

# *Commonwealth of Massachusetts*

## *Comprehensive Annual Financial Report*

*Fiscal Year Ended June 30, 1997*

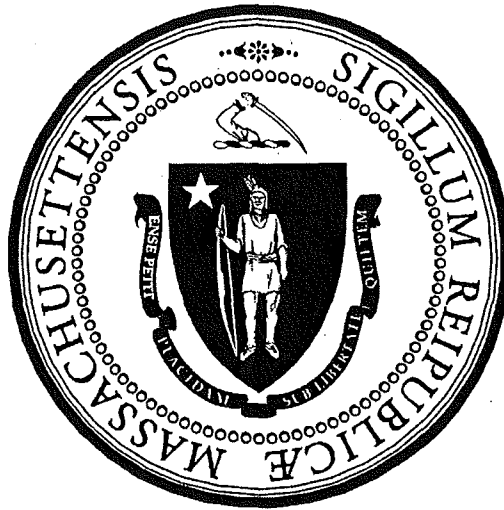
*Argeo Paul Cellucci*  
*Governor*

*Charles D. Baker*  
*Secretary for*  
*Administration and Finance*

*William Kilmartin*  
*Comptroller*



# Commonwealth of Massachusetts



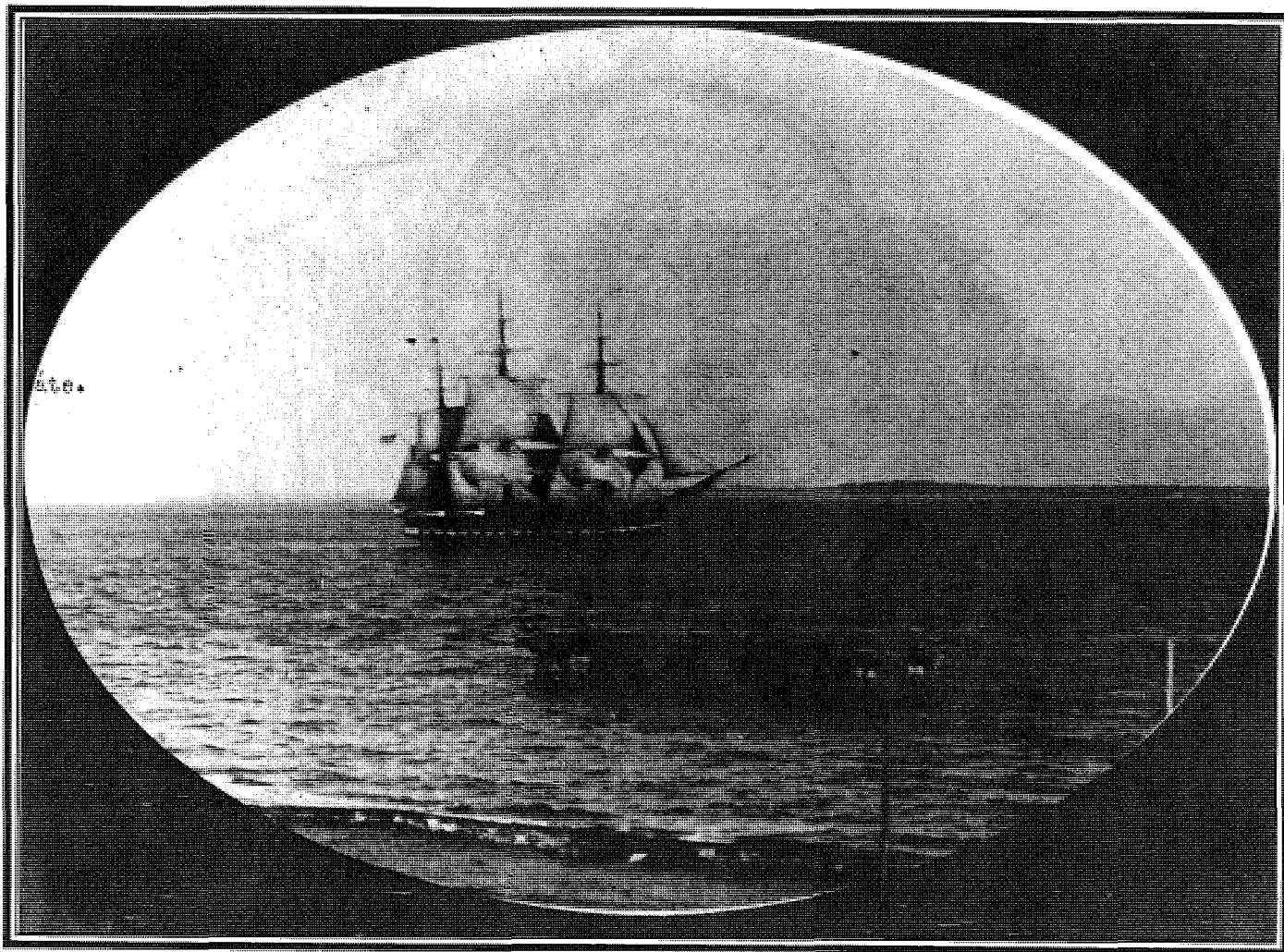
## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 1997*

William Kilmartin, *CGFM*  
*State Comptroller*

*Prepared by The Financial Reporting and Analysis Bureau*

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*Photograph from 1881, showing the last sail of the Constitution prior to 1997.*

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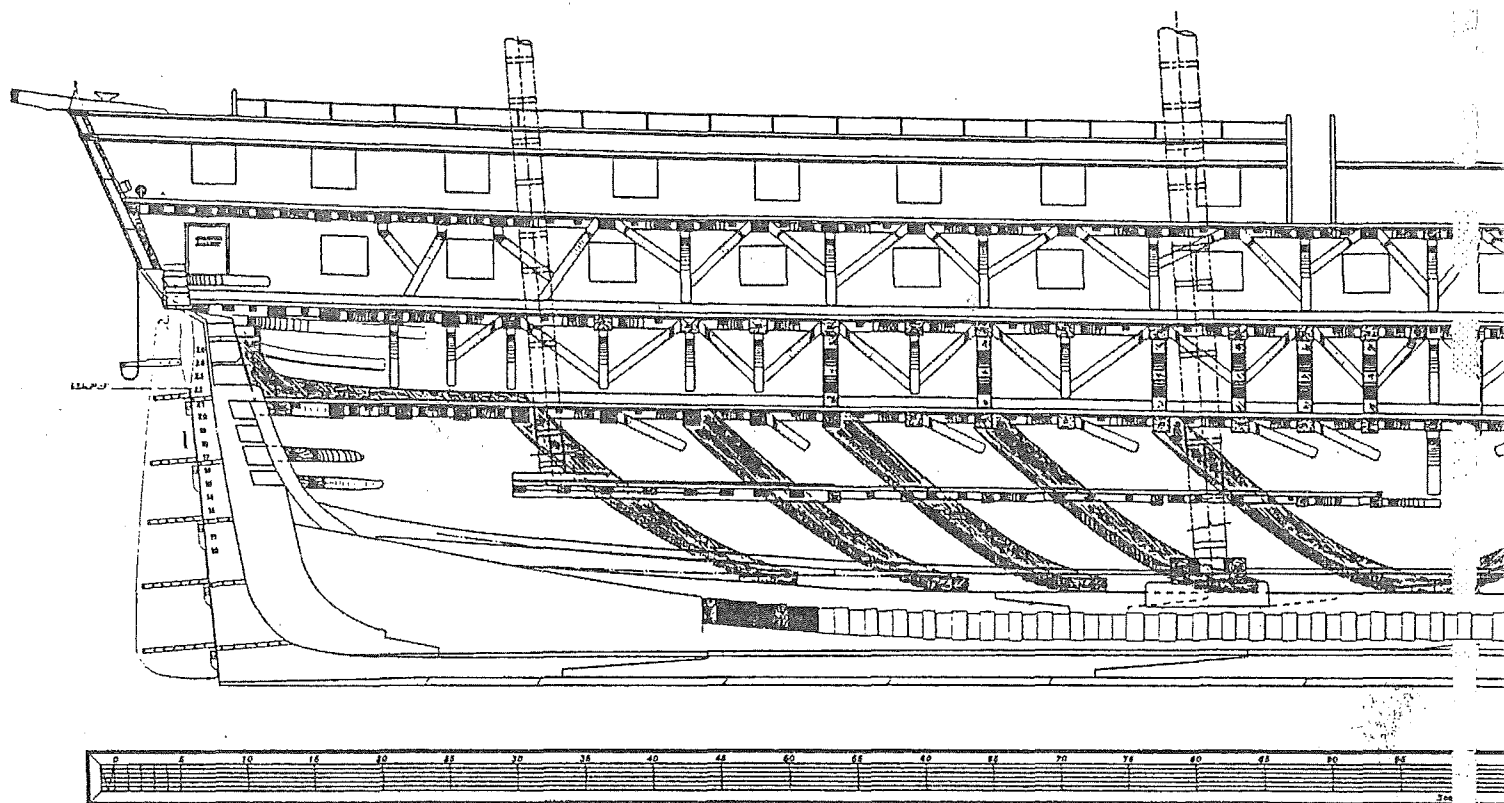
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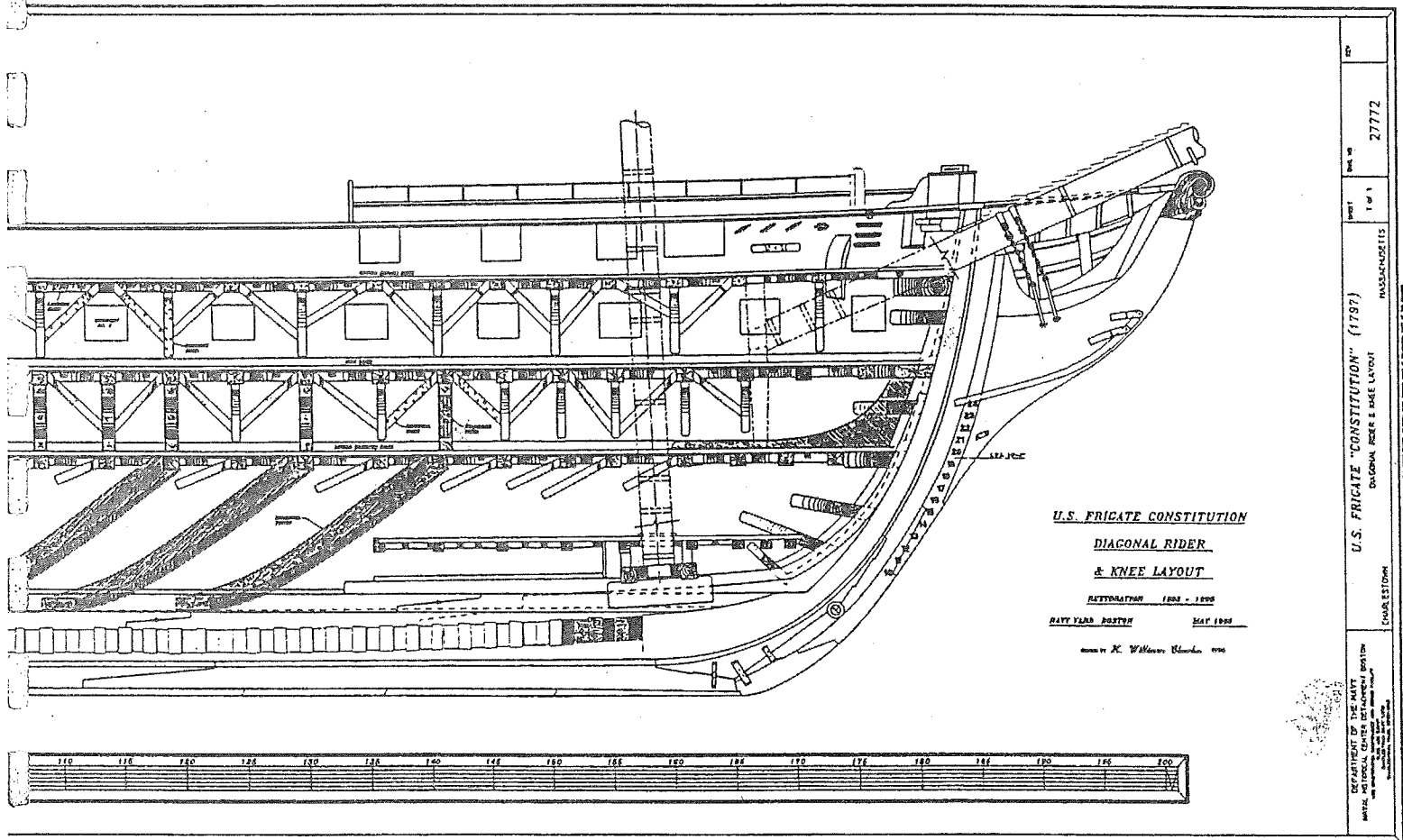
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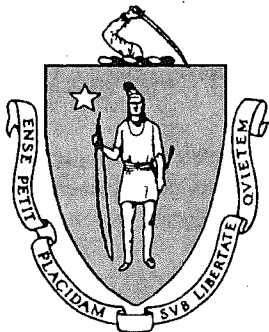


# Introductory Section





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*William Kilmartin,  
Comptroller  
One Ashburton Place  
Boston, MA 02108*

*December 11, 1997*

*To the Citizens of the Commonwealth of Massachusetts,  
Governor Argeo Paul Cellucci, and Honorable Members of the General  
Court*

It is with great pleasure that I transmit the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1997 (FY97). This is the twelfth time we have reported the Commonwealth's financial results in accordance with generally accepted accounting principles (GAAP). I am pleased to report that the financial condition of the Commonwealth is excellent.

For the seventh consecutive year revenues have exceeded expenditures by a significant amount. It was not long ago, in FY90, that the Commonwealth reported in the Budgeted Funds a GAAP deficit balance of \$1.9 billion. We now report a positive GAAP balance in these funds of \$1.1 billion. Years of prudent fiscal management, characterized by structurally balanced budgets, combined with a favorable economy, have caused this turnaround. The Commonwealth's strategic reserve, called the Stabilization Fund, is now funded in the amount of \$799.3 million. In addition, \$91.8 million has been reserved for income tax reduction in FY98. In FY90 and FY91, the Commonwealth resorted to over \$1.8 billion in deficit borrowing. Conversely in FY97 each individual taxpayer received a tax reduction averaging \$43, and the deficit borrowing will be completely repaid in early FY98. The ongoing challenge to state policy makers is to sustain this excellent financial condition.

The Office of the Comptroller is responsible for the fair presentation of the financial statements of the Commonwealth and for the preparation of this Comprehensive Annual Financial Report which is presented in three sections: Introductory, Financial, and Statistical. The three sections of the CAFR, as detailed in the table of contents, include the information necessary for the reader to obtain a comprehensive understanding of the Commonwealth's financial position and the results of its operations for FY97.

The CAFR is prepared in accordance with GAAP as established by the Governmental Accounting Standards Board (GASB), the professional standards of the American Institute of Certified Public Accountants (AICPA), the recommendations of the Government Finance Officers Association (GFOA), and the requirements of state finance law.

In FY97 the Commonwealth implemented two new GASB statements:

- Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions"; and
- Statement No. 30 "Risk Financing Omnibus".

This implementation had no material effect on the Commonwealth's financial statements.

## BUDGETED FUNDS OPERATIONS

The portion of state finances that typically engenders the highest degree of interest is the Budgeted Funds. These include the General, Local Aid, Highway, and certain Special Revenue Funds which comprise the annual state budget.

### Budgeted Funds Operations - GAAP Basis (Amounts in millions)

|  | FY93 <sup>(1)</sup> | FY94             | FY95            | FY96            | FY97              |
|--|---------------------|------------------|-----------------|-----------------|-------------------|
| Beginning fund balances (deficits).....    | \$ (317.4)          | \$ (184.1)       | \$ (72.0)       | \$ 287.4        | \$ 709.2          |
| Equity transfer .....                      | -                   | -                | 91.0            | -               | -                 |
| Restated beginning balance (deficit).....  | (317.4)             | (184.1)          | 19.0            | 287.4           | 709.2             |
| Revenues and other financing sources.....  | 15,181.0            | 15,804.9         | 16,517.5        | 17,524.6        | 18,845.9          |
| Expenditures and other financing uses..... | 15,047.7            | 15,692.8         | 16,249.1        | 17,102.8        | 18,458.8          |
| Excess.....                                | 133.3               | 112.1            | 268.4           | 421.8           | 387.1             |
| Ending fund balances (deficits).....       | <u>\$ (184.1)</u>   | <u>\$ (72.0)</u> | <u>\$ 287.4</u> | <u>\$ 709.2</u> | <u>\$ 1,096.3</u> |

(1) As restated to reflect discrete presentation of the University and College Fund.

### Budgeted Funds Operations - Statutory Basis (Amounts in millions)

|  | FY93            | FY94            | FY95            | FY96              | FY97              |
|--|-----------------|-----------------|-----------------|-------------------|-------------------|
| Beginning fund balances .....              | \$ 549.4        | \$ 562.5        | \$ 589.3        | \$ 726.5          | \$ 1,173.0        |
| Revenues and other financing sources.....  | 15,205.7        | 15,979.2        | 16,930.8        | 18,371.4          | 19,223.3          |
| Expenditures and other financing uses..... | 15,192.6        | 15,952.4        | 16,794.1        | 17,924.9          | 19,002.3          |
| Excess .....                               | 13.1            | 26.8            | 136.7           | 446.5             | 221.0             |
| Ending fund balances.....                  | <u>\$ 562.5</u> | <u>\$ 589.3</u> | <u>\$ 726.5</u> | <u>\$ 1,173.0</u> | <u>\$ 1,394.0</u> |

The table of Budgeted Funds Operations - GAAP Basis sets forth a multi-fiscal year view of financial performance for the Budgeted Funds under GAAP, and also provide a comparison to the same funds as accounted and reported under the statutory basis of accounting.

On the statutory basis of accounting, which is used to develop the Commonwealth's budget and control its daily activities, the Budgeted Funds have achieved positive ending fund balances for each of the years, increasing this fund balance from \$562.5 million in fiscal year 1993 to \$1,394.0 million in the current fiscal year for a cumulative improvement of \$831.5 million.

Over the same period on a GAAP basis, operating gains have improved fund balance from a deficit \$184.1 million to a positive \$1,096.3 million, with cumulative improvement of \$1,280.4 million. Simply stated, the widely acknowledged efforts to accomplish fiscal balance on a statutory basis are even more impressive when viewed on a GAAP basis.

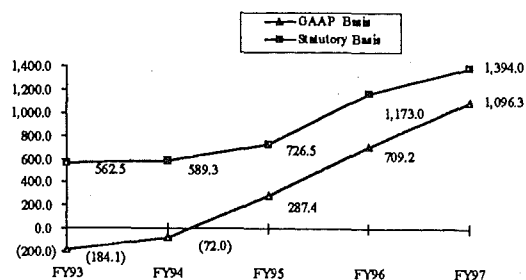
The basic principle of GAAP is to match inflows pertaining to the fiscal year to outflows for the same period in order to demonstrate if the objective of interperiod equity has been accomplished. A modified accrual basis of accounting is employed to recognize certain assets and liabilities. Accomplishment of interperiod equity is denoted by an increase in fund balance, and the failure to accomplish that goal is denoted by a decrease in fund balance. The effect of fund deficits shifts the burden of funding expenditures incurred in prior years to taxpayers in future years. The Commonwealth has provided not only revenues to match expenditures in the current year, but also excess revenues to "catch up" on prior year deficits.

In FY97, the revenues and other financing sources totaled \$18,845.9 million. The Budgeted Funds - GAAP Basis chart shows the percentage of revenue by type contributing to that total. Budgeted Funds expenditures and other financing uses totaled \$18,458.8 million in FY97. The chart depicts the percentage of each major program in this total.

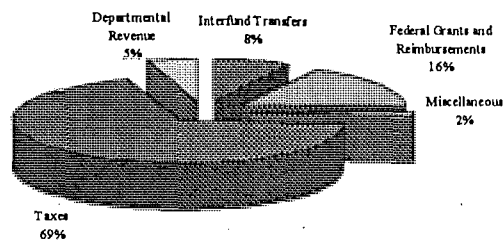
There are five major items that account for almost all the difference between the statutory basis reporting and GAAP: Medicaid, subsidies to authorities, compensated absences, claims and judgments, and tax revenues.

For the Medicaid program, expenditures under the statutory basis of accounting are equivalent to cash disbursements. Thus bills for services rendered in the fiscal year but not paid, or rate adjustments owed but not paid, are not measured in that year, but "pushed" into the next fiscal year. Under GAAP, such items are accrued, so that all expenditures are consistently correlated to the fiscal year to which they pertain. The Medicaid expenditures measured on a GAAP basis for FY97 were \$3,497.3 million, which is 7.9% higher than FY96. This increase is equivalent to the increase for total budgeted expenditures from FY96 to FY97. For several years the Commonwealth aggressively pursued policy to constrain expenditure growth in Medicaid, thus helping to balance the overall budget. In FY97, the Commonwealth authorized expanded programs and services with increased spending. (The financial effect of this policy change will be more evident in FY98.)

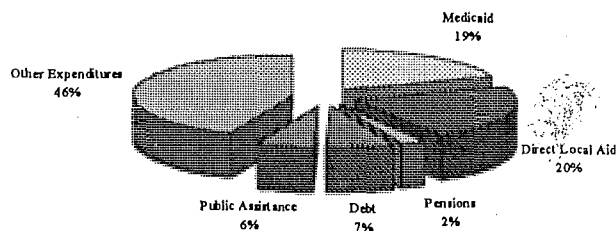
**Trends in Fund Balance**  
(Amounts in millions)



**BUDGETED FUNDS - GAAP BASIS**  
Revenue and Other Financing Sources



**BUDGETED FUNDS - GAAP BASIS**  
Expenditures and Other Financing Uses



A second item is the amount the Commonwealth will owe for subsidies to the Massachusetts Bay Transportation Authority (MBTA), the Regional Transit Authorities (RTAs), and the Massachusetts Convention Center Authority (MCCA). Through various laws the Commonwealth has obligated itself to provide subsidies to these component units for operations and debt service. However, the annual budget is appropriated on a basis which "lags" behind the total amount of the subsidy. Under GAAP, this amount is accrued, so that the total obligation is measured. For many years the amount for the "not yet appropriated" subsidy was growing at rates higher than the total budget.

However, in recent years this trend has varied, and in FY97 the amount accrued for MBTA subsidy obligations increased from FY96 by \$40.1 million. A special commission, chaired by the Secretary of Administration and Finance and with twelve entities represented, completed a study and made recommendations to the Legislature on matters relating to the MBTA subsidy. This MBTA Commission proposed significant changes to fund the subsidy on a contemporaneous basis so that financial support for the MBTA would not "lag", but the recommendations were not enacted.

The third item is compensated absences. Under GAAP, the amounts owed for vacation earned but not yet taken and certain amounts of sick leave are accrued and reported as expenditures of the fiscal year. The trend for compensated absences has been relatively consistent.

The fourth item is claims and judgments. Under the statutory basis, amounts owed in lawsuits for torts, tax disputes, eminent domain land taking, or other legal actions are not measured as expenditures until the lawsuit is decided and the settlement is actually paid. Under the GAAP basis, an analysis is performed on all litigation, and an amount is accrued for that portion of litigation where a settlement against the Commonwealth is considered probable.

The fifth item that explains the difference between statutory and GAAP relates to tax revenue. For several reasons, as an example the extension of an income tax return, a taxpayer's obligation incurred in a fiscal year might not be fully collected until the ensuing fiscal year. Under GAAP, a special analysis is conducted in conjunction with the Department of Revenue (DOR), and an accrual for revenue is computed. The value of accrued revenue was \$514.6 million in FY97.

## **GOVERNMENTAL FUND OPERATIONS**

The Governmental Fund Types include all funds where the Commonwealth imposes its sovereign authority to create revenues and authorize expenditures. This includes all Budgeted Funds as previously described (General and several Special Revenue Funds), all other (non-budgeted) Special Revenue Funds, and the Capital Project Funds. When viewed as a whole, these funds portray the Commonwealth's comprehensive governmental financial activity. The five year trend of operations, on a GAAP basis, is summarized in the following table.

Within the Capital Projects Funds component of the Governmental total, the Commonwealth issued approximately \$373.5 million in project financing in early FY98 instead of late FY97. Had such capital project financing been issued in FY97, the Governmental Funds positive fund balance would have increased by an equivalent amount.

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**Governmental Fund Operations**  
(Amounts in millions)

|  | FY93 <sup>(1)</sup> | FY94              | FY95             | FY96            | FY97              |
|--|---------------------|-------------------|------------------|-----------------|-------------------|
| Beginning fund balances (deficits).....    | \$ (416.8)          | \$ (478.3)        | \$ (273.7)       | \$ (16.3)       | \$ 644.6          |
| Equity transfer .....                      | -                   | -                 | 15.5             | -               | -                 |
| Restated beginning balance (deficit).....  | (416.8)             | (478.3)           | (258.2)          | (16.3)          | 644.6             |
| Revenues and other financing sources.....  | 22,380.3            | 23,226.0          | 24,216.4         | 25,102.3        | 27,372.9          |
| Expenditures and other financing uses..... | 22,441.8            | 23,021.4          | 23,974.5         | 24,441.4        | 26,986.9          |
| Excess (deficiency).....                   | (61.5)              | 204.6             | 241.9            | 660.9           | 386.0             |
| Ending fund balances (deficits).....       | <u>\$ (478.3)</u>   | <u>\$ (273.7)</u> | <u>\$ (16.3)</u> | <u>\$ 644.6</u> | <u>\$ 1,030.6</u> |

(1) As restated to reflect discrete presentation of the University and College Fund.

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**INTERNAL SERVICE FUNDS**

In FY95, consistent with adoption of GASB statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", the Commonwealth established for GAAP reporting purposes three Internal Service Funds. These funds account for the operations of the State Employees Workers' Compensation Program, a special workers compensation program for the Central Artery/Third Harbor Tunnel Project, and for the health insurance programs administered by the Group Insurance Commission. On the statutory basis of accounting these funds have not been created and are not reported. The adjusting entries to report these "GAAP only" Funds represent another difference from the statutory basis.

The Commonwealth self-insures for the State Employees Workers' Compensation Program. This program was administered by the Public Employee Retirement Administration Commission (PERAC) through FY97. Effective July 1, 1997 administration has been transferred to the Human Resource Division. Inflows to the program are amounts charged to state departments; outflows are expenses for claims and settlements, and accrued expenses for claims which will be paid in the future. The traditional policy has been to set chargebacks equivalent to claims paid, typically referred to as a "pay as you go" approach. As a result, an unfunded liability of \$251.2 million has accumulated. The Commonwealth should consider a plan to increase annual chargebacks, thus eventually funding such liability.

In regard to the Central Artery/Tunnel Project, the Executive Office of Transportation and Construction, with the approval of the U.S. Department of Transportation, has created a special workers

compensation program to cover all participants (including employees of contractors) on the project. In this arrangement, annual premiums and investment earnings are accumulated by the insurance carrier to fund current and future claims. The approach is expected to diminish this potentially expensive component of the large, multi-year construction project. With four years experience, it is evident that amounts contributed to the program significantly exceed the expectations of current and future benefits. With this situation (the opposite of the State Employees Workers' Compensation Program), the Executive Office of Transportation and Construction should consider a plan to decrease annual premiums, and thus lower the accumulated balance, on a go-forward basis. The respective contributions of both state and federal governments must be considered in any change to this program.

The Group Insurance Commission manages the health insurance program for state employees, retirees, and their beneficiaries. Inflows to the program are amounts contributed by individuals, participant organizations, or by the Commonwealth; and outflows are expenses for claims, plus an amount of accrued expenses for claims incurred but not reported. The accumulated balance, while a small deficit, is not material to the size of the program, suggesting that symmetry of inflows to outflows is reasonable and change is not warranted.

The operations of the Internal Service Funds are depicted in the Internal Service Fund Operations chart. The ending retained earnings consists of deficits of \$251.2 million and \$34.2 million in Employees Workers' Compensation and Employees Group Health Insurance offset by \$145.1 million in the Central Artery Workers Compensation program.

### Internal Service Fund Operations

(Amounts in thousands)

|   | FY95                | FY96                | FY97                |
|---|---------------------|---------------------|---------------------|
| Beginning Retained Earnings (Deficit).....          | \$ -                | \$ (223,419)        | \$ (151,080)        |
| Operating Gain.....                                 | 127,932             | 68,664              | 3,234               |
| Other Revenues .....                                | 5,985               | 3,675               | 7,508               |
| Equity Transfer.....                                | (15,716)            | -                   | -                   |
| Balance from the General Long Term Obligations..... | (341,620)           | -                   | -                   |
| Ending Retained Earnings (Deficit).....             | <u>\$ (223,419)</u> | <u>\$ (151,080)</u> | <u>\$ (140,338)</u> |

### FIDUCIARY FUND OPERATIONS

The Fiduciary Fund Type reports funds where the Commonwealth is acting as an agent or steward for funds which relate to another party. The Fiduciary Fund Type includes the Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds.

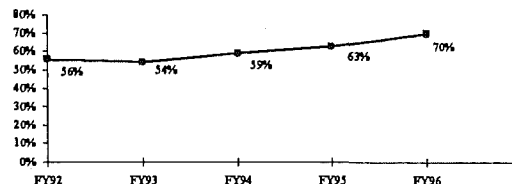
The Nonexpendable Trusts account for assets held with restrictions and the Agency funds account for assets managed temporarily on behalf of other parties. The amount of such assets managed by the Commonwealth increased by \$756.4 million during FY97 to \$7.0 billion.



The Expendable Trusts ended FY97 with a fund balance of \$1.6 billion composed of a balance of \$116.4 million in Expendable Trusts and \$1,515.0 million in the Unemployment Compensation Trust Fund.

The Commonwealth is responsible for the payment of pension benefits to its employees and to the teachers of the cities, towns, and regional school districts. It manages the operations of both the State Employees' Retirement System (SERS) and Teachers' Retirement System (TRS), and reports the results of operations and net assets available to fund pension benefit as Pension Trust funds. Pursuant to the pension reform law, effective in FY88, the Commonwealth is funding its pension liabilities on a long term schedule. The original schedule would have eliminated the unfunded pension liability in 40 years, by the year 2028. A new funding schedule approved in FY97 will eliminate the unfunded pension liability in 30 years by the year 2018. It is the responsibility of the Public Employee Retirement Administration (PERA) to complete actuarial updates for the funding schedule.

**Pension Funding Progress**  
Funded Ratio



In FY97, PERA was reorganized in statute to the Public Employee Retirement Administration Commission (PERAC), but retains the responsibility for actuarial updates. Also in FY97, the investment vehicles for all pension funds (state employee and employer amounts, and teacher employee and employer amounts) were unified into a single investment entity, under the management of the Pension Reserve Investment Management Board (PRIM). The actuarial report for SERS, TRS, and for the State-Boston Retirement System was published by PERA as of January 1, 1996.

In FY96 the Commonwealth adopted the provisions of GASB Statement Numbers 25 and 27 which changed the measurement focus of funding progress. The Pension Funding Progress Graph presents the funding progress applied under the prior standards while the funding progress under the new standards are disclosed in footnote 10.

The following table presents a five-year trend analysis of the Pension Trust Funds operations:

**Pension Trust Funds**  
(Amounts in millions)

|                               | FY93               | FY94               | FY95               | FY96               | FY97               |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning fund balances ..... | \$ 9,648.6         | \$ 11,121.1        | \$ 11,563.1        | \$ 13,483.2        | \$ 15,956.2        |
| Revenues.....                 | 2,374.2            | 1,376.3            | 2,902.1            | 3,560.6            | 4,729.4            |
| Expenses.....                 | 901.7              | 934.3              | 982.0              | 1,087.6            | 1,125.6            |
| Excess .....                  | 1,472.5            | 442.0              | 1,920.1            | 2,473.0            | 3,603.8            |
| Ending fund balances.....     | <u>\$ 11,121.1</u> | <u>\$ 11,563.1</u> | <u>\$ 13,483.2</u> | <u>\$ 15,956.2</u> | <u>\$ 19,560.0</u> |

## UNIVERSITY AND COLLEGE FUND TYPE

Since FY93 the CAFR has presented the University and College system in accordance with the AICPA Industry Audit Guide, "Audits of Colleges and Universities." This presentation combines financial activity from all fund types for:

- the University of Massachusetts, including its campuses at Amherst, Boston, Dartmouth, Lowell, Worcester Medical School, and the Teaching Hospital as well as its component units.
- the State College system of nine state colleges, which provide four-year post-secondary education, and the State College Building Authority.
- the Community College system of fifteen community colleges which provide two-year post-secondary education programs.

The University and College Fund Type reports a positive GAAP fund balance. Approximately \$2.4 billion of this fund balance is restricted or designated in plant funds, endowment funds, or other purposes.

### University and College Fund Type Operations (Amounts in millions)

|  | FY93       | FY94       | FY95       | FY96 (1)   | FY97       |
|--|------------|------------|------------|------------|------------|
| Beginning fund balances.....                       | \$ 1,991.6 | \$ 2,010.4 | \$ 2,034.9 | \$ 2,164.9 | \$ 2,363.3 |
| Revenues and other additions.....                  | 1,329.2    | 1,449.5    | 1,536.7    | 1,816.6    | 1,823.7    |
| Expenditures and other deductions.....             | 1,881.3    | 2,006.4    | 2,082.0    | 2,254.4    | 2,381.8    |
| Net transfers, including state appropriations..... | 570.9      | 581.4      | 601.6      | 636.2      | 707.0      |
| Net Increase .....                                 | 18.8       | 24.5       | 56.3       | 198.4      | 148.9      |
| Ending fund balances.....                          | \$ 2,010.4 | \$ 2,034.9 | \$ 2,091.2 | \$ 2,363.3 | \$ 2,512.2 |

(1) As restated for addition of component units

In FY97, fourteen of these entities are commended for producing stand alone audited financial reports in conformity with Generally Accepted Accounting Principles. This list includes Holyoke Community College, Massasoit Community College, Mass Bay Community College, Springfield Technical Community College, Bridgewater State College, the Massachusetts College of Art, Framingham State College, Fitchburg State College, Middlesex Community College, Mount Wachusett Community College, Northern Essex Community College, Westfield State College, Worcester State College, and the University of Massachusetts. Each of these schools has demonstrated accountability to its trustees, the Governor and Legislature, and to all concerned parties with audited financial statements prepared in accordance with GAAP.

For several years both the Comptroller's Office and the Board of Education (previously the Higher Educational Coordinating Council) have encouraged all schools as a matter of policy to commit the requisite resources and effort to produce stand alone audited financial statements. The University of Massachusetts is an excellent example of the successful implementation of this policy, as it reported very favorable financial performance in FY97. In the FY97 appropriation act the Legislature authorized the institutions of higher education to create component units, called Foundations, to assist in fund raising for public education. As part of this authorization, the legislation requires each Foundation to produce audited financial statements. In the current legislative session, the Office of the Comptroller and the Board of Higher Education has requested the Governor to file legislation to extend the statutory requirement for stand-alone financial statement audits in conformity with GAAP beyond the Foundations to the respective institutions.

## COMPONENT UNITS

The Commonwealth's relationship to the independent public authorities, reported as Component Units, is based on statute and contracts between the Commonwealth and these entities.

### Component Units Operations (Amounts in millions)

|   | Beginning<br>Retained<br>Earnings | Operating<br>Gain/<br>(Loss) | Subsidy       | Other<br>Changes | Ending<br>Retained<br>Earnings |
|---|-----------------------------------|------------------------------|---------------|------------------|--------------------------------|
| Massachusetts Bay Transportation Authority.....                 | \$ (204)                          | \$ (545)                     | \$ 617        | \$ (59)          | \$ (191)                       |
| Massachusetts Turnpike Authority.....                           | 358                               | (5)                          | -             | 4                | 357                            |
| Regional Transit Authorities.....                               | 2                                 | (79)                         | 56            | 23               | 2                              |
| Massachusetts Water Pollution Abatement Trust.....              | 30                                | (9)                          | 26            | 24               | 71                             |
| Massachusetts Convention Center Authority.....                  | -                                 | (12)                         | 17            | (2)              | 3                              |
| Corporation for Business Work and Learning*.....                | 8                                 | (48)                         | 9             | 40               | 9                              |
| Government Land Bank.....                                       | 31                                | (5)                          | 2             | -                | 28                             |
| Massachusetts Community Development Finance Agency.....         | 2                                 | (1)                          | 1             | -                | 2                              |
| Massachusetts Technology Park Corporation.....                  | 19                                | (2)                          | 1             | -                | 18                             |
| Community Economic Development Assistance Corporation.....      | 39                                | 5                            | -             | 1                | 45                             |
| Massachusetts Corporation for Educational Telecommunication.... | 4                                 | (8)                          | 5             | 3                | 4                              |
| Massachusetts Housing Partnership.....                          | 14                                | 3                            | 2             | (5)              | 14                             |
| Commonwealth Zoological Corporation.....                        | (1)                               | (3)                          | 3             | 2                | 1                              |
| Massachusetts International Trade Council.....                  | -                                 | (1)                          | 1             | -                | -                              |
| Total.....  | <u>\$ 302</u>                     | <u>\$ (710)</u>              | <u>\$ 740</u> | <u>\$ 31</u>     | <u>\$ 363</u>                  |

\* Formerly Bay State Skills and the Industrial Service Program

## **INDEPENDENT AUDIT**

The firm of Deloitte & Touche LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA, and assisted by the Office of the State Auditor, have performed an independent audit of the Commonwealth's general purpose financial statements for the fiscal year ended June 30, 1997. We express our thanks to the staff of the respective firms for their professionalism, advice and counsel. Their report is presented in the Financial Section.

## **INTERNAL CONTROL ENVIRONMENT**

Massachusetts General law, Chapter 647 of the Acts of 1989, places authority and responsibility for internal controls with the head of each executive department, constitutional office, and branch of government. The Office of the Comptroller issues internal control guidelines and the Office of the State Auditor may investigate departments with risk of internal control weaknesses.

These two offices have continued to deliver joint training sessions for department managers regarding their responsibility for internal control in the Commonwealth's highly automated environment.

Absolute assurance with respect to internal control is prohibitively expensive. Using risk assessment criteria set forth in the guidelines and stressed in the training, the objectives of the Commonwealth's internal control structure are to provide management and the public with reasonable assurance that internal control systems do not have material weaknesses. The reader is referred to the separately published Commonwealth Single Audit Reports for additional information on internal controls.

## **REPORTING ENTITY**

The financial statements incorporate the fiscal activities of 146 departments, agencies, boards, commissions, institutions of higher education, the judicial and legislative branches of government, and constitutional offices. These departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (MMARS), operated by the Office of the Comptroller.

In addition, the financial statements include independent public authorities, and the State Employees' and Teachers' Retirement Systems. These component units meet the GAAP criteria for inclusion in the reporting entity, which are further described in Note 1 to the general purpose financial statements.

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

MMARS is the computerized, statewide accounting system used by all departments to control and account for their financial activity under the statutory basis of accounting. The financial operations of the authorities and certain non-appropriated higher education funds are accounted for through their own independent accounting systems.

MMARS is designed to satisfy all requirements of the Commonwealth's statutory basis of accounting and financial reporting. Any additional information needed to prepare financial statements according to GAAP is provided through a combination of MMARS system-generated data, information compiled by departments, and the submission of audited financial statements from certain independent authorities.

Note 2 to the general purpose financial statements provides a reconciliation between the General and Budgeted Special Revenue Funds on a statutory basis and the GAAP basis presented in the general purpose financial statements.

### **CASH AND INVESTMENTS**

Cash and investments are controlled by the State Treasurer. Each department transmits all cash receipts to the Treasurer's Office. Weekly and daily warrants for disbursements are prepared by the Comptroller, and reviewed and approved by the Governor's Council; disbursements are issued by the Treasurer. A major project is underway to streamline the banking and disbursement process, and maximize use of electronic funds transfer and electronics benefits transfer.

A system of bank depository and disbursement accounts and lockboxes is employed by the Treasurer's Office to maximize daily cash balances. The Treasurer manages these cash balances in pooled investment funds to optimize interest earnings. The Treasurer's Office invests cash from these general accounts in short-term securities and other investments. A discussion of cash and investments is presented in Note 3 to the general purpose financial statements.

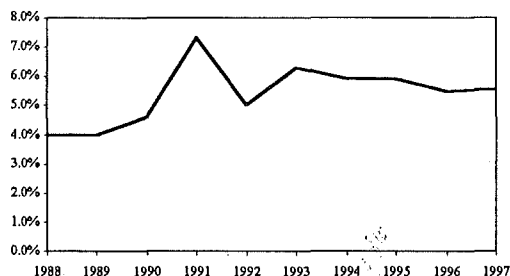
The Treasurer is also responsible for quarterly cash flow plans, weekly variance reports, and, jointly with the Executive Office for Administration and Finance, annual and quarterly cash management plans. Taxes and non-tax inflows, warrants, other outflows, and short and long-term borrowings are monitored against these plans.

FY97 is the fourth year of the Commonwealth's implementation of the U.S. Cash Management Improvement Act (CMIA). The CMIA requires the states to measure interest income on federal funds drawn from the U.S. Treasury prior to disbursement, and for the U.S. Treasury to measure interest income on funds drawn down subsequent to disbursement. A settlement of interest due to or due from the state and federal government is computed. For FY97, the net settlement is in favor of the Commonwealth.

**Long-Term Debt**  
(Amounts in billions)

| Fiscal Year | Authorized - Unissued | Principal Outstanding |
|-------------|-----------------------|-----------------------|
| 1997        | 12.0                  | \$ 10.3               |
| 1996        | 8.2                   | 10.1                  |
| 1995        | 5.9                   | 9.6                   |
| 1994        | 4.5                   | 9.4                   |
| 1993        | 4.6                   | 9.2                   |

**Debt Service as a % of Governmental Expenditures**



**DEBT**

The Commonwealth funds its capital appropriations by authorizing the issuance of long-term bonds. The Long Term Debt chart sets forth the trend of the Commonwealth's tax-supported long-term indebtedness for the last five years.

To limit the Commonwealth debt burden, and control the degree to which debt service creates pressure on the operating budget, the Administration has implemented a five-year capital spending plan. This administrative policy has existed for several years, and the effect of debt service on the operating budget is depicted on the following graph of Debt Service as of % of Governmental Expenditure.

In October, Standard and Poors upgraded, the rating for Commonwealth's General Obligation Debt from "A+" to "AA-". The effect of the capital policy, the acceleration of funding of the Commonwealth's pension liability, and the string of operating surpluses were cited as reasons for the upgrade.

As authorized by state finance law, the State Treasurer may utilize short-term borrowing to support governmental cash flow. No such borrowings occurred during the fiscal year.

Other debt consists of certificates of participation and capital lease agreements. Such financing arrangements are used to acquire capital assets, for example computer equipment and motor vehicles. The Commonwealth continued to utilize this form of financing in FY98.

Additional information on Commonwealth debt, including guaranteed debt of independent public authorities, is presented in Notes 7, 8, and 12 to the general purpose financial statements.

**RISK FINANCING**

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law, and is defended by the Attorney General's Office in such cases. In FY97, approximately \$23.0 million was expended to resolve such claims in special and existing appropriations. Based on the Attorney General's evaluation of cases in which it is probable that a judgment will be rendered against the Commonwealth, and a loss incurred, an additional \$66.7 million has been accrued in the Governmental Funds at June 30, 1997.

## ECONOMIC AND FINANCIAL PROSPECTS

Massachusetts employment grew 2.2% in 1994, 0.9% in 1995 and 1.1% in 1996. The Massachusetts unemployment rate, currently at 3.7%, remains below the national rate of 4.7% (October 1997). Commonwealth per capita income continues to outpace the nation as shown in the Per Capita Income graph.

The Commonwealth of Massachusetts, with an international reputation for medical, cultural, historical, and educational institutions, is 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.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and 27.2% of the residents over age 25 have earned bachelor's degrees, compared to 20.3% for the United States as a whole.

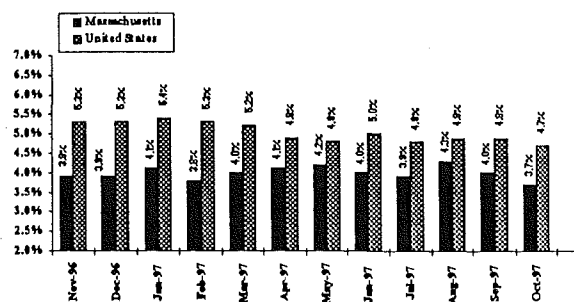
Our capital, Boston, has 25 hospitals and three medical schools. Tourism is a significant component of the economy. The Massachusetts Office of Travel and Tourism estimates that over 28.0 million visitors spent over \$6.1 billion in the Commonwealth in 1995. The Commonwealth ranked eleventh among states in exports with \$16.2 billion in 1996.

A continued low rate of inflation is expected to keep wage growth low and allow for slow-paced positive growth in the Massachusetts economy.

The Commonwealth's FY98 budget forecast is consistent with the economic trends presented above. Budgeted revenues and other sources, as estimated by the Executive Office for Administration and Finance, are currently projected at approximately \$18,386.9 million. The estimate assumes tax revenues will grow 2.6% above FY97 actual collections. However when this estimate is adjusted for tax cuts proposed by the Governor; coupled with a one time change in the way sales taxes are paid, the impact on FY98 will be a decrease of \$196 million and \$140 million respectively. Therefore actual FY98 collections are estimated at \$12,839 million, slightly below FY97 actual receipts.

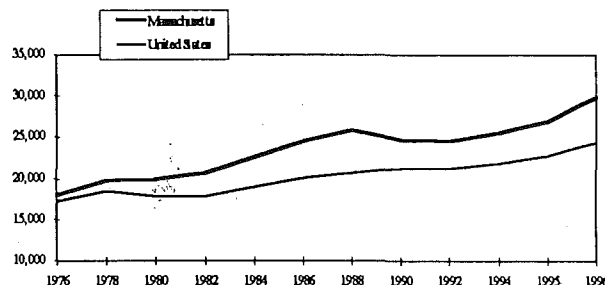
The Commonwealth's total budgeted expenditures and other uses in FY98 are projected at \$18,671.9 million. This estimate assumes the spending in the Commonwealth's seven major programs (Local Aid, Medicaid, Employee Health Insurance, Public Assistance, Debt Service, Pensions and Subsidies to Transit Authorities), which comprise over 60% of budgetary spending, will increase by 3.6% over FY97.

## Monthly Unemployment Rate November 1996 - October 1997



Source: Massachusetts Department of Employment and Training

## Per Capita Income 1976 - 1996 (in 1995 dollars)



The FY98 opening fund balance, for budgeted funds, on a statutory basis is \$1,394.0 million. If the FY98 forecast is realized, the ending fund balance will be approximately \$981.0 million. It is noteworthy that, of the \$981.0 million, approximately \$821.8 million is projected to be reserved in the Commonwealth's Stabilization Fund. In this forecast, the Commonwealth has continued a conservative revenue estimating approach. As in past years, ending fund balances may be higher due to this conservative approach to forecasting.

The Administration will soon be engaged in an extensive mid-year review of this estimate. The Governor will release his recommended budget for FY99 in late January, at which time the FY98 forecast may be revised.

## **SIGNIFICANT ACCOMPLISHMENTS**

In FY97, there were a number of significant public policy accomplishments that demonstrate accountability and financial management.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This is the seventh consecutive year that the Commonwealth has received this award.

The non-tax revenue optimization campaign was very successful in FY97. With special authorization in the budget, a task force was comprised of key persons from the Executive Office for Administration and Finance, the Budget Bureau, the Information Technology Division, and the Comptroller's Office. The task force provided leadership and sponsored projects by which outside experts were engaged on a contingent fee basis, and departments optimized various sources of non-tax revenue (such as federal reimbursement) by over \$39.1 million. The initiative is dedicated to optimizing all collection potential within the framework of existing fee structure and program authorizations. The non-tax revenue optimization campaign continues in FY98.

A large number of projects to enhance or re-engineer business processes with new technology have been performed. Such projects relate to an array of Commonwealth activities, including automation of welfare eligibility determination, management of cases in the legal system, creating a new statewide client server infrastructure, and significant changes to the Commonwealth's administrative and fiscal systems.

Examples of projects from the domain of financial accounting include: major streamlining of the Commonwealth's cash deposit and non-tax revenue systems; automation of the previously manual functions to exchange cash with the federal government; re-engineering the Commonwealth disbursement practices to the model of electronic commerce, including electronic data interchange, electronic funds transfer, and electronic benefits transfer; and creating a data warehouse to make the wealth of data emanating from transaction processing systems accessible and available to knowledge workers via query systems controlled by desktop computers.



Under the leadership of the Information Technology Division, several departments across the branches of government are collaborating in joint ventures to leverage resources in these projects. This approach is yielding significant results both in terms of shared functionality and interoperable systems, and increased purchasing power through joint procurements. Exciting partnerships with internal Commonwealth departments and private sector business partners have developed. Several of these projects have received national recognition and awards.

In early FY97, the Governor and Legislature enacted a second Information Technology Capital Outlay. This provides the funding and management framework for another series of projects that will exploit new technologies to improve the way the Commonwealth conducts its business. All these projects will be fully year 2000 compliant. In addition the project to update to the Commonwealth's accounting system for the year 2000 is scheduled for implementation in the fall of 1998. All Commonwealth's systems have year 2000 remediation projects in progress under the supervision of the Information Technology Division. With this innovative authorization technique and through its array of projects, the Commonwealth is again the focus of attention by other states, the U.S. Government, and the private sector. The prospects for future success are outstanding.

## **RECOMMENDATIONS AND CONCLUSIONS**

The Office of the Comptroller has a unique perspective on state finance based on insights gained through control of day-to-day operations and experience with GAAP. With this background, we take this opportunity to make proposals intended to strengthen state finance.

Consistent with the prior recommendations, the Office of the Comptroller believes the Commonwealth's current fund structure should be streamlined. The Local Aid Fund has increased outflows associated with the Education Reform Act of 1994, and exhibits a structural budgetary imbalance. The continued existence of this Fund should be examined. The proliferation of budgeted Special Revenue Funds has fractured, not strengthened, the budget process.

As special interest groups have enjoyed political success in carving out dedicated revenues and removing operations from the general budget, the capacity for centralized planning and control has diminished. The numerous non-budgeted Special Revenue Funds and Capital Projects Funds further complicate efforts to obtain a comprehensive view of state finance.

The Office of the Comptroller has proposed Legislation to simplify the fund structure, reduce the number of funds to a more manageable number, and eliminate fund deficits.

In addition, the Office of the Comptroller has proposed legislation to simplify the definition of a balanced budget, and the terms and conditions for deposits into the Stabilization Fund. This legislation would result in a more coherent and understandable picture of the Commonwealth's Governmental Funds financial activity.

The Commonwealth has a tremendous opportunity to employ new technologies to improve its programmatic, financial, and administrative operations. In FY93 the Governor proposed and the Legislature enacted the first Information Technology Capital Outlay. In FY97, the Governor and Legislature enacted a second Information Technology Capital Outlay. With this funding the opportunity exists to re-engineer old business practices and engage new technology. An unprecedented interdepartmental coalition under the leadership of the Commonwealth's Chief Information Technology Officer creates an exciting opportunity to make strategic investments that will position the Commonwealth successfully into the next century. Consistent with this investment, the Comptrollers Office and Information Technology Division has requested changes to the budget to provide resources for ongoing systems operation and maintenance.

The Commonwealth has authorized and committed itself to a number of capital projects over the next several years. This includes the Central Artery/Tunnel project and several other initiatives that will generate significant pressure on the self-imposed cap on capital spending. In FY97 several mechanisms were established to address this situation, including utilization of approximately \$319.3 million from budgetary surplus for capital projects. Continued efforts and diligence to manage capital spending is merited.

The Commonwealth should enact a program to fund the liability for the State Employees Workers' Compensation Program as new costs are incurred and amortize the accumulated unfunded liability of \$251.2 million. This amount did not materialize in a single year and a multi-year funding schedule is recommended. Options to furnish the necessary funding include a "surcharge" to the current statutory chargeback to state agencies, special lump sum appropriations, a redirection of investment earnings, and other actions. Accumulating assets to satisfy the current unfunded liability will be another demonstration of interperiod equity and sound financial management. In contrast, for the special workers' compensation program for the Central Artery/Tunnel Project, the Commonwealth should consider decreasing annual contributions. In this instance, it appears the amount accumulated for current and future claims is more than adequate. Since both federal and state government contribute to the program, any change to annual contributions must be structured accordingly.

Regarding the institutions of higher education, the time has come for each school to produce audited stand-alone financial statements in conformity with generally accepted accounting principles. While many schools have moved into this practice of their own volition, and others are currently in the preparation process, it is appropriate to make this a statutory requirement. The Comptroller's Office and Board of Higher Education will seek legislation to accelerate such an effort.

In conclusion, this report represents the continued commitment of the Office of the Comptroller to promote quality in the Commonwealth's financial management. I express my sincere appreciation to the dedicated professionals in the Comptroller's Office, Martin Benison, B.J. Trivedi, and the staff of the Financial Reporting Bureau and other state departments and organizations whose efforts are reflected in this report.

In addition, the work of the several project teams to implement the Information Technology projects mentioned above is especially noteworthy. They are launched on projects that will create enduring value not only to Massachusetts, but to other states and governments throughout the nation. They exemplify the cutting edge of innovation, and the citizens of the Commonwealth are well served by professionals of their caliber.

The Office of the Comptroller transmits the Comprehensive Annual Financial Report for FY97 in accordance with Section 12 of Chapter 7A of the General Laws.

Respectfully transmitted,



William Kilmartin  
Comptroller

## **CONSTITUTIONAL OFFICERS**

Argeo Paul Cellucci  
*Governor*

William F. Galvin  
*Secretary of State*

L. Scott Harshbarger  
*Attorney General*

Joseph D. Malone  
*Treasurer and Receiver-General*

A. Joseph DeNucci  
*Auditor*

## **LEGISLATIVE OFFICERS**

Thomas F. Birmingham  
*President of the Senate*

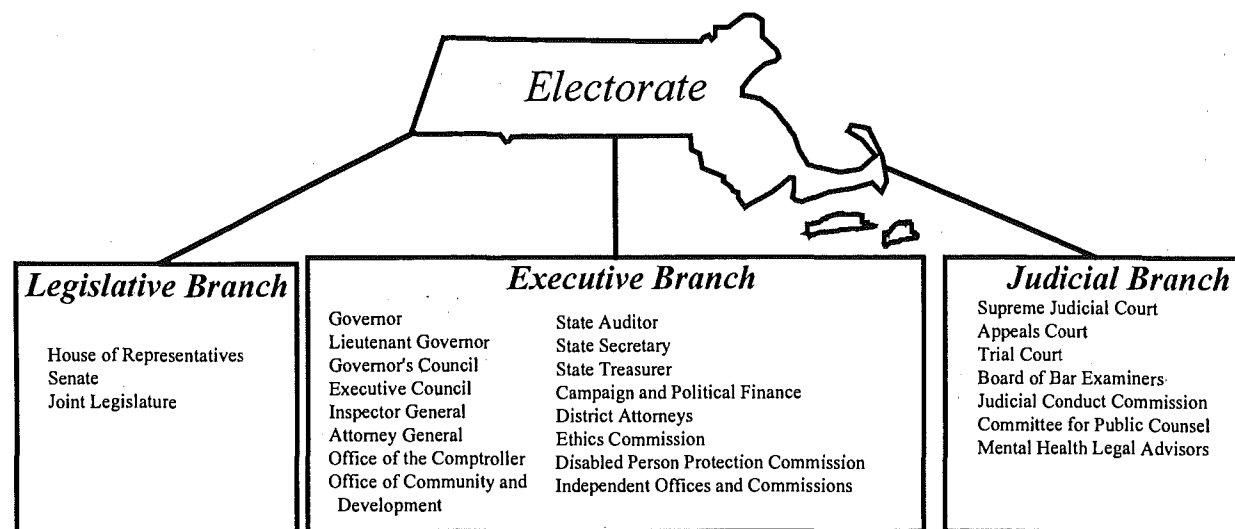
Thomas M. Finneran  
*Speaker of the House*

## **JUDICIAL OFFICERS**

Herbert P. Wilkins  
*Chief Justice, Supreme Judicial Court*

Joseph P. Warner  
*Chief Justice, Appeals Court*

John J. Irwin  
*Chief Justice for Administration and Management, Trial Court*



| State Agencies  |  |  |
|---|--|--|
| <p><b>Administration and Finance</b></p> <p>Executive Office Secretary of Administration and Finance</p> <p>Developmental Disabilities</p> <p>Appellate Tax Board</p> <p>Budget Bureau</p> <p>Operational Services Division</p> <p>Civil Service Commission</p> <p>Department of Revenue</p> <p>Department of Veteran Services</p> <p>Division of Administrative Law Appeals</p> <p>Capital Planning and Operations</p> <p>Group Insurance Commission</p> <p>Commission Against Discrimination</p> <p>Teachers' Retirement Board</p> <p>Public Employee Retirement Administration</p> <p>Human Resource Division</p> <p>Information Technology Division</p> <p>Massachusetts Office on Disability</p> | <p><b>Economic Development</b></p> <p>Department of Economic Development</p> <p>Division of Energy Resources</p>   | <p><b>Health and Human Services</b></p> <p>Executive Office of Health and Human Services</p> <p>Department of Mental Health</p> <p>Department of Mental Retardation</p> <p>Department of Public Health</p> <p>Department of Social Services</p> <p>Department of Transitional Assistance</p> <p>Department of Youth Services</p> <p>Division of Medical Assistance</p> <p>Massachusetts Commission for the Blind</p> <p>Massachusetts Commission for the Deaf and Hard of Hearing</p> <p>Massachusetts Rehabilitation Commission</p> <p>Office for Children</p> <p>Office for Refugees and Immigrants</p> <p>Soldier's Homes</p> <p>Division of Health Care Finance &amp; Policy</p> |
| <p><b>Public Safety</b></p> <p>Executive Office of Public Safety</p> <p>Architectural Access Board</p> <p>Committee on Criminal Justice</p> <p>Criminal History Systems Board</p> <p>Criminal Justice Training Council</p> <p>Department of Correction</p> <p>Department of Public Safety</p> <p>Department of Police</p> <p>Governor's Highway Safety Bureau</p> <p>Massachusetts Emergency Management Agency</p> <p>Merit Rating Board</p> <p>Military Division</p> <p>Chief Medical Examiner</p> <p>Parole Board</p> <p>Registry of Motor Vehicles</p> <p>Board of Building Regulations</p> <p>Department of Fire Services</p>   | <p><b>Education</b></p> <p>Department of Education</p> <p>Higher Education</p> <p>University System</p> <p>State and Community Colleges</p>  | <p><b>Labor</b></p> <p>Department of Labor &amp; Work Force Development</p> <p>Conciliation and Arbitration</p> <p>Division of Industrial Accidents</p> <p>Joint Labor Management Commission</p> <p>Labor Relations Commission</p> <p>Division of Employment and Training</p>  |
|   | <p><b>Elder Affairs</b></p> <p>Executive Office of Elder Affairs</p>   |  |
|   | <p><b>Environmental Affairs</b></p> <p>Executive Office of Environmental Affairs</p> <p>Department of Food and Agriculture</p> <p>Department of Environmental Management</p> <p>Department of Environmental Protection</p> <p>Fisheries and Wildlife Environmental Law Enforcement</p> <p>Metropolitan District Commission</p> <p>State Reclamation Board</p> <p>Low Level Radioactive Waste</p> |  |
|   | <p><b>Transportation and Construction</b></p> <p>Executive Office of Transportation and Construction</p> <p>Massachusetts Aeronautics Commission</p> <p>Massachusetts Highway Department</p>   | <p><b>Consumer Affairs</b></p> <p>Office of Consumer Affairs &amp; Business Regulations</p> <p>Board of Medicine</p> <p>Massachusetts Cable Television Commission</p> <p>Department of Public Utilities</p> <p>Division of Banks</p> <p>Division of Insurance</p> <p>Division of Registration</p> <p>Division of Standards</p> <p>State Racing Commission</p> <p>Alcoholic Beverages Control Commission</p> <p>Energy Facilities Setting Council</p>   |

**REPORT PREPARED BY:**

Martin J. Benison, CGFM  
*Deputy Comptroller*

Anita Rose Rapino  
*Administrative Assistant*

**Financial Reporting And Analysis Bureau:**

Bhavdeep J. Trivedi, CGFM  
*Director*

Marybeth Shaughnessy, CPA, CGFM  
*Assistant Director*

John Haran, CPA, CGFM  
*Accountant*

Pauline Lieu, CPA, CGFM  
*Accountant*

Neil Gouse, CGFM  
*Accountant*

Daryl E. Byers  
*Systems Analyst*

Cathy DiGianni  
*Administrative Secretary*

Padmanabh Patel  
*Intern*

Ya Yee Chen  
*Intern*

Michael Dunn  
*Intern*

Lauren Johnson  
*Director Resource Management  
Layout and Design*

James Powers, CPA  
*Special Projects*

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of  
Massachusetts

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda K. Savitsky*  
President

*Jeffrey L. Esser*  
Executive Director

3rd Congress

1st Session

No. 1

## *Naval Force Against Algiers*

*"... the committee submit the following resolutions*

*Resolved, That a naval force, to consist of four ships of forty-four; and two ships of twenty guns, each, be provided, for the protection of commerce of the United States against the Algerine corsairs."*

*War Office, January 20, 1796*

*Sirs:*

*I have the honor to send, herewith, for the information of the committee to whom was committed the report on the frigates, the best returns of materials provided, and yet wanting, that can formed, together with an account of the moneys expended, and the sum necessary to complete, their construction and equipment, exclusively of men and provisions; this sum being estimated at \$453,973.*

*I am, very respectfully, sir, your obedient servant,*

*TIMOTHY PICKERING*

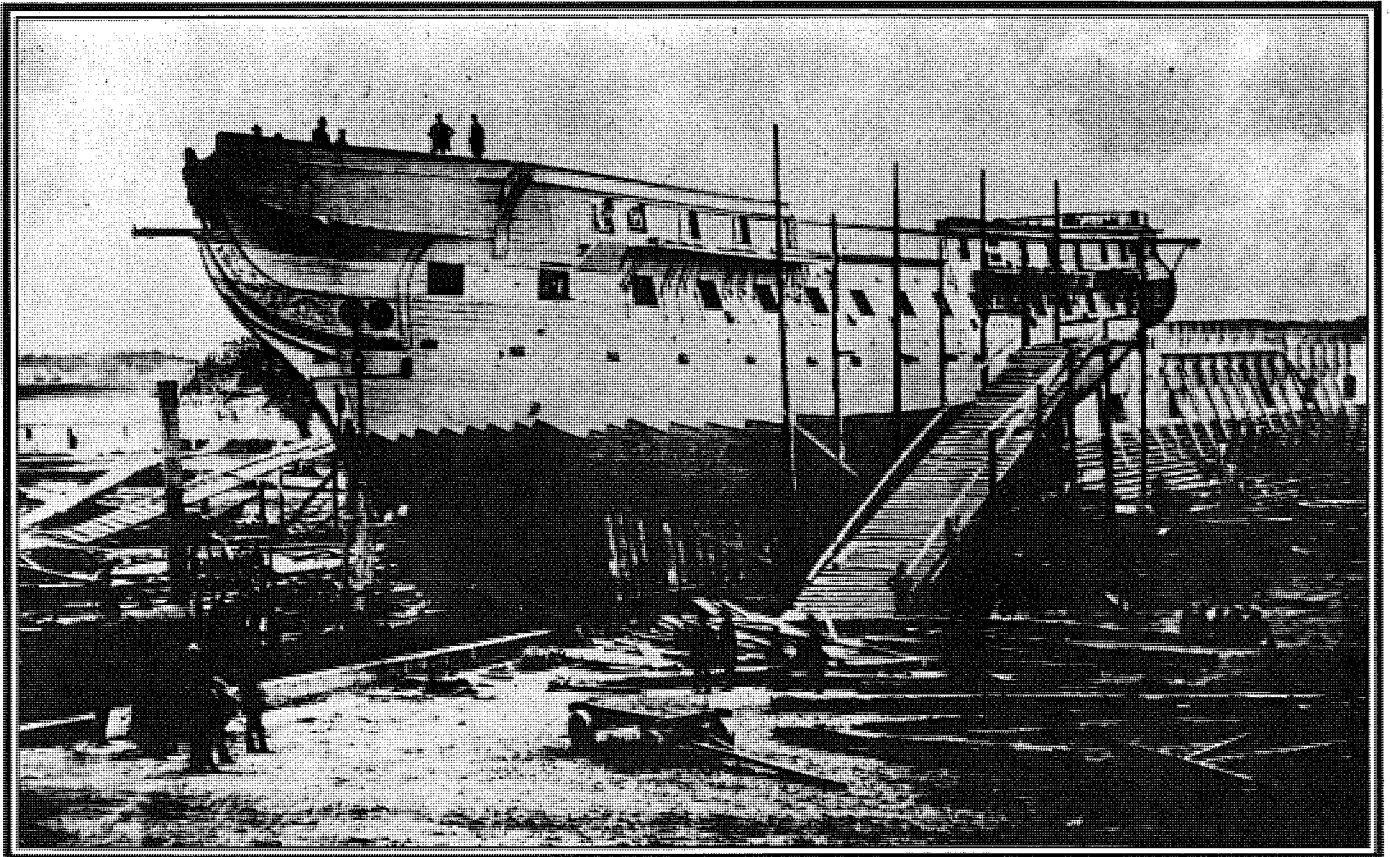
*Honorable Josiah Parker, Esq.*

Both of the paragraphs above are from the transcripts of the 3rd Congress as communicated to the House of Representatives, January 20th, 1794. The first gives the approval to build a fleet, and the second, from the Secretary of War, records the cost estimate for the construction of four frigates including the U.S.S. Constitution.

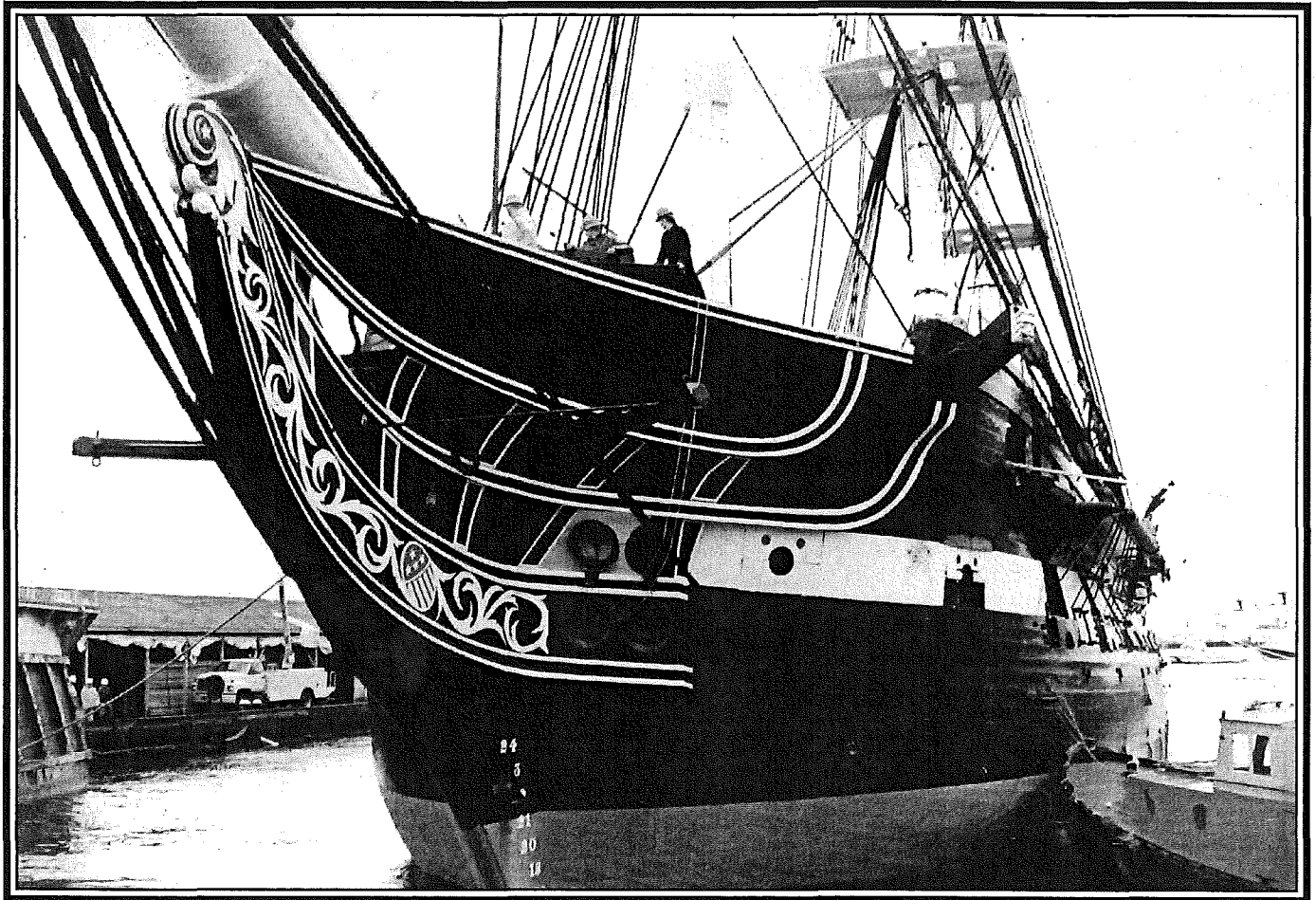
The text was excerpted from the American State Papers, a chronicle of the first 34 congresses and the predecessor of the Congressional Informational Serial Set, an ongoing collection of U.S. Government publications compiled under the directive of Congress.



# *Financial Section*



*An early repair of the Constitution, May 27, 1858, Portsmouth Navy Yard.*



*Constitution afloat, September 26, 1995 after successful rehabilitation and restoration.*

**Independent Auditors' Report**

Mr. William Kilmartin, Comptroller  
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1997, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the institutions of higher education and their blended component units listed in Note 1 which reflect 88 percent of the total assets and 88 percent of the total revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust, which is the investment vehicle of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 72 percent and 46 percent, respectively, of the total assets and total revenues of the Fiduciary Fund Type. We did not audit the operations of the Massachusetts State Teachers' and Employees' Retirement Systems Trust, the financial operations of which reflect 10 percent of the revenues of the Fiduciary Fund Type, for the period from July 1, 1996 through the date of its merger with the Pension Reserves Investment Trust on December 31, 1996. We did not audit the financial statements of the discretely presented component units listed in Note 1 which reflect 84 percent of the total assets and 90 percent of the total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included for the University and College Fund Type, Fiduciary Fund Type and the discretely presented component units referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1997, and the results of its operations and the cash flows of its Internal Service Funds, Nonexpendable Trust Fund and discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 16 to the financial statements, the Commonwealth of Massachusetts financial reporting entity has changed as a result of adding three component units to the reporting entity.

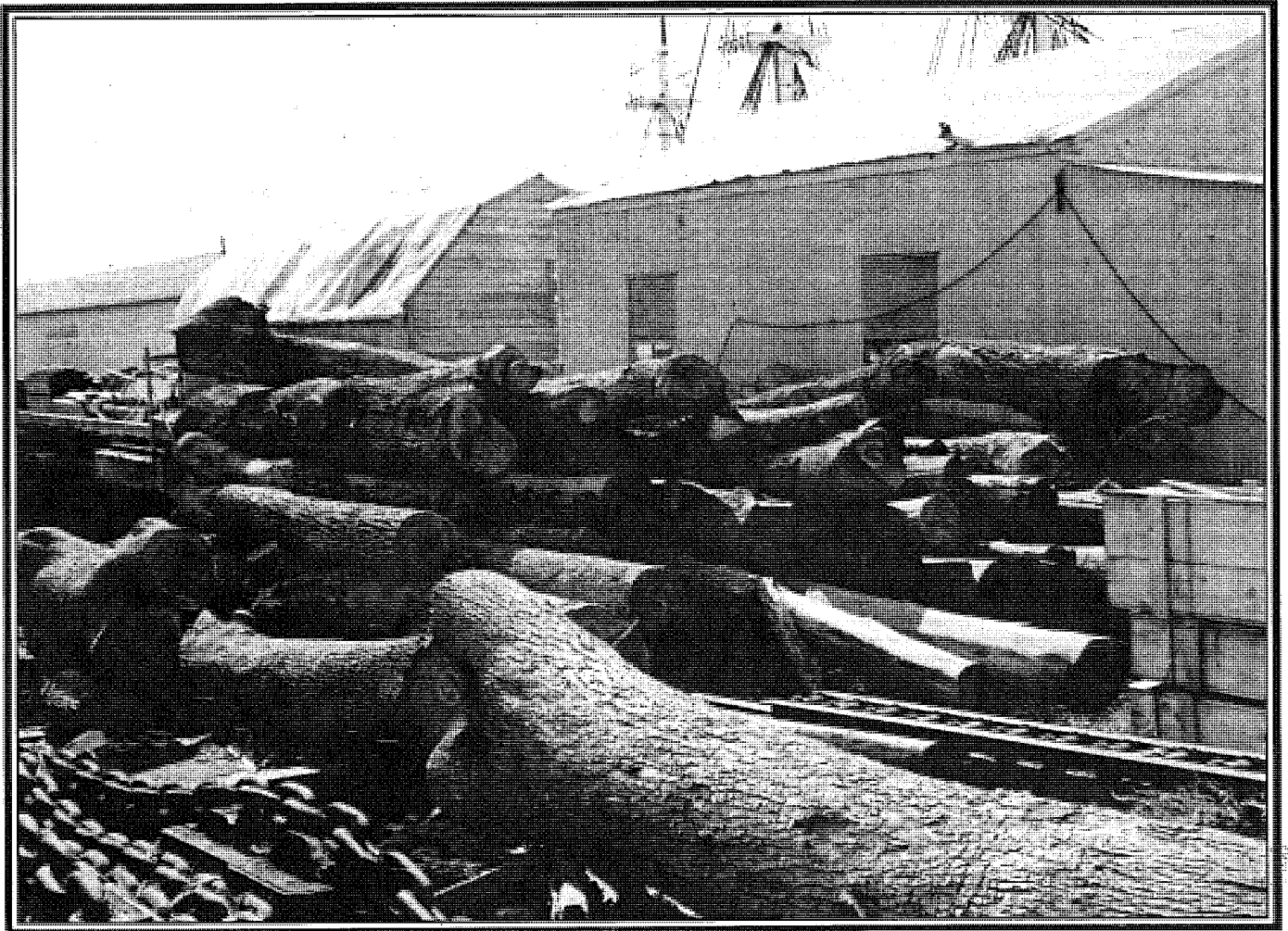
Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund statements, and account group schedules, listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. These statements and schedules are also the responsibility of the management of the Commonwealth of Massachusetts. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements.

We did not audit the data included in the introductory and statistical sections of this report and accordingly, we express no opinion on such data.

*Deloitte & Touche LLP*

December 11, 1997

# *General Purpose Financial Statements*



*Rare live oak logs acquired through donations to the Navy. It was this dense wood that gave the Constitution its nickname "Old Ironsides." With frames built from live oak, cannonballs were seen bouncing off the wooden hull.*

# All Fund Types, Account Groups And Discretely Presented Component Units Combined Balance Sheet

June 30, 1997  
(Amounts in thousands)

|   | Primary                 |                 |                  |                        |
|---|-------------------------|-----------------|------------------|------------------------|
|   | Governmental Fund Types |                 |                  | Proprietary Fund Types |
|   | General                 | Special Revenue | Capital Projects | Internal Service       |
| <b>ASSETS AND OTHER DEBITS</b>  |                         |                 |                  |                        |
| Cash and short-term investments.....  | \$ 553,912              | \$ 826,313      | \$ -             | \$ -                   |
| Cash with fiscal agent.....   | 746                     | 24,077          | -                | -                      |
| Deposits.....   | -                       | -               | -                | -                      |
| Investments.....  | -                       | -               | -                | -                      |
| Restricted investments.....   | -                       | -               | -                | 223,219                |
| Investments of deferred compensation plan.....                              | -                       | -               | -                | -                      |
| Annuity contracts.....  | -                       | -               | -                | -                      |
| Assets held in trust.....   | -                       | -               | -                | 15,087                 |
| Receivables, net of allowance for uncollectibles:                           |                         |                 |                  |                        |
| Taxes.....  | 784,581                 | 560,440         | -                | -                      |
| Due from federal government.....  | 687,685                 | 149,314         | 165,527          | -                      |
| Loans.....  | -                       | -               | -                | -                      |
| Other receivables.....  | 159,300                 | 100,104         | 133              | -                      |
| Due from cities and towns.....  | 227,353                 | 667             | -                | -                      |
| Due from primary government.....  | -                       | -               | -                | -                      |
| Due from other funds.....   | 1,410,222               | -               | 249,818          | 35,400                 |
| Due from component units.....   | 5,859                   | -               | -                | -                      |
| Inventory.....  | -                       | 48,805          | -                | -                      |
| Fixed assets.....   | -                       | -               | -                | -                      |
| Other assets.....   | -                       | 2,700           | -                | -                      |
| Amounts available for retirement of general long-term obligations.....      | -                       | -               | -                | -                      |
| Amounts to be provided for retirement of general long-term obligations..... | -                       | -               | -                | -                      |
| Total assets and other debits.....  | \$ 3,829,658            | \$ 1,712,420    | \$ 415,478       | \$ 273,706             |
| <b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>                           |                         |                 |                  |                        |
| Liabilities:  |                         |                 |                  |                        |
| Accounts payable.....   | \$ 945,118              | \$ 388,461      | \$ 331,239       | \$ -                   |
| Accrued payroll.....  | 14,058                  | 1,716           | 238              | -                      |
| Compensated absences.....   | 100,668                 | 61,551          | 4,461            | -                      |
| Tax refunds and abatements payable.....                                     | 415,103                 | 276,496         | -                | -                      |
| Due to cities and towns.....  | -                       | -               | -                | -                      |
| Due to primary government.....  | -                       | -               | -                | -                      |
| Due to other funds.....   | 229,800                 | 1,205,363       | 215,644          | -                      |
| Due to component units.....   | 51,403                  | 284,668         | 27               | -                      |
| Due to federal government.....  | 17,997                  | 663             | -                | -                      |
| Deferred revenue.....   | 112,996                 | 117,610         | 107              | -                      |
| Prizes payable.....   | -                       | -               | -                | -                      |
| Deferred compensation benefits payable.....                                 | -                       | -               | -                | -                      |
| Agency liabilities.....   | -                       | -               | -                | -                      |
| Claims and judgments.....   | 11,000                  | -               | 60,700           | 414,044                |
| Deposits and unearned revenue.....  | -                       | -               | -                | -                      |
| Other accrued liabilities.....  | -                       | 79,832          | -                | -                      |
| Capital leases.....   | -                       | -               | -                | -                      |
| Bonds, notes payable and certificates of participation.....                 | -                       | -               | -                | -                      |
| School construction grants.....   | -                       | -               | -                | -                      |
| Total liabilities.....  | 1,898,143               | 2,416,360       | 612,416          | 414,044                |
| Fund equity and other credits:  |                         |                 |                  |                        |
| Investment in general fixed assets.....                                     | -                       | -               | -                | -                      |
| Contributed capital.....  | -                       | -               | -                | -                      |
| Retained earnings:  |                         |                 |                  |                        |
| Reserved for investment programs.....                                       | -                       | -               | -                | -                      |
| Reserved for bond retirement.....   | -                       | -               | -                | -                      |
| Reserved for central artery workers compensation.....                       | -                       | -               | -                | 145,140                |
| Unreserved.....   | -                       | -               | -                | (285,478)              |
| Fund balances (deficit):  |                         |                 |                  |                        |
| Reserved for continuing appropriations.....                                 | 117,189                 | 63,073          | -                | -                      |
| Reserved for tax reduction.....   | 91,764                  | -               | -                | -                      |
| Reserved for Commonwealth stabilization.....                                | 799,300                 | -               | -                | -                      |
| Reserved for employees' pension benefits.....                               | -                       | -               | -                | -                      |
| Reserved for unemployment benefits.....                                     | -                       | -               | -                | -                      |
| Reserved for retirement of indebtedness.....                                | 20,814                  | 24,077          | -                | -                      |
| Reserved for nonexpendable trusts.....                                      | -                       | -               | -                | -                      |
| Reserved for capital projects.....  | -                       | -               | 229,800          | -                      |
| Restricted.....   | -                       | -               | -                | -                      |
| Unexpended plant funds.....   | -                       | -               | -                | -                      |
| Renewals and replacements.....  | -                       | -               | -                | -                      |
| Net investment in plant.....  | -                       | -               | -                | -                      |
| Unreserved and undesignated.....  | 902,448                 | (791,090)       | (426,738)        | -                      |
| Total fund equity (deficit) and other credits.....                          | 1,931,515               | (703,940)       | (196,938)        | (140,338)              |
| Total liabilities, fund equity and other credits.....                       | \$ 3,829,658            | \$ 1,712,420    | \$ 415,478       | \$ 273,706             |

See notes to general purpose financial statements.

| Government           |                                  |                      |                               |                          |                    |                 |
|----------------------|----------------------------------|----------------------|-------------------------------|--------------------------|--------------------|-----------------|
| Fiduciary Fund Types | University and College Fund Type | Account Groups       |                               | Totals (Memorandum Only) |                    | Component Units |
| Trust and Agency     | University and Colleges          | General Fixed Assets | General Long-term Obligations | 1997                     | 1996 (as restated) |                 |
| \$ 2,508,599         | \$ 137,221                       | \$ -                 | \$ -                          | \$ 4,026,045             | \$ 3,501,340       | \$ 835,477      |
| -                    | -                                | -                    | -                             | 24,823                   | 22,571             | -               |
| 1,222,725            | 112,263                          | -                    | -                             | 1,334,988                | 874,222            | -               |
| 19,528,892           | 377,390                          | -                    | -                             | 19,906,282               | 16,554,063         | 419,792         |
| -                    | -                                | -                    | -                             | 223,219                  | 187,929            | 261,576         |
| 1,837,892            | -                                | -                    | -                             | 1,837,892                | 1,480,844          | 15,943          |
| 1,285,021            | -                                | -                    | -                             | 1,285,021                | 1,164,223          | -               |
| 1,743,981            | -                                | -                    | -                             | 1,759,068                | 1,702,040          | 4,661           |
| 328,977              | -                                | -                    | -                             | 1,673,998                | 1,506,827          | -               |
| 1,549                | 23,182                           | -                    | -                             | 1,027,257                | 872,581            | 28,929          |
| 2,943                | 48,585                           | -                    | -                             | 51,528                   | 50,662             | 1,043,141       |
| 273,385              | 149,738                          | -                    | -                             | 682,660                  | 618,089            | 88,787          |
| -                    | -                                | -                    | -                             | 228,020                  | 222,841            | 260             |
| -                    | -                                | -                    | -                             | -                        | -                  | 336,098         |
| -                    | 67,698                           | -                    | -                             | 1,763,138                | 724,357            | -               |
| -                    | -                                | -                    | -                             | 5,859                    | -                  | -               |
| -                    | 15,814                           | -                    | -                             | 64,619                   | 128,052            | 44,504          |
| -                    | 2,410,708                        | 3,505,871            | -                             | 5,916,579                | 5,599,204          | 6,906,901       |
| -                    | 26,475                           | -                    | -                             | 29,175                   | 24,620             | 121,901         |
| -                    | -                                | -                    | 44,891                        | 44,891                   | 22,571             | -               |
| -                    | -                                | -                    | 14,034,691                    | 14,034,691               | 13,339,725         | -               |
| \$ 28,733,964        | \$ 3,369,074                     | \$ 3,505,871         | \$ 14,079,582                 | \$ 55,919,753            | \$ 48,596,761      | \$ 10,107,970   |
| \$ 544,832           | \$ 73,929                        | \$ -                 | \$ -                          | \$ 2,283,579             | \$ 2,040,212       | \$ 70,957       |
| 34                   | 61,131                           | -                    | -                             | 77,177                   | 100,316            | 27,465          |
| 388                  | 118,558                          | -                    | 106,402                       | 392,028                  | 371,121            | 6,961           |
| 8,998                | -                                | -                    | -                             | 700,597                  | 685,559            | -               |
| 20,142               | -                                | -                    | -                             | 20,142                   | 18,147             | 1,290           |
| -                    | -                                | -                    | -                             | -                        | -                  | 5,859           |
| 3,657                | 108,674                          | -                    | -                             | 1,763,138                | 724,357            | -               |
| -                    | -                                | -                    | -                             | 336,098                  | 295,922            | -               |
| -                    | -                                | -                    | -                             | 18,660                   | 18,986             | 83              |
| 13,519               | 16,317                           | -                    | -                             | 260,549                  | 357,681            | 82,076          |
| 1,285,021            | -                                | -                    | 3,566                         | 1,288,587                | 1,165,855          | -               |
| 1,837,892            | -                                | -                    | -                             | 1,837,892                | 1,480,844          | 15,943          |
| 3,812,878            | -                                | -                    | -                             | 3,812,878                | 3,534,108          | 4,661           |
| -                    | 39,905                           | -                    | 76,532                        | 602,181                  | 565,820            | 3,165           |
| -                    | 8,068                            | -                    | -                             | 8,068                    | 8,523              | -               |
| 9,210                | 63,610                           | -                    | -                             | 152,652                  | 163,475            | 337,044         |
| -                    | 49,924                           | -                    | 87,171                        | 137,095                  | 103,810            | 253,236         |
| -                    | 316,739                          | -                    | 10,271,294                    | 10,588,033               | 10,615,756         | 5,099,275       |
| -                    | -                                | -                    | 3,534,617                     | 3,534,617                | 3,053,799          | -               |
| 7,536,571            | 856,855                          | -                    | 14,079,582                    | 27,813,971               | 25,304,291         | 5,908,015       |
| -                    | -                                | 3,505,871            | -                             | 3,505,871                | 3,317,616          | -               |
| -                    | -                                | -                    | -                             | -                        | -                  | 3,836,571       |
| -                    | -                                | -                    | -                             | -                        | -                  | 286,187         |
| -                    | -                                | -                    | -                             | -                        | -                  | 135             |
| -                    | -                                | -                    | -                             | 145,140                  | 129,808            | -               |
| -                    | -                                | -                    | -                             | (285,478)                | (280,888)          | 77,062          |
| -                    | -                                | -                    | -                             | 180,262                  | 240,773            | -               |
| -                    | -                                | -                    | -                             | 91,764                   | 231,722            | -               |
| -                    | -                                | -                    | -                             | 799,300                  | 543,303            | -               |
| 19,560,061           | -                                | -                    | -                             | 19,560,061               | 15,956,271         | -               |
| 1,515,080            | -                                | -                    | -                             | 1,515,080                | 1,043,033          | -               |
| -                    | 21,931                           | -                    | -                             | 66,822                   | 40,411             | -               |
| 5,835                | -                                | -                    | -                             | 5,835                    | 5,835              | -               |
| -                    | -                                | -                    | -                             | 229,800                  | -                  | -               |
| -                    | 185,938                          | -                    | -                             | 185,938                  | 161,964            | -               |
| -                    | 57,980                           | -                    | -                             | 57,980                   | 43,471             | -               |
| -                    | 24,983                           | -                    | -                             | 24,983                   | 26,241             | -               |
| -                    | 2,087,785                        | -                    | -                             | 2,087,785                | 1,972,852          | -               |
| 116,417              | 133,602                          | -                    | -                             | (65,361)                 | (139,942)          | -               |
| 21,197,393           | 2,512,219                        | 3,505,871            | -                             | 28,105,782               | 23,292,470         | 4,199,955       |
| \$ 28,733,964        | \$ 3,369,074                     | \$ 3,505,871         | \$ 14,079,582                 | \$ 55,919,753            | \$ 48,596,761      | \$ 10,107,970   |

**All Governmental Fund Types And Expendable Trust Funds**  
**Combined Statement Of Revenues, Expenditures And Changes In Fund Balances**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Primary                 |                  |                  |
|--|-------------------------|------------------|------------------|
|  | Governmental Fund Types |                  |                  |
|  | General                 | Special Revenue  | Capital Projects |
| <b>Revenues:</b>   |                         |                  |                  |
| Taxes.....   | \$ 7,918,267            | \$ 5,112,210     | \$ -             |
| Assessments.....   | 207,482                 | 344,622          | -                |
| Federal grants and reimbursements.....   | 3,066,466               | 1,479,341        | 1,035,630        |
| Departmental.....  | 549,320                 | 3,846,236        | -                |
| Miscellaneous.....   | 146,045                 | 55,964           | 1,164            |
| Total revenues.....  | 11,887,580              | 10,838,373       | 1,036,794        |
| <b>Other financing sources:</b>  |                         |                  |                  |
| Proceeds of general obligation bonds.....  | -                       | -                | 899,471          |
| Proceeds of special obligation bonds.....  | -                       | -                | -                |
| Proceeds of refunding bonds.....   | -                       | -                | 722,621          |
| Proceeds of capital leases.....  | 61,906                  | -                | -                |
| Transfers from component units.....  | 5,859                   | -                | -                |
| Operating transfers in.....  | 461,949                 | 963,073          | 495,261          |
| Total other financing sources.....   | 529,714                 | 963,073          | 2,117,353        |
| Total revenues and other financing sources.....  | 12,417,294              | 11,801,446       | 3,154,147        |
| <b>Expenditures:</b>   |                         |                  |                  |
| <b>Current:</b>  |                         |                  |                  |
| Legislature.....   | 49,308                  | -                | -                |
| Judiciary.....   | 43,386                  | 389,366          | -                |
| Inspector General.....   | 1,680                   | -                | -                |
| Governor and Lieutenant Governor.....  | 5,244                   | -                | -                |
| Secretary of the Commonwealth.....   | 10,335                  | 6,900            | -                |
| Treasurer and Receiver-General.....  | 131,438                 | 2,578,997        | -                |
| Auditor of the Commonwealth.....   | 11,149                  | 695              | -                |
| Attorney General.....  | 408                     | 4,712            | -                |
| Ethics Commission.....   | 607                     | 582              | -                |
| District Attorney.....   | 378                     | 61,476           | -                |
| Office of Campaign and Political Finance.....  | 334                     | 336              | -                |
| Disabled Persons Protection Commission.....  | 1,419                   | 46               | -                |
| Board of Library Commissioners.....  | 1,837                   | 4,529            | -                |
| Comptroller.....   | 6,769                   | -                | -                |
| Administration and finance.....  | 734,544                 | 202,670          | -                |
| Environmental affairs.....   | 57,556                  | 138,061          | -                |
| Communities and development.....   | 98,132                  | 245,883          | -                |
| Health and human services.....   | 3,483,151               | 1,023,397        | -                |
| Transportation and construction.....   | 19,839                  | 130,900          | -                |
| Education.....   | 154,839                 | 871,529          | -                |
| Educational affairs.....   | -                       | -                | -                |
| Higher education.....  | 87,698                  | 1,984            | -                |
| Public safety.....   | 391,981                 | 468,361          | -                |
| Economic development.....  | 2,172                   | 30,920           | -                |
| Elder affairs.....   | 137,295                 | 36,314           | -                |
| Consumer affairs.....  | 30,964                  | 6,481            | -                |
| Labor.....   | 27,275                  | 161,570          | -                |
| Medicaid.....  | 3,425,331               | 72,000           | -                |
| Pension.....   | 95,946                  | 317,104          | -                |
| Direct local aid.....  | 41,287                  | 3,636,168        | -                |
| <b>Capital outlay:</b>   |                         |                  |                  |
| Local aid.....   | -                       | -                | 181,179          |
| Capital acquisition and construction.....  | -                       | -                | 2,050,758        |
| <b>Debt service:</b>   |                         |                  |                  |
| Principal retirement.....  | 583,560                 | 169,109          | -                |
| Interest and fiscal charges.....   | 286,139                 | 239,477          | -                |
| Total expenditures.....  | 9,922,001               | 10,799,567       | 2,231,937        |
| <b>Other financing uses:</b>   |                         |                  |                  |
| Payments to refunded bond escrow agent.....  | -                       | -                | 722,621          |
| Operating transfers out.....   | 528,015                 | 1,121,509        | 133,405          |
| Transfers of appropriations.....   | 745,032                 | 2,004            | -                |
| Transfers of bond proceeds.....  | -                       | -                | 34,977           |
| Transfers to component units.....  | 358,943                 | 381,162          | 5,748            |
| Total other financing uses.....  | 1,631,990               | 1,504,675        | 896,751          |
| Total expenditures and other financing uses.....   | 11,553,991              | 12,304,242       | 3,128,688        |
| <b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b> | <b>863,303</b>          | <b>(502,796)</b> | <b>25,459</b>    |
| Fund balance (deficits) at beginning of year.....  | 1,068,212               | (201,144)        | (222,397)        |
| Fund balance (deficits) at end of year.....  | \$ 1,931,515            | \$ (703,940)     | \$ (196,938)     |

See notes to general purpose financial statements.



| Government             |                             |               |
|------------------------|-----------------------------|---------------|
| Fiduciary<br>Fund Type | Totals<br>(Memorandum Only) |               |
| Expendable<br>Trust    | 1997                        | 1996          |
| \$ 1,189,386           | \$ 14,219,863               | \$ 13,075,269 |
| 1,686                  | 553,790                     | 596,132       |
| 29,627                 | 5,611,064                   | 5,364,403     |
| 5,984                  | 4,401,540                   | 4,330,099     |
| 212,557                | 415,730                     | 446,515       |
| 1,439,240              | 25,201,987                  | 23,812,418    |
| -                      | 899,471                     | 939,658       |
| -                      | -                           | 147,457       |
| -                      | 722,621                     | -             |
| -                      | 61,906                      | 26,365        |
| -                      | 5,859                       | -             |
| 6,971                  | 1,927,254                   | 1,554,418     |
| 6,971                  | 3,617,111                   | 2,667,898     |
| 1,446,211              | 28,819,098                  | 26,480,316    |
| -                      | 49,308                      | 48,922        |
| 229                    | 432,981                     | 404,619       |
| -                      | 1,680                       | 1,577         |
| -                      | 5,244                       | 4,731         |
| 5                      | 17,240                      | 15,015        |
| 7,033                  | 2,717,468                   | 2,577,230     |
| 285                    | 12,129                      | 13,220        |
| 1,724                  | 6,844                       | 30,437        |
| -                      | 1,189                       | 1,147         |
| 3,215                  | 65,069                      | 58,187        |
| -                      | 670                         | 656           |
| -                      | 1,465                       | 1,394         |
| -                      | 6,366                       | 4,461         |
| -                      | 6,769                       | 6,637         |
| 5,454                  | 942,668                     | 944,648       |
| 7,625                  | 203,242                     | 211,942       |
| 267                    | 344,282                     | 348,132       |
| 18,291                 | 4,524,839                   | 4,624,309     |
| 2,602                  | 153,341                     | 155,705       |
| 1,140                  | 1,027,508                   | 959,110       |
| -                      | -                           | 13,664        |
| 103                    | 89,785                      | 80,068        |
| 2,961                  | 863,303                     | 844,232       |
| 1,698                  | 34,790                      | 112,361       |
| 50                     | 173,659                     | 155,238       |
| 7,103                  | 44,548                      | 41,855        |
| 841,478                | 1,030,323                   | 972,779       |
| -                      | 3,497,331                   | 3,241,150     |
| -                      | 413,050                     | 382,510       |
| -                      | 3,677,455                   | 3,351,232     |
| -                      | 181,179                     | 115,742       |
| -                      | 2,050,758                   | 1,672,544     |
| -                      | 752,669                     | 684,266       |
| -                      | 525,616                     | 507,515       |
| 901,263                | 23,854,768                  | 22,587,235    |
| -                      | 722,621                     | -             |
| 69,265                 | 1,852,194                   | 1,473,254     |
| -                      | 747,036                     | 688,514       |
| -                      | 34,977                      | 28,888        |
| -                      | 745,853                     | 666,071       |
| 69,265                 | 4,102,681                   | 2,856,727     |
| 970,528                | 27,957,449                  | 25,443,962    |
| 475,683                | 861,649                     | 1,036,354     |
| 1,155,814              | 1,800,485                   | 764,131       |
| \$ 1,631,497           | \$ 2,662,134                | \$ 1,800,485  |

**General And Budgeted Special Revenue Funds**  
**Combined Statement Of Revenues, Expenditures And Changes In Fund Balances -**  
**Statutory Basis - Budget And Actual**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | General Fund      |                     |  |
|--|-------------------|---------------------|--|
|  | Budget            | Actual              | Variance<br>Favorable<br>(Unfavorable) |
| <b>Revenues:</b>   |                   |                     |  |
| Taxes.....   | \$ 7,067,900      | \$ 7,546,903        | \$ 479,003                             |
| Assessments.....   | -                 | 199,666             | 199,666                                |
| Federal grants and reimbursements.....   | 2,967,600         | 2,971,955           | 4,355                                  |
| Departmental.....  | 812,600           | 636,124             | (176,476)                              |
| Miscellaneous.....   | -                 | 105,803             | 105,803                                |
| <b>Total revenues.....</b>   | <b>10,848,100</b> | <b>11,460,451</b>   | <b>612,351</b>                         |
| <b>Other financing sources:</b>  |                   |                     |  |
| Fringe benefit cost recovery.....  | -                 | 196,996             | 196,996                                |
| Operating transfers in.....  | 298,800           | 379,001             | 80,201                                 |
| Stabilization transfer.....  | -                 | -                   | -                                      |
| Transfer for tax reduction.....  | -                 | 90,000              | 90,000                                 |
| <b>Total other financing sources.....</b>  | <b>298,800</b>    | <b>665,997</b>      | <b>367,197</b>                         |
| <b>Total revenues and other financing sources.....</b>   | <b>11,146,900</b> | <b>12,126,448</b>   | <b>979,548</b>                         |
| <b>Expenditures:</b>   |                   |                     |  |
| Legislature.....   | 70,895            | 48,968              | 21,927                                 |
| Judiciary.....   | 42,086            | 40,863              | 1,223                                  |
| Inspector General.....   | 1,612             | 1,602               | 10                                     |
| Governor and Lieutenant Governor.....  | 6,364             | 5,263               | 1,101                                  |
| Secretary of the Commonwealth.....   | 10,921            | 10,127              | 794                                    |
| Treasurer and Receiver-General.....  | 100,589           | 92,466              | 8,123                                  |
| Auditor of the Commonwealth.....   | 12,074            | 12,071              | 3                                      |
| Attorney General.....  | 22,179            | 21,891              | 288                                    |
| Ethics Commission.....   | 581               | 581                 | -                                      |
| District Attorney.....   | 432               | 378                 | 54                                     |
| Office of Campaign and Political Finance.....  | 335               | 334                 | 1                                      |
| Disabled Persons Protection Commission.....  | 1,402             | 1,397               | 5                                      |
| Board of Library Commissioners.....  | 1,837             | 1,837               | -                                      |
| Comptroller.....   | 6,122             | 6,104               | 18                                     |
| Administration and finance.....  | 803,213           | 749,390             | 53,823                                 |
| Environmental affairs.....   | 59,486            | 51,293              | 8,193                                  |
| Health and human services.....   | 3,568,509         | 3,467,775           | 100,734                                |
| Transportation and construction.....   | 499,253           | 498,916             | 337                                    |
| Education.....   | 12,386            | 12,215              | 171                                    |
| Higher education.....  | 799,253           | 795,406             | 3,847                                  |
| Public safety.....   | 373,022           | 364,913             | 8,109                                  |
| Economic development.....  | 114,572           | 108,927             | 5,645                                  |
| Elder affairs.....   | 130,987           | 130,491             | 496                                    |
| Consumer affairs.....  | 31,444            | 30,199              | 1,245                                  |
| Labor.....   | 34,082            | 30,238              | 3,844                                  |
| Medicaid.....  | 3,445,736         | 3,383,531           | 62,205                                 |
| Pension.....   | 361,585           | 358,508             | 3,077                                  |
| Direct local aid.....  | 3,748             | 839                 | 2,909                                  |
| <b>Debt service:</b>   |                   |                     |  |
| Principal retirement.....  | 334,895           | 330,495             | 4,400                                  |
| Interest and fiscal charges.....   | 279,973           | 265,639             | 14,334                                 |
| <b>Total expenditures.....</b>   | <b>11,129,573</b> | <b>10,822,657</b>   | <b>306,916</b>                         |
| <b>Other financing uses:</b>   |                   |                     |  |
| Fringe benefit cost assessment.....  | -                 | -                   | -                                      |
| Operating transfers out.....   | 417,866           | 507,369             | (89,503)                               |
| Stabilization transfer.....  | 100,000           | 180,552             | (80,552)                               |
| Transfer for tax reduction.....  | -                 | -                   | -                                      |
| <b>Total other financing uses.....</b>   | <b>517,866</b>    | <b>687,921</b>      | <b>(170,055)</b>                       |
| <b>Total expenditures and other financing uses.....</b>  | <b>11,647,439</b> | <b>11,510,578</b>   | <b>136,861</b>                         |
| <b>Excess (deficiency) of revenues and other financing sources</b><br><b>over expenditures and other financing uses.....</b> | <b>(500,539)</b>  | <b>615,870</b>      | <b>1,116,409</b>                       |
| <b>Fund balances (deficits) at beginning of year.....</b>  | <b>565,489</b>    | <b>565,489</b>      | <b>-</b>                               |
| <b>Fund balances (deficits) at end of year.....</b>  | <b>\$ 64,950</b>  | <b>\$ 1,181,359</b> | <b>\$ 1,116,409</b>                    |

See notes to general purpose financial statements.

| Budgeted Special Revenue Funds |              |  | Totals<br>(Memorandum Only) |               |  |
|--------------------------------|--------------|--|-----------------------------|---------------|--|
| Budget                         | Actual       | Variance<br>Favorable<br>(Unfavorable) | Budget                      | Actual        | Variance<br>Favorable<br>(Unfavorable) |
| \$ 5,120,100                   | \$ 5,317,598 | \$ 197,498                             | \$ 12,188,000               | \$ 12,864,501 | \$ 676,501                             |
| -                              | 26,404       | 26,404                                 | -                           | 226,070       | 226,070                                |
| 7,300                          | 47,737       | 40,437                                 | 2,974,900                   | 3,019,692     | 44,792                                 |
| 458,500                        | 471,612      | 13,112                                 | 1,271,100                   | 1,107,736     | (163,364)                              |
| -                              | 63,420       | 63,420                                 | -                           | 169,223       | 169,223                                |
| 5,585,900                      | 5,926,771    | 340,871                                | 16,434,000                  | 17,387,222    | 953,222                                |
| -                              | 671          | 671                                    | -                           | 197,667       | 197,667                                |
| 631,300                        | 875,223      | 243,923                                | 930,100                     | 1,254,224     | 324,124                                |
| -                              | 234,253      | 234,253                                | -                           | 234,253       | 234,253                                |
| -                              | 60,000       | 60,000                                 | -                           | 150,000       | 150,000                                |
| 631,300                        | 1,170,147    | 538,847                                | 930,100                     | 1,836,144     | 906,044                                |
| 6,217,200                      | 7,096,918    | 879,718                                | 17,364,100                  | 19,223,366    | 1,859,266                              |
| -                              | -            | -                                      | 70,895                      | 48,968        | 21,927                                 |
| 396,205                        | 385,191      | 11,014                                 | 438,291                     | 426,054       | 12,237                                 |
| -                              | -            | -                                      | -                           | 1,602         | 10                                     |
| -                              | -            | -                                      | -                           | 6,364         | 1,101                                  |
| 6,245                          | 6,231        | 14                                     | 17,166                      | 16,358        | 808                                    |
| 4,881                          | 4,124        | 757                                    | 105,470                     | 96,590        | 8,880                                  |
| 696                            | 695          | 1                                      | 12,770                      | 12,766        | 4                                      |
| 1,646                          | 1,640        | 6                                      | 23,825                      | 23,531        | 294                                    |
| 612                            | 612          | -                                      | 1,193                       | 1,193         | -                                      |
| 60,527                         | 59,957       | 570                                    | 60,959                      | 60,335        | 624                                    |
| 336                            | 336          | -                                      | 671                         | 670           | 1                                      |
| 32                             | 32           | -                                      | 1,434                       | 1,429         | 5                                      |
| 2,037                          | 2,025        | 12                                     | 3,874                       | 3,862         | 12                                     |
| 641                            | 626          | 15                                     | 6,763                       | 6,730         | 33                                     |
| 350,095                        | 243,247      | 106,848                                | 1,153,308                   | 992,637       | 160,671                                |
| 137,787                        | 127,284      | 10,503                                 | 197,273                     | 178,577       | 18,696                                 |
| 126,133                        | 109,493      | 16,640                                 | 3,694,642                   | 3,577,268     | 117,374                                |
| 297,933                        | 295,171      | 2,762                                  | 797,186                     | 794,087       | 3,099                                  |
| 172,322                        | 167,325      | 4,997                                  | 184,708                     | 179,540       | 5,168                                  |
| 13,633                         | 11,064       | 2,569                                  | 812,886                     | 806,470       | 6,416                                  |
| 474,612                        | 463,082      | 11,530                                 | 847,634                     | 827,995       | 19,639                                 |
| 57,608                         | 54,963       | 2,645                                  | 172,180                     | 163,890       | 8,290                                  |
| 10,843                         | 10,343       | 500                                    | 141,830                     | 140,834       | 996                                    |
| 5,859                          | 5,168        | 691                                    | 37,303                      | 35,367        | 1,936                                  |
| 8,451                          | 7,975        | 476                                    | 42,533                      | 38,213        | 4,320                                  |
| 72,000                         | 72,000       | -                                      | 3,517,736                   | 3,455,531     | 62,205                                 |
| 713,975                        | 710,676      | 3,299                                  | 1,075,560                   | 1,069,184     | 6,376                                  |
| 3,563,148                      | 3,557,300    | 5,848                                  | 3,566,896                   | 3,558,139     | 8,757                                  |
| 443,000                        | 419,964      | 23,036                                 | 777,895                     | 750,459       | 27,436                                 |
| 262,622                        | 259,441      | 3,181                                  | 542,595                     | 525,080       | 17,515                                 |
| 7,183,879                      | 6,975,965    | 207,914                                | 18,313,452                  | 17,798,622    | 514,830                                |
| -                              | 63,017       | (63,017)                               | -                           | 63,017        | (63,017)                               |
| 249,067                        | 249,067      | -                                      | 666,933                     | 756,436       | (89,503)                               |
| -                              | 53,701       | (53,701)                               | 100,000                     | 234,253       | (134,253)                              |
| 150,000                        | 150,000      | -                                      | 150,000                     | 150,000       | -                                      |
| 399,067                        | 515,785      | (116,718)                              | 916,933                     | 1,203,706     | (286,773)                              |
| 7,582,946                      | 7,491,750    | 91,196                                 | 19,230,385                  | 19,002,328    | 228,057                                |
| (1,365,746)                    | (394,832)    | 970,914                                | (1,866,285)                 | 221,038       | 2,087,323                              |
| 607,519                        | 607,519      | -                                      | 1,173,008                   | 1,173,008     | -                                      |
| \$ (758,227)                   | \$ 212,687   | \$ 970,914                             | \$ (693,277)                | \$ 1,394,046  | \$ 2,087,323                           |

**Internal Service Funds, Nonexpendable Trust Funds And Discretely Presented Component Units**  
**Combined Statement Of Revenues, Expenses, Changes In Fund Equity And Contributed Capital**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Primary Government        |                              |                             |              |                     |
|--|---------------------------|------------------------------|-----------------------------|--------------|---------------------|
|  | Proprietary<br>Fund Types | Fiduciary<br>Fund Types      | Totals<br>(Memorandum Only) |              | Component<br>Units  |
|  | Internal<br>Service Funds | Nonexpendable<br>Trust Funds | 1997                        | 1996         |                     |
| Operating revenues:  |                           |                              |                             |              |                     |
| Charges for services.....  | \$ -                      | \$ -                         | \$ -                        | \$ -         | \$ 460,843          |
| Donations.....   | -                         | -                            | -                           | -            | 542                 |
| Premiums.....  | 697,413                   | -                            | 697,413                     | 702,461      | 23,138              |
| Total operating revenues.....  | 697,413                   | -                            | 697,413                     | 702,461      | 484,523             |
| Operating expenses:  |                           |                              |                             |              |                     |
| Claims and judgments expense.....  | 694,179                   | -                            | 694,179                     | 633,797      | -                   |
| Cost of services and administration.....                                     | -                         | -                            | -                           | 2            | 959,864             |
| Depreciation.....  | -                         | -                            | -                           | -            | 234,551             |
| Total operating expenses.....  | 694,179                   | -                            | 694,179                     | 633,799      | 1,194,415           |
| Operating income (loss).....   | 3,234                     | -                            | 3,234                       | 68,662       | (709,892)           |
| Nonoperating revenues (expenses):  |                           |                              |                             |              |                     |
| Operating grants.....  | -                         | -                            | -                           | -            | 63,955              |
| Interest income.....   | 7,508                     | -                            | 7,508                       | 3,675        | 75,965              |
| Interest expense.....  | -                         | -                            | -                           | -            | (215,382)           |
| Other income.....  | -                         | -                            | -                           | -            | 7,763               |
| Other expenses.....  | -                         | -                            | -                           | -            | (24,838)            |
| Nonoperating revenues (expenses), net.....                                   | 7,508                     | -                            | 7,508                       | 3,675        | (92,537)            |
| Income (loss) before operating transfers.....                                | 10,742                    | -                            | 10,742                      | 72,337       | (802,429)           |
| Transfers in:  |                           |                              |                             |              |                     |
| Transfers in from primary government, net.....                               | -                         | -                            | -                           | -            | 739,994             |
| Total transfers.....   | -                         | -                            | -                           | -            | 739,994             |
| Net income (loss).....   | 10,742                    | -                            | 10,742                      | 72,337       | (62,435)            |
| Add: Depreciation of fixed assets acquired<br>from contributed capital.....  | -                         | -                            | -                           | -            | 124,178             |
| Increase (decrease) in retained earnings/fund balances.....                  | 10,742                    | -                            | 10,742                      | 72,337       | 61,743              |
| Retained earnings/fund balances at beginning of year.....                    | (151,080)                 | 5,835                        | (145,245)                   | (217,582)    | 301,641             |
| Retained earnings/fund balances at end of year.....                          | \$ (140,338)              | \$ 5,835                     | \$ (134,503)                | \$ (145,245) | \$ 363,384          |
| Contributed capital at beginning of year.....                                |                           |                              |                             |              | \$ 3,505,199        |
| Add: Capital contributions.....  |                           |                              |                             |              | 455,550             |
| Less: Depreciation of fixed assets acquired<br>from contributed capital..... |                           |                              |                             |              | (124,178)           |
| Contributed capital at end of year.....                                      |                           |                              |                             |              | <u>\$ 3,836,571</u> |

See notes to general purpose financial statements.

**Internal Service Funds, Nonexpendable Trust Funds And Discretely Presented Component Units  
Combined Statement Of Cash Flows**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|   | Primary Government    |                           |                   |              |                 |
|---|-----------------------|---------------------------|-------------------|--------------|-----------------|
|   | Proprietary Fund Type | Fiduciary Fund Type       | Totals            |              | Component Units |
|   | Internal Service Fund | Nonexpendable Trust Funds | (Memorandum Only) |              |                 |
|   |                       |                           | 1997              | 1996         |                 |
| Cash flows from operating activities:   |                       |                           |                   |              |                 |
| Operating income (loss).....  | \$ 3,234              | \$ -                      | \$ 3,234          | \$ 68,662    | \$ (709,892)    |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: |                       |                           |                   |              |                 |
| Depreciation and amortization.....  | -                     | -                         | -                 | -            | 234,551         |
| Other nonoperating revenues.....  | -                     | -                         | -                 | -            | 7,763           |
| Other nonoperating expenses.....  | -                     | -                         | -                 | -            | (24,838)        |
| Change in assets and liabilities:   |                       |                           |                   |              |                 |
| Assets held in trust.....   | 3,702                 | -                         | 3,702             | (169)        | -               |
| Due from federal government.....  | -                     | -                         | -                 | -            | 4,547           |
| Loans.....  | -                     | -                         | -                 | -            | (237,019)       |
| Other receivables.....  | -                     | -                         | -                 | -            | (16,187)        |
| Due from cities and towns.....  | -                     | -                         | -                 | -            | 716             |
| Due from primary government.....  | -                     | -                         | -                 | -            | (40,176)        |
| Due from other funds.....   | (2,145)               | -                         | (2,145)           | (4,888)      | -               |
| Inventory.....  | -                     | -                         | -                 | -            | (2,475)         |
| Restricted and other assets.....  | -                     | -                         | -                 | -            | 7,310           |
| Accounts payable.....   | -                     | -                         | -                 | -            | (16,654)        |
| Accrued payroll.....  | -                     | -                         | -                 | -            | (1,581)         |
| Compensated absences.....   | -                     | -                         | -                 | -            | (2,102)         |
| Deferred revenue.....   | -                     | -                         | -                 | -            | 2,579           |
| Claims and judgments, net.....  | 22,991                | -                         | 22,991            | (41,744)     | 595             |
| Other accrued liabilities.....  | -                     | -                         | -                 | -            | 86,871          |
| Due to cities and towns.....  | -                     | -                         | -                 | -            | 1,175           |
| Due to primary government.....  | -                     | -                         | -                 | -            | (94,141)        |
| Due to federal government.....  | -                     | -                         | -                 | -            | 60              |
| Total adjustments.....  | 24,548                | -                         | 24,548            | (46,801)     | (89,006)        |
| Net cash provided by (used for) operating activities.....   | 27,782                | -                         | 27,782            | 21,861       | (798,898)       |
| Cash flows from noncapital financing activities:  |                       |                           |                   |              |                 |
| Operating grants.....   | -                     | -                         | -                 | -            | 63,955          |
| Transfer in from primary government, net.....   | -                     | -                         | -                 | -            | 739,994         |
| Net cash provided by (used for) noncapital financing activities.....                                      | -                     | -                         | -                 | -            | 803,949         |
| Cash flows from capital and related financing activities:   |                       |                           |                   |              |                 |
| Acquisition and construction of capital assets.....   | -                     | -                         | -                 | -            | (805,233)       |
| Proceeds from the issuance of bonds and notes.....  | -                     | -                         | -                 | -            | 1,584,248       |
| Interest on bonds and notes.....  | -                     | -                         | -                 | -            | (215,382)       |
| Capital contributions.....  | -                     | -                         | -                 | -            | 455,550         |
| Principal payments on bonds and notes.....  | -                     | -                         | -                 | -            | (646,569)       |
| Payments to refunded bond escrow agent.....   | -                     | -                         | -                 | -            | (56,573)        |
| Net cash provided by (used for) capital and related financing activities.....                             | -                     | -                         | -                 | -            | 316,041         |
| Cash flows from investing activities:   |                       |                           |                   |              |                 |
| Purchases of investments.....   | (35,290)              | -                         | (35,290)          | (25,538)     | (8,648,582)     |
| Sales and maturities of investments.....  | -                     | -                         | -                 | -            | 8,538,818       |
| Interest income.....  | 7,508                 | -                         | 7,508             | 3,675        | 75,965          |
| Net cash provided by (used for) investing activities.....   | (27,782)              | -                         | (27,782)          | (21,863)     | (33,799)        |
| Net increase (decrease) in cash and cash equivalents.....   | -                     | -                         | -                 | (2)          | 287,293         |
| Cash and cash equivalents at beginning of year.....   | -                     | 5,835                     | 5,835             | 5,837        | 548,184         |
| Cash and cash equivalents at end of year.....   | \$ -                  | \$ 5,835                  | \$ 5,835          | \$ 5,835     | \$ 835,477      |
| Reconciliation to Combined Balance Sheet:   |                       |                           |                   |              |                 |
| Cash and cash equivalents at end of year.....   | \$ -                  | \$ 5,835                  | \$ 5,835          | \$ 5,835     | \$ 835,477      |
| Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency.....                 | -                     | 2,502,764                 | 2,502,764         | 1,768,321    | -               |
| Cash and cash equivalents per the Combined Balance Sheet.....   | \$ -                  | \$ 2,508,599              | \$ 2,508,599      | \$ 1,774,156 | \$ 835,477      |

See notes to general purpose financial statements.



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**Pension Trust Funds**  
**Statement Of Changes in Net Assets Available For Pension Benefits**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|   | 1997          | 1996          |
|---|---------------|---------------|
| <b>Additions:</b>   |               |               |
| Commonwealth contributions.....   | \$ 899,048    | \$ 850,841    |
| Employee contributions.....   | 457,530       | 421,080       |
| Total contributions.....  | 1,356,578     | 1,271,921     |
| <b>Net investment income:</b>   |               |               |
| Net appreciation in fair value of investments.....  | 2,823,841     | 1,786,940     |
| Interest.....   | 368,654       | 363,645       |
| Dividends.....  | 158,922       | 125,716       |
| Real estate operating income, net.....  | 54,525        | 37,929        |
| Alternative investments.....  | 27,457        | 14,943        |
| Other.....  | 156           | 2,915         |
| Total investment income.....  | 3,433,555     | 2,332,088     |
| Less: investment expense.....   | 60,703        | 43,406        |
| Net investment income.....  | 3,372,852     | 2,288,682     |
| Total additions.....  | 4,729,430     | 3,560,603     |
| <b>Deductions:</b>  |               |               |
| Administration.....   | 3,688         | 3,673         |
| Retirement benefits and refunds.....  | 1,121,952     | 1,083,897     |
| Total deductions.....   | 1,125,640     | 1,087,570     |
| Net increase.....   | 3,603,790     | 2,473,033     |
| Net assets available for pension benefits<br>at beginning of year (fund balance reserved<br>for employee's pension benefits)..... | 15,956,271    | 13,483,238    |
| Net assets available for pension benefits<br>at end of year (fund balance reserved<br>for employee's pension benefits).....       | \$ 19,560,061 | \$ 15,956,271 |

See notes to general purpose financial statements.

**University And College Fund Type**  
**Combined Statement Of Changes In Fund Balances**

Fiscal Year Ended June 30, 1997

(Amounts in thousands)

|   | Current Funds |            |           |
|---|---------------|------------|-----------|
|   | Unrestricted  | Restricted | Loan Fund |
| Revenues and other additions:                           |               |            |           |
| Unrestricted current funds revenues.....                | \$ 1,319,581  | \$ -       | \$ -      |
| Federal appropriations.....                             | -             | 6,010      | 381       |
| Federal grants and contracts.....                       | -             | 189,776    | 922       |
| State grants and contracts.....                         | -             | 3,201      | 74        |
| Local grants and contracts.....                         | -             | 2,575      | -         |
| Private gifts, grants and contracts.....                | -             | 70,179     | 81        |
| Investment income (loss).....                           | -             | 92         | 32        |
| Endowment income.....                                   | -             | 1,102      | -         |
| Net realized/unrealized gain (loss) on investments..... | -             | (163)      | (17)      |
| Interest on loans receivable.....                       | -             | -          | 973       |
| Reimbursed loan cancellations.....                      | -             | -          | 501       |
| Other income.....                                       | -             | 1,222      | 416       |
| Expended for plant facilities.....                      | -             | -          | -         |
| Retirement of indebtedness.....                         | -             | -          | -         |
| Other additions.....                                    | -             | 931        | 38        |
| Total revenue and other additions.....                  | 1,319,581     | 274,925    | 3,401     |
| Expenditures and other deductions:                      |               |            |           |
| Educational and general expenditures.....               | 1,260,059     | 309,172    | -         |
| Auxiliary enterprises expenditures.....                 | 155,503       | -          | -         |
| Indirect costs recovered.....                           | -             | 37,304     | -         |
| Clinical services costs.....                            | 428,232       | -          | -         |
| Refunded to grantors and donors.....                    | -             | 544        | -         |
| Loan cancellations and write-offs.....                  | -             | -          | 278       |
| Administrative and collection costs.....                | -             | -          | 955       |
| Retirement of indebtedness.....                         | -             | -          | -         |
| Interest on indebtedness.....                           | -             | -          | -         |
| Expended for plant facilities.....                      | -             | -          | -         |
| Depreciation and amortization.....                      | -             | -          | -         |
| Disposal of plant facilities.....                       | -             | -          | -         |
| Other deductions.....                                   | -             | -          | -         |
| Total expenditures and other deductions.....            | 1,843,794     | 347,020    | 1,233     |
| Mandatory transfers:                                    |               |            |           |
| Principal and interest.....                             | (36,906)      | -          | -         |
| Renewals and replacements.....                          | (611)         | -          | -         |
| Student loan fund matching.....                         | (1,219)       | 1,134      | 85        |
| Operating transfers out.....                            | (75,060)      | -          | -         |
| Nonmandatory transfers:                                 |               |            |           |
| Transfers of appropriation.....                         | 709,095       | 37,941     | -         |
| Transfers of bond proceeds.....                         | -             | 34,977     | -         |
| Unexpended plant funds.....                             | (56,374)      | -          | -         |
| Renewals and replacements.....                          | (20,165)      | (3,186)    | -         |
| Other nonmandatory transfers.....                       | (1,453)       | 506        | (77)      |
| Total transfers.....                                    | 517,307       | 71,372     | 8         |
| Net increase (decrease) for the year.....               | (6,906)       | (723)      | 2,176     |
| Fund balances at beginning of year.....                 | 101,869       | 44,305     | 51,292    |
| Fund balances at end of year.....                       | \$ 94,963     | \$ 43,582  | \$ 53,468 |

See notes to general purpose financial statements.



| Endowment<br>and Similar<br>Funds | Plant<br>Funds      | Totals<br>(Memorandum Only) |                       |
|-----------------------------------|---------------------|-----------------------------|-----------------------|
|                                   |                     | 1997                        | 1996<br>(as restated) |
|                                   |                     |                             |                       |
| \$ -                              | \$ -                | \$ 1,319,581                | \$ 1,302,481          |
| -                                 | -                   | 6,391                       | 7,578                 |
| -                                 | 454                 | 191,152                     | 215,219               |
| -                                 | 39,212              | 42,487                      | 77,498                |
| -                                 | -                   | 2,575                       | 6,985                 |
| 12,289                            | 182                 | 82,731                      | 62,423                |
| 1,059                             | 3,879               | 5,062                       | 6,107                 |
| 2,962                             | -                   | 4,064                       | 183                   |
| 10,886                            | -                   | 10,706                      | 3,311                 |
| -                                 | -                   | 973                         | 993                   |
| -                                 | -                   | 501                         | 259                   |
| 837                               | 639                 | 3,114                       | 1,657                 |
| -                                 | 125,574             | 125,574                     | 112,631               |
| -                                 | 18,509              | 18,509                      | 14,814                |
| -                                 | 9,367               | 10,336                      | 4,449                 |
| <u>28,033</u>                     | <u>197,816</u>      | <u>1,823,756</u>            | <u>1,816,588</u>      |
| -                                 | -                   | 1,569,231                   | 1,502,979             |
| -                                 | -                   | 155,503                     | 164,274               |
| -                                 | -                   | 37,304                      | 34,920                |
| -                                 | -                   | 428,232                     | 396,475               |
| -                                 | -                   | 544                         | 408                   |
| -                                 | -                   | 278                         | 1,186                 |
| 884                               | 1,835               | 3,674                       | 4,246                 |
| -                                 | 18,455              | 18,455                      | 20,503                |
| -                                 | 22,252              | 22,252                      | 16,481                |
| -                                 | 93,055              | 93,055                      | 80,019                |
| -                                 | 24,309              | 24,309                      | 16,670                |
| -                                 | 22,878              | 22,878                      | 14,158                |
| 5,909                             | 209                 | 6,118                       | 2,040                 |
| <u>6,793</u>                      | <u>182,993</u>      | <u>2,381,833</u>            | <u>2,254,359</u>      |
| -                                 | 36,906              | -                           | -                     |
| -                                 | 611                 | -                           | -                     |
| -                                 | -                   | -                           | -                     |
| -                                 | -                   | (75,060)                    | (81,164)              |
| -                                 | -                   | 747,036                     | 688,514               |
| -                                 | -                   | 34,977                      | 28,888                |
| -                                 | 56,374              | -                           | -                     |
| -                                 | 23,351              | -                           | -                     |
| 814                               | 210                 | -                           | -                     |
| <u>814</u>                        | <u>117,452</u>      | <u>706,953</u>              | <u>636,238</u>        |
| 22,054                            | 132,275             | 148,876                     | 198,467               |
| 105,473                           | 2,060,404           | 2,363,343                   | 2,164,876             |
| <u>\$ 127,527</u>                 | <u>\$ 2,192,679</u> | <u>\$ 2,512,219</u>         | <u>\$ 2,363,343</u>   |

**University And College Fund Type**  
**Combined Statement Of Current Funds Revenues, Expenditures, And Other Changes**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Current Funds     |                 | Totals<br>(Memorandum Only) |                       |
|--|-------------------|-----------------|-----------------------------|-----------------------|
|  | Unrestricted      | Restricted      | 1997                        | 1996<br>(as restated) |
| <b>Revenues and other additions:</b>   |                   |                 |                             |                       |
| Tuition and fees.....  | \$ 557,381        | \$ 1,564        | \$ 558,945                  | \$ 546,291            |
| Federal appropriations.....  | -                 | 6,460           | 6,460                       | 6,478                 |
| Federal grants and contracts.....  | -                 | 167,659         | 167,659                     | 174,725               |
| State grants and contracts.....  | 456               | 3,018           | 3,474                       | 22,292                |
| Local grants and contracts.....  | 267               | 6,251           | 6,518                       | 9,950                 |
| Private gifts, grants and contracts.....                                     | 8,708             | 54,578          | 63,286                      | 48,275                |
| Endowment income.....  | 219               | 588             | 807                         | 961                   |
| Sales and service, educational.....  | 11,233            | -               | 11,233                      | 11,812                |
| Sales and service, auxiliary enterprises.....                                | 179,459           | -               | 179,459                     | 201,302               |
| Sales and service, clinical services.....                                    | 473,938           | -               | 473,938                     | 460,341               |
| Recovery of indirect costs.....  | 37,304            | -               | 37,304                      | 34,920                |
| Other investment income (loss).....  | 29,474            | (554)           | 28,920                      | 18,739                |
| Other.....   | 21,142            | 1,191           | 22,333                      | 20,751                |
| <b>Total current funds revenues.....</b>                                     | <b>1,319,581</b>  | <b>240,755</b>  | <b>1,560,336</b>            | <b>1,556,837</b>      |
| <b>Expenditures:</b>   |                   |                 |                             |                       |
| Instruction.....   | 567,891           | 39,945          | 607,836                     | 555,098               |
| Research.....  | 42,576            | 109,065         | 151,641                     | 132,564               |
| Public service.....  | 20,131            | 38,446          | 58,577                      | 49,431                |
| Academic support.....  | 122,646           | 16,133          | 138,779                     | 141,600               |
| Student services.....  | 110,977           | 7,026           | 118,003                     | 128,302               |
| Institutional support.....   | 174,482           | 4,221           | 178,703                     | 208,484               |
| Operation and maintenance of plant.....                                      | 162,898           | 13,566          | 176,464                     | 122,697               |
| Scholarships and fellowships.....  | 58,458            | 80,770          | 139,228                     | 156,698               |
| Auxiliary enterprises.....   | 155,503           | -               | 155,503                     | 164,274               |
| Clinical services costs.....   | 428,232           | -               | 428,232                     | 396,475               |
| <b>Total current funds expenditures.....</b>                                 | <b>1,843,794</b>  | <b>309,172</b>  | <b>2,152,966</b>            | <b>2,055,623</b>      |
| <b>Transfers and other changes:</b>  |                   |                 |                             |                       |
| <b>Mandatory transfers:</b>  |                   |                 |                             |                       |
| Principal and interest.....  | (36,906)          | -               | (36,906)                    | (33,371)              |
| Renewals and replacements.....   | (611)             | -               | (611)                       | -                     |
| Student loan fund matching.....  | (1,219)           | 1,134           | (85)                        | (136)                 |
| Operating transfers out.....   | (75,060)          | -               | (75,060)                    | (81,164)              |
| <b>Nonmandatory transfers:</b>   |                   |                 |                             |                       |
| Transfers of appropriation.....  | 709,095           | 37,941          | 747,036                     | 688,514               |
| Transfers of bond proceeds.....  | -                 | 34,977          | 34,977                      | 28,888                |
| Unexpended plant funds.....  | (56,374)          | -               | (56,374)                    | (46,430)              |
| Renewals and replacements.....   | (20,165)          | (3,186)         | (23,351)                    | (47,141)              |
| Other nonmandatory transfers.....  | (1,453)           | 506             | (947)                       | (947)                 |
| Refunds to grantors and donors.....  | -                 | (544)           | (544)                       | (359)                 |
| Excess (deficiency) of restricted receipts<br>over transfers to revenue..... | -                 | (3,134)         | (3,134)                     | 12,016                |
| <b>Total transfers and other changes.....</b>                                | <b>517,307</b>    | <b>67,694</b>   | <b>585,001</b>              | <b>519,870</b>        |
| <b>Total increase (decrease) in fund balances.....</b>                       | <b>\$ (6,906)</b> | <b>\$ (723)</b> | <b>\$ (7,629)</b>           | <b>\$ 21,084</b>      |

See notes to general purpose financial statements.



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# Discretely Presented Component Units Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

|   | Massachusetts<br>Bay<br>Transportation<br>Authority | Massachusetts<br>Turnpike<br>Authority | Regional<br>Transit<br>Authorities |
|---|---|--|------------------------------------|
| <b>ASSETS</b>   |   |  |                                    |
| Cash and short-term investments.....                        | \$ 353,408  | \$ 28,209                              | \$ 12,692                          |
| Investments.....  | -   | -                                      | 9                                  |
| Restricted investments.....                                 | 20,183  | 214,397                                | -                                  |
| Investments of deferred compensation plan.....              | -   | 15,047                                 | 93                                 |
| Assets held in trust.....                                   | -   | -                                      | -                                  |
| Receivables, net of allowance for uncollectibles:           |   |  |                                    |
| Due from federal government.....                            | -   | -                                      | 6,139                              |
| Loans.....  | -   | -                                      | -                                  |
| Other receivables.....                                      | 50,072  | 4,376                                  | 7,257                              |
| Due from cities and towns.....                              | -   | -                                      | -                                  |
| Due from primary government.....                            | 234,639   | -                                      | 58,887                             |
| Inventory.....  | 42,825  | 1,286                                  | 261                                |
| Fixed assets.....   | 5,753,508   | 751,872                                | 146,619                            |
| Other assets.....   | 110,907   | 5,028                                  | 3,033                              |
| Total assets.....   | <u>\$ 6,565,542</u>                                 | <u>\$ 1,020,215</u>                    | <u>\$ 234,990</u>                  |
| <b>LIABILITIES AND FUND EQUITY</b>                          |   |  |                                    |
| Liabilities:  |   |  |                                    |
| Accounts payable.....                                       | \$ 34,795   | \$ 10,236                              | \$ 9,170                           |
| Accrued payroll.....  | 25,947  | 845                                    | 153                                |
| Compensated absences.....                                   | -   | 5,651                                  | 620                                |
| Due to cities and towns.....                                | -   | -                                      | 145                                |
| Due to primary government.....                              | 2,109   | -                                      | -                                  |
| Due to federal government.....                              | -   | -                                      | 32                                 |
| Deferred revenue.....                                       | 40,119  | 3,869                                  | 101                                |
| Deferred compensation benefits payable.....                 | -   | 15,047                                 | 93                                 |
| Agency liabilities.....                                     | -   | -                                      | -                                  |
| Claims and judgments.....                                   | -   | -                                      | 3,165                              |
| Other accrued liabilities.....                              | 162,378   | 22,999                                 | 4,514                              |
| Capital leases.....   | 247,805   | -                                      | 5,273                              |
| Bonds, notes payable and certificates of participation..... | 3,311,369   | 604,186                                | 76,851                             |
| Total liabilities.....                                      | <u>3,824,522</u>                                    | <u>662,833</u>                         | <u>100,117</u>                     |
| Fund equity:  |   |  |                                    |
| Contributed capital.....                                    | 2,931,501   | -                                      | 132,476                            |
| Retained earnings (deficits):                               |   |  |                                    |
| Reserved for investment programs.....                       | -   | 229,445                                | -                                  |
| Reserved for bond retirement.....                           | -   | -                                      | -                                  |
| Unreserved.....   | (190,481)   | 127,937                                | 2,397                              |
| Total fund equity.....                                      | <u>2,741,020</u>                                    | <u>357,382</u>                         | <u>134,873</u>                     |
| Total liabilities and fund equity.....                      | <u>\$ 6,565,542</u>                                 | <u>\$ 1,020,215</u>                    | <u>\$ 234,990</u>                  |

See notes to general purpose financial statements.

| Massachusetts<br>Water<br>Pollution<br>Abatement<br>Trust | Massachusetts<br>Convention<br>Center<br>Authority | Economic<br>Development<br>Authorities | Total                |
|---|--|--|----------------------|
| \$ 364,349  | \$ 12,988  | \$ 63,831                              | \$ 835,477           |
| 397,103   | -  | 22,680                                 | 419,792              |
| -   | 9,205  | 17,791                                 | 261,576              |
| -   | -  | 803                                    | 15,943               |
| -   | -  | 4,661                                  | 4,661                |
| -   | -  | 22,790                                 | 28,929               |
| 857,294   | -  | 185,847                                | 1,043,141            |
| 18,726  | 768  | 7,588                                  | 88,787               |
| -   | -  | 260                                    | 260                  |
| 20,200  | 17,966   | 4,406                                  | 336,098              |
| -   | -  | 132                                    | 44,504               |
| 17  | 205,606  | 49,279                                 | 6,906,901            |
| 16  | 1,801  | 1,116                                  | 121,901              |
| <u>\$ 1,657,705</u>                                       | <u>\$ 248,334</u>                                  | <u>\$ 381,184</u>                      | <u>\$ 10,107,970</u> |
| \$ -  | \$ 4,354   | \$ 12,402                              | \$ 70,957            |
| -   | -  | 520                                    | 27,465               |
| -   | -  | 690                                    | 6,961                |
| -   | -  | 1,145                                  | 1,290                |
| -   | -  | 3,750                                  | 5,859                |
| -   | -  | 51                                     | 83                   |
| -   | 507  | 37,480                                 | 82,076               |
| -   | -  | 803                                    | 15,943               |
| -   | -  | 4,661                                  | 4,661                |
| -   | -  | -                                      | 3,165                |
| 116,848   | 23,746   | 6,559                                  | 337,044              |
| -   | -  | 158                                    | 253,236              |
| 863,020   | 135,910  | 107,939                                | 5,099,275            |
| <u>979,868</u>  | <u>164,517</u>                                     | <u>176,158</u>                         | <u>5,908,015</u>     |
| 607,035   | 80,940   | 84,619                                 | 3,836,571            |
| -   | -  | 56,742                                 | 286,187              |
| -   | -  | 135                                    | 135                  |
| 70,802  | 2,877  | 63,530                                 | 77,062               |
| <u>677,837</u>  | <u>83,817</u>                                      | <u>205,026</u>                         | <u>4,199,955</u>     |
| <u>\$ 1,657,705</u>                                       | <u>\$ 248,334</u>                                  | <u>\$ 381,184</u>                      | <u>\$ 10,107,970</u> |

**Discretely Presented Component Units**  
**Combining Statement Of Revenues, Expenses, Changes In**  
**Retained Earnings And Changes In Contributed Capital**

Fiscal Year Ended June 30, 1997

(Amounts in thousands)

|   | Massachusetts<br>Bay<br>Transportation<br>Authority | Massachusetts<br>Turnpike<br>Authority | Regional<br>Transit<br>Authorities |
|---|---|--|------------------------------------|
| Operating revenues:   |   |  |                                    |
| Charges for services.....   | \$ 221,131  | \$ 157,681                             | \$ 50,943                          |
| Donations.....  | -   | -                                      | -                                  |
| Other.....  | -   | 12,012                                 | 633                                |
| Total operating revenues.....   | <u>221,131</u>                                      | <u>169,693</u>                         | <u>51,576</u>                      |
| Operating expenses:   |   |  |                                    |
| Cost of services and administration.....                                  | 587,014   | 146,094                                | 113,777                            |
| Depreciation.....   | <u>178,901</u>                                      | <u>28,115</u>                          | <u>16,661</u>                      |
| Total operating expenses.....   | <u>765,915</u>                                      | <u>174,209</u>                         | <u>130,438</u>                     |
| Operating income (loss).....  | <u>(544,784)</u>                                    | <u>(4,516)</u>                         | <u>(78,862)</u>                    |
| Nonoperating revenues (expenses):   |   |  |                                    |
| Operating grants.....   | 6,315   | -                                      | 9,348                              |
| Interest income.....  | -   | 9,407                                  | 1,017                              |
| Interest expense.....   | (151,099)   | (4,465)                                | (3,665)                            |
| Other income.....   | 4,061   | -                                      | 418                                |
| Other expenses.....   | <u>(18,925)</u>                                     | <u>(947)</u>                           | <u>(542)</u>                       |
| Nonoperating revenues (expenses), net.....                                | <u>(159,648)</u>                                    | <u>3,995</u>                           | <u>6,576</u>                       |
| Income (loss) before transfers .....                                      | <u>(704,432)</u>                                    | <u>(521)</u>                           | <u>(72,286)</u>                    |
| Transfers:  |   |  |                                    |
| Transfers in from primary government, net.....                            | <u>617,367</u>                                      | <u>-</u>                               | <u>55,842</u>                      |
| Total transfers.....  | <u>617,367</u>                                      | <u>-</u>                               | <u>55,842</u>                      |
| Net income (loss).....  | <u>(87,065)</u>                                     | <u>(521)</u>                           | <u>(16,444)</u>                    |
| Add: Depreciation of fixed assets acquired from contributed capital.....  | 100,454   | -                                      | 16,535                             |
| Increase (decrease) in retained earnings.....                             | 13,389  | (521)                                  | 91                                 |
| Retained earnings (deficits) at beginning of year.....                    | <u>(203,870)</u>                                    | <u>357,903</u>                         | <u>2,306</u>                       |
| Retained earnings (deficits) at end of year.....                          | <u>\$ (190,481)</u>                                 | <u>\$ 357,382</u>                      | <u>\$ 2,397</u>                    |
| Contributed capital at beginning of year.....                             | <u>\$ 2,701,579</u>                                 | <u>\$ -</u>                            | <u>\$ 123,096</u>                  |
| Add: Capital contributions, net.....                                      | 330,376   | -                                      | 25,915                             |
| Less: Depreciation of fixed assets acquired from contributed capital..... | <u>(100,454)</u>                                    | <u>-</u>                               | <u>(16,535)</u>                    |
| Contributed capital at end of year.....                                   | <u>\$ 2,931,501</u>                                 | <u>\$ -</u>                            | <u>\$ 132,476</u>                  |

See notes to general purpose financial statements.

| Massachusetts<br>Water<br>Pollution<br>Abatement<br>Trust | Massachusetts<br>Convention<br>Center<br>Authority | Economic<br>Development<br>Authorities | Total        |
|---|--|--|--------------|
| \$ -  | \$ 12,015  | \$ 19,073                              | \$ 460,843   |
| -   | -  | 542                                    | 542          |
| -   | -  | 10,493                                 | 23,138       |
| -   | 12,015   | 30,108                                 | 484,523      |
| 8,548   | 16,594   | 87,837                                 | 959,864      |
| 117   | 7,562  | 3,195                                  | 234,551      |
| 8,665   | 24,156   | 91,032                                 | 1,194,415    |
| (8,665)   | (12,141)   | (60,924)                               | (709,892)    |
| 2,228   | -  | 46,064                                 | 63,955       |
| 59,989  | 297  | 5,255                                  | 75,965       |
| (39,681)  | (9,370)  | (7,102)                                | (215,382)    |
| 1,142   | 115  | 2,027                                  | 7,763        |
| -   | (244)  | (4,180)                                | (24,838)     |
| 23,678  | (9,202)  | 42,064                                 | (92,537)     |
| 15,013  | (21,343)   | (18,860)                               | (802,429)    |
| 25,877  | 17,393   | 23,515                                 | 739,994      |
| 25,877  | 17,393   | 23,515                                 | 739,994      |
| 40,890  | (3,950)  | 4,655                                  | (62,435)     |
| 112   | 7,077  | -                                      | 124,178      |
| 41,002  | 3,127  | 4,655                                  | 61,743       |
| 29,800  | (250)  | 115,752                                | 301,641      |
| \$ 70,802   | \$ 2,877   | \$ 120,407                             | \$ 363,384   |
| \$ 523,121  | \$ 68,522  | \$ 88,881                              | \$ 3,505,199 |
| 84,026  | 19,495   | (4,262)                                | 455,550      |
| (112)   | (7,077)  | -                                      | (124,178)    |
| \$ 607,035  | \$ 80,940  | \$ 84,619                              | \$ 3,836,571 |

# Discretely Presented Component Units

## Combining Statement Of Cash Flows

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Massachusetts<br>Bay<br>Transportation<br>Authority | Massachusetts<br>Turnpike<br>Authority | Regional<br>Transit<br>Authorities |
|--|---|--|------------------------------------|
| Cash flows from operating activities:  |   |  |                                    |
| Operating income (loss).....   | \$ (544,784)  | \$ (4,516)                             | \$ (78,862)                        |
| Adjustments to reconcile operating income (loss) to net cash<br>provided by (used for) operating activities: |   |  |                                    |
| Depreciation and amortization.....   | 178,901   | 28,115                                 | 16,661                             |
| Other nonoperating revenues.....   | 4,061   | -                                      | 418                                |
| Other nonoperating expenses.....   | (18,925)  | (947)                                  | (542)                              |
| Change in assets and liabilities:  |   |  |                                    |
| Due from federal government.....   | -   | -                                      | 1,831                              |
| Loans.....   | -   | -                                      | -                                  |
| Other receivables.....   | (11,832)  | 43                                     | 748                                |
| Due from cities and towns.....   | -   | -                                      | -                                  |
| Due from primary government.....   | (16,506)  | -                                      | (1,468)                            |
| Inventory.....   | (2,436)   | 9                                      | 22                                 |
| Restricted and other assets.....   | 716   | 3,087                                  | (380)                              |
| Accounts payable.....  | (8,177)   | (5,527)                                | (373)                              |
| Accrued payroll.....   | 1,233   | (2,911)                                | 105                                |
| Compensated absences.....  | -   | (2,047)                                | 64                                 |
| Deferred revenue.....  | (6,304)   | (2,538)                                | (235)                              |
| Claims and judgments, net.....   | -   | -                                      | 595                                |
| Other accrued liabilities.....   | 9,072   | 5,709                                  | 1,091                              |
| Due to cities and towns.....   | -   | -                                      | 30                                 |
| Due to primary government.....   | 2,109   | (100,000)                              | -                                  |
| Due to federal government.....   | -   | -                                      | 32                                 |
| Total adjustments.....   | 131,912   | (77,007)                               | 18,599                             |
| Net cash provided by (used for) operating activities.....  | (412,872)   | (81,523)                               | (60,263)                           |
| Cash flows from noncapital financing activities:   |   |  |                                    |
| Operating grants.....  | 6,315   | -                                      | 9,348                              |
| Transfers in from primary government, net.....   | 617,367   | -                                      | 55,842                             |
| Net cash provided by noncapital financing activities.....  | 623,682   | -                                      | 65,190                             |
| Cash flows from capital and related financing activities:  |   |  |                                    |
| Acquisition and construction of capital assets.....  | (633,483)   | (130,408)                              | (26,738)                           |
| Proceeds from the issuance of bonds and notes.....   | 830,918   | 264,770                                | 79,714                             |
| Interest on bonds and notes.....   | (151,099)   | (4,465)                                | (3,665)                            |
| Capital contributions.....   | 330,376   | -                                      | 25,915                             |
| Principal payments on bonds and notes.....   | (498,839)   | (14,896)                               | (80,941)                           |
| Payments to refunded bond escrow agent.....  | -   | (56,573)                               | -                                  |
| Net cash provided by (used for) capital and related financing activities.....                                | (122,127)   | 58,428                                 | (5,715)                            |
| Cash flows from investing activities:  |   |  |                                    |
| Purchases of investments.....  | (1,346,680)   | (6,869,280)                            | (9)                                |
| Sales and maturities of investments.....   | 1,351,764   | 6,897,396                              | 60                                 |
| Interest income.....   | -   | 9,407                                  | 1,017                              |
| Net cash provided by (used for) investing activities.....  | 5,084   | 37,523                                 | 1,068                              |
| Net increase (decrease) in cash and cash equivalents.....  | 93,767  | 14,428                                 | 280                                |
| Cash and cash equivalents at beginning of year.....  | 259,641   | 13,781                                 | 12,412                             |
| Cash and cash equivalents at end of year.....  | \$ 353,408  | \$ 28,209                              | \$ 12,692                          |

See notes to general purpose financial statements.



| Massachusetts<br>Water Pollution<br>Abatement<br>Trust | Massachusetts<br>Convention<br>Center<br>Authority | Economic<br>Development<br>Authorities | Total        |
|--|--|--|--------------|
| \$ (8,665)   | \$ (12,141)  | \$ (60,924)                            | \$ (709,892) |
| 117  | 7,562  | 3,195                                  | 234,551      |
| 1,142  | 115  | 2,027                                  | 7,763        |
| -  | (244)  | (4,180)                                | (24,838)     |
| 3,055  | -  | (339)                                  | 4,547        |
| (193,549)  | -  | (43,470)                               | (237,019)    |
| (5,973)  | (39)   | 866                                    | (16,187)     |
| -  | -  | 716                                    | 716          |
| (19,589)   | (851)  | (1,762)                                | (40,176)     |
| -  | -  | (70)                                   | (2,475)      |
| 62   | 21   | 3,804                                  | 7,310        |
| -  | (2,695)  | 118                                    | (16,654)     |
| -  | -  | (8)                                    | (1,581)      |
| -  | -  | (119)                                  | (2,102)      |
| -  | 31   | 11,625                                 | 2,579        |
| -  | -  | -                                      | 595          |
| 68,839   | 4,049  | (1,889)                                | 86,871       |
| -  | -  | 1,145                                  | 1,175        |
| -  | -  | 3,750                                  | (94,141)     |
| -  | -  | 28                                     | 60           |
| (145,896)  | 7,949  | (24,563)                               | (89,006)     |
| (154,561)  | (4,192)  | (85,487)                               | (798,898)    |
| 2,228  | -  | 46,064                                 | 63,955       |
| 25,877   | 17,393   | 23,515                                 | 739,994      |
| 28,105   | 17,393   | 69,579                                 | 803,949      |
| (10)   | (2,237)  | (12,357)                               | (805,233)    |
| 376,405  | -  | 32,441                                 | 1,584,248    |
| (39,681)   | (9,370)  | (7,102)                                | (215,382)    |
| 84,026   | 19,495   | (4,262)                                | 455,550      |
| (25,385)   | (19,066)   | (7,442)                                | (646,569)    |
| -  | -  | -                                      | (56,573)     |
| 395,355  | (11,178)   | 1,278                                  | 316,041      |
| (363,127)  | (55,740)   | (13,746)                               | (8,648,582)  |
| 199,069  | 55,317   | 35,212                                 | 8,538,818    |
| 59,989   | 297  | 5,255                                  | 75,965       |
| (104,069)  | (126)  | 26,721                                 | (33,799)     |
| 164,830  | 1,897  | 12,091                                 | 287,293      |
| 199,519  | 11,091   | 51,740                                 | 548,184      |
| \$ 364,349   | \$ 12,988  | \$ 63,831                              | \$ 835,477   |



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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

### a. Reporting Entity –

The state government 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 56 independent authorities and agencies. Below the level of state government are 14 county governments and 351 cities and towns exercising the functions of local governments. As of July, 1997 two counties were abolished and absorbed by the state government.

For financial reporting purposes, the Commonwealth of Massachusetts has included all funds, organizations, account groups, 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 are 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 37 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

**Blended Component Units** – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

In the Pension Trust Funds:

- (1) The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Effective January 1, 1997, the Massachusetts State Teachers' and Employees' Retirement Systems Trust (MASTERS) was merged with PRIT.

The MASTERS was a combined investment fund for the State Employees' Annuity Fund and the Teachers' Annuity Fund. The MASTERS was established by the State Treasurer, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under MGL, Chapter 29, Section 38a. MASTERS was dissolved as of November 7, 1997 under Chapter 315 of the Acts of 1996 and its assets were transferred to PRIT.

In addition, the following entities are blended into the discretely presented university and college and fund type:

- (2) The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.
- (3) The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine member board appointed by the Governor.
- (4) The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.
- (5) The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan.

(6) The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24 member board of which 23 are appointed by the Governor.

(7) The Worcester City Campus Corporation, doing business as UMASS Health System, is a not-for-profit organization for the purpose of supporting the Clinical System of the University of Massachusetts Medical Center by organizing, operating and supporting a health system network. The University of Massachusetts acting through its Board of Trustees is the sole corporate member of the UMASS Health System which is governed by a nine member board of directors.

(8) The University of Massachusetts Foundation, Inc. fosters and promotes the growth, progress and general welfare of the University of Massachusetts. It is governed by a twenty-seven member board of directors nominated by the President of the University of Massachusetts and approved by the board. The President, the five campus Chancellors and the Treasurer of the University are ex-officio members.

(9) The University of Massachusetts Dartmouth Foundation, Inc. incorporated as a charitable corporation, under Massachusetts General Laws, whose primary purpose is to render financial assistance to educational programs of the University. It is governed by a twenty-five member board nominated and appointed by the board.

**Discrete Component Units** – Discrete component units are entities which are legally separate from the Commonwealth, but are 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 combined financial statements include the financial data of the following entities:

(1) The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven member board of directors of which six are appointed by the Governor. The Commonwealth

guarantees the debt of the MBTA and funds deficiencies in the net cost of service.

(2) The Massachusetts Turnpike Authority (MTA) operates the Massachusetts Turnpike and the Sumner - Callahan - Williams Tunnels. The MTA is governed by three members each appointed by the Governor. Beginning in fiscal year 1996, the Commonwealth guarantees debt of the MTA. The MTA became a component unit for the first time in fiscal 1996. The MTA is legally required to use the calendar year for their fiscal reporting cycle.

(3) The Regional Transit Authorities (RTAs) provide transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before an RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 15 RTAs as follows:

- Berkshire Regional Transit Authority
- Brockton Area Transit Authority
- Cape Ann Transportation Authority
- Cape Cod Regional Transit Authority
- Franklin Regional Transit Authority
- Greater Attleboro/Taunton Regional Authority
- Greenfield-Montague Transportation Area
- Lowell Regional Transit Authority
- Martha's Vineyard Transit Authority
- Merrimack Valley Regional Transit Authority
- Montachusett Regional Transit Authority
- Nantucket Regional Transit Authority
- Pioneer Valley Transit Authority
- Southeastern Regional Transit Authority
- Worcester Regional Transit Authority

(4) The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. MWPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary of the Executive Office for Administration and Finance.

(5) The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is

governed by a seven member board of directors which includes the State Treasurer and four appointments made by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

#### *Economic Development –*

- (6) The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Economic Development, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor.
- (7) Corporation for Business, Work and Learning (CBWL) provides services that promote business modernization, economic growth and opportunities for gainful and fulfilling employment. MCBWL is governed by a nineteen member board of Directors which includes the Director of Economic Development and the Director of the Department of Labor and Workforce development. The entity is funded with Commonwealth grants. CBWL was formed effective July 1, 1996, through a merger between Bay State Skills Corporation (BSSC) and Industrial Services Program (ISP). Both BSSC and ISP were component units of the Commonwealth in fiscal year 1996.
- (8) The Massachusetts International Trade Council, Inc. (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the two member board.
- (9) The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of ten members including the Commissioner of Administration, the Secretary of Communities and Development and eight appointments made by the Governor. The GLB has access to \$50 million of general obligation bonds and the Commonwealth also provides subsidy assistance.
- The GLB also requires Commonwealth approval to issue bonded debt.
- (10) The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of twenty-three members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and twenty appointments made by the Governor. The Commonwealth provides grants to fund operations.
- (11) The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the nine member board of directors.
- (12) The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of eighteen members of which twelve are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.
- (13) The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven member board of directors of which two members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.
- (14) The Commonwealth Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's eleven member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos. Effective June 3, 1997, the Corporation began doing business as Zoo New England.

**Availability of Financial Information for Component Units and Individual Institutions of Higher Education -**

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices.

Discretely presented component units condensed financial statements are included in the component unit column of the general purpose financial statements.

**The following discretely presented component unit was audited by Deloitte & Touche LLP:**

Massachusetts Water Pollution Abatement Trust  
Office of the State Treasurer  
One Ashburton Place, 12th Floor  
Boston, MA 02108

**The following discretely presented component units were audited by auditors other than Deloitte & Touche LLP:**

Berkshire Regional Transit Authority  
67 Downing Parkway  
Pittsfield, MA 01201

Brockton Area Transit Authority  
70 School Street  
Brockton, MA 02401

Cape Ann Transportation Authority  
P. O. Box 511  
Gloucester, MA 01931

Cape Cod Regional Transit Authority  
585 Main Street, P. O. Box 2006  
Dennis, MA 02638

Community Economic Development  
Assistance Corporation  
19 Temple Street  
Boston, MA 02111

Commonwealth Zoological Corporation  
1 Franklin Park  
Boston, MA 02121

Corporation for Business, Work and Learning  
The Schrafft Center  
529 Main Street  
Boston, MA 02129

Franklin Regional Transit Authority  
474 Main Street  
Greenfield, MA 01301

Government Land Bank  
One Court Street, Suite 200  
Boston, MA 02108

Greater Attleboro/Taunton Regional Authority  
7 Mill Street  
Attleboro, MA 02703  
Greenfield-Montague Transportation Area  
382 Deerfield Street  
Greenfield, MA 01301

Lowell Regional Transit Authority  
145 Thorndike Street  
Lowell, MA 01852

Martha's Vineyard Transit Authority  
P. O. Box 158  
Edgartown, MA 02539

Massachusetts Bay Transportation Authority  
Ten Park Plaza  
Boston, MA 02116

Massachusetts Community Development Finance  
Corporation  
10 Post Office Square, Suite 1090  
Boston, MA 02109

Massachusetts Convention Center Authority  
900 Boylston Street  
Boston, MA 02115

Massachusetts Corporation for Educational  
Telecommunications  
1 Kendall Square, Building 1500  
Cambridge, MA 02139

Massachusetts Housing Partnership  
2 Oliver Street  
Boston, MA 02109

Massachusetts International Trade Council, Inc.  
100 Cambridge Street, Room 1302  
Boston, MA 02202

Massachusetts Technology Park Corporation  
75 North Drive  
Westborough, MA 01581

Massachusetts Turnpike Authority  
Ten Park Plaza, Suite 5170  
Boston, MA 02116

Merrimack Valley Regional Transit Authority  
85 Railroad Avenue  
Bradford, MA 01835

Montachusett Regional Transit Authority  
Rear 1427 Water Street  
Fitchburg, MA 01420

Nantucket Regional Transit Authority  
16 Board Street  
Nantucket, MA 02554

Pioneer Valley Transit Authority  
2808 Main Street  
Springfield, MA 01107

Southeastern Regional Transit Authority  
25 North Sixth Avenue  
New Bedford, MA 02740

Worcester Regional Transit Authority  
287 Grove Street  
Worcester, MA 01605

**The following blended component units have been audited by firms other than Deloitte & Touche LLP:**

Included in the University and College Fund Type:

Massachusetts State College Building Authority  
75 Park Plaza, P.O. Box 5  
Boston, MA 02116

University of Massachusetts  
Medical School Group Practice Plan  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Building Authority  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical School Teaching Hospital Trust Fund  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical Center Self Insurance Trust  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Dartmouth  
Foundation Inc.  
Old Westport Road  
No. Dartmouth, MA 02747

University of Massachusetts Foundation, Inc.  
One Beacon Street, 26th Floor  
Boston, MA 02108

UMASS Health System  
26 Queen Street  
Worcester, MA 01610

**The following investment vehicles of the Pension Trust Funds were audited by firms other than Deloitte & Touche LLP:**

Pension Reserve Investment Trust Fund  
125 Summer Street, 10th Floor  
Boston, MA 02110

MASTERS  
125 Summer Street, 10th Floor  
Boston, MA 02110

**Higher Education - The following institutions of higher education were audited by firms other than Deloitte & Touche LLP:**

Bridgewater State College  
Boyden Hall  
Bridgewater, MA 02324

Fitchburg State College  
160 Pearl Street  
Fitchburg, MA 01420

Framingham State College  
100 State Street  
Framingham, MA 01701

Holyoke Community College  
303 Homestead Avenue  
Holyoke, MA 01040

Massachusetts Bay Community College  
50 Oakland Street  
Wellesley, MA 02181

Massachusetts College of Art  
621 Huntington Avenue  
Boston, MA 02115

Massasoit Community College  
One Massasoit Boulevard  
Brockton, MA 02402

Middlesex Community College  
33 Kearney Square  
Lowell, MA 01852

Mount Wachusett Community College  
444 Green Street  
Gardner, MA 01440

Northern Essex Community College  
100 Elliot Street  
Haverhill, MA 01830

Springfield Technical Community College  
One Armory Square, P. O. Box 9000  
Springfield, MA 01101

University of Massachusetts  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

Westfield State College  
577 Western Avenue  
Westfield, MA 01086

Worcester State College  
486 Chandler Street  
Worcester, MA 01035

**The following institutions of higher education did not have separate audits performed on their individual financial statements:**

Berkshire Community College  
Bristol Community College  
Bunker Hill Community College  
Cape Cod Community College  
Greenfield Community College  
Massachusetts Maritime Academy  
North Adams State College  
North Shore Community College  
Quinsigamond Community College  
Roxbury Community College  
Salem State College

The following are "related organizations" under GASB 14 "The Financial Reporting Entity": Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments.

**b. Fund Accounting –**

The Commonwealth reports its financial position and results of operations in funds and account groups, 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.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

**Governmental Funds** – account for the general governmental activities of the Commonwealth.

The General 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, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

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 primarily from proceeds of general and specific obligation bonds and federal reimbursements.

**Proprietary Funds** – includes internal service funds which account for the financing of services provided by one department or agency to other departments or agencies, or to other governmental units.

**Fiduciary Funds** – account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds account for trusts whose principal cannot be spent.

Pension Trust Funds account for net assets held in trust for the State Employees' and Teachers' Retirement Systems.



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.

**University and College Funds** – account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan Funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

**Account Groups** – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group accounts for general fixed assets of the Commonwealth, excluding the fixed assets of the Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group accounts for long-term bonds and notes issued by the Commonwealth, capital leases, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Service Funds.

**Component Units** – account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

#### c. **Measurement Focus and Basis of Accounting –**

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of

accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. 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.

Proprietary Funds, Nonexpendable Trust and Pension Trust Funds and discretely presented Component Units are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital, group practice plan, and foundations.

**Statutory (Budgetary) Accounting** – The Commonwealth's books and records and other official reports 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 the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when

considered measurable and available at year end. Deeds excise taxes are recognized at the time of collection by the counties.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year end.

**d. Cash and Short-Term Investments and Investments -**

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost, which approximates fair value. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$18,969,346,000, at fair value, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1997, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$1,540,599,000 in the Pension Trust Funds, representing 5.4%, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$10,150,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value (except for debt instruments to be held to maturity which are carried at amortized cost).

Annuity contracts represent guaranteed investment contracts and are carried at present value.

Investments of the Commonwealth's Deferred Compensation Plan are carried at fair value.

**e. Securities Lending Program -**

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1997, the market value of the securities on loan from PRIT was approximately \$1,026,000,000. The value of the collateral held by PRIT amounted to \$1,057,000,000 at June 30, 1997. The PRIT trust securities on loan were collateralized at all times by U.S. Treasury securities of at least 100% of the value of the loaned securities. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. The securities on loan are included in investments at fair value as of June 30, 1997, in the combined balance sheet.

**f. Receivables -**

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 "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

**g. Due From Cities and Towns -**

Represents reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

**h. Inventories and Other Assets -**

Inventories included in the Governmental Fund Types represent food stamps on hand and are stated at face value.

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund Type and the Component Unit column are stated at the lower of cost (using the first-in, first-out method), or market (on the purchase or consumption method).

**i. Fixed Assets -**

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land. It capitalizes buildings, equipment, and computer software, with costs in excess of \$15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets and infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of \$1,000. The community

colleges capitalize all other fixed assets with costs in excess of \$15,000 consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital, Group Practice Plan, Worcester City Campus Corporation, University of Massachusetts Foundation, Inc. and the University of Massachusetts Dartmouth Foundation, Inc. fixed assets, which are recorded on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

|   |               |
|---|---------------|
| Structures and improvements.....                    | 3 - 100 years |
| Equipment, furniture,<br>fixtures and vehicles..... | 3 - 25 years  |

**j. Interfund/Intrafund Transactions -**

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from Component Units."

**k. Fringe Benefit Cost Recovery -**

The Commonwealth appropriates and pays the fringe benefit costs of its 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 is accounted for through the Internal Service Fund.

***l. School Construction Grants -***

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities. The long-term portion of this liability is recorded in the General Long-Term Obligations Account Group.

***m. Compensated Absences -***

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

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 then-current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

***n. 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 Funds. The Commonwealth retains the risk related to such annuities.

***o. Risk Financing -***

The Commonwealth does not insure 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 Public Employee Retirement Administration Commission and another program for individuals working on the Central

Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. 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.

The Commonwealth accounts for workers' compensation and group insurance risk financing activities in the Internal Service Funds. Revenues are charged to other funds as reimbursement for expenses related to claims and judgments. Other risk financing activities are accounted for in the General Fund.

***p. Fund Balances -***

The Commonwealth reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been reserved as follows:

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

"Reserved for tax reduction" – identifies the amount set aside according to Section 6 of Chapter 29B of the Massachusetts General Laws. The amount can only be used to reduce personal income taxes as provided in the Chapter.

"Reserved for Commonwealth stabilization" – identifies amounts set aside according to Section 5C of Chapter 29 of the Massachusetts General Laws.

"Reserved for employees' pension benefits" – identifies the net assets of the Commonwealth's public employee retirement systems which cannot be used for any other purpose.

"Reserved for unemployment benefits" – identifies amounts reserved for payment of unemployment compensation.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to the Commonwealth Fiscal Recovery Loan Act of 1990, and to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It is also reserved for specific continuing appropriation for debt service.

"Reserved for nonexpendable trusts" – identifies amounts being held by the Commonwealth on behalf of third parties for which only the interest can be expended.

"Reserved for capital projects" – identifies amounts reserved for capital projects.

**q. Total Columns – Memorandum Only -**

Total columns on the combined financial statements 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 cash flows. Interfund elimination's have not been made in the aggregation of this data.

**r. Reclassifications -**

For the fiscal year ended June 30, 1997, certain reclassifications have been made to the 1996 balances to conform to the presentation used in 1997. Certain amounts in the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

**s. Future Adoption of Accounting Pronouncements -**

The GASB has issued two statements which the Commonwealth has not yet adopted and which require adoption in fiscal year 1998 as follows: Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and Statement No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans".

The implication of these statements to the Commonwealth's fiscal practices and financial reports is being evaluated.

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

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 fiscal 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 account.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process or separately budgeted. 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 allotment of appropriated funds which effectively reduce the account's expenditure budget.

The original fiscal year 1997 appropriation act authorized approximately \$16,664,007,000 in direct appropriations and \$814,203,000 in authorizations to retain and expend certain non-tax revenues of which \$783,274,000 was estimated to be collected and expended plus \$99,230,000 of interagency chargebacks. The act also included estimates of \$12,188,000,000 in tax revenues and approximately \$5,152,000,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$17,340,000,000, and with unreserved balances on a statutory basis of approximately \$134,044,000 carried forward from fiscal year 1996, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1997, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These supplements added approximately \$136,808,000 in direct appropriations and \$2,445,000 in additional retained revenue authorizations.

Subsequent to June 30, 1997, the Legislature passed and the Governor signed, with modification through veto, approximately \$223,392,000 in additional supplemental appropriations, \$20,260,000 in additional retained revenue authorizations and \$50,000 in additional interagency chargebacks. The cumulative fiscal year 1997 appropriations, retained revenue and interagency chargebacks totaled \$17,960,395,000. Appropriations continued from fiscal year 1996 totaled approximately \$240,773,000, and certain interfund transfers, directed by statute, totaled approximately \$1,029,216,000.

Because revenue budgets are not updated subsequent to the original appropriations act, the comparisons of the initial budgeted revenue to the subsequent, and often modified, expenditure budget can be misleading. Also, the financial statements portray fund accounting with gross inflows and outflows, thus creating a second variance, to separately published budget documents, portraying net inflows and outflows.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds include the Highway, Local Aid, Environmental, and Other budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State accounting system, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

A reconciliation of the statutory basis budgeted funds to the GAAP basis General and Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

|   | General<br>Fund | Special<br>Revenue |
|---|-----------------|--------------------|
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis).....             | \$ 615,870      | \$ (394,832)       |
| Entity differences:   |                 |                    |
| Deficiency of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds..... |                 | (26,006)           |
| Perspective differences:  |                 |                    |
| Certain activities treated as Special Revenue Funds for statutory purposes are accounted for in the General Fund for GAAP.....            | 120,988         | (120,988)          |
| Basis of accounting differences:  |                 |                    |
| Net increase in taxes receivable.....   | 92,877          | 73,356             |
| Net increase/(decrease) in due from federal government.....   | (32,808)        | 502                |
| Net increase/(decrease) in other receivables and other assets.....  | 224,684         | (21,319)           |
| Net increase in tax refunds and abatements payable.....   | (7,723)         | (5,428)            |
| Net (increase) in accounts payable and other liabilities.....   | (150,585)       | (8,081)            |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis).....                  | \$ 863,303      | \$ (502,796)       |

### 3. DEPOSITS AND INVESTMENTS

**Cash and Short-Term Investments** –The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

#### Primary Government -

As of June 30, 1997, the carrying amount of the Primary Government's total cash and cash equivalents were \$361,977,000 and the corresponding bank balances were \$557,432,000. Bank deposits in the amount of \$282,032,000 were insured by the Federal Deposit Insurance Corporation, \$120,408,000 were collateralized, and \$154,992,000 were uninsured and uncollateralized.

#### Component Units -

As of June 30, 1997, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents were \$326,132,000, and the corresponding bank balances were \$315,088,000. Bank deposits of \$160,128,000 were insured by the Federal Deposit Insurance Corporation, \$6,015,000 were collateralized, and \$148,948,000 were uninsured and uncollateralized.

**Investments** – The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative

investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

**Primary Government** – Investments of the Primary Government at June 30, 1997, are as follows (amounts in thousands):

|   | Carrying Amount      |                  |                   | Total                | Market Value         |
|---|----------------------|------------------|-------------------|----------------------|----------------------|
|   | Category 1           | Category 2       | Category 3        |                      |                      |
| <b>Investment</b>                       |                      |                  |                   |                      |                      |
| Repurchase agreements.....              | \$ 906,299           | \$ -             | \$ 5,976          | \$ 912,275           | \$ 912,275           |
| U.S. Treasury obligations.....          | 914,992              | 7,685            | 135,930           | 1,058,607            | 1,059,327            |
| Commercial paper.....                   | 1,192,884            | -                | -                 | 1,192,884            | 1,192,884            |
| Government obligations.....             | 2,044,715            | 17,001           | 86,200            | 2,147,916            | 2,147,805            |
| Equity securities.....                  | 13,373,159           | 3,992            | 27,975            | 13,405,126           | 13,405,772           |
| Fixed income securities.....            | 2,200,447            | 1,897            | 82,436            | 2,284,780            | 2,284,789            |
| Asset backed investments.....           | 3,928                | -                | -                 | 3,928                | 3,928                |
| Notes.....                              | 333,296              | -                | -                 | 333,296              | 333,296              |
| Other.....                              | 109,593              | 3,963            | 1,004             | 114,560              | 114,560              |
|   | <u>\$ 21,079,313</u> | <u>\$ 34,538</u> | <u>\$ 339,521</u> | 21,453,372           | 21,454,636           |
| Money market investments                |                      |                  |                   | 876,127              | 876,127              |
| Mutual fund investments                 |                      |                  |                   | 41,480               | 41,480               |
| Deferred compensation plan mutual funds |                      |                  |                   | 1,837,892            | 1,837,892            |
| Annuity contracts                       |                      |                  |                   | 1,285,021            | 1,285,021            |
| Eurodollar contracts                    |                      |                  |                   | 14,015               | 14,015               |
| Real estate                             |                      |                  |                   | 754,309              | 754,309              |
| Assets held in trust                    |                      |                  |                   | 1,759,068            | 1,759,068            |
| Deposits with U.S. Treasury             |                      |                  |                   | 1,222,725            | 1,222,725            |
| Certificate of deposits                 |                      |                  |                   | 4,382                | 4,382                |
| Other                                   |                      |                  |                   | 786,970              | 786,970              |
| Total                                   |                      |                  |                   | <u>\$ 30,035,361</u> | <u>\$ 30,036,625</u> |

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

|   |                      |
|---|----------------------|
| Investments as summarized above.....  | \$ 30,035,361        |
| Less:   |                      |
| Short-term investments reported in the combined balance sheet as cash and short-term investments..... | 3,688,891            |
| Restrictive investments reported separately in the combined balance sheet.....                        | 223,219              |
| Deferred compensation plan mutual funds reported separately in the combined balance sheet.....        | 1,837,892            |
| Assets held in trust reported separately in the combined balance sheet.....                           | 1,759,068            |
| Annuity contracts reported separately in the combined balance sheet.....                              | 1,285,021            |
| Deposits reported separately in the combined balance sheet.....                                       | 1,334,988            |
| Investments as reported on the combined balance sheet.....  | <u>\$ 19,906,282</u> |

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1997 (amounts in thousands):

|  |                     |
|--|---------------------|
| Carrying amount of cash and cash equivalents.....                              | \$ 361,977          |
| Cash with fiscal agent.....  | (24,823)            |
| Short-term investments.....  | <u>3,688,891</u>    |
| Cash and short-term investments as reported on the combined balance sheet..... | <u>\$ 4,026,045</u> |

**Financial Investments with Off-Balance Sheet Risk** – Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows.

**Forward Currency Contracts** – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record 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. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

**Futures Contracts** – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum “initial margin” requirements of the future.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to an non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension Trust Funds may also invest in financial futures contracts for non-hedging purposes.

Payments are made or received by the Pension Trust Funds 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 Pension Trust Funds recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1997 for the Pension Trust Funds amount to approximately \$187,759,000 with unrealized loss of approximately \$132,000.

**Options** – PRIT is also engaged in selling or “writing” options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1997, there were no material options outstanding.



**Component Units** – Investments of the discretely presented Component Units at June 30, 1997, are as follows (amounts in thousands):

|   | Carrying Amount  |                 |                   | Total               | Market Value        |
|---|------------------|-----------------|-------------------|---------------------|---------------------|
|   | Category 1       | Category 2      | Category 3        |                     |                     |
| <u>Investment</u>                       |                  |                 |                   |                     |                     |
| Repurchase agreements.....              | \$ 16,903        | \$ -            | \$ 169,491        | \$ 186,394          | \$ 186,425          |
| U.S. Treasury obligations.....          | 4,907            | -               | 68,470            | 73,377              | 73,329              |
| Commercial paper.....                   | 171,064          | 29,888          | -                 | 200,952             | 200,977             |
| Government obligations.....             | 58,778           | 21,884          | 14,503            | 95,165              | 96,275              |
| Equity securities.....                  | -                | -               | 1,015             | 1,015               | 1,015               |
| Notes.....                              | 58,383           | -               | 6,893             | 65,276              | 65,276              |
| Other.....                              | 19,038           | -               | 7,479             | 26,517              | 26,523              |
|   | <u>\$329,073</u> | <u>\$51,772</u> | <u>\$ 267,851</u> | 648,696             | 649,820             |
| Money market investments                |                  |                 |                   | 10,856              | 10,856              |
| Mutual fund investments                 |                  |                 |                   | 110                 | 110                 |
| Deferred compensation plan mutual funds |                  |                 |                   | 15,943              | 15,943              |
| Assets held in trust                    |                  |                 |                   | 4,661               | 4,661               |
| Guaranteed investment contracts         |                  |                 |                   | 524,473             | 524,473             |
| Certificate of deposits                 |                  |                 |                   | 6,578               | 6,578               |
| Total                                   |                  |                 |                   | <u>\$ 1,211,317</u> | <u>\$ 1,212,441</u> |

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

|   |                   |
|---|-------------------|
| Investments as summarized above.....  | \$ 1,211,317      |
| Less:   |                   |
| Short-term investments reported in the combined balance sheet as cash and short-term investments..... | 509,345           |
| Restricted investments reported separately in the combined balance sheet.....                         | 261,576           |
| Deferred compensation plan mutual funds reported separately in the combined balance sheet.....        | 15,943            |
| Assets held in trust reported separately on the combined balance sheet.....                           | 4,661             |
| Investments as reported on the combined balance sheet.  | <u>\$ 419,792</u> |

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1997 (amounts in thousands):

|  |                   |
|--|-------------------|
| Carrying amount of cash and cash equivalents.....  | \$ 326,132        |
| Short-term investments reported as investments for GASB 3 disclosure purposes but reported in the combined balance sheet as Cash and short-term investments..... | 509,345           |
| Cash and short-term investments as reported on the combined balance sheet.....   | <u>\$ 835,477</u> |

**4. RECEIVABLES**

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

**Primary Government –**

|   | <u>Taxes</u>        | <u>Due from<br/>Federal<br/>Government</u> | <u>Loans</u>     | <u>Other</u>      | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Receivable</u> |
|---|---------------------|--|------------------|-------------------|---|---------------------------|
| General Fund.....                           | \$ 1,037,380        | \$ 693,955                                 | \$ -             | \$ 712,051        | \$ (811,820)                                | \$ 1,631,566              |
| Special Revenue Funds....                   | 728,973             | 162,702                                    | -                | 134,608           | (216,425)                                   | 809,858                   |
| Capital Projects Funds.....                 | -                   | 165,527                                    | -                | 212               | (79)  | 165,660                   |
| Trust and Agency.....                       | 392,614             | 3,590                                      | 2,943            | 313,724           | (106,017)                                   | 606,854                   |
| University and<br>College Fund.....         | -                   | 23,182                                     | 54,827           | 183,809           | (40,313)                                    | 221,505                   |
| Subtotal.....                               | 2,158,967           | 1,048,956                                  | 57,770           | 1,344,404         | <u>\$(1,174,654)</u>                        | 3,435,443                 |
| Less: Allowance for<br>uncollectibles ..... | (484,969)           | (21,699)                                   | (6,242)          | (661,744)         |   |                           |
| Net receivable.....                         | <u>\$ 1,673,998</u> | <u>\$ 1,027,257</u>                        | <u>\$ 51,528</u> | <u>\$ 682,660</u> |   | <u>\$ 3,435,443</u>       |

**Component Units –**

|                                    | <u>Due from<br/>Federal<br/>Government</u> | <u>Loans</u>        | <u>Other</u>    | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Receivable</u> |
|------------------------------------|--|---------------------|-----------------|---|---------------------------|
| MBTA.....                          | \$ -                                       | \$ -                | \$50,072        | \$ -  | \$ 50,072                 |
| MTA.....                           | -  | -                   | 4,376           | -   | 4,376                     |
| Regional Transit Authorities.....  | 6,139                                      | -                   | 7,293           | (36)  | 13,396                    |
| MWPAT.....                         | -  | 857,294             | 18,726          | -   | 876,020                   |
| MCCA.....                          | -  | -                   | 862             | (94)  | 768                       |
| Economic Development.....          | 22,790                                     | 193,268             | 7,588           | (7,421)                                     | 216,225                   |
| Subtotal.....                      | 28,929                                     | 1,050,562           | 88,917          | <u>\$(7,551)</u>                            | 1,160,857                 |
| Less: Allowance for uncollectibles | -  | (7,421)             | (130)           |   |                           |
| Net receivable.....                | <u>\$ 28,929</u>                           | <u>\$ 1,043,141</u> | <u>\$88,787</u> |   | <u>\$ 1,160,857</u>       |

**5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Receivables and payables between funds and component units at June 30, 1997 are summarized as follows (amounts in thousands):

**Primary Government:**

|                                    | <u>Due from</u>     | <u>Due to</u>       |
|------------------------------------|---------------------|---------------------|
| <b>General Fund:</b>               |                     |                     |
| Special Revenue Funds:             |                     |                     |
| Federal grants.....                | \$ 19,479           | \$ -                |
| Local aid.....                     | 1,185,884           | -                   |
| Capital Projects Funds:            |                     |                     |
| General.....                       | 62,568              | -                   |
| Capital Investment Trust.....      | -                   | 229,800             |
| Highway.....                       | 82,903              | -                   |
| Local Aid.....                     | 49,769              | -                   |
| Other.....                         | 386                 | -                   |
| Trust and Agency Funds:            |                     |                     |
| Pension Trust.....                 | 3,657               | -                   |
| University and College Fund:       |                     |                     |
| Current - Unrestricted.....        | 5,576               | -                   |
| Subtotal.....                      | <u>1,410,222</u>    | <u>229,800</u>      |
| Special Revenue Funds:             |                     |                     |
| General Fund.....                  | -                   | 1,205,363           |
| Subtotal.....                      | <u>-</u>            | <u>1,205,363</u>    |
| Capital Projects Funds:            |                     |                     |
| General Fund.....                  | 229,800             | 195,626             |
| Capital Projects Funds:            |                     |                     |
| Highway.....                       | 20,018              | -                   |
| Federal Highway Construction.....  | -                   | 20,018              |
| Subtotal.....                      | <u>249,818</u>      | <u>215,644</u>      |
| Internal Service Funds:            |                     |                     |
| University and College Funds:      |                     |                     |
| Current - unrestricted.....        | 35,400              | -                   |
| Subtotal.....                      | <u>35,400</u>       | <u>-</u>            |
| Fiduciary Funds:                   |                     |                     |
| General Fund.....                  | -                   | 3,657               |
| Subtotal.....                      | <u>-</u>            | <u>3,657</u>        |
| University and College Fund:       |                     |                     |
| General Fund.....                  | -                   | 5,576               |
| Internal Services Funds:           |                     |                     |
| Employees workers' compensation... | -                   | 35,400              |
| University and College Fund:       |                     |                     |
| Current - unrestricted.....        | 19,747              | 53,458              |
| Current - restricted.....          | 39,352              | -                   |
| Loan.....                          | 306                 | 2                   |
| Endowment.....                     | -                   | 11,087              |
| Plant.....                         | 8,293               | 3,151               |
| Subtotal.....                      | <u>67,698</u>       | <u>108,674</u>      |
| Total Primary Government.....      | <u>\$ 1,763,138</u> | <u>\$ 1,763,138</u> |

**Component Units:**

|                                       | <u>Due from</u>   | <u>Due to</u>     |
|---------------------------------------|-------------------|-------------------|
| <b>General Fund:</b>                  |                   |                   |
| MBTA.....                             | \$ 2,109          | \$ -              |
| RTAs.....                             | -                 | 33,102            |
| MCCA.....                             | -                 | 17,966            |
| Economic Development Authorities..... | 3,750             | 335               |
| Subtotal.....                         | <u>5,859</u>      | <u>51,403</u>     |
| Special Revenue Funds:                |                   |                   |
| MBTA.....                             | -                 | 234,639           |
| RTAs.....                             | -                 | 25,785            |
| MWPAT.....                            | -                 | 20,200            |
| Economic Development Authorities..... | -                 | 4,044             |
| Subtotal.....                         | <u>-</u>          | <u>284,668</u>    |
| Capital Projects Funds:               |                   |                   |
| Economic Development Authorities..... | -                 | 27                |
| Subtotal.....                         | <u>-</u>          | <u>27</u>         |
| MBTA:                                 |                   |                   |
| General Fund.....                     | -                 | 2,109             |
| Special Revenue Funds:                |                   |                   |
| Highway.....                          | 78,213            | -                 |
| Local Aid.....                        | 156,426           | -                 |
| Subtotal.....                         | <u>234,639</u>    | <u>2,109</u>      |
| RTAs:                                 |                   |                   |
| General Fund.....                     | 33,102            | -                 |
| Special Revenue Funds:                |                   |                   |
| Highway.....                          | 8,595             | -                 |
| Local Aid.....                        | 17,190            | -                 |
| Subtotal.....                         | <u>58,887</u>     | <u>-</u>          |
| MWPAT:                                |                   |                   |
| Special Revenue Funds:                |                   |                   |
| Local Aid.....                        | 20,200            | -                 |
| Subtotal.....                         | <u>20,200</u>     | <u>-</u>          |
| MCCA:                                 |                   |                   |
| General Fund.....                     | 17,966            | -                 |
| Subtotal.....                         | <u>17,966</u>     | <u>-</u>          |
| Economic Development Authorities:     |                   |                   |
| General Fund.....                     | 335               | 3,750             |
| Special Revenue Funds:                |                   |                   |
| Other.....                            | 4,044             | -                 |
| Capital Projects Funds:               |                   |                   |
| General.....                          | 27                | -                 |
| Subtotal.....                         | <u>4,406</u>      | <u>3,750</u>      |
| Total Component Units.....            | <u>\$ 341,957</u> | <u>\$ 341,957</u> |

**6. FIXED ASSETS****Primary Government-**

**General Fixed Asset Account Group** – Changes in general fixed assets by category at June 30, 1997 are as follows (amounts in thousands):

|                               | Balance at<br>July 1, 1996 | Additions  | Retirements | Balance at<br>June 30, 1997 |
|-------------------------------|----------------------------|------------|-------------|-----------------------------|
| Land.....                     | \$ 489,693                 | \$ 32,499  | \$ 175      | \$ 522,017                  |
| Buildings.....                | 2,352,196                  | 32,087     | 9,833       | 2,374,450                   |
| Machinery and equipment..     | 441,117                    | 166,793    | 96,684      | 511,226                     |
| Construction in progress..... | 34,610                     | 63,568     | -           | 98,178                      |
| Total.....                    | \$ 3,317,616               | \$ 294,947 | \$ 106,692  | \$ 3,505,871                |

**University and College Fund Type** – Fixed assets consist of the following at June 30, 1997 (amounts in thousands):

|                                     | Amount              |
|-------------------------------------|---------------------|
| Land.....                           | \$ 52,420           |
| Buildings.....                      | 1,819,934           |
| Machinery and equipment.....        | 686,349             |
| Construction in progress.....       | 30,886              |
|                                     | <u>2,589,589</u>    |
| Less: accumulated depreciation..... | (178,881)           |
| Total.....                          | <u>\$ 2,410,708</u> |

**Component Units** – Fixed assets consist of the following at June 30, 1997 (amounts in thousands):

|   | Amount              |
|---|---------------------|
| Land and improvements.....                    | \$ 347,089          |
| Infrastructure.....                           | 1,006,682           |
| Structures and improvements.....              | 4,930,389           |
| Equipment, furniture, fixtures and vehicles.. | 1,764,389           |
| Total.....                                    | <u>8,048,549</u>    |
| Less accumulated depreciation.....            | (2,198,934)         |
| Net fixed assets.....                         | 5,849,615           |
| Construction in progress.....                 | 1,057,286           |
| Total.....                                    | <u>\$ 6,906,901</u> |

**7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS****Primary Government -**

The Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

**General Fund** – The Commonwealth is authorized by Massachusetts General Laws to issue short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. There were no such notes outstanding at June 30, 1997.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1997, there were no RANs issued or outstanding.

**Capital Projects Funds** – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. During fiscal year 1997, there were no BANs issued or outstanding.

The Commonwealth is authorized to sell up to \$1,000,000,000 in Grant Anticipation Notes (GANs) in anticipation of receipt of federal funds related to Central Artery/Third Harbor Tunnel projects. During fiscal year 1997, there were no GANs issued or outstanding.

**Letter-of-Credit Agreements** – During fiscal year 1997, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during fiscal year ended 1997, or subsequent thereto. These agreements expire October 31, 1997 through September 1, 1998. The average costs are approximately 0.07 % on unutilized amounts and approximately 0.10% on utilized amounts.

**Line-of-Credit Agreement** – During fiscal year 1997, the Commonwealth maintained a line of credit with a bank to

provide liquidity support for up to \$200,000,000 of commercial paper notes. The line of credit expires September 30, 1999. The average costs of all lines of credit are approximately 0.06% on unutilized amounts and approximately 0.08% on utilized amounts.

#### ***Component Units -***

MBTA short-term notes payable outstanding at June 30, 1997 totaled \$325,000,000. Of this amount, \$160,000,000 is due September 5, 1997 with an interest rate of 4.75% and \$165,000,000 will mature on February 27, 1998 with an interest rate of 4.25%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1997, \$43,500,000 of this commercial paper was outstanding.

Subsequent to June 30, 1997, the MBTA issued \$160,000,000 of notes carrying an interest rate of 4.50%. The notes mature on September 5, 1998.

The Commonwealth Zoological Corporation had \$845,000 of short-term notes payable outstanding at June 30, 1997. The notes have an interest rate of 9.50% and were due August 31, 1997.

The RTAs had \$69,446,000 of short-term notes payable outstanding at June 30, 1997. All notes mature during fiscal year 1998 and have interest rates ranging from 3.89% to 4.95%.

Subsequent to June 30, 1997, the RTAs rolled over \$37,219,000 of revenue anticipation notes with interest rates ranging from 3.97% to 4.35% due in 1998.

### **8. LONG-TERM DEBT**

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other financing sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. 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 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.

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 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 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.

As of June 30, 1997, the Commonwealth had four types of bonds outstanding: general obligation, dedicated income tax, college opportunity and special obligation. The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

The Commonwealth issues college opportunity bonds as authorized by the Massachusetts General Laws. These bonds are backed by the full faith and credit of the Commonwealth. At June 30, 1997, the Commonwealth has outstanding \$79,508,000 of such college opportunity bonds. Included in this amount is approximately \$34,598,000 of accrued interest.

The Commonwealth also issues special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not

general obligations of the Commonwealth. At June 30, 1997, the Commonwealth had outstanding \$520,760,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation, dedicated income tax, college opportunity, and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1997, are as follows (amounts in thousands):

| Purpose                   | Outstanding<br>Amount | Maturities | Authorized -<br>Unissued |
|---------------------------|-----------------------|------------|--------------------------|
| Deficit reduction:        |                       |            |                          |
| Fiscal recovery.....      | \$ 129,900            | 1997-1998  | \$ 57,274                |
| Capital projects:         |                       |            |                          |
| General .....             | 4,996,155             | 1997-2025  | 4,912,029                |
| Highway.....              | 3,668,189             | 1997-2016  | 6,143,163                |
| Local aid.....            | 1,414,517             | 1997-2015  | 699,855                  |
| Other.....                | 62,533                | 1997-2025  | 141,821                  |
| Capital projects debt.... | 10,141,394            |            | 11,896,868               |
| Total.....                | \$ 10,271,294         |            | \$ 11,954,142            |

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1997 ranged from 0.10% to 14.13%.

Changes in long-term bonds outstanding (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1997, are as follows (amounts in thousands):

|                                       | Bonds<br>Outstanding | Authorized -<br>Unissued |
|---------------------------------------|----------------------|--------------------------|
| Balance, July 1, 1996.....            | \$ 10,065,578        | \$ 8,182,843             |
| General and Special obligation bonds: |                      |                          |
| Principal less discount               |                      |                          |
| and issuance costs.....               | 899,471              | (899,471)                |
| Discount and issuance costs.....      | 33,843               | -                        |
| General obligation refunding bonds:   |                      |                          |
| Principal of bonds issued .....       | 722,621              | -                        |
| Refunded bonds.....                   | (697,550)            | -                        |
| Increase in bonds authorized.....     | -                    | 4,707,040                |
| Bonds retired.....                    | (752,669)            | -                        |
| Expiration of authorizations.....     | -                    | (36,270)                 |
| Balance, June 30, 1997.....           | \$ 10,271,294        | \$ 11,954,142            |

At June 30, 1997, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

| Year Ending June 30,   | Principal     | Interest     | Total         |
|------------------------|---------------|--------------|---------------|
| 1998.....              | \$ 703,716    | \$ 507,223   | \$ 1,210,939  |
| 1999.....              | 635,187       | 469,489      | 1,104,676     |
| 2000.....              | 640,604       | 433,328      | 1,073,932     |
| 2001.....              | 658,470       | 401,017      | 1,059,487     |
| 2002.....              | 622,911       | 367,431      | 990,342       |
| 2003 and thereafter... | 7,010,406     | 2,210,459    | 9,220,865     |
| Total.....             | \$ 10,271,294 | \$ 4,388,947 | \$ 14,660,241 |

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during fiscal year 1997. The costs for legal counsel and underwriting fees under competitive bond sale costs were estimated at \$152,000 and \$2,239,000, respectively. Negotiated legal fees and underwriter fees were estimated at \$97,000 and \$4,668,000 respectively.

Subsequent to June 30, 1997, the Commonwealth issued \$19,902,000 in college opportunity bonds with variable interest rates, \$250,000,000 in general obligation bonds with interest rates ranging from 5.00% to 5.75%, \$375,840,000 in general obligation refunding bonds with interest rates ranging from 4.50% to 5.75%, \$271,280,000 in general obligation refunding bonds with variable interest rates and \$294,695,000 in special obligation bonds with interest rates ranging from 3.75% to 5.50%, which included \$191,080,000 in special obligation refunding bonds and \$103,615,000 in new issue special obligation bonds.

**Statutory Debt Limit** -The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual

capital spending. The direct debt limit for fiscal year 1997 was \$9,112,650,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes bond anticipation notes and discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, special obligation bonds, refunded bonds, and certain refunding bonds. Outstanding direct debt, as defined, totaled approximately \$8,752,333,000 at June 30, 1997.

The amounts excluded from the limits are as follows (amounts in thousands):

|  | Bonds<br>Outstanding |
|--|----------------------|
| Balance, June 30, 1997.....                | \$10,271,294         |
| Less amounts excluded:                     |                      |
| Discount and Issuance Cost.....            | (735,393)            |
| Fiscal Recovery Principal.....             | (126,470)            |
| Chapter 5 of the Acts of 1992 Refunding... | (144,509)            |
| Special Obligation Principal.....          | (512,589)            |
| Outstanding Direct Debt.....               | <u>\$ 8,752,333</u>  |

**Advance Refunding and Defeased Bonds** - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$722,621,000 of general obligation refunding bonds during fiscal year 1997. Proceeds totaling approximately \$741,997,000, including bond premiums, were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance

refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$35,926,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$30,074,000. At June 30, 1997, approximately \$665,955,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1997, approximately \$2,701,874,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

**Changes in General Long-term Obligations** - The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools, compensated absences, claims judgments and lottery prizes payable (Note 1). These liabilities will be liquidated in the future from governmental funds.

**General Long Term Debt Obligations Account Group** - During the year ended June 30, 1997, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

|                                    | Balance<br>July 1, 1996 | Bond<br>Issuances   | Bond<br>Discount | Bond<br>Principal<br>Payments | Other Net<br>Increase<br>(Decrease) | Balance<br>June 30, 1997 |
|------------------------------------|-------------------------|---------------------|------------------|-------------------------------|-------------------------------------|--------------------------|
| Long-term Bonds.....               | \$ 10,065,578           | \$ 1,622,092        | \$ 33,843        | \$ (1,450,219)                | \$ -                                | \$ 10,271,294            |
| Capital Leases.....                | 59,022                  | -                   | -                | -                             | 28,149                              | 87,171                   |
| School Construction Grants.....    | 3,053,799               | -                   | -                | -                             | 480,818                             | 3,534,617                |
| Compensated Absences.....          | 97,225                  | -                   | -                | -                             | 9,177                               | 106,402                  |
| Claims, Judgements, and Other..... | 85,040                  | -                   | -                | -                             | (8,508)                             | 76,532                   |
| Lottery Prizes Payable.....        | 1,632                   | -                   | -                | -                             | 1,934                               | 3,566                    |
| Total.....                         | <u>\$ 13,362,296</u>    | <u>\$ 1,622,092</u> | <u>\$ 33,843</u> | <u>\$ (1,450,219)</u>         | <u>\$ 511,570</u>                   | <u>\$ 14,079,582</u>     |

**University and College Fund** – Building authorities related to the University of Massachusetts and the state colleges 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 \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1997 was as follows (amounts in thousands):

| <u>Purpose</u>                               | <u>Interest Rates</u> | <u>Amount</u>     | <u>Maturity Dates</u> |
|--|-----------------------|-------------------|-----------------------|
| MHEFA capital asset program..                | Variable              | \$ 64,661         | 1997-2023             |
| Building authorities and state colleges..... | 3.0%-12.0%            | 252,078           | 1997-2024             |
|  |                       | <u>\$ 316,739</u> |                       |

Maturities of principal are as follows (amounts in thousands):

| <u>Years Ending June 30,</u> | <u>Amount</u>     |
|------------------------------|-------------------|
| 1998.....                    | \$ 12,168         |
| 1999.....                    | 12,947            |
| 2000.....                    | 13,516            |
| 2001.....                    | 14,316            |
| 2002.....                    | 15,005            |
| 2003 and thereafter.....     | 248,787           |
| Total.....                   | <u>\$ 316,739</u> |

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

|   | <u>Amount</u>     |
|---|-------------------|
| Balance, July 1, 1996, as restated.....             | \$ 310,178        |
| Principal less issuance and discount cost.....      | 17,154            |
| Bonds retired, net of amortization of discount..... | (10,593)          |
| Balance, June 30, 1997.....                         | <u>\$ 316,739</u> |

At June 30, 1997, approximately \$161,533,000 outstanding of bonds from prior advance refunding of the University and College Fund building authorities are considered defeased.

#### **Component Units –**

Bonds and notes outstanding at June 30, 1997 (December 31, 1996 for Massachusetts Turnpike Authority) net of unamortized discount of \$57,543,000 and unamortized deferred loss on refunding of \$125,795,000 are as follows (amounts in thousands):

| <u>Purpose</u>                     | <u>Interest Rates</u> | <u>Amount</u>      | <u>Maturity Dates</u> |
|------------------------------------|-----------------------|--------------------|-----------------------|
| <b>MBTA:</b>                       |                       |                    |                       |
| General transportation system..... | 3.73% - 7.53%         | \$2,881,705        | 2005 - 2027           |
| Boston Metropolitan District.....  | 4.56 - 7.08           | 41,799             | 2002 -2025            |
| <b>MTA:</b>                        |                       |                    |                       |
| Revenue serial bonds.....          | 4.00 - 5.125          | 351,089            | 1998 - 2023           |
| Guaranteed Bond.....               | -                     | 253,097            | 1999                  |
| <b>MCCA:</b>                       |                       |                    |                       |
| Current interest serial bonds..... | 4.00 - 6.00           | 77,732             | 1997 - 2008           |
| Compound interest serial bonds..   | 5.375 - 6.80          | 58,178             | 2000 - 2013           |
| <b>MWPAT:</b>                      |                       |                    |                       |
| Serial bonds.....                  | 2.00 - 6.25           | 752,295            | 1997 - 2015           |
| Term bonds.....                    | 5.25 - 6.375          | 110,725            | 2013 - 2015           |
| <b>Economic Development:</b>       |                       |                    |                       |
| Notes payable.....                 | 2.80 - 11.00          | 107,094            | 1997 - 2017           |
| Total.....                         |                       | <u>\$4,633,714</u> |                       |



The amounts below represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

Maturities of principal are as follows (amounts in thousands):

| <u>Years Ending</u>      | <u>MBTA</u>        | <u>MTA</u>        | <u>RTAs</u> | <u>MWPAT</u>      | <u>MCCA</u>       | <u>Economic Development</u> | <u>Total</u>       |
|--------------------------|--------------------|-------------------|-------------|-------------------|-------------------|-----------------------------|--------------------|
| 1998.....                | \$ 93,327          | \$ -              | \$ -        | \$ 37,645         | \$ 20,195         | \$ 19,192                   | \$ 170,359         |
| 1999.....                | 97,134             | 7,400             | -           | 35,880            | 21,375            | 9,174                       | 170,963            |
| 2000.....                | 101,072            | 267,010           | -           | 37,900            | 22,670            | 10,586                      | 439,238            |
| 2001.....                | 104,986            | 8,020             | -           | 39,570            | 14,234            | 19,727                      | 186,537            |
| 2002.....                | 106,849            | 8,370             | -           | 41,040            | 11,054            | 11,125                      | 178,438            |
| 2003 and thereafter..... | 2,582,246          | 334,070           | -           | 670,985           | 46,926            | 37,290                      | 3,671,517          |
| Total.....               | <u>\$3,085,614</u> | <u>\$ 624,870</u> | <u>\$ -</u> | <u>\$ 863,020</u> | <u>\$ 136,454</u> | <u>\$ 107,094</u>           | <u>\$4,817,052</u> |

During the fiscal year ended June 30, 1997 (December 31, 1996 for Massachusetts Turnpike Authority) the

following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

|  | <u>MBTA</u>         | <u>MTA</u>        | <u>RTAs</u> | <u>MWPAT</u>      | <u>MCCA</u>       | <u>Economic Development</u> | <u>Total</u>        |
|--|---------------------|-------------------|-------------|-------------------|-------------------|-----------------------------|---------------------|
| Balance, July 1, 1996.....                         | \$ 2,614,076        | \$ 410,885        | \$ 15       | \$ 512,000        | \$ 154,976        | \$ 82,946                   | \$ 3,774,898        |
| Principal less discount issuance costs.....        | 383,796             | 264,770           | -           | 376,405           | -                 | 31,487                      | 1,056,458           |
| Debt retired, net of amortization of discount..... | (65,981)            | (61,296)          | (15)        | (25,385)          | (19,066)          | (7,339)                     | (179,082)           |
| Deferred loss on refunding...                      | (8,387)             | (10,173)          | -           | -                 | -                 | -                           | (18,560)            |
| Balance, June 30, 1997.....                        | <u>\$ 2,923,504</u> | <u>\$ 604,186</u> | <u>\$ -</u> | <u>\$ 863,020</u> | <u>\$ 135,910</u> | <u>\$ 107,094</u>           | <u>\$ 4,633,714</u> |

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreements, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

| <u>Year Ending June 30,</u> | <u>Amount</u>    |
|-----------------------------|------------------|
| 1998.....                   | \$ 1,150         |
| 1999.....                   | 1,150            |
| 2000.....                   | 1,150            |
| 2001.....                   | 1,150            |
| 2002.....                   | 1,140            |
| 2003 and thereafter.....    | 13,625           |
| Total.....                  | <u>\$ 19,365</u> |

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1997, \$1,169,430,000 of these bonds outstanding are considered defeased.

Subsequent to June 30, 1997, the MBTA issued \$200,000,000 in general obligation bonds with interest rates ranging from 4.00% to 5.75%.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On January 15, 1996, the Massachusetts Turnpike Authority issued \$259,315,000 of Guaranteed Bond Anticipation Notes to finance the \$100,000,000 payment for the acquisition of the Ted Williams Tunnel, as well as to advance refund outstanding MIFA Tunnel Revenue Bonds, in order to finance a portion of the cost of certain repairs and improvements to the Summer and Callahan Tunnels and to fund certain start up costs associated with opening and operating the Ted Williams Tunnel. The notes are unconditionally guaranteed by the Commonwealth. The notes mature on June 1, 1999, and

are anticipated to be repaid by the Authority with the proceeds from bonds secured by the revenues of the Sumner-Callahan-Williams Tunnel to be issued in the future.

In January 1996, approximately \$56,573,000 of the net proceeds from the issuance of Guaranteed Bond Anticipation Notes were used to purchase U. S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on refunded bonds. As a result, the refunded bonds were considered to be defeased and the liability has been removed from the balance sheet. The advance refunding resulted in an economic gain of approximately \$13,000,000 and the MTA has reduced their debt service payments over the next 25 years by approximately \$48,000,000. At December 31, 1996, approximately \$44,400,000 of the refunded bonds remain outstanding.

Subsequent to June 30, 1997, the MTA issued a \$1,764,383,000 in special obligation bonds with interest rates ranging from 5.00% to 5.65%. The bonds included \$297,520,000 Western Turnpike revenue bonds and \$1,466,863,000 Metropolitan Highway System revenue bonds. These bonds are the obligations of the MTA. The Commonwealth is not obligated to make payments on the bonds nor are the bonds pledged by the faith or credit of the Commonwealth.

On February 22, 1995, Pioneer Valley Transit Authority (PVTa) issued certificates of participation of \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVTa is obligated to make annual payments on the certificates subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget.

The certificates bear interest rates ranging from 5.0% to 5.7% and mature as follows (amounts in thousands):

| <u>Year Ending June 30,</u> | <u>Amount</u>   |
|-----------------------------|-----------------|
| 1998.....                   | \$ 1,240        |
| 1999.....                   | 1,240           |
| 2000.....                   | 1,240           |
| 2001.....                   | 1,240           |
| 2002.....                   | 1,240           |
| 2003.....                   | 1,240           |
| Total.....                  | <u>\$ 7,440</u> |

The amounts in the table above differ from the amounts included in the balance sheet due to treatment of unamortized discounts of \$35,000.

Subsequent to June 30, 1997, the GLB issued \$80,000,000 in special obligation bonds with interest rates ranging from 5.25% to 6.80%. The bonds included \$60,000,000 taxable bonds and \$20,000,000 tax-exempt bonds. The GLB and the Commonwealth have entered into a contract providing that the Commonwealth shall pay the contract assistance to the GLB with respect to debt service on the bonds in amounts equal to the principal and interest requirements on the bonds as they come due and the full faith and credit of the Commonwealth are pledged to make such payments.

## 9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1997, as follows (amounts in thousands):

| <u>Fund</u>                            | <u>Amount</u> |
|--|---------------|
| Special Revenue:                       |               |
| Local Aid.....                         | \$ 1,405,603  |
| Capital Projects:                      |               |
| General.....                           | 133,226       |
| Highway.....                           | 221,190       |
| Local Aid.....                         | 70,971        |
| Other.....                             | 1,369         |
| Internal Service Funds:                |               |
| Employees Workers' Compensation.....   | 251,200       |
| Employees Group Health Insurance ..... | 34,278        |

The Local Aid Fund has incurred a deficit primarily due to increased state funding for support of local communities for education and transportation. The revenues allocated to this fund have not been sufficient to support the increased spending. The Commonwealth will budget in future years the allocation of revenue to support the increased spending authority.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequent to June 30, 1997, the Commonwealth issued \$19,902,000 in college opportunity bonds and \$250,000,000 in general obligation bonds and \$103,615,000 in special obligations revenue bonds related to finance the deficits.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance

claims of \$335,965,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan.

## 10. RETIREMENT SYSTEMS

### *Primary Government –*

The Commonwealth is statutory 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, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth).

The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, in fiscal year 1997 and prior fiscal years. Effective for fiscal year 1998 and subsequent fiscal years the responsibility for funding COLA's for (non-teacher) systems is the responsibility of the respective systems.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

### *Plan Descriptions –*

**State Employees' Retirement System (SERS)** is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

**Teachers' Retirement System (TRS)** is an agent multiple employer defined benefit PERS with 104 participating employers. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The

TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

**State – Boston Retirement System (SBRS)** is hybrid multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, it is not part of the reporting entity and a stand alone financial report is not available.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1997 and prior fiscal years. Chapter 17 of the Acts of 1997, effective for fiscal year 1998, transferred the responsibility for funding future COLA's for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the individual systems. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

The policy for postretirement benefit increases for all retirees of the SERS, TRS, SBRS and COLA are subject to legislative approval.

**Membership** – Membership in SERS, TRS and SBRS as of January 1, 1996 is as follows:

|   | <u>SERS</u> | <u>TRS</u> | <u>SBRS</u> |
|---|-------------|------------|-------------|
| Retirees and beneficiaries currently receiving benefits...                | 42,443      | 28,831     | 2,257       |
| Terminated employees entitled to benefits but not yet receiving them..... | 1,706       | 1,607      | 602         |
| Subtotal.....   | 44,149      | 30,438     | 2,859       |
| Current employees:  |             |            |             |
| Vested.....   | 43,679      | 46,432     | 3,897       |
| Non-vested.....   | 39,519      | 22,432     | 2,416       |
| Subtotal.....   | 83,198      | 68,864     | 6,313       |
| Total.....  | 127,347     | 99,302     | 9,172       |

**Benefit Provisions** – Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification. The authority for amending these provisions is with the legislature.

Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. Average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuating 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.

**Funding Progress** - The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 1996. Significant actuarial assumptions used in the calculation of contribution requirements and net pension obligation include (a) rates of return on investments of present and future assets of 8.5% per year, (b) projected salary increases of 6% per year, (c) cost of living increases (inflation rate) of 3% per year on the first \$9,000 of the retirees total allowance, (d) interest rate credited to the annuity savings fund of 5.5% per year and (e) the use of the level dollar amortization method over 40 years closed period. Actuarial values of plan assets are equal to fair value.

The following table presents the required six year-year schedule of funding progress (amounts in thousands):

| Actuarial<br>Valuation as of<br>January 1, | Actuarial Value<br>of Plan Assets | Actuarial<br>Accrued Liability | Net Pension<br>(Obligation)<br>Asset (NPO) | Funded<br>Ratio % | Annual Covered<br>Payroll * | NPO as a % of<br>Covered<br>Payroll |
|--|-----------------------------------|--------------------------------|--|-------------------|-----------------------------|-------------------------------------|
| State Employers Retirement System          |                                   |                                |  |                   |                             |                                     |
| 1996                                       | \$ 7,366,000                      | \$ 6,595,676                   | \$ 770,324                                 | 112%              | \$ 2,989,000                | 25.8%                               |
| 1995                                       | 5,879,000                         | 5,327,027                      | 551,973                                    | 110               | 2,992,000                   | 18.4                                |
| 1994                                       | 5,802,000                         | 5,429,773                      | 372,227                                    | 107               | 3,094,000                   | 12.0                                |
| 1993                                       | 5,071,000                         | 4,840,405                      | 230,595                                    | 105               | 2,919,000                   | 7.9                                 |
| 1992                                       | 4,699,000                         | 4,629,763                      | 69,237                                     | 101               | 2,638,000                   | 2.6                                 |
| 1991                                       | 4,052,000                         | 4,053,705                      | (1,705)                                    | 100               | 2,300,000                   | (0.1)                               |
| Teachers Retirement System                 |                                   |                                |  |                   |                             |                                     |
| 1996                                       | 7,553,000                         | 7,025,561                      | 527,439                                    | 108               | 2,810,000                   | 18.8                                |
| 1995                                       | 6,014,000                         | 5,657,399                      | 356,601                                    | 106               | 2,667,000                   | 13.4                                |
| 1994                                       | 5,956,000                         | 5,673,619                      | 282,381                                    | 105               | 2,573,000                   | 11.0                                |
| 1993                                       | 5,142,000                         | 4,942,309                      | 199,691                                    | 104               | 2,428,000                   | 8.2                                 |
| 1992                                       | 4,784,000                         | 4,659,680                      | 124,320                                    | 103               | 2,032,000                   | 6.1                                 |
| 1991                                       | 4,086,000                         | 4,023,551                      | 62,449                                     | 102               | 2,065,000                   | 3.0                                 |
| State Boston Retirement System             |                                   |                                |  |                   |                             |                                     |
| 1996                                       | 549,000                           | 524,510                        | 24,490                                     | 105               | 274,000                     | 8.9                                 |
| 1995                                       | 438,000                           | 416,113                        | 21,887                                     | 105               | 232,000                     | 9.4                                 |
| 1994                                       | 443,000                           | 421,635                        | 21,365                                     | 105               | 218,000                     | 9.8                                 |
| 1993                                       | 370,000                           | 354,800                        | 15,200                                     | 104               | 206,000                     | 7.4                                 |
| 1992                                       | 342,000                           | 333,871                        | 8,129                                      | 102               | 184,000                     | 4.4                                 |
| 1991                                       | 301,000                           | 293,072                        | 7,928                                      | 103               | 203,000                     | 3.9                                 |

\* - The covered payroll amounts approximate the employer payroll.

**Contributions Required and Contributions Made** – The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12%, respectively, of their compensation plus an additional 2% of compensation above \$30,000 per year. Costs of administering the plan are funded out of plan assets.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA

contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these 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. This legislation further provides that if, during the first

ten years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments.

The legislatively approved funding schedule in place for 1997 was, based on the January 1, 1993 valuation, was filed with the Legislature on October 26, 1994. It required contributions by the Commonwealth of \$965,903,000 during the fiscal year ended June 30, 1997. Because total benefit payments out of the governmental funds exceeded this amount, no additional Commonwealth contribution is required.

Section 58 and 59 of Chapter 43 of the Acts of 1997 repealed the ten year cost of benefits and reduced the period for elimination of unfunded liability from fiscal year 2028 to 2018. The new twenty-year level funding

schedule effective July 1, 1997 is predicated on an 8.25% investment return assumption and calls for a payment of \$1,045,570,000 in fiscal year 1998.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost and amortization cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

| Actuarial<br>Valuation as<br>of January 1, | Annual<br>Required<br>Contribution<br>(ARC) | Interest on<br>NPO | Amortization<br>of NPO | Pension Cost | Actual<br>Contribution<br>made | Net Pension<br>(Obligation)<br>Asset (NPO) | % of ARC<br>Contributed | % of Pension<br>Cost Contributed |
|--|---|--------------------|------------------------|--------------|--------------------------------|--|-------------------------|----------------------------------|
| <b>State Employers Retirement System</b>   |   |                    |                        |              |                                |  |                         |                                  |
| 1996                                       | \$ 232,158                                  | \$ (46,918)        | \$ 29,523              | \$ 214,763   | \$ 433,114                     | \$ 770,324                                 | 187%                    | 202%                             |
| 1995                                       | 249,640                                     | (31,639)           | 19,614                 | 237,615      | 417,361                        | 551,973                                    | 167                     | 176                              |
| 1994                                       | 266,564                                     | (18,448)           | 9,152                  | 257,268      | 398,900                        | 372,227                                    | 150                     | 155                              |
| 1993                                       | 243,587                                     | (5,539)            | 2,694                  | 240,742      | 402,100                        | 230,595                                    | 165                     | 167                              |
| 1992                                       | 252,687                                     | 136                | (65)                   | 252,758      | 323,700                        | 69,237                                     | 128                     | 128                              |
| 1991                                       | 282,682                                     | 2,335              | (1,094)                | 283,923      | 311,400                        | (1,705)                                    | 110                     | 110                              |
| 1990                                       | 259,102                                     | 4,569              | (2,103)                | 261,568      | 289,500                        | (29,182)                                   | 112                     | 111                              |
| 1989                                       | 298,800                                     | 2,160              | (977)                  | 299,983      | 269,866                        | (57,114)                                   | 90                      | 90                               |
| 1988                                       | 279,582                                     | -                  | -                      | 279,582      | 252,585                        | (26,997)                                   | 90                      | 90                               |
| <b>Teachers Retirement System</b>          |   |                    |                        |              |                                |  |                         |                                  |
| 1996                                       | 232,403                                     | (30,311)           | 19,073                 | 221,165      | 392,003                        | 527,439                                    | 169                     | 177                              |
| 1995                                       | 277,343                                     | (24,002)           | 14,880                 | 268,221      | 342,441                        | 356,601                                    | 123                     | 128                              |
| 1994                                       | 247,460                                     | (15,975)           | 7,925                  | 239,410      | 322,100                        | 282,381                                    | 130                     | 135                              |
| 1993                                       | 225,838                                     | (9,946)            | 4,837                  | 220,729      | 296,100                        | 199,691                                    | 131                     | 134                              |
| 1992                                       | 223,041                                     | (4,996)            | 2,384                  | 220,429      | 282,300                        | 124,320                                    | 127                     | 128                              |
| 1991                                       | 249,436                                     | (3,452)            | 1,617                  | 247,601      | 266,900                        | 62,449                                     | 107                     | 108                              |
| 1990                                       | 227,270                                     | (1,459)            | 671                    | 226,482      | 251,400                        | 43,150                                     | 111                     | 111                              |
| 1989                                       | 249,108                                     | (1,595)            | 722                    | 248,235      | 246,531                        | 18,232                                     | 99                      | 99                               |
| 1988                                       | 232,661                                     | -                  | -                      | 232,661      | 252,597                        | 19,936                                     | 109                     | 109                              |
| <b>State Boston Retirement System</b>      |   |                    |                        |              |                                |  |                         |                                  |
| 1996                                       | 32,908                                      | (1,860)            | 1,171                  | 32,219       | 34,822                         | 24,490                                     | 106                     | 108                              |
| 1995                                       | 28,168                                      | (1,816)            | 1,126                  | 27,478       | 28,000                         | 21,887                                     | 99                      | 102                              |
| 1994                                       | 22,448                                      | (1,216)            | 603                    | 21,835       | 28,000                         | 21,365                                     | 125                     | 128                              |
| 1993                                       | 20,463                                      | (650)              | 316                    | 20,129       | 27,200                         | 15,200                                     | 133                     | 135                              |
| 1992                                       | 26,530                                      | (634)              | 303                    | 26,199       | 26,400                         | 8,129                                      | 100                     | 101                              |
| 1991                                       | 23,149                                      | (413)              | 193                    | 22,929       | 25,700                         | 7,928                                      | 111                     | 112                              |
| 1990                                       | 21,118                                      | (251)              | 116                    | 20,983       | 23,000                         | 5,157                                      | 109                     | 110                              |
| 1989                                       | 21,744                                      | (127)              | 58                     | 21,675       | 23,225                         | 3,140                                      | 107                     | 107                              |
| 1988                                       | 20,315                                      | -                  | -                      | 20,315       | 21,905                         | 1,590                                      | 108                     | 108                              |

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

During the year ended June 30, 1997, the Commonwealth's pension expenditure also included payments totaling \$19,005,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

**Post-retirement Health Care and Life Insurance Benefits** – 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 is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$153,538,000 for the fiscal year ended June 30, 1997. There are approximately 44,000 participants eligible to receive benefits at June 30, 1997.

## 11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at fair value. It is the opinion of the

Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$1,837,892,000 in the plan at June 30, 1997, \$1,236,901,000 was applicable to the Commonwealth; the remaining \$600,991,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1997. In August, 1996, the provisions of the IRC Section 457 were amended to require that eligible deferred compensation plans must hold its assets and income in a trust. Once the Commonwealth establishes such a trust, the Commonwealth's deferred compensation plan will be required to be reported as an expendable trust fund.

## 12. 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. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For fiscal year ended June 30, 1997, lease/purchase expenditures under these agreements totaled approximately \$27,254,000.

At June 30, 1997, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$87,171,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$131,464,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements with varying terms. These agreements contain provisions indicating that their continuation is subject to appropriation by the Legislature. Rental expenditures for the fiscal year ended June 30, 1997 was approximately \$116,129,000.

The following is a schedule of future minimum payments under non-cancelable leases for the Commonwealth as of June 30, 1997 (amounts in thousands):

| <u>Years Ending June 30,</u>                 | <u>Capital<br/>Leases</u> | <u>Operating<br/>Leases</u> |
|--|---------------------------|-----------------------------|
| 1998.....                                    | \$ 26,426                 | \$ 96,202                   |
| 1999.....                                    | 23,114                    | 75,860                      |
| 2000.....                                    | 16,707                    | 55,078                      |
| 2001.....                                    | 10,535                    | 34,772                      |
| 2002.....                                    | 7,458                     | 25,850                      |
| 2003 and thereafter.....                     | 19,115                    | 8,170                       |
| Total payments.....                          | 103,355                   | \$295,932                   |
| Less: amount representing interest.....      | (16,184)                  |                             |
| Present value of minimum lease payments..... | <u>\$ 87,171</u>          |                             |

**University and College Fund** – At June 30, 1997, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$49,924,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$70,230,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expenditure for the fiscal year ended June 30, 1997 was approximately \$12,171,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

| <u>Years Ending June 30,</u>                 | <u>Capital<br/>Leases</u> | <u>Operating<br/>Leases</u> |
|--|---------------------------|-----------------------------|
| 1998.....                                    | \$ 13,595                 | \$ 6,421                    |
| 1999.....                                    | 12,315                    | 6,326                       |
| 2000.....                                    | 10,001                    | 5,985                       |
| 2001.....                                    | 6,501                     | 5,406                       |
| 2002.....                                    | 4,607                     | 4,210                       |
| 2003 and thereafter.....                     | 12,250                    | 6,898                       |
| Total payments                               | 59,269                    | \$ 35,246                   |
| Less: amount representing interest.....      | (9,345)                   |                             |
| Present value of minimum lease payments..... | <u>\$ 49,924</u>          |                             |

#### **Component Units –**

In fiscal 1997, the MBTA entered into several capital leases agreements on heavy rail cars, commuter cars and buses with various companies for varying terms. These leases provided for the Authority to sell and lease back these cars for a period ranging from 8 years to 18 years.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1997 (amounts in thousands):

| <u>Years Ending June 30,</u>                        | <u>MBTA</u>      | <u>RTAs</u>    | <u>Economic<br/>Development<br/>Authorities</u> |
|---|------------------|----------------|---|
| 1998.....   | \$ 24,096        | \$ 731         | \$ 117  |
| 1999.....   | 23,071           | 731            | 36  |
| 2000.....   | 23,522           | 731            | 19  |
| 2001.....   | 23,887           | 731            | -   |
| 2002.....   | 24,187           | 731            | -   |
| 2003 and thereafter.....                            | 591,692          | 3,655          | -   |
| Total payments.....                                 | 710,455          | 7,310          | 172   |
| Less amount<br>representing interest.....           | (462,650)        | (2,037)        | (14)  |
| Present value of net<br>minimum lease payments..... | <u>\$247,805</u> | <u>\$5,273</u> | <u>\$ 158</u>                                   |

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2000. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were \$873,380 of which \$554,207 were paid to the Commonwealth for office space in a state owned building.

The MTA leases property and air rights to others. The MTA earned \$4,566,813 in rental income. Rental income for the next five years is expected to approximate \$4,000,000 per year based on leases currently in effect.

The Economic Development Authorities and the RTAs have operating leases for office space.



The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

| Years Ending June 3    | MBTA             | MTA             | RTAs         | Economic<br>Development<br>Authorities |
|------------------------|------------------|-----------------|--------------|--|
| 1998.....              | \$ 13,669        | \$ 853          | \$ 15        | \$ 3,594                               |
| 1999.....              | 12,523           | 655             | -            | 3,384                                  |
| 2000.....              | 12,909           | 583             | -            | 2,749                                  |
| 2001.....              | 13,221           | 296             | -            | 2,420                                  |
| 2002.....              | 13,279           | -               | -            | 1,695                                  |
| 2003 and thereafter... | 136,807          | -               | -            | 1,271                                  |
| Total payments.....    | <u>\$202,408</u> | <u>\$ 2,387</u> | <u>\$ 15</u> | <u>\$ 15,113</u>                       |

### 13. COMMITMENTS

#### *Primary Government –*

**Governmental Funds** – The Commonwealth is obligated to provide annual subsidies to the MBTA and certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1997, these subsidies totaled \$617,367,000 for the MBTA and \$55,842,000 for the RTAs. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1997, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$232,530,000 and due to RTAs of \$58,887,000. The cities and towns served by the MBTA and RTAs will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$224,057,000 is recorded at June 30, 1997, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$69,732,000 at June 30, 1997, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$30,643,000 in fiscal year 1997.

At June 30, 1997, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$3,267,697,000 long-term and \$393,375,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in

the University and College Fund Type. The guaranteed debt outstanding at June 30, 1997, was approximately \$237,012,000.

At June 30, 1997, the Commonwealth had commitments approaching \$3,089,493,000 for various construction projects. The majority relate to construction funding for a major infrastructure program known as the Central Artery/Third Harbor Tunnel Project, in which continued federal participation is anticipated. The remainder relates to a wide range of building construction projects.

**Pension Trust Funds** – At June 30, 1997, PRIT had outstanding commitments to invest \$260,964,000 in real estate, and \$517,750,000 in alternative investments.

**University and College Fund Type** – The Clinical Services Division and UMASS Health system has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements.

During 1997, Framingham State College received an appropriation of \$6,266,000 by the Commonwealth of Massachusetts for the Commonwealth's share of the cost of a new athletic facility. These funds are being held and controlled by the Division of Capital Planning and Operations (DCPO), and are under its control until costs are incurred. Once the costs of construction need to be paid, the DCPO will pay the contractor on behalf of the College. The total cost of the athletic facility is estimated to be \$12,532,000 and the College is expected to provide a matching amount of \$6,266,000. The College expects to fund their matching portion with the proceeds of bonds issued through the Massachusetts Health and Educational Facilities Authority (MHEFA). Expected commencement date of construction is in March of 1999.

#### *Component Units -*

As of June 30, 1997, the MWPAT has agreed to provide loans of \$35,000,000 to various local government units to be funded with grant awards received through June 30, 1997.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-two loan agreements with seventeen banks for an amount of \$330,410,000 pursuant to the

Massachusetts Nationwide Interstate Banking and Community Reinvestment Act and funding commitments outstanding for funds not yet advanced of \$26,361,000 at June 30, 1997.

In 1993, the Massachusetts Turnpike Authority initiated a \$500,000,000 five-year reconstruction and improvement program. In connection with this program, the Turnpike has entered into construction contracts with various construction and engineering companies. The Authority also enters construction contracts for the Sumner and Callahan Tunnel with various construction and engineering companies. Construction contracts outstanding at December 31, 1996 approximated \$74,900,000.

The Worcester Regional Transit Authority has executed a cooperation agreement with the Worcester Redevelopment Authority (WRA) for the development of the Union Station site with an intermodal transportation center. The Transit Authority will fund the costs related to the design and renovation of the Union Station site through federal and state grants. The WRA is the owner and will be the operator of the intermodal transportation center. Once the development of the site is complete, the Authority will transfer the cost of the project to the WRA.

#### 14. CONTINGENCIES

##### *Primary Government -*

**Governmental Fund** - The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$73,500,000. Of this amount \$6,000,000 is expected to be paid in the General Fund and \$60,700,000 in the Highway Capital Projects Fund during the fiscal year 1998. Approximately \$6,800,000 is expected to be paid thereafter, and is recorded as a liability in the General Long-Term Obligations Account Group. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

In addition, \$5,000,000 has been accrued in the general fund as an estimate for other claims and judgements.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional 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. Any disallowance's become liabilities of the fund which received the assistance. As of June 30, 1997, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less \$9,210,000 which is expected to be reclaimed and paid in fiscal year 1998, are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1997 totaled approximately \$64,884,000. Since inception, approximately \$681,056,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

**Internal Service Fund** - It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Employees Workers' Compensation and Group Health Insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1997, including claims incurred but not reported, is estimated to be \$335,965,000.

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and

subcontractors working on the Central Artery/Third Harbor Tunnel project. The Commonwealth's liability as of June 30, 1997 for such claims including incurred but not reported claims is estimated to be \$78,079,000. The Commonwealth has restricted assets set aside to pay for these liabilities.

Changes in the balance of claims and judgments liabilities for the primary government during fiscal 1997 were as follows (amounts in thousands):

|                                   | Amount            |
|-----------------------------------|-------------------|
| Liability, beginning of year..... | \$ 565,820        |
| Current year claims               |                   |
| and changes in estimates.....     | 864,442           |
| Claims payments.....              | (828,081)         |
| Liability, end of year.....       | <u>\$ 602,181</u> |

**Component Units** - GASB Statement No. 10 "Accounting and Financial Reporting of Risk Financing and Related Insurance Issues" requires that liabilities or self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. The Massachusetts Bay Transportation Authority reserves such liabilities as accrued expenses as of June 30, 1997. Changes in the self insurance reserves in fiscal 1997 were as follows (amounts in thousands):

|                                   | Amount           |
|-----------------------------------|------------------|
| Liability, beginning of year..... | \$ 64,155        |
| Current year claims               |                  |
| and changes in estimates.....     | 17,179           |
| Claims payments.....              | (11,602)         |
| Liability, end of year.....       | <u>\$ 69,732</u> |

The Massachusetts Turnpike Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job related injuries to all employees is self-insured by the Authority, with risks managed internally, at December 31, 1996, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$14,000,000.

## 15. SUBSEQUENT EVENTS

**Primary Government** - Legislation was enacted to abolish four counties subsequent to year end:

Franklin County - Section 567 of Chapter 151 of the Acts of 1997, abolished Franklin County as of July 1, 1997 and transferred its functions, assets, debts and obligations to the Commonwealth.

Middlesex County - Chapter 48 of the Acts of 1997 abolished the Middlesex County as of July 11, 1997 and transferred its function, assets, debts and obligations to the Commonwealth.

In addition, Chapter 48 called for the preparation of a similar abolition of Hampden and Worcester Counties as of July 1, 1998 or earlier if the county fails to make a required payment on an outstanding bond or note. Commencing in fiscal year 1998 the Commonwealth will include in its audited financial statements the financial activity of the abolished counties; for fiscal years 1997 and prior periods, the responsibility for audited financial statements reside with the former county entity.

Subsequent to June 30, 1997, the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority each entered into a memorandum of understanding with the Commonwealth to contribute a minimum of \$700,000,000 and \$200,000,000, respectively, to finance portions of the Central Artery/Third Harbor Tunnel project. On September 1, 1997, the MTA issued \$1,700,000,000 for revenue bonds to defease its existing debt and to raise additional funds to make the agreed upon payments to the Commonwealth.

The anticipated payments are as follows (amounts in thousands):

| <u>Years Ending June 30,</u> | <u>MTA</u>        | <u>Massport</u>   |
|------------------------------|-------------------|-------------------|
| 1998.....                    | \$ 100,000        | \$ 12,115         |
| 1999.....                    | 600,000           | 30,735            |
| 2000.....                    | -                 | 52,236            |
| 2001.....                    | -                 | -                 |
| 2002.....                    | -                 | -                 |
| 2003.....                    | -                 | 104,914           |
| Total payments.....          | <u>\$ 700,000</u> | <u>\$ 200,000</u> |

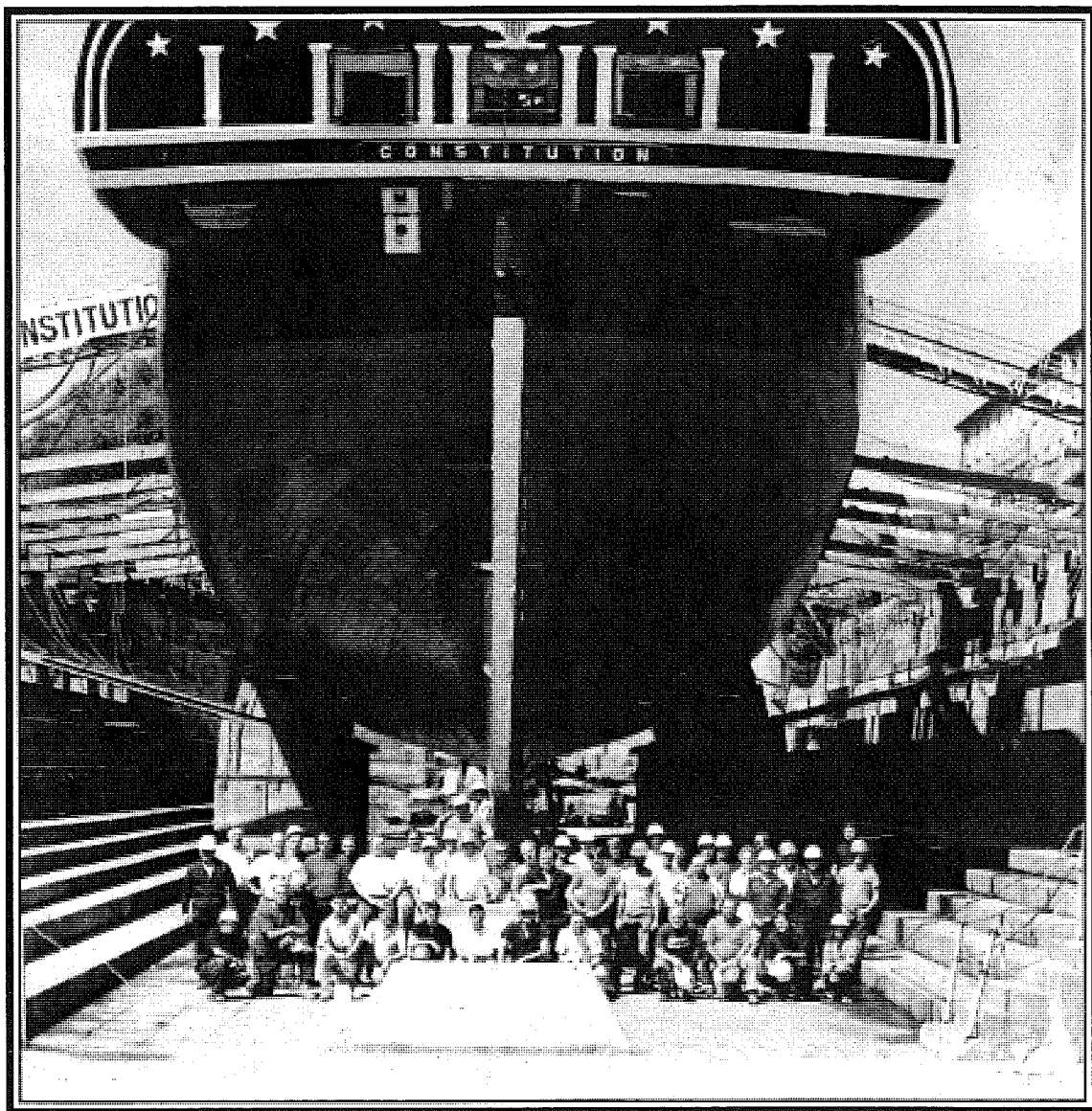
On November 17, 1997, the House of Representatives and the Senate signed into law chapter 152 of the Acts of 1997. This law, authorizes financing of \$609,400,000 to build a convention center in the City of Boston. It also approved \$67,500,000 in financing for the construction and renovation of facilities in Springfield and Worcester.

**University and College Fund Type** – On February 12, 1997 the Board of Trustees of the University of Massachusetts voted to authorize the transfer of substantially all of the property and assets of the Clinical Services Division and the UMass Health System to the newly formed UMass Memorial Health Care Inc., or its designee. The legislation approving the merger was passed on November 25, 1997. Commencing in fiscal year 1998, the financial statements of the University and College fund type will be modified to reflect this change accordingly.

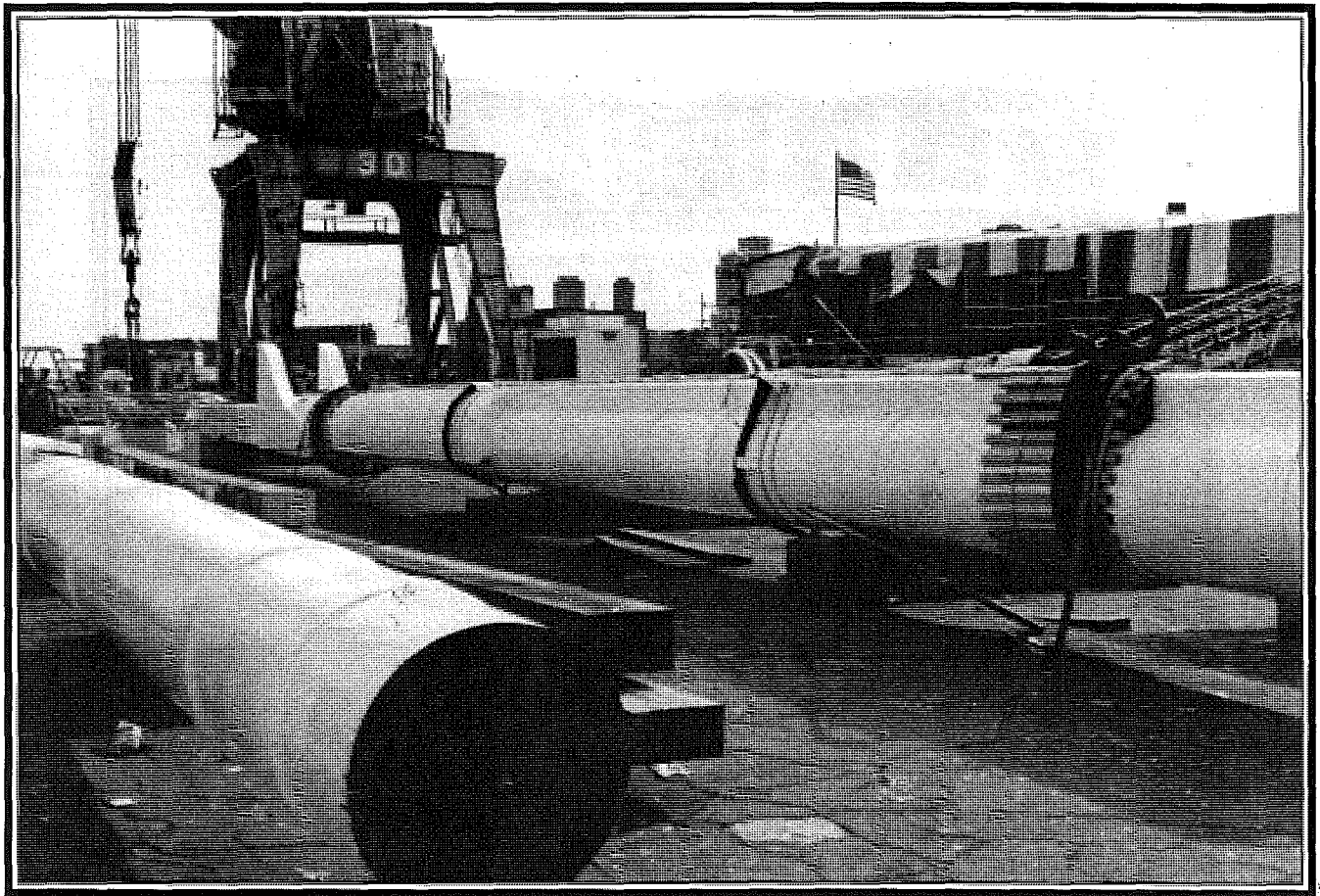
#### **16. CHANGE IN REPORTING ENTITY**

The Commonwealth adopted Government Accounting Standards Board Statement No.14 (GASB 14), "The Financial Reporting entity" in fiscal year 1994. The University of Massachusetts Foundations Inc., the University of Massachusetts Dartmouth Foundations Inc., and the Worcester City Campus Corporation had previously been excluded from the reporting entity of the University of Massachusetts, have been added in the current fiscal year. See Note 1 for a description of the component units included in the reporting entity.

# *Combining and Individual Fund Statements and Account Group Schedules*



*The National Historical Center Detachment Boston Maintenance and Repair Crew who restored and repaired the U.S.S. Constitution.*

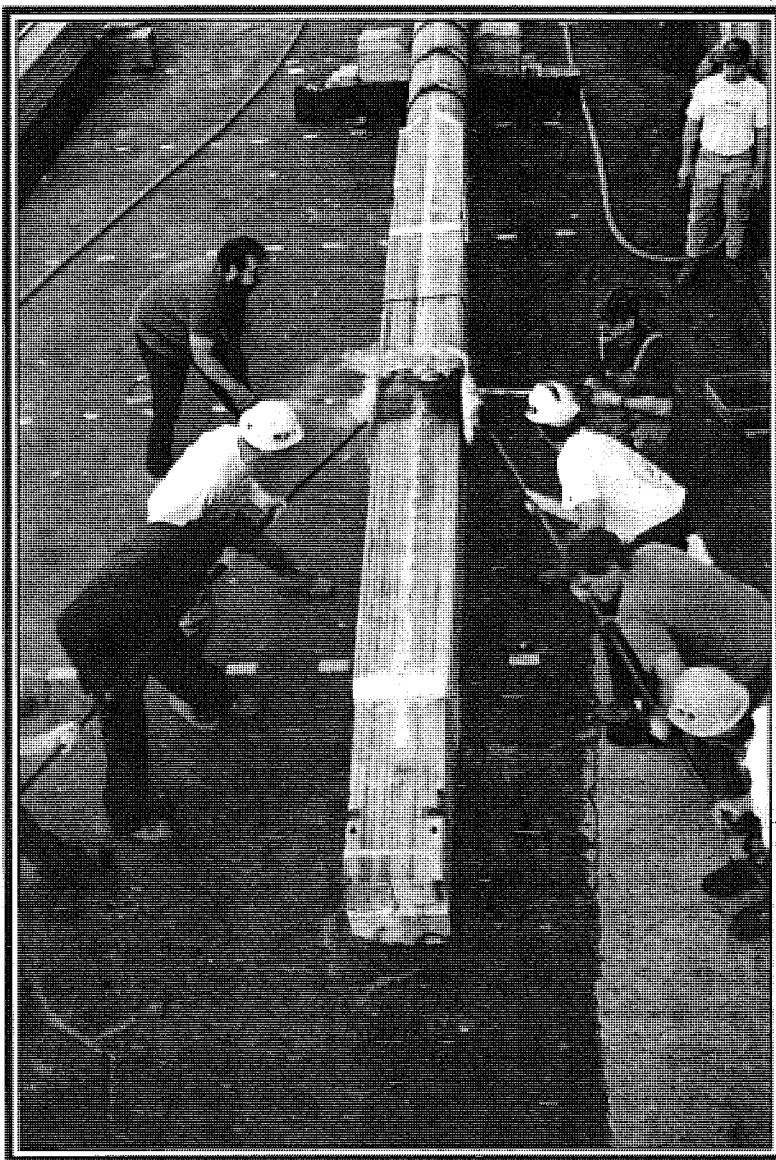


*The Constitution's lower masts were newly manufactured. The lower mast is 103 feet long, 36 inches in diameter and weighs 26,000 pounds.*

# 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 operating expenditures of the Executive Secretariats, the Legislature, Constitutional Offices, and independent commissions and a portion of expenditures for the judicial system 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.

Revenues and expenditures associated with federal reimbursement-based programs are accounted for in the General Fund. These programs have various reimbursement formulas. The Commonwealth provides grants and contract assistance to several of the authorities it reports as component units. Most of these grant and contract assistance activities are recorded in the General Fund. The fund also includes financial activities related to stabilization and tax reduction.



*Binding the four mast quarter section together with newly forged mast bands.*

# General Fund Balance Sheet

June 30, 1997  
(Amounts in thousands)

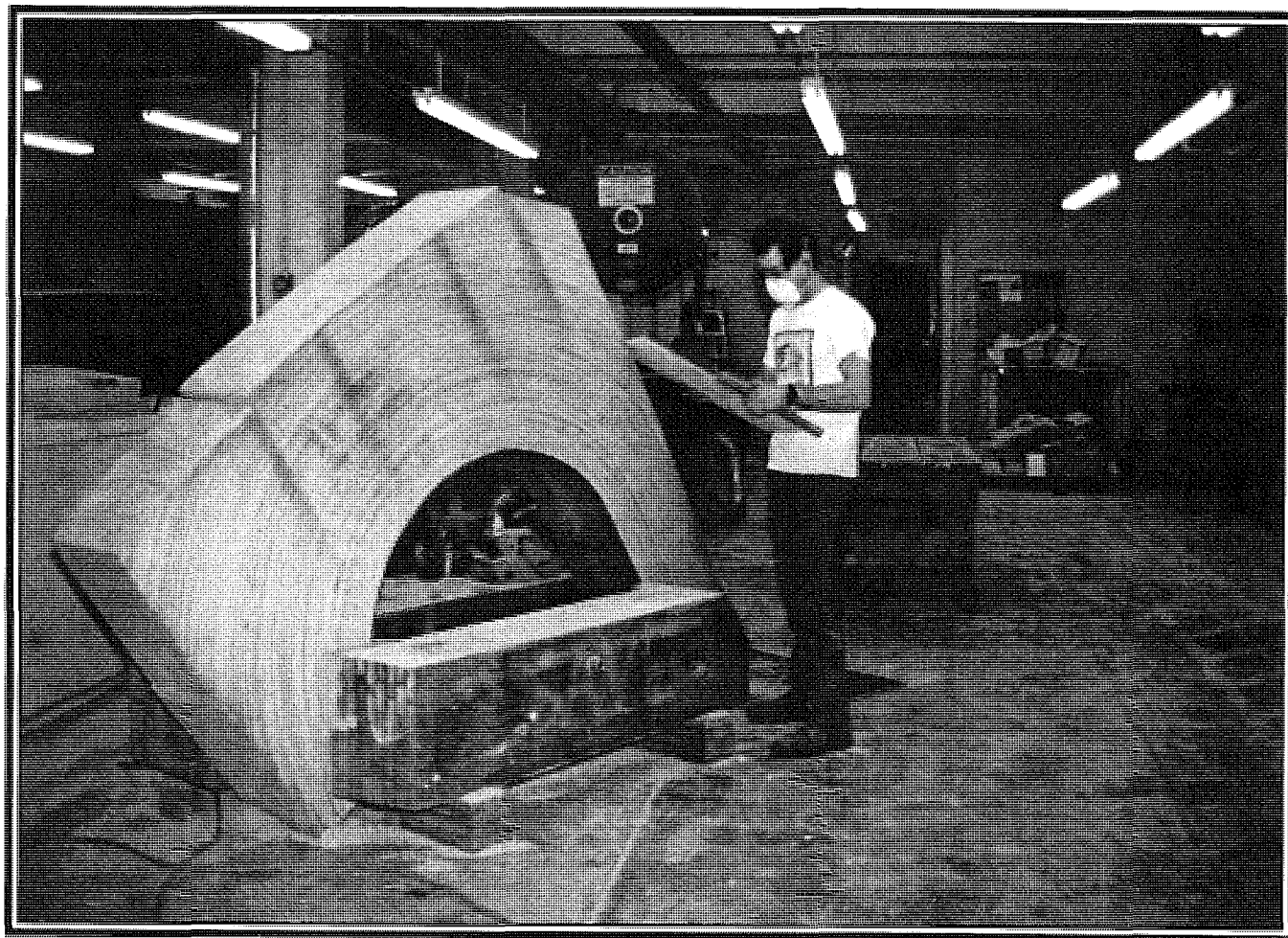
|   | 1997                | 1996                |
|---|---------------------|---------------------|
| <b>ASSETS</b>                                     |                     |                     |
| Cash and short-term investments.....              | \$ 553,912          | \$ 828,646          |
| Cash with fiscal agent.....                       | 746                 | 657                 |
| Receivables, net of allowance for uncollectibles: |                     |                     |
| Taxes.....  | 784,581             | 688,376             |
| Due from federal government.....                  | 687,685             | 543,008             |
| Other receivables.....                            | 159,300             | 162,521             |
| Due from cities and towns.....                    | 227,353             | 222,214             |
| Due from other funds.....                         | 1,410,222           | 621,517             |
| Due from component units.....                     | 5,859               | -                   |
| Total assets.....                                 | <u>\$ 3,829,658</u> | <u>\$ 3,066,939</u> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                     |                     |
| Liabilities:                                      |                     |                     |
| Accounts payable.....                             | \$ 945,118          | \$ 994,290          |
| Accrued payroll.....                              | 14,058              | 31,965              |
| Compensated absences.....                         | 100,668             | 96,124              |
| Tax refunds and abatements payable.....           | 415,103             | 407,380             |
| Due to other funds.....                           | 229,800             | -                   |
| Due to component units.....                       | 51,403              | 57,767              |
| Due to federal government.....                    | 17,997              | 17,640              |
| Deferred revenue.....                             | 112,996             | 107,773             |
| Claims and judgments.....                         | 11,000              | 45,788              |
| Notes payable.....                                | -                   | 240,000             |
| Total liabilities.....                            | <u>1,898,143</u>    | <u>1,998,727</u>    |
| Fund balance (deficit):                           |                     |                     |
| Reserved for continuing appropriations.....       | 117,189             | 169,822             |
| Reserved for tax reduction.....                   | 91,764              | 231,722             |
| Reserved for commonwealth stabilization.....      | 799,300             | 543,303             |
| Reserved for retirement of indebtedness.....      | 20,814              | 657                 |
| Unreserved.....                                   | 902,448             | 122,708             |
| Total fund balance (deficit).....                 | <u>1,931,515</u>    | <u>1,068,212</u>    |
| Total liabilities and fund balances.....          | <u>\$ 3,829,658</u> | <u>\$ 3,066,939</u> |



**General Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balances**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|   | 1997                | 1996                |
|---|---------------------|---------------------|
| <b>Revenues:</b>  |                     |                     |
| Taxes.....  | \$ 7,918,267        | \$ 7,321,284        |
| Assessments.....  | 207,482             | 212,138             |
| Federal grants and reimbursements.....  | 3,066,466           | 2,938,367           |
| Departmental.....   | 549,320             | 558,668             |
| Miscellaneous.....  | 146,045             | 95,400              |
| <b>Total revenues.....</b>  | <b>11,887,580</b>   | <b>11,125,857</b>   |
| <b>Other financing sources:</b>   |                     |                     |
| Proceeds of capital leases.....   | 61,906              | 26,365              |
| Transfers from component units.....   | 5,859               | -                   |
| Operating transfers in.....   | 461,949             | 484,882             |
| <b>Total other financing sources.....</b>   | <b>529,714</b>      | <b>511,247</b>      |
| <b>Total revenues and other financing sources.....</b>  | <b>12,417,294</b>   | <b>11,637,104</b>   |
| <b>Expenditures:</b>  |                     |                     |
| <b>Current:</b>   |                     |                     |
| Legislature.....  | 49,308              | 48,922              |
| Judiciary.....  | 43,386              | 57,828              |
| Inspector General.....  | 1,680               | 1,577               |
| Governor and Lieutenant Governor.....   | 5,244               | 4,731               |
| Secretary of the Commonwealth.....  | 10,335              | 9,611               |
| Treasurer and Receiver-General.....   | 131,438             | 87,645              |
| Auditor of the Commonwealth.....  | 11,149              | 12,261              |
| Attorney General.....   | 408                 | 25,036              |
| Ethics Commission.....  | 607                 | 572                 |
| District Attorney.....  | 378                 | 123                 |
| Office of Campaign and Political Finance.....   | 334                 | 327                 |
| Disabled Persons Protection Commission.....   | 1,419               | 1,350               |
| Board of Library Commissioners.....   | 1,837               | -                   |
| Comptroller.....  | 6,769               | 6,623               |
| Administration and finance.....   | 734,544             | 726,928             |
| Environmental affairs.....  | 57,556              | 47,460              |
| Communities and development.....  | 98,132              | 107,098             |
| Health and human services.....  | 3,483,151           | 3,397,145           |
| Transportation and construction.....  | 19,839              | 18                  |
| Education.....  | 154,839             | 148,003             |
| Educational affairs.....  | -                   | 2,296               |
| Higher education.....   | 87,698              | 76,304              |
| Public safety.....  | 391,981             | 363,009             |
| Economic development.....   | 2,172               | 12,656              |
| Elder affairs.....  | 137,295             | 121,590             |
| Consumer affairs.....   | 30,964              | 29,392              |
| Labor.....  | 27,275              | 26,555              |
| Medicaid.....   | 3,425,331           | 3,172,219           |
| Pension.....  | 95,946              | 69,974              |
| Direct local aid.....   | 41,287              | 36,000              |
| <b>Debt service:</b>  |                     |                     |
| Principal retirement.....   | 583,560             | 517,107             |
| Interest and fiscal charges.....  | 286,139             | 307,805             |
| <b>Total expenditures.....</b>  | <b>9,922,001</b>    | <b>9,418,165</b>    |
| <b>Other financing uses:</b>  |                     |                     |
| Operating transfers out.....  | 528,015             | 57,713              |
| Transfers of appropriations.....  | 745,032             | 686,502             |
| Transfers to component units.....   | 358,943             | 381,259             |
| <b>Total other financing uses.....</b>  | <b>1,631,990</b>    | <b>1,125,474</b>    |
| <b>Total expenditures and other financing uses.....</b>   | <b>11,553,991</b>   | <b>10,543,639</b>   |
| <b>Excess of revenues and other financing sources<br/>over expenditures and other financing uses.....</b> | <b>863,303</b>      | <b>1,093,465</b>    |
| <b>Fund balance (deficit) at beginning of year.....</b>   | <b>1,068,212</b>    | <b>(25,253)</b>     |
| <b>Fund balance (deficit) at end of year.....</b>   | <b>\$ 1,931,515</b> | <b>\$ 1,068,212</b> |



*Fabrication of the large mid-ship knees, using laminated white oak. Twenty-four knees were restored to the Constitution's lower deck.*

# Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to finance specific functions or activities carried out by the Commonwealth.

*Federal Grants* — accounts for federal grant monies that are designated for specific programs, excluding federal highway construction grants, which are accounted for in the Federal Capital Projects Fund, and federal reimbursement programs such as Medicaid and AFDC which are accounted for in the General Fund.

*Highway* — accounts for highway user taxes including the gas tax and fees; used to finance highway maintenance and safety services, and provide matching funds for federally sponsored highway projects as required.

*Local Aid* — accounts for the lottery operating surplus and forty percent of sales, income, corporate and a portion of other taxes which have been earmarked for distribution to cities and towns or are used to finance programs that benefit local communities and a major portion of the court systems.

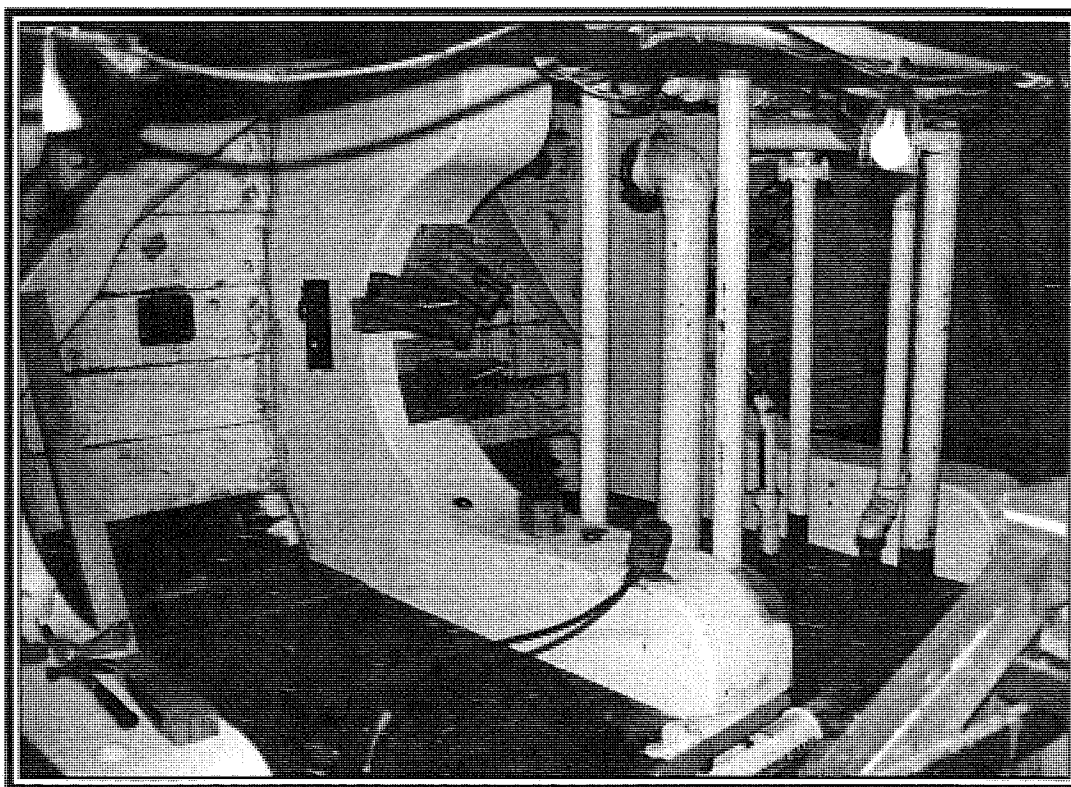
*Environmental* — accounts for a variety of fees, fines, and other revenues which finance programs to preserve, protect and enhance the environment.

*Lotteries* — account for the operations of the State and Arts Lotteries, which have been established primarily to finance the Local Aid Fund.

*Universal Health Care* — accounts for assessments and other revenues that are dedicated to making health care and health insurance accessible and affordable to all citizens of the Commonwealth.

*Oil Overcharge* — accounts for the fines and penalties collected under federal regulation from certain oil companies doing business in the Commonwealth, and interest thereon, being accumulated to provide fuel assistance and weatherization for low income residents.

*Other* — accounts for a variety of miscellaneous taxes, assessments, fees, fines, and other revenues restricted to the financing of specific Commonwealth programs.



*Mid-ship knees restored on lower deck. These are the unifying support of the gun deck above and the diagonal riders below.*

# Special Revenue Funds Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

|   | Federal<br>Grants | Highway           | Local Aid          | Environmental    |
|---|-------------------|-------------------|--------------------|------------------|
| <b>ASSETS</b>                                     |                   |                   |                    |                  |
| Cash and short-term investments.....              | \$ -              | \$ 377,291        | \$ -               | \$ 3,493         |
| Cash with fiscal agent.....                       | -                 | 24,077            | -                  | -                |
| Receivables, net of allowance for uncollectibles: |                   |                   |                    |                  |
| Taxes.....  | -                 | 43,972            | 497,223            | 650              |
| Due from federal government.....                  | 148,555           | 43                | -                  | 716              |
| Other receivables.....                            | -                 | 1,320             | -                  | 17,850           |
| Due from cities and towns.....                    | -                 | -                 | 667                | -                |
| Inventory.....                                    | 48,805            | -                 | -                  | -                |
| Other assets.....                                 | -                 | -                 | -                  | -                |
| Total assets.....                                 | <u>\$ 197,360</u> | <u>\$ 446,703</u> | <u>\$ 497,890</u>  | <u>\$ 22,709</u> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                   |                   |                    |                  |
| Liabilities:                                      |                   |                   |                    |                  |
| Accounts payable.....                             | \$ 106,351        | \$ 28,790         | \$ 167,802         | \$ 13,884        |
| Accrued payroll.....                              | 551               | 798               | 51                 | 248              |
| Compensated absences.....                         | 10,934            | 17,199            | 27,114             | 3,339            |
| Tax refunds and abatements payable.....           | -                 | 237               | 276,259            | -                |
| Due to other funds.....                           | 19,479            | -                 | 1,185,884          | -                |
| Due to component units.....                       | -                 | 86,808            | 193,816            | -                |
| Due to federal government.....                    | -                 | -                 | -                  | -                |
| Deferred revenue.....                             | 48,805            | 171               | 52,567             | 1,024            |
| Claims and judgments.....                         | -                 | -                 | -                  | -                |
| Other accrued liabilities.....                    | 7                 | -                 | -                  | -                |
| Total liabilities.....                            | <u>186,127</u>    | <u>134,003</u>    | <u>1,903,493</u>   | <u>18,495</u>    |
| Fund balances (deficits):                         |                   |                   |                    |                  |
| Reserved for continuing appropriations.....       | -                 | 145               | 36,755             | 11,373           |
| Reserved for retirement of indebtedness.....      | -                 | 24,077            | -                  | -                |
| Unreserved.....                                   | 11,233            | 288,478           | (1,442,358)        | (7,159)          |
| Fund balances (deficits).....                     | <u>11,233</u>     | <u>312,700</u>    | <u>(1,405,603)</u> | <u>4,214</u>     |
| Total liabilities and fund balances.....          | <u>\$ 197,360</u> | <u>\$ 446,703</u> | <u>\$ 497,890</u>  | <u>\$ 22,709</u> |

| Lotteries        | Universal<br>Health<br>Care | Oil<br>Overcharge | Other             | Totals              |                     |
|------------------|-----------------------------|-------------------|-------------------|---------------------|---------------------|
|                  |                             |                   |                   | 1997                | 1996                |
| \$ 56,143        | \$ 97,946                   | \$ 13,719         | \$ 277,721        | \$ 826,313          | \$ 755,558          |
| -                | -                           | -                 | -                 | 24,077              | 21,914              |
| -                | -                           | -                 | 18,595            | 560,440             | 486,905             |
| -                | -                           | -                 | -                 | 149,314             | 184,592             |
| 14,748           | 60,674                      | -                 | 5,512             | 100,104             | 122,927             |
| -                | -                           | -                 | -                 | 667                 | 627                 |
| -                | -                           | -                 | -                 | 48,805              | 112,558             |
| 2,700            | -                           | -                 | -                 | 2,700               | -                   |
| <u>\$ 73,591</u> | <u>\$ 158,620</u>           | <u>\$ 13,719</u>  | <u>\$ 301,828</u> | <u>\$ 1,712,420</u> | <u>\$ 1,685,081</u> |
|                  |                             |                   |                   |                     |                     |
| \$ 41,022        | \$ 2,884                    | \$ 479            | \$ 27,249         | \$ 388,461          | \$ 452,442          |
| -                | 6                           | 1                 | 61                | 1,716               | 8,979               |
| 1,793            | 2                           | 97                | 1,073             | 61,551              | 57,163              |
| -                | -                           | -                 | -                 | 276,496             | 271,068             |
| -                | -                           | -                 | -                 | 1,205,363           | 563,095             |
| -                | -                           | -                 | 4,044             | 284,668             | 237,518             |
| -                | -                           | -                 | 663               | 663                 | 534                 |
| 6,217            | 8,826                       | -                 | -                 | 117,610             | 204,482             |
| -                | -                           | -                 | -                 | -                   | 7,317               |
| -                | 79,825                      | -                 | -                 | 79,832              | 83,627              |
| <u>49,032</u>    | <u>91,543</u>               | <u>577</u>        | <u>33,090</u>     | <u>2,416,360</u>    | <u>1,886,225</u>    |
|                  |                             |                   |                   |                     |                     |
| -                | -                           | -                 | 14,800            | 63,073              | 70,951              |
| -                | -                           | -                 | -                 | 24,077              | 21,914              |
| 24,559           | 67,077                      | 13,142            | 253,938           | (791,090)           | (294,009)           |
| <u>24,559</u>    | <u>67,077</u>               | <u>13,142</u>     | <u>268,738</u>    | <u>(703,940)</u>    | <u>(201,144)</u>    |
| <u>\$ 73,591</u> | <u>\$ 158,620</u>           | <u>\$ 13,719</u>  | <u>\$ 301,828</u> | <u>\$ 1,712,420</u> | <u>\$ 1,685,081</u> |

**Special Revenue Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 1997

(Amounts in thousands)

|  | Federal<br>Grants | Highway    | Local Aid      | Environmental |
|--|-------------------|------------|----------------|---------------|
| <b>Revenues:</b>   |                   |            |                |               |
| Taxes.....   | \$ -              | \$ 516,452 | \$ 4,349,759   | \$ 7,512      |
| Assessments.....   | -                 | 10,250     | -              | 16,095        |
| Federal grants and reimbursements.....   | 1,457,359         | 2,675      | -              | 4,307         |
| Departmental.....  | -                 | 317,283    | 1,761          | 46,495        |
| Miscellaneous.....   | 41                | 1,864      | 282            | 22,914        |
| Total revenues.....  | 1,457,400         | 848,524    | 4,351,802      | 97,323        |
| <b>Other financing sources:</b>  |                   |            |                |               |
| Operating transfers in.....  | -                 | -          | 744,794        | 107           |
| Total other financing sources.....   | -                 | -          | 744,794        | 107           |
| Total revenues and other financing sources.....  | 1,457,400         | 848,524    | 5,096,596      | 97,430        |
| <b>Expenditures:</b>   |                   |            |                |               |
| <b>Current:</b>  |                   |            |                |               |
| Judiciary.....   | 266               | -          | 387,245        | -             |
| Secretary of the Commonwealth.....   | 765               | -          | 6,135          | -             |
| Treasurer and Receiver-General.....  | 1,460             | 636        | 2,916          | -             |
| Auditor of the Commonwealth.....   | -                 | -          | 695            | -             |
| Attorney General.....  | 3,071             | 8          | 683            | -             |
| Ethics Commission.....   | -                 | -          | 582            | -             |
| District Attorney.....   | 684               | -          | 54,136         | -             |
| Office of Campaign and Political Finance.....  | -                 | -          | 336            | -             |
| Disabled Persons Protection Commission.....  | 46                | -          | -              | -             |
| Board of Library Commissioners.....  | 2,498             | -          | 2,031          | -             |
| Comptroller.....   | -                 | -          | -              | -             |
| Administration and finance.....  | 1,939             | 5,426      | 99,684         | 4,718         |
| Environmental affairs.....   | 17,610            | 27,112     | 22,330         | 63,649        |
| Communities and development.....   | 216,035           | -          | 28,872         | -             |
| Health and human services.....   | 559,635           | -          | 1,005          | -             |
| Transportation and construction.....   | 12,482            | 118,413    | 5              | -             |
| Education.....   | 389,507           | 29,296     | 423,590        | 419           |
| Educational affairs.....   | -                 | -          | -              | -             |
| Higher education.....  | 1,595             | -          | 209            | -             |
| Public safety.....   | 23,705            | 186,361    | 232,748        | 15,156        |
| Economic development.....  | 7,015             | -          | -              | -             |
| Elder affairs.....   | 25,994            | -          | 9,192          | -             |
| Consumer affairs.....  | 70                | 2,045      | -              | -             |
| Labor.....   | 134,390           | 2          | 113            | -             |
| Medicaid.....  | -                 | -          | 72,000         | -             |
| Pension.....   | -                 | 36,606     | 280,024        | 474           |
| Direct local aid.....  | -                 | 51,824     | 3,584,225      | 119           |
| <b>Debt service:</b>   |                   |            |                |               |
| Principal retirement.....  | -                 | 126,022    | 40,877         | -             |
| Interest and fiscal charges.....   | -                 | 170,933    | 68,003         | -             |
| Total expenditures.....  | 1,398,767         | 754,684    | 5,317,636      | 84,535        |
| <b>Other financing uses:</b>   |                   |            |                |               |
| Operating transfers out.....   | 60,414            | 2,982      | 144,827        | 12,805        |
| Transfers of appropriations.....   | -                 | -          | 54             | 1,829         |
| Transfers to component units.....  | 1,000             | 112,286    | 248,770        | -             |
| Total other financing uses.....  | 61,414            | 115,268    | 393,651        | 14,634        |
| Total expenditures and other financing uses.....   | 1,460,181         | 869,952    | 5,711,287      | 99,169        |
| Excess (deficiency) of revenues and other financing sources<br>over expenditures and other financing uses..... | (2,781)           | (21,428)   | (614,691)      | (1,739)       |
| Fund balances (deficits) at beginning of year.....   | 14,014            | 334,128    | (790,912)      | 5,953         |
| Fund balances (deficits) at end of year.....   | \$ 11,233         | \$ 312,700 | \$ (1,405,603) | \$ 4,214      |

| Lotteries | Universal<br>Health<br>Care | Oil<br>Overcharge | Other      | Totals       |              |
|-----------|-----------------------------|-------------------|------------|--------------|--------------|
|           |                             |                   |            | 1997         | 1996         |
| \$ 2,548  | \$ -                        | \$ -              | \$ 235,939 | \$ 5,112,210 | \$ 4,604,454 |
| -         | 304,782                     | -                 | 13,495     | 344,622      | 382,800      |
| -         | 15,000                      | -                 | -          | 1,479,341    | 1,516,586    |
| 3,357,881 | 86,319                      | -                 | 36,497     | 3,846,236    | 3,761,579    |
| 16,856    | 3,141                       | 1,518             | 9,348      | 55,964       | 154,881      |
| 3,377,285 | 409,242                     | 1,518             | 295,279    | 10,838,373   | 10,420,300   |
| 5,024     | 28,078                      | -                 | 185,070    | 963,073      | 934,179      |
| 5,024     | 28,078                      | -                 | 185,070    | 963,073      | 934,179      |
| 3,382,309 | 437,320                     | 1,518             | 480,349    | 11,801,446   | 11,354,479   |
| -         | -                           | -                 | 1,855      | 389,366      | 346,652      |
| -         | -                           | -                 | -          | 6,900        | 5,318        |
| 2,573,450 | -                           | -                 | 535        | 2,578,997    | 2,488,659    |
| -         | -                           | -                 | -          | 695          | 722          |
| -         | -                           | -                 | 950        | 4,712        | 3,805        |
| -         | -                           | -                 | -          | 582          | 575          |
| -         | -                           | -                 | 6,656      | 61,476       | 54,891       |
| -         | -                           | -                 | -          | 336          | 329          |
| -         | -                           | -                 | -          | 46           | 44           |
| -         | -                           | -                 | -          | 4,529        | 4,461        |
| -         | -                           | -                 | -          | -            | 14           |
| -         | 61                          | -                 | 90,842     | 202,670      | 215,893      |
| -         | -                           | 87                | 7,273      | 138,061      | 157,930      |
| -         | -                           | 976               | -          | 245,883      | 240,280      |
| -         | 366,752                     | -                 | 96,005     | 1,023,397    | 1,208,403    |
| -         | -                           | -                 | -          | 130,900      | 154,621      |
| -         | -                           | -                 | 28,717     | 871,529      | 809,701      |
| -         | -                           | -                 | -          | -            | 11,368       |
| -         | -                           | -                 | 180        | 1,984        | 3,720        |
| -         | -                           | -                 | 10,391     | 468,361      | 477,630      |
| -         | -                           | 2,487             | 21,418     | 30,920       | 98,635       |
| -         | -                           | -                 | 1,128      | 36,314       | 33,598       |
| -         | -                           | -                 | 4,366      | 6,481        | 6,004        |
| -         | 20,461                      | -                 | 6,604      | 161,570      | 94,801       |
| -         | -                           | -                 | -          | 72,000       | 68,931       |
| -         | -                           | -                 | -          | 317,104      | 312,536      |
| -         | -                           | -                 | -          | 3,636,168    | 3,315,232    |
| -         | -                           | -                 | 2,210      | 169,109      | 167,159      |
| -         | -                           | -                 | 541        | 239,477      | 199,710      |
| 2,573,450 | 387,274                     | 3,550             | 279,671    | 10,799,567   | 10,481,622   |
| 770,161   | 31,161                      | 126               | 99,033     | 1,121,509    | 1,203,816    |
| -         | 29                          | -                 | 92         | 2,004        | 2,012        |
| -         | -                           | -                 | 19,106     | 381,162      | 281,774      |
| 770,161   | 31,190                      | 126               | 118,231    | 1,504,675    | 1,487,602    |
| 3,343,611 | 418,464                     | 3,676             | 397,902    | 12,304,242   | 11,969,224   |
| 38,698    | 18,856                      | (2,158)           | 82,447     | (502,796)    | (614,745)    |
| (14,139)  | 48,221                      | 15,300            | 186,291    | (201,144)    | 413,601      |
| \$ 24,559 | \$ 67,077                   | \$ 13,142         | \$ 268,738 | \$ (703,940) | \$ (201,144) |

# Budgeted Special Revenue Funds

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

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Highway    |            |  | Local Aid      |                |  |
|--|------------|------------|--|----------------|----------------|--|
|  | Budget     | Actual     | Variance<br>Favorable<br>(Unfavorable) | Budget         | Actual         | Variance<br>Favorable<br>(Unfavorable) |
| <b>Revenues:</b>   |            |            |  |                |                |  |
| Taxes.....   | \$ 516,100 | \$ 514,560 | \$ (1,540)                             | \$ 4,169,000   | \$ 4,297,166   | \$ 128,166                             |
| Assessments.....   | -          | 10,250     | 10,250                                 | -              | -              | -                                      |
| Federal grants and reimbursements.....   | 4,000      | 2,675      | (1,325)                                | -              | -              | -                                      |
| Departmental.....  | 320,000    | 317,357    | (2,643)                                | 2,100          | 1,761          | (339)                                  |
| Miscellaneous.....   | -          | 1,836      | 1,836                                  | -              | 282            | 282                                    |
| Total revenues.....  | 840,100    | 846,678    | 6,578                                  | 4,171,100      | 4,299,209      | 128,109                                |
| <b>Other financing sources:</b>  |            |            |  |                |                |  |
| Fringe benefit cost recovery.....  | -          | -          | -                                      | -              | -              | -                                      |
| Operating transfers in.....  | -          | -          | -                                      | 631,200        | 684,794        | 53,594                                 |
| Stabilization transfer.....  | -          | -          | -                                      | -              | -              | -                                      |
| Transfer for tax reduction.....  | -          | -          | -                                      | -              | 60,000         | 60,000                                 |
| Total other financing sources.....   | -          | -          | -                                      | 631,200        | 744,794        | 113,594                                |
| Total revenues and other financing sources.....  | 840,100    | 846,678    | 6,578                                  | 4,802,300      | 5,044,003      | 241,703                                |
| <b>Expenditures:</b>   |            |            |  |                |                |  |
| Judiciary.....   | -          | -          | -                                      | 392,727        | 381,713        | 11,014                                 |
| Secretary of the Commonwealth.....   | -          | -          | -                                      | 6,120          | 6,106          | 14                                     |
| Treasurer and Receiver-General.....  | 709        | 636        | 73                                     | 3,512          | 2,916          | 596                                    |
| Auditor of the Commonwealth.....   | -          | -          | -                                      | 696            | 695            | 1                                      |
| Attorney General.....  | 8          | 8          | -                                      | 685            | 682            | 3                                      |
| Ethics Commission.....   | -          | -          | -                                      | 584            | 584            | -                                      |
| District Attorney.....   | -          | -          | -                                      | 54,027         | 53,517         | 510                                    |
| Office of Campaign & Political Finance.....  | -          | -          | -                                      | 336            | 336            | -                                      |
| Disabled Persons Protection Commission.....  | -          | -          | -                                      | -              | -              | -                                      |
| Board of Library Commissioners.....  | -          | -          | -                                      | 2,037          | 2,025          | 12                                     |
| Comptroller.....   | -          | -          | -                                      | -              | -              | -                                      |
| Administration and finance.....  | 5,881      | 5,428      | 453                                    | 152,840        | 120,055        | 32,785                                 |
| Environmental affairs.....   | 29,411     | 27,158     | 2,253                                  | 28,442         | 26,647         | 1,795                                  |
| Health and human services.....   | -          | -          | -                                      | 11,260         | 1,009          | 10,251                                 |
| Transportation and construction.....   | 179,515    | 177,115    | 2,400                                  | 117,355        | 117,000        | 355                                    |
| Education.....   | -          | -          | -                                      | 143,146        | 138,476        | 4,670                                  |
| Higher education.....  | -          | -          | -                                      | 304            | 263            | 41                                     |
| Public safety.....   | 188,367    | 186,212    | 2,155                                  | 239,833        | 232,826        | 7,007                                  |
| Economic development.....  | -          | -          | -                                      | 30,696         | 29,872         | 824                                    |
| Elder affairs.....   | -          | -          | -                                      | 9,249          | 9,192          | 57                                     |
| Consumer affairs.....  | 2,040      | 2,032      | 8                                      | -              | -              | -                                      |
| Labor.....   | 2          | 2          | -                                      | 128            | 113            | 15                                     |
| Medicaid.....  | -          | -          | -                                      | 72,000         | 72,000         | -                                      |
| Pension.....   | 74,836     | 74,185     | 651                                    | 638,123        | 635,480        | 2,643                                  |
| Direct local aid.....  | 43,472     | 43,472     | -                                      | 3,519,676      | 3,513,828      | 5,848                                  |
| <b>Debt service:</b>   |            |            |  |                |                |  |
| Principal retirement.....  | 127,700    | 126,022    | 1,678                                  | 41,421         | 40,877         | 544                                    |
| Interest and fiscal charges.....   | 173,209    | 170,933    | 2,276                                  | 68,908         | 68,003         | 905                                    |
| Total expenditures.....  | 825,150    | 813,203    | 11,947                                 | 5,534,105      | 5,454,215      | 79,890                                 |
| <b>Other financing uses:</b>   |            |            |  |                |                |  |
| Fringe benefit cost assessment.....  | -          | -          | -                                      | -              | 46,014         | (46,014)                               |
| Operating transfers out.....   | 48,937     | 48,937     | -                                      | 137,024        | 137,024        | -                                      |
| Stabilization transfer.....  | -          | -          | -                                      | -              | 53,701         | (53,701)                               |
| Transfer for tax reduction.....  | -          | -          | -                                      | -              | -              | -                                      |
| Total other financing uses.....  | 48,937     | 48,937     | -                                      | 137,024        | 236,739        | (99,715)                               |
| Total expenditures and other financing sources.....  | 874,087    | 862,140    | 11,947                                 | 5,671,129      | 5,690,954      | (19,825)                               |
| Excess (deficiency) of revenues and other financing<br>sources over expenditures and other financing uses..... | (33,987)   | (15,462)   | 18,525                                 | (868,829)      | (646,951)      | 221,878                                |
| Fund balances (deficits) at beginning of year (as restated).....   | 389,349    | 389,349    | -                                      | (708,878)      | (708,878)      | -                                      |
| Fund balances (deficits) at end of year.....   | \$ 355,362 | \$ 373,887 | \$ 18,525                              | \$ (1,577,707) | \$ (1,355,829) | \$ 221,878                             |



| Commonwealth Stabilization |            |  | Administrative Control |            |  | Environmental |          |  |
|----------------------------|------------|--|------------------------|------------|--|---------------|----------|--|
| Budget                     | Actual     | Variance<br>Favorable<br>(Unfavorable) | Budget                 | Actual     | Variance<br>Favorable<br>(Unfavorable) | Budget        | Actual   | Variance<br>Favorable<br>(Unfavorable) |
| \$ -                       | \$ -       | \$ -                                   | \$ 271,400             | \$ 278,975 | \$ 7,575                               | \$ 8,500      | \$ 7,502 | \$ (998)                               |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | 16,154   | 16,154                                 |
| -                          | -          | -                                      | -                      | 41,256     | 41,256                                 | 3,300         | 3,806    | 506                                    |
| 21,000                     | -          | (21,000)                               | 11,336                 | 79,523     | 68,187                                 | 80,538        | 47,240   | (33,298)                               |
| -                          | 21,744     | 21,744                                 | -                      | 16,407     | 16,407                                 | -             | 22,939   | 22,939                                 |
| 21,000                     | 21,744     | 744                                    | 282,736                | 416,161    | 133,425                                | 92,338        | 97,641   | 5,303                                  |
| -                          | -          | -                                      | -                      | 671        | 671                                    | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | 59,651     | 59,651                                 | 100           | 107      | 7                                      |
| -                          | 234,253    | 234,253                                | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | 234,253    | 234,253                                | -                      | 60,322     | 60,322                                 | 100           | 107      | 7                                      |
| 21,000                     | 255,997    | 234,997                                | 282,736                | 476,483    | 193,747                                | 92,438        | 97,748   | 5,310                                  |
| -                          | -          | -                                      | 3,478                  | 3,478      | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 125                    | 125        | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 38                     | 38         | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 28                     | 28         | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 32                     | 32         | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 641                    | 626        | 15                                     | -             | -        | -                                      |
| -                          | -          | -                                      | 131,069                | 82,388     | 48,681                                 | 7,381         | 4,718    | 2,663                                  |
| -                          | -          | -                                      | 1,184                  | 1,155      | 29                                     | 77,138        | 70,748   | 6,390                                  |
| -                          | -          | -                                      | 15,186                 | 13,199     | 1,987                                  | -             | -        | -                                      |
| -                          | -          | -                                      | 1,063                  | 1,056      | 7                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 131                    | 131        | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 11,086                 | 8,702      | 2,384                                  | 1,886         | 1,827    | 59                                     |
| -                          | -          | -                                      | 23,547                 | 23,249     | 298                                    | 17,125        | 15,157   | 1,968                                  |
| -                          | -          | -                                      | 132                    | 132        | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 20                     | 20         | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 314                    | 314        | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 32                     | 32         | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | 1,016         | 1,011    | 5                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 273,879                | 253,065    | 20,814                                 | -             | -        | -                                      |
| -                          | -          | -                                      | 20,500                 | 20,500     | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 482,485                | 408,270    | 74,215                                 | 104,546       | 93,461   | 11,085                                 |
| -                          | -          | -                                      | -                      | 572        | (572)                                  | -             | 12,672   | (12,672)                               |
| -                          | -          | -                                      | 52,650                 | 52,650     | -                                      | 135           | 135      | -                                      |
| -                          | -          | -                                      | -                      | -          | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 150,000                | 150,000    | -                                      | -             | -        | -                                      |
| -                          | -          | -                                      | 202,650                | 203,222    | (572)                                  | 135           | 12,807   | (12,672)                               |
| -                          | -          | -                                      | 685,135                | 611,492    | 73,643                                 | 104,681       | 106,268  | (1,587)                                |
| 21,000                     | 255,997    | 234,997                                | (402,399)              | (135,009)  | 267,390                                | (12,243)      | (8,520)  | 3,723                                  |
| 543,303                    | 543,303    | -                                      | 290,763                | 290,763    | -                                      | 7,765         | 7,765    | -                                      |
| \$ 564,303                 | \$ 799,300 | \$ 234,997                             | \$ (111,636)           | \$ 155,754 | \$ 267,390                             | \$ (4,478)    | \$ (755) | \$ 3,723                               |

(continued)

# Budgeted Special Revenue Funds

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

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Other      |            |  | Totals       |              |  |
|--|------------|------------|--|--------------|--------------|--|
|  | Budget     | Actual     | Variance<br>Favorable<br>(Unfavorable) | Budget       | Actual       | Variance<br>Favorable<br>(Unfavorable) |
| Revenues:  |            |            |  |              |              |  |
| Taxes.....   | \$ 155,100 | \$ 219,395 | \$ 64,295                              | \$ 5,120,100 | \$ 5,317,598 | \$ 197,498                             |
| Assessments.....   | -          | -          | -                                      | -            | 26,404       | 26,404                                 |
| Federal grants and reimbursements.....   | -          | -          | -                                      | 7,300        | 47,737       | 40,437                                 |
| Departmental.....  | 23,526     | 25,731     | 2,205                                  | 458,500      | 471,612      | 13,112                                 |
| Miscellaneous.....   | -          | 212        | 212                                    | -            | 63,420       | 63,420                                 |
| Total revenues.....  | 178,626    | 245,338    | 66,712                                 | 5,585,900    | 5,926,771    | 340,871                                |
| Other financing sources:   |            |            |  |              |              |  |
| Fringe benefit cost recovery.....  | -          | -          | -                                      | -            | 671          | 671                                    |
| Operating transfers in.....  | -          | 130,671    | 130,671                                | 631,300      | 875,223      | 243,923                                |
| Stabilization transfer.....  | -          | -          | -                                      | -            | 234,253      | 234,253                                |
| Transfer for tax reduction.....  | -          | -          | -                                      | -            | 60,000       | 60,000                                 |
| Total other financing sources.....   | -          | 130,671    | 130,671                                | 631,300      | 1,170,147    | 538,847                                |
| Total revenues and other financing sources.....  | 178,626    | 376,009    | 197,383                                | 6,217,200    | 7,096,918    | 879,718                                |
| Expenditures:  |            |            |  |              |              |  |
| Judiciary.....   | -          | -          | -                                      | 396,205      | 385,191      | 11,014                                 |
| Secretary of the Commonwealth.....   | -          | -          | -                                      | 6,245        | 6,231        | 14                                     |
| Treasurer and Receiver-General.....  | 622        | 534        | 88                                     | 4,881        | 4,124        | 757                                    |
| Auditor of the Commonwealth.....   | -          | -          | -                                      | 696          | 695          | 1                                      |
| Attorney General.....  | 953        | 950        | 3                                      | 1,646        | 1,640        | 6                                      |
| Ethics Commission.....   | -          | -          | -                                      | 612          | 612          | -                                      |
| District Attorney.....   | 6,500      | 6,440      | 60                                     | 60,527       | 59,957       | 570                                    |
| Office of Campaign & Political Finance.....  | -          | -          | -                                      | 336          | 336          | -                                      |
| Disabled Persons Protection Commission.....  | -          | -          | -                                      | 32           | 32           | -                                      |
| Board of Library Commissioners.....  | -          | -          | -                                      | 2,037        | 2,025        | 12                                     |
| Comptroller.....   | -          | -          | -                                      | 641          | 626          | 15                                     |
| Administration and finance.....  | 52,924     | 30,658     | 22,266                                 | 350,095      | 243,247      | 106,848                                |
| Environmental affairs.....   | 1,612      | 1,576      | 36                                     | 137,787      | 127,284      | 10,503                                 |
| Health and human services.....   | 99,687     | 95,285     | 4,402                                  | 126,133      | 109,493      | 16,640                                 |
| Transportation and construction.....   | -          | -          | -                                      | 297,933      | 295,171      | 2,762                                  |
| Education.....   | 29,045     | 28,718     | 327                                    | 172,322      | 167,325      | 4,997                                  |
| Higher education.....  | 357        | 272        | 85                                     | 13,633       | 11,064       | 2,569                                  |
| Public safety.....   | 5,740      | 5,638      | 102                                    | 474,612      | 463,082      | 11,530                                 |
| Economic development.....  | 26,780     | 24,959     | 1,821                                  | 57,608       | 54,963       | 2,645                                  |
| Elder affairs.....   | 1,574      | 1,131      | 443                                    | 10,843       | 10,343       | 500                                    |
| Consumer affairs.....  | 3,505      | 2,822      | 683                                    | 5,859        | 5,168        | 691                                    |
| Labor.....   | 8,289      | 7,828      | 461                                    | 8,451        | 7,975        | 476                                    |
| Medicaid.....  | -          | -          | -                                      | 72,000       | 72,000       | -                                      |
| Pension.....   | -          | -          | -                                      | 713,975      | 710,676      | 3,299                                  |
| Direct local aid.....  | -          | -          | -                                      | 3,563,148    | 3,557,300    | 5,848                                  |
| Debt service:  |            |            |  |              |              |  |
| Principal retirement.....  | -          | -          | -                                      | 443,000      | 419,964      | 23,036                                 |
| Interest and fiscal charges.....   | 5          | 5          | -                                      | 262,622      | 259,441      | 3,181                                  |
| Total expenditures.....  | 237,593    | 206,816    | 30,777                                 | 7,183,879    | 6,975,965    | 207,914                                |
| Other financing uses:  |            |            |  |              |              |  |
| Fringe benefit cost assessment.....  | -          | 3,759      | (3,759)                                | -            | 63,017       | (63,017)                               |
| Operating transfers out.....   | 10,321     | 10,321     | -                                      | 249,067      | 249,067      | -                                      |
| Stabilization transfer.....  | -          | -          | -                                      | -            | 53,701       | (53,701)                               |
| Transfer for tax reduction.....  | -          | -          | -                                      | 150,000      | 150,000      | -                                      |
| Total other financing uses.....  | 10,321     | 14,080     | (3,759)                                | 399,067      | 515,785      | (116,718)                              |
| Total expenditures and other financing sources.....  | 247,914    | 220,896    | 27,018                                 | 7,582,946    | 7,491,750    | 91,196                                 |
| Excess (deficiency) of revenues and other financing<br>sources over expenditures and other financing uses..... | (69,288)   | 155,113    | 224,401                                | (1,365,746)  | (394,832)    | 970,914                                |
| Fund balances (deficits) at beginning of year (as restated).....   | 85,217     | 85,217     | -                                      | 607,519      | 607,519      | -                                      |
| Fund balances (deficits) at end of year.....   | \$ 15,929  | \$ 240,330 | \$ 224,401                             | \$ (758,227) | \$ 212,687   | \$ 970,914                             |

# Capital Projects Funds

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

*General* — accounts 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.

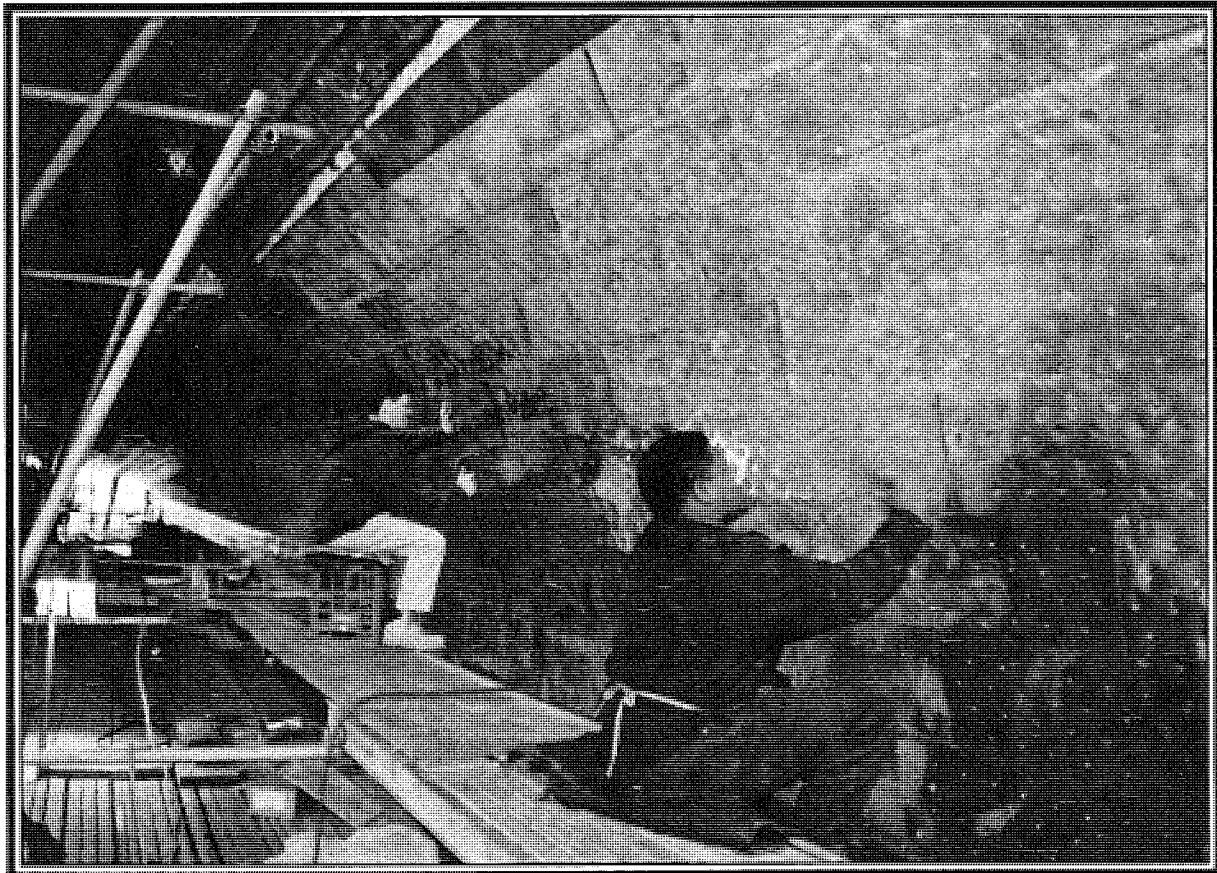
*Capital Investment Trust Fund* — to account for a transfer from the general fund to fund appropriated items of a capital nature specified in Section 107 2E of Chapter 88 of the Acts of 1997.

*Highway* — accounts 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* — accounts for federal highway construction projects which, with the Commonwealth's required share of matching funds, finance interstate highways and similar projects within Massachusetts to promote a nationwide highway system.

*Local Aid* — accounts 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.

*Other* — accounts for the proceeds of bonds sold to finance land acquisition for economic development, preservation and recreational purposes, and other capital projects.



*Ten tons (3,200 sheets) of copper held on with 400,000 copper nails were hand-driven in place. The copper is the protective barrier against marine organisms and growth.*

# Capital Projects Funds Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

|   | General          | Capital<br>Investment<br>Trust | Highway          |
|---|------------------|--------------------------------|------------------|
| <b>ASSETS</b>                                     |                  |                                |                  |
| Receivables, net of allowance for uncollectibles: |                  |                                |                  |
| Due from federal government.....                  | \$ 4,101         | \$ -                           | \$ -             |
| Other receivables.....                            | -                | -                              | -                |
| Due from other funds.....                         | -                | 229,800                        | -                |
| Total assets.....                                 | <u>\$ 4,101</u>  | <u>\$ 229,800</u>              | <u>\$ -</u>      |
| <b>LIABILITIES AND FUND BALANCES</b>              |                  |                                |                  |
| Liabilities:                                      |                  |                                |                  |
| Accounts payable.....                             | \$ 74,168        | \$ -                           | \$ 53,458        |
| Accrued payroll.....                              | 44               | -                              | 183              |
| Compensated absences.....                         | 520              | -                              | 3,928            |
| Due to other funds.....                           | 62,568           | -                              | 102,921          |
| Due to component unit.....                        | 27               | -                              | -                |
| Due to federal government.....                    | -                | -                              | -                |
| Deferred revenue.....                             | -                | -                              | -                |
| Claims and judgments.....                         | -                | -                              | 60,700           |
| Total liabilities.....                            | <u>137,327</u>   | <u>-</u>                       | <u>221,190</u>   |
| Fund balances (deficits):                         |                  |                                |                  |
| Reserved for Capital Projects.....                | -                | 229,800                        | -                |
| Unreserved.....                                   | (133,226)        | -                              | (221,190)        |
| Fund balances (deficits).....                     | <u>(133,226)</u> | <u>229,800</u>                 | <u>(221,190)</u> |
| Total liabilities and fund balances.....          | <u>\$ 4,101</u>  | <u>\$ 229,800</u>              | <u>\$ -</u>      |

| Federal<br>Highway<br>Construction | Local Aid       | Other          | Totals            |                   |
|------------------------------------|-----------------|----------------|-------------------|-------------------|
|                                    |                 |                | 1997              | 1996              |
| \$ 161,426                         | \$ -            | \$ -           | \$ 165,527        | \$ 118,823        |
| 133                                | -               | -              | 133               | 1,046             |
| 20,018                             | -               | -              | 249,818           | 27,059            |
| <u>\$ 181,577</u>                  | <u>\$ -</u>     | <u>\$ -</u>    | <u>\$ 415,478</u> | <u>\$ 146,928</u> |
| <br>                               |                 |                |                   |                   |
| \$ 181,443                         | \$ 21,187       | \$ 983         | \$ 331,239        | \$ 293,082        |
| 1                                  | 10              | -              | 238               | 1,306             |
| 8                                  | 5               | -              | 4,461             | 4,376             |
| -                                  | 49,769          | 386            | 215,644           | 69,068            |
| -                                  | -               | -              | 27                | 637               |
| -                                  | -               | -              | -                 | 761               |
| 107                                | -               | -              | 107               | 95                |
| -                                  | -               | -              | 60,700            | -                 |
| <u>181,559</u>                     | <u>70,971</u>   | <u>1,369</u>   | <u>612,416</u>    | <u>369,325</u>    |
| <br>                               |                 |                |                   |                   |
| -                                  | -               | -              | 229,800           | -                 |
| 18                                 | (70,971)        | (1,369)        | (426,738)         | (222,397)         |
| <u>18</u>                          | <u>(70,971)</u> | <u>(1,369)</u> | <u>(196,938)</u>  | <u>(222,397)</u>  |
| <u>\$ 181,577</u>                  | <u>\$ -</u>     | <u>\$ -</u>    | <u>\$ 415,478</u> | <u>\$ 146,928</u> |

**Capital Projects Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | General      | Capital<br>Investment<br>Trust | Highway      |
|--|--------------|--------------------------------|--------------|
| Revenues:  |              |                                |              |
| Federal grants and reimbursements.....   | \$ 19,465    | \$ -                           | \$ -         |
| Departmental.....  | -            | -                              | -            |
| Miscellaneous.....   | 9            | -                              | 5            |
| Total revenues.....  | 19,474       | -                              | 5            |
| Other financing sources:   |              |                                |              |
| Proceeds of general obligation bonds.....  | 271,882      | -                              | 474,788      |
| Proceeds of special obligation bonds.....  | -            | -                              | -            |
| Proceeds of refunding bonds.....   | 301,333      | -                              | 337,464      |
| Operating transfers in.....  | 9,503        | 229,800                        | 80,000       |
| Total other financing sources.....   | 582,718      | 229,800                        | 892,252      |
| Total revenues and other financing sources.....  | 602,192      | 229,800                        | 892,257      |
| Expenditures:  |              |                                |              |
| Capital outlay:  |              |                                |              |
| Local aid.....   | -            | -                              | -            |
| Capital acquisition and construction.....  | 313,366      | -                              | 543,763      |
| Total expenditures.....  | 313,366      | -                              | 543,763      |
| Other financing uses:  |              |                                |              |
| Payments to refunded bond escrow agent.....  | 301,333      | -                              | 337,464      |
| Operating transfers out.....   | 3,473        | -                              | 125,780      |
| Transfers of bond proceeds.....  | 34,847       | -                              | 130          |
| Transfers to component units.....  | 2,627        | -                              | -            |
| Total other financing uses.....  | 342,280      | -                              | 463,374      |
| Total expenditures and other financing uses.....   | 655,646      | -                              | 1,007,137    |
| Excess (deficiency) of revenues and other financing sources<br>over expenditures and other financing uses..... | (53,454)     | 229,800                        | (114,880)    |
| Fund balances (deficits) at beginning of year.....   | (79,772)     | -                              | (106,310)    |
| Fund balances (deficits) at end of year.....   | \$ (133,226) | \$ 229,800                     | \$ (221,190) |

| Federal<br>Highway<br>Construction | Local Aid   | Other      | Totals       |              |
|------------------------------------|-------------|------------|--------------|--------------|
|                                    |             |            | 1997         | 1996         |
| \$ 1,016,165                       | \$ -        | \$ -       | \$ 1,035,630 | \$ 888,352   |
| -                                  | -           | -          | -            | 1,350        |
| 1,150                              | -           | -          | 1,164        | 1,475        |
| 1,017,315                          | -           | -          | 1,036,794    | 891,177      |
| -                                  | 149,398     | 3,403      | 899,471      | 939,658      |
| -                                  | -           | -          | -            | 147,457      |
| -                                  | 83,824      | -          | 722,621      | -            |
| 175,958                            | -           | -          | 495,261      | 132,423      |
| 175,958                            | 233,222     | 3,403      | 2,117,353    | 1,219,538    |
| 1,193,273                          | 233,222     | 3,403      | 3,154,147    | 2,110,715    |
| -                                  | 181,179     | -          | 181,179      | 115,742      |
| 1,189,550                          | -           | 4,079      | 2,050,758    | 1,672,544    |
| 1,189,550                          | 181,179     | 4,079      | 2,231,937    | 1,788,286    |
| -                                  | 83,824      | -          | 722,621      | -            |
| 3,892                              | 259         | 1          | 133,405      | 108,315      |
| -                                  | -           | -          | 34,977       | 28,888       |
| -                                  | 3,121       | -          | 5,748        | 3,038        |
| 3,892                              | 87,204      | 1          | 896,751      | 140,241      |
| 1,193,442                          | 268,383     | 4,080      | 3,128,688    | 1,928,527    |
| (169)                              | (35,161)    | (677)      | 25,459       | 182,188      |
| 187                                | (35,810)    | (692)      | (222,397)    | (404,585)    |
| \$ 18                              | \$ (70,971) | \$ (1,369) | \$ (196,938) | \$ (222,397) |



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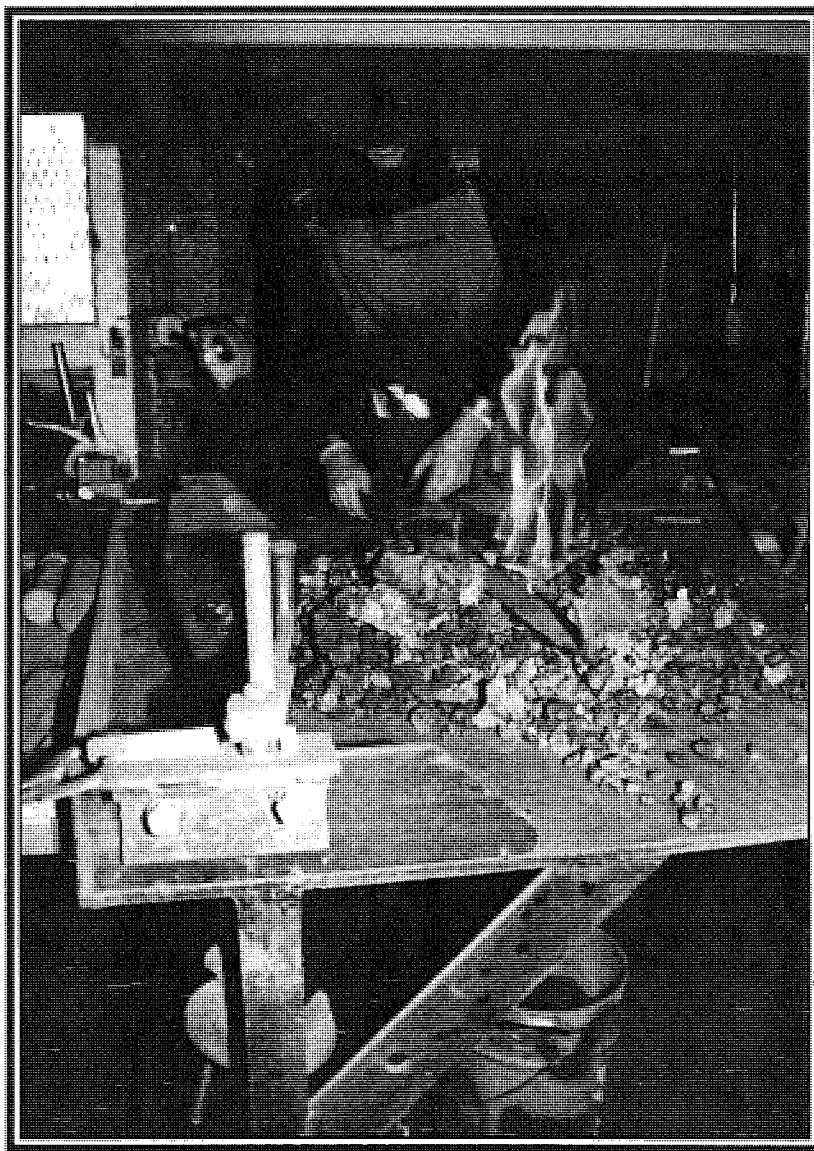
# *Internal Service Funds*

Internal Service Funds are used to account for the risk financing and insurance related activities of the Commonwealth.

*Employees Workers' Compensation* — accounts for the activities of the Commonwealth's Self Insurance Program for state employees Workers Compensation.

*Central Artery Workers' Compensation* — accounts for the Commonwealth Insurance Program for all contractors and sub contractors on the Commonwealth's Central Artery/Third Harbor Tunnel Project.

*Employees Group Health Insurance* — accounts for the Commonwealth Group Health and Life Insurance programs for Commonwealth employees and retirees.



*All copper and iron fasteners used in the restoration of the ship are unique to the Constitution and were fabricated by a shipsmith.*

# Internal Service Funds Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

|  | Employees<br>Workers'<br>Compensation | Central Artery<br>Workers'<br>Compensation | Employees<br>Group Health<br>Insurance | Totals            |                   |
|--|---------------------------------------|--|--|-------------------|-------------------|
|  |                                       |  |  | 1997              | 1996              |
| ASSETS   |                                       |  |  |                   |                   |
| Restricted investments.....                            | \$ -                                  | \$ 223,219                                 | \$ -                                   | \$ 223,219        | \$ 187,929        |
| Assets held in trust.....                              | -                                     | -  | 15,087                                 | 15,087            | 18,789            |
| Due from other funds.....                              | 35,400                                | -  | -                                      | 35,400            | 33,255            |
| Total assets.....                                      | <u>\$ 35,400</u>                      | <u>\$ 223,219</u>                          | <u>\$ 15,087</u>                       | <u>\$ 273,706</u> | <u>\$ 239,973</u> |
| LIABILITIES AND FUND EQUITY                            |                                       |  |  |                   |                   |
| Liabilities:   |                                       |  |  |                   |                   |
| Claims and judgments.....                              | <u>\$ 286,600</u>                     | <u>\$ 78,079</u>                           | <u>\$ 49,365</u>                       | <u>\$ 414,044</u> | <u>\$ 391,053</u> |
| Total liabilities.....                                 | <u>286,600</u>                        | <u>78,079</u>                              | <u>49,365</u>                          | <u>414,044</u>    | <u>391,053</u>    |
| Fund equity (deficit):                                 |                                       |  |  |                   |                   |
| Retained earnings:                                     |                                       |  |  |                   |                   |
| Reserved for central artery workers' compensation..... | -                                     | 145,140                                    | -                                      | 145,140           | 129,808           |
| Unreserved.....  | <u>(251,200)</u>                      | <u>-</u>                                   | <u>(34,278)</u>                        | <u>(285,478)</u>  | <u>(280,888)</u>  |
| Total fund equity (deficit).....                       | <u>(251,200)</u>                      | <u>145,140</u>                             | <u>(34,278)</u>                        | <u>(140,338)</u>  | <u>(151,080)</u>  |
| Total liabilities and fund equity.....                 | <u>\$ 35,400</u>                      | <u>\$ 223,219</u>                          | <u>\$ 15,087</u>                       | <u>\$ 273,706</u> | <u>\$ 239,973</u> |

**Internal Service Funds**  
**Combining Statement Of Revenues, Expenses And Changes In Retained Earnings**

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Employees<br>Workers'<br>Compensation | Central Artery<br>Workers'<br>Compensation | Employees<br>Group Health<br>Insurance | Totals       |              |
|--|---------------------------------------|--|--|--------------|--------------|
|  |                                       |  |  | 1997         | 1996         |
| Operating revenues:                                |                                       |  |  |              |              |
| Premiums.....                                      | \$ 43,609                             | \$ 35,601                                  | \$ 618,203                             | \$ 697,413   | \$ 702,461   |
| Total operating revenues.....                      | 43,609                                | 35,601                                     | 618,203                                | 697,413      | 702,461      |
| Operating expenses:                                |                                       |  |  |              |              |
| Claims and judgments.....                          | 41,464                                | 7,819                                      | 621,905                                | 671,188      | 682,561      |
| Change in incurred but not reported claims.....    | 3,600                                 | 19,958                                     | (567)                                  | 22,991       | (48,764)     |
| Net claims and judgments.....                      | 45,064                                | 27,777                                     | 621,338                                | 694,179      | 633,797      |
| Operating income.....                              | (1,455)                               | 7,824                                      | (3,135)                                | 3,234        | 68,664       |
| Non-operating revenues:                            |                                       |  |  |              |              |
| Interest income.....                               | -                                     | 7,508                                      | -                                      | 7,508        | 3,675        |
| Total non-operating revenues.....                  | -                                     | 7,508                                      | -                                      | 7,508        | 3,675        |
| Net income.....                                    | (1,455)                               | 15,332                                     | (3,135)                                | 10,742       | 72,339       |
| Retained earnings (deficit) at beginning of year.. | (249,745)                             | 129,808                                    | (31,143)                               | (151,080)    | (223,419)    |
| Retained earnings (deficit) at end of year.....    | \$ (251,200)                          | \$ 145,140                                 | \$ (34,278)                            | \$ (140,338) | \$ (151,080) |

# Internal Service Funds

## Combining Statement Of Cash Flows

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

|  | Employees<br>Workers'<br>Compensation | Central Artery<br>Workers'<br>Compensation | Employees<br>Group Health<br>Insurance | Totals   |           |
|--|---------------------------------------|--|--|----------|-----------|
|  |                                       |  |  | 1997     | 1996      |
| Cash flows from operating activities:  |                                       |  |  |          |           |
| Operating income (loss).....   | \$ (1,455)                            | \$ 7,824                                   | \$ (3,135)                             | \$ 3,234 | \$ 68,664 |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities: |                                       |  |  |          |           |
| Change in assets and liabilities:  |                                       |  |  |          |           |
| Assets held in trust.....  | -                                     | -  | 3,702                                  | 3,702    | (169)     |
| Due from other funds.....  | (2,145)                               | -  | -                                      | (2,145)  | (4,888)   |
| Claims and judgments.....  | 3,600                                 | 19,958                                     | (567)                                  | 22,991   | (41,744)  |
| Total adjustments.....   | 1,455                                 | 19,958                                     | 3,135                                  | 24,548   | (46,801)  |
| Net cash provided by operating activities.....   | -                                     | 27,782                                     | -                                      | 27,782   | 21,863    |
| Cash flows from investing activities:  |                                       |  |  |          |           |
| Purchases of investments.....  | -                                     | (35,290)                                   | -                                      | (35,290) | (25,538)  |
| Interest income.....   | -                                     | 7,508                                      | -                                      | 7,508    | 3,675     |
| Net cash used for investing activities.....  | -                                     | (27,782)                                   | -                                      | (27,782) | (21,863)  |
| Net increase in cash and cash equivalents.....   | -                                     | -  | -                                      | -        | -         |
| Cash and cash equivalents at beginning of year.....  | -                                     | -  | -                                      | -        | -         |
| Cash and cash equivalents at end of year.....  | \$ -                                  | \$ -                                       | \$ -                                   | \$ -     | \$ -      |

# Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations or other governments.

## EXPENDABLE TRUST FUNDS:

*Expendable Trust* - accounts for various gifts, bequests or contributions held by the Commonwealth of which both principal and interest may be expended for purposes designated by the donor.

*Unemployment Compensation* - accounts for unemployment 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.

## NONEXPENDABLE TRUST FUNDS:

*Nonexpendable Trust* - accounts for various gifts and bequests held by the Commonwealth, of which only the income may be expended for purposes specified by the donor.

## PENSION TRUST FUNDS:

*Pension Trust Funds* - account for the net assets held in trust for the State Employees' and Teachers' Retirement Systems for the payment of retirement, disability and death benefits to members of these retirement systems.

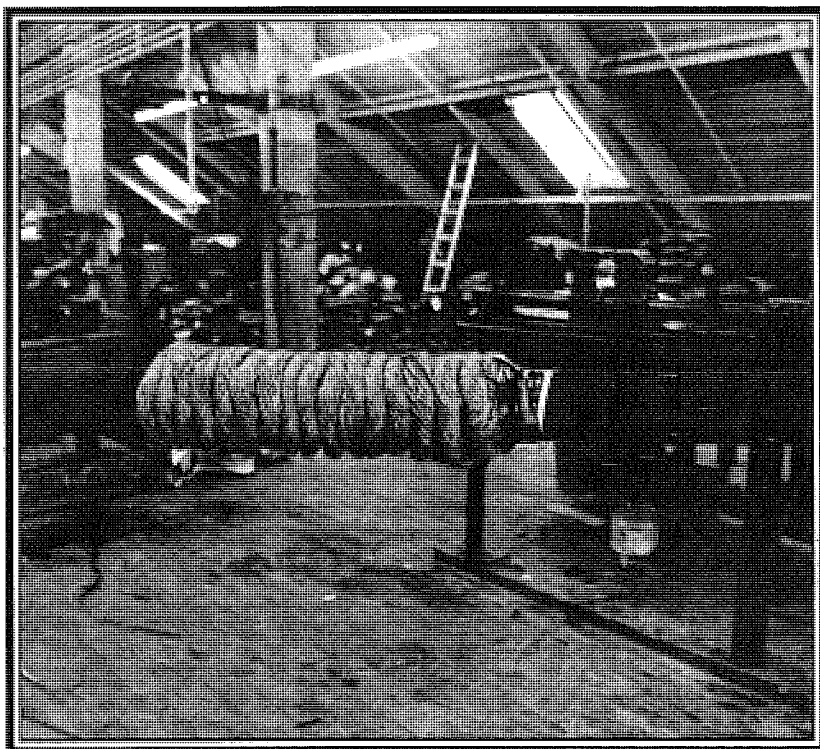
## AGENCY FUNDS:

*Central Agency Funds* - account for cash and investments held or managed by the Commonwealth on behalf of others, including the investments made by cities, towns and local authorities in the Massachusetts Municipal Depository Trust and Pension Reserves

Investment Trust, employees' contributions to the deferred compensation plan, annuity contracts held for lottery prize winners, and local option taxes collected but not yet remitted.

*Court Escrow and Client Accounts* - account for assets held in escrow accounts by the Commonwealth's court system pending settlement of outstanding litigation and by the human service departments on behalf of patients, clients and inmates, and for child support payments collected or receivable and not yet remitted to custodial parents.

*Statutory Bonds and Deposits* - account for deposits required from insurance companies and similar organizations doing business within the Commonwealth, to protect citizens against the risk of loss due to business failure.



*Tying a mouse on the 10 inch fore stay. The mouse acts as a stopper on the stay.*

# Fiduciary Fund Types Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

|   | Expendable<br>Trust Funds | Non-<br>expendable<br>Trust Funds | Pension<br>Trust Funds |
|---|---------------------------|-----------------------------------|------------------------|
| <b>ASSETS</b>                                     |                           |                                   |                        |
| Cash and short-term investments.....              | \$ 132,788                | \$ 5,835                          | \$ 869,492             |
| Deposits.....                                     | 1,222,725                 | -                                 | -                      |
| Investments.....                                  | -                         | -                                 | 18,969,346             |
| Investments of deferred compensation plan.....    | -                         | -                                 | -                      |
| Annuity contracts.....                            | -                         | -                                 | -                      |
| Assets held in trust.....                         | -                         | -                                 | -                      |
| Receivables, net of allowance for uncollectibles: |                           |                                   |                        |
| Taxes.....  | 328,977                   | -                                 | -                      |
| Due from federal government.....                  | 1,549                     | -                                 | -                      |
| Loans.....  | 2,943                     | -                                 | -                      |
| Other receivables.....                            | 16,992                    | -                                 | 218,393                |
| Total assets.....                                 | <u>\$ 1,705,974</u>       | <u>\$ 5,835</u>                   | <u>\$ 20,057,231</u>   |
| <b>LIABILITIES AND FUND BALANCES</b>              |                           |                                   |                        |
| Liabilities:                                      |                           |                                   |                        |
| Accounts payable.....                             | \$ 42,328                 | \$ -                              | \$ 493,513             |
| Accrued payroll.....                              | 34                        | -                                 | -                      |
| Compensated absences.....                         | 388                       | -                                 | -                      |
| Tax refunds and abatements payable.....           | 8,998                     | -                                 | -                      |
| Due to cities and towns.....                      | -                         | -                                 | -                      |
| Due to other funds.....                           | -                         | -                                 | 3,657                  |
| Due to federal government.....                    | -                         | -                                 | -                      |
| Deferred revenue.....                             | 13,519                    | -                                 | -                      |
| Prizes payable.....                               | -                         | -                                 | -                      |
| Deferred compensation benefits payable.....       | -                         | -                                 | -                      |
| Agency liabilities.....                           | -                         | -                                 | -                      |
| Other accrued liabilities.....                    | 9,210                     | -                                 | -                      |
| Total liabilities.....                            | <u>74,477</u>             | <u>-</u>                          | <u>497,170</u>         |
| Fund balances:                                    |                           |                                   |                        |
| Reserved for employee's pension benefits.....     | -                         | -                                 | 19,560,061             |
| Reserved for unemployment benefits.....           | 1,515,080                 | -                                 | -                      |
| Reserved for nonexpendable trusts.....            | -                         | 5,835                             | -                      |
| Unreserved.....                                   | 116,417                   | -                                 | -                      |
| Total fund balances.....                          | <u>1,631,497</u>          | <u>5,835</u>                      | <u>19,560,061</u>      |
| Total liabilities and fund balances.....          | <u>\$ 1,705,974</u>       | <u>\$ 5,835</u>                   | <u>\$ 20,057,231</u>   |

| Agency<br>Funds     | Totals               |                      |
|---------------------|----------------------|----------------------|
|                     | 1997                 | 1996                 |
| \$ 1,500,484        | \$ 2,508,599         | \$ 1,774,156         |
| -                   | 1,222,725            | 761,987              |
| 559,546             | 19,528,892           | 16,205,800           |
| 1,837,892           | 1,837,892            | 1,480,844            |
| 1,285,021           | 1,285,021            | 1,164,223            |
| 1,743,981           | 1,743,981            | 1,683,251            |
| -                   | 328,977              | 331,546              |
| -                   | 1,549                | 1,623                |
| -                   | 2,943                | 3,330                |
| 38,000              | 273,385              | 203,201              |
| <u>\$ 6,964,924</u> | <u>\$ 28,733,964</u> | <u>\$ 23,609,961</u> |
| <br>                |                      |                      |
| \$ 8,991            | \$ 544,832           | \$ 241,969           |
| -                   | 34                   | 280                  |
| -                   | 388                  | 240                  |
| -                   | 8,998                | 7,111                |
| 20,142              | 20,142               | 18,147               |
| -                   | 3,657                | 7,932                |
| -                   | -                    | 51                   |
| -                   | 13,519               | 33,303               |
| 1,285,021           | 1,285,021            | 1,164,223            |
| 1,837,892           | 1,837,892            | 1,480,844            |
| 3,812,878           | 3,812,878            | 3,534,108            |
| -                   | 9,210                | 3,833                |
| <u>6,964,924</u>    | <u>7,536,571</u>     | <u>6,492,041</u>     |
| <br>                |                      |                      |
| -                   | 19,560,061           | 15,956,271           |
| -                   | 1,515,080            | 1,043,033            |
| -                   | 5,835                | 5,835                |
| -                   | 116,417              | 112,781              |
| -                   | 21,197,393           | 17,117,920           |
| <u>\$ 6,964,924</u> | <u>\$ 28,733,964</u> | <u>\$ 23,609,961</u> |

**Expendable Trust Funds**  
**Combining Balance Sheet**

June 30, 1997  
(Amounts in thousands)

| ASSETS  | Expendable<br>Trust | Unemployment<br>Compensation | Totals              |                     |
|---|---------------------|------------------------------|---------------------|---------------------|
|   |                     |                              | 1997                | 1996                |
| Cash and short-term investments.....              | \$ 132,788          | \$ -                         | \$ 132,788          | \$ 113,275          |
| Deposits.....                                     | -                   | 1,222,725                    | 1,222,725           | 761,987             |
| Receivables, net of allowance for uncollectibles: |                     |                              |                     |                     |
| Taxes.....  | -                   | 328,977                      | 328,977             | 331,546             |
| Due from federal government.....                  | 1,549               | -                            | 1,549               | 1,623               |
| Loans.....  | 2,943               | -                            | 2,943               | 3,330               |
| Other receivables.....                            | 8,358               | 8,634                        | 16,992              | 27,897              |
| Total assets.....                                 | <u>\$ 145,638</u>   | <u>\$ 1,560,336</u>          | <u>\$ 1,705,974</u> | <u>\$ 1,239,658</u> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                     |                              |                     |                     |
| Liabilities:                                      |                     |                              |                     |                     |
| Accounts payable.....                             | \$ 18,288           | \$ 24,040                    | \$ 42,328           | \$ 39,077           |
| Accrued payroll.....                              | 34                  | -                            | 34                  | 280                 |
| Compensated absences.....                         | 388                 | -                            | 388                 | 240                 |
| Tax refunds payable.....                          | -                   | 8,998                        | 8,998               | 7,111               |
| Deferred revenue.....                             | 1,301               | 12,218                       | 13,519              | 33,303              |
| Other accrued liabilities.....                    | 9,210               | -                            | 9,210               | 3,833               |
| Total liabilities.....                            | <u>29,221</u>       | <u>45,256</u>                | <u>74,477</u>       | <u>83,844</u>       |
| Fund balances:                                    |                     |                              |                     |                     |
| Reserved for unemployment benefits.....           | -                   | 1,515,080                    | 1,515,080           | 1,043,033           |
| Unreserved.....                                   | 116,417             | -                            | 116,417             | 112,781             |
| Total fund balances.....                          | <u>116,417</u>      | <u>1,515,080</u>             | <u>1,631,497</u>    | <u>1,155,814</u>    |
| Total liabilities and fund balances.....          | <u>\$ 145,638</u>   | <u>\$ 1,560,336</u>          | <u>\$ 1,705,974</u> | <u>\$ 1,239,658</u> |



# Expendable Trust Funds

## Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 1997

(Amounts in thousands)

|   | Expendable<br>Trust | Unemployment<br>Compensation | Totals       |              |
|---|---------------------|------------------------------|--------------|--------------|
|   |                     |                              | 1997         | 1996         |
| Revenues:   |                     |                              |              |              |
| Taxes.....  | \$ 159              | \$ 1,189,227                 | \$ 1,189,386 | \$ 1,149,531 |
| Assessments.....  | 1,686               | -                            | 1,686        | 1,194        |
| Federal grants and reimbursements.....  | 12,407              | 17,220                       | 29,627       | 21,098       |
| Departmental.....   | 5,984               | -                            | 5,984        | 8,502        |
| Miscellaneous.....  | 149,575             | 62,982                       | 212,557      | 194,759      |
| Total revenues.....   | 169,811             | 1,269,429                    | 1,439,240    | 1,375,084    |
| Other financing sources:  |                     |                              |              |              |
| Operating transfers in.....   | 6,971               | -                            | 6,971        | 2,934        |
| Total other financing sources.....  | 6,971               | -                            | 6,971        | 2,934        |
| Total revenues and other financing sources.....   | 176,782             | 1,269,429                    | 1,446,211    | 1,378,018    |
| Expenditures:   |                     |                              |              |              |
| Current:  |                     |                              |              |              |
| Judiciary.....  | 229                 | -                            | 229          | 139          |
| Secretary of the Commonwealth.....  | 5                   | -                            | 5            | 86           |
| Treasurer and Receiver-General.....   | 7,033               | -                            | 7,033        | 926          |
| Auditor of the Commonwealth.....  | 285                 | -                            | 285          | 237          |
| Attorney General.....   | 1,724               | -                            | 1,724        | 1,596        |
| District Attorney.....  | 3,215               | -                            | 3,215        | 3,173        |
| Administration and finance.....   | 5,454               | -                            | 5,454        | 1,827        |
| Environmental affairs.....  | 7,625               | -                            | 7,625        | 6,552        |
| Communities and development.....  | 267                 | -                            | 267          | 754          |
| Health and human services.....  | 18,291              | -                            | 18,291       | 18,761       |
| Transportation and construction.....  | 2,602               | -                            | 2,602        | 1,066        |
| Education.....  | 1,140               | -                            | 1,140        | 1,406        |
| Higher education.....   | 103                 | -                            | 103          | 44           |
| Public safety.....  | 2,961               | -                            | 2,961        | 3,593        |
| Economic development.....   | 1,698               | -                            | 1,698        | 1,070        |
| Elder affairs.....  | 50                  | -                            | 50           | 50           |
| Consumer affairs.....   | 7,103               | -                            | 7,103        | 6,459        |
| Labor.....  | 44,096              | 797,382                      | 841,478      | 851,423      |
| Total expenditures.....   | 103,881             | 797,382                      | 901,263      | 899,162      |
| Other financing uses:   |                     |                              |              |              |
| Operating transfers out.....  | 69,265              | -                            | 69,265       | 103,410      |
| Total expenditures and other financing uses.....  | 173,146             | 797,382                      | 970,528      | 1,002,572    |
| Excess (deficiency) of revenues and other<br>financing sources over expenditures and<br>other financing uses..... | 3,636               | 472,047                      | 475,683      | 375,446      |
| Fund balances at beginning of year.....   | 112,781             | 1,043,033                    | 1,155,814    | 780,368      |
| Fund balances at end of year.....   | \$ 116,417          | \$ 1,515,080                 | \$ 1,631,497 | \$ 1,155,814 |

**Pension Trust Funds**  
**Combining Statement of Net Assets Available for Pension Benefits**

June 30, 1997  
(Amounts in thousands)

| ASSETS  | State<br>Employees'<br>PERS | Teachers'<br>PERS   | Totals               |                      |
|---|-----------------------------|---------------------|----------------------|----------------------|
|   |                             |                     | 1997                 | 1996                 |
| Cash and short-term investments.....  | \$ 428,397                  | \$ 441,095          | \$ 869,492           | \$ 342,009           |
| Investments at fair value.....  | 9,359,311                   | 9,610,035           | 18,969,346           | 15,671,490           |
| Other receivables, net of allowance for uncollectibles...   | 102,313                     | 116,080             | 218,393              | 142,404              |
| Total assets.....   | 9,890,021                   | 10,167,210          | 20,057,231           | 16,155,903           |
| <b>LIABILITIES</b>  |                             |                     |                      |                      |
| Liabilities:  |                             |                     |                      |                      |
| Accounts payable.....   | 243,506                     | 250,007             | 493,513              | 191,731              |
| Due to other funds.....   | 1,984                       | 1,673               | 3,657                | 7,901                |
| Total liabilities.....  | 245,490                     | 251,680             | 497,170              | 199,632              |
| Net assets available for pension benefits (fund balance reserved for employee's pension benefits) |                             |                     |                      |                      |
| (A schedule of funding progress for each plan is presented in Note 10.).....                      |                             |                     |                      |                      |
|   | <u>\$ 9,644,531</u>         | <u>\$ 9,915,530</u> | <u>\$ 19,560,061</u> | <u>\$ 15,956,271</u> |

# Pension Trust Funds

## Combining Statement Of Changes in Net Assets Available For Pension Benefits

Fiscal Year Ended June 30, 1997  
(Amounts in thousands)

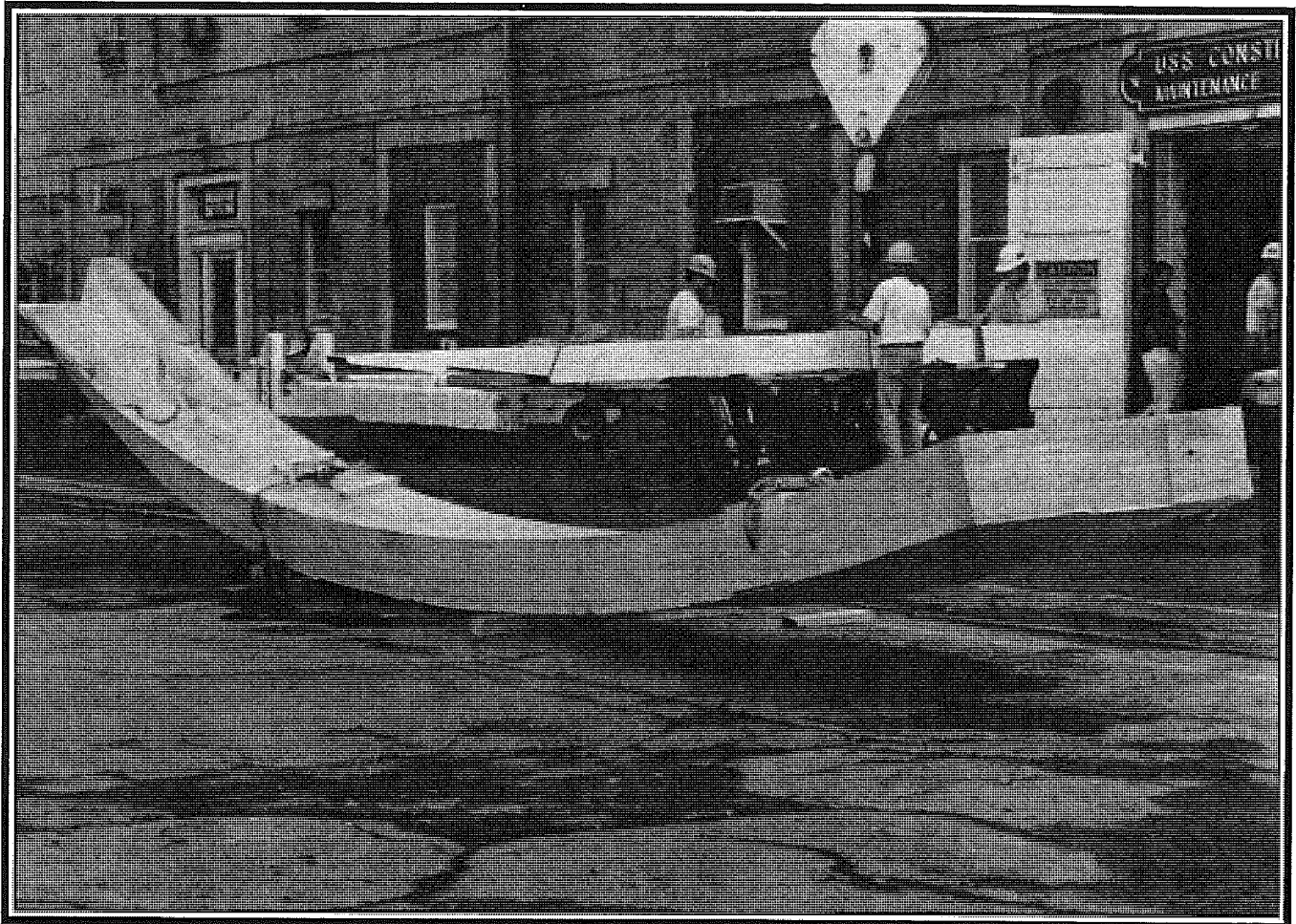
|  | State<br>Employees'<br>PERS | Teachers'<br>PERS | Totals        |               |
|--|-----------------------------|-------------------|---------------|---------------|
|  |                             |                   | 1997          | 1996          |
| <b>Additions:</b>  |                             |                   |               |               |
| Commonwealth contributions.....  | \$ 470,241                  | \$ 428,807        | \$ 899,048    | \$ 850,841    |
| Employee contributions.....  | 243,144                     | 214,386           | 457,530       | 421,080       |
| Total contributions.....   | 713,385                     | 643,193           | 1,356,578     | 1,271,921     |
| <b>Net investment income:</b>  |                             |                   |               |               |
| Net appreciation in fair value of investments  | 1,397,792                   | 1,426,049         | 2,823,841     | 1,786,940     |
| Interest.....  | 180,936                     | 187,718           | 368,654       | 363,645       |
| Dividends.....   | 78,324                      | 80,598            | 158,922       | 125,716       |
| Real estate operating income, net.....   | 27,162                      | 27,363            | 54,525        | 37,929        |
| Alternative investments.....   | 13,683                      | 13,774            | 27,457        | 14,943        |
| Other.....   | 74                          | 82                | 156           | 2,915         |
| Total investment income.....   | 1,697,971                   | 1,735,584         | 3,433,555     | 2,332,088     |
| Less: investment expense.....  | 30,022                      | 30,681            | 60,703        | 43,406        |
| Net investment income.....   | 1,667,949                   | 1,704,903         | 3,372,852     | 2,288,682     |
| Total additions.....   | 2,381,334                   | 2,348,096         | 4,729,430     | 3,560,603     |
| <b>Deductions:</b>   |                             |                   |               |               |
| Administration.....  | 1,666                       | 2,022             | 3,688         | 3,673         |
| Retirement benefits and refunds.....   | 600,104                     | 521,848           | 1,121,952     | 1,083,897     |
| Total deductions.....  | 601,770                     | 523,870           | 1,125,640     | 1,087,570     |
| Net increase.....  | 1,779,564                   | 1,824,226         | 3,603,790     | 2,473,033     |
| Net assets available for pension benefits<br>at beginning of year (fund balance<br>reserved for pension benefits)..... | 7,864,967                   | 8,091,304         | 15,956,271    | 13,483,238    |
| Net assets available for pension benefits<br>at end of year (fund balance reserved<br>for pension benefits).....       | \$ 9,644,531                | \$ 9,915,530      | \$ 19,560,061 | \$ 15,956,271 |

**Agency Funds**  
Combining Statement of Changes in Assets and Liabilities

June 30, 1997  
(Amounts in thousands)

|  | Balance<br>July 1, 1996 | Additions           | Deductions          | Balance<br>June 30, 1997 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| <b><u>Central Agency Funds</u></b>             |                         |                     |                     |                          |
| <b>ASSETS</b>                                  |                         |                     |                     |                          |
| Cash and short-term investments.....           | \$ 1,231,037            | \$ 3,145,410        | \$ 2,933,673        | \$ 1,442,774             |
| Investments.....                               | 534,310                 | 25,236              | -                   | 559,546                  |
| Investments of deferred compensation plan..... | 1,480,844               | 440,570             | 83,522              | 1,837,892                |
| Annuity contracts.....                         | 1,164,223               | 165,072             | 44,274              | 1,285,021                |
| Total assets.....                              | <u>\$ 4,410,414</u>     | <u>\$ 3,776,288</u> | <u>\$ 3,061,469</u> | <u>\$ 5,125,233</u>      |
| <b>LIABILITIES</b>                             |                         |                     |                     |                          |
| Accounts payable.....                          | \$ 11,192               | \$ 988,122          | \$ 990,323          | \$ 8,991                 |
| Due to cities and towns.....                   | 18,147                  | 202,327             | 200,332             | 20,142                   |
| Due to federal government.....                 | 51                      | 61                  | 112                 | -                        |
| Prizes payable.....                            | 1,164,223               | 165,072             | 44,274              | 1,285,021                |
| Deferred compensation benefits payable.....    | 1,480,844               | 440,570             | 83,522              | 1,837,892                |
| Agency liabilities.....                        | 1,735,957               | 1,979,881           | 1,742,651           | 1,973,187                |
| Total liabilities.....                         | <u>\$ 4,410,414</u>     | <u>\$ 3,776,033</u> | <u>\$ 3,061,214</u> | <u>\$ 5,125,233</u>      |
| <b><u>Court Escrow and Client Accounts</u></b> |                         |                     |                     |                          |
| <b>ASSETS</b>                                  |                         |                     |                     |                          |
| Cash and short-term investments.....           | \$ 81,914               | \$ 520,676          | \$ 544,966          | \$ 57,624                |
| Assets held in trust.....                      | 34,915                  | 24,979              | 24,335              | 35,559                   |
| Other receivables.....                         | 32,900                  | 38,000              | 32,900              | 38,000                   |
| Total assets.....                              | <u>\$ 149,729</u>       | <u>\$ 583,655</u>   | <u>\$ 602,201</u>   | <u>\$ 131,183</u>        |
| <b>LIABILITIES</b>                             |                         |                     |                     |                          |
| Agency liabilities.....                        | \$ 149,729              | \$ 359,389          | \$ 377,935          | \$ 131,183               |
| Total liabilities.....                         | <u>\$ 149,729</u>       | <u>\$ 359,389</u>   | <u>\$ 377,935</u>   | <u>\$ 131,183</u>        |
| <b><u>Statutory Bonds and Deposits</u></b>     |                         |                     |                     |                          |
| <b>ASSETS</b>                                  |                         |                     |                     |                          |
| Cash and short-term investments.....           | \$ 86                   | \$ -                | \$ -                | \$ 86                    |
| Assets held in trust.....                      | 1,648,336               | 156,971             | 96,885              | 1,708,422                |
| Total assets.....                              | <u>\$ 1,648,422</u>     | <u>\$ 156,971</u>   | <u>\$ 96,885</u>    | <u>\$ 1,708,508</u>      |
| <b>LIABILITIES</b>                             |                         |                     |                     |                          |
| Agency liabilities.....                        | \$ 1,648,422            | \$ 156,971          | \$ 96,885           | \$ 1,708,508             |
| Total liabilities.....                         | <u>\$ 1,648,422</u>     | <u>\$ 156,971</u>   | <u>\$ 96,885</u>    | <u>\$ 1,708,508</u>      |

|   | Balance<br>July 1, 1996 | Additions           | Deductions          | Balance<br>June 30, 1997 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| <b><u>Total Agency Funds</u></b>            |                         |                     |                     |                          |
| <b>ASSETS</b>                               |                         |                     |                     |                          |
| Cash and short-term investments.....        | \$ 1,313,037            | \$ 3,666,086        | \$ 3,478,639        | \$ 1,500,484             |
| Investments.....                            | 534,310                 | 25,236              | -                   | 559,546                  |
| Investments of deferred compensation.....   | 1,480,844               | 440,570             | 83,522              | 1,837,892                |
| Annuity contracts.....                      | 1,164,223               | 165,072             | 44,274              | 1,285,021                |
| Assets held in trust.....                   | 1,683,251               | 181,950             | 121,220             | 1,743,981                |
| Other receivables.....                      | 32,900                  | 38,000              | 32,900              | 38,000                   |
| Total assets.....                           | <u>\$ 6,208,565</u>     | <u>\$ 4,516,914</u> | <u>\$ 3,760,555</u> | <u>\$ 6,964,924</u>      |
| <b>LIABILITIES</b>                          |                         |                     |                     |                          |
| Accounts payable.....                       | \$ 11,192               | \$ 988,122          | \$ 990,323          | \$ 8,991                 |
| Due to cities and towns.....                | 18,147                  | 202,327             | 200,332             | 20,142                   |
| Due to federal government.....              | 51                      | 61                  | 112                 | -                        |
| Prizes payable.....                         | 1,164,223               | 165,072             | 44,274              | 1,285,021                |
| Deferred compensation benefits payable..... | 1,480,844               | 440,570             | 83,522              | 1,837,892                |
| Agency liabilities.....                     | 3,534,108               | 2,496,241           | 2,217,471           | 3,812,878                |
| Total liabilities.....                      | <u>\$ 6,208,565</u>     | <u>\$ 4,292,393</u> | <u>\$ 3,536,034</u> | <u>\$ 6,964,924</u>      |



*One of the twelve diagonal riders shaped to fit along the inside ceiling plank. They were manufactured as one piece from laminate white oak.*

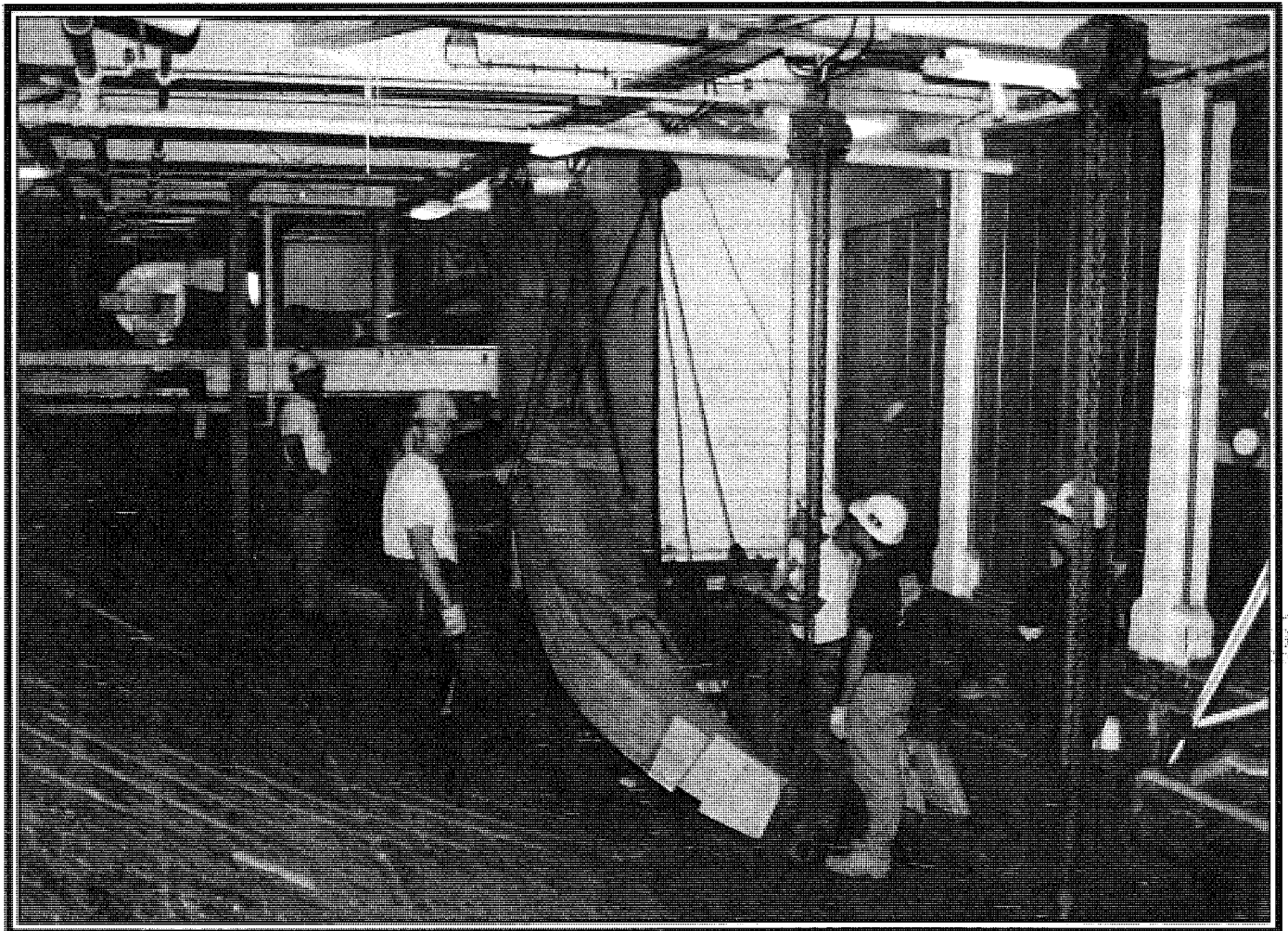
# University and College Fund Type

This fund type combines, in accordance with the AICPA Audit Guide for College and Universities, the financial activity from all fund types for: the University of Massachusetts System, the State College System, and the Community College System.

**University of Massachusetts System** includes the campuses at Amherst, Worcester, Boston, Lowell, Dartmouth and certain Institutes and programs operated by the Office of the University President.

**State College System** includes the nine state colleges which provide four-year post-secondary education programs and the system's building authority.

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



*Maneuvering the restored diagonal riders into the hold. They are curved to fit into the inside of the hull. If they were not curved by design, they would never fit into the hold.*

# University And College Fund Type Combining Balance Sheet

June 30, 1997  
(Amounts in thousands)

| ASSETS  | Current Funds     |                  | Loan<br>Funds    |
|---|-------------------|------------------|------------------|
|   | Unrestricted      | Restricted       |                  |
| Cash and short-term investments.....              | \$ 96,921         | \$ 10,154        | \$ 1,668         |
| Deposits.....                                     | 60,135            | -                | -                |
| Investments.....                                  | 144,337           | 37,115           | 3,515            |
| Receivables, net of allowance for uncollectibles: |                   |                  |                  |
| Due from federal government.....                  | -                 | 23,182           | -                |
| Loans.....  | -                 | -                | 48,585           |
| Other receivables.....                            | 117,295           | 27,921           | 66               |
| Due from other funds.....                         | 53,458            | -                | 2                |
| Inventory.....                                    | 15,814            | -                | -                |
| Fixed assets.....                                 | -                 | -                | -                |
| Other assets.....                                 | 21,805            | 162              | -                |
| Total assets.....                                 | <u>\$ 509,765</u> | <u>\$ 98,534</u> | <u>\$ 53,836</u> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                   |                  |                  |
| Liabilities:                                      |                   |                  |                  |
| Accounts payable.....                             | \$ 61,139         | \$ 6,399         | \$ 62            |
| Accrued payroll.....                              | 58,172            | 2,924            | -                |
| Compensated absences.....                         | 116,992           | 1,566            | -                |
| Due to other funds.....                           | 60,723            | 39,352           | 306              |
| Deferred revenue.....                             | 13,970            | 1,741            | -                |
| Claims and judgments.....                         | 39,905            | -                | -                |
| Deposits and unearned revenue.....                | 4,375             | 2,936            | -                |
| Other accrued liabilities.....                    | 59,526            | 34               | -                |
| Capital leases.....                               | -                 | -                | -                |
| Bonds and notes payable.....                      | -                 | -                | -                |
| Total liabilities.....                            | <u>414,802</u>    | <u>54,952</u>    | <u>368</u>       |
| Fund balances:                                    |                   |                  |                  |
| Unrestricted.....                                 | 94,963            | -                | -                |
| Restricted.....                                   | -                 | 43,582           | 53,468           |
| Unexpended plant funds.....                       | -                 | -                | -                |
| Renewals and replacements.....                    | -                 | -                | -                |
| Retirement of indebtedness.....                   | -                 | -                | -                |
| Net investment in plant.....                      | -                 | -                | -                |
| Total fund balances.....                          | <u>94,963</u>     | <u>43,582</u>    | <u>53,468</u>    |
| Total liabilities and fund balances.....          | <u>\$ 509,765</u> | <u>\$ 98,534</u> | <u>\$ 53,836</u> |



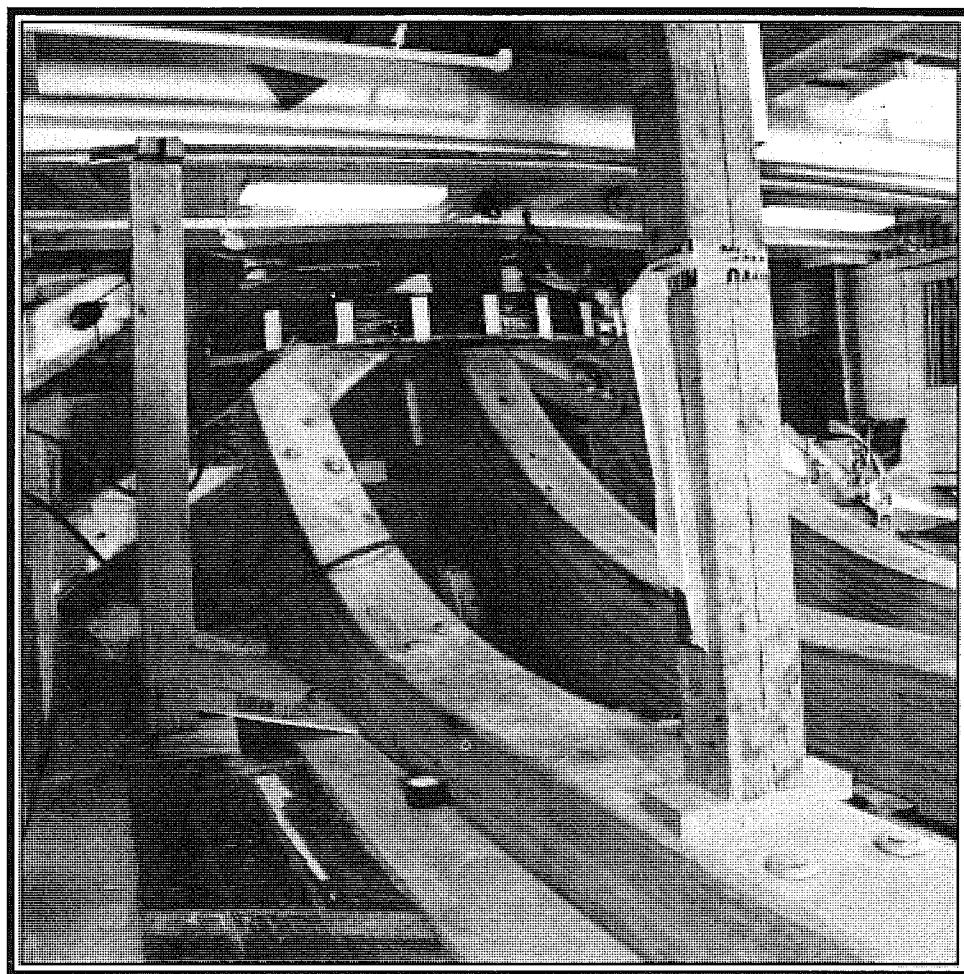
| Endowment<br>and Similar<br>Funds | Plant<br>Funds      | Totals              |                       |
|-----------------------------------|---------------------|---------------------|-----------------------|
|                                   |                     | 1997                | 1996<br>(as restated) |
| \$ 3,796                          | \$ 24,682           | \$ 137,221          | \$ 142,980            |
| -                                 | 52,128              | 112,263             | 112,235               |
| 112,298                           | 80,125              | 377,390             | 348,263               |
| -                                 | -                   | 23,182              | 24,535                |
| -                                 | -                   | 48,585              | 47,332                |
| 2,318                             | 2,138               | 149,738             | 128,394               |
| 11,087                            | 3,151               | 67,698              | 42,526                |
| -                                 | -                   | 15,814              | 15,494                |
| -                                 | 2,410,708           | 2,410,708           | 2,281,588             |
| 20                                | 4,488               | 26,475              | 24,620                |
| <u>\$ 129,519</u>                 | <u>\$ 2,577,420</u> | <u>\$ 3,369,074</u> | <u>\$ 3,167,967</u>   |
| \$ 33                             | \$ 6,296            | \$ 73,929           | \$ 58,429             |
| -                                 | 35                  | 61,131              | 57,786                |
| -                                 | -                   | 118,558             | 115,993               |
| -                                 | 8,293               | 108,674             | 84,262                |
| 606                               | -                   | 16,317              | 12,028                |
| -                                 | -                   | 39,905              | 36,622                |
| 300                               | 457                 | 8,068               | 8,523                 |
| 1,053                             | 2,997               | 63,610              | 76,015                |
| -                                 | 49,924              | 49,924              | 44,788                |
| -                                 | 316,739             | 316,739             | 310,178               |
| <u>1,992</u>                      | <u>384,741</u>      | <u>856,855</u>      | <u>804,624</u>        |
| 38,639                            | -                   | 133,602             | 140,975               |
| 88,888                            | -                   | 185,938             | 161,964               |
| -                                 | 57,980              | 57,980              | 43,471                |
| -                                 | 24,983              | 24,983              | 26,241                |
| -                                 | 21,931              | 21,931              | 17,840                |
| -                                 | 2,087,785           | 2,087,785           | 1,972,852             |
| <u>127,527</u>                    | <u>2,192,679</u>    | <u>2,512,219</u>    | <u>2,363,343</u>      |
| <u>\$ 129,519</u>                 | <u>\$ 2,577,420</u> | <u>\$ 3,369,074</u> | <u>\$ 3,167,967</u>   |



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# *General Fixed Assets Account Group*

The General Fixed Assets Account Group accounts for the land, buildings, improvements, equipment and construction in progress of the governmental funds.



*Standard knees, restored on the lower deck aft connecting the transoms of the stern to the thick strakes in the deck.*

## Schedule Of General Fixed Assets By Source

June 30, 1997  
(Amounts in thousands)

### GENERAL FIXED ASSETS:

1997

|                                 |    |           |
|---------------------------------|----|-----------|
| Land.....                       | \$ | 522,017   |
| Buildings.....                  |    | 2,374,450 |
| Machinery and equipment.....    |    | 511,226   |
| Construction in progress.....   |    | 98,178    |
| Total general fixed assets..... | \$ | 3,505,871 |

### INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE:

|   |    |           |
|---|----|-----------|
| Acquired on or before June 30, 1990.....      | \$ | 1,859,565 |
| Acquired subsequent to June 30, 1990 from:    |    |           |
| General Fund.....                             |    | 323,485   |
| Special Revenue Funds.....                    |    | 34,448    |
| Capital Projects Funds.....                   |    | 1,283,953 |
| Expendable Trust Funds.....                   |    | 4,420     |
| Total investment in general fixed assets..... | \$ | 3,505,871 |

Sources of general fixed assets acquired on or before June 30, 1990 are not available.

## Schedule Of General Fixed Assets By Function

June 30, 1997  
(Amounts in thousands)

| Function                              | Land              | Buildings           | Machinery<br>and<br>Equipment | Total               |
|---------------------------------------|-------------------|---------------------|-------------------------------|---------------------|
| Judiciary.....                        | \$ 490            | \$ 269,410          | \$ 4,318                      | \$ 274,218          |
| Inspector General.....                | -                 | -                   | 64                            | 64                  |
| Governor and Lieutenant Governor..... | -                 | -                   | 146                           | 146                 |
| Secretary of the Commonwealth.....    | 5                 | 18,034              | 1,644                         | 19,683              |
| Treasurer and Receiver - General..... | -                 | -                   | 66,390                        | 66,390              |
| Auditor of the Commonwealth.....      | -                 | -                   | 345                           | 345                 |
| Attorney General.....                 | -                 | -                   | 888                           | 888                 |
| Ethics Commission.....                | -                 | -                   | 20                            | 20                  |
| District Attorney.....                | -                 | -                   | 2,346                         | 2,346               |
| Comptroller.....                      | -                 | -                   | 359                           | 359                 |
| Administration and finance.....       | 8,895             | 384,127             | 153,765                       | 546,787             |
| Environmental affairs.....            | 419,220           | 113,004             | 57,588                        | 589,812             |
| Communities and development.....      | -                 | -                   | 364                           | 364                 |
| Health and human services.....        | 38,747            | 982,399             | 43,314                        | 1,064,460           |
| Transportation and construction.....  | 32,317            | 11,634              | 73,062                        | 117,013             |
| Education.....                        | -                 | -                   | 1,756                         | 1,756               |
| Higher education.....                 | -                 | -                   | 428                           | 428                 |
| Public safety.....                    | 22,160            | 595,394             | 78,641                        | 696,195             |
| Economic development.....             | 183               | 448                 | 22,919                        | 23,550              |
| Elder affairs.....                    | -                 | -                   | 157                           | 157                 |
| Consumer affairs.....                 | -                 | -                   | 1,071                         | 1,071               |
| Labor.....                            | -                 | -                   | 1,641                         | 1,641               |
| Total by function.....                | <u>\$ 522,017</u> | <u>\$ 2,374,450</u> | <u>\$ 511,226</u>             | <u>3,407,693</u>    |
| Construction in progress.....         |                   |                     |                               | 98,178              |
| Total general fixed assets.....       |                   |                     |                               | <u>\$ 3,505,871</u> |

## Schedule Of Changes In General Fixed Assets By Function

Fiscal Year Ended June 30, 1997

(Amounts in thousands)

| Function and activity                         | General Fixed<br>Assets<br>July 1, 1996 | Additions         | Retirements       | General Fixed<br>Assets<br>June 30, 1997 |
|---|---|-------------------|-------------------|--|
| Judiciary.....                                | \$ 261,448                              | \$ 13,255         | \$ 485            | \$ 274,218                               |
| Inspector General.....                        | 117                                     | -                 | 53                | 64                                       |
| Governor and Lieutenant Governor.....         | 146                                     | -                 | -                 | 146                                      |
| Secretary of the Commonwealth.....            | 19,683                                  | -                 | -                 | 19,683                                   |
| Treasurer and Receiver - General.....         | 16,576                                  | 53,990            | 4,176             | 66,390                                   |
| Auditor of the Commonwealth.....              | 345                                     | -                 | -                 | 345                                      |
| Attorney General.....                         | 653                                     | 235               | -                 | 888                                      |
| Ethics Commission.....                        | 20                                      | -                 | -                 | 20                                       |
| District Attorney.....                        | 2,383                                   | -                 | 37                | 2,346                                    |
| Office of Campaign and Political Finance..... | 47                                      | -                 | 47                | -  |
| Comptroller.....                              | 359                                     | -                 | -                 | 359                                      |
| Administration and finance.....               | 532,285                                 | 85,917            | 71,415            | 546,787                                  |
| Environmental affairs.....                    | 552,596                                 | 38,849            | 1,633             | 589,812                                  |
| Communities and development.....              | 322                                     | 95                | 53                | 364                                      |
| Health and human services.....                | 1,062,100                               | 5,069             | 2,709             | 1,064,460                                |
| Transportation and construction.....          | 110,405                                 | 6,626             | 18                | 117,013                                  |
| Education.....                                | 1,686                                   | 70                | -                 | 1,756                                    |
| Educational Affairs.....                      | 17                                      | -                 | 17                | -  |
| Higher education.....                         | 958                                     | -                 | 530               | 428                                      |
| Public safety.....                            | 693,552                                 | 26,777            | 24,134            | 696,195                                  |
| Economic development.....                     | 24,637                                  | 57                | 1,144             | 23,550                                   |
| Elder affairs.....                            | 286                                     | -                 | 129               | 157                                      |
| Consumer affairs.....                         | 783                                     | 288               | -                 | 1,071                                    |
| Labor.....                                    | 1,602                                   | 151               | 112               | 1,641                                    |
| Total by function.....                        | 3,283,006                               | 231,379           | 106,692           | 3,407,693                                |
| Construction in progress.....                 | 34,610                                  | 63,568            | -                 | 98,178                                   |
| Total general fixed assets.....               | <u>\$ 3,317,616</u>                     | <u>\$ 294,947</u> | <u>\$ 106,692</u> | <u>\$ 3,505,871</u>                      |

# *Statistical Section*



*Bending on the mizzen topsail. The original sails were made of flax. The main topsail on the Constitution is approximately the size of a regulation basketball court (3,700 sq. ft.).*

**Ten-Year Schedule Of Revenues And Other Financing Sources**  
All Governmental Fund Types

June 30, 1997  
(Amounts in millions)

|   | 1997             | %<br>Total   | 1996             | %<br>Total   | 1995             | %<br>Total   | 1994             | %<br>Total   |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Taxes.....                                      | \$ 13,030        | 47.7         | \$ 11,926        | 47.5         | \$ 11,262        | 45.9         | \$ 10,611        | 45.7         |
| Federal reimbursements.....                     | 4,124            | 15.1         | 3,861            | 15.4         | 4,174            | 17.0         | 3,904            | 16.8         |
| Federal grants.....                             | 1,457            | 5.3          | 1,482            | 5.9          | 1,187            | 4.8          | 1,205            | 5.2          |
| Lotteries.....                                  | 3,375            | 12.3         | 3,201            | 12.8         | 2,957            | 12.0         | 2,600            | 11.2         |
| Assessments.....                                | 552              | 2.0          | 595              | 2.4          | 572              | 2.3          | 544              | 2.3          |
| Motor vehicle licenses and registrations.....   | 295              | 1.1          | 263              | 1.0          | 307              | 1.3          | 284              | 1.2          |
| Fees, investment earnings, etc.....             | 930              | 3.4          | 1,110            | 4.4          | 1,154            | 4.7          | 1,113            | 4.8          |
| Proceeds of dedicated income tax bonds.....     | -                | -            | -                | -            | -                | -            | -                | -            |
| Proceeds of general obligation bonds.....       | 899              | 3.3          | 940              | 3.7          | 810              | 3.3          | 392              | 1.7          |
| Proceeds of special obligation bonds.....       | -                | -            | 147              | 0.6          | -                | -            | 298              | 1.3          |
| Proceeds of refunding bonds.....                | 723              | 2.6          | -                | -            | 514              | 2.1          | 836              | 3.6          |
| Proceeds of capital lease.....                  | 62               | 0.2          | 26               | 0.1          | 18               | 0.1          | 34               | 0.1          |
| Operating transfers.....                        | 1,920            | 7.0          | 1,551            | 6.2          | 1,534            | 6.3          | 1,367            | 5.9          |
| Other financing sources.....                    | 6                | -            | -                | -            | 49               | 0.2          | 35               | 0.2          |
| Total revenues and other financing sources..... | <u>\$ 27,373</u> | <u>100.0</u> | <u>\$ 25,102</u> | <u>100.0</u> | <u>\$ 24,538</u> | <u>100.0</u> | <u>\$ 23,223</u> | <u>100.0</u> |



| 1993             | %<br>Total   | 1992             | %<br>Total   | 1991             | %<br>Total   | 1990            | %<br>Total   | 1989             | %<br>Total   | 1988            | %<br>Total   |
|------------------|--------------|------------------|--------------|------------------|--------------|-----------------|--------------|------------------|--------------|-----------------|--------------|
| \$ 10,021        | 44.9         | \$ 9,479         | 45.6         | \$ 9,143         | 41.1         | \$ 9,007        | 49.8         | \$ 8,695         | 50.9         | \$ 8,033        | 54.1         |
| 3,376            | 15.1         | 3,021            | 14.5         | 3,075            | 13.8         | 2,092           | 11.4         | 1,942            | 11.4         | 1,830           | 12.3         |
| 1,118            | 5.0          | 1,199            | 5.8          | 1,088            | 4.9          | 1,042           | 5.8          | 1,045            | 6.1          | 803             | 5.4          |
| 2,148            | 9.6          | 1,831            | 8.8          | 1,692            | 7.8          | 1,657           | 9.2          | 1,447            | 8.5          | 1,390           | 9.3          |
| 597              | 2.7          | 787              | 3.8          | 1,542            | 6.9          | 277             | 1.5          | 243              | 1.4          | 160             | 1.1          |
| 331              | 1.5          | 300              | 1.4          | 290              | 1.3          | 306             | 1.7          | 237              | 1.4          | 167             | 1.1          |
| 1,215            | 5.4          | 1,710            | 8.2          | 1,455            | 6.5          | 1,188           | 6.6          | 1,038            | 6.1          | 993             | 6.7          |
| -                | -            | -                | -            | 1,363            | 6.1          | -               | -            | -                | -            | -               | -            |
| 368              | 1.7          | 721              | 3.4          | 1,030            | 4.7          | 1,430           | 7.9          | 1,374            | 8.0          | 543             | 3.7          |
| -                | -            | 100              | 0.5          | -                | -            | -               | -            | -                | -            | -               | -            |
| 1,891            | 8.5          | 574              | 2.8          | -                | -            | -               | -            | 226              | 1.3          | -               | -            |
| 13               | 0.1          | 17               | 0.1          | 28               | 0.1          | 7               | -            | 35               | 0.2          | -               | -            |
| 1,177            | 5.3          | 1,021            | 4.9          | 1,477            | 6.6          | 1,068           | 5.9          | 805              | 4.7          | 870             | 5.9          |
| 46               | 0.2          | 47               | 0.2          | 36               | 0.2          | 30              | 0.2          | 5                | -            | 52              | 0.4          |
| <u>\$ 22,301</u> | <u>100.0</u> | <u>\$ 20,807</u> | <u>100.0</u> | <u>\$ 22,219</u> | <u>100.0</u> | <u>\$18,104</u> | <u>100.0</u> | <u>\$ 17,092</u> | <u>100.0</u> | <u>\$14,841</u> | <u>100.0</u> |

# Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat All Governmental Fund Types

June 30, 1997  
(Amounts in millions)

|  | 1997      | %<br>Total | 1996      | %<br>Total | 1995      | %<br>Total | 1994      | %<br>Total |
|--|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| Legislature.....                               | \$ 49     | 0.2        | \$ 49     | 0.2        | \$ 47     | 0.2        | \$ 43     | 0.2        |
| Judiciary.....                                 | 433       | 1.6        | 404       | 1.7        | 356       | 1.5        | 338       | 1.5        |
| Inspector General.....                         | 2         | -          | 2         | -          | 2         | -          | 1         | -          |
| Governor and Lieutenant Governor.....          | 5         | -          | 5         | -          | 5         | -          | 4         | -          |
| Secretary of the Commonwealth.....             | 17        | 0.1        | 15        | 0.1        | 14        | 0.1        | 12        | 0.1        |
| Treasurer and Receiver-General.....            | 2,711     | 10.0       | 2,576     | 10.5       | 2,353     | 9.7        | 2,052     | 8.9        |
| Auditor of the Commonwealth.....               | 12        | -          | 13        | -          | 11        | -          | 11        | -          |
| Attorney General.....                          | 5         | -          | 29        | 0.1        | 22        | 0.1        | 38        | 0.2        |
| Ethics Commission.....                         | 1         | -          | 1         | -          | 1         | -          | 1         | -          |
| District Attorney.....                         | 62        | 0.2        | 55        | 0.2        | 51        | 0.2        | 47        | 0.2        |
| Office of Campaign and Political Finance.....  | 1         | -          | 1         | -          | 1         | -          | 1         | -          |
| Disabled Persons Protection Commission.....    | 1         | -          | 1         | -          | 1         | -          | 2         | -          |
| Board of Library Commissioners.....            | 6         | -          | 4         | -          | 5         | -          | 5         | -          |
| Comptroller.....                               | 7         | -          | 7         | -          | 6         | -          | 6         | -          |
| Administration and finance.....                | 937       | 3.5        | 943       | 3.9        | 876       | 3.6        | 863       | 3.7        |
| Environmental affairs.....                     | 196       | 0.7        | 205       | 0.8        | 174       | 0.7        | 169       | 0.7        |
| Communities and development.....               | 344       | 1.3        | 347       | 1.4        | 340       | 1.4        | 358       | 1.6        |
| Health and human services.....                 | 4,507     | 16.7       | 4,606     | 18.8       | 4,813     | 19.8       | 4,327     | 18.8       |
| Transportation and construction.....           | 151       | 0.6        | 155       | 0.6        | 112       | 0.5        | 120       | 0.5        |
| Education.....                                 | 1,026     | 3.8        | 958       | 3.9        | 865       | 3.6        | 458       | 2.0        |
| Educational affairs.....                       | -         | -          | 14        | 0.1        | 6         | -          | 3         | -          |
| Higher education.....                          | 90        | 0.3        | 80        | 0.3        | 75        | 0.3        | 67        | 0.3        |
| Public safety.....                             | 860       | 3.2        | 841       | 3.4        | 732       | 3.0        | 693       | 3.0        |
| Economic development.....                      | 33        | 0.1        | 111       | 0.5        | 199       | 0.8        | 214       | 0.9        |
| Elder affairs.....                             | 174       | 0.6        | 155       | 0.6        | 161       | 0.7        | 155       | 0.7        |
| Consumer affairs.....                          | 37        | 0.1        | 35        | 0.1        | 34        | 0.1        | 33        | 0.1        |
| Labor.....                                     | 189       | 0.7        | 121       | 0.5        | 24        | 0.1        | 24        | 0.1        |
| Independent commissions.....                   | -         | -          | -         | -          | -         | -          | -         | -          |
| Medicaid.....                                  | 3,497     | 13.0       | 3,241     | 13.3       | 3,252     | 13.4       | 3,216     | 14.0       |
| Pension.....                                   | 413       | 1.5        | 382       | 1.6        | 414       | 1.7        | 830       | 3.6        |
| Direct local aid.....                          | 3,677     | 13.6       | 3,351     | 13.7       | 3,073     | 12.6       | 2,727     | 11.8       |
| Capital outlay:                                |           |            |           |            |           |            |           |            |
| Local aid.....                                 | 181       | 0.7        | 116       | 0.5        | 94        | 0.4        | 100       | 0.4        |
| Capital acquisition and construction.....      | 2,051     | 7.6        | 1,673     | 6.8        | 1,698     | 7.0        | 1,464     | 6.4        |
| Debt service.....                              | 1,278     | 4.7        | 1,192     | 4.9        | 1,234     | 5.1        | 1,152     | 5.0        |
| Other financing uses:                          |           |            |           |            |           |            |           |            |
| Payments to refunded bond escrow agent....     | 723       | 2.7        | -         | -          | 514       | 2.1        | 836       | 3.6        |
| Fund deficit support.....                      | -         | -          | -         | -          | -         | -          | -         | -          |
| Transfers.....                                 | 3,311     | 12.3       | 2,753     | 11.3       | 2,732     | 11.2       | 2,651     | 11.5       |
| Other.....                                     | -         | -          | -         | -          | -         | -          | -         | -          |
| Total expenditures and other financing uses... | \$ 26,987 | 100.0      | \$ 24,441 | 100.0      | \$ 24,297 | 100.0      | \$ 23,021 | 100.0      |

| 1993             | %<br>Total   | 1992             | %<br>Total   | 1991             | %<br>Total   | 1990             | %<br>Total   | 1989             | %<br>Total   | 1988             | %<br>Total   |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 41            | 0.2          | \$ 44            | 0.2          | \$ 40            | 0.2          | \$ 44            | 0.2          | \$ 49            | 0.3          | \$ 48            | 0.3          |
| 306              | 1.4          | 315              | 1.6          | 298              | 1.4          | 305              | 1.7          | 280              | 1.6          | 271              | 1.7          |
| 1                | -            | 1                | -            | 1                | -            | 1                | -            | 1                | -            | 1                | -            |
| 4                | -            | 4                | -            | 4                | -            | 5                | -            | 6                | -            | 6                | -            |
| 14               | 0.1          | 12               | 0.1          | 13               | 0.1          | 11               | 0.1          | 14               | 0.1          | 13               | 0.1          |
| 1,659            | 7.4          | 1,379            | 6.8          | 1,290            | 6.0          | 1,193            | 6.5          | 1,022            | 5.8          | 1,079            | 6.9          |
| 10               | -            | 10               | -            | 11               | 0.1          | 11               | 0.1          | 13               | 0.1          | 13               | 0.1          |
| 36               | 0.2          | 18               | 0.1          | 89               | 0.4          | 29               | 0.2          | 43               | 0.2          | 92               | 0.6          |
| 1                | -            | 1                | -            | 1                | -            | 1                | -            | 1                | -            | 1                | -            |
| 44               | 0.2          | 39               | 0.2          | 42               | 0.2          | 47               | 0.3          | 81               | 0.5          | 80               | 0.5          |
| -                | -            | 1                | -            | 1                | -            | -                | -            | -                | -            | -                | -            |
| -                | -            | -                | -            | -                | -            | -                | -            | -                | -            | -                | -            |
| 5                | -            | 4                | -            | 21               | 0.1          | 20               | 0.1          | -                | -            | -                | -            |
| 6                | -            | 5                | -            | 5                | -            | 6                | -            | 5                | -            | 5                | -            |
| 682              | 3.0          | 833              | 4.1          | 878              | 4.1          | 874              | 4.7          | 485              | 2.7          | 737              | 4.7          |
| 162              | 0.7          | 141              | 0.7          | 172              | 0.8          | 171              | 0.9          | 185              | 1.0          | 198              | 1.3          |
| 364              | 1.6          | 397              | 2.0          | 410              | 1.9          | 403              | 2.2          | 390              | 2.2          | 349              | 2.2          |
| 4,034            | 18.3         | 4,007            | 19.7         | 5,011            | 23.4         | 4,118            | 22.3         | 3,532            | 19.9         | 2,957            | 18.8         |
| 273              | 1.2          | 92               | 0.5          | 176              | 0.8          | 162              | 0.9          | 60               | 0.3          | 94               | 0.6          |
| 469              | 2.1          | 392              | 1.9          | 339              | 1.6          | 332              | 1.8          | 329              | 1.9          | 311              | 2.0          |
| 10               | -            | 17               | -            | -                | -            | -                | -            | -                | -            | -                | -            |
| 69               | 0.3          | 1,288            | 6.3          | 1,211            | 5.7          | 1,155            | 6.3          | 1,164            | 6.7          | 1,058            | 6.7          |
| 611              | 2.7          | 658              | 3.2          | 148              | 0.7          | 154              | 0.8          | 164              | 0.9          | 162              | 1.0          |
| 210              | 0.9          | 194              | 1.0          | 169              | 0.8          | 159              | 0.9          | 202              | 1.1          | 176              | 1.1          |
| 150              | 0.7          | 137              | 0.7          | 143              | 0.7          | 150              | 0.8          | 175              | 1.0          | 145              | 0.9          |
| 30               | 0.1          | 27               | 0.1          | 32               | 0.1          | 34               | 0.2          | 50               | 0.3          | 46               | 0.3          |
| 24               | 0.1          | 19               | 0.1          | 21               | 0.1          | 23               | 0.1          | 24               | 0.1          | 19               | 0.1          |
| -                | -            | -                | -            | -                | -            | -                | -            | 28               | 0.2          | 35               | 0.2          |
| 3,151            | 14.0         | 2,853            | 14.3         | 2,872            | 13.4         | 1,929            | 10.4         | 2,336            | 13.2         | 1,707            | 10.8         |
| 893              | 4.0          | 751              | 3.7          | 706              | 3.3          | 672              | 3.6          | 663              | 3.7          | 600              | 3.8          |
| 2,547            | 11.3         | 2,278            | 11.2         | 2,608            | 12.2         | 2,937            | 15.9         | 2,961            | 16.7         | 2,769            | 17.8         |
| 105              | 0.5          | 87               | 0.4          | 226              | 1.1          | 208              | 1.1          | 112              | 0.6          | 27               | 0.2          |
| 1,133            | 5.0          | 1,157            | 5.7          | 945              | 4.4          | 929              | 5.0          | 1,125            | 6.3          | 842              | 5.3          |
| 1,143            | 5.1          | 901              | 4.4          | 1,407            | 6.6          | 775              | 4.2          | 654              | 3.7          | 568              | 3.6          |
| 1,891            | 8.4          | 574              | 2.8          | -                | -            | -                | -            | 226              | 1.3          | -                | -            |
| -                | -            | -                | -            | -                | -            | -                | -            | -                | -            | 231              | 1.5          |
| 2,364            | 10.5         | 1,654            | 8.2          | 2,098            | 9.8          | 1,613            | 8.7          | 1,348            | 7.6          | 1,088            | 6.9          |
| -                | -            | -                | -            | -                | -            | -                | -            | -                | -            | 18               | 0.1          |
| <u>\$ 22,442</u> | <u>100.0</u> | <u>\$ 20,290</u> | <u>100.0</u> | <u>\$ 21,388</u> | <u>100.0</u> | <u>\$ 18,471</u> | <u>100.0</u> | <u>\$ 17,728</u> | <u>100.0</u> | <u>\$ 15,746</u> | <u>100.0</u> |

**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures  
For General Bonded Debt To Total Expenditures  
All Governmental Fund Types**

(Amounts in millions)

| <u>Fiscal year ended<br/>June 30</u> | <u>Debt<br/>service <sup>(1)</sup></u> | <u>Total<br/>expenditures <sup>(2)</sup></u> | <u>Ratio</u> |
|--------------------------------------|--|--|--------------|
| 1997                                 | \$ 1,278                               | \$ 22,954                                    | 5.6          |
| 1996                                 | 1,192                                  | 21,688                                       | 5.5          |
| 1995                                 | 1,234                                  | 20,729                                       | 6.0          |
| 1994                                 | 1,151                                  | 19,534                                       | 5.9          |
| 1993                                 | 1,143                                  | 18,187                                       | 6.3          |
| 1992                                 | 901                                    | 18,061                                       | 5.0          |
| 1991                                 | 1,407                                  | 19,290                                       | 7.3          |
| 1990                                 | 775                                    | 16,861                                       | 4.6          |
| 1989                                 | 654                                    | 16,154                                       | 4.0          |
| 1988                                 | 568                                    | 14,199                                       | 4.0          |

(1) Debt service includes principal and interest payments related to general obligation long-term bonds and minibonds. Minibonds are general bonded debt instruments reported as fund liabilities because of their demand provisions.

(2) Expenditures related to Higher Education in fiscal years subsequent to 1992 are presented in the University and College Fund Type. Prior years expenditures have not been restated to conform to this presentation.

## Ten-Year Schedule Of Per Capita General Long-Term Bonded Debt

(Amounts in thousands)

| <u>Fiscal year ended<br/>June 30</u> | <u>Massachusetts<br/>resident<br/>population</u> | <u>Total long-<br/>term bonds and<br/>notes payable</u> | <u>Per capita<br/>long-term debt</u> |
|--------------------------------------|--|---|--------------------------------------|
| 1997                                 | 6,127  | \$ 10,271,294   | \$ 1.676                             |
| 1996                                 | 6,101  | 10,065,578  | 1.650                                |
| 1995                                 | 6,203  | 9,628,466   | 1.552                                |
| 1994                                 | 6,089  | 9,427,745   | 1.548                                |
| 1993                                 | 5,998  | 9,231,458   | 1.539                                |
| 1992                                 | 5,998  | 9,264,430   | 1.545                                |
| 1991                                 | 5,996  | 8,580,339   | 1.431                                |
| 1990                                 | 6,020  | 6,605,039   | 1.097                                |
| 1989                                 | 6,016  | 5,370,627   | 0.893                                |
| 1988                                 | 5,981  | 4,272,384   | 0.714                                |

Source: United States Department of Commerce, Bureau of the Census

## Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

| <u>Fiscal year<br/>ended June 30</u> | <u>Net revenues <sup>(1)</sup></u> | <u>Debt service<br/>requirements <sup>(2)</sup></u> | <u>Coverage</u> |
|--------------------------------------|------------------------------------|---|-----------------|
| 1997                                 | \$ 328,608                         | \$ 283,975  | 1.16            |
| 1996                                 | 288,599                            | 275,068   | 1.05            |
| 1995                                 | 272,308                            | 232,473   | 1.17            |
| 1994 <sup>(3)</sup>                  | 220,185                            | 192,975   | 1.14            |
| 1993                                 | 332,195                            | 305,156   | 1.09            |
| 1992                                 | 310,372                            | 295,389   | 1.05            |
| 1991                                 | 278,822                            | 260,982   | 1.07            |
| 1990                                 | 226,444                            | 260,362   | 0.87            |
| 1989                                 | 219,764                            | 49,120  | 4.47            |
| 1988                                 | 146,001                            | 45,748  | 3.19            |

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding.

(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.

(3) Amounts are reflective of the implementation of the Governmental Accounting Standards Board Statement No. 14, "The Reporting Entity." Prior years have not been restated for incorporation of the new list of component units.

Source: Office of the Comptroller

## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

| Year | United States | % Change | Massachusetts | % Change | Massachusetts as % of U.S. |
|------|---------------|----------|---------------|----------|----------------------------|
| 1997 | 267,645       | 0.9      | 6,127         | 0.4      | 2.3                        |
| 1996 | 265,253       | 0.7      | 6,101         | (1.6)    | 2.3                        |
| 1995 | 263,434       | 0.9      | 6,203         | 1.9      | 2.4                        |
| 1994 | 260,967       | 1.3      | 6,089         | 1.5      | 2.3                        |
| 1993 | 257,592       | 1.0      | 5,998         | 0.0      | 2.3                        |
| 1992 | 255,020       | 1.1      | 5,998         | 0.0      | 2.4                        |
| 1991 | 252,177       | 1.1      | 5,996         | (0.4 )   | 2.4                        |
| 1990 | 249,466       | 1.1      | 6,020         | 0.1      | 2.4                        |
| 1989 | 246,820       | 0.9      | 6,016         | 0.6      | 2.4                        |
| 1988 | 244,534       | 0.9      | 5,981         | 0.8      | 2.4                        |

Source: United States Department of Commerce, Bureau of the Census

# **Nonagricultural Employment By Industry In Massachusetts and the United States for 1997**

(Amounts in thousands)

| Type of industry                       | MA           | % of<br>MA Total | U.S.           | % of<br>U.S. Total | MA %<br>vs. U.S. % |
|--|--------------|------------------|----------------|--------------------|--------------------|
| Total manufacturing:                   | 449          | 14.4             | 18,548         | 15.1               | 95.4               |
| Total durable goods                    | 279          | 9.0              | 10,851         | 8.8                | 102.3              |
| Nondurable goods                       | 170          | 5.4              | 7,697          | 6.3                | 85.7               |
| Total non-manufacturing:               | 2,668        | 85.6             | 104,142        | 84.9               | 100.8              |
| Construction and mining                | 100          | 3.2              | 6,403          | 5.2                | 61.5               |
| Transportation and<br>public utilities | 127          | 4.2              | 6,293          | 5.2                | 80.8               |
| Wholesale and retail                   | 712          | 22.8             | 28,853         | 23.5               | 97.0               |
| Finance, insurance and real estate     | 218          | 7.0              | 7,085          | 5.8                | 120.7              |
| Other services                         | 1,108        | 35.5             | 35,709         | 29.1               | 122.0              |
| Federal, state and local government    | 403          | 12.9             | 19,799         | 16.1               | 80.1               |
| Total                                  | <u>3,117</u> |                  | <u>122,690</u> |                    |                    |

Sources: Massachusetts Department of Employment and Training  
United States Department of Commerce



# **Ten Largest Massachusetts Industries By Number Of Employees As Of August, 1997**

(Amounts in thousands)

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| <u>Industry</u>                     | <u>Employees</u> |
|-------------------------------------|------------------|
| Services                            | 1,108            |
| Wholesale and retail trade          | 712              |
| Manufacturing - durable goods       | 279              |
| Local government                    | 242              |
| Finance, insurance and real estate  | 218              |
| Manufacturing - nondurable goods    | 170              |
| Transportation and public utilities | 127              |
| State government                    | 100              |
| Construction and mining             | 100              |
| Federal government                  | 61               |

Source: Massachusetts Department of Employment and Training

**Ten-Year Schedule Of Annual Average Civilian Labor Force,  
Unemployment And Unemployment Rates  
For Massachusetts And The United States**

(Amounts in thousands)

| Year | Massachusetts  |              |                        | United States  |              |                        | Massachusetts<br>Rate as %<br>of U.S. Rate |
|------|----------------|--------------|------------------------|----------------|--------------|------------------------|--|
|      | Labor<br>Force | Unemployment | Unemployment<br>Rate % | Labor<br>Force | Unemployment | Unemployment<br>Rate % |  |
| 1997 | 3,247          | 121          | 3.7                    | 136,361        | 6,437        | 4.7                    | 78.7                                       |
| 1996 | 3,176          | 129          | 4.1                    | 134,574        | 6,948        | 5.2                    | 78.8                                       |
| 1995 | 3,161          | 162          | 5.1                    | 132,440        | 7,476        | 5.6                    | 91.1                                       |
| 1994 | 3,183          | 205          | 6.4                    | 131,836        | 7,600        | 5.8                    | 110.3                                      |
| 1993 | 3,158          | 207          | 6.6                    | 128,633        | 8,252        | 6.4                    | 103.1                                      |
| 1992 | 3,126          | 265          | 8.5                    | 126,983        | 9,384        | 7.4                    | 114.9                                      |
| 1991 | 3,127          | 280          | 9.0                    | 125,303        | 8,426        | 6.7                    | 134.3                                      |
| 1990 | 3,166          | 189          | 6.0                    | 124,787        | 6,874        | 5.5                    | 109.1                                      |
| 1989 | 3,180          | 127          | 4.0                    | 123,869        | 6,528        | 5.3                    | 75.5                                       |
| 1988 | 3,155          | 103          | 3.3                    | 121,669        | 6,701        | 5.5                    | 60.0                                       |

Sources: Massachusetts Department of Employment and Training  
United States Department of Labor, Bureau of Labor Statistics

## Twenty-Five Largest Private Sector Massachusetts Employers

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BankBoston  
Bell Atlantic  
Big Y Foods  
Blue Cross of Massachusetts, Inc.  
Boston University  
Brigham & Women's Hospital Inc.  
Digital Equipment Corporation  
FMR Equipment  
Friendly Ice Cream Corporation  
General Electric Company  
Harvard Community Health Plan, Inc.  
Harvard University  
Lucent Technologies  
Massachusetts Institute of Technology  
Massachusetts General Hospital  
May Department Stores Company  
Polaroid Corporation  
Raytheon Company  
S&S Credit Company  
Sears Roebuck and Company  
Shaw's Supermarkets, Inc.  
Star Markets Company, Inc.  
State Street Bank and Trust Company  
United Parcel Service, Inc.  
Wal-Mart

Source: Massachusetts Department of Employment and Training as of June, 1997

## Calculation Of Transfers: Stabilization Fund

June 30, 1997  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Law Chapter 29, Sections 5 and 5C as most recently amended by Ch. 10 of Acts of 1997. 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.

Part 1: Status of Consolidated Net Surplus in the Operating Funds before Stabilization Fund transfers, and Capital Projects Fund transfer but after authorization to retain 0.5% of net revenue from taxes.

Undesignated Fund Balance (Deficit) in the Operating Funds:

|                     |                    |
|---------------------|--------------------|
| General Fund.....   | \$ 1,270,955       |
| Highway Fund.....   | 349,665            |
| Local Aid Fund..... | <u>(1,338,883)</u> |

|                               |                |
|-------------------------------|----------------|
| Consolidated Net Surplus..... | <u>281,737</u> |
|-------------------------------|----------------|

|  |               |
|--|---------------|
| Available to carry forward to subsequent fiscal year ..... | <u>57,981</u> |
|--|---------------|

|  |         |
|--|---------|
| Consolidated net surplus before transfer to Capital Projects Fund..... | 223,756 |
|--|---------|

Part 2: Calculation of transfers to Capital Projects Fund:

|   |               |
|---|---------------|
| Transfer from General Fund to Capital Project Fund: | <u>89,503</u> |
|---|---------------|

|  |                          |
|--|--------------------------|
| Net Consolidated surplus available for Stabilization Fund..... | <u><u>\$ 134,253</u></u> |
|--|--------------------------|

Part 3: Calculation of transfers to Stabilization Fund:

|                                   |           |
|-----------------------------------|-----------|
| From the General Fund, @ 60%..... | \$ 80,552 |
|-----------------------------------|-----------|

|                                     |               |
|-------------------------------------|---------------|
| From the Local Aid Fund, @ 40%..... | <u>53,701</u> |
|-------------------------------------|---------------|

|                      |                          |
|----------------------|--------------------------|
| Total Transfers..... | <u><u>\$ 134,253</u></u> |
|----------------------|--------------------------|

Part 4: Status of Consolidated Net Surplus after Stabilization Fund transfers

Undesignated Fund Balance (Deficit) in the Operating Funds:

|                     |                    |
|---------------------|--------------------|
| General Fund.....   | \$ 1,100,900       |
| Highway Fund.....   | 349,665            |
| Local Aid Fund..... | <u>(1,392,584)</u> |

|                               |                         |
|-------------------------------|-------------------------|
| Consolidated Net Surplus..... | <u><u>\$ 57,981</u></u> |
|-------------------------------|-------------------------|

Part 5: Status of Stabilization Fund after transfers

|  |            |
|--|------------|
| Reserved for Stabilization - Accumulated Balances..... | \$ 565,047 |
|--|------------|

|  |         |
|--|---------|
| Amount appropriated at the close of fiscal year 1997 ..... | 100,000 |
|--|---------|

|  |                |
|--|----------------|
| FY97 Calculated Transfers to Stabilization Fund..... | <u>134,253</u> |
|--|----------------|

|                                 |                          |
|---------------------------------|--------------------------|
| Reserved for Stabilization..... | <u><u>\$ 799,300</u></u> |
|---------------------------------|--------------------------|

## Calculation Of Transfers: Tax Reduction Fund

June 30, 1997  
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 and 29B of the Massachusetts General Laws. 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. There are two computations of potential transfers to the Tax Reduction

The first computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,  
to 5% of State Tax Revenues

|   |            |
|---|------------|
| Undesignated Fund Balance in the Stabilization Fund.....                    | \$ 799,300 |
| Allowable Stabilization Balance .....                                       | 908,503    |
| Stabilization Fund Excess, if any, transferrable to Tax Reduction Fund..... | \$ -       |

Part 2: Status of Stabilization Fund after transfers

|  |            |
|--|------------|
| Stabilization Fund Balance.....                                      | \$ 799,300 |
| Transfer to Tax Reduction Fund.....                                  | -          |
| Stabilization Fund Balance after transfer to Tax Reduction Fund..... | \$ 799,300 |

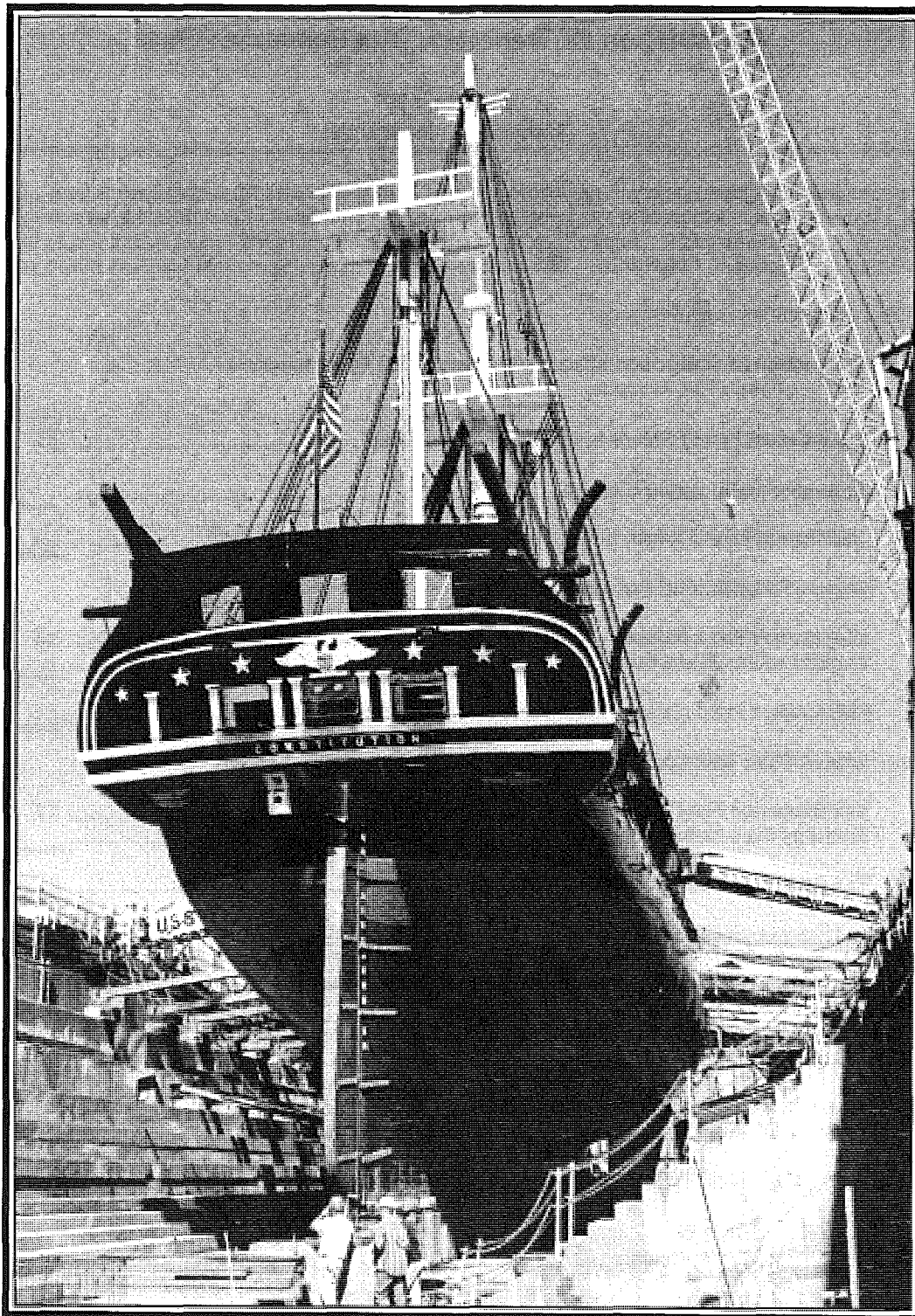
Part 3: Status of Tax Reduction Fund after transfers

|   |           |
|---|-----------|
| Tax Reduction Fund Balance.....                 | \$ 91,764 |
| Transfers from Stabilization Fund.....          | -         |
| Tax Reduction Fund Balance after transfers..... | \$ 91,764 |

The second computation is as follows:

Part 1: Comparison of State Tax Revenues to Allowable Tax Revenues

|  |               |
|--|---------------|
| FY96 Allowable State Tax Revenues.....                                     | \$ 13,214,862 |
| Multiplied by Growth Factor.....   | 1.0631        |
| Computed FY97 State Tax Revenue Base.....                                  | 14,048,720    |
| Plus: Local Aid Adjustment .....   | 108,894       |
| FY97 Computed Maximum and Allowable State Tax Revenues.....                | \$ 14,157,614 |
| FY97 State Tax Revenues .....  | \$ 12,874,419 |
| State Tax Revenue Excess, if any, transferrable to Tax Reduction Fund..... | \$ -          |



*The Constitution's fine and fast sailing hull is ready for undocking, September 25, 1995.*

## *U.S.S. Constitution ~ A Brief History*

As a fledgling Nation, the United States was dependent on imports of both raw materials and finished goods imported through shipping. With the changing global political dynamics of the 1700s, there were no guaranteed alliances or protection on the open sea.

On March 27, 1794, Congress authorized the building of six frigates for the protection of U.S. commerce. Joshua Humphreys, master ship builder from Philadelphia, contributed the design specifications for the frigates, including the Constitution. Congress budgeted \$255,000 for the building of the Constitution and allowed cost overruns' increase to \$302,000. Paul Revere received \$3,800 for copper fasteners.

Humphreys' criteria for designing the ship was twofold — to be able to achieve fast speed under sail to enable the ship to outsail anything that it encountered and to be able to carry heavy armament and outgun any other ship. However, fast speed and heavy armament are two mutually exclusive design criteria requiring an innovative solution.

The difference in the buoyancy curve of a fast hull and the weight curve of a heavily armed ship result in a force that distorts the hull. With minimal buoyancy, the ends of the ship — the bow and stern — sag under the weight loads. In a wooden ship the distortion can be seen as a bending of the keel, an effect that creates a curve that resembled a hog's back and referred to as hogging.

The successful integration of the two design criteria demanded an innovative technical solution to the problems of strength of materials and hull design.

There are five key structural components that were part of the Constitution's original design: thick strakes, standard knees, midship knees, stanchions and diagonal riders. Humphreys' structural innovations (which had never been built before) stiffened the hull and resisted the forces of hogging.

Although the Constitution was repaired over the years, because of the expense of materials, techniques and labor to install, the five major structural components were not repaired. As early as 1820, the diagonal riders were not renewed.

In 1992 the ship was dry-docked for inspection and minor repair. It was determined to be in good condition, however, the Constitution had developed over 13 inches of hog.

After extensive examination and nondestructive testing, it was determined that the ship did not require extensive repairs, so the focus became the restoration of the five major structural components of her 1812 configuration.

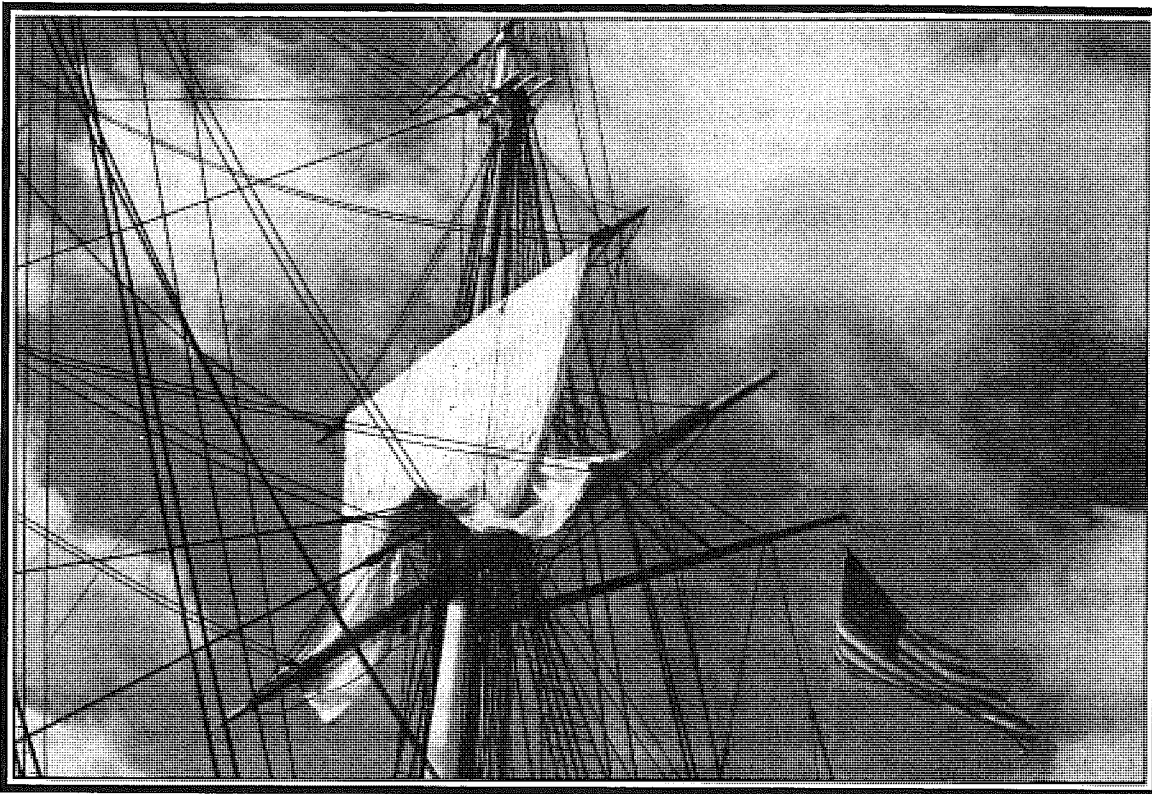
Humphreys' original specifications for the structural components from 1794 were used as guides for the 1995 restoration.

In 1797, while observing the launch of the USS United States, Joshua Humphreys wrote to the Secretary of War, that "... without straining or hogging more than one and a quarter inch, as you will see by the enclosed certificate ... the firmness of the ship is convincing proof of the utility of the diagonal riders in long ships."<sup>1</sup>

Today this can also be said of the Constitution. When it was undocked in September 1995, the hog was measured to be less than two inches.

On July 21, 1997, for the first time since 1881, after being tied to a pier for 116 years, the frigate made passage under sail, sailing in Massachusetts Bay off of Marblehead, under topsails, jibs, and spanker — her battle configuration. A living tribute to Humphreys' design.

<sup>1</sup> *J. Humphreys' Letter Book, 1797-1800, Historical Society of Pennsylvania.*



*The U.S.S. Constitution is a national treasure and was restored with the support of people all over the country. The Old Ironsides Pennies Campaign was modeled after a 1903 effort to raise public dollars for an earlier restoration. Schools across the nation are engaged in this endeavor. To date, the campaign has donated to the Navy the three topsails and inner jib set during the first free sail since 1881.*

*Many of the Auditors, Treasurers and Comptrollers from across the nation had an opportunity to tour the U.S.S. Constitution this year at the National Association of State Auditors, Treasurers and Comptrollers annual meeting in Boston. Massachusetts State Auditor Joe DeNucci, Treasurer Joe Malone and Comptroller William Kilmartin (below) hosted the event.*

