	\$ 5,292	\$ 5,116	\$ 4,929	\$ 4,785	\$ 4,837	\$ 4,724	\$ 5,040
Medicaid	15,252	14,851	13,655	11,901	10,800	10,431	10,237	9,287	8,537	8,104
Other Health and Human Services.....	5,600	5,433	5,301	4,980	4,769	4,711	4,615	4,616	4,970	5,014
Elementary and Secondary Education	523	539	515	515	489	436	349	358	496	486
Higher Education	1,168	1,194	1,162	1,092	991	937	943	846	1,036	1,085
Early Education and Care	540	548	538	510	483	494	515	513	560	550
Public Safety and Security	1,060	1,066	1,041	1,010	960	930	905	1,053	1,224	1,265
Energy and Environmental Affairs	222	221	225	215	202	187	186	202	216	227
Post employment benefits	2,660	2,503	2,287	2,109	1,990	1,892	1,839	1,749	1,314	1,399
Group health insurance	1,663	1,630	1,665	1,403	1,278	1,206	1,130	1,064	973	853
Debt service	2,285	2,174	2,190	2,133	2,117	1,923	1,664	1,860	1,891	1,868
Major programs.....	36,676	35,727	33,999	31,160	29,195	28,076	27,168	26,385	25,941	25,891
Other program expenditures	3,235	3,241	3,326	3,294	3,007	2,899	2,851	2,999	2,762	2,739
Interfund transfers and other financing uses..	1,908	1,959	1,527	3,200	3,149	2,515	5,520	1,810	3,867	4,405
Total expenditures and other financing uses..	<u>\$ 41,819</u>	<u>\$ 40,927</u>	<u>\$ 38,852</u>	<u>\$ 37,654</u>	<u>\$ 35,351</u>	<u>\$ 33,490</u>	<u>\$ 35,539</u>	<u>\$ 31,194</u>	<u>\$ 32,570</u>	<u>\$ 33,035</u>

Ten-Year Schedule of Long-Term Bonds And Notes Outstanding

As of June 30, 2017

(Amounts in millions)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General obligation bonds	\$ 22,717	\$ 21,668	\$ 20,802	\$ 19,387	\$ 19,140	\$ 18,852	\$ 18,517	\$ 17,683	\$ 17,052	\$ 16,085
Grant anticipation notes*	738	657	700	531	449	610	766	991	1,134	1,536
Special obligation bonds	2,991	2,754	2,324	2,292	1,924	1,972	1,592	1,053	1,079	1,113
Commonwealth long-term bonds	<u>\$ 26,446</u>	<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>

*Inclusive of cross-over refunding notes but exclusive of unamortized premiums.



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HIGHER EDUCATION

NON-APPROPRIATED ACTIVITY

The Commonwealth's Public Institutions of Higher Education are allowed, by their enabling statutes, to collect, retain, and expend certain fees, rents, donations and other types of revenue. These financial resources are important elements in the overall financial operations of the respective institutions, and are in addition to amounts made available from appropriations. The Public Institutions of Higher Education include:

University of Massachusetts System - The University system includes the campuses at Amherst, Worcester, Boston, Lowell, Dartmouth and certain institutes and programs operated by the Office of the University President.

State University Systems - The State College and University Systems include the three state colleges, and six state universities, which provide four-year post-secondary education programs. These include:

- Bridgewater State University
- Framingham State University
- Fitchburg State University
- Massachusetts College of Art & Design
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State University
- Worcester State University
- Westfield State University

Community College System - The Community College System includes the fifteen community colleges, which provide two-year post secondary education programs.

- Berkshire Community College
- Bunker Hill Community College
- Bristol Community College
- Cape Cod Community College
- Greenfield Community College
- Holyoke Community College
- Massasoit Community College
- Massachusetts Bay Community College
- Middlesex Community College
- Mount Wachusett Community College
- Northern Essex Community College
- North Shore Community College
- Quinsigamond Community College
- Roxbury Community College
- Springfield Technical Community College

Higher Education System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	University of Massachusetts	State Universities and Colleges	Community Colleges	Totals	
				2017	2016 Restated
Revenues and other financing sources:					
Federal grants and reimbursements	\$ 303,622	\$ 56,969	\$ 154,998	\$ 515,589	\$ 515,907
Departmental revenue	1,431,375	471,319	393,399	2,296,093	2,221,646
Miscellaneous revenue	1,230,322	406,368	293,609	1,930,299	1,900,951
Total revenues and other financing sources	2,965,319	934,656	842,006	4,741,981	4,638,504
Expenditures and other financing uses					
(by MMARS subsidiary):					
AA Regular employee compensation	733,701	193,115	175,805	1,102,621	1,029,901
BB Regular employee related expenses	20,361	5,895	3,531	29,787	33,502
CC Special employees and contracted services	266,341	140,459	204,786	611,586	611,305
DD Pension and insurance	212,942	57,257	42,034	312,233	279,329
EE Administrative expenditures	207,941	82,988	35,771	326,700	214,969
FF Facility operational supplies	168,253	18,731	18,872	205,856	203,126
GG Energy costs and space rental	136,233	41,970	28,098	206,301	208,550
HH Consultant services	219,420	12,420	16,919	248,759	232,818
JJ Operational services	47,172	38,354	15,922	101,448	96,423
KK Equipment purchase	30,563	6,098	9,016	45,677	50,469
LL Equipment leases, maintenance and repair	27,189	8,607	6,262	42,058	40,500
MM Purchased client services and programs	37,355	4,108	2,516	43,979	43,698
NN Construction and improvements	136,105	40,545	21,539	198,189	192,886
PP Aid to local governments	—	93	5,397	5,490	4,443
RR Benefit programs	317,676	101,102	164,130	582,908	645,764
SS Debt payment	26,873	16,210	3,825	46,908	46,134
TT Loans and special payments	213,949	121,936	39,782	375,667	449,983
UU Information technology (IT) expenses	87,400	31,413	30,253	149,066	148,154
Total expenditures and other financing uses	2,889,474	921,301	824,458	4,635,233	4,531,954
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	75,845	13,355	17,548	106,748	106,550
Fund balance at beginning of year, as restated	912,909	474,604	339,147	1,726,660	1,620,110
Fund balance at end of year	\$ 988,754	\$ 487,959	\$ 356,695	\$ 1,833,408	\$ 1,726,660

Note: Details might not add up due to rounding

University of Massachusetts
Combining Higher Education Non-Appropriated Activity - Statutory Basis
Fiscal Year Ended June 30, 2017
(Amounts in thousands)

	Totals	
	2017	2016 Restated
Revenues and other financing sources:		
Federal grants and reimbursements	\$ 303,622	\$ 286,393
Departmental revenue	1,431,375	1,353,498
Miscellaneous revenue	1,230,322	1,231,056
Total revenues and other financing sources	2,965,319	2,870,947
Expenditures and other financing uses (by MMARS subsidiary):		
AA Regular employee compensation	733,701	680,953
BB Regular employee related expenses	20,361	24,379
CC Special employees and contracted services	266,341	263,184
DD Pension and insurance	212,942	195,523
EE Administrative expenditures	207,941	104,810
FF Facility operational supplies	168,253	165,509
GG Energy costs and space rental	136,233	141,738
HH Consultant services	219,420	205,830
JJ Operational services	47,172	42,167
KK Equipment purchase	30,563	33,702
LL Equipment leases, maintenance and repair	27,189	26,677
MM Purchased client services and programs	37,355	36,969
NN Construction and improvements	136,105	127,452
PP Aid to local governments	—	—
RR Benefit programs	317,676	370,759
SS Debt payment	26,873	28,378
TT Loans and special payments	213,949	286,243
UU Information technology (IT) expenses	87,400	91,407
Total expenditures and other financing uses	2,889,474	2,825,680
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	75,845	45,267
Fund balance at beginning of year, as restated	912,909	867,642
Fund balance at end of year	<u>\$ 988,754</u>	<u>\$ 912,909</u>

Note: Details might not add up due to rounding

State University and College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Bridgewater State University	Framingham State University	Fitchburg State University	Massachusetts College of Art
Revenues and other financing sources:				
Federal grants and reimbursements	\$ 14,732	\$ 5,943	\$ 7,932	\$ 2,312
Departmental revenue	130,911	51,687	55,563	28,992
Miscellaneous revenue	90,842	67,406	35,279	24,171
Total revenues and other financing sources.....	236,485	125,036	98,774	55,475
Expenditures and other financing uses (by MMARS subsidiary):				
AA Regular employee compensation	72,358	11,831	22,057	11,940
BB Regular employee related expenses	1,325	433	456	388
CC Special employees and contracted services	42,969	10,904	12,865	5,873
DD Pension and insurance	24,791	3,671	5,357	1,113
EE Administrative expenditures	9,223	46,933	2,615	2,225
FF Facility operational supplies	1,654	2,538	1,355	1,221
GG Energy costs and space rental	5,052	3,887	4,542	2,082
HH Consultant services	1,769	1,310	1,015	1,423
JJ Operational services	12,290	7,057	1,355	2,187
KK Equipment purchase	928	577	670	330
LL Equipment leases, maintenance and repair	2,396	852	861	359
MM Purchased client services and programs	2,119	471	270	—
NN Construction and improvements	4,113	2,804	5,098	7,121
PP Aid to local governments	—	—	—	—
RR Benefit programs	25,002	8,684	9,903	10,130
SS Debt payment	1,826	410	—	—
TT Loans and special payments	18,814	14,648	20,582	8,840
UU Information technology (IT) expenses	6,019	3,646	3,727	1,750
Total expenditures and other financing uses.....	232,648	120,656	92,728	56,982
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	3,837	4,380	6,046	(1,507)
Fund balance at beginning of year, as restated	30,744	59,235	42,178	16,371
Fund balance at end of year	\$ 34,581	\$ 63,615	\$ 48,224	\$ 14,864

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	
					2017	2016 Restated
\$ 1,258	\$ 3,141	\$ 12,714	\$ 441	\$ 8,496	\$ 56,969	\$ 56,453
10,698	22,222	20,043	61,595	89,608	471,319	476,256
11,518	14,879	93,329	23,562	45,383	406,368	378,686
23,474	40,242	126,086	85,598	143,487	934,656	911,395
7,623	10,136	30,651	4,888	21,630	193,115	177,584
1,053	370	416	838	616	5,895	5,618
7,967	7,242	18,329	8,685	25,626	140,459	133,787
1,501	1,197	10,389	1,159	8,079	57,257	46,114
1,268	1,953	13,303	2,980	2,486	82,988	70,674
1,393	388	3,235	2,242	4,705	18,731	15,149
1,812	1,820	5,664	11,815	5,294	41,970	41,454
1,146	756	1,523	2,072	1,406	12,420	11,989
8,352	3,470	1,416	1,127	1,100	38,354	38,773
1,477	57	358	791	909	6,098	5,949
1,238	99	430	1,466	905	8,607	7,663
—	—	711	—	537	4,108	4,011
2,175	1,178	4,247	3,829	9,979	40,545	44,748
—	72	21	—	—	93	156
1,333	6,447	17,568	11,221	10,815	101,102	98,600
—	637	355	495	12,486	16,210	13,864
7,760	2,886	14,744	706	32,955	121,936	132,688
3,002	1,095	5,958	2,210	4,006	31,413	29,069
49,100	39,803	129,318	56,524	143,534	921,301	877,888
(25,626)	439	(3,232)	29,074	(47)	13,355	33,507
39,743	13,473	26,980	176,269	69,611	474,604	441,098
\$ 14,117	\$ 13,912	\$ 23,748	\$ 205,343	\$ 69,564	\$ 487,959	\$ 474,604

Community College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College
Revenues and other financing sources:							
Federal grants and reimbursements	\$ 3,745	\$ 23,433	\$ 17,937	\$ 4,807	\$ 3,581	\$ 10,291	\$ 17,028
Departmental revenue	7,384	56,281	26,825	11,037	13,198	14,395	40,110
Miscellaneous revenue	7,452	32,798	37,250	14,935	6,020	19,501	23,507
Total revenues and other financing sources...	18,581	112,512	82,012	30,779	22,799	44,187	80,645
Expenditures and other financing uses							
(by MMARS subsidiary):							
AA Regular employee compensation	2,507	37,428	12,895	4,313	5,541	6,775	16,047
BB Regular employee related expenses	110	264	425	172	18	346	121
CC Special employees and contracted services	5,694	18,628	32,942	10,860	6,012	9,065	19,894
DD Pension and insurance	903	2,980	4,812	2,087	2,071	2,141	5,255
EE Administrative expenditures	1,291	2,985	1,900	1,853	1,268	1,817	1,860
FF Facility operational supplies	428	1,133	909	406	266	1,973	1,462
GG Energy costs and space rental	760	3,461	4,347	1,745	943	1,265	1,318
HH Consultant services	426	1,256	778	313	371	489	2,642
JJ Operational services	615	1,867	761	509	380	1,214	622
KK Equipment purchase	46	852	1,050	608	244	1,487	694
LL Equipment leases, maintenance and repair	153	631	269	166	186	133	573
MM Purchased client services and programs	25	266	748	—	6	33	257
NN Construction and improvements	323	4,393	1,426	782	410	1,878	2,328
PP Aid to local governments	—	—	199	—	33	341	3,946
RR Benefit programs	1,672	25,638	18,196	5,691	4,786	12,387	11,617
SS Debt payment	17	245	—	—	—	335	977
TT Loans and special payments	2,852	—	429	—	155	750	7,005
UU Information technology (IT) expenses	648	7,013	2,255	1,152	915	2,277	2,563
Total expenditures and other financing uses ..	18,470	109,040	84,341	30,657	23,605	44,706	79,181
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	111	3,472	(2,329)	122	(806)	(519)	1,464
Fund balance at beginning of year, restated ..	2,971	19,964	14,997	22,722	2,933	15,556	33,450
Fund balance at end of year	\$ 3,082	\$ 23,436	\$ 12,668	\$ 22,844	\$ 2,127	\$ 15,037	\$ 34,914

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	
								2017	2016 Restated
\$ 3,925	\$ 15,741	\$ 1,848	\$ 10,267	\$ 12,284	\$ 13,053	\$ 5,312	\$ 11,746	\$154,998	\$173,061
19,784	36,967	28,168	36,823	27,582	44,930	736	29,180	393,399	391,892
16,733	35,316	18,388	24,451	16,132	4,408	17,929	18,789	293,609	291,210
40,442	88,024	48,404	71,541	55,998	62,391	23,977	59,715	842,006	856,163
2,761	16,850	23,861	14,089	22,682	8,358	189	1,510	175,805	171,366
247	604	271	273	143	—	69	467	3,531	3,505
14,104	25,634	10,059	15,578	7,622	15,369	3,791	9,535	204,786	214,334
1,574	6,206	3,747	4,585	2,162	2,678	114	718	42,034	37,693
2,044	2,507	1,976	1,891	1,619	2,537	7,558	2,666	35,771	39,485
560	856	1,399	1,449	2,835	2,753	423	2,020	18,872	22,468
2,234	2,633	539	2,282	1,214	3,195	770	1,392	28,098	25,357
832	1,151	1,690	412	1,614	1,280	1,481	2,185	16,919	14,999
—	2,518	1,006	2,610	206	1,278	1,069	1,267	15,922	15,483
—	535	305	430	125	608	588	1,444	9,016	10,818
—	1,430	62	252	189	734	132	1,353	6,262	6,160
358	—	119	—	310	—	—	394	2,516	2,717
2,226	186	2,819	1,531	590	817	227	1,601	21,539	20,686
—	—	273	—	604	—	—	—	5,397	4,287
8,670	206	1,169	24,796	11,167	14,881	6,960	16,295	164,130	176,406
13	—	311	675	1,253	—	—	—	3,825	3,892
—	24,907	—	109	200	374	—	3,000	39,782	31,053
2,470	1,507	54	2,393	2,213	4,101	628	65	30,253	27,678
38,093	87,730	49,660	73,355	56,748	58,963	23,999	45,912	824,458	828,385
2,349	294	(1,256)	(1,814)	(750)	3,428	(22)	13,803	17,548	27,777
17,882	13,349	10,796	7,377	13,422	6,264	21,223	136,242	339,147	311,370
<u>\$ 20,231</u>	<u>\$ 13,643</u>	<u>\$ 9,540</u>	<u>\$ 5,563</u>	<u>\$ 12,672</u>	<u>\$ 9,692</u>	<u>\$ 21,201</u>	<u>\$ 150,045</u>	<u>\$356,695</u>	<u>\$339,147</u>



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Commonwealth of Massachusetts

STATUTORY BASIS FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

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Commonwealth of Massachusetts

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016



THOMAS G. SHACK III, ESQ.
COMPTROLLER

Palmers Island Lighthouse - New Bedford - Bristol County

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

Thomas G. Shack III, Esq.
Comptroller of the Commonwealth

Prepared by
Financial Reporting and Analysis Team
Office of the Comptroller

This document is available at the Comptroller's website: www.mass.gov/comptroller/

Palmers Island Lighthouse - New Bedford - Bristol County

Photo courtesy of the Massachusetts Office of Travel and Tourism

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

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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*

January 6, 2017

***To the Citizens of the Commonwealth of Massachusetts,
Governor Charles D. Baker and Honorable Members of the General Court***

I am pleased to provide this Letter of Transmittal for the Commonwealth's fiscal year 2016 (FY16) 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 financial 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 end portion of the report includes "required supplementary information" in the form of 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 FY16 are found in the Statutory Basis Financial Report (SBFR) issued separately this past October. 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 comparisons across states.

The CAFR's "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 most 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) and the Commonwealth's Basic Financial Statements. GAAP requires that

management provide a narrative overview and analysis in the form of an MD&A to accompany the basic financial statements.

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 auditor's 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 and advanced education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in high technology, life sciences, health care, and business services.

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

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statements this past October; the fund basis; and 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)

Governmental Funds - Statutory Basis, June 30, 2016

Budgeted fund balance	\$ 1,482.0
Non-budgeted special revenue fund balance	2,066.9
Capital projects fund balance	<u>(334.7)</u>
Governmental Fund Balance - Statutory Basis, June 30, 2016	\$ 3,214.2
Plus: Expendable Trust and Similar Fund Statutory balances that are considered Governmental Funds for GAAP reporting purposes	638.3
Less: Massachusetts Department of Transportation Funds	<u>(1,275.7)</u>
Adjusted Statutory Governmental fund balance	2,576.8
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatement	1,912.5
Tobacco Settlement Agreement receivable	126.0
Medicaid	(601.7)
Other short term accruals:	
Assessments and other receivables	273.0
Amounts due to authorities and municipalities, net	(580.7)
Claims, judgments and other risks	(11.4)
Amounts due to health care providers and insurers	(60.4)
Workers' compensation and group insurance	(147.6)
Compensated absences	(11.1)
Other accruals, net	<u>283.6</u>
Net increase to governmental fund balances	1,182.2
Massachusetts School Building Authority fund balance	1,514.3
Total changes to governmental funds	<u>2,696.5</u>
Governmental fund balance (fund perspective)	5,273.3
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,743.7
Deferred revenue, net of other eliminations	503.4
Long term accruals:	
Net pension liability	(32,855.7)
Net deferred (inflows) / outflows of resources related to pension	6,025.4
Post employment benefits other than pensions cumulative over / (under) funding	(6,466.0)
Environmental remediation liability	(530.8)
Massachusetts School Building Authority debt and school construction payables	(7,498.3)
Long term debt, unamortized premiums and net deferrals on debt refundings	(26,445.8)
Compensated absences	(592.4)
Capital leases	(41.3)
Accrued interest on bonds	(350.7)
Other long term liabilities	<u>(404.7)</u>
Total governmental net position (entity wide perspective)	<u>\$ (58,639.9)</u>

The deficit of \$58.640 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 FY16, MassDOT held \$33.890 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 FY16 the Commonwealth's capital spending on Higher Education capital projects totaled approximately \$1.6 billion, capital spending for transportation-related financial assistance to local governments totaled approximately \$2.7 billion, and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget totaled \$4.6 billion, including \$1 billion to fund the Massachusetts School Building Authority (MSBA) in FY05 and FY06. In addition, the Commonwealth has a net liability of \$5.891 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 FY16 with a positive net position of \$25.615 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 required that the Commonwealth's net pension liability, or NPL, be recorded on the Commonwealth's books for the first time in FY15. The FY16 NPL for the Commonwealth totaled \$33.575 billion, offset by GASB 68 related adjustments (in the form of deferred inflows and outflows) of \$6.263 billion; resulting in a reduction of net position of \$27.312 billion.

The net deficit in governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) increased by \$3.787 billion between June 30, 2015 and June 30, 2016. Virtually all 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 reporting requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$861 million in FY16, reducing net position; cumulative OPEB underfunding is \$6.466 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 statute requires that these payments increase from \$77 million in FY16 to approximately \$250 million annually by FY23, although the statutorily-required payments were frozen at the FY15 level in FY16 and FY17.
- As explained on page 3, the Commonwealth continues to fund, through its own debt, transportation-related assets owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY16, approximately \$2.205 billion of the more than \$2.843 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.490 billion in transportation spending (more than \$293 million of which were grants and other financial assistance to cities and towns), \$227 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities), and approximately \$473 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 \$3.343 billion from FY15, 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 13](#) to the basic financial statements. The Massachusetts School Building Authority (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, 2016. 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 sincere thanks to the dedicated employees of the Office of the Comptroller, and in particular Deputy Comptrollers Chris Guido, Jenny Hedderman, Howard Merkwowitz, Jeff Shapiro, and Kathy Sheppard, whose tireless efforts serve the people of the Commonwealth well on a daily basis. I am proud to have them all on my team as we embark on another year of innovation within the Comptroller's Office and establish a model for good governance nationwide.

Respectfully submitted,

Thomas G. Shack III
Comptroller of the Commonwealth

CONSTITUTIONAL OFFICERS

Charles D. Baker
Governor

Karyn E. Polito
Lieutenant Governor

William F. Galvin
Secretary of State

Maura Healey
Attorney General

Deborah B. Goldberg
Treasurer and Receiver-General

Suzanne Bump
Auditor

LEGISLATIVE OFFICERS

Stanley C. Rosenberg
President of the Senate

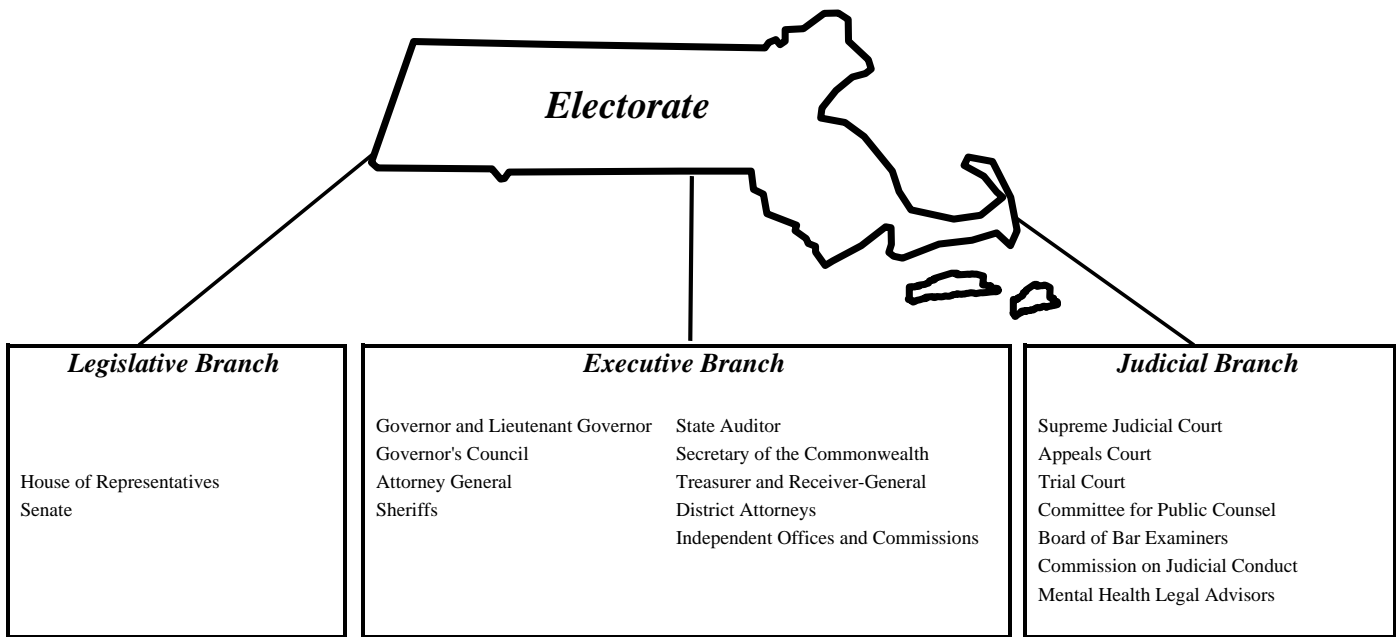
Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

Ralph D. Gants
Chief Justice, Supreme Judicial Court

Scott L. Kafker
Chief Justice, Appeals Court

Lewis H. Spence
Court Administrator, Trial Court



State Agencies		
<p><u>Administration and Finance</u> 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><u>Education</u> 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><u>Housing and Economic Development</u> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs & Business Regulations Massachusetts Marketing Partnership Department of Housing & Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards</p> <p><u>Energy and Environmental Affairs</u> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities State Reclamation Board</p> <p><u>Executive Office of Transportation and Public Works</u></p> <p><u>Executive Office of Labor and Workforce Development</u></p>	<p><u>Health and Human Services</u> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts</p> <p><u>Public Safety</u> Executive Office of Public Safety and Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of Public Safety Department of State Police Massachusetts Emergency Management Agency Military Division/ Massachusetts National Guard Municipal Police Training Committee Parole Board Sex Offender Registry</p>

ADVISORY BOARD TO THE COMPTROLLER

Kristen Lepore (Chair)
Secretary of Administration and Finance

Suzanne Bump
Auditor

Deborah B. Goldberg
Treasurer and Receiver-General

Lewis H. Spence
Chief Administrator, Trial Court

Maura Healey
Attorney General

Michael Esmond
Gubernatorial Appointee

Timothy C. Sullivan
Gubernatorial Appointee

REPORT PREPARED BY:

Howard Merkowitz
Deputy Comptroller

Statewide Financial Reporting and Analysis

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Director

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Director Emeritus of the Financial Reporting Group

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Accountant

Mayowa Taiwo, CPA
Accountant

Christine Bender
Accountant

Paul O'Leary
Accountant

Craig Delmonte
Accountant

Cathy Hunter
Program Coordinator

Statewide General Accounting

Julia P. Burns, CGFM
Director, General Accounting
(In Memoriam)

Statewide Department Assistance

Scott Olsen
Director, Department Assistance



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Financial Report
for the Fiscal Year Ended

June 30, 2015

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, 2016, 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 accounting principles generally accepted in the United States of America; 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 the Community Colleges all of which are major enterprise funds and represent 87% of the total assets and deferred outflows of the business-type activities. Additionally, we did not audit the financial statements of the nonmajor component units, which represent 7% 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 they relate to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of certain entities identified in Note 13 of the basic financial statements were not audited in accordance with *Government Auditing Standards*.

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



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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2016, 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 2016, the Commonwealth adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America 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 January 6, 2017 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

January 6, 2017



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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, 2016 (FY16). 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 FY16 by almost \$52.904 billion, an increase in the net deficit of \$3.343 billion from FY15.

Of the \$52.904 billion deficit, “unrestricted net position” has a deficit of \$58.433 billion and there is a \$2.245 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*, which was effective starting in FY15, the Commonwealth was required to place on its books the full amount of its unfunded pension liability (known as the "net pension liability"), which totaled \$33.575 billion as of June 30, 2016.
2. The Commonwealth has a net liability of \$5.891 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 \$33.890 billion as of June 30, 2016. 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, 2016, it had accumulated a \$6.466 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 \$77 million in FY16 to approximately \$250 million annually by FY24.

At the end of FY16, the Commonwealth also held \$3.285 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 \$1.478 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.217 billion was restricted for debt retirement (of which \$1.093 billion was restricted for MSBA debt retirement), \$268 million was restricted for Higher Education, and \$211 million was restricted for other governmental purposes.

The Commonwealth's governmental activity (which excludes the “business-type activities” of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$3.787 billion, to \$58.640 billion, and its governmental

activities unrestricted net deficit increased by approximately \$4.040 billion in FY16.

Total revenues of the primary government increased by \$2.999 billion, or 5.4% in FY16, to \$58.169 billion. Total expenses of the primary government increased by \$4.171 billion, or approximately 7.3%, to \$61.511 billion. Detail on revenue and expenses can be found on pages 24-27.

The net position of business-type activities increased by \$444 million, due to a surplus of approximately \$286 million in Higher Education activity and \$158 million in the Unemployment Insurance program.

On a "funds perspective" basis, at June 30, 2016, the Commonwealth's governmental funds reported a combined ending fund balance of \$5.273 billion, an increase of \$32 million from June 30, 2015. Of the ending balances:

- \$8 million is nonspendable, \$1.370 billion is restricted, \$2.422 billion is committed, \$846 million is assigned and \$628 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 \$1.514 billion is blended with the Commonwealth. Within this fund balance is \$1.208 billion in cash and restricted investments, which resulted primarily from the issuance of debt in FY16 and previous fiscal years, less approximately \$33 million in liabilities. In FY16, \$799 million was dedicated to the MSBA from Commonwealth sales taxes, and the MSBA issued \$1.179 billion in long-term dedicated sales tax bonds, of which \$1 billion refunded already outstanding debt and \$150 million was new money bonds.

Other highlights of FY16 financial operations include:

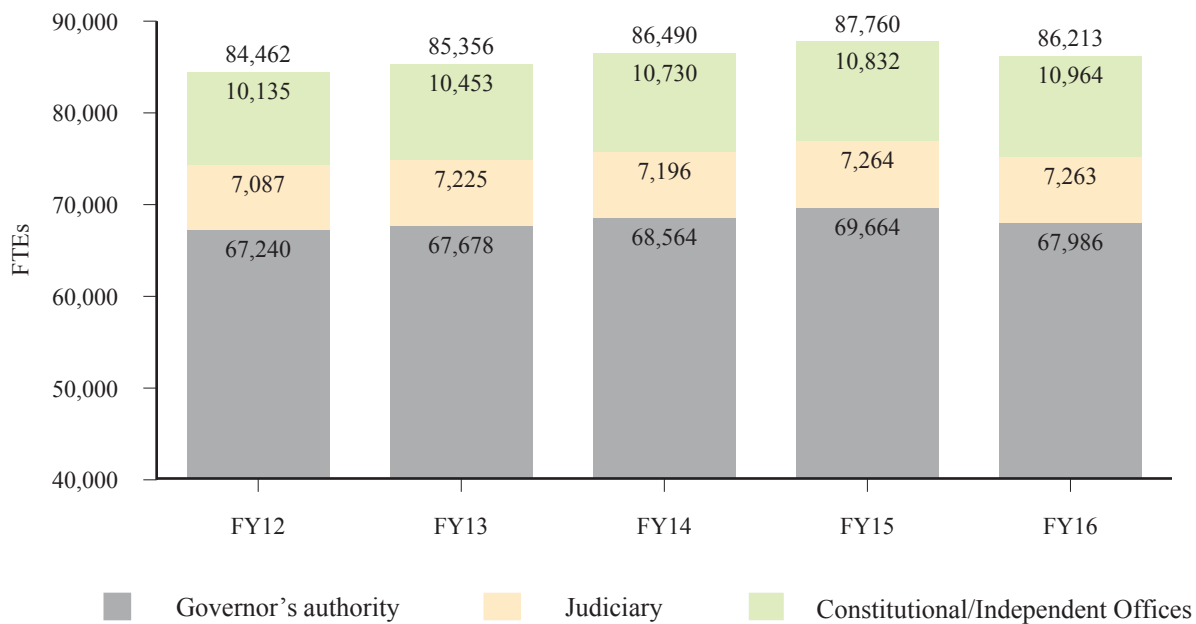
- Tobacco settlement proceeds for the year were approximately \$262 million on a GAAP basis, an increase of approximately \$21 million from FY15. Approximately \$126 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY16. In FY16 approximately \$77 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. 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, although the requirement to transfer increasing percentages of tobacco settlement proceeds was suspended in FY16 and FY17 and frozen at 30% (equal to the FY15 required percentage) for both years.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$200 million 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 FY16 were \$5.406 billion, an increase of approximately \$211 million, or 4.1%, from FY15. Prizes were approximately \$4.314 billion. 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. Mandated transfers to the General Fund to reimburse it for administrative expense appropriations and other spending totaled \$1.092 billion.

Full-Time Equivalent Employment

The following chart 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 FTEs decreased by approximately 1,500, 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) due primarily to the early retirement incentive program (ERIP) enacted during FY15 and were retired as of July 1, 2015. Employment levels increased by a total of approximately 1,751 FTEs between June 30, 2012 and June 30, 2016 restoring some of the reductions that occurred in FY09 and FY10.

Full Time Equivalent Workforce
Including Higher Education and the Massachusetts Department of Transportation
June 2012 – June 2016



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 comprise the following: 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 the types of 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 particular services. For the Commonwealth, business-type activities comprise 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 65-130](#).

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. Required pension schedules under [GASB Statement No. 67, *Financial Reporting for Pension Plans*](#), are also presented in this section.

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

GOVERNMENT-WIDE ANALYSIS

The primary government's combined net position (governmental and business-type activities) showed a net deficit of \$52.904 billion at the end of FY16, an increase in the net deficit of \$3.343 billion from the end of FY15. Governmental activities unrestricted net position is negative by \$59.112 billion. As explained previously, in addition to the \$33.575 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 FY16, 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.....	\$ 5,890,885
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	12,144,486
Effect on unrestricted net position of item unique to the Commonwealth	\$ 18,035,578

Of the Commonwealth's more than \$2.8 billion in FY16 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 \$293 million in grants and other financial assistance to cities and towns), \$227 million for Institutions of Higher Education (which are included in the Commonwealth's business-type activities) and approximately \$473 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY16 the Commonwealth's capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$19.1 billion. These include Higher Education capital projects totaling approximately \$1.6 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$9.8 billion, transportation-related financial assistance to local governments totaling more than \$2.7 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget of almost \$4.6 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, 2016, the Commonwealth's government-wide current cash and cash equivalents totaled \$4.152 billion, an increase of \$65 million from June 30, 2015. Total current assets were \$11.323 billion, an increase of \$474 million from June 30, 2015. As of June 30, 2016, the Commonwealth's current liabilities were \$9.779 billion, an increase of \$5 million from June 30, 2015.

As of June 30, 2016, the primary government's non-current assets totaled \$17.254 billion, an increase of \$117 million from June 30, 2015. This increase was due mainly to a \$645 million increase in capital assets, most of which occurred in business-type of activities, as the result of increases in assets recorded by the Institutions of Higher Education.

The Commonwealth holds \$11.932 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.

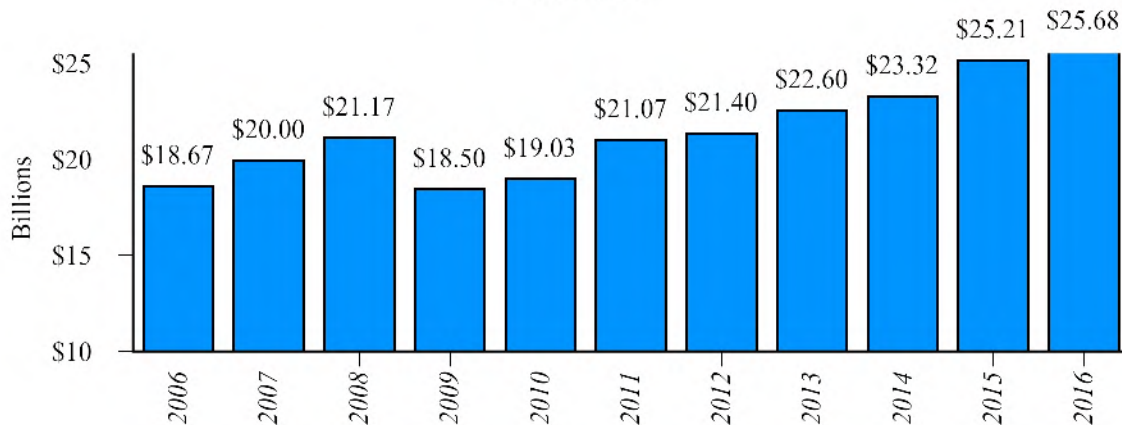
Net Position as of June 30, 2016 and 2015
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Current assets.....	\$ 9,554,420	\$ 9,088,754	\$ 1,768,448	\$ 1,760,469	\$ 11,322,868	\$ 10,849,223
Non-capital non-current assets	2,724,615	3,329,493	2,597,073	2,754,615	5,321,688	6,084,108
Capital assets	4,743,718	4,602,322	7,188,135	6,684,216	11,931,853	11,286,538
Total assets	17,022,753	17,020,569	11,553,656	11,199,300	28,576,409	28,219,869
Deferred outflows of resources.....	7,257,284	2,300,253	458,721	234,880	7,716,005	2,535,133
Total assets and deferred outflows	24,280,037	19,320,822	12,012,377	11,434,180	36,292,414	30,755,002
Current liabilities	8,625,845	8,727,106	1,153,151	1,047,022	9,778,996	9,774,128
Long term liabilities.....	73,380,320	62,415,478	5,074,453	4,983,945	78,454,773	67,399,423
Total liabilities	82,006,165	71,142,584	6,227,604	6,030,967	88,233,769	77,173,551
Deferred inflows of resources.....	913,817	3,031,679	48,608	110,928	962,425	3,142,607
Total liabilities and deferred inflows	82,919,982	74,174,263	6,276,212	6,141,895	89,196,194	80,316,158
Net Position:						
Net investment in capital assets.....	(1,067,098)	(553,272)	3,311,658	3,055,444	2,244,560	2,502,172
Restricted	1,538,662	1,541,566	1,745,840	1,539,785	3,284,502	3,081,351
Unrestricted.....	(59,111,509)	(55,841,735)	678,667	697,056	(58,432,842)	(55,144,679)
Total Net Position	\$ (58,639,945)	\$ (54,853,441)	\$ 5,736,165	\$ 5,292,285	\$ (52,903,780)	\$ (49,561,156)

Changes in Net Position

As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$3.343 billion between FY15 and FY16. The table on page 25 shows the major categories of government-wide revenues and expenses for FY15 and FY16, as well as net position for the two fiscal years. In FY16, approximately 44% 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. FY16 revenues totaled \$58.169 billion, an increase of \$2.999 billion, or 5.4% from FY15, with tax revenue totaling \$25.676 billion, an increase of \$466 million, or 1.9%, from FY15. The increase in tax revenue was attributable primarily sales tax growth of \$275 million, or 4.7%, and corporate excise tax growth of \$174 million, or 7.7%. Income tax revenue declined by \$202 million, or 1.4%, due to a decline in capital gains tax revenues and reduced GAAP accruals.

**Revenue from Taxation
FY06-FY16**



**Changes in Net Position during the Fiscal Years Ended June 30, 2016 and 2015
(in thousands of dollars except percentages)**

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016 Distribution	June 30, 2015 Distribution	'15 to '16 % Change
Revenues									
Program Revenues:									
Charges for services	\$ 10,308,129	\$ 9,582,046	\$ 4,376,517	\$ 3,944,737	\$ 14,684,646	\$ 13,526,783	25.2%	24.5%	2.9 %
Operating grants and contributions	15,158,087	13,950,227	891,823	936,917	16,049,910	14,887,144	27.6%	27.0%	2.2 %
Capital grants and contributions	85,759	81,475	265,714	206,128	351,473	287,603	0.6%	0.5%	20.0 %
General Revenues:									
Taxes	25,676,303	25,209,826	—	—	25,676,303	25,209,826	44.2%	45.7%	(3.3)%
Other	1,160,994	1,251,193	245,441	7,536	1,406,435	1,258,729	2.4%	2.3%	4.3 %
Total Revenues	52,389,272	50,074,767	5,779,495	5,095,318	58,168,767	55,170,085	100.0%	100.0%	26.1 %
Expenses									
Medicaid	16,825,110	15,086,742	—	—	16,825,110	15,086,742	27.3%	26.3%	3.8 %
Direct local aid	5,598,687	5,469,412	—	—	5,598,687	5,469,412	9.1%	9.5%	(4.2)%
Health and human services ..	7,912,817	7,605,180	—	—	7,912,817	7,605,180	12.9%	13.3%	(3.0)%
Lottery	4,299,592	4,109,611	—	—	4,299,592	4,109,611	7.0%	7.2%	(2.8)%
Higher education	—	—	5,081,859	4,695,309	5,081,859	4,695,309	8.3%	8.2%	1.2 %
Early elementary and secondary education	5,420,052	4,654,161	—	—	5,420,052	4,654,161	8.8%	8.1%	8.6 %
Unemployment compensation	—	—	1,499,811	1,598,084	1,499,811	1,598,084	2.4%	2.8%	(14.3)%
Other	14,873,463	14,122,138	—	—	14,873,463	14,122,138	24.2%	24.6%	(1.6)%
Total Expenses	54,929,721	51,047,244	6,581,670	6,293,393	61,511,391	57,340,637	100.0%	100.0%	(12.3)%
Excess/(Deficiency)									
before transfers	(2,540,449)	(972,477)	(802,175)	(1,198,075)	(3,342,624)	(2,170,552)			
Transfers	(1,246,055)	(1,429,174)	1,246,055	1,429,174	—	—			
Change in net position (deficits)	(3,786,504)	(2,401,651)	443,880	231,099	(3,342,624)	(2,170,552)			
Net position/(deficit) - beginning	(54,853,441)	(52,451,790)	5,292,285	5,061,186	(49,561,156)	(47,390,604)			
Net position/(deficit) - ending	(\$58,639,945)	(\$54,853,441)	\$ 5,736,165	\$ 5,292,285	(\$52,903,780)	(\$49,561,156)			

Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) totaled \$16.050 billion, an increase of \$1.163 billion, or 7.8%, in FY16, with Medicaid reimbursements increasing by \$1.073 billion, or 12.3%, 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 \$14 million, or 22.6%, in federal reimbursements for the Unemployment Insurance program, as the economic recovery continued in the Commonwealth.

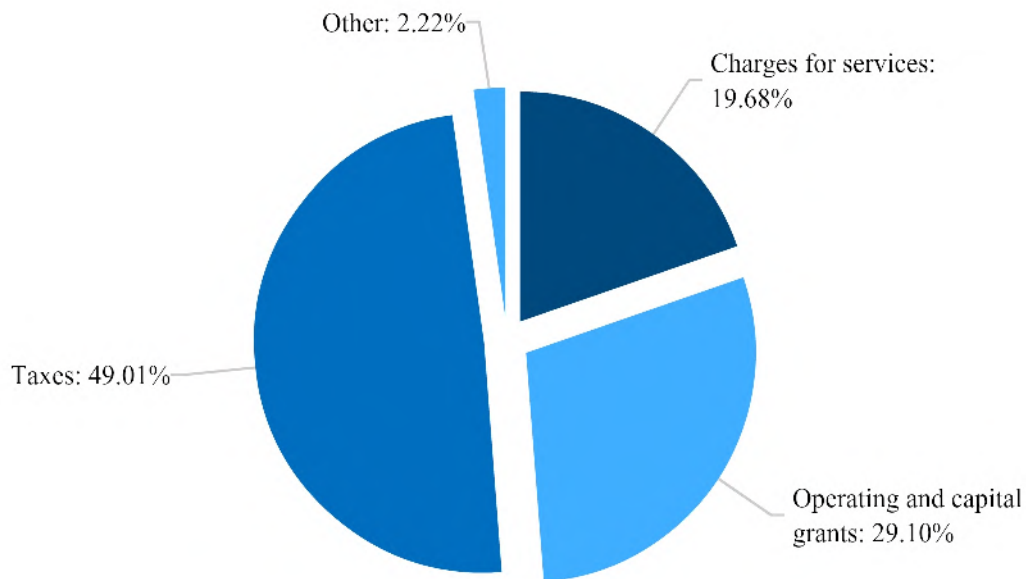
Charges for services totaled \$14.685 billion, an increase of \$1.158 billion, or 8.6%, with increases in charges in Health and Human Services, Lottery, Higher Education, and Unemployment Insurance partially offset by decreases in charges for General Government, Medicaid and Labor and Workforce Development.

As of June 30, 2016, government-wide restricted net position totaled \$3.285 billion, an increase of \$203 million, with increases in assets restricted for Unemployment Insurance benefits offset by decreases in assets restricted for indebtedness and for other purposes.

Primary government spending totaled \$61.511 billion, an increase of \$4.171 billion, or 7.3%, from FY15, with governmental activities spending (i.e., excluding business-type activities such as Higher Education and the Unemployment Insurance program) totaling \$54.930 billion, an increase of \$3.882 billion, or 7.6%, and business-type activities spending totaling \$6.582 billion, an increase of \$288 million, or 4.6%. Medicaid expenses totaled \$16.825 billion, an increase of \$1.738 billion, or 11.5%, from FY15, due to expanded Medicaid eligibility under the Affordable Care Act, increased enrollment growth and higher medical costs. Unemployment insurance compensation expenditures totaled \$1.500 billion, a decrease of \$98 million, or 6.1%, as unemployment declined in the Commonwealth and the extended benefit program expired. Other significant spending changes occurred in Health and Human services, where spending totaled \$7.913 billion, an decline of \$308 million or 4.0%, in transportation and public works, where spending totaled \$2.712 billion, a decline of \$22 million, or 0.8%, in direct local aid, where spending totaled \$5.599 billion, an increase of \$129 million, or 2.4%, and in general government expenses, where spending totaled \$2.616 billion, a decline of \$(87) million, or 3.2%.

Income taxes comprise the bulk of tax revenue. Of the \$25.676 billion in tax revenue within governmental activities, \$14.125 billion, or approximately 55%, of total taxes, was from income taxes, \$6.107 billion, or 24%, was from sales taxes, \$2.439 billion, or 9%, was from corporate taxes, \$768 million, or 3%, was from motor fuels taxes and \$2.236 billion, or 9%, was from other forms of taxation. Lottery revenues of \$5.405 billion made up 52% of the Commonwealth's governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$9.782 billion, or approximately 65%, of all grants, other health and human services grants of \$2.552 billion, or 17% of all grants, and education grants of \$1.218 billion, or 8% 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.

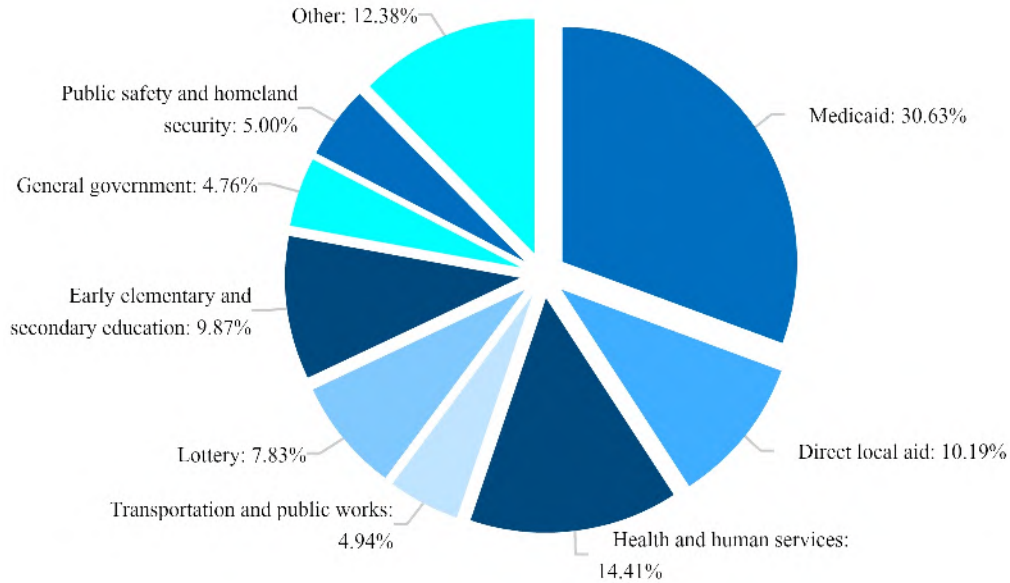
*Revenue—Governmental Activities
Fiscal Year Ending June 30, 2016*



Medicaid expenses of \$16.825 billion accounted for 30.6% 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 \$7.913 billion, accounting for 14.4% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$5.420 billion, accounting for 9.9% of governmental expenses and public safety and homeland security costs of approximately \$2.747 billion, accounting for 5.0% of governmental expenses. State employees' pensions and other post-employment benefits, which are included in the department spending amounts above, were \$2.450 billion.

**Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2016**



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, 2016, business-type activities' net position totaled \$5.736 billion, an increase of \$444 million, or 8.4%, from FY15, with the net position of the Institutions of Higher Education increasing by \$286 million to \$4.258 billion, and the net position of the Unemployment Insurance program increasing by \$158 million, to \$1.478 billion. Revenues of business-type activities totaled \$5.534 billion an increase of \$446 million, or 8.8%, due almost entirely to increases in charges for services, which totaled \$4.377 billion, an increase of \$432 million, or 10.9%, with Unemployment Insurance charges growing by \$119 million, or 8.0%, and Higher Education charges increasing by \$313 million, 12.8%. Operating grants and contributions totaled \$892 million, a decline of \$45 million, or 4.8%, and Capital Grants and Contributions totaled \$266 million, an increase of \$60 million, or 28.9%.

**Unemployment Compensation Fund
Net Position
Fiscal Years 2012 - 2016
(amounts in millions)**



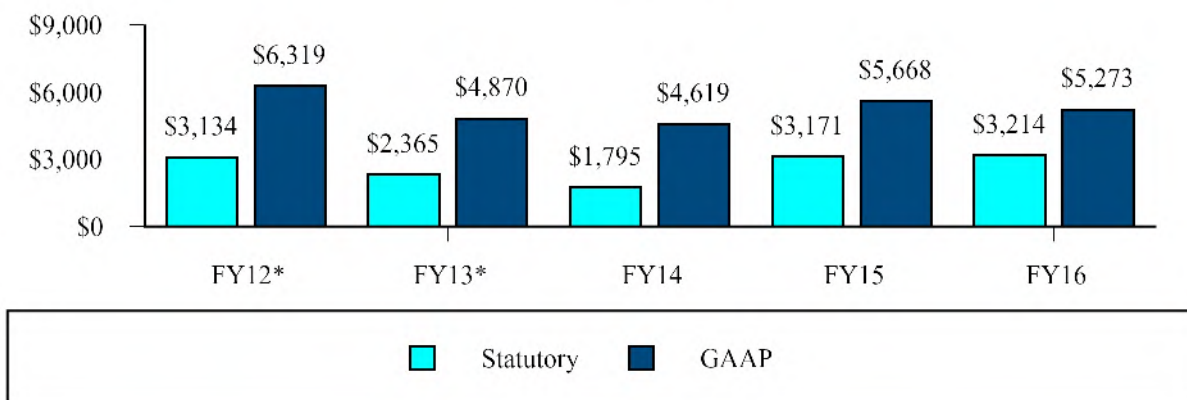
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

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 FY16, the fund balance of the General Fund was \$2.574 billion. Of this amount, \$1.292 billion represents the balance in the Commonwealth's Stabilization Fund. \$109 million was classified as assigned for continuing appropriations from FY16 into FY17.

**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. Also reported in the Federal Grants Fund is \$1.196 billion in food stamp benefit payments, \$73 million of childhood immunization grant and \$24 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)

	FY16	FY15	FY14	FY13	FY12
Beginning fund balances.....	\$ 5,305,219	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628
Revenues and other financing sources.....	67,749,586	60,658,637	57,209,970	55,289,871	54,370,101
Expenditures and other financing uses.....	67,781,500	59,972,852	57,460,487	56,738,878	53,318,771
Excess/(deficiency).....	(31,914)	685,785	(250,517)	(1,449,007)	1,051,330
Ending fund balances.....	<u>\$ 5,273,305</u>	<u>\$ 5,305,219</u>	<u>\$ 4,619,434</u>	<u>\$ 4,869,951</u>	<u>\$ 6,318,958</u>

FY16 governmental fund revenues and other financing sources totaled \$67.750 billion, an increase of \$7.091 billion, or 11.7%, from FY15. Tax revenues totaled \$25.746 billion, an increase of \$488 million, or 1.9%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements totaled \$15.233 billion, an increase of \$1.188 billion, or 8.5%, due primarily to growth in reimbursable Medicaid spending. Assessments, fees, and investment earnings totaled \$12.013 billion, an increase of \$707 million, or 6.3%. Revenues from other financing sources totaled \$14.757 billion, an increase of \$4.708 billion, or 46.9%, primarily due to increased bond issuance and transfers to health related funds.

FY16 governmental fund expenditures and other financing uses totaled \$67.782 billion, an increase of \$7.809 billion, or 13.0% from FY15. Medicaid expenditures totaled \$16.825 billion, an increase of \$1.738 billion or 11.5%, with the increase due primarily to enrollment growth and higher medical costs. Debt service expenditures totaled \$5.735 billion, an increase of \$2.767 billion, or 93.2%, post-employment benefits totaled \$1.103 billion, an increase of \$201 million, or 22.2%, with growth due mainly to increased pension contributions, and direct local aid totaled \$5.599 billion, an increase of \$129 million, or 2.4%. Other financing uses totaled \$9.707 billion, an increase of \$2.417 billion, or 33.2%, with the increase due primarily to more refunding of debt compared to FY15.

As of June 30, 2016 the Commonwealth's governmental funds reported combined ending fund balance of \$5.273 billion, a decrease of \$32 million, or -.6%, from the previous year.

Governmental Funds - Fund Balance Classification
(amounts in thousands)

	2016	2015	Change	% Change
<u>Nonspendable/Restricted:</u>				
Nonspendable.....	\$ 7,910	\$ 2,318	\$ 5,592	241.2%
Restricted	1,369,761	1,790,143	(420,382)	(23.5)%
Total Nonspendable/Restricted.....	1,377,671	1,792,461	(414,790)	(23.1)%
<u>Unrestricted</u>				
Committed.....	2,421,647	2,375,021	46,626	2.0%
Assigned.....	845,567	576,632	268,935	46.6%
Unassigned.....	628,420	561,105	67,315	12.0%
Total Unrestricted.....	3,895,634	3,512,758	382,876	10.9%
Total fund balances.....	\$ 5,273,305	\$ 5,305,219	\$ (31,914)	(0.6)%

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 on the previous page. 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 some 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 \$444 million.

BUDGETARY HIGHLIGHTS

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 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.

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.

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.

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, 2016 amounts to approximately \$20.781 billion, with accumulated depreciation of approximately \$8.849 billion, leaving a net book value of \$11.932 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 2015 to 2016 was approximately \$645 million, with \$141 million in governmental activities and \$504 million in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table below details the capital asset activity for the Commonwealth.

Capital Assets at Year - End						
(net of depreciation)						
(amounts in thousands)						
	Governmental Activities		Business - Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land.....	\$ 877,493	\$ 861,487	\$ 137,937	\$ 118,415	\$ 1,015,430	\$ 979,902
Historical treasures	—	—	1,760	1,196	1,760	1,196
Construction in process	819,321	960,752	1,048,579	758,620	1,867,900	1,719,372
Buildings	2,605,085	2,386,166	5,152,943	4,980,724	7,758,028	7,366,890
Machinery and equipment	282,812	228,921	777,807	747,841	1,060,619	976,762
Infrastructure, excluding central artery	159,007	164,996	—	—	159,007	164,996
Library collections.....	—	—	69,109	77,420	69,109	77,420
Total.....	\$ 4,743,718	\$ 4,602,322	\$ 7,188,135	\$ 6,684,216	\$ 11,931,853	\$ 11,286,538

Additional detail on the Commonwealth’s FY16 capital asset activity can be found in [Note 5](#) to the basic financial statements (“Capital Assets”) on pages 89–90.

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 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 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 \$1.463 billion in debt to refund already existing debt, taking advantage of continued low interest rates in FY16. During the year, the Commonwealth also issued \$1.2 billion in Revenue Anticipation Notes (RANs), which were retired in April, May and June 2016.

Approximately 17.5% percent of the Commonwealth’s \$21.668 billion in general obligation debt outstanding as of June 30, 2016 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 2016 there were no changes to credit ratings on any of the Commonwealth's outstanding debt.

The following table 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 90-91 and [Note 7](#) (“Long-Term Obligations”) on pages 91-106.

Outstanding Long - Term Debt Obligations

(amounts in thousands)

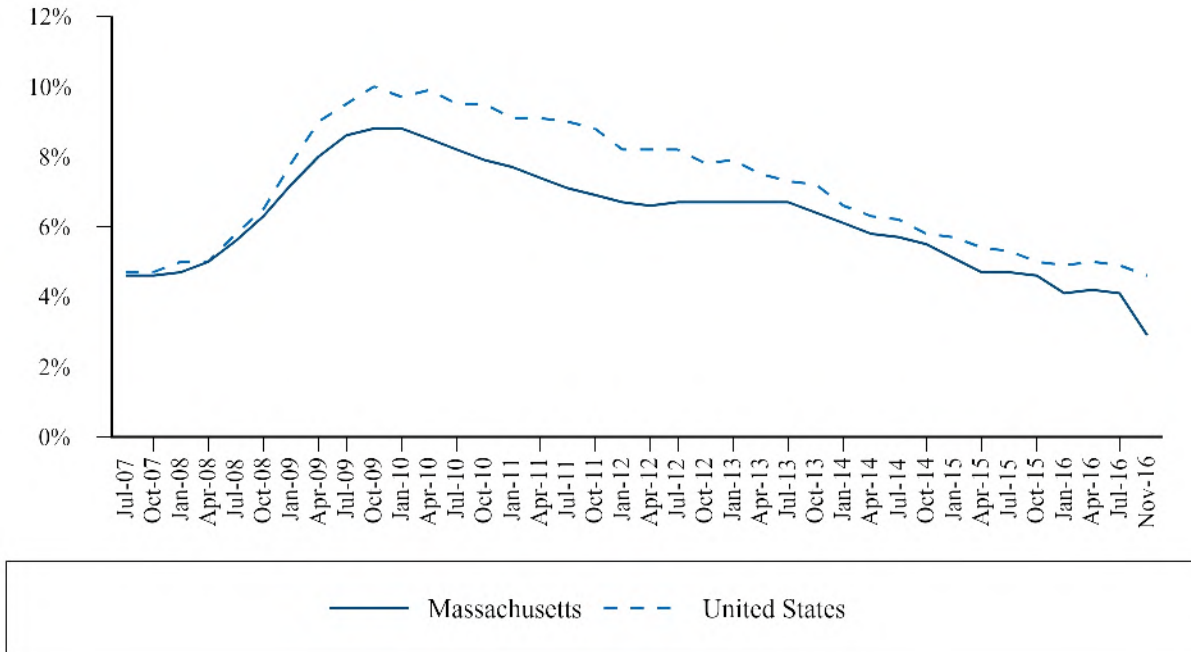
	Governmental Activities		Business - Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 21,668,296	\$ 20,801,956	\$ —	\$ —	\$ 21,668,296	\$ 20,801,956
Special obligation bonds (excluding GANs) ...	2,754,255	2,324,490	—	—	2,754,255	2,324,490
Revenue obligation bonds	—	—	4,438,282	4,553,105	4,438,282	4,553,105
Grant anticipation notes	657,040	699,855	—	—	657,040	699,855
Subtotal	25,079,591	23,826,301	4,438,282	4,553,105	29,517,873	28,379,406
Massachusetts School Building Authority	5,624,275	5,714,410	—	—	5,624,275	5,714,410
Total	\$ 30,703,866	\$ 29,540,711	\$ 4,438,282	\$ 4,553,105	\$ 35,142,148	\$ 34,093,816

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 thirteen 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 4.2% in June 2016, and stood at 2.9% as of November 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 4.6% as of November 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 – November 2016



The General Appropriation Act for FY17 is based on an FY17 tax revenue estimate of approximately \$26.284 billion, (adjusted downward by approximately \$750 million from the consensus tax estimate due to below-forecast tax collections in FY16), an increase of \$860 million, or 3.4%, from FY16 actual tax collections. Of that amount, \$22.230 billion represents taxes available for budget after adjusting for \$4.054 billion in tax revenue that is allocated to state pension contributions (\$2.1981 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$998 million) and the Massachusetts School Building Authority (\$835 million), and revenue allocated to the non-budgetary Workforce Training Fund (\$23.1 million).

Through September 30, 2016, FY17 year-to-date tax collections totaled \$6.183 billion, up \$232 million, or 3.9% from the same period in FY16, \$11 million below the year-to-date benchmark based on the \$26.284 billion FY16 tax revenue estimate. On October 14, 2016 the Secretary of Administration and Finance reduced the FY17 tax revenue estimate and tax revenues available for budget by \$175 million, due primarily to a reduced projection for FY17 sales tax revenue collections.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

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

Statement of Net Position

June 30, 2016

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash and cash equivalents.....	\$ 3,586,881	\$ 565,428	\$ 4,152,309	\$ 3,121,245
Restricted cash with fiscal agent.....	382,839	—	382,839	—
Short-term investments.....	271,744	295,633	567,377	—
Assets held in trust.....	—	—	—	10,812
Receivables, net of allowance for uncollectibles:				
Taxes.....	3,083,179	—	3,083,179	—
Federal grants and reimbursements receivable.....	1,835,444	103,464	1,938,908	122,043
Loans.....	14,347	45,648	59,995	483,527
Other receivables.....	342,493	666,784	1,009,277	338,499
Due from cities and towns.....	21,405	—	21,405	—
Due from component units.....	16,088	793	16,881	—
Due from primary government.....	—	—	—	568,257
Other current assets.....	—	90,698	90,698	55,327
Total current assets.....	9,554,420	1,768,448	11,322,868	4,699,710
Noncurrent assets:				
Cash and cash equivalents - restricted.....	—	523,422	523,422	922,584
Long-term investments.....	—	919,384	919,384	1,616,484
Investments, restricted investments and annuity contracts.....	2,119,274	810	2,120,084	43,598
Receivables, net of allowance for uncollectibles:				
Taxes.....	393,602	—	393,602	—
Federal grants and reimbursements receivable.....	59,935	—	59,935	—
Loans.....	92,841	9,583	102,424	4,298,443
Other receivables.....	49,843	59,771	109,614	30,122
Due from component units.....	9,004	—	9,004	—
Due from primary government.....	—	—	—	2,880
Non-depreciable capital assets.....	1,696,814	1,188,276	2,885,090	9,842,950
Depreciable capital assets, net.....	3,046,904	5,999,859	9,046,763	25,181,768
Other noncurrent assets.....	116	23,459	23,575	41,884
Other noncurrent assets - restricted.....	—	1,060,644	1,060,644	—
Total noncurrent assets.....	7,468,333	9,785,208	17,253,541	41,980,713
Total assets.....	17,022,753	11,553,656	28,576,409	46,680,423
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps.....	340,930	67,341	408,271	252,132
Deferred loss on refunding.....	178,697	124,882	303,579	348,028
Deferred outflows related to pension.....	6,737,657	266,498	7,004,155	390,770
Total deferred outflows of resources.....	7,257,284	458,721	7,716,005	990,930
Total assets and deferred outflows.....	24,280,037	12,012,377	36,292,414	47,671,353
LIABILITIES AND DEFERRED INFLOWS				
Current liabilities:				
Accounts payable and other liabilities.....	3,480,752	272,749	3,753,501	1,044,710
Accrued payroll.....	71,957	179,816	251,773	1,429
Compensated absences.....	409,398	149,512	558,910	28,078
Accrued interest payable.....	350,729	22,231	372,960	219,053
Tax refunds and abatements payable.....	1,110,450	43,881	1,154,331	—
Due to component units.....	554,492	193	554,685	—
Due to primary government.....	—	—	—	16,881
Due to federal government.....	23,857	—	23,857	—
Claims and judgments.....	11,411	—	11,411	—
Unearned revenue.....	—	23,531	23,531	175,943

Statement of Net Position

June 30, 2016

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Deposits and unearned revenue.....	—	73,458	73,458	—
School construction grants payable.....	347,006	—	347,006	—
Capital leases.....	8,795	2,797	11,592	4,026
Massachusetts School Building Authority notes payable.....	450,000	—	450,000	—
Massachusetts School Building Authority bonds and unamortized premiums....	159,477	—	159,477	—
Bonds payable and unamortized premiums.....	1,642,100	384,983	2,027,083	803,026
Environmental remediation liability.....	5,421	—	5,421	—
Total current liabilities.....	8,625,845	1,153,151	9,778,996	2,293,146
Noncurrent liabilities:				
Compensated absences.....	194,092	70,869	264,961	20,626
Accrued interest payable.....	—	—	—	211,734
Due to component units.....	2,880	—	2,880	—
Due to primary government.....	—	—	—	9,004
Due to federal government - grants.....	—	7,758	7,758	—
Unearned revenue.....	—	—	—	63,416
Prizes payable.....	1,194,945	—	1,194,945	—
Capital leases.....	32,507	7,090	39,597	67,956
Bonds payable and unamortized premiums.....	24,780,841	4,053,299	28,834,140	10,947,617
Massachusetts School Building Authority bonds and unamortized premiums....	6,039,054	—	6,039,054	—
School construction grants payable.....	533,531	—	533,531	—
Environmental remediation liability.....	525,428	—	525,428	—
Liability for derivative instruments.....	340,930	92,391	433,321	493,747
Net pension liability.....	32,855,715	718,960	33,574,675	1,784,255
Post-employment benefits obligations (other than pensions).....	6,466,000	—	6,466,000	990,382
Other noncurrent liabilities.....	414,397	124,086	538,483	189,797
Total noncurrent liabilities.....	73,380,320	5,074,453	78,454,773	14,778,534
Total liabilities.....	82,006,165	6,227,604	88,233,769	17,071,680
Deferred inflows of resources:				
Deferred service concession arrangements.....	—	15,854	15,854	—
Deferred inflows related to pension.....	712,269	28,976	741,245	29,909
Deferred gain on refunding.....	201,548	110	201,658	208
Governmental voluntary nonexchange transactions.....	—	3,668	3,668	—
Total deferred inflows of resources.....	913,817	48,608	962,425	30,117
Total liabilities and deferred inflows.....	82,919,982	6,276,212	89,196,194	17,101,797
NET POSITION				
Net investment in capital assets.....	(1,067,098)	3,311,658	2,244,560	28,394,982
Restricted for:				
Unemployment benefits.....	—	1,478,053	1,478,053	—
Retirement of indebtedness.....	1,216,986	—	1,216,986	—
Higher education endowment funds.....	—	18,886	18,886	—
Higher education academic support and programs.....	—	2,080	2,080	—
Higher education scholarships and fellowships:				
Nonexpendable.....	—	3,327	3,327	—
Expendable.....	—	7,059	7,059	—
Other nonexpendable purposes.....	—	3,366	3,366	—
Capital projects - expendable purposes.....	—	2,319	2,319	—
Other purposes.....	321,676	230,750	552,426	3,536,026
Unrestricted (deficits).....	(59,111,509)	678,667	(58,432,842)	(1,361,452)
Total net position.....	\$ (58,639,945)	\$ 5,736,165	\$ (52,903,780)	\$ 30,569,556

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

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2016
(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	
Primary government:								
Governmental Activities:								
General government	\$ 2,616,051	\$ 565,434	\$ 685,831	\$ —	\$ (1,364,786)	\$ —	\$ (1,364,786)	\$ —
Judiciary	1,154,038	100,568	2,083	—	(1,051,387)	—	(1,051,387)	—
Direct local aid	5,598,687	—	—	—	(5,598,687)	—	(5,598,687)	—
Medicaid	16,825,110	841,697	9,782,404	76,898	(6,124,111)	—	(6,124,111)	—
Group health insurance	1,632,703	799,011	—	—	(833,692)	—	(833,692)	—
Energy and environmental affairs	1,069,510	289,738	72,634	—	(707,138)	—	(707,138)	—
Housing and economic development	1,367,957	173,941	459,802	—	(734,214)	—	(734,214)	—
Health and human services	7,912,817	1,224,967	2,552,023	—	(4,135,827)	—	(4,135,827)	—
Transportation and public works	2,711,910	577,292	92	8,861	(2,125,665)	—	(2,125,665)	—
Early elementary and secondary education	5,420,052	7,508	1,218,182	—	(4,194,362)	—	(4,194,362)	—
Public safety and homeland security	2,746,612	284,264	226,952	—	(2,235,396)	—	(2,235,396)	—
Labor and workforce development	324,678	38,581	158,084	—	(128,013)	—	(128,013)	—
Lottery	4,299,592	5,405,128	—	—	1,105,536	—	1,105,536	—
Interest (unallocated)	1,250,004	—	—	—	(1,250,004)	—	(1,250,004)	—
Total governmental activities	54,929,721	10,308,129	15,158,087	85,759	(29,377,746)	—	(29,377,746)	—
Business-Type Activities:								
Unemployment Compensation	1,499,811	1,611,096	46,421	—	—	157,706	157,706	—
Higher Education:								
University of Massachusetts	3,151,215	1,875,144	535,179	121,298	—	(619,594)	(619,594)	—
State Universities	1,002,577	616,025	72,934	47,628	—	(265,990)	(265,990)	—
Community Colleges	928,067	274,252	237,289	96,788	—	(319,738)	(319,738)	—
Total business-type activities	6,581,670	4,376,517	891,823	265,714	—	(1,047,616)	(1,047,616)	—
Total primary government	\$ 61,511,391	\$ 14,684,646	\$ 16,049,910	\$ 351,473	(29,377,746)	(1,047,616)	(30,425,362)	—
Component Units:								
Massachusetts Department of Transportation	\$ 5,466,919	\$ 1,500,584	\$ 2,100,303	\$ 2,667,175	—	—	—	\$ 801,143
Commonwealth Health Insurance Connector	573,992	526,845	32,336	—	—	—	—	(14,811)
Massachusetts Clean Water Trust	149,662	141,346	28,927	76,519	—	—	—	97,130
Other nonmajor component units	504,635	360,981	56,800	13,872	—	—	—	(72,982)
Total component units	\$ 6,695,208	\$ 2,529,756	\$ 2,218,366	\$ 2,757,566	—	—	—	810,480

(continued)

	Primary Government			Component Units
	Governmental Activities	Business- Type Activities	Total	
General revenues:				
Taxes:				
Income	14,125,264	—	14,125,264	—
Sales taxes	6,107,492	—	6,107,492	—
Corporate taxes	2,439,176	—	2,439,176	—
Motor and special fuel taxes	768,465	—	768,465	—
Other taxes	2,235,906	—	2,235,906	—
Miscellaneous:				
Investment earnings/(loss)	36,773	(129,353)	(92,580)	759
Tobacco settlement	261,616	—	261,616	—
Contribution from municipalities	66,789	—	66,789	—
Other revenue	795,816	374,794	1,170,610	29,644
Transfers	(1,246,055)	1,246,055	—	—
Total general revenues and transfers	25,591,242	1,491,496	27,082,738	30,403
Change in net position	(3,786,504)	443,880	(3,342,624)	840,883
Net position (deficits) - beginning, as restated	(54,853,441)	5,292,285	(49,561,156)	29,728,673
Net position (deficits) - ending	\$ (58,639,945)	\$ 5,736,165	\$ (52,903,780)	\$ 30,569,556

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, 2016
(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 1,522,094	\$ 72,584	\$ 283,977	\$ 1,708,226	\$ 3,586,881
Restricted cash with fiscal agent.....	—	—	169,509	213,330	382,839
Investments and restricted investments	271,744	—	924,329	—	1,196,073
Receivables, net of allowance for uncollectibles:					
Taxes.....	3,247,941	—	61,096	167,744	3,476,781
Due from federal government.....	1,550,119	—	—	345,260	1,895,379
Loan receivable.....	—	—	99,278	7,910	107,188
Other receivables	270,495	4,369	8,995	104,988	388,847
Due from cities and towns	21,405	—	—	—	21,405
Due from other funds	19,271	—	—	87,791	107,062
Due from component units.....	505	—	—	15,583	16,088
Total assets.....	\$ 6,903,574	\$ 76,953	\$ 1,547,184	\$ 2,650,832	\$ 11,178,543
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 2,577,565	\$ 68,616	1,256	\$ 772,878	\$ 3,420,315
Accrued payroll.....	62,896	—	—	9,061	71,957
Compensated absences.....	11,107	—	—	9	11,116
Tax refunds and abatements payable.....	1,108,518	—	868	1,064	1,110,450
Due to other funds.....	—	—	—	107,062	107,062
Due to component units	58,849	—	—	495,643	554,492
Due to federal government.....	23,857	—	—	—	23,857
Claims and judgments.....	11,411	—	—	—	11,411
School construction grants payable	—	—	30,761	—	30,761
Other accrued liabilities	—	—	—	60,437	60,437
Total liabilities	3,854,203	68,616	32,885	1,446,154	5,401,858
Deferred inflows of resources	474,980	6,136	—	22,264	503,380
Total liabilities and deferred inflows of resources	4,329,183	74,752	32,885	1,468,418	5,905,238
Fund balances:					
Nonspendable.....	—	—	—	7,910	7,910
Restricted	—	—	924,329	445,432	1,369,761
Committed.....	1,291,514	2,201	—	1,127,932	2,421,647
Assigned.....	109,328	—	589,970	146,269	845,567
Unassigned (deficits)	1,173,549	—	—	(545,129)	628,420
Fund balances	2,574,391	2,201	1,514,299	1,182,414	5,273,305
Total liabilities and fund balances	\$ 6,903,574	\$ 76,953	\$ 1,547,184	\$ 2,650,832	\$ 11,178,543

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, 2016

(Amounts in thousands)

Total fund balances - governmental funds..... \$ **5,273,305**

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.....	1,696,814	
Capital assets being depreciated, net.....	3,046,904	
Capital assets, net of accumulated depreciation		4,743,718

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.....		503,380
---	--	---------

Deferred inflows of resources are not reported in the governmental funds:

Gain on refunding.....	(201,548)	
Pension related	(712,269)	
Total deferred inflow of resources.....		(913,817)

Deferred outflows of resources are not reported in the governmental funds:

Loss on refunding	178,697	
Pension related	6,737,657	
Total deferred outflow of resources.....		6,916,354

Massachusetts School Building Authority assets and deferred outflows.....		3,605
---	--	-------

Lottery annuity contracts.....		1,194,945
--------------------------------	--	-----------

Due from component units.....		9,004
-------------------------------	--	-------

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	(32,855,715)	
Net post-employment benefits obligations.....	(6,466,000)	
Commonwealth bonded debt.....	(25,079,591)	
Unamortized bond premiums	(1,343,350)	
Accrued interest on bonds.....	(350,729)	
Massachusetts School Building Authority notes payable.....	(450,000)	
Massachusetts School Building Authority bonded debt.....	(6,198,531)	
Massachusetts School Building Authority grants to municipalities.....	(849,776)	
Prizes payable.....	(1,194,945)	
Capital leases.....	(41,302)	
Environmental remediation liability.....	(530,849)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	(1,009,651)	
Long-term liabilities (including current portions).....		(76,370,439)

Total net (deficit) - governmental activities..... **\$ (58,639,945)**

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, 2016
 (Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 22,200,711	\$ 562	\$ 799,359	\$ 2,745,716	\$ 25,746,348
Assessments	396,809	—	—	707,253	1,104,062
Federal grants and reimbursements	10,677,089	—	—	4,555,556	15,232,645
Departmental	2,861,797	5,404,244	—	1,436,112	9,702,153
Miscellaneous	553,986	1,618	112,900	538,535	1,207,039
Total revenues	36,690,392	5,406,424	912,259	9,983,172	52,992,247
EXPENDITURES					
Current:					
Legislature	61,368	—	—	—	61,368
Judiciary	877,785	—	—	2,504	880,289
Inspector General	4,315	—	—	264	4,579
Governor and Lieutenant Governor	6,576	—	—	27	6,603
Secretary of the Commonwealth	39,322	—	—	4,830	44,152
Treasurer and Receiver-General	188,205	4,314,215	26,982	1,269,989	5,799,391
Auditor of the Commonwealth	18,354	—	—	149	18,503
Attorney General	43,880	—	—	23,118	66,998
Ethics Commission	2,034	—	—	—	2,034
District Attorney	114,084	—	—	9,892	123,976
Office of Campaign and Political Finance	1,516	—	—	—	1,516
Sheriff's Departments	603,242	—	—	13,108	616,350
Disabled Persons Protection Commission	2,943	—	—	66	3,009
Board of Library Commissioners	25,333	—	—	2,915	28,248
Massachusetts Gaming Commission	—	—	—	33,691	33,691
Comptroller	13,911	—	—	2,793	16,704
Administration and Finance	2,092,560	—	—	323,575	2,416,135
Energy and Environmental Affairs	206,446	—	—	229,831	436,277
Health and Human Services	5,424,693	—	—	1,976,878	7,401,571
Massachusetts Department of Transportation	—	—	—	2,595,496	2,595,496
Office of the Child Advocate	595	—	—	—	595
Executive Office of Education	2,458,554	—	—	1,019,350	3,477,904
Center for Health and Information Analysis	26,625	—	—	553	27,178
Massachusetts School Building Assistance	—	—	626,000	—	626,000
Public Safety and Homeland Security	1,143,352	—	—	241,781	1,385,133
Housing and Economic Development	513,419	—	—	535,064	1,048,483
Labor and Workforce development	42,278	—	—	234,656	276,934
Medicaid	15,066,432	—	—	1,758,678	16,825,110
Post employment benefits	1,059,297	—	1,214	42,218	1,102,729
Direct local aid	5,493,654	—	—	105,033	5,598,687
Capital outlay:					
Local aid	—	—	—	1,383	1,383
Capital acquisition and construction	—	—	—	1,162,283	1,162,283
Debt service/commercial paper repayments	—	—	3,264,690	2,470,117	5,734,807
Principal on current refundings	—	—	—	250,000	250,000
Total expenditures	35,530,773	4,314,215	3,918,886	14,310,242	58,074,116
Excess (deficiency) of revenues over (under) expenditures	1,159,619	1,092,209	(3,006,627)	(4,327,070)	(5,081,869)
OTHER FINANCING SOURCES					
Bonds premium	—	—	144,709	468,029	612,738
Issuance of general and special obligation bonds	—	—	1,209,977	2,759,209	3,969,186
Issuance of current refunding bonds	—	—	—	250,000	250,000
Issuance of advance refunding bonds	—	—	—	1,212,655	1,212,655
Commercial paper proceeds	—	—	2,834,000	—	2,834,000
Proceeds of capital leases	30,707	—	—	—	30,707
Transfers in for debt service	—	—	—	2,423,292	2,423,292
Transfers in	1,739,219	—	—	1,685,542	3,424,761
Total other financing sources	1,769,926	—	4,188,686	8,798,727	14,757,339
OTHER FINANCING USES					
Payments to refunding bond escrow agent	—	—	1,189,246	1,424,030	2,613,276
Transfers out	897,833	1,092,130	—	1,254,060	3,244,023
Transfers of appropriations	1,201,542	—	—	1,316	1,202,858
Transfers of bond proceeds	—	—	—	223,935	223,935
Transfers out for debt service	999,252	—	—	1,424,040	2,423,292
Total other financing uses	3,098,627	1,092,130	1,189,246	4,327,381	9,707,384
Total other financing sources and uses	(1,328,701)	(1,092,130)	2,999,440	4,471,346	5,049,955
Net change in fund balances (deficits)	(169,082)	79	(7,187)	144,276	(31,914)
Fund balances at beginning of year	2,743,473	2,122	1,521,486	1,038,138	5,305,219
Fund balances at end of year	\$ 2,574,391	\$ 2,201	\$ 1,514,299	\$ 1,182,414	\$ 5,273,305

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, 2016

(Amounts in thousands)

Net change in fund balances - total governmental funds	\$ (31,914)
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	407,003
Current year depreciation expense	(265,607)
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.....	(52,759)
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.....	(1,771,429)
Decrease in capital leases.....	1,626
Massachusetts School Building Authority	244,500
Net pension costs	(1,156,464)
Net underfunding of post employment benefit obligations	(861,000)
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	(300,460)
Change in net position of governmental activities	<u>\$ (3,786,504)</u>

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, 2016
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS:					
Current assets:					
Cash and cash equivalents.....	\$ 25,534	\$ 110,095	\$ 314,864	\$ 114,935	\$ 565,428
Short-term investments	—	206,266	25,567	63,800	295,633
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	—	96,275	1,066	6,123	103,464
Loans	—	44,456	1,179	13	45,648
Other receivables	466,644	103,447	23,204	37,747	631,042
Due from affiliates.....	—	35,724	18	—	35,742
Due from foundation.....	—	69	602	122	793
Other current assets	—	81,595	4,793	4,310	90,698
Total current assets.....	492,178	677,927	371,293	227,050	1,768,448
Noncurrent assets:					
Cash and cash equivalents - restricted.....	—	494,357	29,027	38	523,422
Long-term investments	—	734,205	144,542	40,637	919,384
Investments and restricted investments.....	—	—	810	—	810
Accounts receivable, net.....	—	56,121	3,600	50	59,771
Loans receivable, net.....	—	—	9,207	376	9,583
Non-depreciable capital assets.....	—	760,545	244,288	183,443	1,188,276
Depreciable capital assets, net.....	—	3,855,231	1,758,153	386,475	5,999,859
Other noncurrent assets	—	9,345	14,102	12	23,459
Other noncurrent assets - restricted	1,060,644	—	—	—	1,060,644
Total noncurrent assets.....	1,060,644	5,909,804	2,203,729	611,031	9,785,208
Total assets.....	1,552,822	6,587,731	2,575,022	838,081	11,553,656
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps	—	65,428	—	1,913	67,341
Deferred outflows related to pensions	—	147,153	74,338	45,007	266,498
Loss on debt refunding	—	80,851	44,031	—	124,882
Total deferred outflows of resources.....	—	293,432	118,369	46,920	458,721
Total assets and deferred outflows.....	1,552,822	6,881,163	2,693,391	885,001	12,012,377
LIABILITIES AND DEFERRED INFLOWS:					
Current liabilities:					
Accounts payable and other liabilities.....	\$ 30,888	\$ 177,211	\$ 36,170	\$ 28,480	\$ 272,749
Accrued payroll	—	112,521	39,293	28,002	179,816
Compensated absences	—	80,730	35,136	33,646	149,512
Accrued interest payable	—	21,976	125	130	22,231
Tax refunds and abatements payable.....	43,881	—	—	—	43,881
Unearned revenue	—	—	19,624	3,907	23,531
Student deposits and unearned revenues	—	44,041	6,052	23,365	73,458
Due to Foundation	—	193	—	—	193
Capital leases	—	169	1,223	1,405	2,797
Bonds, notes payable and other obligations	—	337,996	42,867	4,120	384,983
Total current liabilities.....	74,769	774,837	180,490	123,055	1,153,151
Noncurrent liabilities:					
Compensated absences	—	35,671	18,321	16,877	70,869
Due to federal government - grants	—	—	7,752	6	7,758
Capital leases	—	429	5,331	1,330	7,090
Bonds, notes payable and other obligations	—	2,646,626	1,349,154	57,519	4,053,299
Liability for derivative instruments	—	90,478	—	1,913	92,391
Net pension liability.....	—	408,418	179,238	131,304	718,960
Other noncurrent liabilities.....	—	112,561	6,637	4,888	124,086
Total noncurrent liabilities.....	—	3,294,183	1,566,433	213,837	5,074,453
Total liabilities.....	74,769	4,069,020	1,746,923	336,892	6,227,604

Statement of Net Position
Proprietary Funds
June 30, 2016
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Deferred inflows of resources:					
Deferred service concession arrangements.....	—	—	15,237	617	15,854
Deferred inflows related to pensions	—	12,050	6,277	10,649	28,976
Gain on refunding.....	—	—	110	—	110
Governmental voluntary nonexchange transactions.....	—	—	—	3,668	3,668
Total deferred inflows of resources.....	—	12,050	21,624	14,934	48,608
Total liabilities and deferred inflows.....	74,769	4,081,070	1,768,547	351,826	6,276,212
NET POSITION:					
Net investment in capital assets.....	—	2,013,966	791,318	506,374	3,311,658
Restricted for:					
Unemployment benefits	1,478,053	—	—	—	1,478,053
Higher education endowment funds.....	—	18,384	115	387	18,886
Higher education academic support and programs.....	—	—	953	1,127	2,080
Higher education scholarships and fellowships:					
Nonexpendable	—	—	3,327	—	3,327
Expendable	—	—	5,527	1,532	7,059
Other nonexpendable purposes	—	—	3,366	—	3,366
Capital projects - expendable purposes.....	—	—	2,319	—	2,319
Other purposes.....	—	218,272	11,005	1,473	230,750
Unrestricted	—	549,471	106,914	22,282	678,667
Total net position.....	\$ 1,478,053	\$ 2,800,093	\$ 924,844	\$ 533,175	\$ 5,736,165

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

(concluded)

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	\$ 1,575,111	\$ —	\$ —	\$ —	\$ 1,575,111
Net tuition and fees.....	—	826,815	380,157	213,483	1,420,455
Grants and reimbursements	—	528,352	72,934	237,289	838,575
Auxiliary enterprises	—	383,281	119,014	17,709	520,004
Sales & services.....	—	551,944	102,314	25,891	680,149
Miscellaneous	35,985	113,104	14,540	17,169	180,798
Total operating revenues.....	1,611,096	2,403,496	688,959	511,541	5,215,092
Operating expenses:					
Unemployment compensation.....	1,499,811	—	—	—	1,499,811
Instruction.....	—	794,691	318,682	321,559	1,434,932
Research	—	434,213	1,633	14	435,860
Academic support.....	—	181,057	90,215	105,013	376,285
Student services.....	—	141,915	103,894	123,707	369,516
Scholarships and fellowships	—	44,645	26,142	62,076	132,863
Public service	—	71,457	6,192	10,247	87,896
Operation and maintenance of plant.....	—	228,406	89,046	77,293	394,745
Institutional support.....	—	248,379	120,347	120,323	489,049
Other operating expenses	—	458,036	2,650	172	460,858
Depreciation	—	240,865	93,119	34,026	368,010
Auxiliary operations.....	—	297,089	136,761	17,422	451,272
Total operating expenses.....	1,499,811	3,140,753	988,681	871,852	6,501,097
Operating income/(loss)	111,285	(737,257)	(299,722)	(360,311)	(1,286,005)
Nonoperating revenues/(expenses):					
Other federal revenues.....	25,121	6,827	—	—	31,948
Other revenues.....	—	306,764	68,030	—	374,794
Other expenses	—	(10,462)	(13,896)	(56,215)	(80,573)
Investment income/(loss)	21,300	(87,746)	(39,800)	(1,807)	(108,053)
Total nonoperating revenues/(expenses).....	46,421	215,383	14,334	(58,022)	218,116
Income/(loss) before capital grants and contributions and transfers	157,706	(521,874)	(285,388)	(418,333)	(1,067,889)
Capital grants and contributions.....	—	121,298	47,628	96,788	265,714
Transfers, net.....	—	533,321	307,030	405,704	1,246,055
Total capital grants and contributions and transfers.....	—	654,619	354,658	502,492	1,511,769
Change in net position.....	157,706	132,745	69,270	84,159	443,880
Total net position - beginning.....	1,320,347	2,667,348	855,574	449,016	5,292,285
Total net position - ending	\$ 1,478,053	\$ 2,800,093	\$ 924,844	\$ 533,175	\$ 5,736,165

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

Statement of Cash Flows

Proprietary Funds

June 30, 2016

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions.....	\$ 1,418,447	\$ —	\$ —	\$ —	\$ 1,418,447
Tuition, residence, dining and other student fees.....	—	829,654	386,148	226,296	1,442,098
Research grants and contracts.....	—	791,533	170,021	260,950	1,222,504
Payments to suppliers.....	—	(1,295,537)	(257,262)	(216,520)	(1,769,319)
Payments to employees.....	—	(1,798,326)	(496,336)	(486,498)	(2,781,160)
Payments to students.....	—	(50,231)	(17,364)	(62,663)	(130,258)
Payments for unemployment benefits.....	(1,496,858)	—	—	—	(1,496,858)
Collection of loans to students and employees.....	—	7,099	1,284	43	8,426
Income from contract services.....	—	—	3,699	2,093	5,792
Maintenance costs.....	—	—	(1,215)	—	(1,215)
Auxiliary enterprise charges.....	—	369,715	71,921	(334)	441,302
Other receipts.....	35,985	575,240	14,733	29,472	655,430
Net cash used by operating activities.....	(42,426)	(570,853)	(124,371)	(247,161)	(984,811)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations.....	—	694,402	254,667	270,889	1,219,958
Grants and contracts.....	25,121	109,401	2,038	1,646	138,206
Student organizations agency transactions.....	—	527	—	(254)	273
Principal on notes payable.....	—	—	—	(311)	(311)
Net cash provided by non-capital financing activities.....	25,121	804,330	256,705	271,970	1,358,126
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations.....	—	121,297	33,742	16,047	171,086
Purchases of capital assets.....	—	(512,881)	(181,422)	(35,013)	(729,316)
Proceeds from sales of capital assets.....	—	—	2,238	1,110	3,348
Proceeds from debt issuance.....	—	8,668	228,123	3,430	240,221
Other capital asset activity.....	—	78,639	(217,365)	1,581	(137,145)
Investments held by bond trustee, net.....	—	—	(381)	—	(381)
Principal paid on capital debt and leases.....	—	(98,287)	(46,390)	(5,141)	(149,818)
Interest paid on capital debt and leases.....	—	(113,746)	(71,391)	(2,596)	(187,733)
Net cash (used in) capital financing activities.....	—	(516,310)	(252,846)	(20,582)	(789,738)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments.....	—	1,138,588	82,460	69,611	1,290,659
Purchases of investments.....	—	8,862	(74,009)	(69,484)	(134,631)
Investment earnings.....	21,300	(1,090,191)	7,636	556	(1,060,699)
Net cash provided by investing activities.....	21,300	57,259	16,087	683	95,329
Net increase (decrease) in cash and cash equivalents.....	3,995	(225,574)	(104,425)	4,910	(321,094)
Cash and cash equivalents, restricted cash and cash equivalents at the beginning of the fiscal year....	21,539	830,026	448,316	110,063	1,409,944
Cash and cash equivalents, restricted cash and cash equivalents at the end of the fiscal year....	\$ 25,534	\$ 604,452	\$ 343,891	\$ 114,973	\$ 1,088,850
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating income/(loss).....	\$ 111,285	\$ (737,257)	\$ (299,722)	\$ (360,311)	\$ (1,286,005)
Adjustments to reconcile operating income/(loss) to net cash used by operating activities:					
Depreciation expense.....	—	240,865	93,119	34,026	368,010
Fringe benefits paid by the Commonwealth.....	—	—	68,240	77,906	146,146
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	(104,496)	(64,921)	6,364	(5,071)	(168,124)
Accounts payable, accrued liabilities and benefits.....	2,953	(23,656)	(1,247)	(4,684)	(26,634)
Student deposits and other unearned and deferred revenues.....	—	(4,769)	(4,583)	3,815	(5,537)
Other noncurrent assets - restricted and liabilities.....	(52,168)	18,885	13,458	7,158	(12,667)
Net cash used by operating activities.....	\$ (42,426)	\$ (570,853)	\$ (124,371)	\$ (247,161)	\$ (984,811)

Non-cash investing, capital and financing activities:

The University System had approximately \$63 million of non-cash activities, and the State Universities and Community Colleges had approximately \$220 million and \$135 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, 2016

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 239,832	\$ 3,170,718	\$ 666	\$ 587,095
Short-term investments	—	39,467	—	—
Net investment in PRIT at fair value	49,216,471	11,476,334	—	—
Investments, restricted investments and annuity contracts	—	—	—	1,777,617
Receivables, net of allowance for uncollectibles:				
Taxes	—	—	—	34,638
Other receivables	203,251	1,264	—	133,268
Other assets	129,631	—	—	—
Total assets	\$ 49,789,185	\$ 14,687,783	\$ 666	\$ 2,532,618
LIABILITIES				
Accounts payable and other accrued liabilities	\$ 9,914	\$ 19,866	\$ —	\$ 76,743
Due to cities and towns	—	—	—	46,754
Due to federal government	—	—	—	4
Lottery prizes payable	—	—	—	1,194,945
Agency liabilities	—	—	—	1,214,172
Total liabilities	9,914	19,866	—	\$ 2,532,618
NET POSITION				
Restricted for employees' post-employment benefits	49,779,271	—	—	
Restricted for external investment trust fund participants	—	14,667,917	—	
Restricted for private purposes	—	—	666	
Total net position	\$ 49,779,271	\$ 14,667,917	\$ 666	

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, 2016

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds
ADDITIONS			
Contribution:			
Employer contributions - Commonwealth.....	\$ 1,163,103	\$ —	\$ —
Non-employer contributions - Commonwealth	1,146,413	—	—
Employer contributions - other employers	16,642	—	—
Employee contributions	1,291,370	—	—
ERIP funding contribution - Commonwealth.....	29,093	—	—
Boston teachers' contribution from Commonwealth	120,434	—	—
Other additions.....	480,752	848,243	—
Proceeds from sale of units	—	22,977,309	—
Total contributions	4,247,807	23,825,552	—
Net investment gain/(loss):			
Investment gain/(loss).....	1,134,371	533,458	—
Less: investment expense.....	(255,624)	(291,096)	—
Net investment gain/(loss)	878,747	242,362	—
Total additions	5,126,554	24,067,914	—
DEDUCTIONS			
Administration	45,005	—	—
Retirement benefits and refunds	5,325,191	923,710	—
Payments to State Boston Retirement System.....	120,434	—	—
Other deductions	103,319	—	—
Cost of units redeemed.....	—	22,172,892	—
Distribution to unit holders	—	11,990	—
Total deductions	5,593,949	23,108,592	—
Net increase/(decrease)	(467,395)	959,322	—
Net position - beginning.....	50,246,666	13,708,595	666
Net position - ending	\$ 49,779,271	\$ 14,667,917	\$ 666

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, 2016

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents.....	\$ 353,207	\$ 39,452	\$ 486,629	\$ 175,609	\$ 1,054,897
Short-term investments.....	—	—	97,886	369,613	467,499
Restricted cash and investments.....	1,362,262	19	—	236,568	1,598,849
Assets held in trust.....	—	—	10,812	—	10,812
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	62,679	9,555	49,667	142	122,043
Loans.....	—	7,010	384,195	92,322	483,527
Other receivables.....	148,214	86,965	55,879	47,441	338,499
Due from primary government.....	502,546	6,669	—	59,042	568,257
Inventory.....	—	—	—	68	68
Other current assets.....	48,582	1,004	—	5,673	55,259
Total current assets.....	2,477,490	150,674	1,085,068	986,478	4,699,710
Noncurrent assets:					
Cash and cash equivalents - restricted.....	898,209	—	—	24,375	922,584
Long-term investments.....	—	—	956,260	660,224	1,616,484
Restricted investments and annuity contracts.....	—	—	—	43,598	43,598
Accounts receivables, net.....	15,773	—	—	14,349	30,122
Loans receivables, net.....	—	—	3,664,872	633,571	4,298,443
Due from primary government.....	2,880	—	—	—	2,880
Non-depreciable capital assets.....	9,633,211	—	—	209,739	9,842,950
Depreciable capital assets, net.....	24,256,365	480	—	924,923	25,181,768
Other noncurrent assets.....	25,626	—	1,895	14,363	41,884
Total noncurrent assets.....	34,832,064	480	4,623,027	2,525,142	41,980,713
Total assets.....	37,309,554	151,154	5,708,095	3,511,620	46,680,423
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	245,671	—	6,461	—	252,132
Deferred loss on refunding.....	253,579	—	94,449	—	348,028
Deferred outflows related to pension.....	381,872	—	—	8,898	390,770
Total deferred outflows of resources.....	881,122	—	100,910	8,898	990,930
Total assets and deferred outflows.....	38,190,676	151,154	5,809,005	3,520,518	47,671,353
LIABILITIES AND DEFERRED INFLOWS					
Current liabilities:					
Accounts payable and other liabilities.....	905,897	10,947	10,134	117,732	1,044,710
Accrued payroll.....	—	108	—	1,321	1,429
Compensated absences.....	25,075	463	—	2,540	28,078
Accrued interest payable.....	157,139	—	60,194	1,720	219,053
Due to primary government.....	15,583	—	—	1,298	16,881
Unearned revenue.....	76,176	29,876	28,086	41,805	175,943
Capital leases.....	4,026	—	—	—	4,026
Bonds, notes payable and other obligations.....	462,489	85,728	225,895	28,914	803,026
Total current liabilities.....	1,646,385	127,122	324,309	195,330	2,293,146
Noncurrent liabilities:					
Compensated absences.....	19,134	—	—	1,492	20,626
Accrued interest payable.....	211,462	—	—	272	211,734
Due to primary government.....	—	—	—	9,004	9,004
Unearned revenue.....	31,809	—	—	31,607	63,416
Capital leases.....	67,956	—	—	—	67,956
Bonds, notes payable and other obligations.....	7,245,973	—	3,102,307	599,337	10,947,617
Net pension liability.....	1,746,607	—	—	37,648	1,784,255
Post-employment benefits obligations.....	976,553	4,405	—	9,424	990,382
Liability for derivative instruments.....	487,286	—	6,461	—	493,747
Other noncurrent liabilities.....	113,446	—	39,342	37,009	189,797
Total noncurrent liabilities.....	10,900,226	4,405	3,148,110	725,793	14,778,534
Total liabilities.....	12,546,611	131,527	3,472,419	921,123	17,071,680
Deferred inflows of resources:					
Deferred gain on refundings.....	208	—	—	—	208
Deferred inflows related to pension.....	28,574	—	—	1,335	29,909
Total liabilities and deferred inflows.....	12,575,393	131,527	3,472,419	922,458	17,101,797
NET POSITION					
Net investment in capital assets.....	27,285,352	480	—	1,109,150	28,394,982
Restricted for:					
Economic development financing.....	—	—	—	176,343	176,343
Other purposes.....	748,476	—	1,838,451	772,756	3,359,683
Unrestricted.....	(2,418,545)	19,147	498,135	539,811	(1,361,452)
Total net position.....	\$ 25,615,283	\$ 19,627	\$ 2,336,586	\$ 2,598,060	\$ 30,569,556

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, 2016

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
Operating revenues:					
Charges for services	\$ 1,500,584	\$ 526,625	\$ 7,441	\$ 282,625	\$ 2,317,275
Other	—	220	133,905	78,356	212,481
Total operating revenues	1,500,584	526,845	141,346	360,981	2,529,756
Operating expenses:					
Cost of services	3,400,285	504,583	145,570	305,697	4,356,135
Administration costs	908,216	69,277	4,092	127,757	1,109,342
Depreciation	1,124,835	132	—	71,181	1,196,148
Total operating expenses	5,433,336	573,992	149,662	504,635	6,661,625
Operating income/(loss)	(3,932,752)	(47,147)	(8,316)	(143,654)	(4,131,869)
Nonoperating revenues/(expenses):					
Operating grants	2,100,303	32,336	28,927	56,800	2,218,366
Interest income/(loss)	32,988	103	—	(32,332)	759
Other nonoperating revenue/(expense)	(33,583)	1,329	—	28,315	(3,939)
Nonoperating revenues/(expenses), net	2,099,708	33,768	28,927	52,783	2,215,186
Income/(loss) before contributions	(1,833,044)	(13,379)	20,611	(90,871)	(1,916,683)
Capital contributions	2,667,175	—	76,519	13,872	2,757,566
Change in net position/(deficits)	834,131	(13,379)	97,130	(76,999)	840,883
Net position - beginning, as restated	24,781,152	33,006	2,239,456	2,675,059	29,728,673
Net position - ending	\$ 25,615,283	\$ 19,627	\$ 2,336,586	\$ 2,598,060	\$ 30,569,556

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



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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

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

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions, and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Additional information related to the component units is 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 closely 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 revenues are derived almost entirely from dedicated sales taxes from the Commonwealth, that starting in FY11, increased to 1% of applicable sales in the Commonwealth. 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 \$11.476 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 \$3.192 billion at June 30, 2016, 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 that 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. 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 for 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 authority 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 which are recognized in the year the materials are received, the grants are expended, or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year-end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

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

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

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

The Commonwealth reports the following fund types:

Governmental Fund Types:

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

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

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

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

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

Lottery Funds are governmental funds and account for the operations of the State and Arts Lotteries, which primarily reimburse the General Fund for local aid to cities and towns.

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

Proprietary Fund Types:

Business-Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services.

The proprietary funds include the following:

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

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

Fiduciary Fund Types:

Post-Employment Benefit Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in [Note 9](#) to the basic financial statements on pages 106–119.

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. Assigned balances also include administratively established accounts whose purpose is defined by Secretary of Administration and Finance and other cabinet secretaries.

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 FY16 ending fund balances is shown below.

Governmental Fund Balances at June 30, 2016

(amounts in thousands)

	Nonexpendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
General Fund						
General Government	\$ —	\$ —	\$ —	\$ —	\$ 1,173,549	\$ 1,173,549
Stabilization Fund	—	—	1,291,514	—	—	1,291,514
FY16 Appropriations Reappropriated in FY17	—	—	—	109,328	—	109,328
Subtotals, General Fund	—	—	1,291,514	109,328	1,173,549	2,574,391
Lottery Funds						
Lottery Operations	—	—	2,201	—	—	2,201
Subtotals, Lottery Funds	—	—	2,201	—	—	2,201
Massachusetts School Building Authority (MSBA)						
Debt Service	—	924,329	—	—	—	924,329
Grants to Cities, Towns and Local School Districts	—	—	—	589,970	—	589,970
Subtotals, MSBA	—	924,329	—	589,970	—	1,514,299
Other Governmental Funds						
Restricted by Federal Grantors	—	23,116	—	—	—	23,116
Child Support -- Restricted by Federal Grantors	—	21,498	—	—	—	21,498
Environmental	—	—	17,671	—	—	17,671
Public Safety -- Enhanced 911 Services	—	—	123,354	—	—	123,354
Public Safety -- Other	—	—	2,139	—	—	2,139
Universal Health Care - Distressed Hospital Relief	—	—	109,465	—	—	109,465
Universal Health Care - Non-Institutional Long-Term Care	—	57,718	—	—	—	57,718
Universal Health Care - Other	—	—	38,667	—	—	38,667
Other Health Care	—	—	24,068	—	—	24,068
Workforce Training	—	—	43,236	—	—	43,236
Convention Centers	—	—	105,179	—	—	105,179
General Government Capital Projects Fund	—	—	—	—	(212,888)	(212,888)
Highway Capital Projects Fund	—	—	—	—	(275,432)	(275,432)
General Government Debt Service	—	20,647	—	—	—	20,647
Transportation (GANS*/Commonwealth Transportation Fund)	—	103,298	57,187	—	—	160,485
Gaming	—	—	5,473	—	—	5,473
Expendable Trusts	914	219,144	278,969	146,269	—	645,296
Other	6,996	11	322,524	—	(56,809)	272,722
Subtotals, Other Governmental Funds	7,910	445,432	1,127,932	146,269	(545,129)	1,182,414
Totals	\$ 7,910	\$ 1,369,761	\$ 2,421,647	\$ 845,567	\$ 628,420	\$ 5,273,305

*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 106.

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 neither restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery transfers 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 greater than \$10 million each that exceeds the five year rolling annual average of such settlements and judgments. For FY16, the capital gains statute was suspended by budgetary legislation enacted during the fiscal year and because settlements and judgments revenue did not reach the five year average threshold, all such 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 FY16 with a balance of \$1.292 billion. For the fiscal year ending June 30, 2016, the Stabilization Fund’s balance increased by \$39 million as a result of inflows, including approximately \$27 million, representing 75% of the growth in abandoned property revenues from FY15 to FY16, \$11.0 million from investment income, and approximately \$1 million in statutorily mandated deposits of withholding taxes on certain Lottery proceeds. There were no 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, CASH EQUIVALENTS, 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. As of June 30, 2016, the MMDT’s entire cash fund is included as cash equivalents in the accompanying financial statements. The Short Term Bond Portfolio

investments are carried at fair value. As of June 30, 2016, the MMDT's entire bond fund is included as short-term investments in the accompanying financial statements.

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. 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 39.0%, 40.8% and 1.3% 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 36.6% 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.

Annuity contracts represent guaranteed investment contracts and are carried at amortized cost.

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 deferred. 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 FY16 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement among 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 \$126 million, representing 50% of the amounts expected to be received during FY17 and is included as part of general 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, 2016 were \$99.3 million, of which \$6.4 million is due in FY17. During FY16, the MSBA collected \$6.4 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 acquisition value at the date of acquisition.

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>	Estimated Useful Life (in years)
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bike ways, 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

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 government-wide 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 MSBA records a liability for its share of total eligible project costs differently depending on the type of project. However, for all projects, the MSBA recognizes a liability for its estimated share of total eligible project costs when the applicable eligibility requirements have been met.

Prior Grants - All of the 728 Prior Grant projects had been receiving an annual payment under the former program. The liability for these projects will be reduced over time through annual payments, and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project. These projects operate similar to Prior Grant projects.

Waiting List - The MSBA funds Waiting List projects using two different methods, lump sum and progress payments. Each funding method has different eligibility requirements.

Waiting List projects that are under the lump sum method were recognized as a liability once construction started. The liability for these projects will be reduced over time through annual payments and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project. These projects operate similar to Prior Grant projects.

Under the progress payment method, the MSBA's shares of costs incurred are generally recognized as a liability once a grantee requests reimbursement from the MSBA. Of the \$110.4 million liability associated with Waiting List projects, the liability related to the progress payment method is approximately \$4 million.

Waiting List projects that are not currently recognized as a liability are considered commitments of the MSBA. As of June 30, 2016, the amount of commitments outstanding for the Waiting List project is \$4.8 million, and is anticipated to be funded under the progress payment method.

New Program - The MSBA funds New Program projects on a progress payment basis. Under this process, communities may submit reimbursement requests no more frequently than once per month. Upon review, audit, and approval, the MSBA processes payment for its share of eligible costs incurred. The MSBA's share of costs incurred for New Program projects are recognized as a liability once a grantee's request for reimbursement is reviewed, audited, and approved by the MSBA. The MSBA has recorded a liability of \$29.1 million in the special revenue fund for reimbursements received, reviewed, and approved for payment by June 30, 2016. Additionally, a long term liability of \$127 million was recorded for the reimbursements not reviewed or approved for payment prior to June 30, 2016, as well as final project hold back payments subject to final audit and Board approval after year end. New Program projects that are not currently recognized as a liability are considered commitments of the MSBA. As of June 30, 2016, the amount of commitments outstanding for the New Program projects is \$1.0 billion, and will be funded under the progress payment method.

For all projects, regardless of the funding mechanism, costs incurred by the grantees are subject to audit by the MSBA. Completion of these audits will allow the MSBA to determine the final approved cost of these projects, and the MSBA will adjust the payments it makes for these projects, as necessary, in accordance with the results of those audits.

As of June 30, 2016, MSBA had an outstanding liability of \$156.2 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 30th but paid for after year-end, the largest of which is Medicaid for \$1.652 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, 2016 but paid after the fiscal year ends are also reported in the funds.

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

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

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

L. DEDICATED REVENUES AND PLEDGES

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections [B](#) and [C](#) of [Note 7](#), on page 96-97.

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.

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 FY16, total dedicated sales tax revenue that was directed to the MBTA was approximately \$988 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 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 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 \$136 million, while debt service on the bonds was approximately \$55 million.

Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the General Fund to the Commonwealth Transportation Fund (CTF), while also eliminating a 0.385% pledge of regular and meals sales tax to the CTF. During FY16, approximately \$536 million in sales tax revenue was transferred to the CTF. 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.

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, 2016, 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	\$ —	\$ 1,478,053	\$ 1,478,053
Retirement of indebtedness	1,216,986	—	1,216,986
Restricted for other purposes including:			
Higher education endowment funds	—	18,886	18,886
Higher education academic support and programs	—	2,080	2,080
Higher education scholarships and fellowships:			
Nonexpendable	—	3,327	3,327
Expendable	—	7,059	7,059
Other nonexpendable purposes	—	3,366	3,366
Capital projects - expendable trusts	—	2,319	2,319
Other purposes	321,676	230,750	552,426
Total restricted net position	<u>\$ 1,538,662</u>	<u>\$ 1,745,840</u>	<u>\$ 3,284,502</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. SERVICE CONCESSION AGREEMENTS

The higher education institutions of the Commonwealth (State Universities and Colleges) enter in to services concession agreements for campus dining facilities and bookstores. In exchange for these agreements the vendors provide contributions to the institutions to improve the facilities as well as revenue sharing arrangements. All improvements and equipment purchased with the payments remain the property of institutions. The contracts range from five to ten years in duration. These agreements generate deferred inflows of revenues, and liability for the unamortized portion of assets transferred. Per terms of the agreements, either party can terminate the agreement at any time, without cause, by providing a written notice. In the event of termination, the unamortized portion is to be returned. Following is a summary of amounts of the arrangements as of June 30, 2016 (amounts in thousands):

State Universities	\$	15,237
Community Colleges		617
Total.....	\$	<u>15,854</u>

Q. RECLASSIFICATIONS / RESTATEMENTS

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

MassDOT, a discretely presented component unit, restated their beginning net position from \$24.799 billion, as previously reported, to \$24.781 billion due to a change in accounting treatment by certain Regional Transit Authorities, which are discretely presented component units of MassDOT.

R. 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.

S. 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 they 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.

T. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

The Commonwealth has implemented the following GASB Statements during FY16:

GASB Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. There was no impact to beginning net position as a result of implementing this Statement. See [Note 2C](#) for further information on fair value measurement reporting.

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government

The Commonwealth's cash and cash equivalents and restricted cash is comprised of the following (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash.....	\$ 69,654	\$ 512,503	\$ 582,157 ⁽¹⁾	\$ 346,177
MMDT - cash fund.....	3,517,227	576,347	4,093,574 ⁽¹⁾	3,652,134
Restricted cash with fiscal agent.....	382,839	—	382,839	—
Total.....	<u>\$ 3,969,720</u>	<u>\$ 1,088,850</u>	<u>\$ 5,058,570</u>	<u>\$ 3,998,311</u>

(1) of which \$523,422 is presented as restricted cash in the accompanying financial statements.

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 obligations of the insurance companies and the custodial banks, 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, 2016, the amortized cost of annuities was approximately \$112 million. At June 30, 2016, the U.S Treasury Strips have a fair value of approximately \$1.083 billion. Approximately 89.7% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 5.1% 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, 2016, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	283,977
Restricted cash with fiscal agent.....		169,509
Restricted investments		924,329
Total.....	\$	<u>1,377,815</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, 2016, the bank balances of uninsured deposits totaled approximately \$374 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, 2016, 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 50 days on July 1, 2015 to 51 days on June 30, 2016.

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 2.4 to 2.7 years. At June 30, 2016, investments in the MMDT Short Term Bond Portfolio had a total net position of \$667 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2016, 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	19.3%
One to five years	74.1%
Six to ten years	5.9%
Greater than ten years	0.0%
Total*	99.3%

*The remaining 0.7% consists of cash equivalents and other assets.

Interest Rate Risk – Higher Education

As of June 30, 2016, the Institutions of Higher Education had debt investments stated at fair value of approximately \$318 million and had investment maturities ranging from less than one year to more than ten years, with approximately 36.3% of the investment's fair values maturing in less than 1 year, approximately 45.9% from one to five years, approximately 7.3% from six to ten years, and approximately 10.5% 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, 2016, the MSBA had approximately \$200 million invested in a collateralized guaranteed investment contract and approximately \$459 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 2045. These investments represent approximately 54% of the MSBA's total investments by par amount.

Interest Rate Risk – Agency Funds

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2016, these investments had a fair value of approximately \$583 million, with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 26.7% has maturities of less than one year, 38.5% from one to five years, 18.2% from six to ten years and 16.6% 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. However, 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, 2016, the Cash Portfolio's securities were rated as follows: First tier 97.0% and Second Tier 3.0%.

At June 30, 2016, the Short Term Bond Portfolio's follows:

Portfolio Composition	Percentage of Total Net Position
AAA.....	66.80%
AA.....	3.60%
A.....	14.70%
BBB.....	14.20%
Total*.....	<u>99.30%</u>

* The remaining 0.7% 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 \$86 million at AAA, approximately \$76 million from AA+ to A- and approximately \$156 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, 2016, 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, 2016, 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 \$583 million, of which approximately \$461 million were in U.S Government securities. The remaining \$122 million were unrated as of June 30, 2016.

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 \$15.834 billion at fair value with an effective weighted average duration range from 0.45 to 22.60 years at June 30, 2016.

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 BBBB+ at June 30, 2016.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$2.458 billion, BBB+ to B- investments with a fair value of approximately \$2.647 billion, \$168 million rated CCC+ to D, \$5.423 billion are unrated, and the remaining \$5.762 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, 2016 were approximately \$180 million in cash and investments, \$12.678 billion in equities, \$2.067 billion in fixed income investments, \$141 million in hedge funds and portfolio completion strategies, \$1.139 billion in private equity investments and \$175 million in timber investments. An additional \$2.628 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.

PRIT has no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2016.

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, 2016, PRIT had open foreign exchange contracts with combined net unrealized gain of approximately \$26 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, 2016 with various expirations from FY17 to FY19. 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, 2016 was approximately \$945 million with a fair value of \$955 million, yielding an unrealized net gain of approximately \$10 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 on 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, 2016, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.157 billion to various investment banks that had maturity dates from FY17 to FY63. The contracts have an aggregate fair value loss of approximately \$18 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, 2016 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	\$ —	\$ —	\$ 11,436	\$ (1,818)	\$ —	\$ —
Barclays Bank PLC.....	A	—	—	8,871	(425)	27,430	(1,003)
CME Group Inc.....	AA-	323,755	(7,906)	—	—	—	—
Deutsche Bank AG.....	BBB	13,078	(496)	8,300	(131)	—	—
Goldman Sachs	A	—	—	15,850	(589)	10,661	5,990
IntercontinentalExchange Holdings Inc.....	A	—	—	13,800	(720)	—	—
LCH. Clearnet Ltd	A+	147,600	(6,353)	—	—	—	—
U.S. Bank National Association.....	AA-	500,000	(3,408)	—	—	—	—
All others.....	Various	47,705	(649)	28,200	(1,185)	669	206
Totals.....		\$ 1,032,138	\$ (18,812)	\$ 86,457	\$ (4,868)	\$ 38,760	\$ 5,193

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 of those component units.

C. FAIR VALUE MEASUREMENTS OF INVESTMENTS

In accordance with GASB 72, the Commonwealth categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 - Inputs are quoted prices for identical investments in active markets.
- Level 2 - Observable inputs other than quoted market prices.
- Level 3 - Unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement.

The Commonwealth's investments in the MMDT Bond Fund and the net investment in PRIT are reported at fair value.

The following tables present a summary of the fair value hierarchy of investments at June 30, 2016 (amounts in thousands):

<i>Primary government</i>	Total	Level		
		1	2	3
Debt securities:				
US Treasury and agency securities.....	\$ 543,454	\$ 541,493	\$ 1,961	\$ —
Municipal securities	117,469	19,464	98,005	—
Institutional money market funds.....	195,981	195,981	—	—
Corporate debt/bonds	87,376	13,720	73,498	158
Corporate stock.....	6,330	6,330	—	—
Asset backed securities.....	23,951	—	23,951	—
Registered investment companies	10,124	10,124	—	—
Mortgage backed securities	16,288	—	16,288	—
Other fixed income.....	151,384	137,608	13,776	—
Total debt securities.....	<u>1,152,357</u>	<u>924,720</u>	<u>227,479</u>	<u>158</u>
Equity securities	230,495	227,339	2,306	850
Investments measured at the Net Asset Value (NAV):				
Mutual funds.....	63,647			
US Treasuries/Agencies	303			
Commonfund (pooled investment funds).....	231,017			
Private equity.....	1,147			
Private debt.....	14,989			
Private real estate.....	3,497			
Total investments measured at the NAV.....	<u>314,600</u>			
Other investments at fair value:				
MMDT - bond fund	271,744			
Commodities	9,108			
REITS.....	18,458			
Total other investments at fair value	<u>299,310</u>			
Total investments at fair value.....	1,996,762	<u>\$ 1,152,059</u>	<u>\$ 229,785</u>	<u>\$ 1,008</u>
Other investments:				
Guaranteed investment contracts.....	200,098			
Certificates of deposit.....	15,046			
Other.....	208,091			
Total other investments.....	<u>423,235</u>			
Total investments - primary government.....	<u>\$ 2,419,997</u>			
Investment derivative instruments:				
Interest rate swaps (liabilities).....	<u>\$ 433,231</u>	<u>\$ —</u>	<u>\$ 433,231</u>	<u>\$ —</u>

Included in the preceding schedule is approximately \$8 million of various money mutual fund investments related to the business type activities which are classified as cash equivalents in the accompanying financial statements.

Lottery annuity contracts of approximately \$1.195 billion as of June 30, 2016 is presented in governmental activities on the Statement of Net Position and also in the fiduciary funds as further explained in the Reconciliation of Fund Balances to the Statement of Net Position. In these fair value tables, the annuity contracts are presented in the fiduciary funds below.

<i>Fiduciary funds:</i>	Total	Level		
		1	2	3
Debt securities:				
US Treasury securities.....	\$ 1,426,294	\$ 1,426,294	\$ —	\$ —
Bonds.....	117,261	—	117,261	—
Total debt securities.....	1,543,555	1,426,294	117,261	—
Equities:				
Domestic equities	71,925	71,925	—	—
Investments measured at the Net Asset Value (NAV):				
Mutual funds.....	50,437			
Other investments at fair value:				
MMDT - bond fund.....	39,467			
Net investment in PRIT.....	60,692,805			
Total other investments at fair value	60,732,272			
Subtotal investments at fair value	62,398,189	\$ 1,498,219	\$ 117,261	\$ —
Other investments:				
Annuity contacts.....	111,700			
Total investments - fiduciary funds.....	\$ 62,509,889			

3. RECEIVABLES

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

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental Activities:					
Gross receivables.....	\$ 4,760,999	\$ 2,039,299	\$ 107,188	\$ 1,525,727	\$ 8,433,213
Less: allowance for uncollectibles	(1,284,218)	(143,920)	—	(1,133,391)	(2,561,529)
Receivables, net allowance for uncollectibles...	3,476,781	1,895,379	107,188	392,336	5,871,684
Less: current portion.....	(3,083,179)	(1,835,444)	(14,347)	(342,493)	(5,275,463)
Noncurrent receivables.....	\$ 393,602	\$ 59,935	\$ 92,841	\$ 49,843	\$ 596,221
Business-Type activities:					
Gross receivables.....	\$ —	\$ 105,572	\$ 58,318	\$ 968,561	\$ 1,132,451
Less: allowance for uncollectibles	—	(2,108)	(3,087)	(242,006)	(247,201)
Receivables, net allowance for uncollectibles...	—	103,464	55,231	726,555	885,250
Less: current portion.....	—	(103,464)	(45,648)	(666,784)	(815,896)
Noncurrent receivables.....	\$ —	\$ —	\$ 9,583	\$ 59,771	\$ 69,354

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, 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
Governmental funds:				
<u>Transfers in:</u>				
Debt service	\$ —	\$ —	\$ 2,423,292	\$ 2,423,292
Transfers in	1,739,219	—	1,685,542	3,424,761
Subtotal	1,739,219	—	4,108,834	5,848,053
<u>Transfers out:</u>				
Appropriations	(1,201,542)	—	(1,316)	(1,202,858)
Transfer of bond proceeds	—	—	(223,935)	(223,935)
Debt service	(999,252)	—	(1,424,040)	(2,423,292)
Transfers out	(897,833)	(1,092,130)	(1,254,060)	(3,244,023)
Subtotal	(3,098,627)	(1,092,130)	(2,903,351)	(7,094,108)
Total governmental funds	(1,359,408)	(1,092,130)	1,205,483	(1,246,055)
Proprietary funds:				
	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds	646,824	342,762	437,207	1,426,793
<u>Transfers out:</u>				
Transfers out to the General Fund	(113,503)	(35,732)	(31,503)	(180,738)
Total proprietary funds	\$ 533,321	\$ 307,030	\$ 405,704	1,246,055
Net transfers in/(out) between funds				\$ —

Due to/from component units on the Statement of Net Position reflects a timing difference for payments of approximately \$14 million at year end.

Remaining receivables and payables between funds as of June 30, 2016 largely occur due to the timing of accruals and the funding of escrows. The University of Massachusetts also reported unremitted benefits costs as of June 30, 2016. 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, 2016 (amounts in thousands):

Receivable Fund	Payable Fund	Amount
Governmental Funds:		
General	Nonmajor Governmental Funds	\$ 19,271
Non-major Governmental Funds	Nonmajor Governmental Funds	87,791
Total Governmental Funds		\$ 107,062

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2016 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2015 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2016 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 861,487	\$ 16,703	\$ (697)	\$ 877,493
Construction in process	960,752	259,768	(401,199)	819,321
Total capital assets not being depreciated	1,822,239	276,471	(401,896)	1,696,814
Capital assets being depreciated:				
Buildings	5,423,867	331,726	—	5,755,593
Machinery and equipment	1,185,634	231,354	(38,122)	1,378,866
Infrastructure non - central artery/tunnel project	405,494	3,080	—	408,574
Total capital assets being depreciated.....	7,014,995	566,160	(38,122)	7,543,033
Less, accumulated depreciation:				
Buildings	(3,037,701)	(112,807)	—	(3,150,508)
Machinery and equipment	(956,713)	(143,731)	4,390	(1,096,054)
Infrastructure non - central artery/tunnel project	(240,498)	(9,069)	—	(249,567)
Total accumulated depreciation.....	(4,234,912)	(265,607)	4,390	(4,496,129)
Total capital assets being depreciated, net.....	2,780,083	300,553	(33,732)	3,046,904
Governmental activity capital assets, net	4,602,322	577,024	(435,628)	4,743,718
 <i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	118,415	19,522	—	137,937
Construction in process	758,620	688,529	(398,570)	1,048,579
Historical treasures	1,196	948	(384)	1,760
Total capital assets not being depreciated	878,231	708,999	(398,954)	1,188,276
Capital assets being depreciated:				
Buildings	8,674,180	496,471	(8,467)	9,162,184
Machinery and equipment	1,066,263	81,222	(41,524)	1,105,961
Library collections, not including historical treasures	94,081	758	(10,458)	84,381
Total capital assets being depreciated.....	9,834,524	578,451	(60,449)	10,352,526
Less, accumulated depreciation:				
Buildings	(3,703,322)	(310,023)	4,104	(4,009,241)
Machinery and equipment	(309,064)	(57,500)	38,410	(328,154)
Library collections, not including historical treasures	(16,153)	(487)	1,368	(15,272)
Total accumulated depreciation.....	(4,028,539)	(368,010)	43,882	(4,352,667)
Total capital assets being depreciated, net.....	5,805,985	210,441	(16,567)	5,999,859
Business - type activity capital assets, net.....	6,684,216	919,440	(415,521)	7,188,135
Total Primary Government capital assets, net.....	\$ 11,286,538	\$ 1,496,464	\$ (851,149)	\$ 11,931,853

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

<u>Function</u>	<u>Amount</u>
General government.....	\$ 102,960
Judiciary.....	32,329
Health and human services	55,272
Early elementary and secondary education	672
Public safety and homeland security	66,679
Housing and economic development.....	51
Labor and workforce development.....	7,644
	<hr/>
Total depreciation, governmental activities	\$ 265,607
	<hr/> <hr/>
University of Massachusetts	\$ 240,865
State universities	93,119
Community colleges	34,026
	<hr/>
Total depreciation, business-type activities.....	\$ 368,010
	<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. For short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.2 billion by selling RANs in September, 2015. All \$1.2 billion in RANs were retired in April, May and June 2016.

On November 24, 2015, 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 2016, Series D and E, dated June 22, 2016.

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

	Beginning Balance July 1, 2015	Issued/ Drawn	Redeemed/ Repaid	Ending Balance June 30, 2016
General Fund:				
Revenue anticipation notes.....	\$ —	\$ 1,200,000	\$ (1,200,000)	\$ —
Capital Projects Funds:				
Commercial paper - bond anticipation notes.....	—	200,000	(200,000)	—
Total primary government.....	\$ —	\$ 1,400,000	\$ (1,400,000)	\$ —

B. CREDIT FACILITIES

During FY16, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY16 with one credit facility to provide such liquidity support, in the amount of \$200 million. That facility will expire in FY18. During the fiscal year, another credit facility was added to provide liquidity support for an additional \$200 million in commercial paper notes. This facility will expire in FY19. In addition to credit facilities for commercial paper, the Commonwealth maintained standby bond purchase agreements for outstanding Variable Rate (VR) Demand Bonds sold from FY00 through FY06. These VR bonds require external liquidity support because bond-holders have the right to tender the bonds back to the Commonwealth at par at any time by an investor. As of June 30, 2016, these agreements totaled \$636 million.

MSBA

During FY16, the MSBA maintained credit facilities to provide liquidity support for commercial paper notes totaling \$450 million. The \$150 million Commercial Paper Notes, Series 2015 A, are secured by an irrevocable letter of credit (LOC) provided by Bank of America, N.A., which expires in March 2018. The \$150 million Commercial Paper Notes, Series B, are secured by an irrevocable LOC provided by Citibank, N.A., which expires in March 2018. The \$150 million Commercial Paper Notes, Series 2015 C, are secured by an irrevocable LOC provided by Barclays Bank PLC, which expires in March, 2018. As of June 30, 2016, there were no draws against available balances on the three lines of credit.

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) (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, 2016, 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):

Type of Bond	Amount Outstanding
General obligation bonds, net proceeds.....	\$ 22,754,883
Special obligation bonds (including GANs), net proceeds	3,660,848
Outstanding Commonwealth bonds, net proceeds	26,415,731
MSBA bonds, net proceeds	6,198,531
Total governmental activities, net proceeds	32,614,262
Less:	
Unamortized premiums on general obligation bonds	(1,086,587)
Unamortized premiums on special obligation bonds	(249,553)
Unamortized premiums on MSBA bonds	(574,256)
Total governmental activities, principal.....	\$ 30,703,866

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, 2016, there were four different special obligation bond programs with bonds outstanding. It should be noted that one of the four bond programs has a closed lien, meaning that no additional new-money bonds will be issued under that specific special obligation bond indenture.

The following is a table of GO bonds principal outstanding as of June 30, 2016, (amounts in thousands):

General Obligation Bonds	Principal Outstanding	Percent of Total GO
Fixed rate bonds	\$ 17,878,816	82.5%
Variable rate bonds.....	3,789,480	17.5%
Total	<u>\$ 21,668,296</u>	<u>100.0%</u>

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

Variable Rate GO Bonds	Principal Outstanding	Percent of Total GO
Direct purchase bonds	\$ 960,500	4.4%
Variable rate demand bonds.....	636,090	2.9%
Auction rate securities	401,500	1.9%
CPI-index bonds	100,000	0.5%
LIBOR index bonds.....	845,795	3.9%
SIFMA index bonds.....	645,595	3.0%
Multi-Modal	200,000	0.9%
Total.....	<u>\$ 3,789,480</u>	<u>17.5%</u>

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

	Principal Outstanding	Percent of Total GO
Hedged variable rate GO bonds	\$ 2,316,485	10.7%
Unhedged variable rate GO bonds	1,472,995	6.8%
Total variable rate GO bonds.....	<u>\$ 3,789,480</u>	<u>17.5%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2016, (amounts in thousands):

Special Obligation Bonds	Principal Outstanding	Percent of Total SO
Fixed rate bonds	\$ 3,269,285	95.8%
Variable rate bonds.....	142,010	4.2%
Total.....	<u>\$ 3,411,295</u>	<u>100.0%</u>

All of the variable rate special obligation bonds are hedged as of June 30, 2016.

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

Special Obligation Bonds	Amount Outstanding
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds	\$ 554,273
CPI variable rate convention center bonds	45,520
Total convention center bonds, net proceeds.....	<u>599,793</u>
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds.....	74,245
CPI variable rate gas tax bonds.....	96,490
Total gas tax bonds, net proceeds.....	<u>170,735</u>
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program.....	<u>1,622,137</u>
Special obligation federal highway grant anticipation notes and accelerated bridge program.....	<u>767,025</u>
Special obligation revenue bonds, net proceeds:	
Rail enhancement program	501,158
Total special obligation bonds, net proceeds.....	<u>3,660,848</u>
Less: unamortized premiums	<u>(249,553)</u>
Outstanding special obligation principal.....	<u><u>\$ 3,411,295</u></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 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 a specific program. 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, 2016, the Commonwealth had approximately \$143 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, 2016, approximately 82.5% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 17.5% 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. These structures include floating rate notes in various interest rate modes, direct purchase agreements in various interest rated modes, multi-modal bonds currently in the Term Mode, and variable rate demand bonds. Variable rate demand bonds, or "VRDBs", 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 by an investor, 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, 2016, the Commonwealth had approximately \$636 million in outstanding VRDBs. This accounts for approximately 2.9% of total GO debt and approximately 16.8% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2016, 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 with interest rates that reset every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008 and continuing through FY16, however, 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 failures (approximately \$402 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 are 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, 2016, the Commonwealth had \$961 million direct purchase bonds outstanding.

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	\$ 210,500	1/1/2021	1 Month LIBOR/ Monthly Pay	Bank of America Merrill	8/1/2014	8/1/2017
2015 Series B Refunding Bonds	125,000	2/1/2018	1 Month SIFMA/ Monthly Pay	JP Morgan Chase Bank	12/23/2015	2/1/2018
2015 Series C Refunding Bonds	125,000	2/1/2019	1 Month SIFMA/ Monthly Pay	JP Morgan Chase Bank	12/23/2015	2/1/2019
2006 Series B, Subseries B-1 & B-2	200,000	3/1/2026	1 Month LIBOR/ Monthly Pay	Bank of America Merrill	5/5/2016	5/31/2019
2016 Series B.....	100,000	4/1/2021	1 Month LIBOR/ Monthly Pay	TD Bank	5/10/2016	4/1/2021
2016 Series C.....	200,000	4/1/2021	1 Month LIBOR/ Monthly Pay	State Street	5/12/2016	4/1/2021
Total.....	<u>\$ 960,500</u>					

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2016, 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 \$646 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 0.5%, 3.9% and 3.0% of total outstanding general obligation indebtedness, respectively.

To fund the FY16 capital budget and prior capital spending, the Commonwealth borrowed by issuing \$2.759 billion in long-term bonds, \$2.259 billion of which was general obligation debt, and \$500 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, \$1.463 billion in refunding bonds were issued in four separate transactions. Two of these transactions were executed as current refundings a part of a stated plan of finance for the purpose of extending maturities to match that of certain existing hedges, while two of these transactions were advance refundings executed for savings. The present value savings of the advance refunding transactions are immaterial to these financial statements.

MSBA Debt

As of June 30, 2016, the MSBA had outstanding approximately \$5.624 billion of Dedicated Sales Tax bonds, including approximately \$574 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 FY46. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.624 billion of debt outstanding as of June 30, 2016, \$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 FY16, the federal government continued automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. In September 2014, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2014 and on or before September 30, 2015 will be reduced by the FY15 sequestration rate of 7.3%. The notice was updated in August 2015 to announce that subsidy payments processed on or after October 1, 2015 and on or before September 30, 2016 will be reduced by the FY16 sequestration rate of 6.8%. 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 FY16. On August 3, 2016, the IRS announced that the sequestration rate for the federal fiscal year ending September, 2017 would be 6.9%.

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 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 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.

Motor Fuels Tax Bonds

Other special obligation bonds for highway construction purposes are secured by a senior lien on 6.86 cents of the 24 cent per gallon gasoline tax. 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.

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, 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 \$136 million, while debt service on the bonds was approximately \$55 million.

On July 29, 2014, the then 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.

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 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 is approximately \$657 million. Maturities are from FY16 through FY27. Debt service paid during FY16 was approximately \$75 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. Principal amortization of the notes will continue through FY27. 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 were 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 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, 2016, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$761 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 (including special obligation bonds) outstanding of approximately \$3.931 billion, approximately \$2.458 billion was hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.316 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 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, 2016, 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 \$2.458 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. 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, 2016, 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	2016	2015	Change in Fair Value			
<i>General Obligation Bonds:</i>											
Series 1998A (refund) [1] Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	\$ 24,105	11/17/2008	11/17/2008	4.174%	60% 1- Month LIBOR + 25 basis points	\$ (219)	\$ (1,637)	\$ 1,418	9/1/2016	Wells Fargo Bank	Aa2/AA-/AA
Series 1998A (refunding)	10,185	9/17/1998	9/1/2016	4.174%	Cost of Funds	(95)	(751)	656	9/1/2016	Wells Fargo Bank	Aa2/AA-/AA
Series 2000A	97,092	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(1,866)	(5,430)	3,564	8/1/2018	Merrill Lynch Cap Svcs	Baa1/NR/A
Series 2000A	49,308	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(920)	(2,735)	1,815	8/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/AA-
Series 2001B & C	421,000	2/20/2001	2/20/2001	4.15%	Cost of Funds	(40,717)	(51,165)	10,448	1/1/2021	Morgan Stanley Capital Services	A1/A+U/N/A
Series 2006B, Series 2000D	294,000	4/2/2009	4/2/2009	4.515%	67% 3- Month LIBOR	(100,369)	(81,690)	(18,679)	6/15/2033	Barclays Bank PLC	A2/A-/A
Series 2006C (refunding)	100,000	1/1/2007	1/1/2007	3.73% - 3.85%	CPI-based formula	(4,939)	(5,795)	856	11/1/2020	Wells Fargo Bank	Aa2/AA-/AA
Series 2007A	400,000	10/8/2008	10/8/2008	4.42%	67% 3- Month LIBOR + 0.57%	(13,588)	(25,376)	11,788	5/1/2037	Barclays Bank PLC	A2/A-/A
Series 2007A (refunding)[1]	31,665	10/8/2008	10/8/2008	3.936%	67% 3- Month LIBOR + 0.46%	(3,900)	(3,786)	(114)	11/1/2020	Wells Fargo Bank	Aa2/AA-/AA
Series 2007A (refunding)	414,130	10/8/2008	10/8/2008	4.083%	67% 3- Month LIBOR + 0.55%	(75,327)	(62,871)	(12,456)	11/1/2025	Bank of NY Mellon	Aa2/AA-/AA
Series 2013A, 2014E, 2015B & 2015C	475,000	3/15/2005	3/15/2005	3.672% - 4.004%	SIFMA	(93,099)	(79,637)	(13,462)	2/1/2028	Wells Fargo Bank	Aa2/AA-/AA
Subtotal	2,316,485					(335,039)	(320,873)	(14,166)			
<i>Special Obligation Dedicated Tax Revenue Bonds:</i>											
Series 2004 (Convention Ctr)	15,173	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(465)	(1,145)	680	1/1/2018	Goldman Sachs Cap Markets	A1/A/A+
Series 2004 (Convention Ctr)	15,174	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(458)	(1,145)	687	1/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/AA-
Series 2004 (Convention Ctr)	15,173	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(457)	(1,147)	690	1/1/2018	JPMorgan Chase Bank	Aa3/A+/AA-
Series 2005A (Gas Tax)	96,490	1/12/2005	1/12/2005	4.771% - 5.059%	CPI-based formula	(4,511)	(5,231)	720	6/1/2022	Merrill Lynch Cap Serv	Baa1/NR/A
Subtotal	142,010					(5,891)	(8,668)	2,777			
Total	\$ 2,458,495					\$ (340,930)	\$ (329,541)	\$ (11,389)			

Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2016 was negative \$341 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, 2016 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 FY16, 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 below. 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. In FY16, one of the Commonwealth's swap counterparties, Deutsche Bank AG, was downgraded by the ratings agencies triggering a termination event impacting two swap agreements with a total notional amount outstanding of \$112 million. The Commonwealth replaced these two swaps with the same commercial terms via a novation to a higher rated counterparty, Wells Fargo Bank, NA.

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 2013A, 2014E, 2015B and 2015C bonds being hedged by the \$475 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 then 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, 2016 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, 2016. 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, 2016 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2017	\$ 343,700	\$ 10,838	\$ 62,682	\$ 417,220
2018	114,840	11,239	57,240	183,319
2019	205,290	10,916	54,072	270,278
2020	262,505	9,578	47,788	319,871
2021	239,295	7,203	38,962	285,460
2022-2026.....	780,595	32,560	158,741	971,896
2027-2031.....	305,325	12,741	60,020	378,086
2032-2036.....	177,840	4,888	18,454	201,182
2037	29,105	143	500	29,748
Total.....	<u>\$ 2,458,495</u>	<u>\$ 100,106</u>	<u>\$ 498,459</u>	<u>\$ 3,057,060</u>

Business - Type Activities – Swapped Debt

The business-type activities have various swaps. At June 30, 2016, the fair value liability of the outstanding interest rate swaps was \$92 million.

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

to be repaid.

Component Unit – Swapped Debt

At June 30, 2016, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$487 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, 2016 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	\$ 657,040	2017 - 2027	\$ —
Capital projects:			
General	11,392,917	2017 - 2045	11,721,051
Highway	11,395,842	2017 - 2045	14,412,315
Local aid.....	1,036,162	2017 - 2038	12,631
Other.....	597,630	2017 - 2034	—
Subtotal	24,422,551		26,145,997
Subtotal - governmental activities debt (exclusive of MSBA)	25,079,591		\$ 26,145,997
MSBA debt.....	5,624,275		
Governmental activities debt	<u>\$ 30,703,866</u>		

Interest rates on the Commonwealth's outstanding debt at the end of FY16 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2016 are as follows (amounts in thousands):

	Governmental Funds Debt - Primary Government	MSBA	Governmental Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2015	\$ 23,826,301	\$ 5,714,410	29,540,711	\$ 29,071,339
Plus: Increases in bonds authorized	—	—	—	200,000
General and special obligation bonds:				
Proceeds, as defined as principal, premium				
less discount	4,697,103	1,354,686	6,051,789	(3,125,342)
Less: Net premium	(468,029)	(175,206)	(643,235)	—
Less: Principal on refunded bonds	(1,529,340)	(1,102,135)	(2,631,475)	—
Less: Bonds retired	(1,446,444)	(167,480)	(1,613,924)	—
Outstanding principal June 30, 2016.....	<u>\$ 25,079,591</u>	<u>\$ 5,624,275</u>	<u>\$ 30,703,866</u>	<u>\$ 26,145,997</u>

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an

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

At June 30, 2016, 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
2017.....	\$ 1,575,071	\$ 1,109,371	\$ 112,925	\$ 275,381	\$ (22,550)	\$ 384,983	\$ 187,400
2018.....	1,491,299	1,054,023	118,665	269,635	(23,663)	145,239	179,221
2019.....	1,377,912	996,884	149,245	263,992	(24,213)	148,241	178,192
2020.....	1,302,809	939,005	140,335	256,479	(24,213)	154,034	172,471
2021.....	1,354,533	874,260	147,235	249,582	(24,213)	144,734	165,978
2022 - 2026	5,741,207	3,509,255	785,455	1,133,613	(121,065)	702,509	682,483
2027 - 2031	4,497,309	2,304,443	1,405,090	873,027	(70,650)	742,871	567,950
2032 - 2036	2,816,576	1,431,708	1,182,595	550,357	(33,780)	725,281	379,010
2037 - 2041	2,672,415	820,205	1,143,235	229,260	(8,950)	787,155	176,402
2042 -2046	2,250,460	226,735	439,495	33,290	—	488,066	37,790
2047 - 2051	—	—	—	—	—	15,169	998
Total long - term debt...	25,079,591	13,265,889	5,624,275	4,134,616	(353,297)	4,438,282	2,727,895
Less: current portion	(1,575,071)	(1,109,371)	(112,925)	(275,381)	22,550	(384,983)	(187,400)
Long - term debt.....	<u>\$ 23,504,520</u>	<u>\$ 12,156,518</u>	<u>\$ 5,511,350</u>	<u>\$ 3,859,235</u>	<u>\$ (330,747)</u>	<u>\$ 4,053,299</u>	<u>\$ 2,540,495</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, 2016, approximately \$3.187 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, 2016, approximately \$192 million and \$267 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, a control is established on annual capital spending. The direct debt limit for FY16 was approximately \$20.749 billion. Outstanding debt subject to the limit at June 30, 2016 was approximately \$20.316 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 associated discount or premium, 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, 2016	\$ 25,079,591
Less amounts excluded:	
Central artery project bonds	(1,150,296)
Accelerated bridge program	(2,192,930)
MBTA forward funding	(207)
SMART bonds	(652,197)
Convention center bonds	(597,630)
Special obligation gas tax bonds	(170,735)
Outstanding direct debt	<u>\$ 20,315,596</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 2016. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The current 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 2016
Bond cap as approved by the Governor	\$ 2,125,000
Total annual debt service obligations	1,444,516
Budgeted fund revenues	40,838,450
Debt service as % of budgeted revenues	3.5%

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	\$ 577,316	\$ 603,490	\$ (577,316)	\$ 603,490	\$ 409,398
Claims and judgments	11,819	16,269	(16,677)	11,411	11,411
Prizes payable	1,243,000	172,945	(221,000)	1,194,945	—
School construction grants payable	1,081,019	428,840	(629,322)	880,537	347,006
Post employment benefit obligations	5,605,000	1,475,000	(614,000)	6,466,000	—
Environmental remediation liability	207,979	330,935	(8,065)	530,849	5,421
Lottery instant grand prizes	31,492	—	(14,599)	16,893	—
Workers' compensation	274,429	54,250	(57,959)	270,720	38,710
Arbitrage rebate - MSBA	13,603	426	(11,842)	2,187	—
Group insurance claims	107,949	1,630,534	(1,627,558)	110,925	108,915
Cost of living adjustment	186,500	—	(25,235)	161,265	—
Net pension liability	24,531,950	10,014,136	(1,690,371)	32,855,715	—
Total other long-term obligations	33,872,056	14,726,825	(5,493,944)	43,104,937	920,861
Liability for derivative instruments	329,833	340,930	(329,833)	340,930	—
Bonded Debt:					
Bonds and notes payable - non MSBA	23,826,301	4,229,074	(2,975,784)	25,079,591	1,575,071
Unamortized bond and note premiums - non MSBA	964,608	468,028	(89,286)	1,343,350	67,029
MSBA Bonds and notes payable excluding premium	5,714,410	1,179,480	(1,269,615)	5,624,275	112,925
Unamortized bond and note premiums - MSBA	486,984	144,709	(57,437)	574,256	46,552
MSBA other liabilities	435,000	2,834,000	(2,819,000)	450,000	450,000
Other financing arrangements:					
Capital leases	42,928	30,706	(32,332)	41,302	8,795
Total bonded debt and other financing arrangements	31,470,231	8,885,997	(7,243,454)	33,112,774	2,260,372
Long-term liabilities, governmental activities	\$ 65,672,120	\$ 23,953,752	\$ (13,067,231)	\$ 76,558,641	\$ 3,181,233

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	\$ 213,000	\$ 35,103	\$ (27,722)	\$ 220,381	\$ 149,512
Environmental remediation liability	11	—	(11)	—	—
Net pension liability	403,393	356,977	(41,410)	718,960	—
Total other long-term obligations	616,404	392,080	(69,143)	939,341	149,512
Liability for derivative instruments	72,517	19,874	—	92,391	—
Bonded Debt:					
Bonds and notes payable, including MSCBA	4,553,105	241,584	(356,407)	4,438,282	384,983
Other financing arrangements:					
Capital leases	9,895	2,789	(2,797)	9,887	2,797
Total bonded debt and other financing arrangements	4,563,000	244,373	(359,204)	4,448,169	387,780
Long-term liabilities, business - type activities	\$ 5,251,921	\$ 656,327	\$ (428,347)	\$ 5,479,901	\$ 537,292

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, 2016, net of unamortized discounts and premiums, compensated absences and net pension liability are as follows (amounts in thousands):

	Interest Rates	Maturities	July 1, 2015 Beginning Balance	Increases	Decreases	June 30, 2016 Ending Balance	Due Within One Year	Long Term
Major component units:								
MassDOT	0.00 - 7.000%	2017 - 2046	\$ 7,734,563	\$ 408,447	\$ (434,548)	\$ 7,708,462	\$ 462,489	\$ 7,245,973
MCWT	1.00 - 6.375%	2017 - 2043	3,332,352	245,140	(249,290)	3,328,202	225,895	3,102,307
Nonmajor component units ..	1.00 - 6.500%	2017 - 2038	557,620	102,550	(31,919)	628,251	28,914	599,337
Total bonds and notes payable			11,624,535	756,137	(715,757)	11,664,915	717,298	10,947,617
Compensated absences, net			48,337	4,195	(3,832)	48,700	28,074	20,626
Net pension liability			1,399,888	530,440	(146,073)	1,784,255	—	1,784,255
Total long term liabilities			<u>\$ 13,072,760</u>	<u>\$ 1,290,772</u>	<u>\$ (865,662)</u>	<u>\$ 13,497,870</u>	<u>\$ 745,372</u>	<u>\$ 12,752,498</u>

The net pension liability of the discretely presented component units of \$1.784 billion includes \$1.169 billion related to the MBTA and RTAs and \$615 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 109-116 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, 2016. None of these funds were in deficit due to finance-related contractual provisions and all 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	(5,057)
Health information technology trust fund	(3,962)
General capital projects fund	(212,888)
Highway capital projects fund	(275,432)
Other capital project funds:	
Federal highway construction program capital projects fund	(16,719)

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 multiple 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 have 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 (the SRB) 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 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 multiple 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 Massachusetts Teachers' Retirement Board (the MTRB) 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 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 *Boston Retirement System* (BRS) is a PERS that administers a cost-sharing multiple 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 Planning and Development Agency, the Boston Housing Authority, the Public Health Commission and the Boston Water and Sewer Commission. The BRS 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 BRS (hereafter referred to as BRS-Teachers) and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the BRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for BRS-Teachers. The net pension liability related to the BRS-Teachers is included in the Commonwealth's net pension liability in this report.

Management of the BRS 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 BRS issues a stand-alone audited financial report. For a complete copy of BRS'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, 2016, for SERS and MTRS, and as of December 31, 2014, for the BRS, the dates of the most recent valuations, plan membership consisted of the following:

	SERS	MTRS	BRS
Retirees and beneficiaries currently receiving benefits	61,377	63,744	14,341
Terminated employees entitled to benefits but not yet receiving them.....	4,350	—	808
Inactive members entitled to a return of contributions	—	—	7,983
Subtotal	65,727	63,744	23,132
Current members.....	88,081	91,059	20,278
Total.....	<u>153,808</u>	<u>154,803</u>	<u>43,410</u>

Benefits provided. SERS, MTRS and BRS 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 and receive benefits 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 BRS 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 BRS-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, 2016 (SERS and MTRS) and December 31, 2015 (BRS-Teachers):

Asset Class	Target Allocation		
	SERS	MTRS	BRS-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 2016 was 1.79% for SERS, 1.78% for MTRS, and for the year ended December 31, 2015, 0.15% for BRS. 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, 2016 are as follows (amounts in thousands):

	SERS	MTRS
Total pension liability.....	\$ 37,760,000	\$ 47,300,000
Plan fiduciary net position.....	(23,971,156)	(24,942,072)
Net pension liability	<u>\$ 13,788,844</u>	<u>\$ 22,357,928</u>
Fiduciary net position as a percentage of the total pension liability	63.5%	52.7%

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, 2016 rolled forward to June 30, 2016, using the following actuarial assumptions:

1. The actuarial assumptions included: (a) 7.50% investment rate of return, a decrease of 0.25% from the rate used in the January 1, 2015 actuarial valuation; (b) 3.5% interest rate credited to the annuity savings fund; and (c) 3.0% cost of living increase on the first \$13,000 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:
 - Chapter 176 of the Acts of 2011 created a one time election for eligible members of the Optional Retirement Plan (ORP) to transfer to the State Employee's Retirement System (SERS) and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS has increased by approximately \$400 million as of June 30, 2016.
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 arithmetic expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These assumptions are converted into nominal assumptions by adding inflation, then combined by weighting them by the target asset allocation percentages. Finally, the arithmetic portfolio expected return is converted into a geometric expected return using assumed asset class standard deviations and correlations. 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, 2016 (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.....	8.7%	8.7%
Global Equity.....	6.9%	6.9%
Timberland/Natural Resources.....	5.4%	5.4%
Value Added Fixed Income.....	4.8%	4.8%
Real Estate.....	4.6%	4.6%
Hedge Funds.....	4.0%	4.0%
Portfolio Completion Strategies.....	3.6%	3.6%
Core Fixed Income.....	1.6%	1.6%

Discount rate. The discount rate used to measure the pension liability for SERS and MTRS was 7.50%. 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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate (amounts in thousands):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SERS net pension liability.....	\$ 17,969,000	\$ 13,788,844	\$ 10,246,000
MTRS net pension liability.....	27,464,000	22,357,928	18,022,000

D. NET PENSION LIABILITY OF THE SYSTEMS REQUIRED BY GASB 68

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, and 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 \$1.642 billion were made during to SERS and MTRS for the measurement

period ending June 30, 2015. In addition, approximately \$120 million representing the nonemployer contributions to BRS-Teachers were made for the measurement date ending December 31, 2015.

Proportionate Share of Net Pension Liability

As of the respective measurement dates below, the net pension liability for SERS, MTRS and BRS were \$11.383 billion, \$20.490 billion, and \$4.410 billion, respectively. The net pension liabilities for SERS and MTRS were determined by an actuarial valuation as of January 1, 2015 and rolled forward to June 30, 2015. The BRS net pension liability was determined by an actuarial valuation as of January 1, 2014 and rolled forward to December 31, 2015. The SERS, MTRS and BRS 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 BRS-Teachers net pension liabilities (amounts in thousands):

System	Measurement Date	Proportionate Share	Net Pension Liability
State Employees' Retirement System	June 30, 2015	93.8%	\$ 10,682,765
Massachusetts Teachers' Retirement System.....	June 30, 2015	100.0%	20,489,643
Boston Retirement System - Teachers.....	December 31, 2015	54.5%	<u>2,402,267</u>
Total net pension liability.....			<u><u>\$ 33,574,675</u></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, 2015	5.4%	<u><u>\$ 615,323</u></u>

Deferred Outflows and Inflows of Resources

As of the measurement dates, the Commonwealth (primary government) recognized pension expense of approximately \$3.101 billion and the discretely presented component units recognized approximately \$72 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	\$ 4,713,703	\$ —	\$ 108,179	\$ 5,410
Changes in proportion.....	91,887	100,505	11,037	254
Net difference between projected and actual earnings on pension investments	89,751	641,817	135,711	19,867
Differences between expected and actual experience..	339,485	—	70,700	4,378
Payments made after the measurement date	1,770,406	—	65,143	—
Totals.....	<u>\$ 7,005,232</u>	<u>\$ 742,322</u>	<u>\$ 390,770</u>	<u>\$ 29,909</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 \$1.770 billion and \$65 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
2017.....	\$ 716,695	\$ 70,794
2018.....	716,695	70,794
2019.....	716,695	70,305
2020.....	1,462,692	67,898
2021.....	775,100	16,538
Thereafter	104,627	(611)
Totals.....	<u>\$ 4,492,504</u>	<u>\$ 295,718</u>

The SERS and MTRS total pension liabilities were based on 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) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 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. In May, 2015 Chapter 19 of the Acts of 2015 created an Early Retirement Incentive Program (ERIP) for certain members of SERS who upon election of the ERIP retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.
4. Mortality rates were as follows:

SERS:

- Pre-retirement - reflects RP-2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement - reflects Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the morality 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)

MTRS:

- Pre-retirement - reflects RP-2014 Employees Table projected generationally with Scale BB and a base year of 2014 (gender distinct)
- Post-retirement - reflects RP-2014 Healthy Annuitant Table projected generationally with Scale B and a base year of 2014 (gender distinct)
- Disability - assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years

The BRS-Teachers total pension liability was based on an actuarial valuation as of January 1, 2014 rolled forward to December 31, 2015, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 7.5% investment rate of return, (b) 4.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 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 BRS-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	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 as of the measurement date was 3.4% for SERS, 3.4% for MTRS and 5.7% for BRS-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 BRS-Teachers calculated using the discount rate of 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate (amounts in thousands):

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
SERS net pension liability.....	\$ 14,513,674	\$ 10,682,765	\$ 7,367,990
MTRS net pension liability	25,449,000	20,489,643	16,221,000
BRS-Teachers net pension liability.....	3,022,382	2,402,267	1,883,470

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, 2016, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
ASSETS				
Cash and cash equivalents	\$ 77,226	\$ 84,500	\$ 78,106	\$ 239,832
Net investment in PRIT at fair value	23,661,539	24,766,990	787,942	49,216,471
Other receivables	115,772	87,479	—	203,251
Other assets	118,413	11,218	—	129,631
Total assets	23,972,950	24,950,187	866,048	49,789,185
LIABILITIES				
Accounts payable	1,794	8,115	5	9,914
Net position available for post-employment benefits	\$ 23,971,156	\$ 24,942,072	\$ 866,043	\$ 49,779,271
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contributions:				
Employer contributions - Commonwealth	\$ 660,818	\$ —	\$ 502,285	\$ 1,163,103
Non-employer contributions - Commonwealth	21,830	1,124,583	—	1,146,413
Employer and non-employer contributions - other	16,642	—	—	16,642
Employee contributions	591,948	699,422	—	1,291,370
ERIP funding contribution - Commonwealth	29,093	—	—	29,093
Boston teachers' contributions from Commonwealth	—	120,434	—	120,434
Other additions	397,077	82,362	1,313	480,752
Total contributions	1,717,408	2,026,801	503,598	4,247,807
Net investment gain/(loss):				
Investment gain/(loss)	545,612	570,073	18,686	1,134,371
Less: investment expense	(122,674)	(128,710)	(4,240)	(255,624)
Net investment gain/(loss)	422,938	441,363	14,446	878,747
Total additions	2,140,346	2,468,164	518,044	5,126,554
DEDUCTIONS				
Administration	20,624	24,220	161	45,005
Retirement benefits and refunds	2,107,327	2,791,011	426,853	5,325,191
Payments to State Boston Retirement System	—	120,434	—	120,434
Other deductions	83,824	19,495	—	103,319
Total deductions	2,211,775	2,955,160	427,014	5,593,949
Net increase/(decrease)	(71,429)	(486,996)	91,030	(467,395)
Net position available for post-employment benefits				
at beginning of year	24,042,585	25,429,068	775,013	50,246,666
Net position available for post-employment benefits at end of year	\$ 23,971,156	\$ 24,942,072	\$ 866,043	\$ 49,779,271

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, 2016 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund.....	\$ 5,879,908	\$ 7,160,339	Active members' contribution balance
Annuity Reserve Fund.....	1,927,360	2,394,870	Retired members' contribution account
Special Military Service Fund ...	40	237	Members' contribution account while on military leave
Pension Reserve Fund	16,163,848	15,386,626	Amounts appropriated to fund future retirement benefits
Total	<u>\$ 23,971,156</u>	<u>\$ 24,942,072</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 Massachusetts Turnpike Authority 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 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 FY16 General Appropriation Act transferred approximately \$425 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, 2016 and as of the valuation date (January 1, 2016), 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 FY10 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY16 totaled approximately \$614 million. There are 154,684 participants eligible to receive benefits at June 30, 2016.

Effective beginning FY14, 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 FY14 to 100% by

FY23. In FY16, 30% of tobacco settlement proceeds or approximately \$77 million was allocated to the SRBTF, the same percentage of proceeds as in FY15. The percentage of proceeds to be transferred to the SRBTF in FY17 was frozen at 30%, overriding existing statute.

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and under Massachusetts 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 FY16, the Commonwealth's annual OPEB contribution of approximately \$614 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 FY16 are as follows from the valuation calculated as of January 1, 2016 (amounts in millions except percentages):

<u>2016</u>	SRBT
Annual required contribution (ARC).....	\$ 1,418
Interest on net OPEB obligation.....	252
Adjustment to annual required contribution.....	(195)
Annual OPEB cost (AOC).....	1,475
Less: Contributions made*	(614)
Increase in net OPEB obligation.....	861
Net OPEB obligation as reported at beginning of year	5,605
Net OPEB obligation - end of year.....	<u>\$ 6,466</u>
Percentage of annual OPEB cost contribution.....	41.6%
<u>2015</u>	
Annual OPEB cost.....	\$ 1,410
Percentage of annual OPEB cost contributed.....	45.2%
Net OPEB obligation - end of year.....	\$ 5,605
<u>2014</u>	
Annual OPEB cost.....	\$ 1,293
Percentage of annual OPEB cost contributed.....	47.0%
Net OPEB obligation - end of year.....	\$ 4,832

*Includes approximately \$77 million in tobacco settlement revenues.

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll (1)	UAAL as a % of Covered Payroll (1)
Actuarial Valuation as of January 1, 2016...	\$ 760,400	\$ 17,082,900	\$ 16,322,500	4.5%	\$ 5,792,288	281.8%

(1) 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 multi-year 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 9.0%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024.

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/valuations.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 \$2.6 million) and are therefore, not included in these financial statements.

10. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY16, 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, 2016 (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		
2017	\$ 8,795	\$ 1,723	\$ 210,399	\$ 1,043	\$ 221,960	\$ 2,797	\$ 357	\$ 40,774	\$ 43,928
2018	8,333	1,632	144,715	1,068	155,748	1,868	302	38,358	40,528
2019	4,064	796	123,002	1,092	128,954	885	245	35,636	36,766
2020	3,221	631	90,390	1,117	95,359	863	213	31,833	32,909
2021	3,121	611	57,316	1,141	62,189	458	181	30,518	31,157
2022 - 2026	13,068	2,560	131,553	4,812	151,993	2,657	492	136,635	139,784
2027 - 2031	700	137	54,514	—	55,351	359	8	820	1,187
2032 - 2036	—	—	43,593	—	43,593	—	—	—	—
2037 - 2041	—	—	42,291	—	42,291	—	—	—	—
2042 - 2046	—	—	39,354	—	39,354	—	—	—	—
2047 - 2051	—	—	28,675	—	28,675	—	—	—	—
Total lease obligations	41,302	8,090	965,802	10,273	1,025,467	9,887	1,798	314,574	326,259
Less: current portion	(8,795)	(1,723)	(210,399)	(1,043)	(221,960)	(2,797)	(357)	(40,774)	(43,928)
Long - term lease obligations ...	<u>\$ 32,507</u>	<u>\$ 6,367</u>	<u>\$ 755,403</u>	<u>\$ 9,230</u>	<u>\$ 803,507</u>	<u>\$ 7,090</u>	<u>\$ 1,441</u>	<u>\$ 273,800</u>	<u>\$ 282,331</u>

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

Asset type:	Primary Government	
	Governmental Activities	Business - Type Activities
Buildings	\$ —	\$ 12,665
Machinery and equipment	57,503	12,674
Total assets	57,503	25,339
Less: accumulated depreciation	(16,125)	(13,921)
Total	<u>\$ 41,378</u>	<u>\$ 11,418</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, 2016 is estimated to be \$271 million of which approximately \$39 million is expected to be paid during FY17.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY16 and FY15 were (amounts in thousands):

	FY16	FY15
Claims liability, beginning of year.....	\$ 274,429	\$ 273,432
Increase in liability estimate	54,250	57,954
Payments and decreases in liability estimate	(57,959)	(56,957)
Claims liability, end of year.....	<u>\$ 270,720</u>	<u>\$ 274,429</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.

Changes in the Commonwealth's liability relating to group insurance claims in FY16 and FY15 were (amounts in thousands):

	FY16	FY15
Claims liability, beginning of year.....	\$ 107,949	\$ 97,021
Increase in liability estimate	1,630,534	1,657,017
Payments and decreases in liability estimate.....	(1,627,558)	(1,646,089)
Claims liability, end of year.....	<u>\$ 110,925</u>	<u>\$ 107,949</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 \$11 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 FY16 and FY15 (amounts in thousands):

	FY16	FY15
Unpaid claims, beginning of year.....	\$ 11,819	\$ 35,703
Incurred claims	16,269	—
Claim payments and reductions.....	(16,677)	(23,884)
Unpaid claims end of year.....	<u>\$ 11,411</u>	<u>\$ 11,819</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.....	\$ 207,979	\$ 11	\$ 207,990
Expected additional future outlays, changes in liability estimates.....	330,935	—	330,935
FY16 outlays for environmental remediation	(8,065)	(11)	(8,076)
Environmental remediation liability, end of year.....	<u>\$ 530,849</u>	<u>\$ —</u>	<u>\$ 530,849</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 that 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 \$25 million for COLAs granted to participants in retirement systems of cities, towns and counties were made during fiscal year 2016.

As of June 30, 2016, the Commonwealth's liability for COLA was approximately \$161 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 FY16 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, 2016, totaling approximately \$206 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. As of June 30, 2016, the University of Massachusetts Building Authority has approximately \$2.829 billion, of outstanding debt, of which approximately \$117 million is guaranteed by the Commonwealth.

B. TOBACCO SETTLEMENT

A Master Settlement Agreement (MSA) was executed in November of 1998 among 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 FY16, the Commonwealth received approximately \$258 million, or 69.6% of the estimated amounts shown in the MSA. During FY16, 30.0% of tobacco settlement payments, or approximately \$77 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. Per statute, the portion of the annual tobacco settlement payments dedicated to the SRBT is required to increase by 10.0% per year until it reaches 100% in FY23. While the fiscal 2012 legislation required that 40% of fiscal 2016 tobacco settlement proceeds be transferred to SRBT, the fiscal 2016 budget, as approved by the Governor, included provisions that temporarily changed the funding source for this transfer for fiscal 2016. 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 2016 tobacco settlement proceeds. SRBT amounts received in FY16 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, 2016, 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. OTHER CONSTRUCTION COMMITMENTS

At June 30, 2016, the Commonwealth had commitments of approximately \$716 million related to ongoing construction projects.

D. CONTRACTUAL ASSISTANCE TO AUTHORITIES

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

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

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

E. MSBA

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2016 to be \$4.8 million and \$1.0 billion, respectively.

F. 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 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. In June, 2016 the Commonwealth entered into a third contract to assist individuals in Adult Basic Education (ABE) or English for Speakers of Other Languages (ESOL) programs to 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 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, 2016 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.

G. PENSIONS

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) or practices may be in conflict with the exclusive benefit rule of Section 401(a)(2) of the Internal Revenue Code or other IRS requirements relating to the 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, the Public Employee Retirement Administration Commission (PERAC) and the Executive Office for Administration and Finance have each engaged outside tax counsel, who have provided opinions with respect to the aforementioned activities as they relate to the 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.

Management currently is in the process of evaluating outside counsels’ opinions and determining appropriate actions. Corrective actions, if necessary, could include amendments to MGL, prospective corrections, and/or retrospective corrections. If any corrections are required, they could include, but not be limited to, administrative changes or changes to the manner in which pension funding transfers are accounted for and carried out, or 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 corrective actions need to be taken in-whole or in-part for each of the aforementioned activities until further analysis is carried out by management and discussions with outside counsel and, potentially, with the IRS, are concluded.

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

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

The following entities are presented in the basic financial statements (all having a June 30, 2016 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)

Entities Audited by Other Auditors:

*The University of Massachusetts System
 *Community Colleges:
 Berkshire Community College
 Bristol Community College
 Bunker Hill 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

*State Universities:
 Bridgewater State University
 Fitchburg State University
 Framingham State University
 Massachusetts College of Art
 Massachusetts Maritime Academy
 Massachusetts College of Liberal Arts
 Salem State University
 Westfield State University

Worcester State University
The Massachusetts State College Building Authority

Massachusetts Convention Center Authority (MCCA)

Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Massachusetts Clean Energy Center (CEC)

Massachusetts Housing Partnership (MHP)

Economic Development Entities (5 separate entities) including:

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

Higher Education Foundations (25 separate entities) including:

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

Bridgewater State University Foundation:

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

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

Salem State University Foundation:

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

Westfield State University Foundation, Inc.
Worcester State Foundation
The University of Massachusetts System Foundation

14. SUBSEQUENT EVENTS

SUBSEQUENT BOND ISSUANCES

On July 7, 2016, the Commonwealth issued approximately \$728 million in General Obligation Refunding Bonds 2016, Series B. These bonds were issued to advance refund approximately \$791 million of various GO Bonds and carry interest rates from 2.0% to 5.0% with final maturity on July 1, 2038. The refunding resulted in reduced debt service of approximately \$133 million and a present value savings of approximately \$103 million over the life of the bonds.

On July 7, 2016, the Commonwealth issued \$250 million in GO Bonds, Consolidated Loan of 2016, Series F (Green Bonds). These bonds carry an interest rate of 3.277%. The first principal payment is due June 1, 2036 with final maturity on June 1, 2046.

On August 18, 2016, the Commonwealth issued approximately \$9 million in GO Bonds, Consolidated Loan of 2016A (College Opportunity Bonds). These bonds carry an interest rate of 0.50%. The first principal payment is due on August 1, 2021 with final maturity on August 1, 2036.

On August, 25, 2016, the MSBA used funds on hand to defease \$15 million of the 2009 Series A Dedicated Sales Tax Bonds outstanding.

On August 30, 2016, the Commonwealth issued \$1.5 billion in GO Revenue Anticipation Notes (RANs) in three \$500 million notes; 2016 Series A, 2016 Series B and 2016 Series C. These notes carry an interest rate of 2.00% and mature on April 24, 2017, May 22, 2017 and June 26, 2017, respectively.

On September 1, 2016, the Commonwealth issued approximately \$282 million in GO Refunding Bonds 2016, Series C. These bonds were issued to advance refund approximately \$300 million of various GO Bonds and carry an interest rate of 5.0% with final maturity on April 1, 2026. The refunding resulted in reduced debt service of approximately \$25 million and a present value savings of approximately \$22 million over the life of the bonds.

On September 1, 2016, the Commonwealth issued \$550 million in GO Bonds 2016, Series G. These bonds carry interest rates from 3.0% to 4.0%. The first principal payment is due September 1, 2031 with final maturity on September 1, 2046.

On October 10, 2016, the Commonwealth issued \$125 million in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2016 Series A. These bonds carry an interest rate of 5.0%. The first principal payment is due June 15, 2019 with final maturity on June 15, 2027.

On October 10, 2016, the Commonwealth issued approximately \$137 million in Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program and Accelerated Bridge Program) 2016 Series A. These bonds carry interest rates from 2.0% to 5.0%. The first principal payment is due June 1, 2018 with final maturity on June 1, 2041.

On October 10, 2016, the Commonwealth issued \$104 million in Commonwealth Transportation Fund Revenue Refunding Bonds 2016 Series A. These bonds were issued to advance refund various maturities of the 2012A and 2013A Bonds and carry interest rates from 2.0% to 5.0%. The first principal payment is due June 1, 2023 with final maturity on June 1, 2029.

On October 26, 2016, the MSBA issued \$405 million of Senior Dedicated Sales Tax Bonds (2016 Series B Bonds). The Bonds mature at various dates through November 2046 and interest is due semi-annually each May 15th and November 15th. The interest rate on the bonds ranges from 2% to 5%.

On October 26, 2016, the MSBA refunded \$216 million of 2007 Dedicated Sales Tax Bonds by issuing approximately \$189 million of Senior Sales Tax Refunding Bonds (2016 Series C Bonds). The Bonds mature on November 15, 2035 and the interest on the bonds is payable semi-annually on May 15th and November 15th. The coupons on the bonds

range from 4% to 5%. The refunding resulted in reduced debt service of \$45 million and a present value savings of \$31 million over the life of the debt.

On November 15, 2016, the Commonwealth issued \$200 million in Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program and Accelerated Bridge Program) 2016 Series B. These bonds carry an interest rate of 4.0% with the first principal payment due June 1, 2042 with final maturity on June 1, 2046.

On December 8, 2016, the Commonwealth issued \$600 million in three separate series of GO2016 bonds; Series H, I and J in the amounts of \$150 million each for Series H and I and \$300 million for Series J. These bonds carry interest rates of 5% for Series H and I and interest rates from 4.0% to 5.0% for Series J. The first principal maturity on these bonds is due December 1, 2022 with final maturity on December 1, 2045.

On January 4, 2017, the Commonwealth issued \$100 million in GO SIFMA 2017 Series A refunding bonds and approximately \$88 million in GO SIFMA 2017 Series B refunding bonds. These bonds were issued to refund, on a current basis, specific maturities of various GO Refunding (SIFMA Index) Bonds. The Series A bonds carry interest rates of the SIFMA interest rate plus 47 basis points and the Commonwealth will pay interest only starting on February 1, 2017 with principal maturity on February 1, 2019. The Series B bonds carry interest rates of the SIFMA interest rate plus 60 basis points and the Commonwealth will pay interest only starting on February 1, 2017 with principal maturity on February 1, 2020.

All debt issues were sold as tax exempt.

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/(Uses) for the
General Fund on a Budgetary Basis and GAAP Basis*

*Notes to Required Supplementary Information – Budgetary Reporting
Required OPEB and Pension Schedules*

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

General Fund

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 22,604,053	\$ 22,604,053	\$ 22,257,828	\$ (346,225)
Assessments.....	408,336	408,336	395,984	(12,352)
Federal grants and reimbursements.....	10,219,269	10,219,269	10,585,466	366,197
Tobacco settlement revenue.....	272,049	272,049	257,616	(14,433)
Departmental.....	2,485,457	2,485,327	2,907,604	422,277
Miscellaneous.....	304,340	304,340	378,568	74,228
Total revenues.....	36,293,504	36,293,374	36,783,066	489,692
Other financing sources:				
Fringe benefit cost recovery.....	290,509	290,509	365,659	75,150
Lottery reimbursements.....	100,604	100,604	107,935	7,331
Lottery distributions.....	920,542	920,542	975,254	54,712
Operating transfers in.....	359,261	359,261	280,653	(78,608)
Commonwealth care transfer.....	—	—	44,482	44,482
Stabilization transfer.....	—	—	27,100	27,100
Other fund deficit support.....	—	—	30,031	30,031
Total other financing sources.....	1,670,916	1,670,916	1,831,114	160,198
Total revenues and other financing sources.....	37,964,420	37,964,290	38,614,180	649,890
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	91,447	91,447	61,368	30,079
Judiciary.....	888,209	888,209	878,663	9,546
Inspector General.....	4,459	4,459	4,315	144
Governor and Lieutenant Governor.....	10,563	10,563	6,576	3,987
Secretary of the Commonwealth.....	40,561	40,561	39,322	1,239
Treasurer and Receiver-General.....	212,143	212,143	205,226	6,917
Auditor of the Commonwealth.....	18,356	18,356	18,354	2
Attorney General.....	45,544	45,544	44,265	1,279
Ethics Commission.....	2,069	2,069	2,034	35
District Attorney.....	119,259	119,259	114,084	5,175
Office of Campaign & Political Finance.....	1,536	1,536	1,516	20
Sheriff's Departments.....	605,053	605,053	603,220	1,833
Disabled Persons Protection Commission.....	2,943	2,943	2,943	—
Board of Library Commissioners.....	25,333	25,333	25,333	—
Comptroller.....	14,538	14,538	13,911	627
Administration and finance.....	2,675,565	2,675,565	2,299,116	376,449
Energy and environmental affairs.....	219,909	219,909	205,154	14,755
Health and human services.....	5,631,564	5,631,564	5,480,656	150,908
Office of the Child Advocate.....	790	790	595	195
Executive office of education.....	2,327,102	2,327,102	2,281,320	45,782
Center for Health Information and Analysis.....	32,563	32,563	26,625	5,938
Public safety and homeland security.....	1,156,024	1,156,024	1,121,829	34,195
Housing and economic development.....	563,397	563,460	513,720	49,740
Labor and workforce development.....	78,004	78,004	45,082	32,922
Direct local aid.....	5,465,696	5,465,696	5,462,705	2,991
Medicaid.....	14,851,052	14,851,052	14,851,007	45
Post employment benefits.....	2,426,093	2,426,093	2,461,159	(35,066)
Debt service:				
Principal retirement.....	604,335	604,335	574,673	29,662
Interest and fiscal charges.....	447,027	447,027	424,579	22,448
Total expenditures.....	38,561,134	38,561,197	37,769,350	791,847
Other financing uses:				
Operating transfers out.....	115,653	115,653	54,293	61,360
Medical assistance transfer.....	1,027,500	1,027,500	665,564	361,936
Delivery system transformation initiatives trust transfer.....	189,142	189,142	186,907	2,235
Total other financing uses.....	1,332,295	1,332,295	906,764	425,531
Total expenditures and other financing uses.....	39,893,429	39,893,492	38,676,177	1,217,378
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(1,929,009)	(1,929,202)	(61,997)	1,867,205
Fund balances (deficit) at beginning of year.....	1,462,776	1,462,776	1,462,776	—
Fund balances (deficits) at end of year.....	<u>\$ (466,233)</u>	<u>\$ (466,426)</u>	<u>\$ 1,400,842</u>	<u>\$ 1,867,205</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):**

	General
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 36,783,066
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax receivable, net.....	(6,372)
Tax refunds and abatements payable, net.....	(50,746)
Federal reimbursements and other receivables	86,549
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(205,284)
Inflows from component units and other miscellaneous financing sources.....	83,179
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	\$ 36,690,392
OTHER FINANCING SOURCES	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	\$ 1,831,114
Adjustments:	
Higher education revenue is reclassified for GAAP reporting.....	(11)
Proceeds of capital lease on GAAP basis.....	30,706
Consolidation of transfers between funds	(8,721)
Inflows from component units and other miscellaneous financing sources.....	(83,162)
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 1,769,926
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 37,769,350
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	129,900
Compensated absences and other accrued liabilities.....	1,920
Reclassifications:	
Capital lease additions are additions to expenditures for GAAP purposes on a fund perspective.....	30,706
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.....	(999,252)
Reversal of prior year budget to GAAP adjustment.....	25,087
Higher education expenditures are reclassified for GAAP reporting.....	(1,406,627)
Expenditures to component units reported on a GAAP basis	(20,311)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 35,530,773
OTHER FINANCING USES	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	\$ 906,764
Adjustments and Reclassifications:	
Consolidation of transfers between funds	(8,721)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis	1,201,332
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.....	999,252
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 3,098,627

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 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	38,146,700	39,155,877
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	—	913,210
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.....	\$ 40,214,742	\$ 42,110,092

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, 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%

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
2016.....	\$ 1,418,000	43.3%
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%

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)

	2016	2015	2014
Total pension liability, July 1.....	\$ 35,425,414	\$ 31,355,000	\$ 29,988,000
Service cost.....	813,975	700,012	631,634
Interest.....	2,638,929	2,411,551	2,405,204
Change in benefit terms.....	400,000	230,302	—
Differences between expected and actual experience.....	589,009	275,000	—
Changes of assumptions.....	—	2,330,000	102,000
Benefit payments, including refunds of member contributions.....	(2,107,327)	(1,876,451)	(1,771,838)
Net change in total pension liability.....	2,334,586	4,070,414	1,367,000
Total pension liability, June 30 (a).....	<u>\$ 37,760,000</u>	<u>\$ 35,425,414</u>	<u>\$ 31,355,000</u>
Plan fiduciary net position, July 1.....	\$ 24,042,585	\$ 23,930,895	\$ 21,084,958
Contributions:			
Employers - Commonwealth and MassDOT.....	660,818	601,931	550,483
Non-employer contributions - Commonwealth.....	21,830	18,040	21,293
Employer and non-employer contributions - other.....	16,642	15,808	6,048
ERIP funding contribution - Commonwealth.....	29,093	—	—
Plan members.....	591,948	549,493	501,106
Other additions.....	397,077	92,503	68,967
Total contributions.....	1,717,408	1,277,775	1,147,897
Net investment income.....	422,938	800,886	3,551,012
Benefit payments, including refunds of plan member contributions.....	(2,107,327)	(1,876,451)	(1,771,838)
Administrative expense.....	(20,624)	(15,966)	(12,705)
Other changes.....	(83,824)	(74,554)	(68,429)
Net change in plan fiduciary net position.....	(71,429)	111,690	2,845,937
Plan fiduciary net position, June 30 (b).....	<u>\$ 23,971,156</u>	<u>\$ 24,042,585</u>	<u>\$ 23,930,895</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 13,788,844</u>	<u>\$ 11,382,829</u>	<u>\$ 7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability.....	63.5%	67.9%	76.3%
Covered employee payroll (as of the actuarial valuation date).....	\$ 5,792,288	\$ 5,591,911	\$ 5,344,510
Net pension liability as a percentage of covered employee payroll.....	238.1%	203.6%	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available. Certain amounts for FY15 were reclassified to conform to current year presentation.

See Independent Auditor's Report and notes to the schedule

NOTES TO THE SERS SCHEDULE

FY2016 Changes in Actuarial Assumptions

Changes in Benefit Terms:

Chapter 176 of the Acts of 2011 created a one time election for eligible members of the Optional Retirement Plan (ORP) to transfer to the State Employee's Retirement System (SERS) and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS has increased by approximately \$400 million as of June 30, 2016.

FY2015 Changes in Actuarial Assumptions

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

Subsequent to the issuance of the Commonwealth's 2015 CAFR, the Commonwealth revised its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the Schedule of Changes in the Massachusetts State Employees' Retirement System Net Pension Liability and Related Ratios as contained in the required supplemental section of the Commonwealth's 2015 CAFR. This change resulted in an increase of approximately \$933 million which affected the net pension liability as of and for the fiscal year ending June 30, 2015.

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)

	2016	2015	2014
Total pension liability, July 1.....	\$ 45,918,711	\$ 41,435,000	\$ 39,931,000
Service cost.....	843,800	768,032	720,712
Interest.....	3,402,525	3,166,728	3,227,025
Differences between expected and actual experience.....	(74,025)	153,000	—
Changes of assumptions.....	—	3,080,000	108,000
Benefit payments, including refunds of member contributions.....	(2,791,011)	(2,684,049)	(2,551,737)
Net change in total pension liability.....	1,381,289	4,483,711	1,504,000
Total pension liability, June 30 (a).....	<u>\$ 47,300,000</u>	<u>\$ 45,918,711</u>	<u>\$ 41,435,000</u>
Plan fiduciary net position, July 1.....	\$ 25,429,068	\$ 25,538,646	\$ 22,697,302
Contributions:			
Non-employer.....	1,124,583	1,021,930	937,379
Plan members.....	699,422	669,941	653,328
Other additions.....	202,796	190,925	150,522
Total contributions.....	2,026,801	1,882,796	1,741,229
Net investment income.....	441,363	845,503	3,771,883
Benefit payments, including refunds of plan member contributions.....	(2,791,011)	(2,684,049)	(2,551,737)
Administrative expense.....	(24,220)	(23,444)	(20,499)
Other changes.....	(139,929)	(130,384)	(99,532)
Net change in plan fiduciary net position.....	(486,996)	(109,578)	2,841,344
Plan fiduciary net position, June 30 (b).....	<u>\$ 24,942,072</u>	<u>\$ 25,429,068</u>	<u>\$ 25,538,646</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 22,357,928</u>	<u>\$ 20,489,643</u>	<u>\$ 15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability.....	52.7%	55.4%	61.6%
Covered employee payroll (as of actuarial valuation date).....	\$ 6,388,732	\$ 6,204,274	\$ 5,962,650
Net pension liability as a percentage of covered employee payroll.....	350.0%	330.3%	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

FY2015 Changes in Actuarial Assumptions

Changes of assumptions:

Change in the investment rate of return

Subsequent to the issuance of the Commonwealth's 2015 CAFR, the Commonwealth revised its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the Schedule of Changes in the Massachusetts Teachers' Retirement System Net Pension Liability and Related Ratios as contained in the required supplemental section of the Commonwealth's 2015 CAFR. This change resulted in an increase of approximately \$1.190 billion which affected the net pension liability as of and for the fiscal year ending June 30, 2015.

Change in mortality

The following mortality assumption changes were made in the January 1, 2015 Actuarial Valuation for MTRS:

- 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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense - SERS.....	1.79%	3.40%	17.13%
Annual money-weighted rate of return, net of investment expense - MTRS	1.78%	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)

Proportionate Share of the Net Pension Liability	2016 (measurement date June 30, 2015)	2015 (measurement date June 30, 2014)
Proportion of the net pension liability	93.8%	93.9%
Proportionate share of the net pension liability	\$ 10,682,765	\$ 6,972,443
Plan net position as a percentage of the total pension liability	67.9%	76.3%
Covered payroll	\$ 5,136,405	\$ 4,975,346
Net pension liability as a percentage of covered payroll	208.0%	140.1%

	Fiscal Year Ending June 30		
	2016	2015	2014
Contributions			
Statutorily required contribution.....	\$ 682,648	\$ 619,971	\$ 571,776
Contributions in relation to the statutorily required contribution ..	682,648	619,971	571,776
Annual contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll.....	\$ 5,559,624	\$ 5,136,405	\$ 4,975,346
Contributions as a percentage of covered payroll.....	12.3%	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)

Proportionate Share of the Net Pension Liability	2016 (measurement date June 30, 2015)	2015 (measurement date June 30, 2014)
Proportion of the net pension liability	100.0%	100.0%
Proportionate share of the net pension liability	\$ 20,489,643	\$ 15,896,354
Plan net position as a percentage of the total pension liability	55.4%	61.6%

	Fiscal Year Ending June 30		
	2016	2015	2014
Contributions			
Statutorily required contribution.....	\$ 1,124,583	\$ 1,021,930	\$ 937,379
Contributions in relation to the statutorily required contribution ..	1,124,583	1,021,930	937,379
Annual contribution deficiency/(excess)	<u>\$ —</u>	<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

Boston Retirement System - Teachers

Last 10 Years
(amounts in thousands)

Proportionate Share of the Net Pension Liability	2016	2015
	(measurement date December 31, 2015)	(measurement date December 31, 2014)
Proportion of the net pension liability	54.5%	53.7%
Proportionate share of the net pension liability	\$ 2,402,267	\$ 2,066,546
Plan net position as a percentage of the total pension liability	55.8%	59.6%

Contributions	Fiscal Year Ending December 31		
	2015	2014	2013
Statutorily required contribution	\$ 120,434	\$ 109,485	\$ 99,532
Contributions in relation to the statutorily required contribution ..	120,434	109,485	99,532
Annual contribution deficiency/(excess).....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Boston Retirement System (BRS) is included in the City of Boston's CAFR. The Boston Teachers' portion of the BRS 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**

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.

BRS-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.
	Similar formula used for negative adjustment toward market value if actuarial value exceeds 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	7.50% 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
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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, 2016

(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Massachusetts Tourism	Gaming Control
ASSETS							
Cash and cash equivalents	\$ —	\$ 10,975	\$ 294,466	\$ 19,394	\$ 57,757	\$ 1,385	\$ 6,735
Restricted cash with fiscal agent	16,690	—	—	—	—	—	—
Receivables, net of allowance for uncollectibles:							
Taxes	67,425	—	10,309	88	—	6,228	—
Due from federal government	—	250,066	—	—	—	—	—
Loans receivable	—	—	—	—	—	—	—
Other receivables	108	—	88,409	282	—	—	1,945
Due from other funds	—	—	—	—	—	—	—
Due from component unit	15,583	—	—	—	—	—	—
Total assets	\$ 99,806	\$ 261,041	\$ 393,184	\$ 19,764	\$ 57,757	\$ 7,613	\$ 8,680
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 475	\$ 233,687	\$ 12,300	\$ 1,928	\$ 27	\$ 1,359	\$ 3,100
Accrued payroll	—	4,238	127	165	12	26	107
Compensated absences	—	—	—	—	—	9	—
Tax refunds and abatements payable	10	—	91	—	—	33	—
Due to other funds	15,108	—	—	—	—	—	—
Due to component units	10,336	—	6,669	—	—	—	—
Other accrued liabilities	—	—	60,437	—	—	—	—
Total liabilities	25,929	237,925	79,624	2,093	39	1,427	3,207
Deferred inflows of resources	—	—	22,264	—	—	—	—
Total liabilities and deferred inflows of resources	25,929	237,925	101,888	2,093	39	1,427	3,207
Fund balances:							
Nonspendable	—	—	—	—	—	—	—
Restricted	16,690	23,116	—	—	57,718	—	—
Committed	57,187	—	291,296	17,671	—	6,186	5,473
Assigned	—	—	—	—	—	—	—
Unassigned (deficits)	—	—	—	—	—	—	—
Fund balances (deficits)	73,877	23,116	291,296	17,671	57,718	6,186	5,473
Total liabilities and fund balances	\$ 99,806	\$ 261,041	\$ 393,184	\$ 19,764	\$ 57,757	\$ 7,613	\$ 8,680

See Independent Auditor's Report

Special Revenue

Gaming Revenue	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Health Information Technology Trust	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement
\$ 2	\$ 86,381	\$ 21,667	\$ 7,631	\$ 4,987	\$ 135,605	\$ —	\$ 29,344	\$ 36,713	\$ 18,264
—	—	—	—	—	—	—	—	—	—
—	61,096	—	—	—	—	—	—	6,245	—
—	—	—	782	—	—	866	—	—	2,209
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	439	3,770
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
\$ 2	\$ 147,477	\$ 21,667	\$ 8,413	\$ 4,987	\$ 135,605	\$ 866	\$ 29,344	\$ 43,397	\$ 24,243
\$ 2	\$ 60,592	\$ 26,724	\$ 766	\$ 79	\$ 12,200	\$ 1,989	\$ 2,617	\$ 96	\$ 2,563
—	—	—	4	116	51	72	23	4	182
—	—	—	—	—	—	—	—	—	—
—	868	—	—	—	—	—	—	61	—
—	—	—	—	—	—	2,767	—	—	—
—	86,017	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
2	147,477	26,724	770	195	12,251	4,828	2,640	161	2,745
—	—	—	—	—	—	—	—	—	—
2	147,477	26,724	770	195	12,251	4,828	2,640	161	2,745
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	21,498
—	—	—	7,643	4,792	123,354	(3,962)	26,704	43,236	—
—	—	—	—	—	—	—	—	—	—
—	—	(5,057)	—	—	—	—	—	—	—
—	—	(5,057)	7,643	4,792	123,354	(3,962)	26,704	43,236	21,498
\$ 2	\$ 147,477	\$ 21,667	\$ 8,413	\$ 4,987	\$ 135,605	\$ 866	\$ 29,344	\$ 43,397	\$ 24,243

continued

Combining Balance Sheet

Other Governmental Funds

June 30, 2016

(Amounts in thousands)

	<u>Special Revenue</u>						
	Department of Industrial Accidents	Convention and Exhibition Center	Grant Anticipation Note Trust	Debt Defeasance Trust	Expendable Trust	Other	Debt Service
ASSETS							
Cash and cash equivalents	\$ 7,127	\$ 2,759	\$ 2,974	\$ —	\$ 682,697	\$ 119,859	\$ 8,462
Restricted cash with fiscal agent	—	100,821	83,634	—	—	—	12,185
Receivables, net of allowance for uncollectibles:							
Taxes	—	16,353	—	—	—	—	—
Due from federal government	—	—	87,791	—	2,285	—	—
Loans receivable	—	—	—	—	914	6,996	—
Other receivables	5,393	—	—	—	4,570	50	—
Due from other funds	—	—	—	—	—	—	—
Due from component unit	—	—	—	—	—	—	—
Total assets	\$ 12,520	\$ 119,933	\$ 174,399	\$ —	\$ 690,466	\$ 126,905	\$ 20,647
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 45	\$ 14,753	\$ —	\$ —	\$ 42,521	\$ 11,249	\$ —
Accrued payroll	—	—	—	—	2,649	357	—
Compensated absences	—	—	—	—	—	—	—
Tax refunds and abatements payable	—	1	—	—	—	—	—
Due to other funds	—	—	87,791	—	—	—	—
Due to component units	—	—	—	—	—	—	—
Other accrued liabilities	—	—	—	—	—	—	—
Total liabilities	45	14,754	87,791	—	45,170	11,606	—
Deferred inflows of resources	—	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	45	14,754	87,791	—	45,170	11,606	—
Fund balances:							
Nonspendable	—	—	—	—	914	6,996	—
Restricted	—	—	86,608	—	219,144	—	20,647
Committed	12,475	105,179	—	—	278,969	143,336	—
Assigned	—	—	—	—	146,269	—	—
Unassigned (deficits)	—	—	—	—	—	(35,033)	—
Fund balances (deficits)	12,475	105,179	86,608	—	645,296	115,299	20,647
Total liabilities and fund balances	\$ 12,520	\$ 119,933	\$ 174,399	\$ —	\$ 690,466	\$ 126,905	\$ 20,647

See Independent Auditor's Report

Capital Projects

General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ 144,602	\$ 8,393	—	\$ —	\$ 47	\$ 1,708,226
—	—	—	—	—	213,330
—	—	—	—	—	167,744
1,261	—	—	—	—	345,260
—	—	—	—	—	7,910
—	—	—	22	—	104,988
—	—	—	87,791	—	87,791
—	—	—	—	—	15,583
\$ 145,863	\$ 8,393	\$ —	\$ 87,813	\$ 47	\$ 2,650,832
\$ 343,770	\$ —	\$ —	\$ —	\$ 36	\$ 772,878
928	—	—	—	—	9,061
—	—	—	—	—	9
—	—	—	—	—	1,064
—	—	546	850	—	107,062
14,053	—	274,886	103,682	—	495,643
—	—	—	—	—	60,437
358,751	—	275,432	104,532	36	1,446,154
—	—	—	—	—	22,264
358,751	—	275,432	104,532	36	1,468,418
—	—	—	—	—	7,910
—	—	—	—	11	445,432
—	8,393	—	—	—	1,127,932
—	—	—	—	—	146,269
(212,888)	—	(275,432)	(16,719)	—	(545,129)
(212,888)	8,393	(275,432)	(16,719)	11	1,182,414
\$ 145,863	\$ 8,393	\$ —	\$ 87,813	\$ 47	\$ 2,650,832

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds
Fiscal Year Ended June 30, 2016
(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Massachusetts Tourism	Gaming Control
REVENUES							
Taxes	\$ 1,303,227	\$ —	\$ 145,687	\$ 1,004	\$ —	\$ 57,105	\$ —
Assessments	23,151	—	423,430	—	—	—	—
Federal grants and reimbursements	—	3,656,320	22,427	6,815	48,430	—	—
Departmental	661,268	—	411,427	9,360	—	—	24,359
Miscellaneous	7,371	—	494	67	—	—	—
Total revenues	1,995,017	3,656,320	1,003,465	17,246	48,430	57,105	24,359
OTHER FINANCING SOURCES							
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	—	—	889,857	190	—	—	—
Total other financing sources	—	—	889,857	190	—	—	—
Total revenues and other financing sources	1,995,017	3,656,320	1,893,322	17,436	48,430	57,105	24,359
EXPENDITURES							
Current:							
Judiciary	—	1,928	—	—	1	—	—
Inspector General	—	—	264	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	27	—
Secretary of the Commonwealth	—	901	—	—	—	—	—
Treasurer and Receiver-General	—	1,121	—	—	—	—	78
Auditor of the Commonwealth	—	—	—	—	—	—	—
Attorney General	—	16,707	—	—	—	—	976
District Attorney	—	1,868	—	—	3	—	—
Sheriff's Departments	—	3,605	—	—	—	—	—
Disabled Person Protection Commission	—	66	—	—	—	—	—
Board of Library Commissioners	—	2,915	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	—	22,541
Comptroller	—	—	—	—	—	—	—
Administration and Finance	125,000	5,447	25,345	105	—	—	—
Energy and Environmental Affairs	—	52,160	—	17,696	—	—	—
Health and Human Services	—	1,729,515	59,428	—	24,772	—	157
Massachusetts Department of Transportation	578,459	87	—	—	—	20	—
Executive Office of Education	—	1,006,155	—	—	—	—	—
Center for Health and Information Analysis	—	69	119	—	—	—	—
Public Safety and Homeland Security	—	144,382	—	—	—	—	19
Housing and Economic Development	—	464,600	—	—	80	22,384	—
Labor and Workforce development	—	138,503	—	—	—	—	—
Medicaid	—	—	1,687,131	—	2,322	—	—
Post employment benefits	42,218	—	—	—	—	—	—
Direct local aid	—	—	—	—	—	—	—
Capital outlay:							
Local aid	—	—	—	—	—	—	—
Capital acquisition and construction	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Principal on current refundings	—	—	—	—	—	—	—
Total expenditures	745,677	3,570,029	1,772,287	17,801	27,178	22,431	23,771
OTHER FINANCING USES							
Payments to refunding bond escrow agent	—	—	—	—	—	—	—
Transfers out	68,858	98,403	83,744	2,868	26,482	36,022	3,516
Transfers of appropriations	—	—	—	—	—	—	—
Transfers of bond proceeds	—	—	—	—	—	—	—
Transfers out for debt service	1,175,054	—	—	—	—	—	—
Total other financing uses	1,243,912	98,403	83,744	2,868	26,482	36,022	3,516
Total expenditures and other financing uses	1,989,589	3,668,432	1,856,031	20,669	53,660	58,453	27,287
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	5,428	(12,112)	37,291	(3,233)	(5,230)	(1,348)	(2,928)
Fund balances (deficits) at beginning of year	68,449	35,228	254,005	20,904	62,948	7,534	8,401
Fund balances (deficits) at end of year	\$ 73,877	\$ 23,116	\$ 291,296	\$ 17,671	\$ 57,718	\$ 6,186	\$ 5,473

See Independent Auditor's Report

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds
Fiscal Year Ended June 30, 2016
(Amounts in thousands)

	Special Revenue						
	Department of Industrial Accidents	Convention and Exhibition Center	Grant Anticipation Note Trust	Debt Defeasance Trust	Expendable Trust	Other	Debt Service
REVENUES							
Taxes	\$ —	\$ 135,664	\$ —	\$ —	\$ —	\$ 1,508	\$ —
Assessments	21,701	—	—	—	51,329	24,784	—
Federal grants and reimbursements	—	—	545,369	—	27,044	1,436	46,871
Departmental	2,252	—	—	—	49,936	64,525	—
Miscellaneous	11	194	177	94	508,609	19,670	—
Total revenues	23,964	135,858	545,546	94	636,918	111,923	46,871
OTHER FINANCING SOURCES							
Bonds premium	—	—	—	—	—	—	214,921
Issuance of general and special obligation bonds	—	—	—	—	—	—	—
Issuance of current refunding bonds	—	—	—	—	—	—	250,000
Issuance of advance refunding bonds	—	—	—	—	—	—	1,212,655
Transfers in for debt service	—	—	—	—	—	—	2,423,292
Transfers in	—	—	31,582	—	23,761	127,335	—
Total other financing sources	—	—	31,582	—	23,761	127,335	4,100,868
Total revenues and other financing sources	23,964	135,858	577,128	94	660,679	239,258	4,147,739
EXPENDITURES							
Current:							
Judiciary	—	—	—	—	224	351	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	5	3,924	—
Treasurer and Receiver-General	—	—	—	—	104,512	20	3,546
Auditor of the Commonwealth	—	—	—	—	149	—	—
Attorney General	—	—	—	—	4,887	548	—
District Attorney	—	—	—	—	7,551	249	—
Sheriff's Departments	—	—	—	—	4,802	578	—
Disabled Person Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	11,150	—
Comptroller	—	—	—	—	412	2,381	—
Administration and Finance	—	50,024	—	—	27,369	2,883	—
Energy and Environmental Affairs	—	—	—	—	52,347	30,181	—
Health and Human Services	—	—	—	—	127,249	21,896	—
Massachusetts Department of Transportation	—	—	—	—	81	—	—
Executive Office of Education	—	—	—	—	11,853	1,342	—
Center for Health and Information Analysis	—	—	—	—	365	—	—
Public Safety and Homeland Security	—	—	—	—	9,603	7,562	—
Housing and Economic Development	—	—	—	—	24,911	14,480	—
Labor and Workforce development	962	—	—	—	70,437	5,756	—
Medicaid	—	—	—	—	—	—	—
Post employment benefits	—	—	—	—	—	—	—
Direct local aid	—	—	—	—	—	105,033	—
Capital outlay:							
Local aid	—	—	—	—	—	—	—
Capital acquisition and construction	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	2,470,117
Principal on current refundings	—	—	—	—	—	—	250,000
Total expenditures	962	50,024	—	—	446,757	208,334	2,723,663
OTHER FINANCING USES							
Payments to refunding bond escrow agent	—	—	—	—	—	—	1,424,030
Transfers out	22,927	60,000	500,929	94	153,068	14,305	—
Transfers of appropriations	—	—	—	—	1,316	—	—
Transfers of bond proceeds	—	—	—	—	—	—	—
Transfers out for debt service	—	54,511	76,049	113,200	—	5,226	—
Total other financing uses	22,927	114,511	576,978	113,294	154,384	19,531	1,424,030
Total expenditures and other financing uses	23,889	164,535	576,978	113,294	601,141	227,865	4,147,693
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	75	(28,677)	150	(113,200)	59,538	11,393	46
Fund balances (deficits) at beginning of year	12,400	133,856	86,458	113,200	585,758	103,906	20,601
Fund balances (deficits) at end of year	\$ 12,475	\$ 105,179	\$ 86,608	\$ —	\$ 645,296	\$ 115,299	\$ 20,647

See Independent Auditor's Report

Capital Projects					
General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,745,716
—	—	—	—	—	707,253
76,898	—	—	8,861	—	4,555,556
—	—	—	2,924	—	1,436,112
—	—	1,198	—	—	538,535
76,898	—	1,198	11,785	—	9,983,172
133,896	—	119,212	—	—	468,029
1,496,631	—	1,259,343	—	3,235	2,759,209
—	—	—	—	—	250,000
—	—	—	—	—	1,212,655
—	—	—	—	—	2,423,292
—	—	—	594,664	—	1,685,542
1,630,527	—	1,378,555	594,664	3,235	8,798,727
1,707,425	—	1,379,753	606,449	3,235	18,781,899
—	—	—	—	—	2,504
—	—	—	—	—	264
—	—	—	—	—	27
—	—	—	—	—	4,830
5,243	—	4,315	—	—	1,269,989
—	—	—	—	—	149
—	—	—	—	—	23,118
—	—	—	—	—	9,892
—	—	—	—	—	13,108
—	—	—	—	—	66
—	—	—	—	—	2,915
—	—	—	—	—	33,691
—	—	—	—	—	2,793
—	—	—	—	—	323,575
—	—	—	—	—	229,831
—	—	—	—	—	1,976,878
142,201	—	1,283,826	590,822	—	2,595,496
—	—	—	—	—	1,019,350
—	—	—	—	—	553
—	—	—	—	—	241,781
—	—	—	—	—	535,064
—	—	—	—	—	234,656
—	—	—	—	—	1,758,678
—	—	—	—	—	42,218
—	—	—	—	—	105,033
—	—	—	—	1,383	1,383
1,132,915	—	27,396	628	1,344	1,162,283
—	—	—	—	—	2,470,117
—	—	—	—	—	250,000
1,280,359	—	1,315,537	591,450	2,727	14,310,242
—	—	—	—	—	1,424,030
13,454	—	93,736	20	—	1,254,060
—	—	—	—	—	1,316
223,935	—	—	—	—	223,935
—	—	—	—	—	1,424,040
237,389	—	93,736	20	—	4,327,381
1,517,748	—	1,409,273	591,470	2,727	18,637,623
189,677	—	(29,520)	14,979	508	144,276
(402,565)	8,393	(245,912)	(31,698)	(497)	1,038,138
\$ (212,888)	\$ 8,393	\$ (275,432)	\$ (16,719)	\$ 11	\$ 1,182,414

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, 2016

(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ 1,301,426	\$ 1,301,426	\$ 1,301,318	\$ (108)	\$ 1,000	\$ 1,000	\$ 1,001	\$ 1
Assessments	23,153	23,153	23,398	245	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	5,800	5,800	8,824	3,024
Departmental	639,369	639,499	661,268	21,769	8,763	8,763	9,289	526
Miscellaneous.....	707	707	7,371	6,664	34	34	66	32
Total revenues.....	1,964,655	1,964,785	1,993,355	28,570	15,597	15,597	19,180	3,583
Other financing sources:								
Operating transfers in.....	96,000	96,000	—	(96,000)	170	170	190	20
Other fund deficit support.....	—	—	—	—	—	—	—	—
Total other financing sources.....	96,000	96,000	—	(96,000)	170	170	190	20
Total revenues and other financing sources.....	2,060,655	2,060,785	1,993,355	(67,430)	15,767	15,767	19,370	3,603
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary	—	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	203,891	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—	—
Administration and Finance	—	—	—	—	119	119	105	14
Energy and Environmental Affairs.....	—	—	—	—	18,477	18,476	17,696	781
Health and human services.....	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	187,000	187,000	171,417	15,583	—	—	—	—
Housing and Economic Development.....	—	—	—	—	—	—	—	—
Direct local aid.....	—	—	—	—	—	—	—	—
Post employment benefits	—	—	42,218	(42,218)	—	—	—	—
Debt service:								
Principal retirement	—	752,814	713,596	39,218	—	—	—	—
Interest and fiscal charges.....	—	483,116	461,458	21,658	—	—	—	—
Total expenditures.....	390,891	1,422,930	1,388,689	34,241	18,596	18,595	17,801	795
Other financing uses:								
Fringe benefit cost assessment.....	—	—	—	—	—	—	2,868	(2,868)
Operating transfers out.....	433,021	588,266	566,790	21,476	—	—	—	—
Other fund deficit support.....	—	—	35,089	(35,089)	—	—	—	—
Total other financing uses.....	433,021	588,266	601,879	(13,613)	—	—	2,868	(2,868)
Total expenditures and other financing uses.....	823,912	2,011,196	1,990,568	20,628	18,596	18,595	20,669	(2,073)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	1,236,743	49,589	2,787	(46,802)	(2,829)	(2,828)	(1,299)	1,529
Fund balances/(deficit) at beginning of year	13,903	13,903	13,903	—	18,600	18,600	18,600	—
Fund balances/(deficit) at end of year	\$ 1,250,646	\$ 63,492	\$ 16,690	\$ (46,802)	\$ 15,771	\$ 15,772	\$ 17,301	\$ 1,529

See Independent Auditor's Report

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, 2016

(Amounts in thousands)

	Gaming Local Aid Fund				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ 1,336,326	\$ 1,336,326	\$ 1,359,091	\$ 22,765
Assessments.....	—	—	—	—	23,153	23,153	23,398	245
Federal grants and reimbursements.....	—	—	—	—	5,800	40,800	57,254	16,454
Departmental.....	—	—	—	—	648,132	648,262	671,865	23,603
Miscellaneous.....	—	—	—	—	741	741	7,437	6,696
Total revenues.....	—	—	—	—	2,014,152	2,049,282	2,119,045	69,763
Other financing sources:								
Operating transfers in.....	105,000	105,000	64,356	(40,644)	201,170	201,170	64,546	(136,624)
Other fund deficit support.....	—	—	40,677	40,677	—	—	40,677	40,677
Total other financing sources.....	105,000	105,000	105,033	33	201,170	201,170	105,223	(95,947)
Total revenues and other financing sources.....	105,000	105,000	105,033	33	2,215,322	2,250,452	2,224,268	(26,184)
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Judiciary.....	—	—	—	—	—	2	2	—
Governor and Lieutenant Governor.....	—	—	—	—	27	27	27	—
Treasurer and Receiver-General.....	—	—	—	—	203,891	—	—	—
District Attorney.....	—	—	—	—	—	2	2	—
Administration and Finance.....	—	—	—	—	119	119	105	14
Energy and Environmental Affairs.....	—	—	—	—	18,477	18,476	17,696	781
Health and human services.....	—	—	—	—	—	56,523	49,859	6,664
Massachusetts Department of Transportation.....	—	—	—	—	187,020	187,020	171,437	15,583
Housing and Economic Development.....	—	—	—	—	25,114	25,201	22,464	2,737
Direct Local Aid.....	—	105,034	105,033	1	—	105,034	105,033	1
Post employment benefits.....	—	—	—	—	—	—	42,218	(42,218)
Debt service:								
Principal retirement.....	—	—	—	—	—	752,814	713,596	39,218
Interest and fiscal charges.....	—	—	—	—	—	483,116	461,458	21,658
Total expenditures.....	—	105,034	105,033	1	434,648	1,628,334	1,583,897	44,438
Other financing uses:								
Fringe benefit cost assessment.....	—	—	—	—	—	—	4,484	(4,484)
Operating transfers out.....	—	—	—	—	433,021	588,266	591,877	(3,611)
Other fund deficit support.....	—	—	—	—	—	—	70,707	(70,707)
Total other financing uses.....	—	—	—	—	433,021	588,266	667,068	(78,802)
Total expenditures and other financing uses.....	—	105,034	105,033	1	867,669	2,216,600	2,250,965	(34,364)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	105,000	(34)	—	34	1,347,653	33,852	(26,697)	(60,549)
Fund balances/(deficit) at beginning of year.....	—	—	—	—	107,799	107,799	107,799	—
Fund balances/(deficit) at end of year.....	\$ 105,000	\$ (34)	\$ —	\$ 34	\$ 1,455,452	\$ 141,651	\$ 81,102	\$ (60,549)



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Combining Budget to GAAP Reconciliation
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Community First Trust Fund
Total actual revenues - budgetary basis (pages 156-158).....	\$ 1,993,355	\$ 19,180	\$ 48,430
Adjustments:			
Taxes receivable, net	1,919	3	—
Tax refunds and abatements payable, net.....	(10)	—	—
Federal grants receivables, net	—	(2,008)	—
Departmental and other receivables, net	(247)	71	—
Total actual revenues - GAAP basis (pages 152-155).....	<u>\$ 1,995,017</u>	<u>\$ 17,246</u>	<u>\$ 48,430</u>
Total actual other financing sources - budgetary basis (pages 156-158).....	\$ —	\$ 190	\$ —
Adjustments:			
MassDOT transfers in is reclassified to revenues	—	—	—
Total actual other financing sources - GAAP basis (pages 152-155).....	<u>\$ —</u>	<u>\$ 190</u>	<u>\$ —</u>
Total actual expenditures- budgetary basis (pages 156-158).....	\$ 1,388,689	\$ 17,801	\$ 49,943
Adjustment:			
Due to component units accrual, net	(979)	—	—
Reclassification:			
MassDOT transfers out is reclassified to expenditures	533,021	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund	(1,175,054)	—	—
Nonbudgeted fund included on a GAAP basis.....	—	—	2,322
Reversal of prior year expenditures on a GAAP basis	—	—	(25,087)
Total actual expenditures - GAAP basis (pages 152-155).....	<u>\$ 745,677</u>	<u>\$ 17,801</u>	<u>\$ 27,178</u>
Total actual other financing uses - budgetary basis (pages 156-158).....	\$ 601,879	\$ 2,868	\$ 26,299
Reclassification:			
MassDOT transfers out is reclassified to expenditures	(533,021)	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund	1,175,054	—	—
Nonbudgeted fund included on a GAAP basis.....	—	—	183
Total actual other financing uses - GAAP basis (pages 152-155).....	<u>\$ 1,243,912</u>	<u>\$ 2,868</u>	<u>\$ 26,482</u>

* On a GAAP basis, the activity for the Gaming Local Aid fund is combined in the other special revenue funds in the combined statement of revenues, expenditures and changes in fund balance. The revenues, other financing sources, expenditures and other financing uses of the other special revenue funds are \$111,922, \$127,335, \$208,332 and \$19,531, respectively (all amounts in thousands).

See Independent Auditor's Report

Massachusetts Tourism Fund	Public Safety Trust Fund	Gaming Local Aid Fund*	Totals
\$ 56,772	\$ 1,308	\$ —	\$ 2,119,045
366	—	—	2,288
(33)	—	—	(43)
—	—	—	(2,008)
—	—	—	(176)
<u>\$ 57,105</u>	<u>\$ 1,308</u>	<u>\$ —</u>	<u>\$ 2,119,106</u>
\$ —	\$ —	\$ 105,033	\$ 105,223
—	—	—	—
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 105,033</u>	<u>\$ 105,223</u>
\$ 22,431	\$ —	\$ 105,033	\$ 1,583,897
—	—	—	(979)
—	—	—	533,021
—	—	—	(1,175,054)
—	—	—	2,322
—	—	—	(25,087)
<u>\$ 22,431</u>	<u>\$ —</u>	<u>\$ 105,033</u>	<u>\$ 918,120</u>
\$ 36,022	\$ —	\$ —	\$ 667,068
—	—	—	(533,021)
—	—	—	1,175,054
—	—	—	183
<u>\$ 36,022</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,309,284</u>

Combining Statement of Net Position Available for Post-Employment Benefits

Pension Trust Funds

June 30, 2016

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
ASSETS				
Cash and cash equivalents	\$ 77,226	\$ 84,500	\$ 78,106	\$ 239,832
Net investment in PRIT at fair value	23,661,539	24,766,990	787,942	49,216,471
Other receivables	115,772	87,479	—	203,251
Other assets	118,413	11,218	—	129,631
Total assets	23,972,950	24,950,187	866,048	49,789,185
LIABILITIES				
Accounts payable	1,794	8,115	5	9,914
Net position available for post-employment benefits	\$ 23,971,156	\$ 24,942,072	\$ 866,043	\$ 49,779,271

See Independent Auditor's Report

Combining Statement of Changes in Net Position Available for Post-Employment Benefits

Pension Trust Funds

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
ADDITIONS				
Contributions:				
Employer contributions - Commonwealth and MassDOT	\$ 660,818	\$ —	\$ 502,285	\$ 1,163,103
Non-employer contributions - Commonwealth	21,830	1,124,583	—	1,146,413
Employer and non-employer contributions - other	16,642	—	—	16,642
ERIP funding contribution - Commonwealth	29,093	—	—	29,093
Employee contributions	591,948	699,422	—	1,291,370
Boston teachers' contribution from Commonwealth	—	120,434	—	120,434
Other additions	397,077	82,362	1,313	480,752
Total contributions	1,717,408	2,026,801	503,598	4,247,807
Net investment gain/(loss):				
Investment gain/(loss)	545,612	570,073	18,686	1,134,371
Less: investment expense	(122,674)	(128,710)	(4,240)	(255,624)
Net Investment gain/(loss)	422,938	441,363	14,446	878,747
Total additions	2,140,346	2,468,164	518,044	5,126,554
DEDUCTIONS				
Administration	20,624	24,220	161	45,005
Retirement benefits and refunds	2,107,327	2,791,011	426,853	5,325,191
Payments to State Boston Retirement System	—	120,434	—	120,434
Other deductions	83,824	19,495	—	103,319
Total deductions	2,211,775	2,955,160	427,014	5,593,949
Net increase/(decrease)	(71,429)	(486,996)	91,030	(467,395)
Net position available for post-employment benefits at beginning of year	24,042,585	25,429,068	775,013	50,246,666
Net position available for post-employment benefits at end of year	\$ 23,971,156	\$ 24,942,072	\$ 866,043	\$ 49,779,271

See Independent Auditor's Report

Combining Statement of Net Position Held in Trust for Pool Participants

External Investment Trust Funds

June 30, 2016

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Cash and cash equivalents	\$ 3,170,718	\$ —	\$ 3,170,718
Short-term investments.....	39,467	—	39,467
Net investment in PRIT at fair value.....	—	11,476,334	11,476,334
Receivables, net of allowance for uncollectibles:			
Other receivables	1,264	—	1,264
Total assets	3,211,449	11,476,334	14,687,783
LIABILITIES			
Accounts payable	19,866	—	19,866
Net position held in trust for pool/pension participants	\$ 3,191,583	\$ 11,476,334	\$ 14,667,917

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, 2016
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ADDITIONS			
Contributions:			
Other participant contributions	\$ —	\$ 848,243	\$ 848,243
Proceeds from sale of units	22,977,309	—	22,977,309
Total contributions	22,977,309	848,243	23,825,552
Net investment gain/(loss):			
Investment gain/(loss)	13,918	519,540	533,458
Less: investment expense	(1,469)	(289,627)	(291,096)
Net Investment gain/(loss)	12,449	229,913	242,362
Total additions	22,989,758	1,078,156	24,067,914
DEDUCTIONS			
Cost of units redeemed	22,172,892	—	22,172,892
Distributions to unit holders from net interest income	11,990	—	11,990
Retirement benefits and refunds	—	923,710	923,710
Total deductions	22,184,882	923,710	23,108,592
Net increase/(decrease)	804,876	154,446	959,322
Net position held in trust for pool/participants at beginning of year	2,386,707	11,321,888	13,708,595
Net position held in trust for pool/participants at end of year	\$ 3,191,583	\$ 11,476,334	14,667,917

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<u>Central Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 324,136	\$ 9,735,505	\$ (9,744,472)	\$ 315,169
Investments, restricted investments and annuity contracts	1,243,000	172,945	(221,000)	1,194,945
Taxes receivable.....	2,012	34,638	(2,012)	34,638
Other receivables	6,559	6,703	(6,559)	6,703
Total assets	\$ 1,575,707	\$ 9,949,791	\$ (9,974,043)	\$ 1,551,455
LIABILITES				
Accounts payable	\$ 66,044	\$ 4,209,489	\$ (4,198,955)	\$ 76,578
Due to cities and towns	42,183	581,030	(576,459)	46,754
Due to federal government.....	—	88	(84)	4
Lottery prizes payable.....	1,243,000	172,945	(221,000)	1,194,945
Agency liabilities	224,480	3,638,808	(3,630,114)	233,174
Total liabilities	\$ 1,575,707	\$ 8,602,360	\$ (8,626,612)	\$ 1,551,455
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and cash equivalents	\$ 172,447	\$ 1,407,328	\$ (1,404,158)	\$ 175,617
Other receivables	121,279	126,565	(121,279)	126,565
Total assets	\$ 293,726	\$ 1,533,893	\$ (1,525,437)	\$ 302,182
LIABILITES				
Accounts payable	\$ 153	\$ 1,990,649	\$ (1,990,637)	\$ 165
Agency liabilities	293,573	855,765	(847,321)	302,017
Total liabilities	\$ 293,726	\$ 2,846,414	\$ (2,837,958)	\$ 302,182
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and cash equivalents	\$ 100,852	\$ 619,377	\$ (623,920)	\$ 96,309
Investments, restricted investments and annuity contracts	576,862	35,663	(29,853)	582,672
Total assets	\$ 677,714	\$ 655,040	\$ (653,773)	\$ 678,981
LIABILITES				
Agency liabilities	\$ 677,714	\$ 655,040	\$ (653,773)	\$ 678,981

See Independent Auditor's Report

Combining Statement Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<u>Total Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 597,435	\$ 11,762,210	\$ (11,772,550)	\$ 587,095
Investments, restricted investments and annuity contracts	1,819,862	208,608	(250,853)	1,777,617
Taxes receivable.....	2,012	34,638	(2,012)	34,638
Other receivables	127,838	133,268	(127,838)	133,268
Total assets	<u>\$ 2,547,147</u>	<u>\$ 12,138,724</u>	<u>\$ (12,153,253)</u>	<u>\$ 2,532,618</u>
LIABILITIES				
Accounts payable	\$ 66,197	\$ 6,200,138	\$ (6,189,592)	\$ 76,743
Due to cities and towns	42,183	581,030	(576,459)	46,754
Due to federal government.....	—	88	(84)	4
Lottery prizes payable.....	1,243,000	172,945	(221,000)	1,194,945
Agency liabilities	1,195,767	5,149,613	(5,131,208)	1,214,172
Total liabilities	<u>\$ 2,547,147</u>	<u>\$ 12,103,814</u>	<u>\$ (12,118,343)</u>	<u>\$ 2,532,618</u>

See Independent Auditor's Report

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2016

(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
ASSETS AND DEFERRED OUTFLOWS								
Current assets:								
Cash and cash equivalents.....	\$ 17,764	\$ 12,822	\$ 23,042	\$ 168	\$ 22,409	\$ 75,865	\$ 23,539	\$ 175,609
Short-term investments	—	127,480	153,185	12,217	1,858	2,353	72,520	369,613
Restricted cash and investments.....	587	22,584	37,023	30,830	51,171	93,403	970	236,568
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursements	—	—	—	—	—	142	—	142
Loans	347	46,494	1,064	—	26,954	17,463	—	92,322
Other receivables	15,627	14,237	2,839	935	2,572	2,933	8,298	47,441
Due from primary government.....	14,492	1,940	—	8,556	—	33,861	193	59,042
Inventory	—	—	—	—	—	68	—	68
Other current assets.....	1,939	1,011	527	451	—	1,182	563	5,673
Total current assets.....	50,756	226,568	217,680	53,157	104,964	227,270	106,083	986,478
Noncurrent assets:								
Cash and cash equivalents - restricted.....	—	14,419	—	8,481	—	—	1,475	24,375
Long - term investments.....	—	82,332	—	—	—	—	577,892	660,224
Restricted investments.....	—	—	—	—	—	—	43,598	43,598
Accounts receivables, net.....	—	1,936	—	—	—	2,412	10,001	14,349
Loans receivables, net	16,415	58,781	—	—	517,845	40,530	—	633,571
Non-depreciable capital assets	175,384	15,813	3,043	175	—	—	15,324	209,739
Depreciable capital assets, net.....	591,960	92,418	121,714	78,274	—	13,038	27,519	924,923
Other noncurrent assets.....	—	8,092	—	—	893	2,360	3,018	14,363
Total noncurrent assets.....	783,759	273,791	124,757	86,930	518,738	58,340	678,827	2,525,142
Deferred outflows of resources:								
Deferred outflows related to pension	8,898	—	—	—	—	—	—	8,898
Total assets and deferred outflows.....	843,413	500,359	342,437	140,087	623,702	285,610	784,910	3,520,518
LIABILITIES AND DEFERRED INFLOWS								
Current liabilities:								
Accounts payable and other liabilities	10,729	9,211	9,572	14,656	548	40,216	32,800	117,732
Accrued payroll	—	—	—	—	835	486	—	1,321
Compensated absences.....	1,005	927	—	—	—	608	—	2,540
Accrued interest payable.....	—	—	—	—	1,698	—	22	1,720
Due to primary government	—	505	—	—	—	—	793	1,298
Unearned revenue.....	10,607	—	—	361	—	29,171	1,666	41,805
Bonds, notes payable and other obligations	—	360	—	—	20,677	6,760	1,117	28,914
Total current liabilities.....	22,341	11,003	9,572	15,017	23,758	77,241	36,398	195,330
Noncurrent liabilities:								
Compensated absences.....	1,377	—	—	—	—	115	—	1,492
Accrued interest payable.....	—	272	—	—	—	—	—	272
Due to primary government	—	9,004	—	—	—	—	—	9,004
Unearned revenue.....	1,083	2,610	—	—	27,801	113	—	31,607
Bonds, notes payable and other obligations	—	6,394	—	—	506,043	74,226	12,674	599,337
Net pension liability	37,648	—	—	—	—	—	—	37,648
Net OPEB liability	9,424	—	—	—	—	—	—	9,424
Other noncurrent liabilities.....	11,408	5,954	—	—	15,160	774	3,713	37,009
Total noncurrent liabilities.....	60,940	24,234	—	—	549,004	75,228	16,387	725,793
Deferred inflows of resources:								
Deferred inflows related to pension	1,335	—	—	—	—	—	—	1,335
Total liabilities and deferred inflows.....	84,616	35,237	9,572	15,017	572,762	152,469	52,785	922,458
NET POSITION								
Net investment in capital assets.....	767,345	91,689	124,757	78,449	826	15,351	30,733	1,109,150
Restricted for:								
Economic development financing.....	—	162,152	—	—	—	14,191	—	176,343
Other purposes.....	587	—	37,022	33,603	20,321	45,238	635,985	772,756
Unrestricted.....	(9,135)	211,281	171,086	13,018	29,793	58,361	65,407	539,811
Total net position.....	\$ 758,797	\$ 465,122	\$ 332,865	\$ 125,070	\$ 50,940	\$ 133,141	\$ 732,125	\$ 2,598,060

See Independent Auditor's Report

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Component Units

Fiscal Year Ended June 30, 2016

(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
Operating revenues:								
Charges for services.....	\$ 67,420	\$ 57,021	\$ 2,769	\$ 2,471	\$ 8,071	\$ 127,576	\$ 17,297	\$ 282,625
Other	3,207	2,959	22,785	26,971	6,857	986	14,591	78,356
Total operating revenues.....	70,627	59,980	25,554	29,442	14,928	128,562	31,888	360,981
Operating expenses:								
Cost of services.....	62,231	45,506	33,847	25,275	7,080	131,758	—	305,697
Administration costs.....	35,064	13,228	10,033	—	5,603	14,414	49,415	127,757
Depreciation.....	51,116	7,104	3,386	7,095	138	991	1,351	71,181
Total operating expenses.....	148,411	65,838	47,266	32,370	12,821	147,163	50,766	504,635
Operating income/(loss).....	(77,784)	(5,858)	(21,712)	(2,928)	2,107	(18,601)	(18,878)	(143,654)
Nonoperating revenues/(expenses):								
Operating grants	28,681	417	5,305	—	—	22,397	—	56,800
Interest income/(loss)	763	2,202	—	215	416	259	(36,187)	(32,332)
Other nonoperating revenue/(expense).....	(19,500)	(748)	1,469	—	—	(2,036)	49,130	28,315
Nonoperating revenues/(expenses), net..	9,944	1,871	6,774	215	416	20,620	12,943	52,783
Income/(loss) before contributions	(67,840)	(3,987)	(14,938)	(2,713)	2,523	2,019	(5,935)	(90,871)
Capital contributions.....	20,778	(8,117)	—	—	—	1,211	—	13,872
Change in net position/(deficits)	(47,062)	(12,104)	(14,938)	(2,713)	2,523	3,230	(5,935)	(76,999)
Net position - beginning.....	805,859	477,226	347,803	127,783	48,417	129,911	738,060	2,675,059
Net position - ending	\$ 758,797	\$ 465,122	\$ 332,865	\$ 125,070	\$ 50,940	\$ 133,141	\$ 732,125	\$ 2,598,060

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Statistical Section

(Unaudited)

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

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

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These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

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Schedule of Net Position by Component

Last Ten Fiscal Years

(Amounts in thousands)

	2016	2015*	2014*	2013	2012
Governmental activities					
Net investment in capital asset	\$ (1,067,098)	\$ (768,411)	\$ (502,370)	\$ (592,483)	\$ (849,338)
Restricted	1,538,662	1,541,566	1,455,704	1,386,416	1,456,715
Unrestricted	(59,111,509)	(55,626,596)	(53,381,910)	(26,733,809)	(24,905,165)
Total governmental activities net position...	\$ (58,639,945)	\$ (54,853,441)	\$ (52,428,576)	\$ (25,939,876)	\$ (24,297,788)
Business-type activities					
Net investment in capital assets	\$ 3,311,658	\$ 3,055,444	\$ 2,794,845	\$ 2,605,263	\$ 2,366,038
Restricted	1,745,840	1,539,785	1,590,545	1,209,630	1,576,865
Unrestricted	678,667	697,056	675,796	1,026,230	969,309
Total business-type activities net position ...	\$ 5,736,165	\$ 5,292,285	\$ 5,061,186	\$ 4,841,123	\$ 4,912,212
Commonwealth net position					
Net investment in capital assets	\$ 2,244,560	\$ 2,287,033	\$ 2,292,475	\$ 2,012,780	\$ 1,516,700
Restricted	3,284,502	3,081,351	3,046,249	2,596,046	3,033,580
Unrestricted	(58,432,842)	(54,929,540)	(52,706,114)	(25,707,579)	(23,935,856)
Total Commonwealth net position	\$ (52,903,780)	\$ (49,561,156)	\$ (47,367,390)	\$ (21,098,753)	\$ (19,385,576)

*Restated

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2011	2010*	2009*	2008*	2007*
\$ (722,469)	\$ (885,593)	\$ 189,913	\$ 446,666	\$ 489,432
1,520,702	1,403,877	1,377,951	1,413,968	1,271,051
(23,631,098)	(22,891,629)	(13,721,519)	(11,022,084)	(11,357,260)
\$ (22,832,865)	\$ (22,373,345)	\$ (12,153,655)	\$ (9,161,450)	\$ (9,596,777)
\$ 2,026,223	\$ 1,767,434	\$ 1,698,825	\$ 1,562,002	\$ 1,392,363
1,364,646	1,148,751	1,609,145	2,390,206	2,295,507
978,043	857,263	621,952	644,363	645,211
\$ 4,368,912	\$ 3,773,448	\$ 3,929,922	\$ 4,596,571	\$ 4,333,081
\$ 1,303,754	\$ 881,841	\$ 1,888,738	\$ 2,008,668	\$ 1,881,795
2,885,348	2,552,628	2,987,096	3,804,174	3,566,558
(22,653,055)	(22,034,366)	(13,099,567)	(10,377,721)	(10,712,049)
\$ (18,463,953)	\$ (18,599,896)	\$ (8,223,733)	\$ (4,564,879)	\$ (5,263,696)

Changes in Net Position
Last Ten Fiscal Years
(Amounts in thousands)

	2016	2015	2014 (1)	2013 (1)	2012 (1)
EXPENSES					
Governmental Activities:					
General government.....	\$ 2,616,051	\$ 2,703,519	\$ 2,521,394	\$ 2,571,685	\$ 2,384,142
Judiciary.....	1,154,038	1,026,429	1,007,234	983,314	936,113
Direct local aid.....	5,598,687	5,469,412	5,353,521	5,179,104	4,991,532
Medicaid.....	16,825,110	15,086,742	14,034,862	12,286,342	11,708,397
Group health insurance.....	1,632,703	1,657,018	1,403,590	1,282,661	1,218,079
Energy and environmental.....	1,069,510	671,801	615,854	524,632	568,898
Housing and economic development.....	1,367,957	1,314,980	1,289,156	1,250,008	1,246,213
Health and human services.....	7,912,817	7,605,180	7,308,295	7,737,736	7,619,987
Transportation and public works.....	2,711,910	2,689,975	2,379,178	1,868,020	1,759,589
Early elementary and secondary education.....	5,420,052	4,654,161	4,714,555	4,493,537	4,336,326
Public safety and homeland security.....	2,746,612	2,486,107	2,451,881	2,391,982	2,323,452
Labor and workforce development.....	324,678	309,091	352,454	385,757	472,044
Lottery.....	4,299,592	4,109,611	3,980,980	3,982,700	3,877,305
Interest (unallocated).....	1,250,004	1,263,218	1,197,709	1,206,542	1,202,772
Total governmental activities.....	54,929,721	51,047,244	48,610,664	46,144,020	44,644,849
Business-type Activities:					
Unemployment compensation.....	1,499,811	1,598,084	2,036,431	2,718,447	3,466,500
Higher Education:					
University of Massachusetts.....	3,151,215	2,809,062	2,925,013	2,759,488	2,684,039
State Universities.....	1,002,577	994,341	922,383	864,161	851,118
Community Colleges.....	928,067	891,906	852,946	814,245	801,038
Total business-type activities.....	6,581,670	6,293,393	6,736,773	7,156,341	7,802,695
Total Commonwealth expenses.....	\$ 61,511,391	\$ 57,340,637	\$ 55,347,437	\$ 53,300,361	\$ 52,447,544
REVENUES					
Program Revenues:					
Governmental Activities:					
Charges for services:					
General government.....	\$ 565,434	\$ 634,289	\$ 361,105	\$ 352,291	\$ 458,320
Judiciary.....	100,568	105,521	108,766	111,384	114,170
Medicaid.....	841,697	1,052,170	1,226,108	471,539	297,566
Group health insurance.....	799,011	755,712	660,359	619,982	495,377
Energy and environmental.....	289,738	253,856	262,339	228,019	214,340
Housing and economic development.....	173,941	164,438	165,365	150,690	142,320
Health and human services.....	1,224,967	405,710	483,080	1,143,551	931,535
Transportation and public works.....	577,292	577,430	530,853	567,348	505,842
Early elementary and secondary education.....	7,508	7,649	10,067	6,748	6,783
Public safety and homeland security.....	284,264	256,596	228,730	218,643	205,546
Labor and workforce development.....	38,581	175,130	150,394	246,577	237,772
Lottery.....	5,405,128	5,193,545	5,049,536	5,041,329	4,940,151
Total Charges for services.....	10,308,129	9,582,046	9,236,702	9,158,101	8,549,722
Operating grants and contributions.....	15,158,087	13,950,227	13,121,648	12,836,122	12,909,908
Capital grants and contributions.....	85,759	81,475	30,699	18,726	79,733
Total governmental activities.....	25,551,975	23,613,748	22,389,049	22,012,948	21,539,363
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,611,096	1,492,067	1,897,495	1,923,476	1,982,602
Higher Education:					
University of Massachusetts.....	1,875,144	1,602,043	1,697,585	1,640,296	1,519,496
State Universities.....	616,025	583,669	558,170	533,347	523,979
Community Colleges.....	274,252	266,956	270,512	281,428	275,778
Operating grants and contributions.....	891,823	936,917	1,347,423	1,791,196	2,525,342
Capital grants and contributions.....	265,714	206,128	122,081	123,396	162,271
Total business-type activities.....	5,534,054	5,087,780	5,893,266	6,293,139	6,989,468
Total Commonwealth program revenues.....	\$ 31,086,029	\$ 28,701,528	\$ 28,282,315	\$ 28,306,087	\$ 28,528,831
General Revenues and Other Changes in Net Position (all types consolidated):					
Governmental Activities:					
Taxes (all types).....	\$ 25,676,303	\$ 25,209,826	\$ 23,319,168	\$ 22,599,332	\$ 21,403,426
Investment earnings and miscellaneous.....	1,160,994	1,251,193	1,131,754	985,713	1,393,094
Transfers.....	(1,246,055)	(1,429,174)	(1,205,141)	(1,096,061)	(1,155,955)
Transfers to/from MassDOT.....	—	—	—	—	—
Total governmental activities.....	25,591,242	25,031,845	23,245,781	22,488,984	21,640,565
Business-type Activities:					
Investment earnings and miscellaneous.....	\$ 245,441	\$ 7,536	\$ 306,690	\$ 271,832	\$ 214,056
Other losses.....	—	—	—	—	—
Transfers.....	1,246,055	1,429,174	1,205,141	1,096,061	1,155,955
Total business-type activities.....	1,491,496	1,436,710	1,511,831	1,367,893	1,370,011
Total Commonwealth general revenues.....	\$ 27,082,738	\$ 26,468,555	\$ 24,757,612	\$ 23,856,877	\$ 23,010,576
CHANGES IN NET POSITION					
Governmental activities.....	\$ (3,786,504)	\$ (2,401,651)	\$ (2,975,834)	\$ (1,642,088)	\$ (1,464,923)
Business-type activities.....	443,880	231,099	668,324	504,691	556,784
Restatements.....	—	—	—	—	—
Total changes in net position including restatements.....	\$ (3,342,624)	\$ (2,170,552)	\$ (2,307,510)	\$ (1,137,397)	\$ (908,139)

(1) - Prior year amounts were reclassified to conform to current year presentation.
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	2011 (1)	2010	2009	2008	2007
\$	2,312,037	\$ 2,317,016	\$ 2,591,953	\$ 2,329,454	\$ 2,197,089
	1,000,902	991,310	1,089,569	1,003,754	849,719
	4,845,738	5,030,363	5,210,451	5,118,858	5,081,359
	12,124,261	10,677,999	10,842,549	9,769,893	9,044,420
	1,113,544	1,092,178	977,565	828,297	1,033,796
	689,258	305,233	407,289	541,840	487,917
	1,365,368	1,291,142	1,036,891	900,577	519,142
	7,139,948	7,110,366	7,326,979	6,753,620	6,408,043
	2,270,136	2,062,054	1,319,110	1,202,748	1,270,759
	3,585,958	3,806,149	3,574,455	2,854,730	1,888,271
	2,295,561	2,292,163	2,462,398	2,118,161	1,758,283
	498,560	470,878	463,901	342,907	640,614
	3,661,834	3,649,396	3,693,318	3,910,362	3,689,221
	1,177,569	1,090,471	1,116,278	1,152,162	1,079,551
	44,080,673	42,186,717	42,112,704	38,827,362	35,948,184
	4,388,360	5,435,611	3,475,027	1,554,885	1,430,130
	2,865,015	2,640,134	2,474,797	2,274,312	2,233,634
	834,453	762,043	736,972	733,842	624,470
	772,883	716,526	671,923	685,235	627,400
	8,860,711	9,554,314	7,358,719	5,248,274	4,915,634
\$	52,941,384	51,741,031	49,471,424	44,075,636	40,863,818
\$	443,869	\$ 464,592	\$ 436,344	\$ 414,614	\$ 564,347
	120,293	128,198	123,819	124,542	118,652
	258,032	185,463	180,380	176,471	172,136
	431,078	349,870	230,456	209,008	151,604
	270,449	214,269	226,754	162,639	168,789
	142,387	221,340	178,011	185,019	1,892
	896,328	797,929	718,628	601,483	538,543
	502,004	517,045	494,733	477,420	461,217
	6,645	9,661	15,728	10,766	8,042
	193,983	202,427	175,069	153,641	126,962
	142,731	38,319	37,728	31,758	187,256
	4,630,205	4,626,777	4,643,592	4,905,509	4,656,110
	8,038,003	7,755,891	7,461,243	7,452,873	7,155,550
	14,217,481	12,771,164	12,059,019	9,271,936	8,849,046
	168,912	779,403	853,221	484,172	487,365
	22,424,397	21,306,458	20,373,482	17,208,980	16,491,961
	1,945,801	1,727,964	1,671,098	1,587,543	1,698,249
	1,685,386	1,527,880	1,419,932	1,160,513	1,194,393
	530,078	479,900	442,685	400,369	287,195
	250,341	235,865	219,986	204,190	190,808
	3,500,210	4,020,351	1,721,199	710,974	746,385
	42,819	48,684	56,377	35,893	90,115
	7,954,635	8,040,644	5,531,277	4,099,482	4,207,145
\$	30,379,032	29,347,102	25,904,759	21,308,462	20,699,106
\$	21,066,430	\$ 19,034,227	\$ 18,499,273	\$ 21,174,430	\$ 20,001,189
	991,230	1,474,995	1,489,018	2,057,309	1,318,008
	(860,904)	(864,697)	(1,070,652)	(1,178,030)	(1,167,367)
	—	(8,983,955)	—	—	—
	21,196,756	10,660,570	18,917,639	22,053,709	20,151,830
\$	652,489	\$ 504,404	\$ 83,850	\$ 234,252	\$ 225,793
	(10,746)	(12,125)	(11,530)	—	—
	860,904	864,697	1,070,652	1,178,030	1,167,367
	1,502,647	1,356,976	1,142,972	1,412,282	1,393,160
\$	22,699,403	12,017,546	20,060,611	23,465,991	21,544,990
\$	(459,521)	\$ (10,219,688)	\$ (2,821,583)	\$ 435,327	\$ 695,608
	596,571	(156,694)	(684,470)	263,490	684,671
	—	—	(152,800)	—	—
\$	137,050	(10,376,382)	(3,658,853)	698,817	1,380,279

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified accrual basis of accounting)

(Amounts in thousands)

	2016	2015	2014	2013	2012
Total Unreserved general fund	\$ —	\$ —	\$ —	\$ —	\$ —
All Other Governmental Funds					
Reserved.....	—	—	—	—	—
Unreserved:					
Special Revenue Funds	—	—	—	—	—
Capital Projects Funds.....	—	—	—	—	—
Permanent Trust Funds.....	—	—	—	—	—
Total Unreserved	—	—	—	—	—
Total all other governmental funds	—	—	—	—	—
Total governmental fund balances	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

Fund balances GASB 54 :

Nonspendable	\$ 7,910	\$ 2,318	\$ 1,116	\$ 914	\$ 914
Restricted	1,369,761	1,790,143	1,517,555	1,557,928	2,195,287
Committed	2,421,647	2,375,021	2,249,906	2,324,228	2,404,158
Assigned	845,567	576,632	510,353	595,085	574,621
Unassigned.....	628,420	561,105	340,505	391,795	1,143,978
Total governmental fund balances	<u>\$ 5,273,305</u>	<u>\$ 5,305,218</u>	<u>\$ 4,619,434</u>	<u>\$ 4,869,950</u>	<u>\$ 6,318,958</u>

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2011	2010*	2009*	2008*	2007*
\$ —	\$ —	\$ 1,734,822	\$ 3,171,278	\$ 4,899,154
—	—	1,401,985	1,809,058	1,496,094
—	—	2,044,674	2,437,897	1,587,596
—	—	(125,138)	(360,570)	(251,985)
—	—	5,000	5,000	5,000
—	—	1,924,536	2,082,327	1,340,611
—	—	3,326,521	3,891,385	2,836,705
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,061,343</u>	<u>\$ 7,062,663</u>	<u>\$ 7,735,859</u>

\$ 914	\$ 5,914
1,675,055	1,905,749
2,020,009	2,166,175
750,462	156,483
821,188	351,395
<u>\$ 5,267,628</u>	<u>\$ 4,585,716</u>

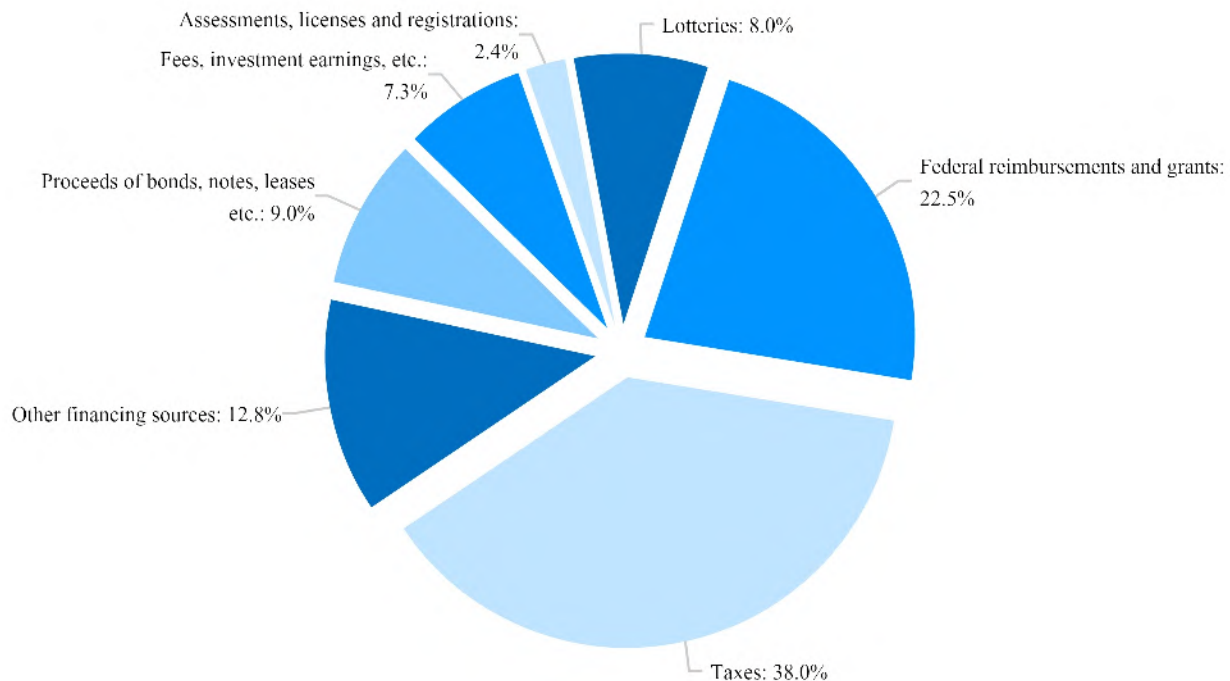
Ten-Year Schedule of Revenues and Other Financing Sources
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2016		2015		2014		2013		2012	
		%		%		%		%		%
	2016	Total	2015	Total	2014	Total	2013	Total	2012	Total
Taxes.....	\$ 25,746	38.0	\$ 25,258	41.7	\$ 23,786	41.6	\$ 22,391	40.5	\$ 21,533	39.6
Federal reimbursements.....	11,577	17.1	10,462	17.2	9,417	16.5	8,981	16.2	8,934	16.4
Federal grants	3,656	5.4	3,583	5.9	3,730	6.5	3,887	7.0	4,051	7.5
Lotteries.....	5,406	8.0	5,194	8.6	5,049	8.8	5,042	9.1	4,944	9.1
Assessments.....	1,104	1.6	1,026	1.7	1,080	1.8	1,093	2.0	1,024	1.9
Motor vehicle licenses and registrations	546	0.8	546	0.9	495	0.9	487	0.9	474	0.9
Fees, investment earnings, etc.....	4,957	7.3	4,540	7.5	4,152	7.3	3,750	6.8	3,823	7.0
Issuance of general and special obligation bonds.....	3,969	5.9	3,761	6.2	2,360	4.1	1,471	2.7	2,902	5.3
Issuance of refunding bonds.....	1,463	2.2	632	1	1,236	2.2	1,913	3.5	388	0.7
Bond premiums	613	0.9	379	0.6	193	0.3	398	0.7	260	0.5
Proceeds of capital lease.....	31	—	31	0.1	11	—	1	—	4	—
Other financing sources.....	8,682	12.8	5,247	8.6	5,701	10.0	5,876	10.6	6,033	11.1
Total revenues and other financing sources.....	\$ 67,750	100.0	\$ 60,659	100.0	\$ 57,210	100.0	\$ 55,290	100.0	\$ 54,370	100.0

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**Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2016**



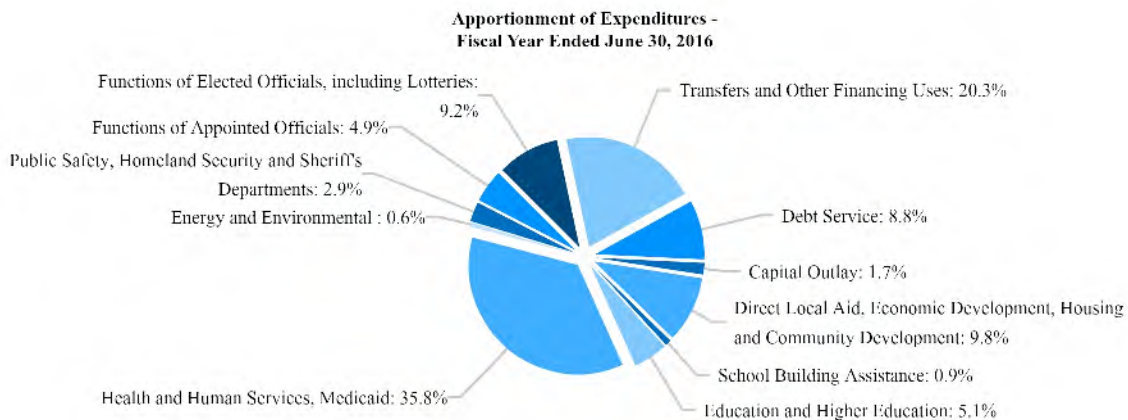
	2011		2010		2009		2008		2007	
	Total	%	Total	%	Total	%	Total	%	Total	%
\$	20,854	38.7	\$ 18,991	37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.4
	10,066	18.8	9,453	18.5	9,392	18.9	7,037	14	6,847	13.8
	4,311	8.0	4,097	8.0	3,510	7	2,681	5.4	2,489	5
	4,631	8.6	4,628	9.1	4,650	9.3	4,915	9.8	4,670	9.4
	980	1.8	965	2.0	929	1.9	858	1.8	860	1.7
	461	0.9	463	0.9	383	0.8	376	0.7	380	0.8
	3,246	6.0	3,365	6.6	3,204	6.4	3,546	7.1	2,875	5.8
	2,233	4.1	2,419	4.7	2,042	4.1	1,281	2.6	3,104	6.3
	888	1.6	538	1.1	390	0.8	—	—	1,428	2.9
	130	0.2	16	0.0	99	0.2	25	—	129	0.3
	12	—	17	0.0	18	—	17	—	21	—
	6,086	11.3	6,027	11.8	6,817	13.7	8,280	16.5	6,743	13.6
\$	53,898	100.0	\$ 50,979	100.0	\$ 49,788	100.0	\$ 50,136	100.0	\$ 49,531	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)

	2016	% Total	2015	% Total	2014	% Total	2013	% Total	2012	% Total
Legislature.....	\$ 61	0.1	\$ 61	0.1	\$ 56	0.1	\$ 57	0.1	\$ 58	0.1
Judiciary.....	880	1.3	845	1.4	816	1.4	792	1.4	757	1.4
Inspector General.....	5	—	5	—	6	—	6	—	3	—
Governor and Lieutenant Governor.....	7	—	6	—	5	—	6	—	7	—
Secretary of the Commonwealth.....	44	0.1	50	0.1	51	0.1	49	0.1	41	0.1
Treasurer and Receiver-General.....	5,799	8.7	5,602	9.7	5,327	9.5	5,307	9.5	5,282	9.9
Auditor of the Commonwealth.....	19	—	18	—	18	—	18	—	17	—
Attorney General.....	67	0.1	41	0.1	88	0.2	76	0.1	55	0.1
Ethics Commission.....	2	—	2	—	2	—	2	—	2	—
District Attorney.....	124	0.2	119	0.2	115	0.2	115	0.2	110	0.2
Office of Campaign and Political Finance.....	2	—	3	—	1	—	1	—	1	—
Sheriff's Department.....	616	0.9	593	1	565	1.0	541	1.0	529	1.0
Disabled Persons Protection Commission.....	3	—	3	—	2	—	2	—	2	—
Board of Library Commissioners.....	28	—	28	—	25	—	25	—	24	—
Massachusetts Gaming Commission.....	34	0.1	23	—	23	—	14	—	1	—
Comptroller.....	17	—	16	—	16	—	14	—	14	—
Administration and finance.....	2,416	3.6	2,490	4.2	2,296	4.0	2,295	4.1	1,949	3.7
Energy and environmental.....	436	0.6	417	0.7	410	0.7	365	0.6	351	0.7
Housing and communities development.....	—	—	—	—	—	—	—	—	—	—
Early education and care.....	—	—	—	—	—	—	—	—	—	—
Health and human services.....	7,402	10.9	7,211	12	6,957	12.1	7,384	13.1	7,301	13.6
Transportation and public works.....	—	—	—	—	—	—	—	—	—	—
Massachusetts department of transportation.....	2,595	3.8	2,611	4.4	2,296	4.0	1,785	3.1	1,679	3.1
Office of the Child Advocate.....	1	—	—	—	—	—	—	—	—	—
Executive office of education*.....	3,478	5.1	3,320	5.5	3,201	5.6	3,008	5.3	3,069	5.8
Center for Health and Information Analysis.....	27	—	28	—	26	—	9	—	—	—
Massachusetts school building assistance.....	626	0.9	732	1.2	869	1.5	1,037	1.8	975	1.8
Higher education.....	—	—	—	—	—	—	—	—	—	—
Public safety and homeland security.....	1,385	2.0	1,334	2.2	1,274	2.2	1,296	2.3	1,208	2.3
Housing and economic development*.....	1,048	1.5	1,021	1.7	1,035	1.8	988	1.7	999	1.9
Labor and workforce development*.....	277	0.4	269	0.4	330	0.6	350	0.6	455	0.9
Medicaid.....	16,825	24.9	15,087	25.2	14,035	24.4	12,286	21.7	11,708	22.0
Pension.....	1,103	1.6	902	1.5	865	1.5	878	1.5	801	1.5
Direct local aid.....	5,599	8.3	5,469	9.1	5,353	9.3	5,179	9.1	4,991	9.4
Capital outlay:										
Local aid.....	1	—	—	—	—	—	—	—	—	—
Capital acquisition and construction.....	1,162	1.7	1,205	2	999	1.7	854	1.5	847	1.6
Debt service:										
Principal/commercial paper repayment.....	4,487	6.6	1,781	3.0	1,546	2.7	1,525	2.7	1,297	2.4
Interest.....	1,248	1.8	1,187	2.0	1,223	2.1	1,229	2.2	1,207	2.3
Principal on current refunding.....	250	0.4	203	0.3	159	0.3	230	0.4	—	—
Other financing uses:										
Payments to refunding bond escrow agent.....	2,613	3.9	615	1	562	1.0	2,046	3.6	388	0.7
Transfers.....	7,094	10.5	6,676	11.1	6,907	12.0	6,972	12.3	7,189	13.5
Total expenditures and other financing uses.....	<u>\$ 67,781</u>	<u>100.0</u>	<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>
Change in Governmental Fund Balance.....	<u>\$ (32)</u>		<u>\$ 686</u>		<u>\$ (251)</u>		<u>\$ (1,448)</u>		<u>\$ 1,051</u>	

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

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2011	%	2010	%	2009	%	2008	%	2007	%
Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
\$ 58	0.1	\$ 59	0.1	\$ 60	0.1	\$ 58	0.1	\$ 59	0.1
771	1.4	769	1.5	797	1.5	796	1.6	799	1.6
4	—	4	—	3	—	3	—	3	—
5	—	5	—	8	—	9	—	5	—
45	0.1	52	0.1	51	0.1	51	0.1	52	0.1
5,084	9.6	4,862	9.4	5,097	9.8	5,089	10	4,712	9.6
18	—	18	—	19	—	19	—	18	—
34	0.1	52	0.1	53	0.1	45	0.1	62	0.1
2	—	2	—	2	—	2	—	2	—
104	0.2	102	0.2	112	0.2	111	0.2	102	0.2
3	—	1	—	1	—	1	—	2	—
514	1.0	394	0.8	296	0.6	295	0.6	272	0.6
2	—	2	—	3	—	2	—	2	—
25	—	28	0.1	37	0.1	36	0.1	10	—
—	—	—	—	—	—	—	—	—	—
14	—	13	—	14	—	14	—	14	—
1,852	3.3	1,686	3.3	1,709	3.4	1,528	3.1	1,849	3.9
368	0.7	403	0.8	352	0.7	312	0.6	318	0.6
—	—	—	—	—	—	—	—	402	0.8
—	—	—	—	—	—	560	1.1	518	1.1
6,791	12.8	6,655	12.9	6,684	12.9	6,423	12.6	5,907	12.1
—	—	474	0.9	389	0.8	347	0.7	350	0.7
2,086	3.9	1,209	2.3	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
3,232	6.1	2,968	5.8	2,920	5.6	2,205	4.3	2,048	4.2
—	—	—	—	—	—	—	—	—	—
791	1.5	973	1.9	657	1.3	765	1.5	1,411	2.9
—	—	—	—	—	—	131	0.3	126	0.3
1,146	2.2	1,282	2.5	1,416	2.7	1,407	2.8	1,238	2.5
1,082	2.0	1,060	2.1	793	1.5	710	1.4	512	1
478	0.9	447	0.9	398	0.8	308	0.6	81	0.2
12,124	22.8	10,678	20.8	10,843	20.9	9,770	19.2	9,044	18.5
744	1.4	587	1.1	647	1.2	368	0.7	373	0.8
4,846	9.1	5,030	9.8	5,208	10.1	5,108	10.1	5,072	10.4
—	—	1	—	3	—	10	—	9	—
885	1.7	1,300	2.5	2,514	4.9	1,698	3.3	1,724	3.5
1,071	2.0	1,300	2.5	1,296	2.5	1,336	2.6	1,417	2.9
1,149	2.2	1,107	2.2	1,114	2.2	1,150	2.3	1,121	2.3
—	—	—	—	—	—	—	—	—	—
945	1.8	537	1.0	410	0.8	—	—	1,520	3.1
6,947	13.1	7,395	14.4	7,887	15.2	10,141	20	7,781	15.9
<u>\$ 53,217</u>	<u>100.0</u>	<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>\$ 681</u>		<u>\$ (476)</u>		<u>\$ (2,001)</u>		<u>\$ (674)</u>		<u>\$ 467</u>	

Personal Income by Industry
Last Ten Calendar Years

(Amounts in millions)

	2015	2014	2013	2012	2011
Total personal income	\$ 415,636	\$ 396,206	\$ 381,271	\$ 363,944	\$ 352,243
Unearned income.....	97,728	94,494	91,615	87,333	83,338
Farm earnings.....	195	178	151	150	136
Nonfarm earnings.....	317,713	301,534	289,505	276,461	268,769
Private earnings	272,533	262,843	252,939	243,502	236,763
Agricultural services, forestry, fishing.....	406	354	373	426	409
Mining.....	276	270	201	113	124
Construction.....	17,197	15,481	14,759	13,426	12,526
Manufacturing	26,497	25,921	25,341	26,375	25,387
Durable goods.....	18,193	18,224	17,977	19,223	18,319
Nondurable goods.....	8,304	7,697	7,364	7,152	7,069
Transportation and utilities.....	7,600	7,295	7,083	6,742	6,604
Wholesale trade.....	13,938	13,546	13,483	12,979	13,082
Retail trade.....	14,716	14,137	13,565	13,333	12,891
Services.....	191,903	185,839	178,134	170,109	165,740
Government	39,921	38,691	36,567	32,959	32,006
Federal, civilian.....	5,202	5,007	4,792	5,442	5,426
Military.....	860	874	943	1,221	1,245
State and local.....	33,859	32,810	30,832	26,296	25,335
Personal income tax revenue (fiscal year, statutory basis)...	\$ 13,202	\$ 13,202	\$ 12,831	\$ 11,911	\$ 11,576
Total personal income.....	\$ 415,636	\$ 396,206	\$ 381,271	\$ 363,944	\$ 352,243
Average Effective Rate.....	3.2%	3.3%	3.4%	3.3%	3.3%
Highest Earned Income Tax Rate.....	5.15%	5.2%	5.25%	5.25%	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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2010	2009	2008	2007	2006
\$ 336,400	\$ 324,680	\$ 335,722	\$ 322,543	\$ 304,855
81,190	78,336	80,365	71,529	65,384
186	137	180	135	131
255,024	246,208	255,176	250,878	239,340
223,784	215,396	225,122	222,302	211,900
383	376	383	405	396
97	101	181	301	363
11,687	11,717	13,671	14,900	15,193
25,108	23,290	25,449	25,865	24,698
18,053	16,466	18,170	18,464	17,639
7,055	6,824	7,280	7,401	7,059
6,208	6,029	6,235	5,891	5,706
12,501	12,458	13,412	13,025	12,538
12,599	12,255	12,545	12,960	12,952
155,202	149,171	153,246	148,954	140,056
31,240	30,812	30,054	28,577	27,439
5,431	5,314	5,157	5,045	4,873
1,260	1,220	1,092	1,025	1,005
24,550	24,278	23,806	22,507	21,561
\$ 10,110	\$ 10,584	\$ 12,484	\$ 11,400	\$ 10,483
\$ 336,400	\$ 324,680	\$ 335,722	\$ 322,543	\$ 304,855
3.0%	3.3%	3.7%	3.5%	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 2014 and 2005

(Amounts, except income level are in thousands)

Calendar Year 2014 (or Fiscal Year 2015)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	731,529	19.8%	\$ 9,651,807	72.7%
\$75,001 - \$100,000.....	298,138	8.1%	1,106,079	8.3%
\$50,001 - \$75,000.....	473,901	12.8%	1,197,000	9.0%
\$25,001 - \$50,000.....	784,592	21.2%	1,026,041	7.7%
\$10,001 - \$25,000.....	671,264	18.2%	273,099	2.1%
\$10,000 and lower.....	735,804	19.9%	32,317	0.2%
Total.....	<u>3,695,228</u>	<u>100.0%</u>	<u>\$ 13,286,343</u>	<u>100.0%</u>

Calendar Year 2005 (or Fiscal Year 2006)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	480,143	14.3%	\$ 5,993,245	62.6%
\$75,001 - \$100,000.....	275,267	8.2%	1,033,820	10.8%
\$50,001 - \$75,000.....	450,284	13.4%	1,147,719	12.0%
\$25,001 - \$50,000.....	790,179	23.5%	1,073,105	11.2%
\$10,001 - \$25,000.....	668,956	19.9%	295,904	3.1%
\$10,000 and lower.....	696,550	20.7%	28,408	0.3%
Total.....	<u>3,361,379</u>	<u>100.0%</u>	<u>\$ 9,572,201</u>	<u>100.0%</u>

Source: Massachusetts Department of Revenue - 2014 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

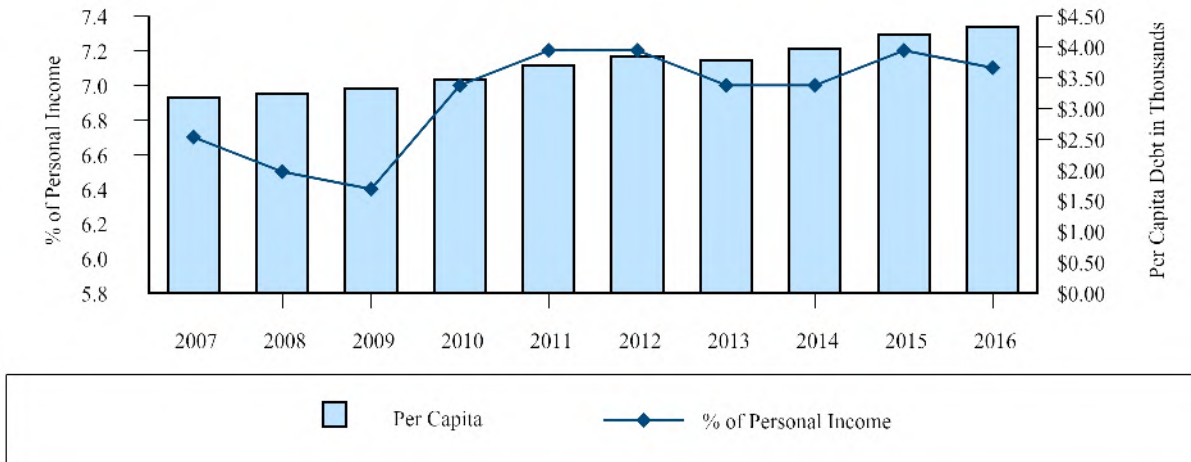
(Amounts in thousands, except for percentages)

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 (3)	Capital Leases					
2016	\$ 25,079,591	\$ 41,302	\$ 4,438,282	\$ 9,887	\$ 29,569,062	\$ 415,636,000	6,794	7.1%	\$ 4.35
2015	23,826,301	42,928	4,553,105	9,895	28,432,229	396,206,000	6,755	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	6,658	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	6,565	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

- (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 2007 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 (US Census Bureau.)*

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Ten - Year Per Capita Debt and Capital Leases



Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2016 (3)	2015 (3)	2014 (3)	2013 (3)	2012
Outstanding principal as of June 30 (1).....	\$ 25,079,591	\$ 23,826,301	\$ 22,419,852	\$ 21,513,039	\$ 21,433,553
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs	—	—	—	—	474,130
Total net proceeds/principal	25,079,591	23,826,301	22,419,852	21,513,039	21,907,683
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds	(1,150,296)	(1,197,127)	(1,241,263)	(1,303,013)	(1,342,841)
Accelerated bridge program	(2,192,930)	(2,195,004)	(1,756,395)	(1,088,605)	(1,095,385)
County debt assumed.....	—	—	—	—	(75)
(Premium)/discount	—	—	—	—	(474,130)
Grant anticipation notes (2).....	—	—	(178,390)	(349,100)	(510,385)
School Modernization and Reconstruction Trust Bonds...	(652,197)	(689,446)	(723,917)	(764,337)	(795,009)
Convention center bonds	(597,630)	(618,705)	(638,700)	(638,700)	(638,700)
MBTA forward funding bonds.....	(207)	(207)	(207)	(207)	(207)
Special obligation gas bonds	(170,735)	(210,635)	(249,705)	(296,395)	(337,545)
Outstanding direct debt, net proceeds/principal	20,315,596	18,915,177	17,631,275	17,072,682	16,713,406
Statutory debt limit*	20,748,692	19,760,659	18,819,675	17,923,500	17,070,000
Debt margin (debt limit less direct debt).....	<u>\$ 433,096</u>	<u>\$ 845,482</u>	<u>\$ 1,188,400</u>	<u>\$ 850,818</u>	<u>\$ 356,594</u>
Debt margin as a percentage of direct debt limit.....	<u>2.1%</u>	<u>4.3%</u>	<u>6.3%</u>	<u>4.7%</u>	<u>2.1%</u>

(1) Exclusive of the Massachusetts School Building Authority debt.

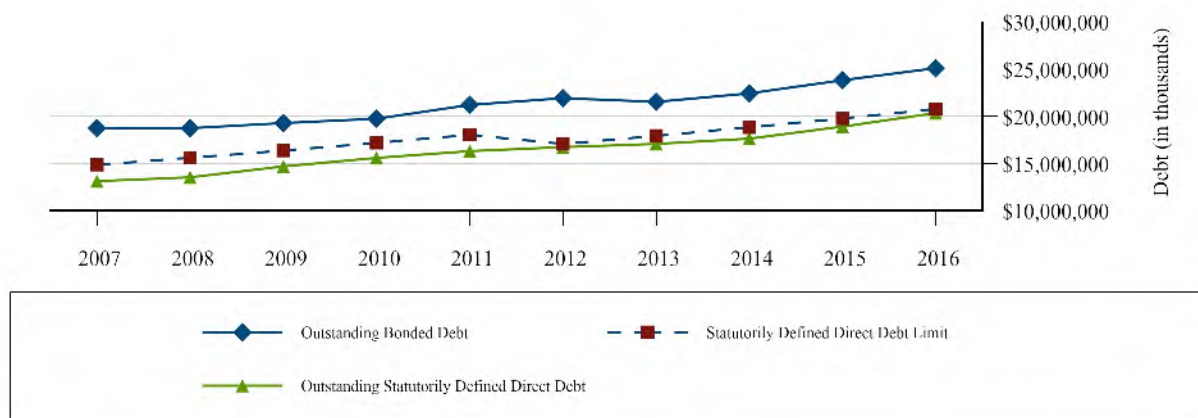
(2) Inclusive of crossover refunding amounts.

(3) For fiscal 2007 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

See Independent Auditor's Report

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
2007 - 2016**



2011	2010	2009	2008	2007
\$ 20,875,056	\$ 19,509,819	\$ 19,047,679	\$ 18,611,105	\$ 18,634,913
335,078	216,688	216,890	123,335	102,048
21,210,134	19,726,507	19,264,569	18,734,440	18,736,961
(1,356,606)	(1,243,250)	(1,401,581)	(1,434,654)	(1,462,870)
(676,125)	—	—	—	—
(150)	(225)	(300)	(375)	(450)
(335,078)	216,688	216,890	123,335	102,048
(666,790)	(997,467)	(1,134,797)	(1,536,206)	(1,666,690)
(824,279)	(894,502)	(921,751)	(946,285)	(946,285)
(643,715)	(643,715)	(643,715)	(643,715)	(643,715)
(44,472)	(165,559)	(231,000)	(309,203)	(368,873)
(371,665)	(419,785)	(456,984)	(482,953)	(617,226)
16,291,254	15,578,692	14,691,331	13,504,384	13,132,900
18,042,424	17,183,261	16,365,011	15,585,725	14,843,547
<u>\$ 1,751,170</u>	<u>1,604,569</u>	<u>\$ 1,673,680</u>	<u>\$ 2,081,341</u>	<u>\$ 1,710,647</u>
<u>9.7%</u>	<u>9.3%</u>	<u>10.2%</u>	<u>13.4%</u>	<u>11.5%</u>

Ten Year Schedule of Pledged Revenue Coverage

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

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

	2016	2015	2014	2013	2012
Highway Bonds					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
Pre-2010 Bond Issues					
Tax Receipts.....	238,303	\$ 187,913	\$ 187,467	\$ 186,638	\$ 190,129
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 238,303	\$ 187,913	\$ 187,467	\$ 186,638	\$ 190,129
Annual Debt Service.....	\$ 50,906	\$ 52,225	\$ 52,228	\$ 58,922	\$ 58,939
Debt Service Coverage Ratio.....	4.68	3.60	3.59	3.17	3.23
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
Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)					
Receipts.....	\$ 1,272,022	\$ 1,201,056	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 1,272,022	\$ 1,201,056	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709
Annual Debt Service.....	\$ 94,859	\$ 81,054	\$ 69,921	\$ 58,108	\$ 32,623
Debt Service Coverage Ratio.....	13.41	14.82	16.44	20.14	34.38
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
Convention Center Bonds					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	\$ 134,806	\$ 124,937	\$ 109,879	\$ 100,631	\$ 94,234
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 134,806	\$ 124,937	\$ 109,879	\$ 100,631	\$ 94,234
Annual Debt Service.....	\$ 54,511	\$ 52,852	\$ 34,486	\$ 34,486	\$ 34,486
Debt Service Coverage Ratio.....	2.47	2.36	2.99	2.76	2.59
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
Grant Anticipation Notes (GANS)					
Notes issued prior to December 2010 ("Senior Federal Highway Notes") were secured by all federal highway reimbursements, which are deposited in the Grant Anticipation Note Trust fund. The outstanding pre-December 2010 notes were retired in June 2015 and Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") and after are secured by all federal highway reimbursements. 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.					
Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds)					
Receipts.....	\$ 1,729,337	\$ 1,474,051	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 1,729,337	\$ 1,474,051	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485
Annual Debt Service.....	\$ 76,049	\$ 33,472	\$ 4,268	\$ 4,973	\$ 4,271
Debt Service Coverage Ratio.....	22.74	44.04	352.22	316.76	392.06
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA

*Uninsured rating, if available.

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	2011	2010	2009	2008	2007
\$	189,763	\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047
	N/A	N/A	N/A	N/A	N/A
\$	189,763	\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047
\$	59,453	\$ 58,931	\$ 58,924	\$ 56,535	\$ 58,867
	3.19	3.2	3.21	3.45	2.51
	AA, Aa1, AAA	AA, Aa2, AA+	AA+, Aa3, AA+	AA-, Aa3, AA	AA-, Aa3, AA
\$	626,619				
	N/A				
\$	626,619				
\$	14,318				
	43.76				
	NA, Aaa, AAA				
\$	84,905	\$ 75,432	\$ 73,918	\$ 78,984	\$ 66,347
	N/A	N/A	N/A	N/A	N/A
\$	84,905	\$ 75,432	\$ 73,918	\$ 78,984	\$ 66,347
\$	34,486	\$ 34,486	\$ 34,486	\$ 34,486	\$ 34,486
	2.40	2.08	2.04	2.22	1.92
	NA, A1, A	NA, A1, A	NA, A1, A	NA, A2, A	A2, A
\$	909,546				
	N/A				
\$	909,546				
\$	2,039				
	446.01				
	AA+, Aa2, AAA				

**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)

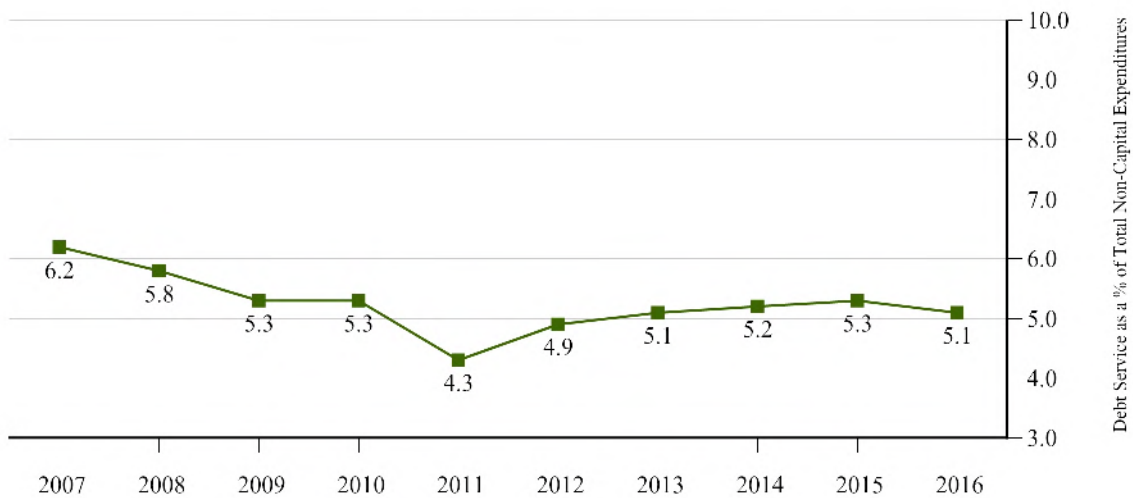
Fiscal year ended June 30	Debt service (1)	Total non-capital expenditures (2)	Ratio (%)
2016	\$ 2,720,117	\$ 53,748,227	5.1
2015*	2,703,200	51,171,135	5.3
2014*	2,534,285	48,312,870	5.2
2013*	2,351,074	45,733,298	5.1
2012*	2,160,589	44,070,405	4.9
2011*	1,904,881	43,881,014	4.3
2010*	2,116,507	40,152,632	5.3
2009*	2,144,733	40,605,292	5.3
2008*	2,238,939	38,709,686	5.8
2007*	2,351,818	37,643,182	6.2

- (1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities. Excludes Massachusetts School Building Authority debt service paid by the Authority.
- (2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

* - Amounts have been restated to conform to current year presentation.

See Independent Auditor's Report

Debt Service to Non-Capital Expenditures Ratio 2007 - 2016



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

(Amounts in thousands)

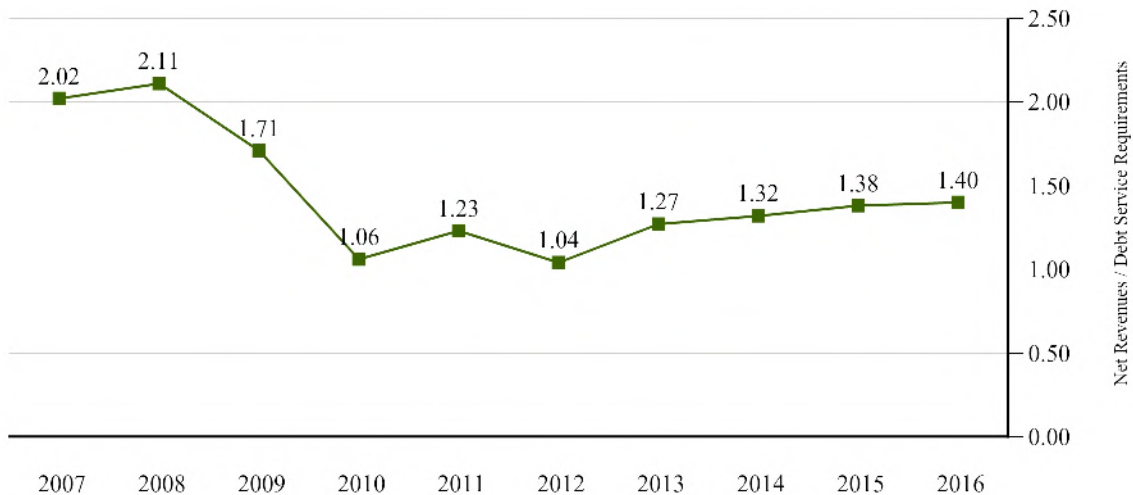
Fiscal year ended June 30	Net Revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio (%)
2016	\$ 1,817,135	\$ 1,298,267	1.40
2015	1,950,292	1,417,420	1.38
2014	1,481,374	1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	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

- (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 2007 - 2016



Ten-Year Schedule of Massachusetts and United States Resident Population

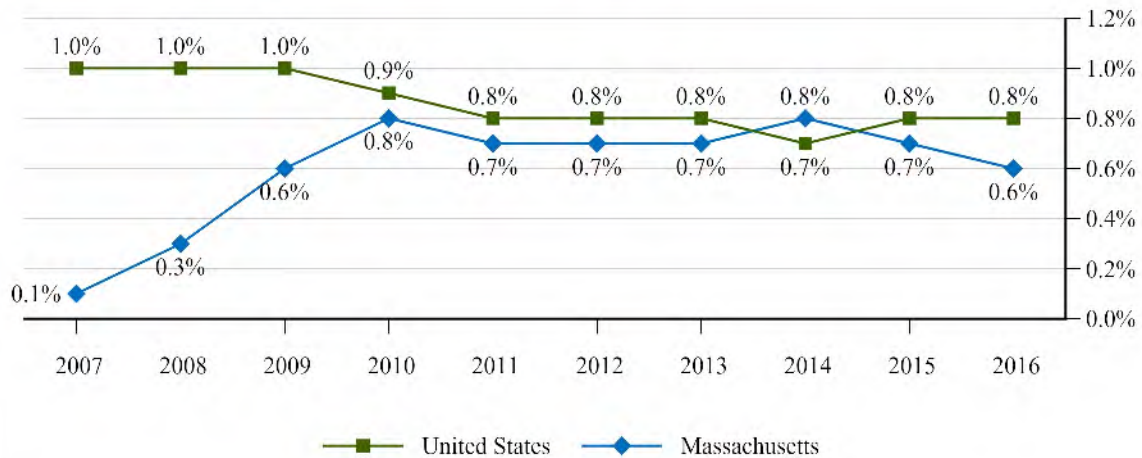
(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2016	321,419	0.8%	6,794	0.6%	2.1%
2015	318,907	0.8%	6,755	0.7%	2.1%
2014	316,427	0.7%	6,709	0.8%	2.1%
2013	314,103	0.8%	6,658	0.7%	2.1%
2012	311,719	0.8%	6,612	0.7%	2.1%
2011	309,347	0.8%	6,565	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%

(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
2007 - 2016**



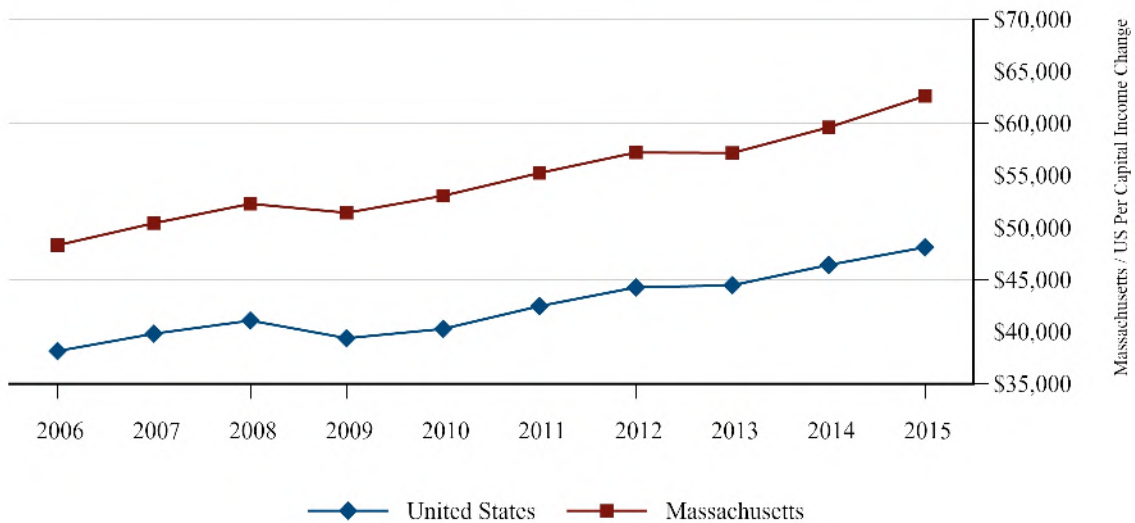
Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2015	\$ 48,112	3.7 %	\$ 62,603	5.0 %	130.1%
2014	46,414	4.4 %	59,603	4.3 %	128.4%
2013	44,462	0.4 %	57,165	(0.1)%	128.6%
2012	44,267	4.3 %	57,194	3.6 %	129.2%
2011	42,453	5.4 %	55,233	4.1 %	130.1%
2010	40,277	2.3 %	53,058	3.2 %	131.7%
2009	39,376	(4.2)%	51,412	(1.7)%	130.6%
2008	41,082	3.2 %	52,283	3.7 %	127.3%
2007	39,821	4.4 %	50,417	4.4 %	126.6%
2006	38,144	6.2 %	48,307	8.3 %	126.6%

Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on September 28, 2016.

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**Massachusetts and United States Estimated Per Capita Net Income
2006 - 2015**



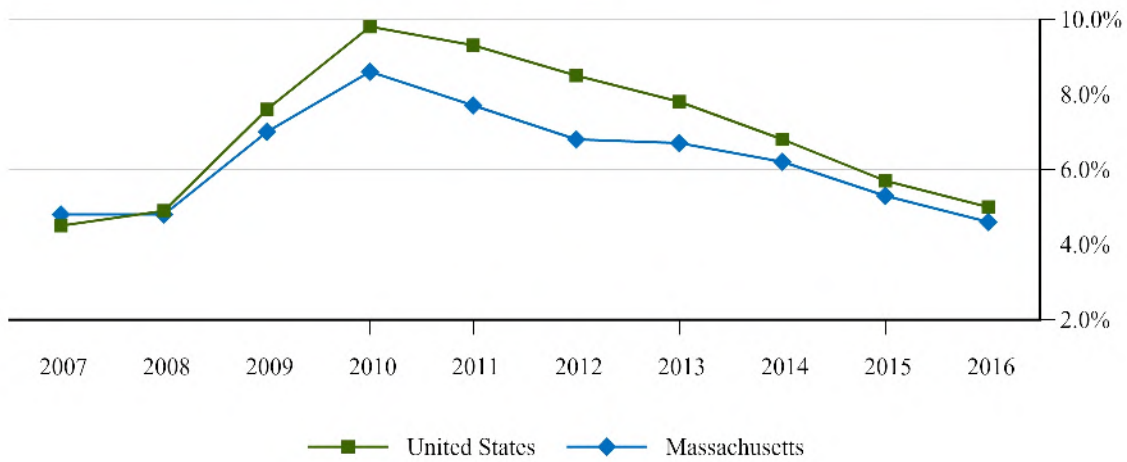
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,
Unemployment and Unemployment Rates
For Massachusetts and the United States**
(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2016	3,575	164	4.6%	158,010	7,886	5.0%	91.9%
2015	3,580	188	5.3%	156,619	8,903	5.7%	92.4%
2014	3,523	217	6.2%	155,476	10,514	6.8%	91.1%
2013	3,493	234	6.7%	155,331	12,076	7.8%	86.2%
2012	3,472	236	6.8%	154,298	13,150	8.5%	79.8%
2011	3,464	268	7.7%	153,615	14,252	9.3%	83.4%
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%

Source: Federal Bureau of Labor Statistics, September, 2016. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

See Independent Auditor's Report

**Massachusetts and United States Average Unemployment Rates
FY2007 to FY2016**



Largest Private Sector Massachusetts Employers 2016 and 2007

(Alphabetical Order)

2016			2007		
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
Massachusetts Institute of Technology	Cambridge	University	General Hospital Corporation	Boston	Hospital
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
President and Fellows of Harvard College	Cambridge	University	President and Fellows of Harvard College	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
The Stop & Shop Supermarkets , Co.	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 Corp,	Boston	Banking
State Street Bank and Trust Company	Boston	Banking	The Children's Hospital Corporation	Boston	Hospital
The Children's Hospital Corporation	Boston	Hospital	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
The TJX Companies, Inc.	Framingham	Retail	Verizon New England, Inc.	Boston	Telecommunications
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2016 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	2016	2015 *	2014	2013	2012
General government.....	7,017	7,696	7,637	7,627	7,408
Judiciary.....	7,263	7,264	7,195	7,297	7,087
Energy and environmental affairs.....	2,539	2,689	2,629	2,684	2,685
Health and human services.....	21,557	22,060	21,496	21,996	21,042
Transportation and construction.....	4,004	4,357	4,301	4,243	4,230
Education.....	907	970	1,099	928	922
Public safety and homeland security.....	16,868	17,057	17,215	16,907	16,503
Housing and economic development.....	844	884	891	868	845
Higher Education:					
University of Massachusetts.....	15,130	14,670	14,066	14,688	14,159
State universities.....	5,050	5,036	4,969	4,856	4,747
Community colleges.....	5,032	5,077	4,990	5,111	4,834
Totals.....	86,211	87,760	86,488	87,205	84,462
Percentage change.....	(1.8)%	1.5%	(0.8)%	3.2%	(0.9)%

Source: Office of the State Comptroller

* Certain amounts were reclassified to conform to current year presentation.

"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).

See Independent Auditor's Report

2011	2010	2009	2008	2007	Change - 2016 from 2007
8,020	8,280	6,277	6,368	6,204	13.1 %
7,111	7,388	7,821	8,021	7,993	(9.1)%
2,737	2,783	2,955	2,928	2,847	(10.8)%
21,011	21,401	22,605	23,322	22,972	(6.2)%
4,209	4,127	3,043	2,892	1,903	110.4 %
1,037	1,575	844	615	617	47.0 %
15,785	15,857	13,951	14,242	14,550	15.9 %
831	846	2,314	2,302	2,339	(63.9)%
14,159	14,031	13,814	13,651	13,602	11.2 %
4,487	4,282	4,650	4,519	4,495	12.3 %
4,684	4,276	4,781	4,775	4,689	7.3 %
84,071	84,846	83,055	83,636	82,211	4.9 %
2.2%	2.2%	(0.7)%	1.7%	1.7%	

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

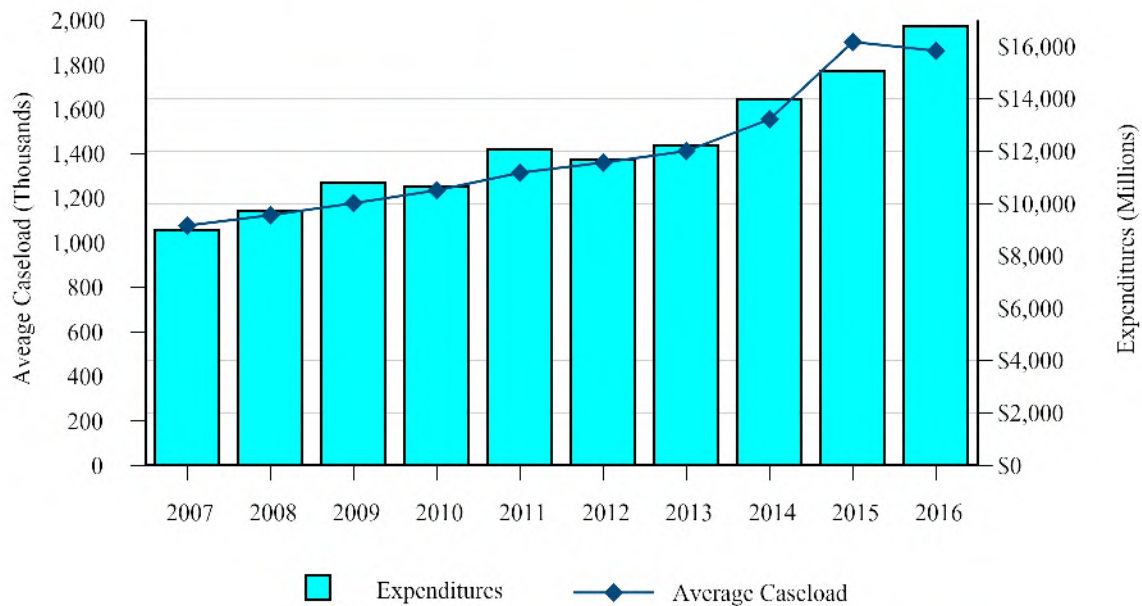
(Caseload amount in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2016*	1,863	\$16,825	\$9,031
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

* Includes members in transitional coverage program starting January 1, 2014.

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Average Annual Caseload and Medicaid Expenditures 2007 - 2016



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
2015	3,204	15,641	9,048	44,654	72,547	0.24 %	85.8%	14.2%
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%

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

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

See Independent Auditor's Report

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

Functions/Programs	Survey Year 2016	Survey Year 2015	Survey Year 2014	Survey Year 2013	Survey Year 2012
General Government:					
Total Acreage.....	2,488	2,574	3,114	3,101	3,039
Number of Improvements	118	173	513	333	279
Gross square footage	4,808,125	6,803,498	10,916,681	9,076,550	7,690,761
Judiciary:					
Total Acreage.....	153	153	149	148	148
Number of Improvements	75	75	74	73	73
Gross square footage	4,843,949	4,843,949	5,310,049	4,700,920	4,700,920
Energy and environmental affairs					
Total Acreage.....	680,310	674,046	668,631	652,400	642,799
Number of Improvements	2,186	2,186	1,806	2,192	2,191
Gross square footage	8,134,142	8,134,142	6,507,161	7,287,961	7,283,666
Housing and economic development:					
Total Acreage.....	2	2	—	2	2
Number of Improvements	6	6	4	5	5
Gross square footage	78,012	78,012	57,812	68,412	68,412
Health and human services:					
Total Acreage.....	5,568	5,623	5,834	5,829	6,407
Number of Improvements	627	627	907	792	855
Gross square footage	8,361,435	8,360,310	10,995,096	9,759,611	10,923,090
Transportation and public works:					
Total Acreage.....	6,968	6,966	7,014	6,965	6,972
Number of Improvements	930	929	675	921	919
Gross square footage	5,820,282	4,919,282	1,989,583	4,876,689	4,876,689
Education:					
Total Acreage.....	208	208	208	208	208
Number of Improvements	40	40	40	43	43
Gross square footage	207,633	207,633	205,503	272,352	272,352
Public safety and homeland security:					
Total Acreage.....	19,150	19,150	19,166	19,169	19,172
Number of Improvements	1,063	1,014	1,083	997	990
Gross square footage	13,845,503	13,376,555	14,402,161	12,213,112	12,191,229
Higher Education:					
Total Acreage.....	7,244	7,243	7,128	7,473	7,254
Number of Improvements	1,078	1,076	873	1,009	1,007
Gross square footage	38,443,057	38,411,260	29,666,140	32,594,800	32,523,400
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage.....	722,091	715,965	711,244	695,295	686,001
Number of Improvements.....	6,123	6,126	5,975	6,365	6,362
Gross square footage.....	84,542,138	85,134,641	80,050,186	80,850,407	80,530,519
Percentage Change for Commonwealth:					
Acreage.....	0.9 %	0.7%	2.3 %	1.4%	2.3 %
Improvement.....	— %	2.5%	(6.1)%	—%	0.7 %
Gross square footage.....	(0.7)%	6.4%	(1)%	0.4%	1.1 %

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 2011	Survey Year 2010	Survey Year 2009	Survey Year 2008	Survey Year 2007
2,993	2,373	2,495	1,858	1,681
255	227	240	163	84
7,206,548	6,797,819	6,660,792	5,736,028	4,767,751
141	141	141	145	135
68	68	69	71	71
4,787,564	4,787,564	4,826,836	5,080,836	4,889,645
627,286	623,952	606,662	591,511	586,173
2,182	2,183	2,170	2,162	2,156
7,295,922	7,299,322	7,246,280	7,242,870	7,185,678
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	77,642	77,642
6,449	7,196	7,166	7,259	7,604
866	866	902	980	1,059
10,834,266	10,809,259	11,214,034	12,270,433	13,371,858
7,013	6,966	7,050	6,930	6,933
918	918	915	915	914
4,873,783	4,876,689	4,876,936	4,876,936	4,856,942
233	233	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
19,158	18,693	18,331	18,324	18,319
991	1,029	1,028	1,023	1,031
12,141,396	12,685,447	12,632,897	12,631,497	12,768,250
7,178	7,169	7,151	7,149	7,133
987	975	937	940	932
32,144,815	32,117,854	31,101,329	31,197,929	30,947,996
670,454	666,725	649,231	633,412	628,212
6,316	6,315	6,310	6,303	6,296
79,634,288	79,723,948	78,909,098	79,386,523	79,138,114
0.6 %	2.7%	2.5 %	0.8%	2.8 %
— %	0.1%	0.1 %	0.1%	(1.3)%
(0.1)%	1%	(0.6)%	0.3%	(0.4)%

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

Academic Year	Fall 2015	Fall 2014	Fall 2013	Fall 2012	Fall 2011
<u>ENROLLMENT</u>					
<u>University System</u>					
Undergraduate (FTE).....	50,816	49,725	48,893	48,136	47,432
Graduate (FTE).....	12,517	12,576	12,442	12,202	12,048
System Enrollment.....	63,333	62,301	61,335	60,338	59,480
<u>State University System</u>					
Undergraduate (FTE).....	34,700	35,507	35,429	34,773	35,639
Graduate (FTE).....	8,007	7,507	7,704	7,894	6,224
System Enrollment.....	42,707	43,014	43,133	42,667	41,863
<u>Community College System</u>					
Undergraduate (FTE).....	59,827	58,764	64,584	62,445	64,586
<u>DEGREES CONFERRED</u>					
	2016	2015	2014	2013	2012
<u>University System</u>					
Certificates (MD's).....	423	435	376	426	348
Associate's.....	85	103	96	121	97
Bachelors.....	12,125	11,841	11,544	10,910	10,399
Masters.....	3,669	3,787	3,559	3,442	3,360
Doctoral.....	575	504	501	486	450
Cert. of Adv. Grad. Study.....	86	81	77	62	89
Post-Bacc. Certificate.....	769	738	691	664	659
First Professional.....	53	64	79	103	43
Total Degrees.....	17,785	17,553	16,923	16,214	15,445
<u>State University System</u>					
Certificates.....	40	29	34	37	29
Bachelors.....	8,762	8,534	8,184	8,024	7,722
Masters.....	2,353	2,116	2,478	2,327	2,404
Cert. of Adv. Grad. Study.....	73	64	113	108	143
Post-Bacc. Certificate.....	283	304	327	371	362
Total Degrees.....	11,511	11,047	11,136	10,867	10,660
<u>Community College System</u>					
Certificates.....	3,131	3,288	3,365	2,929	2,888
Associates.....	11,318	11,517	11,341	10,772	10,404
Total Degrees.....	14,449	14,805	14,706	13,701	13,292
Total All Systems - Degrees.....	43,745	43,405	42,765	40,782	39,397

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

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Fall 2010	Fall 2009	Fall 2008	Fall 2007	Fall 2006	Change - 2015 from 2006
48,018	44,543	42,768	40,806	47,432	5.8 %
11,734	10,177	9,460	9,328	12,048	6.7 %
59,752	54,720	52,228	50,134	59,480	6.0 %
36,721	34,129	33,040	32,106	35,639	(5.5)%
7,227	4,582	4,495	4,428	6,224	10.8 %
43,948	38,711	37,535	36,534	41,863	(2.8)%
64,971	60,602	54,228	51,257	64,586	(7.9)%
2011	2010	2009	2008	2007	% Change - 2016 from 2007
246	329	280	270	268	57.8 %
100	111	103	96	117	(27.4)%
9,958	9,362	8,763	8,437	8,191	48.0 %
3,242	3,029	2,882	2,808	2,503	46.6 %
414	400	381	390	443	29.8 %
87	79	70	86	77	11.7 %
550	509	173	133	146	426.7 %
47	—	—	—	—	100.0 %
14,644	13,819	12,652	12,220	11,745	51.4 %
35	572	605	597	615	(93.5)%
7,190	6,886	6,621	6,328	6,207	41.2 %
2,376	2,467	2,343	2,318	2,201	6.9 %
116	170	157	224	151	(51.7)%
408	362	406	347	431	(34.3)%
10,125	10,457	10,132	9,814	9,605	19.8 %
3,020	2,770	2,587	2,495	2,297	36.3 %
9,693	9,257	8,549	8,247	7,942	42.5 %
12,713	12,027	11,136	10,742	10,239	41.1 %
37,482	36,303	33,920	32,776	31,589	38.5 %

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	Commonwealth Transportation	Massachusetts Tourism	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
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
Adjustment to General Fund transfer for change in market value and other accruals	11,241
Less Transfers from Stabilization Fund during FY 2016	—
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above	—
Stabilization Fund Balance as of June 30, 2016	<u>\$ 1,291,514</u>

* Excludes funds with no FY16 balances or activity

Note: Details may not add to totals due to rounding

See Independent Auditor's Report

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	<u>6,054,833</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u><u>\$ —</u></u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,291,514
Transfer to Tax Reduction Fund.....	<u>—</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u><u>\$ 1,291,514</u></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>\$ —</u></u>

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MASSACHUSETTS GENERAL INFORMATION

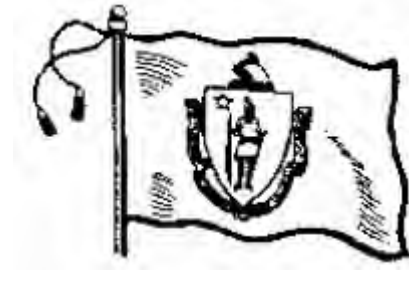
Admitted to Union (6th State): 1788
Population: 6,794,422

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



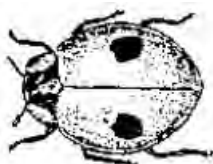
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

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



Commonwealth of Massachusetts

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016