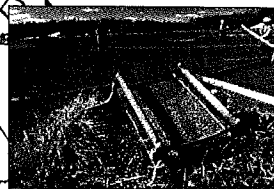


# *Commonwealth of Massachusetts*

*Comprehensive Annual Financial Report*

*Fiscal Year Ended June 30, 1998*



*Argeo Paul Cellucci*  
Governor

*Frederick A. Laskey*  
Secretary for  
Administration and Finance

*William Kilmartin*  
Comptroller



# Commonwealth of Massachusetts



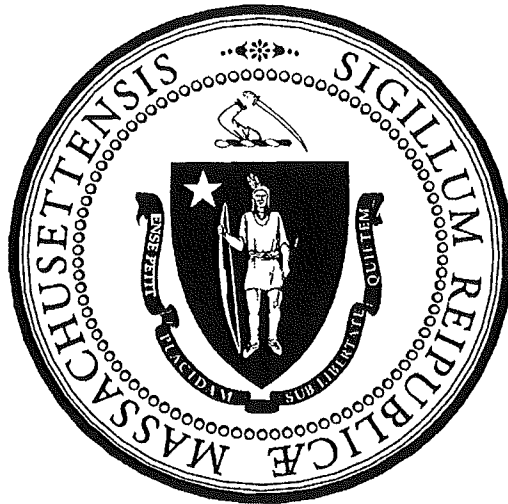
## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 1998*

William Kilmartin, *CGFM*  
*State Comptroller*

*Prepared by The Financial Reporting and Analysis Bureau*

*This document and related information are available via the Office of the Comptroller's home page:  
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## **STATISTICAL SECTION**

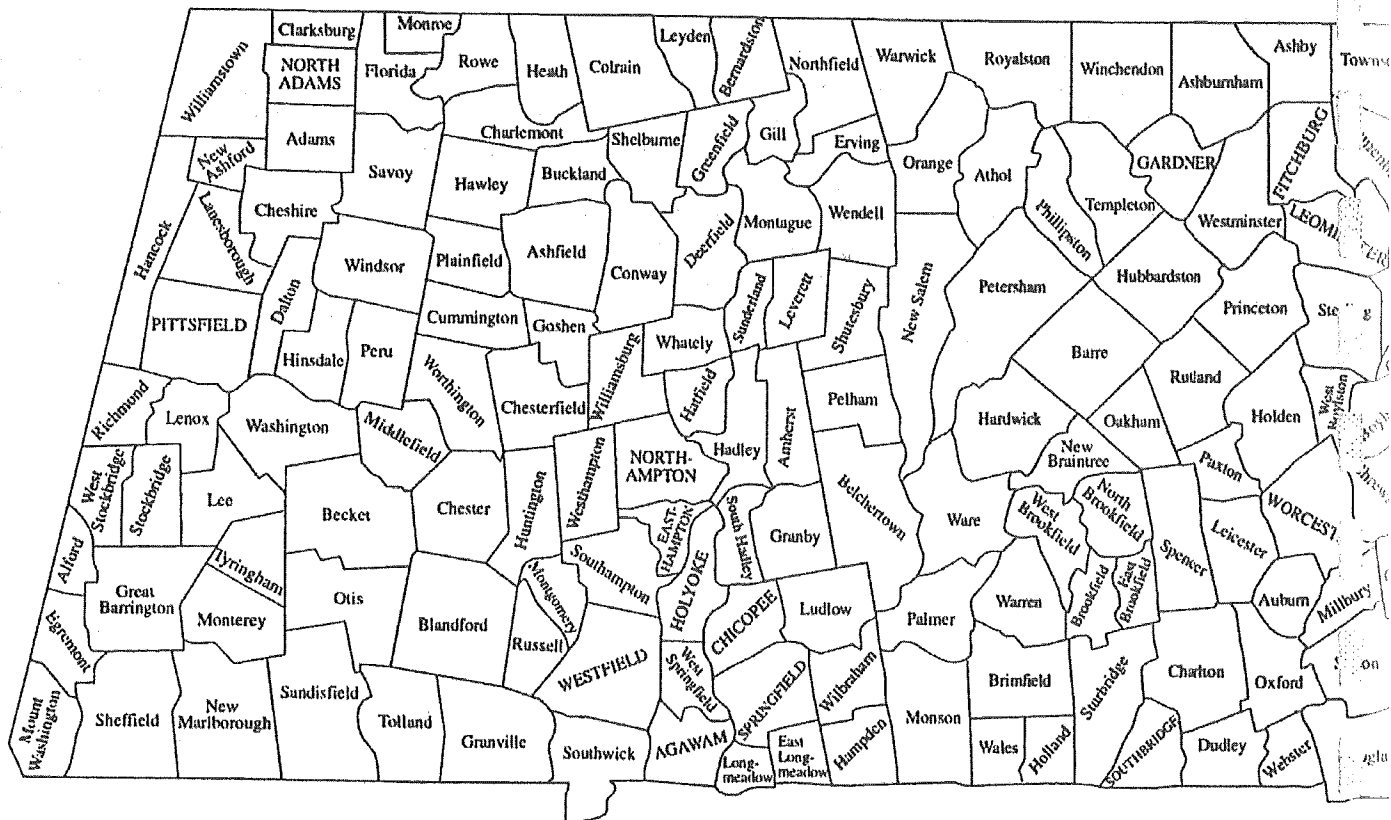
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Front and back cover map courtesy of:  
*Massachusetts Highway Department*  
*Bureau of Transportation, Planning and Development*

(The location of the boundaries and features shown on this map are approximate and are intended for planning purposes only. This map is not intended to be used for survey, engineering or legal purposes.)

*Special Thanks to Menelaos Zotos*

Photography and tourist information courtesy of:  
*Massachusetts Office of Travel and Tourism and Kindra Clineff*

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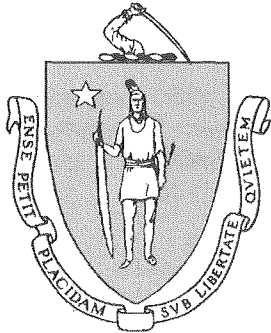


*Plymouth Rock is located inside of a vault in a waterfront park beside the Mayflower II. Legend is that it served as the welcome mat for the Pilgrims in 1620.*

*Massachusetts is the sixth smallest state, but large in the concentration of national historic and cultural landmarks. The name Massachusetts was taken from an Indian tribe that lived near Milton, Massachusetts, meaning "large hill place."*

*Henry Cabot Lodge said, "New England has a harsh climate, a barren soil, a rough and stormy coast, and yet we love it, even with a love passing that of dwellers in more favored climates." Most of those who live in Massachusetts would agree with him.*

*The state is comprised of almost a dozen regions, each with its own distinct features, culture, and sightseeing attractions to explore. It is our intent in this volume to give the reader a brief introduction to a sampling of interesting destinations, some well known and some off the beaten path.*



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

***December 22, 1998***

***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, 1998 (FY98). This is the thirteenth time we have reported the Commonwealth's financial results in accordance with generally accepted accounting principles (GAAP). As I conclude my service as State Comptroller by virtue of a term limit, I am pleased to report that the financial condition of the Commonwealth is excellent.

For the eighth 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 fund balance of \$1.9 billion. We now report a positive GAAP fund balance in these funds of \$1.8 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 \$1,159.6 million. In addition, \$367.6 million has been reserved for tax reduction. In FY90 and FY91, the Commonwealth resorted to over \$1.8 billion in deficit borrowing. That deficit borrowing was completely repaid in FY98. The ongoing challenge to Commonwealth 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 FY98.

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.

The Office of the Comptroller transmits the Comprehensive Annual Financial Report for FY98 in accordance with Section 12 of Chapter 7A of the General Laws.

In FY98 the Commonwealth implemented two new GASB statements:

Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". This implementation had no material effect on the Commonwealth's financial statements.

Statement No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". GASB 32 was issued in response to changes by the IRS regarding so called 457 plans. As a result of the tax law changes, and the Treasurer's execution of Plan Trust Agreement, as required by these changes, the Commonwealth's Deferred Compensation Plan is now presented as a Trust Fund.

### 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)

	FY94	FY95	FY96	FY97	FY98
Beginning fund balances (deficits).....	\$ (184.1)	\$ (72.0)	\$ 287.4	\$ 709.2	\$ 1,096.3
Equity transfer .....	-	91.0	-	-	-
Restated beginning balances (deficits).	(184.1)	19.0	287.4	709.2	1,096.3
Revenues and other financing sources..	15,804.9	16,517.5	17,524.6	18,845.9	20,339.9
Expenditures and other financing uses..	15,692.8	16,249.1	17,102.8	18,458.8	19,594.8
Excess.....	112.1	268.4	421.8	387.1	745.1
Ending fund balances (deficits).....	\$ (72.0)	\$ 287.4	\$ 709.2	\$ 1,096.3	\$ 1,841.4

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

	FY94	FY95	FY96	FY97	FY98
Beginning fund balances .....	\$ 562.5	\$ 589.3	\$ 726.5	\$ 1,173.0	\$ 1,394.0
Revenues and other financing sources.	15,979.2	16,930.8	18,371.4	19,223.3	21,404.6
Expenditures and other financing uses.	15,952.4	16,794.1	17,924.9	19,002.3	20,606.5
Excess .....	26.8	136.7	446.5	221.0	798.1
Ending fund balances.....	\$ 589.3	\$ 726.5	\$ 1,173.0	\$ 1,394.0	\$ 2,192.1



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, during the five year period ended June 30, 1998 increasing this fund balance from \$589.3 million in fiscal year 1994 to \$2,192.1 million in the current fiscal year for a cumulative improvement of \$1,602.8 million.

Over the same period on a GAAP basis, operating gains have improved fund balance from a deficit \$72.0 million to a positive \$1,841.4 million, with cumulative improvement of \$1,913.4 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.

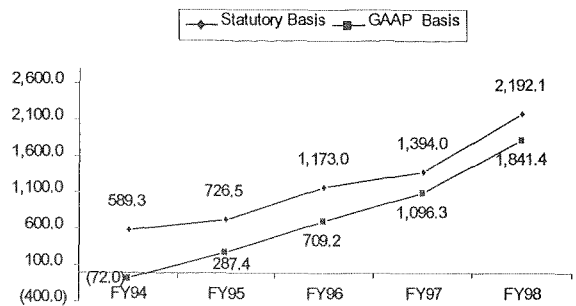
The basic principle of GAAP is to match inflows pertaining to the fiscal year to outflows for the same period in order to demonstrate if the objective of interperiod equity has been accomplished. A modified accrual basis of accounting is employed to recognize certain assets and liabilities. Accomplishment 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 and more recently fund reserves for future fiscal years.

In FY98, the revenues and other financing sources totaled \$20,339.9 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 \$19,594.8 million in FY98. The chart depicts the percentage of each major program in this total.

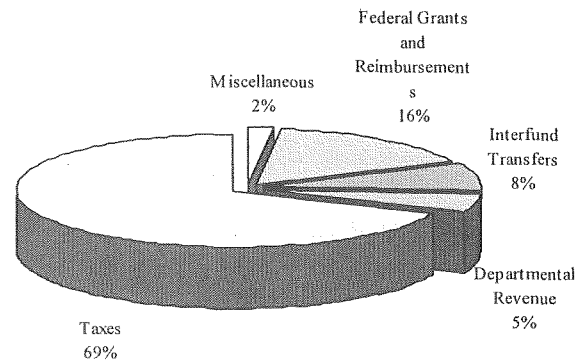
There are five major items that account for almost all the difference between the statutory basis reporting and GAAP: Medicaid, subsidies to authorities, compensated absences, claims and judgments, and tax revenues.

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 FY98 were \$3,637.8 million, which is 4% higher than FY97. This increase is equivalent to the increase for total budgeted expenditures from FY97 to FY98. For several years the Commonwealth aggressively pursued a policy to constrain expenditure growth in Medicaid, thus helping to balance the overall budget. In FY98, the Commonwealth authorized expanded programs and services with increased spending. It is important to assure Medicaid service expansion conforms to affordable growth in the overall budget.

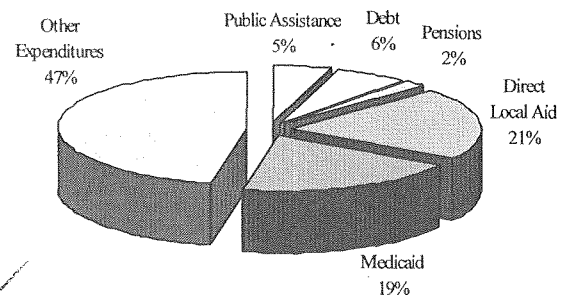
**GAAP VS. STATUTORY  
Trends in Fund Balance  
(Amounts in millions)**



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



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



The second difference is the Commonwealth 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 FY98 the amount accrued for MBTA subsidy obligations increased from FY97 by \$12.2 million. On May 4, 1998, the House Committee on Ways and Means approved "forward funding" legislation that would substantially modify the funding mechanisms for the MBTA. Under the legislation, which would take effect in fiscal 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service would be limited to the revenues raised by 1% sales tax, to be funded from existing sales tax receipts. The 1% sales tax amount would be dedicated to the MBTA under a trust fund mechanism that is intended to not permit future legislatures to divert the funds or reduce the sales tax rate below 1%. The dedicated revenue stream would be disbursed to the MBTA, to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth would not be liable to pay the MBTA's net cost of service, nor would the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 1999. To replace the working capital of the MBTA currently supplied by operating notes and cash advances from the State Treasurer, the legislation would authorize the Commonwealth to issue up to \$675 million in general obligation bonds. This legislative proposal is not yet enacted.

The third difference is compensated absences. Under the Statutory basis of accounting, the vacation and sick time taken by employees is expensed as it is used. 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 difference is claims and judgments. Under the statutory basis, amounts owed in lawsuits for torts, tax disputes, eminent domain land takings, 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 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, an analysis is conducted in conjunction with the Department of

Revenue (DOR), and an accrual for revenue is computed. In FY98 the value of accrued revenue was \$505.1 million in FY98.

## 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 \$517.7 million in project financing in early FY99 instead of late FY98. Had such capital project financing been issued in FY98, the Governmental Funds positive fund balance would have increased by an equivalent amount.

### Governmental Fund Operations (Amounts in millions)

	FY94	FY95	FY96	FY97	FY98
Beginning fund balances (deficits).....	\$ (478.3)	\$ (273.7)	\$ (16.3)	\$ 644.6	\$ 1,030.6
Equity transfer .....	-	15.5	-	-	-
Restated beginning balances (deficits).....	(478.3)	(258.2)	(16.3)	644.6	1,030.6
Revenues and other financing sources .....	23,226.0	24,216.4	25,102.3	27,372.9	31,249.3
Expenditures and other financing uses .....	23,021.4	23,974.5	24,441.4	26,986.9	30,416.8
Excess .....	204.6	241.9	660.9	386.0	832.5
Ending fund balances (deficits).....	\$ (273.7)	\$ (16.3)	\$ 644.6	\$ 1,030.6	\$ 1,863.1

## INTERNAL SERVICE FUNDS

In FY95 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 of state employees' workers' compensation 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 \$248.8 million has accumulated, of which \$35.5 is considered short term (payments expected within one year). 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 actuarial determined cost of current and future claims 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. Revenues to the program are amounts contributed by individuals, participant organizations, or by the Commonwealth; and the expenses are claims, plus accruals 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.

---

**Internal Service Fund Operations**  
(Amounts in millions)

	FY95	FY96	FY97	FY98
Beginning retained earnings (deficits).....	\$ -	\$ (223.4)	\$ (151.0)	\$ (140.3)
Operating gain.....	127.9	68.7	3.2	74.4
Other revenues .....	6.0	3.7	7.5	10.8
Equity transfer.....	(15.7)	-	-	-
Balance from the General Long-Term Obligations.....	(341.6)	-	-	-
Ending retained earnings (deficits).....	<u>\$ (223.4)</u>	<u>\$ (151.0)</u>	<u>\$ (140.3)</u>	<u>\$ (55.1)</u>

---

## FIDUCIARY FUND OPERATIONS

The Fiduciary Fund Type consists of 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 decreased by \$942.7 million during FY98 to \$6,028.0 billion due primarily to the implementation of GASB 32, moving deferred compensation from the Agency funds to the Deferred Compensation trust fund of \$2,006.4 million.

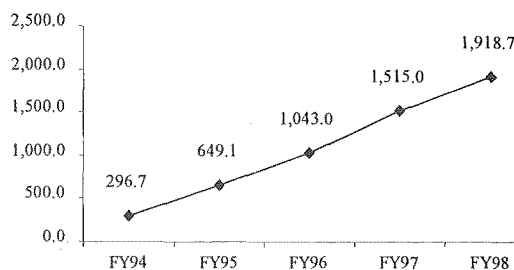
The Expendable Trusts ended FY98 with a fund balance of \$4.1 billion composed of a balance of \$213.1 million in Expendable Trusts and \$1,918.7 million in the Unemployment Compensation Trust Fund and \$2,006.4 million in the Deferred Compensation Trust Fund.

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 is intended to eliminate the unfunded pension liability by the year 2018. It is the responsibility of the Public Employee Retirement Administration Commission (PERAC) to complete actuarial updates for the funding schedule.

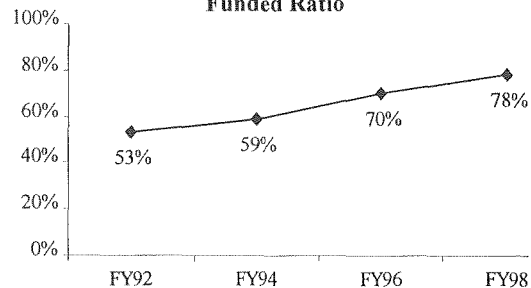
The actuarial report for SERS, TRS, and for the State-Boston Retirement System was published by PERAC as of January 1, 1998. The Commonwealth changed three assumptions increasing the liability by \$2.3 billion. The actuarial assumptions used a 8.25% investment rate of return with a 1983 Group Annuity Mortality table. The assets were valued at 97% of Market Value for the actuarial valuation of assets. The rate of salary increase was assumed at 6% and cost of living increase was assumed at 3%.

The Pension Funding Progress Graph presents the excellent results over the past six years of meeting the objective of having a fully funded plan. Footnote 10 details the progress in a schedule by system.

**Fund Balance  
For Unemployment Compensation Fund**



**Pension Funding Progress  
Funded Ratio**



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

<b>Pension Trust Funds</b>					
<b>(Amounts in millions)</b>					
	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>	<b>FY98</b>
Beginning fund balances .....	\$ 11,121.1	\$ 11,563.1	\$ 13,483.2	\$ 15,956.2	\$ 19,560.0
Revenues .....	1,376.3	2,902.1	3,560.6	4,729.4	4,905.2
Expenses .....	934.3	982.0	1,087.6	1,125.6	1,243.9
Excess .....	442.0	1,920.1	2,473.0	3,603.8	3,661.3
Ending fund balances .....	<u>\$ 11,563.1</u>	<u>\$ 13,483.2</u>	<u>\$ 15,956.2</u>	<u>\$ 19,560.0</u>	<u>\$ 23,221.3</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 and foundation.
- 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)

	<b>FY94</b>	<b>FY95</b>	<b>FY96 (1)</b>	<b>FY97</b>	<b>FY98</b>
Beginning fund balances .....	\$ 2,010.4	\$ 2,034.9	\$ 2,164.9	\$ 2,363.3	\$ 2,512.2
Revenues and other additions .....	1,449.5	1,536.7	1,816.6	1,823.7	1,461.6
Expenditures and other deductions .....	2,006.4	2,082.0	2,254.4	2,381.8	2,053.9
Net transfers, including state appropriations .....	581.4	601.6	636.2	707.0	781.2
Net assets transferred to UMass Memorial Health Care, Inc....	-	-	-	-	(70.5)
Loss from discontinued operations .....	-	-	-	-	(9.6)
Net Increase .....	24.5	56.3	198.4	148.9	108.8
Ending fund balances .....	<u>\$ 2,034.9</u>	<u>\$ 2,091.2</u>	<u>\$ 2,363.3</u>	<u>\$ 2,512.2</u>	<u>\$ 2,621.0</u>

(1) As restated for addition of component units

In FY98, the University of Massachusetts and 14 colleges are commended for producing stand alone audited financial reports in conformity with Generally Accepted Accounting Principles. This list includes eight of the fifteen community colleges, Berkshire Community College, Bristol Community College, Holyoke Community College, Massasoit Community College, Springfield Technical Community College, Middlesex Community College, Mount Wachusett Community College and Quinsigamond Community College. In addition, six of the nine state colleges including Bridgewater State College, the Massachusetts College of Art, Framingham State College, Fitchburg State College, Westfield State College, and Worcester State College produced audited financial statements. 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 role of publicly subsidized higher education is important to the continued enhancement of the Commonwealth's economy and quality of life. Accordingly, the financial health of the universities and colleges is an important public policy concern. In the current legislative session, the Office of the Comptroller and the Board of Higher Education has requested the Governor to file legislation to require stand-alone audited financial statements in conformity with GAAP for all 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 Retained Earnings	Operating Gain/ (Loss)	Subsidy	Other Changes	Ending Retained Earnings
Massachusetts Bay Transportation Authority.....	\$ (191)	\$ (581)	\$ 653	\$ (38)	\$ (157)
Massachusetts Turnpike Authority.....	357	29	-	(18)	368
Regional Transit Authorities.....	2	(78)	56	24	4
Massachusetts Water Pollution Abatement Trust.....	71	(13)	2	12	72
Massachusetts Convention Center Authority.....	3	(11)	16	(2)	6
Corporation for Business Work and Learning.....	9	(78)	11	68	10
Government Land Bank.....	28	(8)	6	5	31
Massachusetts Community Development Finance Corporation.....	2	-	1	(1)	2
Massachusetts Technology Park Corporation.....	18	6	4	-	28
Community Economic Development Assistance Corporation.....	45	3	-	3	51
Massachusetts Corporation for Educational Telecommunications..	4	(7)	4	2	3
Massachusetts Housing Partnership.....	14	2	4	(6)	14
Commonwealth Zoological Corporation.....	1	(4)	6	-	3
Massachusetts International Trade Council.....	-	(1)	1	1	1
Total.....	<u>\$ 363</u>	<u>\$ (741)</u>	<u>\$ 764</u>	<u>\$ 50</u>	<u>\$ 436</u>

## **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, 1998. The Office of the State Auditor (OSA) is a statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. The OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth which encompasses all of the Commonwealth's financial operations.

We express our thanks to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and counsel. The auditors 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 151 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 deposits cash receipts daily into a Treasury controlled bank account. 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. The banking and disbursement process has been recently streamlined to optimize the 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.

FY98 is the fifth 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 FY98, the net settlement is in favor of the Commonwealth.

## DEBT

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

Fiscal Year	Authorized - Unissued	Principal Outstanding
1998	\$12.3	\$11.0
1997	12.0	10.3
1996	8.2	10.1
1995	5.9	9.6
1994	4.5	9.4

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 a % of Governmental Expenditures.

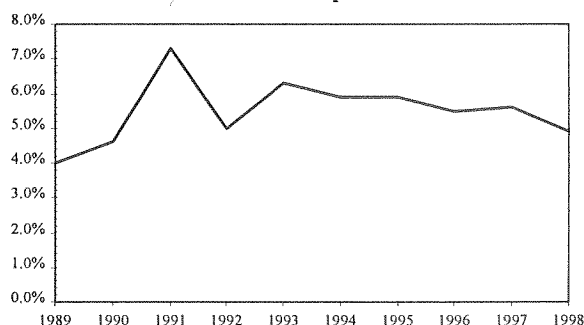
In FY97, Standard and Poor's upgraded the rating for Commonwealth's General Obligation Debt from "A+" to "AA-". The effect of the capital spending plan policy, the acceleration of funding of the Commonwealth's pension liability, and the string of operating surpluses were cited as reasons for the upgrade. The current credit ratings from Moody's is Aa3 and Fitch Investor Services is AA-.

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.

### Debt Service as a Percent of Governmental Expenditures



## 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 FY98, approximately \$44 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 \$83.9 million has been accrued in the Governmental Funds at June 30, 1998.

## ECONOMIC AND FINANCIAL PROSPECTS

Massachusetts employment grew 2.2% in 1994, 0.9% in 1995 and 1.1% in 1996, and 1.0% in 1997. The Massachusetts unemployment rate, currently at 3.0%, remains below the national rate of 4.5% (August 1998). Commonwealth per capita income continues to outpace the nation as shown in the Per Capita Income graph.

The Commonwealth, 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 33.5% of the residents over age 25 have earned bachelor's degrees, compared to 23.9% for the United States as a whole.

Our capital, Boston, has over 20 hospitals and three medical schools. Tourism is a significant component of the economy. For 1996, the latest data available, Massachusetts Office of Travel and Tourism estimates that over 28.1 million visitors spent over \$10.2 billion in the Commonwealth in 1996. The Commonwealth ranked eleventh among states in exports with \$18.0 billion in 1997.

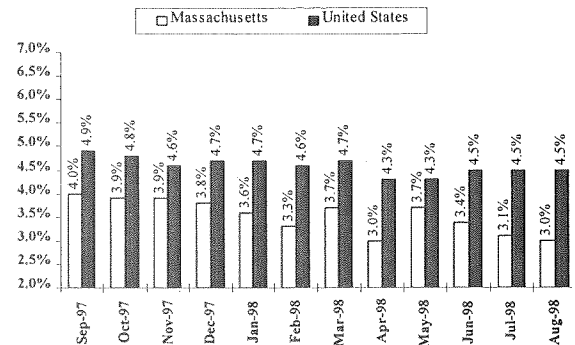
A continued low rate of inflation is expected to keep wage growth low and allow for slow-paced positive growth in the Massachusetts economy.

The Commonwealth's FY99 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 \$19,904.3 million. The estimate assumes tax revenues will be 3% lower than the FY98 actual collections. Therefore FY99 tax revenues are estimated at \$13,610.1 million.

The Commonwealth's total budgeted expenditures and other uses in FY99 are projected at \$20,579.9 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 4.7% over FY98.

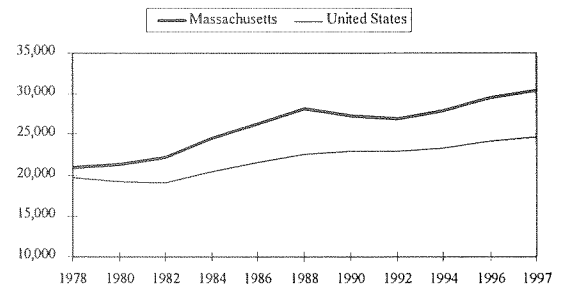
The FY99 opening fund balance, for budgeted funds, on a statutory basis is \$2,192.1 million. If the FY99 forecast is realized, the ending fund balance will be approximately \$1,516.5 million. It is noteworthy that, of the \$1,516.5 million, approximately \$1,191.6 million is projected to be reserved 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.

Monthly Unemployment Rate  
September 1997 - August 1998



Source: Massachusetts Department of Employment and Training

Per Capita Income 1978 - 1997  
(in 1997 dollars)



Source: United States Department of Commerce, Bureau of Economic Analysis

The Administration is engaged in an extensive mid-year review of this estimate. The Governor will release his recommended budget for FY2000 in late January, at which time the FY99 forecast may be revised.

## **SIGNIFICANT ACCOMPLISHMENTS**

In FY98, 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, 1997. 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 eighth consecutive year that the Commonwealth has received this award.

On a statutory basis, the Commonwealth has accomplished a positive fund balance for the eighth consecutive year. Balance in the budgeted funds of \$2.2 billion is more than 15% of annual tax revenues for fiscal year 1998. Also, per special statutory direction approximately \$300 million was transferred to capital outlay, instead of remaining in the budgetary surplus. Of the \$2.2 billion, \$1.2 billion is in the Stabilization Fund. This fund, sometimes called the "rainy day" fund, represents the Commonwealth's reserves for future purposes.

The fiscal year 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to have been \$60.9 million - an increase in the child dependent deduction from \$600 to \$1,200 for children up to age 12 (\$15.3 million), a tax credit of up to \$6,000 over four years for septic tank improvements (\$17 million) and an earned income tax credit amounting to 10% of the federal credit (\$28.6 million). The fiscal 1999 impact of these tax cuts is expected to be \$15.3 million, \$18 million and \$30 million, respectively.

On November 6, 1997, Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption resulted in a fiscal 1998 revenue reduction of \$25 million and an approximately \$18 million reduction on an annualized basis thereafter.

On July 21, 1998 Governor Cellucci approved legislation reducing the rate of tax on "Part A" income (interest and dividends) from 12% to 5.95%, effective January 1, 1999. The FY99 cost is estimated to be \$117 million, the fully annualized cost is estimated to be \$239 million. The legislation also phased in a doubling of the personal exemptions applicable to the "Part B" ("earned") income tax, effective January 1, 1998, with an estimated FY99 cost of \$600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of \$492 million.

In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate FY99 cost of these additional changes is less than \$5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also less than \$5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now.

The non-tax revenue optimization campaign was very successful in FY98. 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 taskforce 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 \$33.4 million during fiscal year 1998. The fiscal year 1997 non-tax revenue optimization amount was \$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 FY99.

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 administrative or fiscal systems include: re-engineering the Commonwealth disbursement practices to the model of electronic commerce, including electronic data interchange, electronic funds transfer, and electronic benefits transfer; exploiting the internet with web-enabling procurement and other applications; replacing the existing array of payroll and human resource systems with a state-of-the-art Human Resource Compensation Management System.

The Commonwealth is continuing its effort to remediate the "Year 2000 problem" in its mechanical and data processing systems. The Year 2000 problem is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from the year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. These problems have the potential for causing a disruption of governmental services.

In June 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within the Information Technology Division. The purpose of this office is to ensure accurate monitoring of the Commonwealth's progress in achieving "Year 2000 compliance". The program office has asked agencies to identify "mission critical" and "essential" systems.

Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems' loss would cause disruption of some agency services but would not prevent the agency from delivering primary services. The program office has identified 261 mission critical and 192 essential systems. The Commonwealth currently expects that all mission critical systems will be year 2000 compliant by December 31, 1999. The statewide accounting and payroll systems attained Year 2000 compliant status as of December 7, 1999.

In addition, the Office of the State Auditor has conducted extensive examinations of the Commonwealth systems for "Year 2000" compliance.

Those seeking more detailed information on the Commonwealth year 2000 efforts should visit the Information Technology Division year 2000 web page: [www.state.ma.us/Y2K](http://www.state.ma.us/Y2K) or the Office of the State Auditor's web page: [www.state.ma.us/SAO](http://www.state.ma.us/SAO).

Under the leadership of the Information Technology Division, several departments across the branches of government continue to collaborate 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.

With this 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. In addition, 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 Officer creates an exciting opportunity to make strategic investments that will position the Commonwealth successfully into the next century.

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 FY98, 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 \$242.7 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.

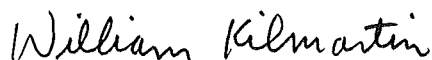
Consistent with this recommendation, the Commonwealth should move certain internal service activities from the budgeted funds to a new Internal Service Fund. The fiscal operation of activities such as worker's compensation and group health insurance would be improved by a GAAP approach.

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.

Now that the Commonwealth has accomplished excellent financial condition, the ongoing challenge is to sustain this status. Maintaining the structural balance between inflows and outflows will be difficult. There is a multitude of projects and proposals, each with merit, to spend the accumulated surplus. To assure continued fiscal health, the Governor and Legislature must resist the pressure of short term actions and insist on continued discipline for long term interperiod equity as evident by GAAP.

This is the last Financial Report produced under my tenure as State Comptroller. I am grateful for the support of my wife, Kathy and children, Jerry and Meridith, to my career in public service. During the past 20 years it has been my privilege to work in several other departments and observe and participate in remarkable changes and progress in state government. The commitment to excellence is demonstrated in the positive financial condition and array of advanced computer systems. The cadre of current and former state employees, ranging from elected officials such as Governor Cellucci to front-line direct service workers have earned my enduring respect. I specifically emphasize my admiration and appreciation for the dedicated professional staff at the Office of the Comptroller. Your commitment and service has energized and inspired me each day. I dedicate this Report in your honor. In closing, I suggest the citizens should take great satisfaction and pride in their Commonwealth.

Respectfully transmitted,



William Kilmartin  
Comptroller



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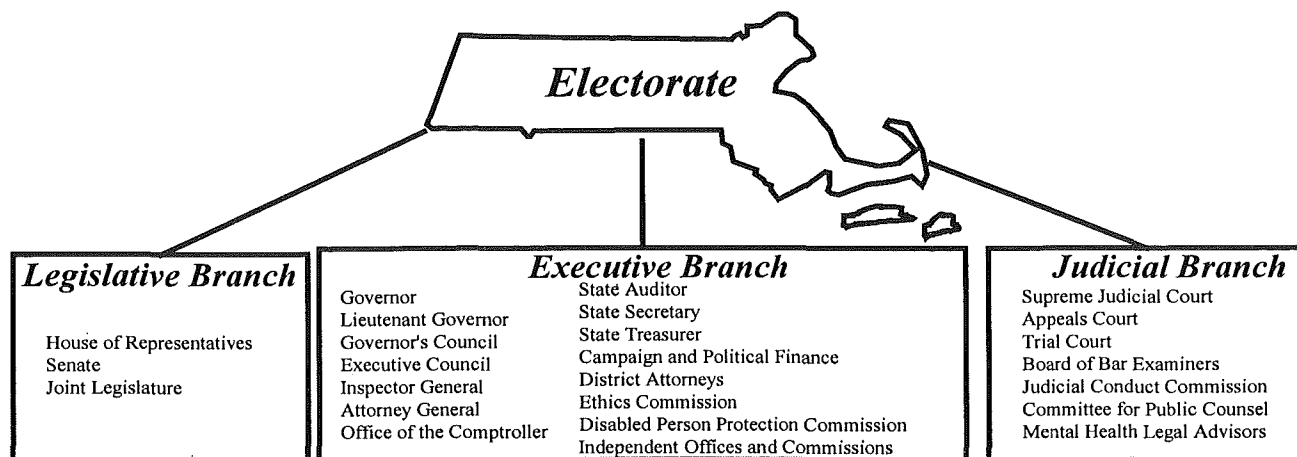
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## **State Agencies**

### **Administration and Finance**

Executive Office Secretary of Administration and Finance  
 Developmental Disabilities  
 Appellate Tax Board  
 Fiscal Affairs Division  
 Operational Services Division  
 Civil Service Commission  
 Department of Revenue  
 Department of Veteran Services  
 Division of Administrative Law Appeals  
 Division of Asset Management  
 Group Insurance Commission  
 Commission Against Discrimination  
 Teachers' Retirement Board  
 Public Employee Retirement Administration Commission  
 Human Resource Division  
 Information Technology Division  
 Massachusetts Office on Disability  
 Bureau of State Buildings  
 George Fingold Library

### **Public Safety**

Executive Office of Public Safety  
 Architectural Access Board  
 Committee on Criminal Justice  
 Criminal History Systems Board  
 Criminal Justice Training Council  
 Department of Correction  
 Department of Public Safety  
 Department of Police  
 Governor's Highway Safety Bureau  
 Massachusetts Emergency Management Agency  
 Merit Rating Board  
 Military Division  
 Chief Medical Examiner  
 Parole Board  
 Registry of Motor Vehicles  
 Board of Building Regulations  
 Department of Fire Services  
 Sheriff's Department - Franklin  
 Sheriff's Department - Middlesex

### **Economic Development**

Department of Economic Development  
 Division of Housing & Community Development

### **Education**

Department of Education  
 Higher Education  
 University System  
 State and Community Colleges

### **Elder Affairs**

Executive Office of Elder Affairs

### **Environmental Affairs**

Executive Office of Environmental Affairs  
 Department of Food and Agriculture  
 Department of Environmental Management  
 Department of Environmental Protection  
 Fisheries and Wildlife Environmental Law Enforcement  
 Metropolitan District Commission  
 State Reclamation Board  
 Low Level Radioactive Waste

### **Transportation and Construction**

Executive Office of Transportation and Construction  
 Massachusetts Aeronautics Commission  
 Massachusetts Highway Department

### **Health and Human Services**

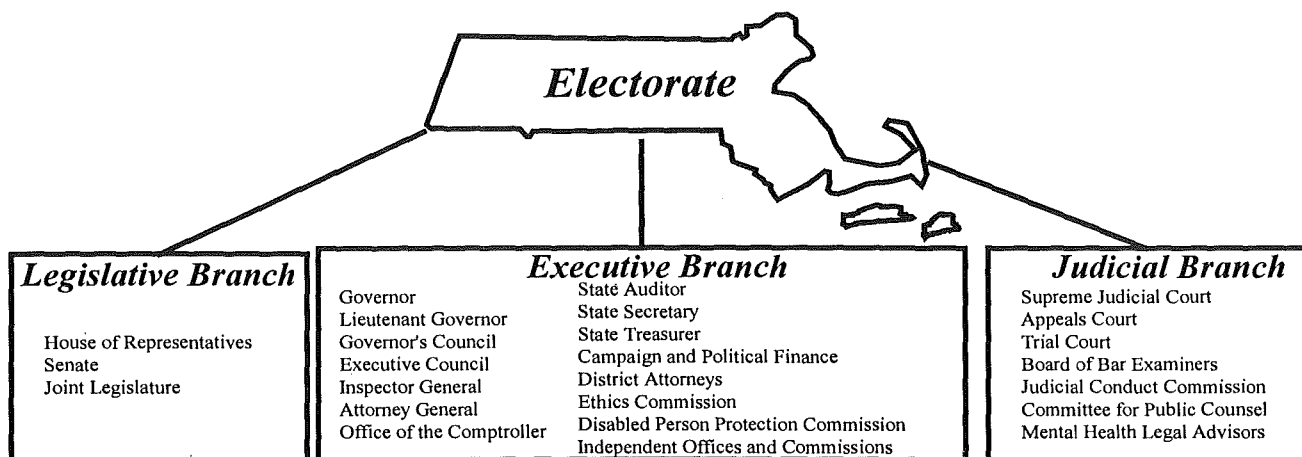
Executive Office of Health and Human Services  
 Department of Mental Health  
 Department of Mental Retardation  
 Department of Public Health  
 Department of Social Services  
 Department of Transitional Assistance  
 Department of Youth Services  
 Division of Medical Assistance  
 Massachusetts Commission for the Blind  
 Massachusetts Commission for the Deaf and Hard of Hearing  
 Massachusetts Rehabilitation Commission  
 Office for Child Care Services  
 Office for Refugees and Immigrants  
 Soldier's Home Chelsea, Holyoke  
 Division of Health Care Finance & Policy

### **Labor**

Department of Labor & Work Force Development  
 Conciliation and Arbitration  
 Division of Industrial Accidents  
 Joint Labor Management Commission  
 Labor Relations Commission  
 Division of Employment and Training

### **Consumer Affairs**

Office of Consumer Affairs & Business Regulations  
 Board of Medicine  
 Department of Telecommunications and Energy  
 Division of Banks  
 Division of Insurance  
 Division of Registration  
 Division of Standards  
 State Racing Commission  
 Alcoholic Beverages Control Commission  
 Energy Facilities Siting Board  
 Division of Energy Resources



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 Department of Veteran Services  
 Division of Administrative Law Appeals  
 Division of Asset Management  
 Group Insurance Commission  
 Commission Against Discrimination  
 Teachers' Retirement Board  
 Public Employee Retirement Administration Commission  
 Human Resource Division  
 Information Technology Division  
 Massachusetts Office on Disability  
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 Committee on Criminal Justice  
 Criminal History Systems Board  
 Criminal Justice Training Council  
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 Massachusetts Emergency Management Agency  
 Merit Rating Board  
 Military Division  
 Chief Medical Examiner  
 Parole Board  
 Registry of Motor Vehicles  
 Board of Building Regulations  
 Department of Fire Services  
 Sheriff's Department - Franklin  
 Sheriff's Department - Middlesex

### **Economic Development**

Department of Economic Development  
 Division of Housing & Community Development

### **Education**

Department of Education  
 Higher Education  
 University System  
 State and Community Colleges

### **Elder Affairs**

Executive Office of Elder Affairs

### **Environmental Affairs**

Executive Office of Environmental Affairs  
 Department of Food and Agriculture  
 Department of Environmental Management  
 Department of Environmental Protection  
 Fisheries and Wildlife Environmental Law Enforcement  
 Metropolitan District Commission  
 State Reclamation Board  
 Low Level Radioactive Waste

### **Transportation and Construction**

Executive Office of Transportation and Construction  
 Massachusetts Aeronautics Commission  
 Massachusetts Highway Department

### **Health and Human Services**

Executive Office of Health and Human Services  
 Department of Mental Health  
 Department of Mental Retardation  
 Department of Public Health  
 Department of Social Services  
 Department of Transitional Assistance  
 Department of Youth Services  
 Division of Medical Assistance  
 Massachusetts Commission for the Blind  
 Massachusetts Commission for the Deaf and Hard of Hearing  
 Massachusetts Rehabilitation Commission  
 Office for Child Care Services  
 Office for Refugees and Immigrants  
 Soldier's Home Chelsea, Holyoke  
 Division of Health Care Finance & Policy

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 Division of Industrial Accidents  
 Joint Labor Management Commission  
 Labor Relations Commission  
 Division of Employment and Training

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Office of Consumer Affairs & Business Regulations  
 Board of Medicine  
 Department of Telecommunications and Energy  
 Division of Banks  
 Division of Insurance  
 Division of Registration  
 Division of Standards  
 State Racing Commission  
 Alcoholic Beverages Control Commission  
 Energy Facilities Siting Board  
 Division of Energy Resources

## CONSTITUTIONAL OFFICERS

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*Lieutenant Governor – Elect\**

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*Treasurer and Receiver-General*

Shannon O'Brien  
*Treasurer and Receiver-General – Elect\*\**

A. Joseph DeNucci  
*Auditor*

## LEGISLATIVE OFFICERS

Thomas F. Birmingham  
*President of the Senate*

Thomas M. Finneran  
*Speaker of the House*

## JUDICIAL OFFICERS

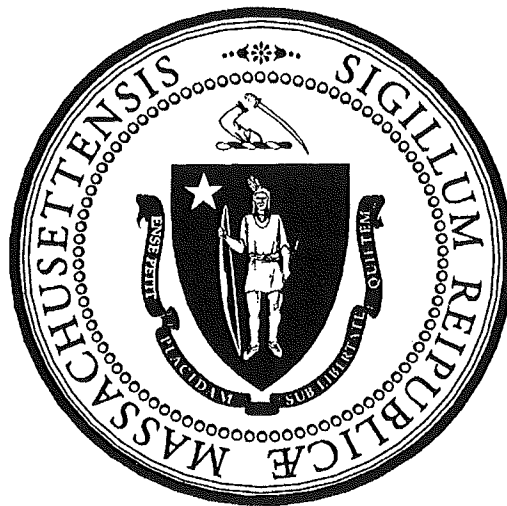
Herbert P. Wilkins  
*Chief Justice, Supreme Judicial Court*

Joseph P. Warner  
*Chief Justice, Appeals Court*

Barbara A. Dortch-Okara  
*Chief Justice for Administration and Management, Trial Court*

\*Lieutenant Governor Elect takes office January 7, 1999

\*\*The Attorney General Elect and the Treasurer Elect take office January 20, 1999



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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Massachusetts

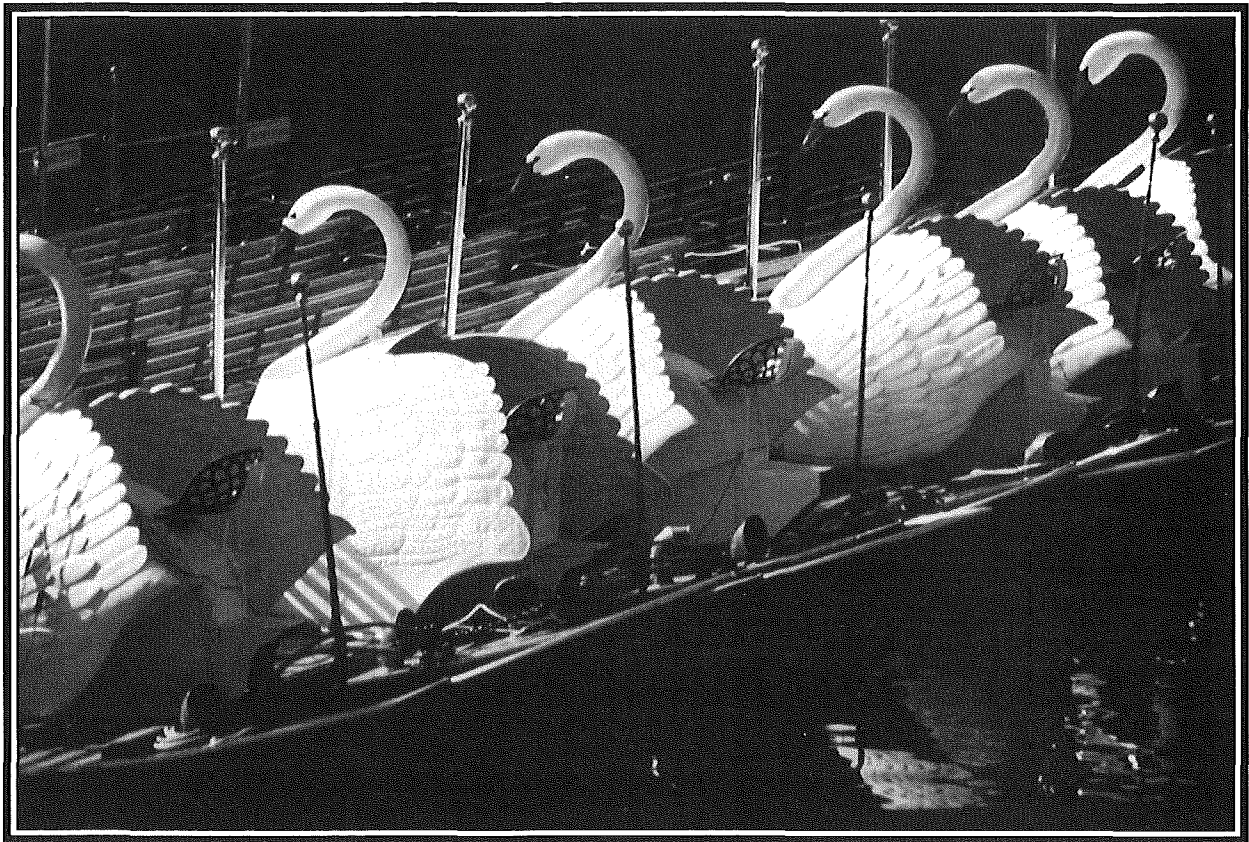
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1997

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.



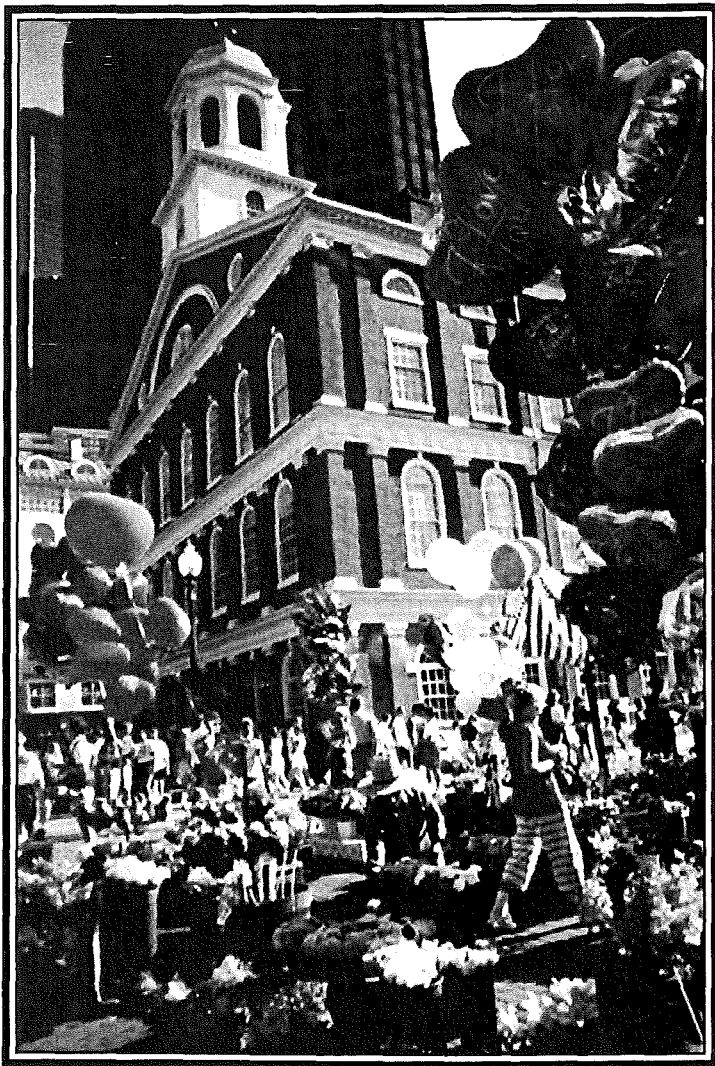
*Douglas R. Ellsworth*  
President

*Jeffrey L. Esser*  
Executive Director



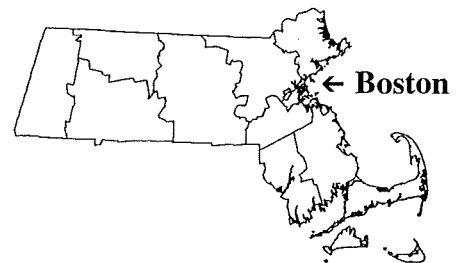
*The Swan Boats at the Public Gardens in Boston. Since 1877, these elegant two-ton pedal-powered boats have been a fixture on the lagoon in the summer months. For \$1.75 for an adult or ninety-five cents for a child, it is a very popular treat with the locals and tourists alike.*

# Financial Section



*Rows upon rows of food stands, street performers, stores and small specialty push carts all reside at Quincy Market, also known as Faneuil Hall.*

Attractions by Region



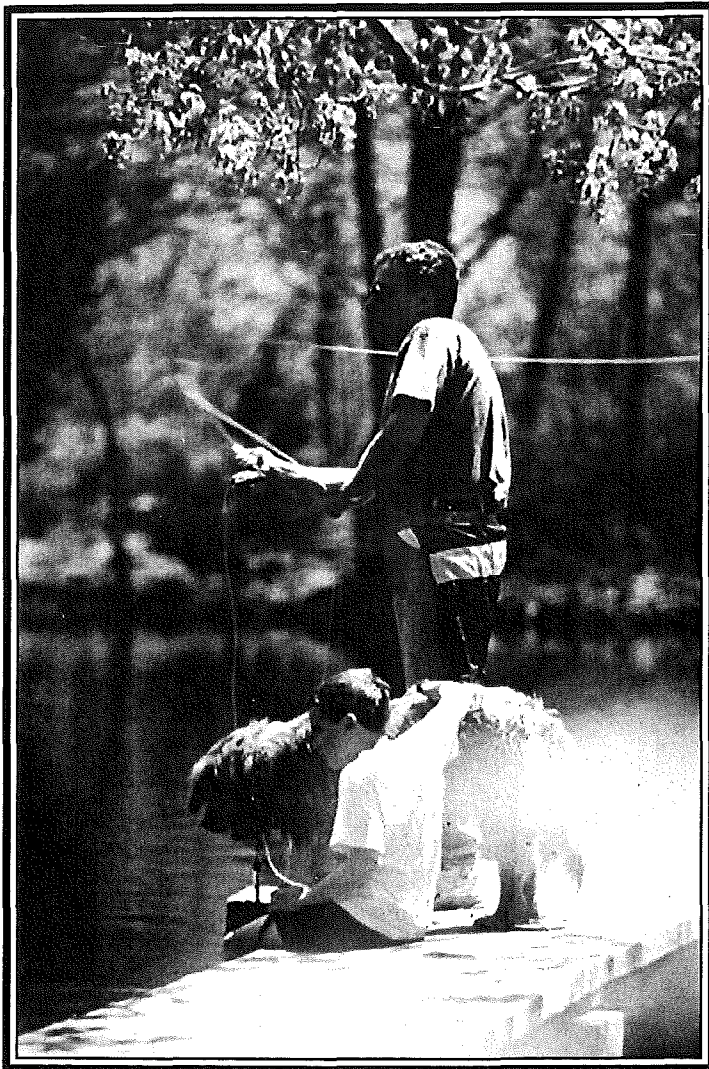
## ***Boston***

There's no better way to experience the cosmopolitan flavor of Boston than by walking or hopping on the T, Boston's convenient public transportation. You'll find that Massachusetts' capital combines big-city amenities with a friendly, small-town atmosphere.

### **Recommendations:**

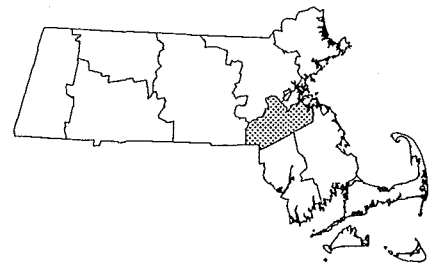
- The 16 historic sites on the Freedom Trail including Paul Revere's House, Old North Church, Faneuil Hall, and the newly restored USS Constitution, the U.S. Navy's oldest commissioned ship.
- The Black Heritage Trail -- Boston's nineteenth-century black community on Beacon Hill.
- The Bull & Finch Pub, which inspired the television show "Cheers," sits at the bottom of Beacon Hill.
- From the Hub's array of cultural offerings: the Boston Symphony Orchestra, the Boston Ballet, the Museum of Fine Arts, the Isabella Stewart Gardner Museum, and the Institute of Contemporary Art, the Computer Museum and the Kennedy Library and Museum.





*Borderland State Park hosts walking trails, cross country skiing, horseback riding, canoeing, fishing and tours of a Stone English style mansion built in 1910.*

#### Attractions by Region



### ***Greater Boston***

Boston's suburbs are home to some of Massachusetts' most affluent communities. Its unique blend of cities and towns has a high concentration of picturesque historic homes, neighborhoods and public conservation lands.

#### **Recommendations:**

- Harvard Square and its lively cafes, shops, and nightclubs. In the evenings, the Square's sidewalks are crowded with street musicians.
- The Longfellow National Historic Site, a grand mansion that served as George Washington's Revolutionary War headquarters and, later, as the home of poet Henry Wadsworth Longfellow.
- Cambridge is a vibrant mix of ethnic cultures, students, scholars, and visitors from around the world.
- Dedham's Fairbanks House has the distinction of being the oldest surviving wooden frame house in North America.
- The Adams National Historic Site and the splendid homes, gardens, and stables of the second and sixth presidents of the United States.

**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, 1998, 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 91 percent of the total assets and 89 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 73 percent and 52 percent, respectively, of the total assets and total revenues of the Fiduciary Fund Type. We did not audit the financial statements of the discretely presented component units listed in Note 1 which reflect 87 percent of the total assets and 89 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.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 issue. The Commonwealth of Massachusetts has included such disclosures in Note 17. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Commonwealth of Massachusetts's disclosures with respect to the Year 2000 issue made in Note 17. Further, we do not provide assurance the Commonwealth of Massachusetts is or will be Year 2000 ready, that the Commonwealth of

Massachusetts' Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commonwealth of Massachusetts does business will be Year 2000 ready.

In our opinion, based upon our audit and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, 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, 1998, 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 15 to the financial statements, on March 31, 1998 certain activities of the Commonwealth of Massachusetts accounted for in the University and College Fund Type were contributed to and have been merged with and into a newly formed corporation. These activities have been accounted for as discontinued operations.

As described in Notes 3 and 11 of the financial statements, the Commonwealth of Massachusetts implemented Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and changed its method of financial reporting in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

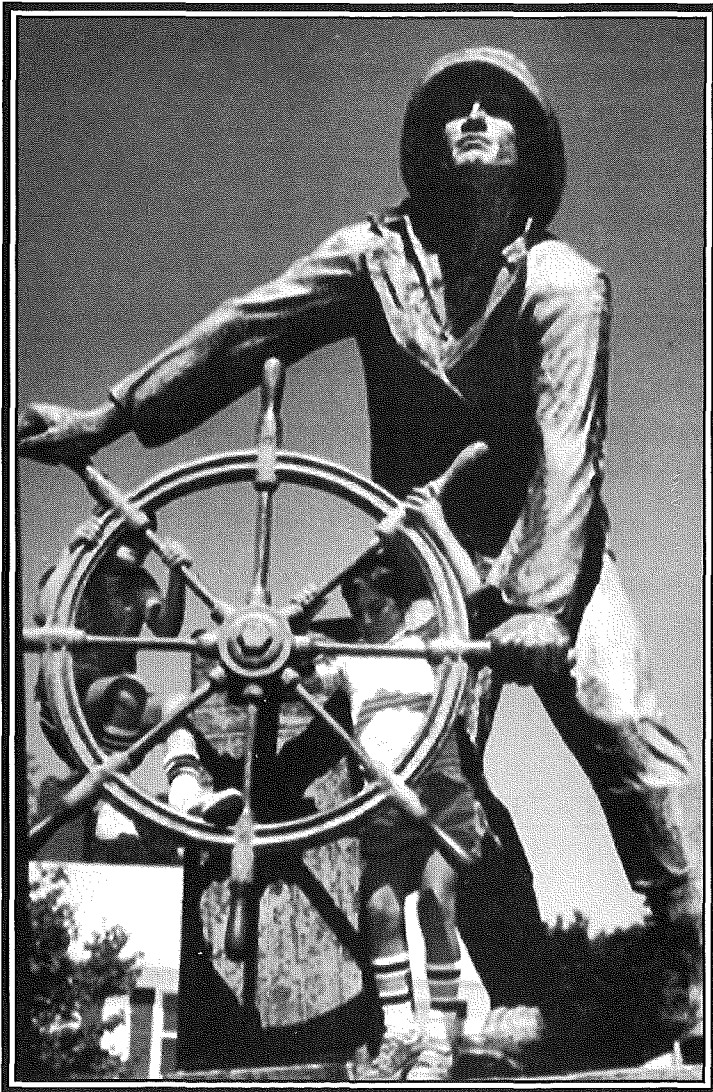
Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund statements, and account group schedules, listed in the table of contents, are presented for the purpose of additional analysis and are not a required 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.

The data included in the introductory and statistical sections of this report is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

*Deloitte & Touche LLP*

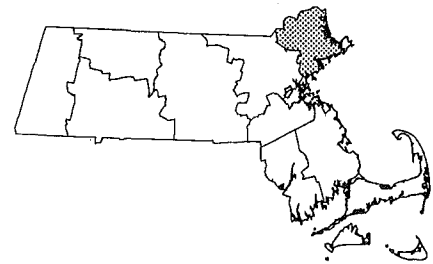
December 22, 1998

# General Purpose Financial Statements



*Gloucester's famous "The Fisherman" is dedicated to "they who go down to the sea in ships." Gloucester just celebrated its 375<sup>th</sup> birthday, making it the oldest working port in America.*

Attractions by Region



## ***North Shore***

The 30 miles of rocky coastline north of Boston to Cape Ann are punctuated with long sandy beaches, rugged fishing ports, and sparkling sailing harbors.

### **Recommendations:**

- Salem, the home of the witch trials of the 1690s, the world-class Peabody Museum, and Nathaniel Hawthorne's House of Seven Gables.
- Marblehead, one of the East Coast's premier sailing centers with 18th- and 19th-century homes of fishermen, merchants, and artisans.
- Motif #1, a fishing shack in Rockport harbor that's been the subject of countless painters.
- Essex, a mecca for antique hunters and seafood lovers (the fried clam was first cooked here).
- Newburyport's High Street, lined with splendid early-American mansions, built by wealthy sea captains and merchants.
- The 520-acre Salisbury Beach State Reservation bordered by the Atlantic Ocean and the Merrimack River.

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

## Combined Balance Sheet

June 30, 1998

(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.....	\$ 1,480,338	\$ 1,153,980	\$ -	\$ -
Cash with fiscal agent.....	-	37,631	-	-
Deposits.....	-	-	-	-
Investments.....	-	-	-	-
Restricted investments.....	-	-	-	273,705
Investments of deferred compensation plan.....	-	-	-	-
Annuity contracts.....	-	-	-	-
Assets held in trust.....	-	-	-	16,531
Receivables, net of allowance for uncollectibles:				
Taxes.....	971,649	685,608	-	-
Due from federal government.....	426,660	340,544	4,475	-
Loans.....	-	-	-	-
Other receivables.....	123,282	103,640	122	-
Due from cities and towns.....	239,547	407	-	-
Due from primary government.....	-	-	-	-
Due from other funds.....	2,383,346	338	522,997	22,289
Due from component units.....	3,750	-	-	-
Inventory.....	-	25,233	-	-
Fixed assets.....	-	-	-	-
Other assets.....	-	2,984	-	-
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.....	\$ 5,628,572	\$ 2,350,365	\$ 527,594	\$ 312,525
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
Liabilities:				
Accounts payable.....	\$ 901,259	\$ 534,751	\$ 331,101	\$ -
Accrued payroll.....	22,906	31,760	510	-
Compensated absences.....	102,759	69,112	4,701	-
Tax refunds and abatements payable.....	600,868	397,462	-	-
Due to cities and towns.....	-	-	-	-
Due to primary government.....	-	-	-	-
Due to other funds.....	420,211	1,933,571	544,899	-
Due to component units.....	61,464	269,467	502	-
Due to federal government.....	18,058	49	65	-
Deferred revenue.....	122,791	117,431	41	-
Prizes payable.....	-	-	-	-
Deferred compensation benefits payable.....	-	-	-	-
Agency liabilities.....	-	-	-	-
Claims and judgments.....	16,500	-	67,450	415,462
Deposits and unearned revenue.....	-	-	-	-
Central artery/tunnel payable.....	-	-	-	-
Other accrued liabilities.....	-	73,679	-	-
Capital leases.....	-	-	-	-
Bonds, notes payable and certificates of participation.....	-	-	-	-
School construction grants.....	-	-	-	-
Total liabilities.....	2,266,816	3,427,282	949,269	415,462
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.....	-	-	-	174,110
Unreserved.....	-	-	-	(277,047)
Fund balances (deficit):				
Reserved for continuing appropriations.....	135,350	124,941	-	-
Reserved for tax reduction.....	367,663	-	-	-
Reserved for Commonwealth stabilization.....	1,159,588	-	-	-
Reserved for employees' pension benefits.....	-	-	-	-
Reserved for deferred compensation.....	-	-	-	-
Reserved for unemployment benefits.....	-	-	-	-
Reserved for retirement of indebtedness.....	-	26,059	-	-
Reserved for nonexpendable trusts.....	-	-	-	-
Reserved for capital projects.....	-	-	268,961	-
Restricted.....	-	-	-	-
Unexpended plant funds.....	-	-	-	-
Renewals and replacements.....	-	-	-	-
Net investment in plant.....	-	-	-	-
Unreserved and undesignated.....	1,699,155	(1,227,917)	(690,636)	-
Total equity (deficit) and other credits.....	3,361,756	(1,076,917)	(421,675)	(102,937)
Total liabilities, equity and other credits.....	\$ 5,628,572	\$ 2,350,365	\$ 527,594	\$ 312,525

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	1998	1997 (as restated)	
\$ 3,102,954	\$ 164,845	\$ -	\$ -	\$ 5,902,117	\$ 4,026,045	\$ 963,647
-	-	-	-	37,631	24,823	-
1,699,693	132,197	-	-	1,831,890	1,334,988	-
23,395,600	388,352	-	-	23,783,952	19,906,282	434,513
-	-	-	-	273,705	223,219	1,489,023
2,006,455	-	-	-	2,006,455	1,616,593	26,430
1,340,514	-	-	-	1,340,514	1,285,021	-
1,901,578	-	-	-	1,918,109	1,759,068	5,251
255,260	-	-	-	1,912,517	1,673,998	-
1,925	18,441	-	-	792,045	1,027,257	53,344
643	49,167	-	-	49,810	51,528	1,147,333
547,137	246,231	-	-	1,020,412	682,660	96,445
-	-	-	-	239,954	228,020	1,162
-	-	-	-	-	-	331,433
-	78,980	-	-	3,007,950	1,763,138	-
-	-	-	-	3,750	5,859	-
-	10,201	-	-	35,434	64,619	46,299
-	2,383,937	3,673,727	-	6,057,664	5,916,579	7,884,154
-	16,450	-	-	19,434	29,175	139,177
-	-	-	53,299	53,299	44,891	-
-	-	-	15,516,123	15,516,123	14,034,691	-
\$ 34,251,759	\$ 3,488,801	\$ 3,673,727	\$ 15,569,422	\$ 65,802,765	\$ 55,698,454	\$ 12,618,211
\$ 953,919	\$ 64,204	\$ -	\$ -	\$ 2,785,234	\$ 2,283,579	\$ 89,375
79	65,436	-	-	120,691	77,177	32,514
486	123,807	-	115,866	416,731	392,028	8,019
12,484	-	-	-	1,010,814	700,597	-
22,673	-	-	-	22,673	20,142	145
-	-	-	-	-	-	103,750
1,672	107,597	-	-	3,007,950	1,763,138	-
-	-	-	-	331,433	336,098	-
-	-	-	-	18,172	18,660	50
12,042	16,861	-	-	269,166	260,549	73,020
1,340,514	-	-	10,624	1,351,138	1,288,587	-
-	-	-	-	-	-	26,430
4,542,435	719	-	-	4,543,154	3,812,878	5,251
-	-	-	76,053	575,465	602,181	84,599
-	8,422	-	-	8,422	8,068	-
-	-	-	-	-	-	600,000
-	147,872	-	-	221,551	152,652	201,128
-	70,202	-	91,639	161,841	137,095	534,788
-	262,648	-	11,078,603	11,341,251	10,588,033	6,340,880
-	-	-	4,196,637	4,196,637	3,534,617	-
6,886,304	867,768	-	15,569,422	30,382,323	25,976,079	8,099,949
-	-	3,673,727	-	3,673,727	3,505,871	-
-	-	-	-	-	-	4,082,068
-	-	-	-	-	-	428,362
-	-	-	-	-	-	2,567
-	-	-	-	174,110	145,140	-
-	-	-	-	(277,047)	(285,478)	5,265
-	-	-	-	260,291	180,262	-
-	-	-	-	367,663	91,764	-
-	-	-	-	1,159,588	799,300	-
23,221,308	-	-	-	23,221,308	19,560,061	-
2,006,455	-	-	-	2,006,455	1,616,593	-
1,918,742	-	-	-	1,918,742	1,515,080	-
-	27,968	-	-	54,027	66,822	-
5,835	-	-	-	5,835	5,835	-
-	-	-	-	268,961	229,800	-
-	207,394	-	-	207,394	185,938	-
-	73,060	-	-	73,060	57,980	-
-	35,078	-	-	35,078	24,983	-
-	2,099,592	-	-	2,099,592	2,087,785	-
213,115	177,941	-	-	171,658	(65,361)	-
27,365,455	2,621,033	3,673,727	-	35,420,442	29,722,375	4,518,262
\$ 34,251,759	\$ 3,488,801	\$ 3,673,727	\$ 15,569,422	\$ 65,802,765	\$ 55,698,454	\$ 12,618,211

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Primary		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>Revenues:</b>			
Taxes.....	\$ 8,470,786	\$ 5,562,642	\$ -
Assessments.....	226,236	287,737	-
Federal grants and reimbursements.....	2,685,639	2,383,746	785,242
Departmental.....	537,924	4,247,823	-
Deferred compensation.....	-	-	-
Miscellaneous.....	175,285	105,546	13,401
Total revenues.....	12,095,870	12,587,494	798,643
<b>Other financing sources:</b>			
Proceeds of general obligation bonds.....	-	580,557	766,953
Proceeds of special obligation bonds.....	-	-	100,059
Proceeds of refunding bonds.....	-	-	861,793
Proceeds of capital leases.....	15,521	-	-
Transfers from component units.....	4,192	-	100,000
Operating transfers in.....	509,230	1,470,126	1,358,891
Total other financing sources.....	528,943	2,050,683	3,187,696
Total revenues and other financing sources.....	12,624,813	14,638,177	3,986,339
<b>Expenditures:</b>			
<b>Current:</b>			
Legislature.....	51,194	-	-
Judiciary.....	47,932	422,522	-
Inspector General.....	1,876	-	-
Governor and Lieutenant Governor.....	5,095	-	-
Secretary of the Commonwealth.....	16,657	6,426	-
Treasurer and Receiver-General.....	87,472	2,561,181	-
Auditor of the Commonwealth.....	13,337	766	-
Attorney General.....	34,106	6,661	-
Ethics Commission.....	639	664	-
District Attorney.....	247	67,746	-
Office of Campaign and Political Finance.....	386	366	-
Sheriff's Departments.....	40,307	206	-
Disabled Persons Protection Commission.....	1,510	8	-
Board of Library Commissioners.....	3,815	5,026	-
Comptroller.....	7,173	-	-
Administration and finance.....	772,532	285,438	-
Environmental affairs.....	65,141	150,748	-
Communities and development.....	97,995	252,541	-
Health and human services.....	3,035,327	2,022,437	-
Transportation and construction.....	1,226	115,539	-
Education.....	176,075	977,440	-
Higher education.....	80,891	1,066	-
Public safety.....	408,073	444,629	-
Economic development.....	9,200	21,312	-
Elder affairs.....	142,870	36,397	-
Consumer affairs.....	31,797	25,496	-
Labor.....	41,566	144,313	-
Medicaid.....	3,442,215	195,624	-
Pension.....	96,833	317,522	-
Deferred compensation.....	-	-	-
Direct local aid.....	33,877	4,013,004	-
<b>Capital outlay:</b>			
Local aid.....	-	-	102,022
Capital acquisition and construction.....	-	-	2,532,076
<b>Debt service:</b>			
Principal retirement.....	502,133	205,134	-
Interest and fiscal charges.....	255,900	251,424	-
Total expenditures.....	9,505,397	12,531,636	2,634,098
<b>Other financing uses:</b>			
Payments to refunded bond escrow agent.....	-	-	861,793
Operating transfers out.....	454,872	2,128,476	678,122
Transfers of appropriations.....	820,646	2,339	-
Transfers of bond proceeds.....	-	-	31,143
Transfers to component units.....	413,657	348,703	5,920
Total other financing uses.....	1,689,175	2,479,518	1,576,978
Total expenditures and other financing uses.....	11,194,572	15,011,154	4,211,076
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	1,430,241	(372,977)	(224,737)
Fund balance (deficits) at beginning of year (as restated).....	1,931,515	(703,940)	(196,938)
Fund balance (deficits) at end of year.....	\$ 3,361,756	\$ (1,076,917)	\$ (421,675)

See notes to general purpose financial statements.

Government		
Fiduciary Fund Type	Totals (Memorandum Only)	
Expendable Trust	1998	1997 (as restated)
\$ 1,015,807	\$ 15,049,235	\$ 14,219,863
2,306	516,279	553,790
30,306	5,884,933	5,611,064
15,587	4,801,334	4,401,540
472,640	472,640	342,245
288,047	582,279	415,730
1,824,693	27,306,700	25,544,232
-	1,347,510	899,471
-	100,059	-
-	861,793	722,621
-	15,521	61,906
-	104,192	5,859
78,796	3,417,043	1,927,254
78,796	5,846,118	3,617,111
1,903,489	33,152,818	29,161,343
-	51,194	49,308
226	470,680	432,981
-	1,876	1,680
-	5,095	5,244
5	23,088	17,240
1,460	2,650,113	2,717,468
170	14,273	12,129
3,404	44,171	6,844
-	1,303	1,189
3,152	71,145	65,069
-	752	670
-	40,513	-
-	1,518	1,465
-	8,841	6,366
-	7,173	6,769
9,536	1,067,506	942,668
7,125	223,014	203,242
575	351,111	344,282
17,942	5,075,706	4,524,839
537	117,302	153,341
6,117	1,159,632	1,027,508
117	82,074	89,785
2,634	855,336	863,303
447	30,959	34,790
36	179,303	173,659
6,403	63,696	44,548
787,898	973,777	1,030,323
-	3,637,839	3,497,331
-	414,355	413,050
82,778	82,778	77,846
-	4,046,881	3,677,455
-	102,022	181,179
-	2,532,076	2,050,758
-	707,267	752,669
-	507,324	525,616
930,562	25,601,693	23,932,614
-	861,793	722,621
82,705	3,344,175	1,852,194
-	822,985	747,036
-	31,143	34,977
-	768,280	745,853
82,705	5,828,376	4,102,681
1,013,267	31,430,069	28,035,295
890,222	1,722,749	1,126,048
3,248,090	4,278,727	3,152,679
\$ 4,138,312	\$ 6,001,476	\$ 4,278,727



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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Taxes.....	\$ 7,596,600	\$ 8,312,968	\$ 716,368
Assessments.....	-	226,737	226,737
Federal grants and reimbursements.....	2,616,300	2,671,658	55,358
Departmental.....	780,800	593,226	(187,574)
Miscellaneous.....	-	111,695	111,695
Total revenues.....	10,993,700	11,916,284	922,584
<b>Other financing sources:</b>			
Fringe benefit cost recovery.....	-	224,761	224,761
Operating transfers in.....	349,800	399,202	49,402
Stabilization transfer.....	-	-	-
Transfer for tax reduction.....	-	55,058	55,058
Total other financing sources.....	349,800	679,021	329,221
Total revenues and other financing sources.....	11,343,500	12,595,305	1,251,805
<b>Expenditures:</b>			
Legislature.....	72,647	51,045	21,602
Judiciary.....	50,339	47,139	3,200
Inspector General.....	1,871	1,858	13
Governor and Lieutenant Governor.....	6,295	5,080	1,215
Secretary of the Commonwealth.....	16,811	16,513	298
Treasurer and Receiver-General.....	102,005	91,788	10,217
Auditor of the Commonwealth.....	12,250	12,246	4
Attorney General.....	23,694	23,574	120
Ethics Commission.....	638	638	-
District Attorney.....	274	247	27
Office of Campaign and Political Finance.....	383	381	2
Sheriff's Departments.....	45,103	40,307	4,796
Disabled Persons Protection Commission.....	1,528	1,516	12
Board of Library Commissioners.....	3,815	3,815	-
Comptroller.....	6,708	6,701	7
Administration and finance.....	846,610	801,647	44,963
Environmental affairs.....	71,894	58,463	13,431
Communities and development.....	104,543	100,642	3,901
Health and human services.....	3,101,943	3,010,817	91,126
Transportation and construction.....	503,240	496,854	6,386
Education.....	13,458	12,998	460
Higher education.....	862,434	856,624	5,810
Public safety.....	399,269	393,800	5,469
Economic development.....	11,299	10,556	743
Elder affairs.....	143,849	142,853	996
Consumer affairs.....	32,670	31,717	953
Labor.....	50,194	45,711	4,483
Direct local aid.....	2,909	689	2,220
Medicaid.....	3,472,784	3,470,215	2,569
Pension.....	375,304	375,212	92
<b>Debt service:</b>			
Principal retirement.....	381,053	372,233	8,820
Interest and fiscal charges.....	259,775	253,536	6,239
Total expenditures.....	10,977,589	10,737,415	240,174
<b>Other financing uses:</b>			
Fringe benefit cost assessment.....	-	-	-
Operating transfers out.....	382,197	493,768	(111,571)
Stabilization transfer.....	150,000	250,414	(100,414)
Transfer for tax reduction.....	362,500	362,500	-
Total other financing uses.....	894,697	1,106,682	(211,985)
Total expenditures and other financing uses.....	11,872,286	11,844,097	28,189
<b>Excess (deficiency) of revenues and other financing sources</b> <b>over expenditures and other financing uses.....</b>	(528,786)	751,208	1,279,994
Fund balances (deficits) at beginning of year.....	1,181,359	1,181,359	-
Fund balances (deficits) at end of year.....	\$ 652,573	\$ 1,932,567	\$ 1,279,994

See notes to general purpose financial statements.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 5,218,700	\$ 5,713,288	\$ 494,588	\$ 12,815,300	\$ 14,026,256	\$ 1,210,956
-	28,397	28,397	-	255,134	255,134
670,900	689,523	18,623	3,287,200	3,361,181	73,981
462,800	489,365	26,565	1,243,600	1,082,591	(161,009)
-	77,600	77,600	-	189,295	189,295
6,352,400	6,998,173	645,773	17,346,100	18,914,457	1,568,357
-	-	-	-	224,761	224,761
676,852	1,094,583	417,731	1,026,652	1,493,785	467,133
-	317,357	317,357	-	317,357	317,357
-	399,206	399,206	-	454,264	454,264
676,852	1,811,146	1,134,294	1,026,652	2,490,167	1,463,515
7,029,252	8,809,319	1,780,067	18,372,752	21,404,624	3,031,872
-	-	-	72,647	51,045	21,602
447,571	418,694	28,877	497,910	465,833	32,077
-	-	-	1,871	1,858	13
-	-	-	6,295	5,080	1,215
7,851	5,820	2,031	24,662	22,333	2,329
6,569	5,985	584	108,574	97,773	10,801
707	707	-	12,957	12,953	4
1,822	1,809	13	25,516	25,383	133
641	641	-	1,279	1,279	-
66,388	65,892	496	66,662	66,139	523
385	383	2	768	764	4
115	98	17	45,218	40,405	4,813
-	-	-	1,528	1,516	12
2,462	2,426	36	6,277	6,241	36
428	428	-	7,136	7,129	7
381,111	271,090	110,021	1,227,721	1,072,737	154,984
152,664	139,501	13,163	224,558	197,964	26,594
35,156	34,994	162	139,699	135,636	4,063
698,254	670,201	28,053	3,800,197	3,681,018	119,179
304,057	298,671	5,386	807,297	795,525	11,772
227,454	224,186	3,268	240,912	237,184	3,728
5,520	5,216	304	867,954	861,840	6,114
424,808	415,505	9,303	824,077	809,305	14,772
66,189	18,244	47,945	77,488	28,800	48,688
11,320	11,026	294	155,169	153,879	1,290
5,628	5,197	431	38,298	36,914	1,384
2,360	2,266	94	52,554	47,977	4,577
3,950,142	3,948,293	1,849	3,953,051	3,948,982	4,069
233,724	195,624	38,100	3,706,508	3,665,839	40,669
694,579	694,559	20	1,069,883	1,069,771	112
339,099	334,256	4,843	720,152	706,489	13,663
259,285	253,338	5,947	519,060	506,874	12,186
8,326,289	8,025,050	301,239	19,303,878	18,762,465	541,413
-	93,082	(93,082)	-	93,082	(93,082)
487,882	485,608	2,274	870,079	979,376	(109,297)
-	66,943	(66,943)	150,000	317,357	(167,357)
91,764	91,764	-	454,264	454,264	-
579,646	737,397	(157,751)	1,474,343	1,844,079	(369,736)
8,905,935	8,762,447	143,488	20,778,221	20,606,544	171,677
(1,876,683)	46,872	1,923,555	(2,405,469)	798,080	3,203,549
212,687	212,687	-	1,394,046	1,394,046	-
\$ (1,663,996)	\$ 259,559	\$ 1,923,555	\$ (1,011,423)	\$ 2,192,126	\$ 3,203,549

**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, 1998  
(Amounts in thousands)

	Primary Government				
	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)		
	Internal Service Funds	Nonexpendable Trust Funds	1998	1997	Component Units
Operating revenues:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 513,652
Donations.....	-	-	-	-	886
Premiums.....	735,005	-	735,005	697,413	32,867
Total operating revenues.....	735,005	-	735,005	697,413	547,405
Operating expenses:					
Claims and judgments expense.....	708,382	-	708,382	694,179	-
Cost of services and administration.....	-	-	-	-	1,037,129
Depreciation.....	-	-	-	-	251,565
Total operating expenses.....	708,382	-	708,382	694,179	1,288,694
Operating income (loss).....	26,623	-	26,623	3,234	(741,289)
Nonoperating revenues (expenses):					
Operating grants.....	-	-	-	-	98,308
Interest income.....	10,778	-	10,778	7,508	107,234
Interest expense.....	-	-	-	-	(280,129)
Other income.....	-	-	-	-	39,816
Other expenses.....	-	-	-	-	(44,388)
Nonoperating revenues (expenses), net.....	10,778	-	10,778	7,508	(79,159)
Income (loss) before operating transfers.....	37,401	-	37,401	10,742	(820,448)
Transfers in (out):					
Transfers in from primary government.....	-	-	-	-	768,280
Transfers out to primary government.....	-	-	-	-	(4,192)
Transfers in (out), net.....	-	-	-	-	764,088
Net income (loss).....	37,401	-	37,401	10,742	(56,360)
Add: Depreciation of fixed assets acquired from contributed capital.....	-	-	-	-	129,170
Increase (decrease) in retained earnings/fund balances.....	37,401	-	37,401	10,742	72,810
Retained earnings/fund balances at beginning of year.....	(140,338)	5,835	(134,503)	(145,245)	363,384
Retained earnings/fund balances at end of year.....	\$ (102,937)	\$ 5,835	\$ (97,102)	\$ (134,503)	\$ 436,194
Contributed capital at beginning of year.....					\$ 3,836,571
Add: Capital contributions.....					374,667
Less: Depreciation of fixed assets acquired from contributed capital.....					(129,170)
Contributed capital at end of year.....					\$ 4,082,068

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, 1998  
(Amounts in thousands)

	Primary Government				
	Proprietary Fund Type	Fiduciary Fund Type	Totals		
	Internal	Nonexpendable	(Memorandum Only)		
	Service Funds	Trust Funds	1998	1997	Component Units
Cash flows from operating activities:					
Operating income (loss).....	\$ 26,623	\$ -	\$ 26,623	\$ 3,234	\$ (741,289)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization.....	-	-	-	-	251,565
Other nonoperating revenues.....	-	-	-	-	39,816
Other nonoperating expenses.....	-	-	-	-	(44,388)
Change in assets and liabilities:					
Assets held in trust.....	(1,444)	-	(1,444)	3,702	-
Due from federal government.....	-	-	-	-	(24,415)
Loans.....	-	-	-	-	(104,198)
Other receivables.....	-	-	-	-	(7,238)
Due from cities and towns.....	-	-	-	-	(902)
Due from primary government.....	-	-	-	-	2,556
Due from other funds.....	13,111	-	13,111	(2,145)	-
Inventory.....	-	-	-	-	(1,795)
Restricted and other assets.....	-	-	-	-	(17,690)
Accounts payable.....	-	-	-	-	18,071
Accrued payroll.....	-	-	-	-	5,049
Compensated absences.....	-	-	-	-	1,058
Deferred revenue.....	-	-	-	-	(9,056)
Claims and judgments, net.....	1,418	-	1,418	22,991	81,434
Central artery/tunnel payable.....	-	-	-	-	600,000
Other accrued liabilities.....	-	-	-	-	(135,569)
Due to cities and towns.....	-	-	-	-	(1,145)
Due to primary government.....	-	-	-	-	100,000
Due to federal government.....	-	-	-	-	(33)
Total adjustments.....	13,085	-	13,085	24,548	753,120
Net cash provided by (used for) operating activities.....	39,708	-	39,708	27,782	11,831
Cash flows from noncapital financing activities:					
Operating grants.....	-	-	-	-	98,308
Transfers in from primary government.....	-	-	-	-	768,280
Transfers out to primary government.....	-	-	-	-	(4,192)
Net cash provided by (used for) noncapital financing activities.....	-	-	-	-	862,396
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets.....	-	-	-	-	(1,229,699)
Proceeds from the issuance of bonds and notes.....	-	-	-	-	3,133,191
Interest on bonds and notes.....	-	-	-	-	(280,129)
Capital contributions.....	-	-	-	-	374,667
Principal payments on bonds and notes.....	-	-	-	-	(1,142,938)
Payments to refunded bond escrow agent.....	-	-	-	-	(554,993)
Proceeds from sale of equipment.....	-	-	-	-	321
Net cash provided by (used for) capital and related financing activities.....	-	-	-	-	300,420
Cash flows from investing activities:					
Purchases of investments.....	(50,486)	-	(50,486)	(35,290)	(9,949,159)
Sales and maturities of investments.....	-	-	-	-	8,795,448
Interest income.....	10,778	-	10,778	7,508	107,234
Net cash provided by (used for) investing activities.....	(39,708)	-	(39,708)	(27,782)	(1,046,477)
Net increase (decrease) in cash and cash equivalents.....	-	-	-	-	128,170
Cash and cash equivalents at beginning of year.....	-	5,835	5,835	5,835	835,477
Cash and cash equivalents at end of year.....	\$ -	\$ 5,835	\$ 5,835	\$ 5,835	\$ 963,647
Reconciliation to Combined Balance Sheet:					
Cash and cash equivalents at end of year.....	\$ -	\$ 5,835	\$ 5,835	\$ 5,835	\$ 963,647
Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency.....	-	3,097,119	3,097,119	2,502,764	-
Cash and cash equivalents per the Combined Balance Sheet.....	\$ -	\$ 3,102,954	\$ 3,102,954	\$ 2,508,599	\$ 963,647

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, 1998  
(Amounts in thousands)

	1998	1997
Additions:		
Commonwealth contributions.....	\$ 939,089	\$ 899,048
Employee contributions.....	530,761	457,530
Total contributions.....	1,469,850	1,356,578
Net investment income:		
Net appreciation in fair value of investments.....	2,788,533	2,823,841
Interest.....	352,503	368,654
Dividends.....	256,430	158,922
Real estate operating income, net.....	71,824	54,525
Alternative investments.....	5,205	27,457
Other.....	3,755	156
Total investment income.....	3,478,250	3,433,555
Less: investment expense.....	42,869	60,703
Net investment income.....	3,435,381	3,372,852
Total additions.....	4,905,231	4,729,430
Deductions:		
Administration.....	35,973	3,688
Retirement benefits and refunds.....	1,208,011	1,121,952
Total deductions.....	1,243,984	1,125,640
Net increase.....	3,661,247	3,603,790
Net assets available for pension benefits at beginning of year (fund balance reserved for employees' pension benefits).....	19,560,061	15,956,271
Net assets available for pension benefits at end of year (fund balance reserved for employees' pension benefits).....	\$ 23,221,308	\$ 19,560,061

See notes to general purpose financial statements.

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenues.....	\$ 922,752	\$ -	\$ -
Federal appropriations.....	-	6,543	592
Federal grants and contracts.....	-	221,462	950
State grants and contracts.....	-	10,233	73
Local grants and contracts.....	-	5,774	-
Private gifts, grants and contracts.....	-	78,638	15
Investment income (loss).....	-	252	181
Endowment income.....	-	757	-
Net realized/unrealized gain (loss) on investments.....	-	1,384	3
Interest on loans receivable.....	-	-	1,026
Reimbursed loan cancellations.....	-	-	244
Other income.....	-	6,967	144
Expended for plant facilities.....	-	-	-
Retirement of indebtedness.....	-	-	-
Other additions.....	-	103	563
Total revenue and other additions.....	922,752	332,113	3,791
Expenditures and other deductions:			
Educational and general expenditures.....	1,340,071	339,184	-
Auxiliary enterprises expenditures.....	157,174	-	-
Indirect costs recovered.....	-	43,767	-
Independent operations.....	17,490	-	-
Clinical services costs.....	-	-	-
Refunded to grantors and donors.....	-	531	-
Loan cancellations and write-offs.....	-	-	644
Administrative and collection costs.....	-	-	1,301
Retirement of indebtedness.....	-	-	-
Interest on indebtedness.....	-	-	-
Expended for plant facilities.....	-	-	-
Depreciation and amortization.....	-	-	-
Disposal of plant facilities.....	-	-	-
Other deductions.....	-	-	-
Total expenditures and other deductions.....	1,514,735	383,482	1,945
Mandatory transfers:			
Principal and interest.....	(29,497)	-	-
Renewals and replacements.....	(233)	-	-
Student loan fund matching.....	(1,307)	1,159	148
Operating transfers out.....	(72,868)	-	-
Nonmandatory transfers:			
Transfers of appropriation.....	782,159	40,826	-
Transfers of bond proceeds.....	-	31,143	-
Unexpended plant funds.....	(23,567)	-	-
Renewals and replacements.....	(28,294)	(13,468)	-
Other nonmandatory transfers.....	(4,484)	(369)	(180)
Total transfers.....	621,909	59,291	(32)
Net increase (decrease) for the year.....	29,926	7,922	1,814
Loss from discontinued operations.....	(9,269)	-	-
Net amounts transferred to UMass Memorial Health Care, Inc.....	22,713	-	-
Net increase (decrease) after discontinued operations.....	43,370	7,922	1,814
Fund balances at beginning of year.....	94,963	43,582	53,468
Fund balances at end of year.....	\$ 138,333	\$ 51,504	\$ 55,282

See notes to general purpose financial statements.

Endowment and Similar Funds	Plant Funds	Totals (Memorandum Only)	
		1998	1997
\$ -	\$ -	\$ 922,752	\$ 1,319,581
-	-	7,135	6,391
-	2,846	225,258	191,152
-	34,133	44,439	42,487
-	-	5,774	2,575
32,343	357	111,353	82,731
821	5,795	7,049	5,062
483	-	1,240	4,064
5,764	124	7,275	10,706
-	-	1,026	973
-	-	244	501
162	2,496	9,769	3,114
-	99,313	99,313	125,574
-	16,628	16,628	18,509
9	1,678	2,353	10,336
39,582	163,370	1,461,608	1,823,756
14	-	1,679,269	1,569,231
-	-	157,174	155,503
-	-	43,767	37,304
-	-	17,490	-
-	-	-	428,232
-	-	531	544
-	-	644	278
16	1,325	2,642	3,674
-	16,628	16,628	18,455
-	19,910	19,910	22,252
-	67,652	67,652	93,055
-	445	445	24,309
-	24,815	24,815	22,878
9,963	12,952	22,915	6,118
9,993	143,727	2,053,882	2,381,833
-	29,497	-	-
-	233	-	-
-	-	-	-
-	-	(72,868)	(75,060)
-	-	822,985	747,036
-	-	31,143	34,977
-	23,567	-	-
-	41,762	-	-
1,823	3,210	-	-
1,823	98,269	781,260	706,953
31,412	117,912	188,986	148,876
-	(374)	(9,643)	-
(18,723)	(74,519)	(70,529)	-
12,689	43,019	108,814	148,876
127,527	2,192,679	2,512,219	2,363,343
\$ 140,216	\$ 2,235,698	\$ 2,621,033	\$ 2,512,219



# University And College Fund Type

## Combined Statement Of Current Funds Revenues, Expenditures, And Other Changes

Fiscal Year Ended June 30, 1998

(Amounts in thousands)

	Current Funds		Totals (Memorandum Only)	
	Unrestricted	Restricted	1998	1997
Revenues and other additions:				
Tuition and fees.....	\$ 517,656	\$ 2,109	\$ 519,765	\$ 558,945
Federal appropriations.....	-	6,449	6,449	6,460
Federal grants and contracts.....	-	186,692	186,692	167,659
State grants and contracts.....	456	10,306	10,762	3,474
Local grants and contracts.....	790	5,072	5,862	6,518
Private gifts, grants and contracts.....	8,259	69,858	78,117	63,286
Endowment income.....	337	752	1,089	807
Sales and service, educational.....	12,172	-	12,172	11,233
Sales and service, auxiliary enterprises.....	183,283	-	183,283	179,459
Sales and service, independent operations.....	26,163	-	26,163	-
Sales and service, clinical services.....	-	-	-	473,938
Recovery of indirect costs.....	43,767	-	43,767	37,304
Other investment income (loss).....	22,192	1,521	23,713	28,920
Other.....	107,677	5,502	113,179	22,333
Total current funds revenues.....	922,752	288,261	1,211,013	1,560,336
Expenditures:				
Instruction.....	559,292	46,183	605,475	607,836
Research.....	54,569	122,589	177,158	151,641
Public service.....	32,912	40,008	72,920	58,577
Academic support.....	138,948	20,955	159,903	138,779
Student services.....	127,082	9,743	136,825	118,003
Institutional support.....	192,976	7,374	200,350	178,703
Operation and maintenance of plant.....	173,954	4,979	178,933	176,464
Scholarships and fellowships.....	60,338	86,845	147,183	139,228
Auxiliary enterprises.....	157,174	-	157,174	155,503
Independent operations.....	17,490	508	17,998	-
Clinical services costs.....	-	-	-	428,232
Total current funds expenditures.....	1,514,735	339,184	1,853,919	2,152,966
Transfers and other changes:				
Mandatory transfers:				
Principal and interest.....	(29,497)	-	(29,497)	(36,906)
Renewals and replacements.....	(233)	-	(233)	(611)
Student loan fund matching.....	(1,307)	1,159	(148)	(85)
Operating transfers out.....	(72,868)	-	(72,868)	(75,060)
Nonmandatory transfers:				
Transfers of appropriation.....	782,159	40,826	822,985	747,036
Transfers of bond proceeds.....	-	31,143	31,143	34,977
Unexpended plant funds.....	(23,567)	-	(23,567)	(56,374)
Renewals and replacements.....	(28,294)	(13,468)	(41,762)	(23,351)
Other nonmandatory transfers.....	(4,484)	(369)	(4,853)	(947)
Refunds to grantors and donors.....	-	(531)	(531)	(544)
Excess (deficiency) of restricted receipts over transfers to revenue.....	-	85	85	(3,134)
Total transfers and other changes.....	621,909	58,845	680,754	585,001
Total increase (decrease) in fund balances.....	29,926	7,922	37,848	(7,629)
Loss from discontinued operations.....	(9,269)	-	(9,269)	-
Net amounts transferred to UMass Memorial Health Care, Inc.....	22,713	-	22,713	-
Net increase (decrease) after discontinued operations.....	\$ 43,370	\$ 7,922	\$ 51,292	\$ (7,629)

See notes to general purpose financial statements.



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# Discretely Presented Component Units

## Combining Balance Sheet

June 30, 1998  
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
<b>ASSETS</b>			
Cash and short-term investments.....	\$ 509,662	\$ 30,204	\$ 16,235
Investments.....	-	-	14
Restricted investments.....	141,883	1,331,907	-
Investments of deferred compensation plan.....	7,029	17,804	420
Assets held in trust.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Due from federal government.....	-	-	8,676
Loans.....	-	-	-
Other receivables.....	45,202	6,774	7,006
Due from cities and towns.....	-	-	-
Due from primary government.....	246,513	-	61,795
Inventory.....	44,516	1,348	242
Fixed assets.....	5,991,521	1,482,839	159,384
Other assets.....	120,116	6,125	3,531
Total assets.....	<u>\$ 7,106,442</u>	<u>\$ 2,877,001</u>	<u>\$ 257,303</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable.....	\$ 44,738	\$ 9,395	\$ 13,900
Accrued payroll.....	29,859	1,060	236
Compensated absences.....	-	6,777	710
Due to cities and towns.....	-	-	145
Due to primary government.....	-	100,000	-
Due to federal government.....	-	-	50
Deferred revenue.....	35,898	4,878	175
Deferred compensation benefits payable.....	7,029	17,804	420
Agency liabilities.....	-	-	-
Claims and judgments.....	81,005	-	3,594
Central artery/tunnel payable.....	-	600,000	-
Other accrued liabilities.....	64,781	55,785	4,133
Capital leases.....	529,638	-	4,887
Bonds, notes payable and certificates of participation.....	3,495,580	1,713,686	78,421
Total liabilities.....	<u>4,288,528</u>	<u>2,509,385</u>	<u>106,671</u>
Fund equity:			
Contributed capital.....	2,974,490	-	147,080
Retained earnings (deficits):			
Reserved for investment programs.....	-	367,616	-
Reserved for bond retirement.....	-	-	-
Unreserved.....	(156,576)	-	3,552
Total fund equity.....	<u>2,817,914</u>	<u>367,616</u>	<u>150,632</u>
Total liabilities and fund equity.....	<u>\$ 7,106,442</u>	<u>\$ 2,877,001</u>	<u>\$ 257,303</u>

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Total
\$ 259,532	\$ 16,143	\$ 131,871	\$ 963,647
391,620	-	42,879	434,513
-	10,646	4,587	1,489,023
-	-	1,177	26,430
-	-	5,251	5,251
32,430	-	12,238	53,344
940,594	-	206,739	1,147,333
18,276	1,096	18,091	96,445
-	-	1,162	1,162
-	20,820	2,305	331,433
-	-	193	46,299
17	199,436	50,957	7,884,154
14	1,475	7,916	139,177
<u>\$ 1,642,483</u>	<u>\$ 249,616</u>	<u>\$ 485,366</u>	<u>\$ 12,618,211</u>

\$ -	\$ 4,099	\$ 17,243	\$ 89,375
-	-	1,359	32,514
-	-	532	8,019
-	-	-	145
-	-	3,750	103,750
-	-	-	50
-	879	31,190	73,020
-	-	1,177	26,430
-	-	5,251	5,251
-	-	-	84,599
-	-	-	600,000
39,045	28,018	9,366	201,128
-	-	263	534,788
825,375	115,754	112,064	6,340,880
<u>864,420</u>	<u>148,750</u>	<u>182,195</u>	<u>8,099,949</u>
705,987	94,631	159,880	4,082,068
-	-	60,746	428,362
-	-	2,567	2,567
72,076	6,235	79,978	5,265
<u>778,063</u>	<u>100,866</u>	<u>303,171</u>	<u>4,518,262</u>
<u>\$ 1,642,483</u>	<u>\$ 249,616</u>	<u>\$ 485,366</u>	<u>\$ 12,618,211</u>

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

Fiscal Year Ended June 30, 1998

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
Operating revenues:			
Charges for services.....	\$ 245,854	\$ 163,008	\$ 59,837
Donations.....	-	-	-
Other.....	-	18,543	715
Total operating revenues.....	245,854	181,551	60,552
Operating expenses:			
Cost of services and administration.....	633,492	122,893	122,082
Depreciation.....	192,874	29,784	16,225
Total operating expenses.....	826,366	152,677	138,307
Operating income (loss).....	(580,512)	28,874	(77,755)
Nonoperating revenues (expenses):			
Operating grants.....	2,926	-	10,444
Interest income.....	-	33,160	1,004
Interest expense.....	(164,179)	(51,800)	(3,547)
Other income.....	33,853	-	793
Other expenses.....	(17,642)	-	(1,491)
Nonoperating revenues (expenses), net.....	(145,042)	(18,640)	7,203
Income (loss) before transfers .....	(725,554)	10,234	(70,552)
Transfers:			
Transfers in from primary government.....	653,459	-	55,574
Transfers out to primary government.....	-	-	-
Total transfers.....	653,459	-	55,574
Net income (loss).....	(72,095)	10,234	(14,978)
Add: Depreciation of fixed assets acquired from contributed capital.....	106,000	-	16,133
Increase (decrease) in retained earnings.....	33,905	10,234	1,155
Retained earnings (deficits) at beginning of year.....	(190,481)	357,382	2,397
Retained earnings (deficits) at end of year.....	\$ (156,576)	\$ 367,616	\$ 3,552
Contributed capital at beginning of year.....	\$ 2,931,501	\$ -	\$ 132,476
Add: Capital contributions, net.....	148,989	-	30,737
Less: Depreciation of fixed assets acquired from contributed capital.....	(106,000)	-	(16,133)
Contributed capital at end of year.....	\$ 2,974,490	\$ -	\$ 147,080

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Total
\$ -	\$ 15,948	\$ 29,005	\$ 513,652
-	-	886	886
1,391	-	12,218	32,867
1,391	15,948	42,109	547,405
14,009	20,000	124,653	1,037,129
8	7,290	5,384	251,565
14,017	27,290	130,037	1,288,694
(12,626)	(11,342)	(87,928)	(741,289)
11,111	-	73,827	98,308
65,300	472	7,298	107,234
(44,578)	(8,535)	(7,490)	(280,129)
-	172	4,998	39,816
(20,200)	(157)	(4,898)	(44,388)
11,633	(8,048)	73,735	(79,159)
(993)	(19,390)	(14,193)	(820,448)
2,267	19,903	37,077	768,280
-	(4,192)	-	(4,192)
2,267	15,711	37,077	764,088
1,274	(3,679)	22,884	(56,360)
-	7,037	-	129,170
1,274	3,358	22,884	72,810
70,802	2,877	120,407	363,384
\$ 72,076	\$ 6,235	\$ 143,291	\$ 436,194
\$ 607,035	\$ 80,940	\$ 84,619	\$ 3,836,571
98,952	20,728	75,261	374,667
-	(7,037)	-	(129,170)
\$ 705,987	\$ 94,631	\$ 159,880	\$ 4,082,068

# Discretely Presented Component Units

## Combining Statement Of Cash Flows

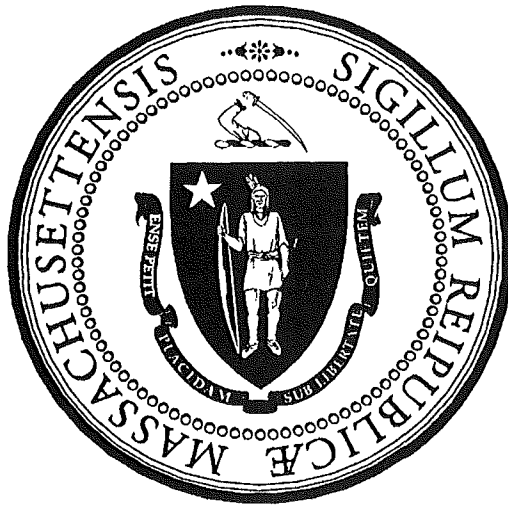
Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
Cash flows from operating activities:			
Operating income (loss).....	\$ (580,512)	\$ 28,874	\$ (77,755)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization.....	192,874	29,784	16,225
Other nonoperating revenues.....	33,853	-	793
Other nonoperating expenses.....	(17,642)	-	(1,491)
Change in assets and liabilities:			
Due from federal government.....	-	-	(2,537)
Loans.....	-	-	-
Other receivables.....	4,870	(1,984)	251
Due from cities and towns.....	-	-	-
Due from primary government.....	(13,983)	-	(2,908)
Inventory.....	(1,691)	(62)	19
Restricted and other assets.....	(9,209)	(1,511)	(498)
Accounts payable.....	9,943	(841)	4,730
Accrued payroll.....	3,912	215	83
Compensated absences.....	-	1,126	90
Deferred revenue.....	(4,221)	1,009	74
Claims and judgments, net.....	81,005	-	429
Central artery/tunnel payable.....	-	600,000	-
Other accrued liabilities.....	(97,597)	32,786	(381)
Due to cities and towns.....	-	-	-
Due to primary government.....	-	100,000	-
Due to federal government.....	-	-	18
Total adjustments.....	182,114	760,522	14,897
Net cash provided by (used for) operating activities.....	(398,398)	789,396	(62,858)
Cash flows from noncapital financing activities:			
Operating grants.....	2,926	-	10,444
Transfers in from primary government.....	653,459	-	55,574
Transfers out to primary government.....	-	-	-
Net cash provided by noncapital financing activities.....	656,385	-	66,018
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets.....	(430,887)	(760,751)	(29,311)
Proceeds from the issuance of bonds and notes.....	1,359,891	1,669,540	71,824
Interest on bonds and notes.....	(164,179)	(51,800)	(3,547)
Capital contributions.....	148,989	-	30,737
Principal payments on bonds and notes.....	(982,304)	(4,131)	(70,640)
Payments to refunded bond escrow agent.....	-	(555,909)	-
Proceeds from sale of equipment.....	-	-	321
Net cash provided by (used for) capital and related financing activities.....	(68,490)	296,949	(616)
Cash flows from investing activities:			
Purchases of investments.....	(826,393)	(8,762,690)	(14)
Sales and maturities of investments.....	793,150	7,645,180	9
Interest income.....	-	33,160	1,004
Net cash provided by (used for) investing activities.....	(33,243)	(1,084,350)	999
Net increase (decrease) in cash and cash equivalents.....	156,254	1,995	3,543
Cash and cash equivalents at beginning of year.....	353,408	28,209	12,692
Cash and cash equivalents at end of year.....	\$ 509,662	\$ 30,204	\$ 16,235

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Total
\$ (12,626)	\$ (11,342)	\$ (87,928)	\$ (741,289)
8	7,290	5,384	251,565
-	172	4,998	39,816
(20,200)	(157)	(4,898)	(44,388)
(32,430)	-	10,552	(24,415)
(83,300)	-	(20,898)	(104,198)
450	(328)	(10,497)	(7,238)
-	-	(902)	(902)
20,200	(2,854)	2,101	2,556
-	-	(61)	(1,795)
2	326	(6,800)	(17,690)
-	(255)	4,494	18,071
-	-	839	5,049
-	-	(158)	1,058
-	372	(6,290)	(9,056)
-	-	-	81,434
-	-	-	600,000
(77,803)	4,272	3,154	(135,569)
-	-	(1,145)	(1,145)
-	-	-	100,000
-	-	(51)	(33)
(193,073)	8,838	(20,178)	753,120
(205,699)	(2,504)	(108,106)	11,831
11,111	-	73,827	98,308
2,267	19,903	37,077	768,280
-	(4,192)	-	(4,192)
13,378	15,711	110,904	862,396
(8)	(1,120)	(7,622)	(1,229,699)
-	-	31,936	3,133,191
(44,578)	(8,535)	(7,490)	(280,129)
98,952	20,728	75,261	374,667
(37,645)	(20,156)	(28,062)	(1,142,938)
-	-	916	(554,993)
-	-	-	321
16,721	(9,083)	64,939	300,420
(266,153)	(39,622)	(54,287)	(9,949,159)
271,636	38,181	47,292	8,795,448
65,300	472	7,298	107,234
70,783	(969)	303	(1,046,477)
(104,817)	3,155	68,040	128,170
364,349	12,988	63,831	835,477
\$ 259,532	\$ 16,143	\$ 131,871	\$ 963,647





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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 county governments and 351 cities and towns exercising the functions of local governments. During fiscal year 1998, two counties were abolished and absorbed by the Commonwealth. In fiscal year 1999, three counties will be abolished and absorbed by the state government.

For financial reporting purposes, the Commonwealth 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 38 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:

- (1) In the Pension Trust Funds, 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.

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 campuses 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.
- (10) Worcester Foundation for Bio Medical Research, Inc. was organized as a non-profit, independent research institute performing basic biomedical research. On June 27, 1997, the Foundation's Board of Trustees voted to merge the Foundation's research programs with those of the University of Massachusetts-Worcester. On June 30, 1998, the Foundation transferred title to its campus, endowment and other residual assets to various components of the University of Massachusetts systems.

During fiscal year 1998 certain activities of the Clinical Service Division of the University of Massachusetts (which is comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School – Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust) and the Worcester City Campus Corporation doing business as UMass Health Systems were contributed to and merged with and into a Massachusetts not-for-profit corporation named UMass-Memorial Medical Center, Inc. UMass-Memorial Medical Center, Inc. is not a component unit of the University of Massachusetts or the Commonwealth.

**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. The Commonwealth guarantees debt of the MTA. 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 a 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, the Boston Common Parking Garage and the Springfield Convention Center. The MCCA is governed by a thirteen-member board of directors, which includes nine members appointed 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. The Commonwealth owns all of the common stock of the corporation.
- (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.
- (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 is

authorized to issue up to \$50,000,000 of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also requires Commonwealth approval to issue bonded debt. Subsequent to June 30, 1998 the Government Land Bank was merged with The Massachusetts Industrial Finance Agency, a related organization, to create a new entity The Massachusetts Development Finance Agency.

- (10) The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts's 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. The Commonwealth can impose its will on the entity as the Commonwealth approves the loans issued by CEDAC, therefore, controlling the level of services, projects, and activities the entity provides.
- (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 component units were audited by Deloitte & Touche LLP:**

***Discretely Presented:***

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

***Blended:***

Commonwealth of Massachusetts Employees  
Deferred Compensation Plan  
Office of the State Treasurer  
One Ashburton Place, 12<sup>th</sup> 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 Industrial Park  
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  
C/O Massachusetts Development Finance Agency  
75 Federal Street  
Boston, MA 02110

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 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 01602

**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  
North 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

Worcester Foundation for Biomedical Research, Inc.  
168 Maple Avenue  
Shrewsbury, MA 01545

**The following investment vehicle of the Pension Trust Fund was audited by a firm other than Deloitte & Touche LLP:**

Pension Reserve Investment Trust Fund  
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:**

Berkshire Community College  
1350 West Street  
Pittsfield, MA 01201

Bridgewater State College  
131 Grove Street  
Bridgewater, MA 02324

Bristol Community College  
777 Elsbree Street  
Fall River, MA 02720

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 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

Quinsigamond Community College  
670 West Boylston Street  
Worcester, MA 01606

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 01602

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

Bunker Hill Community College  
Cape Cod Community College  
Greenfield Community College  
Massachusetts Bay Community College  
Massachusetts College of Liberal Arts  
Massachusetts Maritime Academy  
North Shore Community College  
Northern Essex Community College  
Roxbury Community College  
Salem State College

The following are "related organizations" under GASB No. 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 (MIFA). 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 special obligation bonds and federal reimbursements.

**Proprietary Funds** – include 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 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 and the Commonwealth.

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.

The Commonwealth has separately published its audited "Statutory Basis Financial Report" for the Fiscal Year 1998 dated October 27, 1998.

**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.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value.

The Pension Trust Funds, with investments totaling \$22,656,891,000, 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, 1998, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$1,943,728,000 in the Pension Trust Funds, representing 5.7%, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$10,113,000 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. Annuity contracts represent guaranteed investment contracts and are carried at present value. Investments of the Commonwealth's Employees 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, 1998, the market value of the securities on loan from PRIT was approximately \$1,190,000,000. The value of the collateral held by PRIT amounted to \$1,239,000,000 at June 30, 1998. 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 lending agents indemnify PRIT in the extent that the agents fail to return the securities lent or if the collateral is inadequate to replace the securities lent. PRIT does not believe it has credit risk exposure to the borrower because the amounts PRIT owes the borrower exceeds the amounts the borrower owes PRIT. The securities on loan are included in investments at fair value as of June 30, 1998 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 except land with infrastructure. 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 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 - 60 years  
Equipment, furniture,  
    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 and worker's compensation activity are accounted for through the Internal Service Funds.

**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 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 Human Resources Division and another program for individuals working on the Central Artery/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 Internal Service Funds account for workers' compensation and group insurance risk financing activities. The Internal Service Funds revenue are derived from charges to other funds for their proportionate share of expenses.

**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 General Laws and an amount set aside in the Tax Escrow Fund to fund the Fiscal Year 1998 portion of permanent tax reductions authorized by Chapter 175 of the Acts of 1998. 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 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 deferred compensation" – identifies amounts held for employees payment of deferred compensation in accordance with Internal Revenue Service Code Section 457.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991 and Grant Anticipation Notes authorized by Chapter

11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"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 does 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, 1998, certain reclassifications have been made to the 1997 balances to conform to the presentation used in 1998. Certain amounts in the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

## 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.

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 majority of the Commonwealth's appropriations are noncontinuing 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. The allocation of fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriations process or separately budgeted.

The original fiscal year 1998 appropriation act authorized approximately \$17,527,458,000 in direct appropriations and \$838,636,000 in authorizations to retain and expend certain nontax revenues of which \$820,636,000 was estimated to be collected and expended plus \$98,084,000 of interagency chargebacks. The act also included estimates of \$12,815,300,000 in tax revenues and approximately \$5,557,452,000 in nontax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$18,372,752,000, and with unreserved balances on a statutory basis of approximately \$277,831,000 carried forward from fiscal year 1997, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1998, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These supplements added approximately \$173,834,000 in direct appropriations and \$28,574,000 in additional retained revenue authorizations.

Subsequent to June 30, 1998, the Legislature passed and the Governor signed, with modification through veto, approximately \$293,475,000 in additional supplemental appropriations, \$62,869,000 in additional retained revenue authorizations and \$122,000 in additional interagency chargebacks. The cumulative fiscal year 1998 appropriations, retained revenue and interagency chargebacks totaled \$19,023,052,000. Appropriations continued from fiscal year 1997 totaled approximately \$180,260,000, and certain interfund transfers, directed by statute, totaled approximately \$1,574,909,000.

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.

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.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Schedule 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 Fund	Special Revenue
Excess of revenues and other financing sources over expenditures and other financing uses (Statutory basis).....	\$ 751,208	\$ 46,872
Entity differences:		
Excess of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds.....	-	312,312
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory purposes are accounted for in the General Fund for GAAP.....	683,691	(683,691)
Basis of accounting differences:		
Net change in taxes receivable.....	188,446	125,385
Net change in due from federal government.....	(23,405)	(195)
Net change in other receivables and other assets.....	205,798	26
Net change in tax refunds and abatements payable.....	(185,765)	(120,966)
Net change in accounts payable and other liabilities.....	(189,732)	(52,720)
Excess change of revenues and other financing sources over expenditures and other financing uses (GAAP basis).....	\$ 1,430,241	\$ (372,977)

### 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, 1998, the carrying amount of the Primary Government's total cash and cash equivalents was \$611,864,000 and the corresponding bank balance was \$603,540,000. Bank deposits in the amount of \$282,354,000 were insured by the Federal Deposit Insurance Corporation, \$120,408,000 were collateralized in the name of the Commonwealth, and \$200,778,000 were uninsured and uncollateralized.

#### Component Units -

As of June 30, 1998, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$608,432,000, and the corresponding bank balances were \$612,585,000. Bank deposits of \$144,451,000 were insured by the Federal Deposit Insurance Corporation, \$8,822,000 were collateralized in the name of the respective component units, and \$459,312,000 were uninsured and uncollateralized.

**Investments** – During the fiscal year, the Commonwealth implemented GASB No. 31, which requires certain investments to be recorded at fair value. Implementation of this standard had no material effect on the financial statements. 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 & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. 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, 1998, are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<b>Investment</b>				
Repurchase agreements.....	\$ 1,177,539	\$ -	\$ 6,115	\$ 1,183,654
U.S. Treasury obligations.....	1,230,897	5,649	141,585	1,378,131
Commercial paper.....	2,804,273	-	-	2,804,273
Government obligations.....	1,893,393	23,222	78,565	1,995,180
Equity securities.....	15,510,608	-	27,026	15,537,634
Fixed income securities.....	3,045,856	-	133,869	3,179,725
Asset backed investments.....	676	-	-	676
Notes.....	149,884	-	-	149,884
Other.....	186,669	4,934	2,136	193,739
	<u>\$ 25,999,795</u>	<u>\$ 33,805</u>	<u>\$ 389,296</u>	26,422,896
Money market investments.....				1,090,624
Mutual fund investments.....				43,719
Deferred compensation plan mutual funds.....				2,006,455
Annuity contracts.....				1,340,514
Eurodollar contracts.....				8,654
Real estate.....				947,329
Assets held in trust.....				1,918,109
Deposits with U.S. Treasury.....				1,699,693
Certificate of deposits.....				6,039
Other.....				998,477
Total.....				<u>\$ 36,482,509</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.....	\$ 36,482,509
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	5,327,884
Restrictive investments reported separately in the combined balance sheet.....	273,705
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	2,006,455
Assets held in trust reported separately in the combined balance sheet.....	1,918,109
Annuity contracts reported separately in the combined balance sheet.....	1,340,514
Deposits reported separately in the combined balance sheet.....	1,831,890
Investments as reported on the combined balance sheet.....	<u>\$ 23,783,952</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1998 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 611,864
Cash with fiscal agent.....	(37,631)
Short-term investments.....	<u>5,327,884</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$ 5,902,117</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 futures.

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 a nonliquid 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 nonhedging 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, 1998 for the Pension Trust Funds amount to approximately \$270,032,000 with unrealized gain of approximately \$2,363,000.

**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, 1998, there were no material options outstanding.

**Component Units** – Investments of the discretely presented Component Units at June 30, 1998 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<b>Investment</b>				
Repurchase agreements.....	\$ 25,459	\$ -	2,457	\$ 27,916
U.S. Treasury obligations.....	2,939	-	-	2,939
Commercial paper.....	223,453	33,947	-	257,400
Government obligations.....	114,292	1,244,176	25,326	1,383,794
Equity securities.....	-	-	1,044	1,044
Notes.....	15,110	-	6,856	21,966
Other.....	18,819	114,588	5,084	138,491
	<u>\$ 400,072</u>	<u>\$ 1,392,711</u>	<u>\$ 40,767</u>	<u>1,833,550</u>
Money market investments.....				174
Mutual fund investments.....				125
Deferred compensation plan mutual funds.....				26,430
Assets held in trust.....				5,251
Guaranteed investment contracts.....				438,380
Certificate of deposits.....				6,522
Total.....				<u>\$ 2,310,432</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.....	\$ 2,310,432
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	355,215
Restricted investments reported separately in the combined balance sheet.....	1,489,023
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	26,430
Assets held in trust reported separately in the combined balance sheet.....	5,251
Investments as reported in the combined balance sheet....	<u>\$ 434,513</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1998 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 608,432
Short-term investments reported as investments for GASB 3 disclosure purposes but reported in the combined balance sheet as cash and short-term investments.....	<u>355,215</u>
Cash and short-term investments as reported in the combined balance sheet.....	<u>\$ 963,647</u>

#### 4. RECEIVABLES

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

##### Primary Government –

	Taxes	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
General Fund.....	\$ 1,190,967	\$ 430,009	\$ -	\$ 672,174	\$ (771,559)	\$ 1,521,591
Special Revenue Funds.....	831,820	340,544	-	121,569	(164,141)	1,129,792
Capital Projects Funds.....	-	4,475	-	236	(114)	4,597
Trust and Agency Funds...	326,697	3,991	643	1,017,066	(543,432)	804,965
University and College Fund.....	-	18,441	56,251	271,363	(32,216)	313,839
Subtotal.....	2,349,484	797,460	56,894	2,082,408	<u>\$(1,511,462)</u>	3,774,784
Less allowance for uncollectibles .....	(436,967)	(5,415)	(7,084)	(1,061,996)		
Net receivable.....	<u>\$ 1,912,517</u>	<u>\$ 792,045</u>	<u>\$ 49,810</u>	<u>\$ 1,020,412</u>		<u>\$ 3,774,784</u>

##### Component Units –

	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
MBTA.....	\$ -	\$ -	\$ 45,202	\$ -	\$ 45,202
MTA.....	-	-	6,774	-	6,774
Regional Transit Authorities.....	8,676	-	7,031	(25)	15,682
MWPAT.....	32,430	940,594	18,276	-	991,300
MCCA.....	-	-	1,151	(55)	1,096
Economic Development.....	12,238	215,031	18,180	(8,381)	237,068
Subtotal.....	53,344	1,155,625	96,614	<u>\$(8,461)</u>	1,297,122
Less allowance for uncollectibles ...	-	(8,292)	(169)		
Net receivable.....	<u>\$ 53,344</u>	<u>\$ 1,147,333</u>	<u>\$ 96,445</u>		<u>\$ 1,297,122</u>

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

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at June 30, 1998 are summarized as follows (amounts in thousands):

**Primary Government:**

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Federal Grants.....	\$ 26,573	\$ -
Local Aid.....	1,770,509	-
Environmental.....	15,065	-
Universal Health Care.....	18,300	-
Capital Projects Funds:		
General.....	-	88,082
Capital Investment Trust.....	-	153,519
Boston Convention and Exhibition.....	19,000	-
Capital Improvement & Investment Trust.....	-	139,236
Capital Expenditure Reserve.....	-	2
Highway.....	497,486	-
Federal Highway.....	-	39,372
Local Aid.....	25,545	-
Other.....	2,868	-
Trust and Agency Funds:		
Pension Trust.....	1,672	-
University and College Fund:		
Current - Unrestricted.....	6,328	-
Subtotal.....	2,383,346	420,211
Special Revenue Funds:		
General Fund.....	-	1,830,447
Special Revenue Funds:		
Highway.....	338	-
Other.....	-	103,124
Subtotal.....	338	1,933,571
Capital Projects Funds:		
General Fund.....	420,211	544,899
Special Revenue Funds:		
Other.....	102,786	-
Subtotal.....	522,997	544,899
Internal Service Funds:		
University and College Funds:		
Current - unrestricted.....	22,289	-
Subtotal.....	22,289	-
Fiduciary Funds:		
General Fund.....	-	1,672
Subtotal.....	-	1,672
University and College Fund:		
General Fund.....	-	6,328
Internal Services Funds:		
Employees Workers' Compensation.....	-	22,289
University and College Fund:		
Current - unrestricted.....	32,217	51,254
Current - restricted.....	37,252	243
Loan.....	9	-
Endowment.....	-	15,037
Plant.....	9,502	12,446
Subtotal.....	78,980	107,597
Total Primary Government.....	\$ 3,007,950	\$ 3,007,950

**Component Units:**

	Due from	Due to
General Fund:		
MBTA.....	\$ -	\$ 4,542
RTAs.....	-	35,299
MCCA.....	-	20,820
Economic Development Authorities.....	3,750	803
Subtotal.....	3,750	61,464
Special Revenue Funds:		
MBTA.....	-	241,971
RTAs.....	-	26,496
Economic Development Authorities.....	-	1,000
Subtotal.....	-	269,467
Capital Projects Funds:		
Economic Development Authorities.....	-	502
Subtotal.....	-	502
MBTA:		
General Fund.....	4,542	-
Special Revenue Funds:		
Highway.....	80,657	-
Local Aid.....	161,314	-
Subtotal.....	246,513	-
RTAs:		
General Fund.....	35,299	-
Special Revenue Funds:		
Highway.....	8,832	-
Local Aid.....	17,664	-
Subtotal.....	61,795	-
MCCA:		
General Fund.....	20,820	-
Subtotal.....	20,820	-
Economic Development Authorities:		
General Fund.....	803	3,750
Special Revenue Funds:		
Other.....	1,000	-
Capital Projects Funds:		
General.....	502	-
Subtotal.....	2,305	3,750
Total Component Units.....	\$ 335,183	\$ 335,183
MTA:		
Capital Projects Funds:		
Capital Expenditure Reserve (1).....		100,000
		\$ 435,183

(1) Difference of \$100 million between Primary Government and Component Units is due to MTA fiscal year ending December 31, 1997.

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

**General Fixed Asset Account Group** – Changes in general fixed assets by category at June 30, 1998 are as follows (amounts in thousands):

	Balance at July 1, 1997	Additions	Retirements	Balance at June 30, 1998
Land.....	\$ 522,017	\$ 20,637	\$ 43	\$ 542,611
Buildings.....	2,374,450	40,106	12,400	2,402,156
Machinery and equipment.....	511,226	137,796	70,124	578,898
Construction in progress.....	98,178	51,884	-	150,062
Total.....	<u>\$3,505,871</u>	<u>\$ 250,423</u>	<u>\$ 82,567</u>	<u>\$ 3,673,727</u>

**University and College Fund Type** – Fixed assets consist of the following at June 30, 1998 (amounts in thousands):

	Amount
Land.....	\$ 52,728
Buildings.....	1,756,040
Machinery and equipment.....	569,418
Construction in progress.....	8,375
	<u>2,386,561</u>
Less accumulated depreciation.....	(2,624)
Total.....	<u>\$ 2,383,937</u>

**Component Units** – Fixed assets consist of the following at June 30, 1998 (amounts in thousands):

	Amount
Land and improvements.....	\$ 353,090
Infrastructure.....	1,341,236
Structures and improvements.....	6,170,105
Equipment, furniture, fixtures and vehicles...	1,927,528
Total.....	9,791,959
Less accumulated depreciation.....	(2,425,829)
Net fixed assets.....	7,366,130
Construction in progress.....	518,024
Total.....	<u>\$ 7,884,154</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 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, 1998.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1998, 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 1998, there were no BANs issued or outstanding.

**Letter-of-Credit Agreements** – During fiscal year 1998, 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 1998, or subsequent thereto.

One \$200,000,000 letter of credit expired on September 1, 1998. The remaining agreements expire on October 31, 2000. The average costs are approximately 0.07 % on unutilized amounts and approximately 0.10% on utilized amounts.

**Line-of-Credit Agreement** – During fiscal year 1998, 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 had a term through September 30, 1999 but was optionally

terminated on November 4, 1997. The average costs of all lines of credit are approximately 0.55% on unutilized amounts and approximately 0.08% on utilized amounts.

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

MBTA short-term notes payable outstanding at June 30, 1998 totaled \$325,000,000. Of this amount, \$160,000,000 is due September 4, 1998 with an interest rate of 4.50% and \$165,000,000 will mature on February 26, 1999 with an interest rate of 4.25%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1998, \$116,500,000 of this commercial paper was outstanding.

Subsequent to June 30, 1998, the MBTA issued \$160,000,000 of notes carrying an interest rate of 4.25%. The notes mature on September 3, 1999.

The Massachusetts Technology Park Corporation had a \$2,700,000 short-term note payable outstanding at June 30, 1998. The note has an interest rate of 3.90% and matures on July 31, 1998.

The Commonwealth Zoological Corporation had \$300,000 of short-term notes payable outstanding at June 30, 1998. The notes have an interest rate of 8.50%.

The RTAs had \$72,250,000 of short-term notes payable outstanding at June 30, 1998. All notes mature during fiscal year 1999 and have interest rates ranging from 3.69% to 4.95%.

Subsequent to June 30, 1998, the RTAs rolled over \$38,202,000 of revenue anticipation notes with interest rates ranging from 3.69% to 4.00% due in fiscal year 1999.

### **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. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and

voting thereon, but such credit may not in any manner be given or loaned in aid of any individual, private association, or corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect 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, 1998, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes. 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.

Some Commonwealth general obligation debt is issued as college opportunity bonds (COBs) as authorized by the General Laws. Such bonds were issued in fiscal years 1996, 1997 and 1998 in initial amounts totaling \$64,900,000 with maturities ranging from 2000 through 2017. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COBs maturity is a variable rate equal to the change in annual Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs, the payments due at maturities of the COBs will total \$113,900,000. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. These bonds are backed by the full faith and credit of the Commonwealth.

Chapter 48 of the Acts of 1997 abolished the former Middlesex County. As part of that legislation, the Commonwealth assumed outstanding debt of the County. This debt of \$1,525,000 at June 30, 1998 is considered a general obligation of the Commonwealth.

The Commonwealth also issues special obligation revenue bonds as authorized by the 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, 1998, the Commonwealth had outstanding \$606,005,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21 cents per gallon motor fuel excise tax imposed on gasoline.

The Commonwealth also issues Federal Highway Grant Anticipation Notes (GANS) to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorize the Commonwealth to sell up to \$1,500,000,000 in GANS. All Federal Highway Construction reimbursements and reimbursements from the Federal Highway Construction Trust Funds are pledged to the repayment of the GANS. Up to \$900,000,000 of said notes may be paid off through the issuance of authorized general obligation bonds of the Commonwealth in the event federal financial assistance is not available. At June 30, 1998, the Commonwealth has \$600,000,000 of GANS outstanding with maturity dates ranging from 2005 to 2015. These notes are secured by the pledge of Federal Highway Construction reimbursements without a general obligation pledge.

During fiscal year 1991, dedicated income tax bonds were issued as authorized by Chapter 151, Acts of 1990 to finance the combined net undesignated fund deficit in the General and Local Aid Funds at June 30, 1990. These bonds were designated as the Fiscal Recovery Loan Act of 1990, and they were secured by the pledge of certain dedicated income tax revenues and the investment earnings thereon, as well as the full faith and credit of the Commonwealth. These bonds were paid in full in December 1997.

For financial reporting purposes, long-term debt is carried at its face value, 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 long-term debt 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 and special obligation long-term bonds outstanding, grant anticipation notes (including discount and issuance costs), and debt authorized-unissued at June 30, 1998 are as follows (amounts in thousands):

Purpose	Outstanding Amounts	Maturities	Authorized - Unissued
GANS.....	\$ 600,000	2005-2015	\$ 919,443
Capital Projects:			
General.....	5,115,887	1998-2025	4,384,620
Highway.....	3,786,968	1998-2018	5,682,830
Local Aid.....	1,516,885	1998-2017	513,155
Other.....	58,863	1998-2025	816,690
	<u>10,478,603</u>		<u>11,397,295</u>
Total.....	<u>\$ 11,078,603</u>		<u>\$ 12,316,738</u>

Interest rates on the Commonwealth's debt outstanding at June 30, 1998 ranged from 0.10% to 14.10%.

Changes in long-term debt outstanding (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1998, are as follows (amounts in thousands):

	Bonds Outstanding	Authorized - Unissued
Balance, July 1, 1997.....	\$ 10,271,294	\$ 11,954,142
General and special obligation bonds:		
Principal, less discount and issuance costs.....	867,013	(867,013)
Discount and issuance costs.....	20,948	-
County debt:		
Principal of bonds assumed.....	1,680	-
Grant Anticipation Notes:		
Principal, less discount and issuance costs.....	580,557	(580,557)
Discount and issuance costs.....	19,443	-
General obligation refunding bonds:		
Principal of bonds issued.....	647,120	-
Refunded bonds.....	(626,385)	-
Special obligation refunding bonds:		
Special obligation principal of bonds issued.....	191,080	-
Special obligation refunded bonds...	(186,880)	-
Increase in bonds authorized.....	-	2,268,342
Contributions in lieu of bonds.....	-	(223,157)
Bonds retired.....	(707,267)	-
Expiration of authorizations.....	-	(235,019)
Balance, June 30, 1998.....	<u>\$ 11,078,603</u>	<u>\$ 12,316,738</u>

At June 30, 1998, debt service requirements to maturity for principal (including discount, capital appreciation and

issuance costs) and interest are as follows (amounts in thousands):

Fiscal year ending June 30,	Principal	Interest	Total
1999.....	\$ 658,027	\$ 534,209	\$ 1,192,236
2000.....	643,019	496,211	1,139,230
2001.....	686,880	462,923	1,149,803
2002.....	651,976	428,700	1,080,676
2003.....	665,566	399,458	1,065,024
2004 and thereafter...	7,773,135	2,370,290	10,143,425
Total.....	<u>\$ 11,078,603</u>	<u>\$ 4,691,791</u>	<u>\$ 15,770,394</u>

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during fiscal year 1998. The costs for legal counsel and underwriting fees under competitive bond sale costs were estimated at \$102,000 and \$1,314,000, respectively. Negotiated legal fees and underwriter fees were estimated at \$501,000 and \$8,232,000, respectively. In addition, the Commonwealth paid \$70,000 for disclosure counsel services.

**Advance Refunding and Defeased Bonds** - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$375,840,000 of general obligation refunding bonds during fiscal year 1998 with interest rates ranging from 4.5% to 5.8% and \$271,280,000 of general obligation refunding bonds with variable interest rates. In addition, the Commonwealth issued \$294,695,000 in special obligation bonds with interest rates ranging from 3.8% to 5.5%, which included \$191,080,000 in special obligation refunding bonds and \$103,615,000 in new-issue special obligation bonds. Proceeds totaling approximately \$861,793,000, 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 \$51,400,000 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 \$35,800,000. At June 30, 1998, approximately

\$813,265,000 of the bonds refunded remain outstanding and are considered defeased.

As part of its refunding activity during fiscal year 1998, the Commonwealth issued \$271,280,000 of general obligation variable rate demand bonds. The variable rate for those bonds is determined weekly based on the activity of a remarketing agent, and interest is paid monthly. In connection with issuance of the variable rate demand bonds, the Commonwealth has entered into interest rate exchange ("swap") agreements with certain counterparties. These agreements require the counterparties to pay the Commonwealth an amount equal to the variable rate payable on the bonds, and in return, the Commonwealth pays a fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty. The bond principal is not exchanged. The Commonwealth continues to pay interest to the bondholders at the variable rate provided by the bonds.

Through these agreements, the Commonwealth has effectively fixed its interest payment obligations relative to the variable rate bonds at a rate equal to 4.8%, including the costs of the liquidity facility and remarketing (the debt service requirements to maturity for these bonds presented in this note are based on that fixed rate). The Commonwealth will be exposed to a variable rate if the counterparties to the swap default or if the swap is terminated. A termination of the swap agreement may also result in the Commonwealth making or receiving a termination payment.

The variable rate bonds are supported by a stand-by bond purchase liquidity facility with a commercial bank, which requires that the bank purchase any bonds that are not successfully remarketed and tendered. Until and unless remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime interest rate. In addition, the Commonwealth would be required to repay the principal amount of any such bonds in equal quarterly installments over the remainder of the term of the stand-by bond purchase agreement. As of June 30, 1998, the stand-by bond purchase facility has not been used. The stand-by bond purchase agreement has a stated expiration date of August 11, 2004 but may be renewed or extended by mutual consent of the Commonwealth and the bank. In connection with the agreement, the Commonwealth pays a fee equal to 0.10% per year of the principal amount of variable rate bonds outstanding.

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, 1998, approximately \$3,273,769,000 of bonds outstanding from advance refundings in prior fiscal years is considered defeased.

Subsequent to June 30, 1998, the Commonwealth issued \$17,683,000 in college opportunity bonds with variable interest rates and \$500,000,000 in general obligation bonds with interest rates ranging from 4.40% to 5.25%.

In addition, in September 1998, the Commonwealth issued additional variable rate refunding bonds in the amount of \$499,520,000. These bonds are structured similar to those issued in fiscal year 1998, including the use of interest rate swap agreements, obligations with respect to the bonds, and the use of a stand-by bond purchase liquidity facility with an expiration date of September 17, 2003. Through these agreements, the Commonwealth has effectively fixed its interest payment obligations relative to the variable rate bonds at a rate equal to 4.3% including the costs of the liquidity facility and remarketing.

**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 1998 was \$9,568,282,874. Outstanding debt subject to the limit at June 30, 1998 was \$9,047,467,000. The limit increases 5.0% 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 special obligation bonds, grant anticipation notes, refunded bonds, and certain refunding bonds and debt issued by counties.

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

	Debt Outstanding
Balance, June 30, 1998.....	\$ 11,078,603
Less amounts excluded:	
Discount and issuance cost.....	(702,014)
Chapter 5 of Acts of 1992 refunding.....	(144,509)
Special obligation principal.....	(602,531)
GANS principal.....	(580,557)
County debt assumed.....	(1,525)
Outstanding direct debt.....	<u>\$ 9,047,467</u>

**General Long-Term Debt Obligations Account Group –**

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. During the year ended June 30, 1998, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Balance July 1, 1997	Bond Issuances	Bond Discount	Bond Principal Retirement	Other Net Increase (Decrease)	Balance June 30, 1998
Long-term bonds.....	\$ 10,271,294	\$ 2,287,450	\$ 40,391	\$ (1,520,532)	\$ -	\$ 11,078,603
Capital leases.....	87,171	-	-	-	4,468	91,639
School construction grants.....	3,534,617	-	-	-	662,020	4,196,637
Compensated absences.....	106,402	-	-	-	9,464	115,866
Claims, judgements, and other.....	76,532	-	-	-	(479)	76,053
Lottery prizes payable.....	3,566	-	-	-	7,058	10,624
Total.....	<u>\$ 14,079,582</u>	<u>\$ 2,287,450</u>	<u>\$ 40,391</u>	<u>\$ (1,520,532)</u>	<u>\$ 682,531</u>	<u>\$ 15,569,422</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 participants 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, 1998 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	\$ 33,801	1998-2023
Building authorities and state colleges.....	3.0%-12.0%	228,847	1998-2024
		<u>\$ 262,648</u>	

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

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
1999.....	\$ 30,314
2000.....	12,117
2001.....	13,101
2002.....	13,808
2003 .....	14,368
2004 and thereafter.....	178,940
Total.....	<u>\$ 262,648</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, 1997 .....	\$ 316,739
Principal, less issuance and discount cost.....	1,646
Bonds retired, net of amortization of discount.....	(10,173)
Debt transferred to UMass	
Memorial Health Care, Inc.....	(45,564)
Balance, June 30, 1998.....	<u>\$ 262,648</u>

**Component Units** – Bonds and notes outstanding at June 30, 1998 (December 31, 1997 for Massachusetts Turnpike Authority), net of unamortized discount of \$152,972,000 and unamortized deferred loss on refunding of \$158,917,000, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Amount</u>	<u>Maturity Dates</u>
MBTA:			
General transportation system.....	3.84% - 7.57%	\$ 3,005,948	2005 - 2027
Boston Metropolitan District.....	4.55 - 7.04	38,992	2002 - 2025
MTA:			
Revenue serial bonds.....	5.00 - 5.65	1,657,781	1999 - 2037
Guaranteed bond.....	5.00	55,905	1999
MCCA:			
Current interest serial bonds.....	4.00 - 6.00	57,564	1998 - 2008
Compound interest serial bonds.....	5.375 - 6.80	58,190	2000 - 2013
MWPAT:			
Serial bonds.....	2.00 - 6.25	714,650	1998 - 2017
Term bonds.....	5.25 - 6.375	110,725	2013 - 2015
Economic Development:			
Notes payable.....	2.80 - 11.00	109,064	1998 - 2011
Total.....		<u>\$ 5,808,819</u>	



The amounts below represent the face amounts 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>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
1999.....	\$ 94,509	\$ -	\$ 35,880	\$ 21,375	\$ 21,225	\$ 172,989
2000.....	106,317	65,450	37,900	22,670	17,545	249,882
2001.....	110,556	11,095	39,570	14,234	17,983	193,438
2002.....	112,674	11,635	41,040	11,054	17,212	193,615
2003.....	120,831	12,295	42,395	8,399	10,186	194,106
2004 and thereafter.....	2,704,835	1,719,813	628,590	38,527	24,913	5,116,678
Total.....	<u>\$3,249,722</u>	<u>\$1,820,288</u>	<u>\$825,375</u>	<u>\$116,259</u>	<u>\$109,064</u>	<u>\$6,120,708</u>

During the fiscal year ended June 30, 1998 (December 31, 1997 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>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
Balance, July 1, 1997.....	\$ 2,923,504	\$ 604,186	\$ 863,020	\$ 135,910	\$ 107,094	\$ 4,633,714
Principal, less discount issuance costs.....	723,407	1,669,540	-	-	27,444	2,420,391
Debt retired, net of amortization of discount.....	(599,659)	(4,131)	(37,645)	(20,156)	(25,474)	(687,065)
Deferred loss on refunding.....	(2,312)	(555,909)	-	-	-	(558,221)
Balance, June 30, 1998.....	<u>\$ 3,044,940</u>	<u>\$ 1,713,686</u>	<u>\$ 825,375</u>	<u>\$ 115,754</u>	<u>\$ 109,064</u>	<u>\$ 5,808,819</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>
1999.....	\$ 1,150
2000.....	1,150
2001.....	1,150
2002.....	1,140
2003.....	1,140
2004 and thereafter.....	3,410
Total.....	<u>\$ 9,140</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, 1998, \$1,760,250,000 of these bonds outstanding are considered defeased.

Subsequent to June 30, 1998, the MBTA issued \$460,240,000 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 Sumner 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 and Williams Tunnels 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 was 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. At December 31, 1997, approximately \$43,800,000 of the refunded bonds remains outstanding.

During the year ended December 31, 1997, the MTA issued \$1,764,383,000 in special obligation bonds with interest rates ranging from 5.00% to 5.65%. The bonds included \$297,520,000 of Western Turnpike revenue bonds and \$1,466,863,000 of 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 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>
1999.....	\$ 1,234
2000.....	1,234
2001.....	1,234
2002.....	1,234
2003.....	1,235
Total.....	<u>\$ 6,171</u>

## 9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1998 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Local Aid.....	\$ 2,010,176
Environmental.....	15,303
Lotteries.....	1,205
Capital Projects:	
Boston Convention and Exhibition Center.....	19,000
Highway.....	631,280
Federal Highway Construction.....	28
Local Aid.....	37,567
Other.....	14,933
Internal Service Funds:	
Employees Workers' Compensation.....	248,877
Employees Group Health Insurance .....	28,170

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.

The special revenue fund deficits will be funded through future revenues and/or transferred from other funds.

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, 1998, the Commonwealth issued \$17,683,000 in college opportunity bonds and \$500,000,000 in general obligation bonds to finance the deficits.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$315,867,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan.

## 10. RETIREMENT SYSTEMS

### *Primary Government –*

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy

College (members of the Teachers' Retirement System, 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. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years on a GAAP basis.

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. 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 a hybrid multiple-employer defined benefit PERS. SBRS provides pension 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 and is not part of the reporting entity and a stand-alone financial report is not available.

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, 1998 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries			
currently receiving benefits.....	43,144	30,499	2,742
Terminated employees entitled to			
benefits but not yet receiving them .....	2,073	1,850	96
Subtotal.....	45,217	32,349	2,838
Current employees:			
Vested.....	48,035	50,477	4,181
Non-vested.....	34,596	24,422	1,269
Subtotal.....	82,631	74,899	5,450
Total.....	127,848	107,248	8,288

During fiscal year 1998, the Commonwealth abolished Franklin and Middlesex Counties, transferring their functions, assets, debts and obligations to the Commonwealth. The SERS actuarial accrued liability includes former county employees who were transferred to the Commonwealth.

**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. The 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, 1998. The Commonwealth has revised three actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL). First, the assumed rate of return on investments of present and future assets was changed from 8.5% to 8.25% per year, resulting in a \$641,000,000 increase in the UAL. Second, the use of an updated mortality table resulted in a \$1,100,000,000 increase in the UAL. Third, a change from using the

market value of assets to an actuarial value of assets had the effect in this valuation of reporting assets at 97% of the market value. This third change results in a \$643,000,000 increase in UAL. Other significant assumptions used are (a) projected salary increases of 6% per year, (b) cost of living (inflation rate) increases of 3% per year on the first \$12,000 of the retiree's total allowance, and (c) interest rate credited to the annuity savings fund of 5.5% per year. These calculations use a level dollar amortization method over 20 years closed period.

The following table presents the schedule of funding progress as presented in the five most recent actuarial valuations at the date indicated (amounts in thousands):

Actuarial Valuation as of January 1,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employers Retirement System						
1998**	\$ 9,914,000	\$ 11,361,000	\$ 1,447,000	87.3 %	\$ 3,111,000	46.5 %
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
1993	5,071,000	8,738,000	3,667,000	58.0	2,919,000	125.6
1992	4,699,000	7,303,000	2,604,000	64.3	2,638,000	98.7
Teachers Retirement System						
1998**	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
1993	5,142,000	8,921,000	3,779,000	57.6	2,428,000	155.6
1992	4,784,000	8,706,000	3,922,000	55.0	2,032,000	193.0
State - Boston Retirement System						
1998**	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3
1993	370,000	743,000	373,000	49.8	206,000	181.1
1992	342,000	759,000	417,000	45.1	184,000	226.6

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

\*\* - Revised actuarial assumptions

In addition to these system liabilities, the Commonwealth had 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 COLAs for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted to employees of these plans will be the responsibility of the individual system. 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 actuarial liability for COLA as of January 1, 1998 was \$912,029,000.

**Contributions Required and Contributions Made** - The retirement systems' funding policies have been established by Chapter 32 of the 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. Chapter 32, Section 22C of General Laws enacted in 1998 calls for the payment of normal cost plus an amortization payment of UAL such that the UAL is reduced to zero by June 30, 2018.

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 the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments through fiscal 1997. All subsequent contributions will be made in accordance with the funding schedule.

The current legislatively approved funding schedule, based on the January 1, 1996 valuation, was adopted by the Legislature as part of the fiscal year 1998 budget process. Under the current schedule the amortization payments are designed to eliminate the unfunded liability by fiscal year 2017. It required contributions by the Commonwealth of \$1,045,570,000 during the fiscal year ended June 30, 1998. Of this amount, \$127,155,000 was payments for COLA granted to participants in 104 retirement systems of cities, towns, and counties.

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 Valuation as of January 1,	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
<b>State Employers Retirement System</b>								
1998	\$ 261,255	\$ (83,446)	\$ 77,180	\$ 254,989	\$ 494,289	\$ 1,250,766	189 %	194 %
1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
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>								
1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
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>								
1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
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, 1998, the Commonwealth's pension expenditure included payments totaling \$19,310,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

**Post-retirement Health Care and Life Insurance Benefits** – In addition to providing pension benefits, under Chapter 32A of the 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 \$173,047,000 for the fiscal year ended June 30, 1998. There are approximately 44,600 participants eligible to receive benefits at June 30, 1998.

## 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 employee. Participants' rights under the plan are equal to the fair 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.

During fiscal year 1998, the Commonwealth amended its Plan-Trust Declaration such that the plan's assets are held in trust, and reported as an expendable trust fund, for the exclusive benefit of participants and their beneficiaries. The deferred compensation trust fund uses the calendar year for its fiscal reporting cycle. Certain amounts recorded as agency activity in the discretely presented components are held in trust by the Commonwealth.

The Treasurer and Receiver General of the Commonwealth of Massachusetts is the plan trustee. He is statutorily given authority, on behalf of the Commonwealth, to contract with state employees to defer a portion of those employees' compensation, and for the purposes of funding a deferred compensation program for the said employees to invest the deferred portion of the employees' income.

In connection with amending the Plan-Trust Declaration, the Commonwealth adopted Government Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Commonwealth has eliminated the plan assets and related liabilities from its Agency Fund which amounted to \$1,837,892,000 at June 30, 1997 and increased its beginning fund balance in the deferred compensation trust fund by \$1,616,593,000.

## 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, 1998, capital lease/purchase expenditures totaled approximately \$58,261,000.

At June 30, 1998, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$91,639,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases is included in the General Fixed Assets Account Group.

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, 1998 were approximately \$105,396,000.

The following is a schedule of future minimum payments under non-cancelable leases for the Commonwealth as of June 30, 1998 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1999.....	\$ 36,203	\$ 76,063
2000.....	25,003	54,821
2001.....	17,829	38,911
2002.....	12,535	28,861
2003.....	7,519	12,175
2004 and thereafter.....	11,367	29,215
Total payments.....	110,456	<u>\$240,046</u>
Less amount representing interest.....	(18,817)	
Present value of minimum lease payments...	<u>\$ 91,639</u>	

**University and College Fund** – At June 30, 1998, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$70,202,000. Equipment acquired under capital leases is included in University and College Fund fixed assets.

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, 1998 was approximately \$9,067,000.

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 Leases</u>	<u>Operating Leases</u>
1999.....	\$ 16,291	\$ 6,694
2000.....	13,951	6,347
2001.....	10,510	5,853
2002.....	8,933	5,175
2003.....	8,385	4,915
2004 and thereafter.....	26,947	-
Total payments	85,017	\$ 28,984
Less amount representing interest.....	(14,815)	
Present value of minimum lease payments.....	\$ 70,202	

#### Component Units –

In fiscal 1997, the MBTA entered into several capital lease 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, 1998 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>MBTA</u>	<u>RTAs</u>	<u>Economic Development Authorities</u>
1999.....	\$ 32,849	\$ 731	\$146
2000.....	34,205	731	119
2001.....	34,234	731	20
2002.....	43,825	731	1
2003.....	46,773	731	-
2004 and thereafter.....	769,994	2,924	-
Total payments.....	961,880	6,579	286
Less amount representing interest.....	(432,242)	(1,692)	(23)
Present value of net minimum lease payments	\$ 529,638	\$ 4,887	\$263

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2018. 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 2002. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were \$906,706 of which \$545,478 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned \$5,492,896 in rental income. Rental income for the next five years is expected to approximate \$7,000,000 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):

<u>Years Ending June 30,</u>	<u>MBTA</u>	<u>MTA</u>	<u>RTAs</u>	<u>Economic Development Authorities</u>
1999.....	\$ 12,523	\$ 1,155	\$ 63	\$ 3,530
2000.....	12,909	847	31	3,456
2001.....	13,221	847	-	2,778
2002.....	13,279	847	-	1,718
2003.....	13,649	847	-	1,196
2004 and thereafter.....	123,158	-	-	-
Total payments.....	\$ 188,739	\$ 4,543	\$ 94	\$ 12,678

### 13. COMMITMENTS

#### Primary Government –

**Governmental Funds** – Under Chapters 161A and 161B of the General Laws, 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 1998, these subsidies totaled \$653,459,000 for the MBTA and \$55,574,000 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, 1998, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$246,513,000 and due to RTAs of \$61,795,000. 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 \$230,983,000 is recorded at June 30, 1998 to account for these future reimbursements. The MBTA has



also recorded net deferred charges of \$76,053,000 at June 30, 1998, 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, the Government Land Bank and MWPAT. Such assistance totaled \$55,382,000 in fiscal year 1998.

At June 30, 1998, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$3,485,749,000 long-term and \$401,730,000 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 long-term debt outstanding at June 30, 1998 was approximately \$234,069,000.

At June 30, 1998, the Commonwealth had commitments of approximately \$3,215,615,000 for various construction projects. The majority relate to construction funding for a major infrastructure program known as the Central Artery/Tunnel Project, in which continued federal participation is anticipated. The remainder relates to a wide range of building construction projects.

During fiscal year 1998, the Commonwealth received payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) pursuant to two separate memoranda of understandings dated September 12, 1997 and August 13, 1998, respectively. The MTA and MassPort made payments to the Commonwealth to finance a portion of the Central Artery/Tunnel Project in the amount of \$100,000,000 and \$12,115,000, respectively.

The remaining future payments are as follows (amounts in thousands):

Fiscal Year	MTA	MassPort
1999.....	\$600,000	\$30,700
2000.....	-	52,200
2001.....	-	-
2002.....	-	-
2003.....	400,000 *	105,000
2004.....	-	50,000
2005.....	-	50,000
Total.....	<u>\$1,000,000</u>	<u>\$287,900</u>

\* Represents contingent amount subject to certain conditions.

Revenues of \$600,000,000 from the MTA will be recognized in the period when the use of the resources is required or first permitted in fiscal year 1999 and they are therefore available to pay current expenditures. The \$400,000,000 from the MTA was not recognized as revenue, as it is subject to various contingencies.

MassPort payments are treated as an exchange transaction. Revenue will be recognized when payment is received or assets have been transferred. No future payments were recognized in fiscal year 1998.

**Pension Trust Funds** – At June 30, 1998, PRIT had outstanding commitments to invest \$483,733,000 in real estate, and \$829,807,000 in alternative investments.

**University and College Fund Type** - 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 its matching portion with the proceeds of bonds issued through the Massachusetts Health and Educational Facilities Authority. Expected commencement date of construction is in March of 1999.

#### **Component Units -**

Chapter 152 of the Acts of 1997 provided for the MCCA to assume the ownership and operation of the Springfield Civic Center (SCC). A total of \$48,500,000 was appropriated for possible expansion and renovation of this facility. The transfer of ownership and operation was effective November 17, 1997.

Chapter 152 of the Acts of 1997 provides \$609,400,000 for the construction of a Convention and Exhibition Center to provide 600,000 square feet of exhibit space at a site in South Boston. The MCCA is to operate the new center, along with the Hynes Convention Center, the Boston Common Garage, and the Springfield Civic Center. The Boston Redevelopment Authority (BRA) is authorized and directed by the legislation to acquire the land, properties, and rights related to the proposed construction site. Once this is accomplished, the MCCA will oversee construction of the new facility. At June 30, 1998, the BRA was still acquiring the properties.

As of June 30, 1998, the MWPAT has agreed to provide loans of \$50,000,000 to various local government units to be funded with grant awards received through June 30, 1998.

Massachusetts Housing Partnership Fund has executed twenty-three loan agreements with seventeen banks for an amount of \$340,827,000 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act and funding commitments outstanding for funds not yet advanced of \$18,900,000 at June 30, 1998.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 1997 approximated \$26,000,000. Projected construction expenditures for 1998 approximated \$42,000,000.

The Worcester Regional Transit Authority (WRTA) 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 WRTA 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 WRTA 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 \$83,950,000. Of this amount, \$16,500,000 is expected to be paid in the General Fund and \$67,450,000 in the Highway Capital Projects Fund during fiscal year 1999. 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.

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 disallowances become liabilities of the fund which received the assistance. As of June 30, 1998, 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 \$4,430,000 which is expected to be reclaimed and paid in fiscal year 1999, are to be remitted to the General Fund each June 30, where it is included as transfers. Amounts remitted during fiscal year 1998 totaled approximately \$75,837,000. Since inception, approximately \$756,893,000 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, 1998, including claims incurred but not reported, is estimated to be \$315,867,000.

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

subcontractors working on the Central Artery/Tunnel project. The Commonwealth's liability as of June 30, 1998 for such claims, including incurred but not reported claims, is estimated to be \$99,595,000. 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 1998 were as follows (amounts in thousands):

	1997	1998
Liability, beginning of year.....	\$ 565,820	\$ 602,181
Current year claims and changes in estimates.....	864,442	806,864
Claims payments.....	(828,081)	(833,580)
Liability, end of year.....	<u>\$ 602,181</u>	<u>\$ 575,465</u>

**Component Units** - The Massachusetts Bay Transportation Authority reserves self-insurance liabilities as claims and judgments as of June 30, 1998. Changes in the self-insurance reserves in fiscal 1998 were as follows (amounts in thousands):

	1997	1998
Liability, beginning of year.....	\$ 64,155	\$69,732
Current year claims and changes in estimates.....	17,179	71,127
Claims payments.....	(11,602)	(71,039)
Liability, end of year.....	<u>\$ 69,732</u>	<u>\$ 69,820</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, 1997, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$15,000,000.

## 15. DISCONTINUED OPERATIONS

Effective March 31, 1998, as enacted by Chapter 163 of the legislative acts of the Commonwealth, the Clinical Services Division of the University and substantially all of the Subsidiaries of the UMass Health System were contributed to and merged with and into a Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (UMass Memorial). The Commonwealth has accounted for this transaction as a discontinued operation

for the nine months ended March 31, 1998. The excess of expenses over revenues after transfers was approximately \$11,000,000. Effective March 31, 1998, the net assets transferred to UMass Memorial were \$70,700,000.

In connection with this merger, the University of Massachusetts and UMass Memorial have entered into the following agreements:

UMass Memorial is granted the right to occupy portions of the UMass campus for a period of 99 years and UMass Memorial agrees to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial also agreed to make up to \$5,000,000 in capital improvements to shared facilities over the next five years.

UMass Memorial agrees to make certain payments to UMass and its related organizations, including: 1) an annual fee of \$12,000,000 (plus an inflation adjustment), for 99 years as long as UMass continues to operate a medical school; 2) a percent of net operating income of UMass Memorial based upon an agreed-upon formula; and 3) a \$30,000,000 contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with UMass. UMass will own and control the research facility.

UMass will lease certain employees to UMass Memorial or its affiliates during a transition period ending 2008.

All academic funds (net assets) held by the Capital division as of March 31, 1998 ("Departmental Education Funds") will remain assets of UMass and will be held by UMass Memorial for UMass and allocated to each academic department. The cash will be transferred by UMass Memorial to UMass over five years. At June 30, 1998, UMass has recorded a receivable from UMass Memorial in the amount of \$22,200,000 related to these funds.

UMass is reimbursed by, and reimburses, UMass Memorial for certain services provided and purchased. For the three months ended June 30, 1998, the revenues for services provided to UMass Memorial were \$79,000,000. At June 30, 1998, UMass has recorded a receivable in the amount of \$143,900,000 from UMass Memorial for costs related to shared services, leased employees, and other agreed-upon payments due to UMass. UMass has recorded a payable at June 30, 1998 of \$17,500,000 for amounts due to UMass Memorial for shared services and other agreed-upon payments due to UMass Memorial.

## 16. SUBSEQUENT EVENTS

### *Primary Government -*

Section 11 of Chapter 300 of the Acts of 1998 amended Section 1 of Chapter 48 of the Acts of 1997 relative to the abolition of certain counties. The act calls for the transfer of all functions, assets, debts and obligations of the county to the Commonwealth on the transfer date. The counties of Worcester and Hampden have been transferred as of July 1, 1998 (Fiscal Year 1999), the county of Hampshire will be transferred on January 1, 1999 (Fiscal Year 1999); the county of Essex will be transferred July 1, 1999 (Fiscal Year 2000); and the county of Berkshire will be transferred on July 1, 2000 (Fiscal Year 2001). The transfer date can be earlier if a county has failed to make a required payment on an outstanding bond or note.

The Commonwealth will include in its audited financial statements the financial activity of an abolished county in the fiscal year the actual transfer occurs.

### *Component Units -*

During July 1998, the MWPAT raised \$125,000,000 through the issuance of tax-exempt Water Pollution Abatement Revenue Bonds of which a portion was used to refinance \$50,000,000 in interim loans issued to the MWRA. These loans were issued during fiscal year 1998 and were outstanding as of June 30, 1998. The bond transaction closed on July 9, 1998. The bonds carry interest rates ranging from 4.0%-5.4% and mature between fiscal years 2000 and 2019.

The MWPAT received notification of approval from the Environmental Protection Agency for the remaining project portion of its 1997 Safe Drinking Water State Revolving Fund capitalization grant. This grant of \$10,902,000 is required to be matched by \$2,869,000 of state funds. These state match funds were appropriated by the state legislature during fiscal year 1998. Under the Trust's current funding formula, the capitalization will allow funding of \$27,542,000 in leveraged loans.

## 17. YEAR 2000 READINESS (UNAUDITED)

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Commonwealth's direct control but also the systems of other entities with which the Commonwealth transacts business. Some of the Commonwealth's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of Commonwealth government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the Commonwealth is or will be year 2000 ready, that the Commonwealth's remediation efforts will be successful in whole or in part, or that parties with whom the Commonwealth does business will be year 2000 ready.

In June 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of this office is to ensure accurate monitoring of the Commonwealth's progress in achieving "year 2000 compliance". The program office has asked agencies to identify "mission critical" and "essential" systems. Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems' loss would cause disruption of some agency services but would not prevent the agency from delivering primary services.

Legislation approved by the Acting Governor on August 10, 1998 appropriates \$20,400,000 for expenditure by the Information Technology Division to achieve year 2000 compliance for six Executive Offices and the other departments that report directly to the Governor. Of this \$20,400,000, approximately \$4,100,000 is committed for contracts. This amount, together with previously appropriated amounts and expenditures at the departmental level from existing funds, is anticipated by management to be sufficient to meet most of the remediation efforts for such Executive Offices and departments. The Secretary of Administration and Finance is to report quarterly to the Legislature on the progress being made to address the year 2000 compliance efforts, and to assess the sufficiency of funding levels.

At any given time, work to address the year 2000 issue with respect to each system deemed mission-critical (i.e., critical to conducting the Commonwealth's operations) falls predominantly within one of the following stages of work:

- i. *Awareness stage* – *Establishing* a budget and project plan for dealing with the year 2000 issue.
- ii. *Assessment stage* – *Identifying* the systems and components for which year 2000 work is needed.
- iii. *Remediation stage* – *Making* changes to systems/equipments.
- iv. *Validation/Testing stage* – *Validating* and testing changes that were made during the remediation stage.

The following paragraphs summarize year 2000 state-of-work data for the 220 mission critical systems/equipment of the primary government, which includes higher education, as of June 30, 1998. Additional information as to the year 2000 issue related to the component units can be obtained in the complete financial statements of the individual component units. Systems having similar functions that are in the same stage of work have been combined for purposes of this disclosure.

The Commonwealth had completed the awareness stage and the assessment stage as of June 30, 1998, for all mission-critical systems and was performing remediation work for mission-critical systems and equipment relating to the following:

**Primary Government:**

Highway Department:

- Other Mission Critical Devices
- Highway Traffic Signals

Merit Rating Board:

- Driver's Citation System
- Inquiry (Access to Driver & Citation Database)

Statewide Emergency Telecommunications Board:

- 911 - Address Information
- 911 -Actual Network
- 911 Customer Premise Equipment

Division of Employment & Training:

- Department of Employment and Training
- Career Correspondence System
- Human Resource Records System
- ARTB – Accounts Receivable
- Trial Balances Revenue System
- Unemployment Insurance System
- Integrated Appeals System

Division of Human Resources:

- Human Resource Records System

Parole Board:

- Parole Board Records
- Parole Board Inmate & Hearing Tracking System
- Parole Board Victim Witness Tracking System
- Parole Board Management System

Department of Public Health:

- Public Health Records System
- Department of Public Health Various Lab Systems

Department of Transitional Assistance:

- Welfare Payment and Reimbursement System
- Data Insertion Mail System
- Welfare Financial Management System
- Food Stamp Program
- Data Exchange Systems
- Housing Payment System
- BEACON – Financial & Categorical Eligibility Systems

Department of Environmental Protection:

- Environmental Data System
- Environmental Systems Monitoring Air and Water Quality
- DAS-Data Acquisition System for Air Quality

Department of Revenue:

- Local Service Database System
- Wage Reporting System
- MASSTax – Revenue System

Soldiers Home-Holyoke:

- Holyoke In-Patient Tracking System

Department of Fire Services:

- Fire Incident Reporting System

State Police Department:

- State Police Fingerprinting System
- Communications Equipment (non-IT)

Labor Relations Commission:

- Labor Case Tracking System

Administrative Office of the Trial Courts:

- Judiciary Court Activities Information System
- Jury Selection System

Board of Bar Examiners:

- Forecourt – Case Management & Court Operations

Supreme Judicial Court:

- Forecourt – Case Management & Court Operations

Department of Youth Services:

- State's Juvenile Justice Department System

**Department of Environmental Management:**

Campground Reservations

**Department of Food & Agriculture:**

Non-IT: Lab Equipment

**Division of Fisheries, Wildlife, & Environmental Law Enforcement:**

Marine Catch Report Database

**Executive Office of Environmental Affairs:**

VAX Applications

**Metropolitan District Commission:**

Traffic, Security, Climate Systems

**Division of Insurance:**

Licensing System for Division of Insurance

**Secretary of State-Voter Registration:**

Voter Registration System

**Treasurer & Receiver General:**

Abandoned Property System

Warrant Payment System

**Bureau of State Office Buildings:**

State House Security System

**Division of Health Care Finance:**

ACE Nursing Home Financial Database Systems

**Information Technology Division:**

PMIS (for HRD, OSC) – Payroll System

MMARS (see Office of the Comptroller)

CAPS Payroll System

PCRS Labor Distribution System

**Division of Medical Assistance:**

Recipient Eligibility Verification System

Medicaid Claims System

**Board of Registration in Medicine:**Licensing System for Medical Registrations  
(Includes MMIS & FAIS)**Division of Banks:**

Examination Application for DOB

**Military Division – State:**

Municipal Network Information System

Warrant Payment System

**Massachusetts Office on Disability:**

CATS

**Criminal History Systems Board:**

Criminal Offender Record Information System

**Office of State Comptroller:**

MMARS State Financial Accounting System

**Higher Education****Springfield Technical Community College:**

Student Enrollment

**UMass – Boston:**

Student Information

Human Resource

**UMass – President's Office:**

Student Administration

Student Billing

**Bunker Hill Community College:**

Human Resources system

**Greenfield Community College:**

Payroll system

**UMass – Worcester (Medical School):**SAMIS – Student Administration Management  
Information System**Salem State College:**

Integrated Student

**Roxbury Community College:**

Kenric Financial Package

**Cape Cod Community College:**

Student Information

Financial System

**Quinsigamond Community College:**

CARS Student Record System

**Salem State College:**

Student Accounts

For the systems/equipment listed above, the validation/testing stage has not yet been addressed.

The Commonwealth has completed the awareness, assessment, and remediation stages and was performing, or had completed, validation/testing work as of June 30, 1998, for mission-critical systems and equipment relating to the following:

**Primary Government:****Bureau of Special Investigations:**

Case Tracking System

**Chief Medical Examiner:**

Inquest System

**Criminal History Systems Board:**

Law Enforcement Agencies Processing System

**Department of Correction:**

Inmate Database

**Department of Fire Services:**

Underground Storage Tank System

## Merit Rating Board:

Insurance Claim Tracking System

## Registry of Motor Vehicles:

Batch Numbering - Document

Control for F/M

Controls License Issuance System

Registration Systems - Controls Vehicle

Registrations

## State Police:

POS - Police Op. System to Control Police

Dispatching

## Statewide Emergency Telecommunications Board:

SRC System Maintenance &amp; Monitor

## Division of Apprenticeship:

Apprenticeship Tracking System

## Division of Employment &amp; Training:

Unemployment Insurance System

## Administrative Office of the Trial Courts:

Probation Receipt Accounting System

Warrant Management System

## Appeals Court:

COTT/ Forecourt - Case Management &amp; Court

Operations System

## Campaign &amp; Political Finance:

Name &amp; Address Database

## Committee for Public Counsel:

Billing for Public Defenders

## Finegold Library:

CARL - Colorado Alliance

Research Library Catalog System

## Lottery Commission:

Zeke Scheduling

Financial Systems

On-line Games

## Department of Mental Health:

Hospital Billing System

## Department of Mental Retardation:

Client Tracking System

## Department of Public Health:

AIMS - Hospital Admissions &amp; Billing

Children's Medical Services Program -Insurance

Substance Abuse Management Information System

Early Intervention

Immunization Information System

Pharmacy

## Department of Social Services:

ASSIST/FamilyNet -Child Protection System

FamilyNet

## Department of Transitional Assistance:

CARS/BEACON ESP/BEACON

PACES Financial Eligibility System

EBT -Electronic Benefits Transfer

PACES Online Inquiry Screens

## Division of Health Care Finance:

Uncompensated Care Reporting System

## Division of Medical Assistance:

MA21 Recipient Information System

## Massachusetts Rehabilitation Commission:

Client Tracking System

## Office of Child Care Services:

Complaint Tracking System

Day Care Licensing System

Teacher Quality System

## Soldiers Home-Chelsea:

Patient Tracking System

Patient Banking System

## Soldiers Home-Holyoke:

Patient Medical Records System

## Legislature DP:

Legislative Bill Tracking System

## Department of Environmental Management:

Harvesters System

Revenue System

Seasonal Employees Roster

Well Drillers Roster

## Division of Fisheries, Wildlife, &amp;

## Environmental Law Enforcement:

Agent Activity Database

Titling &amp; Registration Database

## Executive Office of Elder Affairs:

Home Care Management Information System

## Office of Travel &amp; Tourism:

Getaway Guide Database

## Alcohol Beverage Control Commission:

Licensing System

## Department of Telecommunications &amp; Energy:

Complaint Tracking for Cable TV

## Division of Banks:

Complaint Tracking System

Licensing System

## Division of Registration:

Licensing System

## Division of Standards:

Licensing System

## Secretary of State-Other:

Corporations Database System

Record Center Database System

Treasurer & Receiver General:  
 Cash Management System  
 Bonds Management System  
 Payroll System for Legislature  
 Corporate Universe Debt Management System  
 Payment Processing System  
 Victims of Violent Crime  
 Appellate Tax Board:  
 Case Management System  
 Budget Bureau:  
 FoxPro, Database System  
 MMARS Interface Subsystem  
 Bureau of State Office Buildings:  
 Non-IT: State Office Buildings  
 Capital Planning & Operations:  
 Non-IT: State Office Buildings  
 Commission Against Discrimination:  
 Complaint Tracking System  
 Department of Revenue:  
 Child Support Enforcement System  
 Department of Veterans Services:  
 Veterans Services Management Information System  
 Division of Human Resources:  
 Workers' Compensation System  
 Group Insurance Commission:  
 GIC Insurance Benefits Database  
 Information Technology Division:  
 UHI Employer-Paid Health Insurance System  
 Operational Services Division:  
 Purchase Orders to Office Supply and MIS  
 Vendors  
 COMPASS – Solicitation Advertising System  
 Public Employees Retirement Board:  
 Disability Determination System  
 Disability Tracking System  
 Retirement Verification Calculation System  
 State Ethics Commission:  
 Case Tracking System  
 Department of Housing & Communities Development:  
 Housing Authority PV Tracking

### Higher Education

Bridgewater State College:  
 Financial System  
 Human Resource System  
 Student Information System  
 Bristol Community College:  
 Financial System  
 Student Information System

Bunker Hill Community College:  
 Student Administration/Colleague System  
 Cape Cod Community College:  
 Human Resource System  
 Fitchburg State College:  
 Student Records System Financial System  
 Framingham State College:  
 Fully Integrated System  
 Student Administration  
 Scheduling System  
 Greenfield Community College:  
 Banner-Alumnae  
 Banner-Financial  
 Banner-Student Information  
 Holyoke Community College:  
 Energy Management  
 Financial System  
 Human Resource System  
 Student Information System  
 Mass Bay Community College:  
 Financial Aid System  
 Financial System  
 Human Resource System  
 Student Information System  
 Massachusetts College of Art:  
 Colleague System  
 Massachusetts College of Liberal Arts: (North Adams)  
 Accounting System  
 Student Information System  
 Massachusetts Maritime Academy:  
 Financial Services Colleague System  
 Massosioit Community College:  
 APECS-Student Information System  
 Great Plains  
 Middlesex Community College:  
 Student Information System  
 Banner  
 Human Resources System  
 Mount. Wachusett Community College:  
 Banner  
 North Shore Community College:  
 Human Resource Banner  
 Northern Essex Community College:  
 Banner Student IS/Banner  
 Quinsigamond Community College:  
 BPI Accounting  
 Financial Management System  
 Roxbury Community College:  
 Student Data



**Salem State College:**

Fiscal System

**UMass - Boston:**

Financial System

**UMass - Dartmouth:**

Accounts Payable

HRMIS (Personnel &amp; Payroll)

Student Information

**UMass - Lowell:**

Financial System

Student Information System

**UMass – President's Office:**

Accounting

Payroll Systems

**Westfield State College:**

Financial Record System

Student Record System

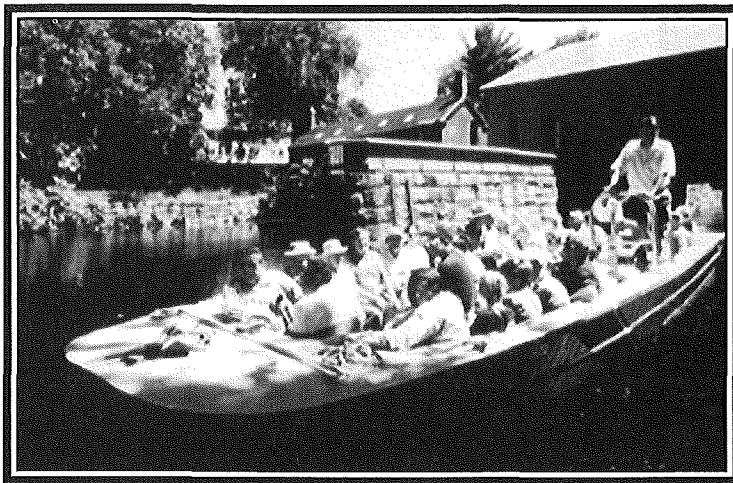
**Worcester State College:**

Colleague System

**Berkshire Community College:**

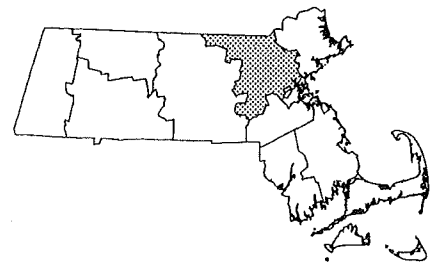
Student Billing and Administration

# Combining and Individual Fund Statements and Account Group Schedules



*The Lowell National Historical Park's barge tours of the old cotton mills navigate through the canal and lock system.*

Attractions by Region

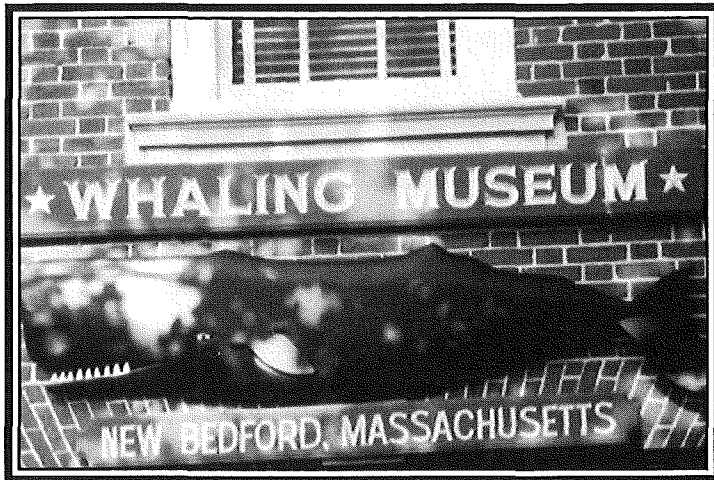


## ***Merrimack Valley***

Explore the Merrimack Valley and you'll encounter the sites and attractions that represent not one, but two revolutions, a century apart.

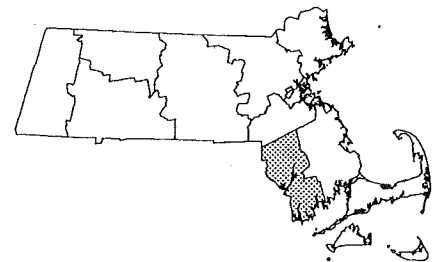
### **Recommendations:**

- The Lowell National Historical Park's tours of the old cotton mills. Exhibits explore the rapid technological and social changes of the Industrial Revolution.
- The Lowell sculpture park pays tribute to Lowell native and Beat generation author Jack Kerouac.
- The Lowell Folk Festival celebrates the city's multicultural heritage.
- Walden Pond, where Henry David Thoreau mused on nature.
- The re-enactment of the famous battle on Lexington Green when the first shots of the American Revolution were fired.
- The homes of Concord's literary lights: Louisa May Alcott, Nathaniel Hawthorne, and Ralph Waldo Emerson.



*The New Bedford Whaling Museum exhibits provide a view of the city when it was the whaling capital of the world, and hosts a half-scale model of a whaling vessel that you can board.*

#### Attractions by Region



#### ***South Eastern Massachusetts***

Stroll down the gas-lit cobblestone streets of New Bedford's historic district and imagine the port in its heyday as whaling capital of the world. Nearby Fall River has a rich history as a center of textile manufacturing.

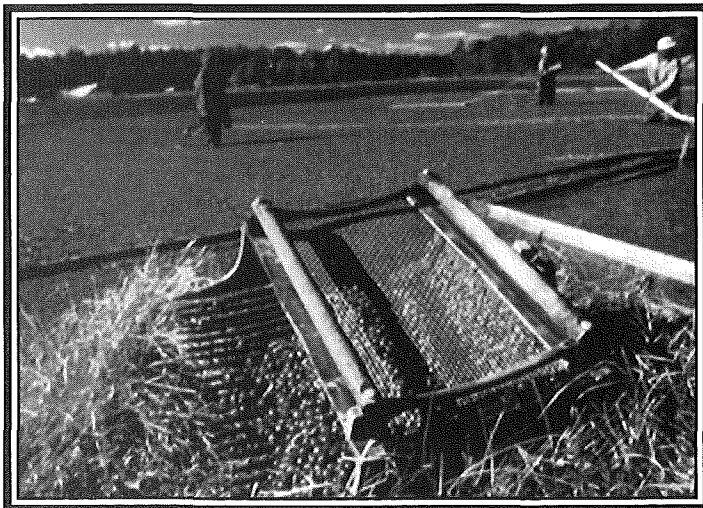
#### **Recommendations:**

- Seamen's Bethel, a chapel for seafaring families and the inspiration for Herman Melville's "Moby Dick."
- The schooner Ernestina, a 100-year-old ship with a rich history as a fishing vessel and arctic explorer.
- Fall River's discount outlet stores, housed in the granite and brick mill buildings that once hummed with textile machinery.
- Battleship Cove, which features the USS Massachusetts and other historic Navy vessels, plus the tall ship HMS "Bounty."
- The antique mecca of Taunton with its Antique Center and Antique Trail.
- The beach at Horseneck State Reservation and the delightful seaside villages along Buzzards Bay.

# General Fund

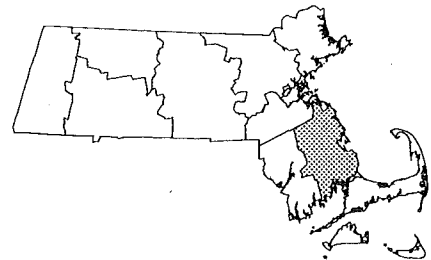
The General Fund is the Commonwealth's primary Governmental Fund. All governmental activities not specifically directed to another fund are accounted for in the General Fund. As a result, most budgeted operating expenditures of the Executive Secretariats, the Legislature, Constitutional Offices, and 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.



*The South Shore is famous for its scenic expanse of cranberry bogs. This bright red, tart fruit thrives in the acidic soil and cold climate of New England.*

Attractions by Region



## South Shore

Plymouth Rock, an enduring symbol of the Pilgrims' arrival in the New World, is a natural starting point for a visit to Plymouth, "America's Hometown." The Pilgrims' early days in the New World are vividly recreated at Plymouth Plantation.

### Recommendations:

- Plymouth Plantation, a living-history museum that recreates the 1627 Plymouth community. You'll meet Governor William Bradford, Mistress Hopkins, and other members of the community as they go about their daily lives.
- "Mayflower II," a full-scale reproduction of the ship in which the hardy Pilgrims made their harrowing 66-day voyage.
- Whale watch cruises from Plymouth and Scituate.
- A Japanese garden and public tea ceremonies, displays of Asian art, Shaker furniture and works by contemporary New England artists are only part of Duxbury's Art Complex Museum.

# General Fund Balance Sheet

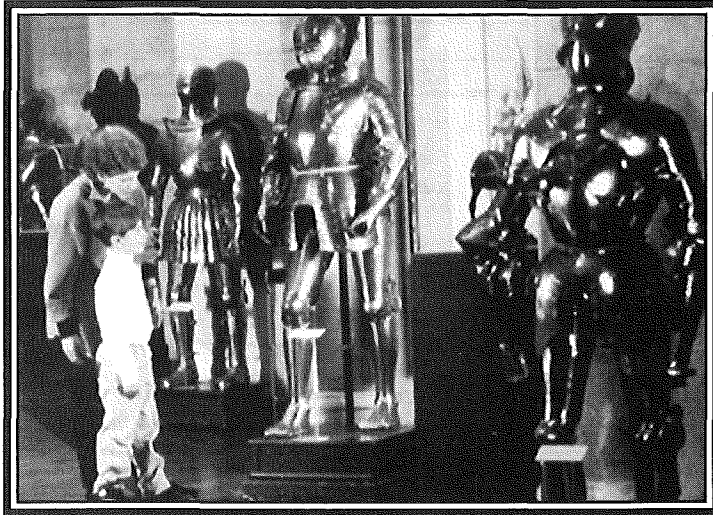
June 30, 1998  
(Amounts in thousands)

	1998	1997
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 1,480,338	\$ 553,912
Cash with fiscal agent.....	-	746
Receivables, net of allowance for uncollectibles:		
Taxes.....	971,649	784,581
Due from federal government.....	426,660	687,685
Other receivables.....	123,282	159,300
Due from cities and towns.....	239,547	227,353
Due from other funds.....	2,383,346	1,410,222
Due from component units.....	3,750	5,859
Total assets.....	<u>\$ 5,628,572</u>	<u>\$ 3,829,658</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable.....	\$ 901,259	\$ 945,118
Accrued payroll.....	22,906	14,058
Compensated absences.....	102,759	100,668
Tax refunds and abatements payable.....	600,868	415,103
Due to other funds.....	420,211	229,800
Due to component units.....	61,464	51,403
Due to federal government.....	18,058	17,997
Deferred revenue.....	122,791	112,996
Claims and judgments.....	16,500	11,000
Total liabilities.....	<u>2,266,816</u>	<u>1,898,143</u>
Fund balance:		
Reserved for continuing appropriations.....	135,350	117,189
Reserved for tax reduction.....	367,663	91,764
Reserved for Commonwealth stabilization.....	1,159,588	799,300
Reserved for retirement of indebtedness.....	-	20,814
Unreserved.....	1,699,155	902,448
Total fund balance.....	<u>3,361,756</u>	<u>1,931,515</u>
Total liabilities and fund balances.....	<u>\$ 5,628,572</u>	<u>\$ 3,829,658</u>

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

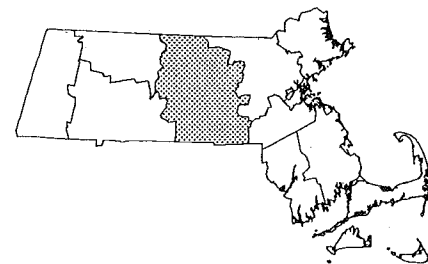
Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	1998	1997
<b>Revenues:</b>		
Taxes.....	\$ 8,470,786	\$ 7,918,267
Assessments.....	226,236	207,482
Federal grants and reimbursements.....	2,685,639	3,066,466
Departmental.....	537,924	549,320
Miscellaneous.....	175,285	146,045
<b>Total revenues.....</b>	<b>12,095,870</b>	<b>11,887,580</b>
<b>Other financing sources:</b>		
Proceeds of capital leases.....	15,521	61,906
Transfers from component units.....	4,192	5,859
Operating transfers in.....	509,230	461,949
<b>Total other financing sources.....</b>	<b>528,943</b>	<b>529,714</b>
<b>Total revenues and other financing sources.....</b>	<b>12,624,813</b>	<b>12,417,294</b>
<b>Expenditures:</b>		
<b>Current:</b>		
Legislature.....	51,194	49,308
Judiciary.....	47,932	43,386
Inspector General.....	1,876	1,680
Governor and Lieutenant Governor.....	5,095	5,244
Secretary of the Commonwealth.....	16,657	10,335
Treasurer and Receiver-General.....	87,472	131,438
Auditor of the Commonwealth.....	13,337	11,149
Attorney General.....	34,106	408
Ethics Commission.....	639	607
District Attorney.....	247	378
Office of Campaign and Political Finance.....	386	334
Sheriff's Departments.....	40,307	-
Disabled Persons Protection Commission.....	1,510	1,419
Board of Library Commissioners.....	3,815	1,837
Comptroller.....	7,173	6,769
Administration and finance.....	772,532	734,544
Environmental affairs.....	65,141	57,556
Communities and development.....	97,995	98,132
Health and human services.....	3,035,327	3,483,151
Transportation and construction.....	1,226	19,839
Education.....	176,075	154,839
Higher education.....	80,891	87,698
Public safety.....	408,073	391,981
Economic development.....	9,200	2,172
Elder affairs.....	142,870	137,295
Consumer affairs.....	31,797	30,964
Labor.....	41,566	27,275
Medicaid.....	3,442,215	3,425,331
Pension.....	96,833	95,946
Direct local aid.....	33,877	41,287
<b>Debt service:</b>		
Principal retirement.....	502,133	583,560
Interest and fiscal charges.....	255,900	286,139
<b>Total expenditures.....</b>	<b>9,505,397</b>	<b>9,922,001</b>
<b>Other financing uses:</b>		
Operating transfers out.....	454,872	528,015
Transfers of appropriations.....	820,646	745,032
Transfers to component units.....	413,657	358,943
<b>Total other financing uses.....</b>	<b>1,689,175</b>	<b>1,631,990</b>
<b>Total expenditures and other financing uses.....</b>	<b>11,194,572</b>	<b>11,553,991</b>
<b>Excess of revenues and other financing sources</b> <b>over expenditures and other financing uses.....</b>	<b>1,430,241</b>	<b>863,303</b>
<b>Fund balance (deficit) at beginning of year.....</b>	<b>1,931,515</b>	<b>1,068,212</b>
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 3,361,756</b>	<b>\$ 1,931,515</b>



*You can see the largest collection of medieval and Renaissance armor in the Western Hemisphere displayed in a gothic castle setting at the Higgins Armory Museum.*

#### Attractions by Region



### ***Central Massachusetts***

Travel to the heart of the state and you'll discover a region that offers rolling hills and meadows, sophisticated cultural attractions, and the state's second largest city, Worcester.

#### **Recommendations:**

- Old Sturbridge Village, a living-history museum that recreates a rural New England settlement of the 1830s.
- Worcester's venues for cultural performances and special events: the modern Centrum Civic Center and Mechanics Hall, the setting for such 19th-century orators as Mark Twain, Charles Dickens, and Henry David Thoreau.
- Worcester Common Fashion Outlets, a mecca for fashion-conscious shoppers.
- The Fruitlands Museums in Harvard, the site of a short-lived Utopian community in the 1840s, founded by the father of author Louisa May Alcott.

# 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.

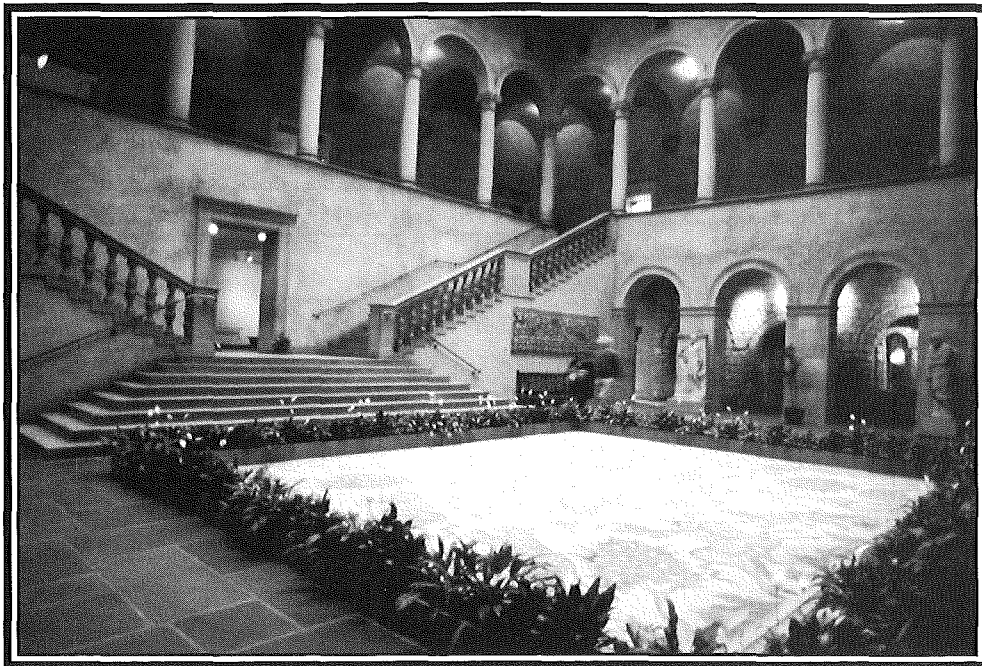
*Environmental* — accounts for a variety of fees, fines, and other revenues which finance programs to preserve, protect and enhance the environment.

*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, federal reimbursements, fees, fines, federal grants, debt proceeds and other revenues along with long-term grant anticipation notes proceeds restricted to the financing of specific Commonwealth programs.



*Worcester Art Museum*



# Special Revenue Funds

## Combining Balance Sheet

June 30, 1998

(Amounts in thousands)

	Federal Grants	Highway	Local Aid	Environmental
<b>ASSETS</b>				
Cash and short-term investments.....	\$ -	\$ 255,400	\$ -	\$ -
Cash with fiscal agent.....	-	26,059	-	-
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	45,662	621,958	659
Due from federal government.....	178,577	-	-	521
Other receivables.....	-	921	-	17,819
Due from cities and towns.....	-	-	407	-
Due from other funds.....	-	338	-	-
Inventory.....	25,233	-	-	-
Other assets.....	-	-	-	-
Total assets.....	<u>\$ 203,810</u>	<u>\$ 328,380</u>	<u>\$ 622,365</u>	<u>\$ 18,999</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable.....	\$ 130,012	\$ 22,115	\$ 192,185	\$ 15,032
Accrued payroll.....	1,076	27,204	2,861	449
Compensated absences.....	11,096	17,752	30,621	3,647
Tax refunds and abatements payable.....	-	265	397,197	-
Due to other funds.....	26,573	-	1,770,509	15,065
Due to component units.....	-	89,489	179,978	-
Due to federal government.....	-	-	-	-
Deferred revenue.....	25,233	210	59,190	109
Other accrued liabilities.....	-	-	-	-
Total liabilities.....	<u>193,990</u>	<u>157,035</u>	<u>2,632,541</u>	<u>34,302</u>
Fund balances (deficits):				
Reserved for continuing appropriations.....	-	27,286	40,114	8,533
Reserved for retirement of indebtedness.....	-	26,059	-	-
Unreserved.....	9,820	118,000	(2,050,290)	(23,836)
Fund balances (deficits).....	<u>9,820</u>	<u>171,345</u>	<u>(2,010,176)</u>	<u>(15,303)</u>
Total liabilities and fund balances.....	<u>\$ 203,810</u>	<u>\$ 328,380</u>	<u>\$ 622,365</u>	<u>\$ 18,999</u>

Lotteries	Universal Health Care	Oil Overcharge	Other	Totals	
				1998	1997
\$ 40,599	\$ 185,979	\$ 11,510	\$ 660,492	\$ 1,153,980	\$ 826,313
-	-	-	11,572	37,631	24,077
-	-	-	17,329	685,608	560,440
-	29,282	-	132,164	340,544	149,314
8,621	70,162	-	6,117	103,640	100,104
-	-	-	-	407	667
-	-	-	-	338	-
-	-	-	-	25,233	48,805
2,984	-	-	-	2,984	2,700
<u>\$ 52,204</u>	<u>\$ 285,423</u>	<u>\$ 11,510</u>	<u>\$ 827,674</u>	<u>\$ 2,350,365</u>	<u>\$ 1,712,420</u>
\$ 45,248	\$ 72,026	\$ 405	\$ 57,728	\$ 534,751	\$ 388,461
-	8	3	159	31,760	1,716
1,845	-	34	4,117	69,112	61,551
-	-	-	-	397,462	276,496
-	18,300	-	103,124	1,933,571	1,205,363
-	-	-	-	269,467	284,668
-	-	-	49	49	663
6,316	26,373	-	-	117,431	117,610
-	73,679	-	-	73,679	79,832
<u>53,409</u>	<u>190,386</u>	<u>442</u>	<u>165,177</u>	<u>3,427,282</u>	<u>2,416,360</u>
-	-	-	49,008	124,941	63,073
-	-	-	-	26,059	24,077
(1,205)	95,037	11,068	613,489	(1,227,917)	(791,090)
<u>(1,205)</u>	<u>95,037</u>	<u>11,068</u>	<u>662,497</u>	<u>(1,076,917)</u>	<u>(703,940)</u>
<u>\$ 52,204</u>	<u>\$ 285,423</u>	<u>\$ 11,510</u>	<u>\$ 827,674</u>	<u>\$ 2,350,365</u>	<u>\$ 1,712,420</u>

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Federal Grants	Highway	Local Aid	Environmental
<b>Revenues:</b>				
Taxes.....	\$ -	\$ 532,805	\$ 4,757,675	\$ 7,667
Assessments.....	-	11,121	-	17,292
Federal grants and reimbursements.....	1,469,633	2,950	-	3,036
Departmental.....	-	317,037	759	56,563
Miscellaneous.....	37	2,128	304	25,678
<b>Total revenues.....</b>	<b>1,469,670</b>	<b>866,041</b>	<b>4,758,738</b>	<b>110,236</b>
<b>Other financing sources:</b>				
Proceeds of general obligation bonds.....	-	-	-	-
Operating transfers in.....	-	338	824,508	605
<b>Total other financing sources.....</b>	<b>-</b>	<b>338</b>	<b>824,508</b>	<b>605</b>
<b>Total revenues and other financing sources.....</b>	<b>1,469,670</b>	<b>866,379</b>	<b>5,583,246</b>	<b>110,841</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Judiciary.....	365	-	422,157	-
Secretary of the Commonwealth.....	725	-	4,953	-
Treasurer and Receiver-General.....	764	642	2,951	-
Auditor of the Commonwealth.....	-	-	766	-
Attorney General.....	4,851	8	723	90
Ethics Commission.....	-	-	664	-
District Attorney.....	2,030	-	58,233	-
Office of Campaign and Political Finance.....	-	-	366	-
Sheriff's Departments.....	108	54	33	-
Disabled Persons Protection Commission.....	8	-	-	-
Board of Library Commissioners.....	2,593	-	2,433	-
Administration and finance.....	1,653	32,229	124,305	28,774
Environmental affairs.....	16,114	25,570	22,895	78,765
Communities and development.....	217,304	-	30,427	-
Health and human services.....	512,401	-	1,422	-
Transportation and construction.....	6,757	108,191	589	-
Education.....	435,727	33,639	483,790	480
Higher education.....	946	-	-	-
Public safety.....	31,289	183,837	217,998	103
Economic development.....	5,818	-	-	-
Elder affairs.....	25,376	-	9,335	-
Consumer affairs.....	43	2,021	-	-
Labor.....	141,925	2	242	-
Medicaid.....	-	-	32,000	-
Pension.....	-	36,698	280,348	476
Direct local aid.....	-	50,325	3,962,581	98
<b>Debt service:</b>				
Principal retirement.....	-	149,338	54,989	-
Interest and fiscal charges.....	-	179,732	71,237	-
<b>Total expenditures.....</b>	<b>1,406,797</b>	<b>802,286</b>	<b>5,785,437</b>	<b>108,786</b>
<b>Other financing uses:</b>				
Operating transfers out.....	61,527	96,765	177,511	19,759
Transfers of appropriations.....	-	-	5	1,813
Transfers to component units.....	2,759	108,683	224,866	-
<b>Total other financing uses.....</b>	<b>64,286</b>	<b>205,448</b>	<b>402,382</b>	<b>21,572</b>
<b>Total expenditures and other financing uses.....</b>	<b>1,471,083</b>	<b>1,007,734</b>	<b>6,187,819</b>	<b>130,358</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(1,413)</b>	<b>(141,355)</b>	<b>(604,573)</b>	<b>(19,517)</b>
<b>Fund balances (deficits) at beginning of year.....</b>	<b>11,233</b>	<b>312,700</b>	<b>(1,405,603)</b>	<b>4,214</b>
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 9,820</b>	<b>\$ 171,345</b>	<b>\$ (2,010,176)</b>	<b>\$ (15,303)</b>

Lotteries	Universal Health Care	Oil Overcharge	Other	Totals	
				1998	1997 (as restated)
\$ 2,390	\$ -	\$ -	\$ 262,105	\$ 5,562,642	\$ 5,112,210
-	244,579	-	14,745	287,737	344,622
-	145,069	5	763,053	2,383,746	1,479,341
3,374,239	451,646	-	47,579	4,247,823	3,846,236
17,265	48,269	1,557	10,308	105,546	54,124
3,393,894	889,563	1,562	1,097,790	12,587,494	10,836,533
-	-	-	580,557	580,557	-
32,093	310,755	-	301,827	1,470,126	963,073
32,093	310,755	-	882,384	2,050,683	963,073
3,425,987	1,200,318	1,562	1,980,174	14,638,177	11,799,606
-	-	-	-	422,522	389,366
-	-	-	748	6,426	6,900
2,555,788	-	-	1,036	2,561,181	2,578,997
-	-	-	-	766	695
-	-	-	989	6,661	4,712
-	-	-	-	664	582
-	-	-	7,483	67,746	61,476
-	-	-	-	366	336
-	-	-	11	206	-
-	-	-	-	8	46
-	-	-	-	5,026	4,529
-	21	-	98,456	285,438	202,670
-	-	24	7,380	150,748	138,061
-	-	757	4,053	252,541	245,883
-	860,513	-	648,101	2,022,437	1,023,397
-	-	-	2	115,539	130,900
-	-	-	23,804	977,440	871,529
-	-	-	120	1,066	1,984
-	-	89	11,313	444,629	468,361
-	-	2,621	12,873	21,312	30,920
-	-	-	1,686	36,397	36,314
-	18,892	-	4,540	25,496	6,481
-	-	-	2,144	144,313	161,570
-	-	-	163,624	195,624	72,000
-	-	-	-	317,522	317,104
-	-	-	-	4,013,004	3,636,168
-	-	-	807	205,134	169,109
-	-	-	455	251,424	239,477
2,555,788	879,426	3,491	989,625	12,531,636	10,799,567
895,963	292,911	145	583,895	2,128,476	1,061,756
-	21	-	500	2,339	2,004
-	-	-	12,395	348,703	381,162
895,963	292,932	145	596,790	2,479,518	1,444,922
3,451,751	1,172,358	3,636	1,586,415	15,011,154	12,244,489
(25,764)	27,960	(2,074)	393,759	(372,977)	(444,883)
24,559	67,077	13,142	268,738	(703,940)	(259,057)
\$ (1,205)	\$ 95,037	\$ 11,068	\$ 662,497	\$ (1,076,917)	\$ (703,940)

# Budgeted Special Revenue Funds

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Highway			Local Aid		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes.....	\$ 507,600	\$ 531,143	\$ 23,543	\$ 4,353,500	\$ 4,760,501	\$ 407,001
Assessments.....	-	11,121	11,121	-	-	-
Federal grants and reimbursements.....	3,400	2,950	(450)	-	-	-
Departmental.....	309,100	317,513	8,413	1,900	759	(1,141)
Miscellaneous.....	-	2,145	2,145	-	302	302
Total revenues.....	820,100	864,872	44,772	4,355,400	4,761,562	406,162
<b>Other financing sources:</b>						
Operating transfers in.....	-	338	338	639,800	787,802	148,002
Stabilization transfer.....	-	-	-	-	-	-
Transfer for tax reduction.....	-	-	-	-	36,706	36,706
Total other financing sources.....	-	338	338	639,800	824,508	184,708
Total revenues and other financing sources.....	820,100	865,210	45,110	4,995,200	5,586,070	590,870
<b>Expenditures:</b>						
Judiciary.....	-	-	-	447,571	418,694	28,877
Secretary of the Commonwealth.....	-	-	-	5,581	4,948	633
Treasurer and Receiver-General.....	675	600	75	3,292	2,783	509
Auditor of the Commonwealth.....	-	-	-	707	707	-
Attorney General.....	8	8	-	724	723	1
Ethics Commission.....	-	-	-	641	641	-
District Attorney.....	-	-	-	58,880	58,496	384
Office of Campaign & Political Finance.....	-	-	-	385	383	2
Sheriff's Departments.....	58	54	4	35	33	2
Board of Library Commissioners.....	-	-	-	2,462	2,426	36
Comptroller.....	-	-	-	-	-	-
Administration and finance.....	32,278	6,605	25,673	151,044	121,372	29,672
Environmental affairs.....	27,326	25,566	1,760	30,036	28,757	1,279
Communities and development.....	-	-	-	31,001	30,927	74
Health and human services.....	-	-	-	11,661	1,421	10,240
Transportation and construction.....	173,796	171,036	2,760	129,067	126,471	2,596
Education.....	-	-	-	203,168	200,247	2,921
Higher education.....	-	-	-	5	5	-
Public safety.....	185,854	183,466	2,388	224,602	217,824	6,778
Economic development.....	-	-	-	250	-	250
Elder affairs.....	-	-	-	9,439	9,335	104
Consumer affairs.....	2,020	2,009	11	-	-	-
Labor.....	2	2	-	242	242	-
Direct local aid.....	43,472	43,472	-	3,906,670	3,904,821	1,849
Medicaid.....	-	-	-	32,000	32,000	-
Pension.....	76,647	76,627	20	616,886	616,886	-
Debt service:						
Principal retirement.....	152,877	149,338	3,539	56,292	54,989	1,303
Interest and fiscal charges.....	183,991	179,732	4,259	72,925	71,237	1,688
Total expenditures.....	879,004	838,515	40,489	5,995,566	5,906,368	89,198
<b>Other financing uses:</b>						
Fringe benefit cost assessment.....	-	-	-	-	65,434	(65,434)
Operating transfers out.....	140,583	139,825	758	132,767	131,251	1,516
Stabilization transfer.....	-	-	-	-	66,943	(66,943)
Transfer for tax reduction.....	-	-	-	-	-	-
Total other financing uses.....	140,583	139,825	758	132,767	263,628	(130,861)
Total expenditures and other financing uses.....	1,019,587	978,340	41,247	6,128,333	6,169,996	(41,663)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(199,487)	(113,130)	86,357	(1,133,133)	(583,926)	549,207
Fund balances (deficit) at beginning of year.....	373,887	373,887	-	(1,355,829)	(1,355,829)	-
Fund balances (deficit) at end of year.....	\$ 174,400	\$ 260,757	\$ 86,357	\$ (2,488,962)	\$ (1,939,755)	\$ 549,207

Commonwealth Stabilization			Administrative Control			Environmental		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 106,900	\$ 160,072	\$ 53,172	\$ 8,400	\$ 7,659	\$ (741)
-	-	-	-	-	-	-	17,276	17,276
-	-	-	-	37,386	37,386	4,351	3,231	(1,120)
22,500	-	(22,500)	10,594	81,858	71,264	85,383	56,601	(28,782)
-	42,931	42,931	-	6,341	6,341	-	25,470	25,470
22,500	42,931	20,431	117,494	285,657	168,163	98,134	110,237	12,103
-	-	-	-	83,705	83,705	100	605	505
-	317,357	317,357	-	-	-	-	-	-
-	-	-	-	362,500	362,500	-	-	-
-	317,357	317,357	-	446,205	446,205	100	605	505
22,500	360,288	337,788	117,494	731,862	614,368	98,234	110,842	12,608
-	-	-	-	-	-	-	-	-
-	-	-	125	124	1	-	-	-
-	-	-	1,569	1,569	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	98	89	9
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	428	428	-	-	-	-
-	-	-	122,838	75,555	47,283	30,732	28,746	1,986
-	-	-	5,644	5,607	37	88,494	78,469	10,025
-	-	-	14	14	-	-	-	-
-	-	-	28,847	24,486	4,361	-	-	-
-	-	-	1,191	1,161	30	-	-	-
-	-	-	135	135	-	-	-	-
-	-	-	2,553	2,467	86	1,886	1,811	75
-	-	-	8,525	8,500	25	132	127	5
-	-	-	11	11	-	-	-	-
-	-	-	5	5	-	-	-	-
-	-	-	1	1	-	-	-	-
-	-	-	71	71	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,046	1,046	-
-	-	-	-	-	-	-	-	-
-	-	-	129,900	129,900	-	-	-	-
-	-	-	2,364	2,364	-	-	-	-
-	-	-	304,221	252,398	51,823	122,388	110,288	12,100
-	-	-	-	935	(935)	-	12,919	(12,919)
-	-	-	63,362	63,362	-	6,839	6,839	-
-	-	-	-	-	-	-	-	-
-	-	-	91,764	91,764	-	-	-	-
-	-	-	155,126	156,061	(935)	6,839	19,758	(12,919)
-	-	-	459,347	408,459	50,888	129,227	130,046	(819)
22,500	360,288	337,788	(341,853)	323,403	665,256	(30,993)	(19,204)	11,789
799,300	799,300	-	155,754	155,754	-	(755)	(755)	-
\$ 821,800	\$ 1,159,588	\$ 337,788	\$ (186,099)	\$ 479,157	\$ 665,256	\$ (31,748)	\$ (19,959)	\$ 11,789

continued

# Budgeted Special Revenue Funds

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Other			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes.....	\$ 242,300	\$ 253,913	\$ 11,613	\$ 5,218,700	\$ 5,713,288	\$ 494,588
Assessments.....	-	-	-	-	28,397	28,397
Federal grants and reimbursements.....	663,149	645,956	(17,193)	670,900	689,523	18,623
Departmental.....	33,323	32,634	(689)	462,800	489,365	26,565
Miscellaneous.....	-	411	411	-	77,600	77,600
Total revenues.....	938,772	932,914	(5,858)	6,352,400	6,998,173	645,773
<b>Other financing sources:</b>						
Operating transfers in.....	36,952	222,133	185,181	676,852	1,094,583	417,731
Stabilization transfer.....	-	-	-	-	317,357	317,357
Transfer for tax reduction.....	-	-	-	-	399,206	399,206
Total other financing sources.....	36,952	222,133	185,181	676,852	1,811,146	1,134,294
Total revenues and other financing sources.....	975,724	1,155,047	179,323	7,029,252	8,809,319	1,780,067
<b>Expenditures:</b>						
Judiciary.....	-	-	-	447,571	418,694	28,877
Secretary of the Commonwealth.....	2,145	748	1,397	7,851	5,820	2,031
Treasurer and Receiver-General.....	1,033	1,033	-	6,569	5,985	584
Auditor of the Commonwealth.....	-	-	-	707	707	-
Attorney General.....	992	989	3	1,822	1,809	13
Ethics Commission.....	-	-	-	641	641	-
District Attorney.....	7,508	7,396	112	66,388	65,892	496
Office of Campaign & Political Finance.....	-	-	-	385	383	2
Sheriff's Departments.....	22	11	11	115	98	17
Board of Library Commissioners.....	-	-	-	2,462	2,426	36
Comptroller.....	-	-	-	428	428	-
Administration and finance.....	44,219	38,812	5,407	381,111	271,090	110,021
Environmental affairs.....	1,164	1,102	62	152,664	139,501	13,163
Communities and development.....	4,141	4,053	88	35,156	34,994	162
Health and human services.....	657,746	644,294	13,452	698,254	670,201	28,053
Transportation and construction.....	3	3	-	304,057	298,671	5,386
Education.....	24,151	23,804	347	227,454	224,186	3,268
Higher education.....	1,076	933	143	5,520	5,216	304
Public safety.....	5,695	5,588	107	424,808	415,505	9,303
Economic development.....	65,928	18,233	47,695	66,189	18,244	47,945
Elder affairs.....	1,876	1,686	190	11,320	11,026	294
Consumer affairs.....	3,607	3,187	420	5,628	5,197	431
Labor.....	2,045	1,951	94	2,360	2,266	94
Direct local aid.....	-	-	-	3,950,142	3,948,293	1,849
Medicaid.....	201,724	163,624	38,100	233,724	195,624	38,100
Pension.....	-	-	-	694,579	694,559	20
Debt service:						
Principal retirement.....	30	29	1	339,099	334,256	4,843
Interest and fiscal charges.....	5	5	-	259,285	253,338	5,947
Total expenditures.....	1,025,110	917,481	107,629	8,326,289	8,025,050	301,239
<b>Other financing uses:</b>						
Fringe benefit cost assessment.....	-	13,794	(13,794)	-	93,082	(93,082)
Operating transfers out.....	144,331	144,331	-	487,882	485,608	2,274
Stabilization transfer.....	-	-	-	-	66,943	(66,943)
Transfer for tax reduction.....	-	-	-	91,764	91,764	-
Total other financing uses.....	144,331	158,125	(13,794)	579,646	737,397	(157,751)
Total expenditures and other financing uses.....	1,169,441	1,075,606	93,835	8,905,935	8,762,447	143,488
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(193,717)	79,441	273,158	(1,876,683)	46,872	1,923,555
Fund balances (deficit) at beginning of year.....	240,330	240,330	-	212,687	212,687	-
Fund balances (deficit) at end of year.....	\$ 46,613	\$ 319,771	\$ 273,158	\$ (1,663,996)	\$ 259,559	\$ 1,923,555

# 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.

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

*Capital Improvement and Investment Trust Fund* — accounts for Commonwealth reimbursements to cities and towns for expenses incurred for projects for construction and reconstruction of city and town ways.

*Capital Expenditure Reserve Fund* — accounts for amounts paid by the Massachusetts Turnpike Authority as payment towards acquisition cost of the Central

Artery/Tunnel and federal financial participation money related to amounts paid by Massachusetts Port Authority. Fiscal year 1997 activity was reported in the Non Budgeted Special Revenue Other Fund Type. This activity is reported in Capital Project Funds to conform to the 1998 presentation.

*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.



*Old Sturbridge Village is a living-history museum that recreates a rural New England settlement of the 1830s.*



# Capital Projects Funds

## Combining Balance Sheet

June 30, 1998

(Amounts in thousands)

	General	Capital Investment Trust	Boston Convention and Exhibition Center	Capital Improvements and Investment Trust
<b>ASSETS</b>				
Receivables, net of allowance for uncollectibles:				
Due from federal government.....	\$ 4,475	\$ -	\$ -	\$ -
Other receivables.....	-	-	-	-
Due from other funds.....	88,082	153,519	-	139,236
Total assets.....	<u>\$ 92,557</u>	<u>\$ 153,519</u>	<u>\$ -</u>	<u>\$ 139,236</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable.....	\$ 79,693	\$ 23,293	\$ -	\$ -
Accrued payroll.....	64	1	-	-
Compensated absences.....	628	-	-	-
Due to other funds.....	-	-	19,000	-
Due to component unit.....	2	-	-	500
Due to federal government.....	-	-	-	-
Deferred revenue.....	-	-	-	-
Claims and judgments.....	-	-	-	-
Total liabilities.....	<u>80,387</u>	<u>23,294</u>	<u>19,000</u>	<u>500</u>
Fund balances (deficits):				
Reserved for capital projects.....	-	130,225	-	138,736
Unreserved.....	12,170	-	(19,000)	-
Fund balances (deficits).....	12,170	130,225	(19,000)	138,736
Total liabilities and fund balances.....	<u>\$ 92,557</u>	<u>\$ 153,519</u>	<u>\$ -</u>	<u>\$ 139,236</u>

Capital Expenditure Reserve	Highway	Federal Highway Construction	Local Aid	Other	Totals	
					1998	1997
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,475	\$ 165,527
-	-	122	-	-	122	133
2	-	142,158	-	-	522,997	249,818
<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 142,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,594</u>	<u>\$ 415,478</u>
\$ -	\$ 61,962	\$ 142,098	\$ 11,991	\$ 12,064	\$ 331,101	\$ 331,239
-	335	94	16	-	510	238
-	4,047	10	15	1	4,701	4,461
-	497,486	-	25,545	2,868	544,899	215,644
-	-	-	-	-	502	27
-	-	65	-	-	65	-
-	-	41	-	-	41	107
-	67,450	-	-	-	67,450	60,700
<u>-</u>	<u>631,280</u>	<u>142,308</u>	<u>37,567</u>	<u>14,933</u>	<u>949,269</u>	<u>612,416</u>
-	-	-	-	-	268,961	229,800
2	(631,280)	(28)	(37,567)	(14,933)	(690,636)	(426,738)
2	(631,280)	(28)	(37,567)	(14,933)	(421,675)	(196,938)
<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 142,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,594</u>	<u>\$ 415,478</u>

# Capital Projects Funds

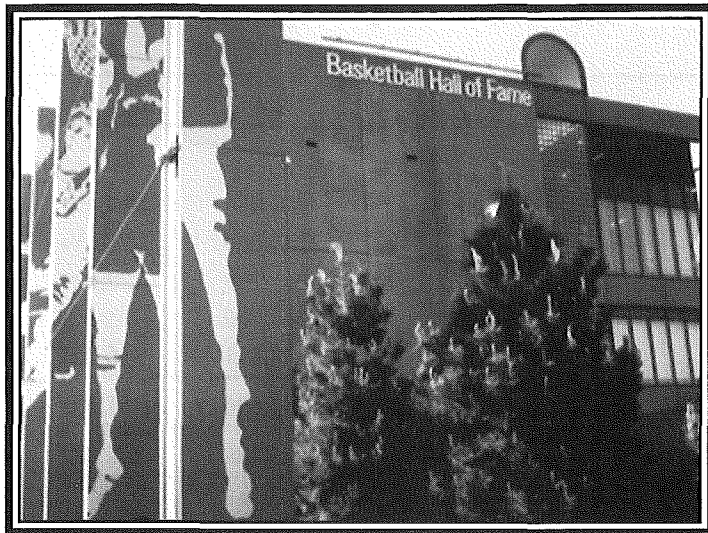
## Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 1998

(Amounts in thousands)

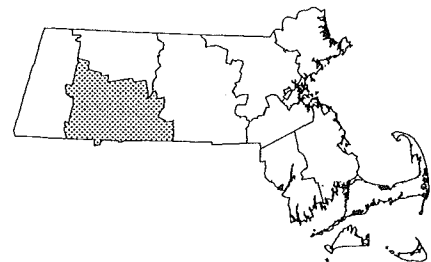
	General	Capital Investment Trust	Boston Convention and Exhibition Center	Capital Improvements and Investment Trust
<b>Revenues:</b>				
Federal grants and reimbursements.....	\$ 12,744	\$ -	\$ -	\$ -
Miscellaneous.....	-	-	-	-
Total revenues.....	12,744	-	-	-
<b>Other financing sources:</b>				
Proceeds of general obligation bonds.....	489,860	-	-	-
Proceeds of special obligation bonds.....	-	-	-	-
Proceeds of refunding bonds.....	318,953	-	-	-
Transfers from component units.....	-	-	-	-
Operating transfers in.....	77,916	-	-	189,236
Total other financing sources.....	886,729	-	-	189,236
Total revenues and other financing sources.....	899,473	-	-	189,236
<b>Expenditures:</b>				
Capital outlay:				
Local aid.....	-	-	-	-
Capital acquisition and construction.....	388,945	98,292	19,000	50,000
Total expenditures.....	388,945	98,292	19,000	50,000
<b>Other financing uses:</b>				
Payments to refunded bond escrow agent.....	318,953	-	-	-
Operating transfers out.....	12,410	26	-	-
Transfers of bond proceeds.....	29,878	1,257	-	-
Transfers to component units.....	3,891	-	-	500
Total other financing uses.....	365,132	1,283	-	500
Total expenditures and other financing uses.....	754,077	99,575	19,000	50,500
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>145,396</b>	<b>(99,575)</b>	<b>(19,000)</b>	<b>138,736</b>
Fund balances (deficits) at beginning of year.....	(133,226)	229,800	-	-
Fund balances (deficits) at end of year.....	\$ 12,170	\$ 130,225	\$ (19,000)	\$ 138,736

Capital Expenditure Reserve	Highway	Federal Highway Construction	Local Aid	Other	Totals	
					1998	1997 (as restated)
\$ -	\$ -	\$ 772,498	\$ -	\$ -	\$ 785,242	\$1,035,630
12,515	491	395	-	-	13,401	3,004
12,515	491	772,893	-	-	798,643	1,038,634
-	136,922	-	137,504	2,667	766,953	899,471
-	100,059	-	-	-	100,059	-
-	436,522	-	106,318	-	861,793	722,621
100,000	-	-	-	-	100,000	-
-	438,281	653,458	-	-	1,358,891	495,261
100,000	1,111,784	653,458	243,822	2,667	3,187,696	2,117,353
112,515	1,112,275	1,426,351	243,822	2,667	3,986,339	3,155,987
-	-	-	102,022	-	102,022	181,179
12,402	524,741	1,422,529	-	16,167	2,532,076	2,050,758
12,402	524,741	1,422,529	102,022	16,167	2,634,098	2,231,937
-	436,522	-	106,318	-	861,793	722,621
100,111	561,094	3,868	549	64	678,122	193,158
-	8	-	-	-	31,143	34,977
-	-	-	1,529	-	5,920	5,748
100,111	997,624	3,868	108,396	64	1,576,978	956,504
112,513	1,522,365	1,426,397	210,418	16,231	4,211,076	3,188,441
2	(410,090)	(46)	33,404	(13,564)	(224,737)	(32,454)
-	(221,190)	18	(70,971)	(1,369)	(196,938)	(164,484)
\$ 2	\$ (631,280)	\$ (28)	\$ (37,567)	\$ (14,933)	\$ (421,675)	\$ (196,938)



*The Basketball Hall of Fame was created to honor the sport which was invented in Springfield, Massachusetts. You can pay tribute to the sport's legends and test your skills in the "shoot-out" gallery.*

#### Attractions by Region



#### *Pioneer Valley*

Springfield claims lots of "firsts" in its history but if you are a hoop fan, its role as the birthplace of basketball and the home of the Basketball Hall of Fame is pre-eminent. The valley also offers history, art, and science lovers a cluster of special-interest museums.

#### **Recommendations:**

- An action-packed visit to the Basketball Hall of Fame. Pay tribute to the sport's legends and test your skills in the "shoot-out" gallery.
- Springfield's Quadrangle, a quartet of art, science and history museums plus a library.
- The bustling town of Northampton, a center of the region's thriving crafts scene and home of Smith College.
- The charming college town of Amherst, home to the University of Massachusetts and two of the region's nine private colleges.
- The panoramic view of the valley from Poet's Seat Tower on Rocky Mountain Ridge.

# *Internal Service Funds*

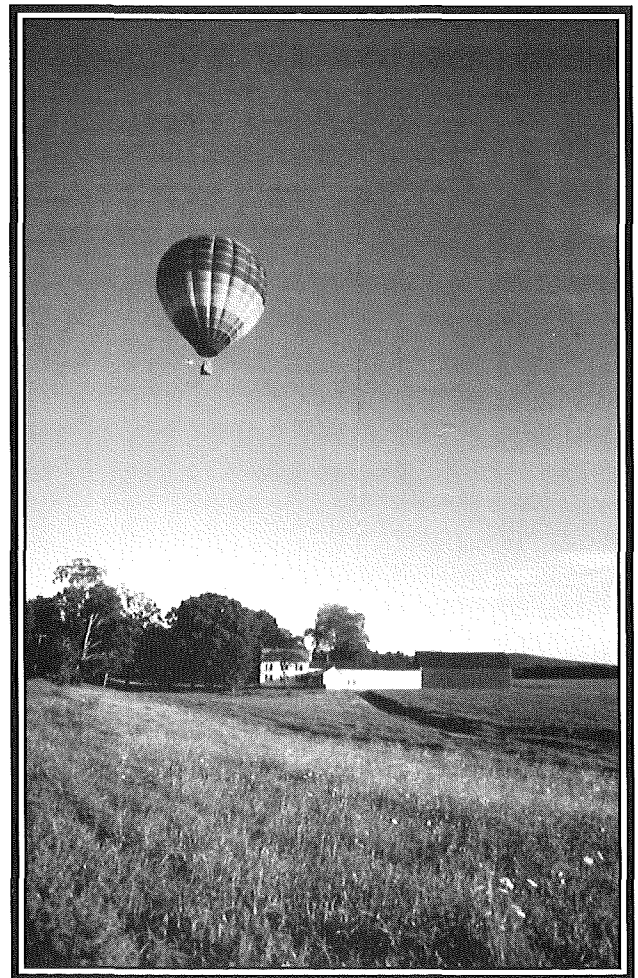
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Internal Service Funds are used to account for the risk financing and insurance related activities of the Commonwealth.

*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.



*A balloon ride across the fields and pastures of rural Massachusetts.*

# Internal Service Funds

## Combining Balance Sheet

June 30, 1998  
(Amounts in thousands)

(In thousands)					
				Totals	
	Employees Workers' Compensation	Central Artery Workers' Compensation	Employees Group Health Insurance	1998	1997
<b>ASSETS</b>					
Restricted investments.....	\$ -	\$ 273,705	\$ -	\$ 273,705	\$ 223,219
Assets held in trust.....	-	-	16,531	16,531	15,087
Due from other funds.....	22,289	-	-	22,289	35,400
Total assets.....	<u>\$ 22,289</u>	<u>\$ 273,705</u>	<u>\$ 16,531</u>	<u>\$ 312,525</u>	<u>\$ 273,706</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Claims and judgments.....	<u>\$ 271,166</u>	<u>\$ 99,595</u>	<u>\$ 44,701</u>	<u>\$ 415,462</u>	<u>\$ 414,044</u>
Total liabilities.....	<u>271,166</u>	<u>99,595</u>	<u>44,701</u>	<u>415,462</u>	<u>414,044</u>
Fund equity (deficit):					
Retained earnings:					
Reserved for central artery workers' compensation.....	-	174,110	-	174,110	145,140
Unreserved.....	<u>(248,877)</u>	<u>-</u>	<u>(28,170)</u>	<u>(277,047)</u>	<u>(285,478)</u>
Total fund equity (deficit).....	<u>(248,877)</u>	<u>174,110</u>	<u>(28,170)</u>	<u>(102,937)</u>	<u>(140,338)</u>
Total liabilities and fund equity.....	<u>\$ 22,289</u>	<u>\$ 273,705</u>	<u>\$ 16,531</u>	<u>\$ 312,525</u>	<u>\$ 273,706</u>

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Employees Workers' Compensation	Central Artery Workers' Compensation	Employees Group Health Insurance	Totals	
				1998	1997
Operating revenues:					
Premiums.....	\$ 42,341	\$ 47,124	\$ 645,540	\$ 735,005	\$ 697,413
Total operating revenues.....	42,341	47,124	645,540	735,005	697,413
Operating expenses:					
Claims and judgments.....	55,452	7,416	644,096	706,964	671,188
Change in incurred but not reported claims.....	(15,434)	21,516	(4,664)	1,418	22,991
Net claims and judgments.....	40,018	28,932	639,432	708,382	694,179
Operating income.....	2,323	18,192	6,108	26,623	3,234
Nonoperating revenues:					
Interest income.....	-	10,778	-	10,778	7,508
Total nonoperating revenues.....	-	10,778	-	10,778	7,508
Net income.....	2,323	28,970	6,108	37,401	10,742
Retained earnings (deficit) at beginning of year...	(251,200)	145,140	(34,278)	(140,338)	(151,080)
Retained earnings (deficit) at end of year.....	\$ (248,877)	\$ 174,110	\$ (28,170)	\$ (102,937)	\$ (140,338)



# Internal Service Funds

## Combining Statement Of Cash Flows

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Employees Workers' Compensation	Central Artery Workers' Compensation	Employees Group Health Insurance	Totals	
				1998	1997
Cash flows from operating activities:					
Operating income.....	\$ 2,323	\$ 18,192	\$ 6,108	\$ 26,623	\$ 3,234
Adjustments to reconcile operating income to net cash provided by operating activities:					
Change in assets and liabilities:					
Assets held in trust.....	-	-	(1,444)	(1,444)	3,702
Due from other funds.....	13,111	-	-	13,111	(2,145)
Claims and judgments.....	(15,434)	21,516	(4,664)	1,418	22,991
Total adjustments.....	(2,323)	21,516	(6,108)	13,085	24,548
Net cash provided by operating activities.....	-	39,708	-	39,708	27,782
Cash flows from investing activities:					
Purchases of investments.....	-	(50,486)	-	(50,486)	(35,290)
Interest income.....	-	10,778	-	10,778	7,508
Net cash used for investing activities.....	-	(39,708)	-	(39,708)	(27,782)
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

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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:

*Deferred Compensation Trust Fund* - accounts for the net assets held in trust for employees for savings of deferred tax earnings for retirements.

*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.

*Other 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.

## 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.

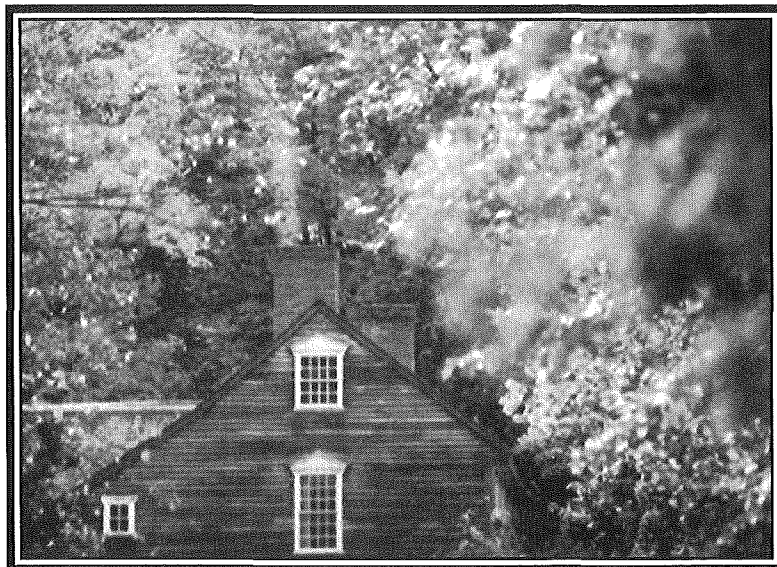
## AGENCY FUNDS:

*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 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.



*Historic Deerfield's mile-long street is lined with eighteenth- and nineteenth-century houses filled with period furnishings, ceramics and silver.*

# Fiduciary Fund Types Combining Balance Sheet

June 30, 1998  
(Amounts in thousands)

ASSETS	Expendable Trust Funds	Non- expendable Trust Funds	Pension Trust Funds
Cash and short-term investments.....	\$ 220,168	\$ 5,835	\$ 992,738
Deposits.....	1,699,693	-	-
Investments.....	-	-	22,656,891
Investments of deferred compensation plan.....	2,006,455	-	-
Annuity contracts.....	-	-	-
Assets held in trust.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Taxes.....	255,260	-	-
Due from federal government.....	1,925	-	-
Loans.....	643	-	-
Other receivables.....	17,319	-	482,658
Total assets.....	<u>\$ 4,201,463</u>	<u>\$ 5,835</u>	<u>\$ 24,132,287</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable.....	\$ 33,630	\$ -	\$ 909,307
Accrued payroll.....	79	-	-
Compensated absences.....	486	-	-
Tax refunds and abatements payable.....	12,484	-	-
Due to cities and towns.....	-	-	-
Due to other funds.....	-	-	1,672
Deferred revenue.....	12,042	-	-
Prizes payable.....	-	-	-
Agency liabilities.....	4,430	-	-
Other accrued liabilities.....	-	-	-
Total liabilities.....	<u>63,151</u>	<u>-</u>	<u>910,979</u>
Fund balances:			
Reserved for employees' pension benefits.....	-	-	23,221,308
Reserved for deferred compensation.....	2,006,455	-	-
Reserved for unemployment benefits.....	1,918,742	-	-
Reserved for nonexpendable trusts.....	-	5,835	-
Unreserved.....	213,115	-	-
Total fund balances.....	<u>4,138,312</u>	<u>5,835</u>	<u>23,221,308</u>
Total liabilities and fund balances.....	<u>\$ 4,201,463</u>	<u>\$ 5,835</u>	<u>\$ 24,132,287</u>

Agency Funds	Totals	
	1998	1997 (as restated)
\$ 1,884,213	\$ 3,102,954	\$ 2,508,599
-	1,699,693	1,222,725
738,709	23,395,600	19,528,892
-	2,006,455	1,616,593
1,340,514	1,340,514	1,285,021
1,901,578	1,901,578	1,743,981
-	255,260	328,977
-	1,925	1,549
-	643	2,943
47,160	547,137	273,385
<u>\$ 5,912,174</u>	<u>\$ 34,251,759</u>	<u>\$ 28,512,665</u>

\$ 10,982	\$ 953,919	\$ 544,832
-	79	34
-	486	388
-	12,484	8,998
22,673	22,673	20,142
-	1,672	3,657
-	12,042	13,519
1,340,514	1,340,514	1,285,021
4,538,005	4,542,435	3,812,878
-	-	9,210
<u>5,912,174</u>	<u>6,886,304</u>	<u>5,698,679</u>
-	23,221,308	19,560,061
-	2,006,455	1,616,593
-	1,918,742	1,515,080
-	5,835	5,835
-	213,115	116,417
-	27,365,455	22,813,986
<u>\$ 5,912,174</u>	<u>\$ 34,251,759</u>	<u>\$ 28,512,665</u>

# Expendable Trust Funds Combining Balance Sheet

June 30, 1998  
(Amounts in thousands)

ASSETS	Deferred Compensation Trust	Unemployment Compensation	Other Expendable Trust	Totals	
				1998	1997 (as restated)
Cash and short-term investments.....	\$ -	\$ -	\$ 220,168	\$ 220,168	\$ 132,788
Deposits.....	-	1,699,693	-	1,699,693	1,222,725
Investments of deferred compensation plan.....	2,006,455	-	-	2,006,455	1,616,593
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	255,260	-	255,260	328,977
Due from federal government.....	-	-	1,925	1,925	1,549
Loans.....	-	-	643	643	2,943
Other receivables.....	-	7,366	9,953	17,319	16,992
Total assets.....	<u>\$2,006,455</u>	<u>\$ 1,962,319</u>	<u>\$ 232,689</u>	<u>\$ 4,201,463</u>	<u>\$ 3,322,567</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ -	\$ 20,187	\$ 13,443	\$ 33,630	\$ 42,328
Accrued payroll.....	-	-	79	79	34
Compensated absences.....	-	-	486	486	388
Tax refunds payable.....	-	12,484	-	12,484	8,998
Deferred revenue.....	-	10,906	1,136	12,042	13,519
Agency liabilities.....	-	-	4,430	4,430	-
Other accrued liabilities.....	-	-	-	-	9,210
Total liabilities.....	<u>-</u>	<u>43,577</u>	<u>19,574</u>	<u>63,151</u>	<u>74,477</u>
Fund balances:					
Reserved for deferred compensation.....	2,006,455	-	-	2,006,455	1,616,593
Reserved for unemployment benefits.....	-	1,918,742	-	1,918,742	1,515,080
Unreserved.....	-	-	213,115	213,115	116,417
Total fund balances.....	<u>2,006,455</u>	<u>1,918,742</u>	<u>213,115</u>	<u>4,138,312</u>	<u>3,248,090</u>
Total liabilities and fund balances.....	<u>\$2,006,455</u>	<u>\$ 1,962,319</u>	<u>\$ 232,689</u>	<u>\$ 4,201,463</u>	<u>\$ 3,322,567</u>

**Expendable Trust Funds**  
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	Deferred Compensation Trust	Unemployment Compensation	Other Expendable Trust	Totals	
				1998	1997 (as restated)
<b>Revenues:</b>					
Taxes.....	\$ -	\$ 1,015,807	\$ -	\$ 1,015,807	\$ 1,189,386
Assessments.....	-	-	2,306	2,306	1,686
Federal grants and reimbursements.....	-	18,466	11,840	30,306	29,627
Departmental.....	-	7,112	8,475	15,587	5,984
Deferred compensation.....	472,640	-	-	472,640	342,245
Miscellaneous.....	-	97,498	190,549	288,047	212,557
<b>Total revenues.....</b>	<b>472,640</b>	<b>1,138,883</b>	<b>213,170</b>	<b>1,824,693</b>	<b>1,781,485</b>
<b>Other financing sources:</b>					
Operating transfers in.....	-	-	78,796	78,796	6,971
<b>Total other financing sources.....</b>	<b>-</b>	<b>-</b>	<b>78,796</b>	<b>78,796</b>	<b>6,971</b>
<b>Total revenues and other financing sources.....</b>	<b>472,640</b>	<b>1,138,883</b>	<b>291,966</b>	<b>1,903,489</b>	<b>1,788,456</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Judiciary.....	-	-	226	226	229
Secretary of the Commonwealth.....	-	-	5	5	5
Treasurer and Receiver-General.....	-	-	1,460	1,460	7,033
Auditor of the Commonwealth.....	-	-	170	170	285
Attorney General.....	-	-	3,404	3,404	1,724
District Attorney.....	-	-	3,152	3,152	3,215
Administration and finance.....	-	-	9,536	9,536	5,454
Environmental affairs.....	-	-	7,125	7,125	7,625
Communities and development.....	-	-	575	575	267
Health and human services.....	-	-	17,942	17,942	18,291
Transportation and construction.....	-	-	537	537	2,602
Education.....	-	-	6,117	6,117	1,140
Higher education.....	-	-	117	117	103
Public safety.....	-	-	2,634	2,634	2,961
Economic development.....	-	-	447	447	1,698
Elder affairs.....	-	-	36	36	50
Consumer affairs.....	-	-	6,403	6,403	7,103
Labor.....	-	735,221	52,677	787,898	841,478
Deferred compensation.....	82,778	-	-	82,778	77,846
<b>Total expenditures.....</b>	<b>82,778</b>	<b>735,221</b>	<b>112,563</b>	<b>930,562</b>	<b>979,109</b>
<b>Other financing uses:</b>					
Operating transfers out.....	-	-	82,705	82,705	69,265
<b>Total other financing uses.....</b>	<b>-</b>	<b>-</b>	<b>82,705</b>	<b>82,705</b>	<b>69,265</b>
<b>Total expenditures and other financing uses.....</b>	<b>82,778</b>	<b>735,221</b>	<b>195,268</b>	<b>1,013,267</b>	<b>1,048,374</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>389,862</b>	<b>403,662</b>	<b>96,698</b>	<b>890,222</b>	<b>740,082</b>
<b>Fund balances at beginning of year (as restated)...</b>	<b>1,616,593</b>	<b>1,515,080</b>	<b>116,417</b>	<b>3,248,090</b>	<b>2,508,008</b>
<b>Fund balances at end of year.....</b>	<b>\$ 2,006,455</b>	<b>\$ 1,918,742</b>	<b>\$ 213,115</b>	<b>\$ 4,138,312</b>	<b>\$ 3,248,090</b>

**Deferred Compensation Trust Fund**  
**Statement of Net Assets Available for Deferred Compensation**

December 31, 1997  
(Amounts in thousands)

<b>ASSETS</b>	<u>1997</u>	<u>1996</u> (as restated)
Cash and short-term investments .....	\$ 319	\$ 319
Investments at fair value.....	1,967,930	1,581,844
Policyholder account value of universal life insurance contracts.....	33,492	31,457
Employee contributions receivable.....	4,714	2,973
Total assets.....	<u>\$ 2,006,455</u>	<u>\$ 1,616,593</u>
 <b>LIABILITIES</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	<u>-</u>	<u>-</u>
Net assets available for plan benefits (fund balance reserved for deferred compensation).....	<u>\$ 2,006,455</u>	<u>\$ 1,616,593</u>

**Deferred Compensation Trust Fund**  
**Statement Of Changes In Net Assets Available For Deferred Compensation**

Year Ended December 31, 1997  
(Amounts in thousands)

	1997	1996 (as restated)
<b>Additions:</b>		
Employee contributions.....	\$ 185,590	\$ 167,527
Net increase in policyholder account value of universal life insurance contracts.....	2,035	1,854
Interest income.....	5,557	6,614
Mutual fund investment income.....	279,458	166,250
Total additions.....	472,640	342,245
<b>Deductions:</b>		
Distributions to participants.....	72,191	67,874
Administration.....	5,364	4,325
Life insurance premiums.....	5,223	5,647
Total deductions.....	82,778	77,846
Net additions.....	389,862	264,399
Net assets available for plan benefits at beginning of year (fund balance reserved for deferred compensation).....	1,616,593	1,352,194
Net assets available for plan benefits at end of year (fund balance reserved for deferred compensation).....	\$ 2,006,455	\$ 1,616,593



**Deferred Compensation Trust Fund**  
**Statement Of Changes In Net Assets Available For Deferred Compensation**

Year Ended December 31, 1997  
(Amounts in thousands)

	1997	1996 (as restated)
<b>Additions:</b>		
Employee contributions.....	\$ 185,590	\$ 167,527
Net increase in policyholder account value of universal life insurance contracts.....	2,035	1,854
Interest income.....	5,557	6,614
Mutual fund investment income.....	279,458	166,250
Total additions.....	472,640	342,245
<b>Deductions:</b>		
Distributions to participants.....	72,191	67,874
Administration.....	5,364	4,325
Life insurance premiums.....	5,223	5,647
Total deductions.....	82,778	77,846
Net additions.....	389,862	264,399
Net assets available for plan benefits at beginning of year (fund balance reserved for deferred compensation).....	1,616,593	1,352,194
Net assets available for plan benefits at end of year (fund balance reserved for deferred compensation).....	\$ 2,006,455	\$ 1,616,593

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

June 30, 1998  
(Amounts in thousands)

ASSETS			Totals	
	State	Teachers'	1998	1997
	Employees'	PERS		
	PERS	PERS		
Cash and short-term investments.....	\$ 483,441	\$ 509,297	\$ 992,738	\$ 869,492
Investments at fair value.....	11,179,161	11,477,730	22,656,891	18,969,346
Other receivables, net of allowance for uncollectibles....	221,557	261,101	482,658	218,393
Total assets.....	<u>\$11,884,159</u>	<u>\$12,248,128</u>	<u>\$ 24,132,287</u>	<u>\$ 20,057,231</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable.....	\$ 447,093	\$ 462,214	\$ 909,307	\$ 493,513
Due to other funds.....	-	1,672	1,672	3,657
Total liabilities.....	<u>447,093</u>	<u>463,886</u>	<u>910,979</u>	<u>497,170</u>
Net assets available for pension benefits (fund balance reserved for employees' pension benefits).....	<u>\$11,437,066</u>	<u>\$11,784,242</u>	<u>\$ 23,221,308</u>	<u>\$ 19,560,061</u>

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	Totals	
			1998	1997
<b>Additions:</b>				
Commonwealth contributions.....	\$ 488,780	\$ 450,309	\$ 939,089	\$ 899,048
Employee contributions.....	264,247	266,514	530,761	457,530
Total contributions.....	753,027	716,823	1,469,850	1,356,578
<b>Net investment income:</b>				
Net appreciation in fair value of investments.....	1,390,788	1,397,745	2,788,533	2,823,841
Interest.....	175,779	176,724	352,503	368,654
Dividends.....	127,895	128,535	256,430	158,922
Real estate operating income, net.....	35,822	36,002	71,824	54,525
Alternative investments.....	2,596	2,609	5,205	27,457
Other.....	1,873	1,882	3,755	156
Total investment income.....	1,734,753	1,743,497	3,478,250	3,433,555
Less: investment expense.....	21,381	21,488	42,869	60,703
Net investment income.....	1,713,372	1,722,009	3,435,381	3,372,852
Total additions.....	2,466,399	2,438,832	4,905,231	4,729,430
<b>Deductions:</b>				
Administration.....	24,213	11,760	35,973	3,688
Retirement benefits and refunds.....	649,651	558,360	1,208,011	1,121,952
Total deductions.....	673,864	570,120	1,243,984	1,125,640
Net increase.....	1,792,535	1,868,712	3,661,247	3,603,790
Net assets available for pension benefits at beginning of year (fund balance reserved for pension benefits).....	9,644,531	9,915,530	19,560,061	15,956,271
Net assets available for pension benefits at end of year (fund balance reserved for pension benefits).....	\$ 11,437,066	\$ 11,784,242	\$ 23,221,308	\$ 19,560,061

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

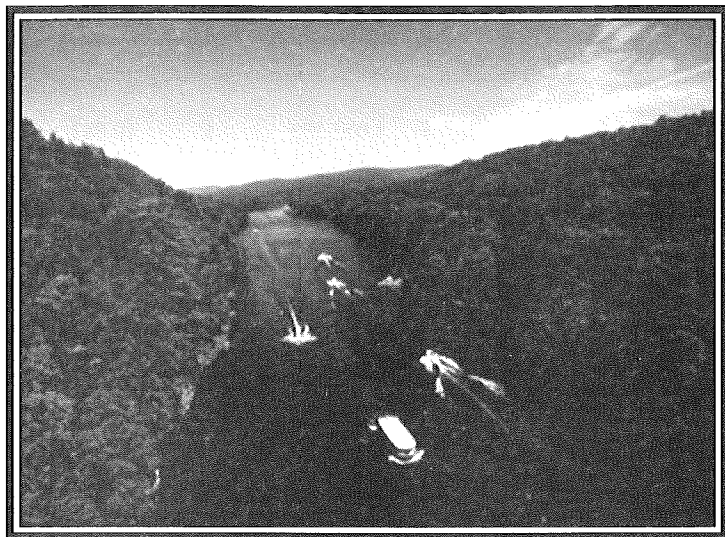
	Balance July 1, 1997 (as restated)	Additions	Deductions	Balance June 30, 1998
<b>Central Agency Funds</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 1,442,774	\$ 3,185,458	\$ 2,814,829	\$ 1,813,403
Investments.....	559,546	211,033	31,870	738,709
Annuity contracts.....	1,285,021	131,332	75,839	1,340,514
Total assets.....	<u>\$ 3,287,341</u>	<u>\$ 3,527,823</u>	<u>\$ 2,922,538</u>	<u>\$ 3,892,626</u>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 8,991	\$ 1,055,291	\$ 1,053,300	\$ 10,982
Due to cities and towns.....	20,142	219,125	216,594	22,673
Prizes payable.....	1,285,021	131,332	75,839	1,340,514
Agency liabilities.....	1,973,187	2,142,633	1,597,363	2,518,457
Total liabilities.....	<u>\$ 3,287,341</u>	<u>\$ 3,548,381</u>	<u>\$ 2,943,096</u>	<u>\$ 3,892,626</u>
<b>Court Escrow and Client Accounts</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 57,624	\$ 401,054	\$ 387,954	\$ 70,724
Assets held in trust.....	35,559	20,754	20,813	35,500
Other receivables.....	38,000	47,160	38,000	47,160
Total assets.....	<u>\$ 131,183</u>	<u>\$ 468,968</u>	<u>\$ 446,767</u>	<u>\$ 153,384</u>
<b>LIABILITIES</b>				
Agency liabilities.....	131,183	363,613	341,412	153,384
Total liabilities.....	<u>\$ 131,183</u>	<u>\$ 363,613</u>	<u>\$ 341,412</u>	<u>\$ 153,384</u>
<b>Statutory Bonds and Deposits</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	1,708,422	189,453	31,797	1,866,078
Total assets.....	<u>\$ 1,708,508</u>	<u>\$ 189,453</u>	<u>\$ 31,797</u>	<u>\$ 1,866,164</u>
<b>LIABILITIES</b>				
Agency liabilities.....	\$ 1,708,508	\$ 189,453	\$ 31,797	\$ 1,866,164
Total liabilities.....	<u>\$ 1,708,508</u>	<u>\$ 189,453</u>	<u>\$ 31,797</u>	<u>\$ 1,866,164</u>

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

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

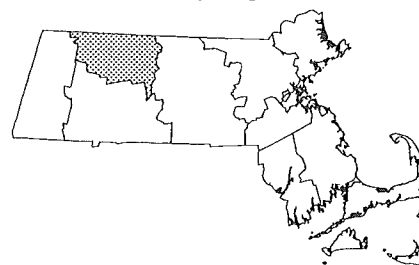
	Balance July 1, 1997 (as restated)	Additions	Deductions	Balance June 30, 1998
<b>Central Agency Funds</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 1,442,774	\$ 3,185,458	\$ 2,814,829	\$ 1,813,403
Investments.....	559,546	211,033	31,870	738,709
Annuity contracts.....	1,285,021	131,332	75,839	1,340,514
Total assets.....	<u>\$ 3,287,341</u>	<u>\$ 3,527,823</u>	<u>\$ 2,922,538</u>	<u>\$ 3,892,626</u>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 8,991	\$ 1,055,291	\$ 1,053,300	\$ 10,982
Due to cities and towns.....	20,142	219,125	216,594	22,673
Prizes payable.....	1,285,021	131,332	75,839	1,340,514
Agency liabilities.....	1,973,187	2,142,633	1,597,363	2,518,457
Total liabilities.....	<u>\$ 3,287,341</u>	<u>\$ 3,548,381</u>	<u>\$ 2,943,096</u>	<u>\$ 3,892,626</u>
<b>Court Escrow and Client Accounts</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 57,624	\$ 401,054	\$ 387,954	\$ 70,724
Assets held in trust.....	35,559	20,754	20,813	35,500
Other receivables.....	38,000	47,160	38,000	47,160
Total assets.....	<u>\$ 131,183</u>	<u>\$ 468,968</u>	<u>\$ 446,767</u>	<u>\$ 153,384</u>
<b>LIABILITIES</b>				
Agency liabilities.....	131,183	363,613	341,412	153,384
Total liabilities.....	<u>\$ 131,183</u>	<u>\$ 363,613</u>	<u>\$ 341,412</u>	<u>\$ 153,384</u>
<b>Statutory Bonds and Deposits</b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	1,708,422	189,453	31,797	1,866,078
Total assets.....	<u>\$ 1,708,508</u>	<u>\$ 189,453</u>	<u>\$ 31,797</u>	<u>\$ 1,866,164</u>
<b>LIABILITIES</b>				
Agency liabilities.....	\$ 1,708,508	\$ 189,453	\$ 31,797	\$ 1,866,164
Total liabilities.....	<u>\$ 1,708,508</u>	<u>\$ 189,453</u>	<u>\$ 31,797</u>	<u>\$ 1,866,164</u>

	Balance July 1, 1997 (as restated)	Additions	Deductions	Balance June 30, 1998
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 1,500,484	\$ 3,586,512	\$ 3,202,783	\$ 1,884,213
Investments.....	559,546	211,033	31,870	738,709
Annuity contracts.....	1,285,021	131,332	75,839	1,340,514
Assets held in trust.....	1,743,981	210,207	52,610	1,901,578
Other receivables.....	38,000	47,160	38,000	47,160
Total assets.....	<u>\$ 5,127,032</u>	<u>\$ 4,186,244</u>	<u>\$ 3,401,102</u>	<u>\$ 5,912,174</u>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 8,991	\$ 1,055,291	\$ 1,053,300	\$ 10,982
Due to cities and towns.....	20,142	219,125	216,594	22,673
Prizes payable.....	1,285,021	131,332	75,839	1,340,514
Agency liabilities.....	3,812,878	2,695,699	1,970,572	4,538,005
Total liabilities.....	<u>\$ 5,127,032</u>	<u>\$ 4,101,447</u>	<u>\$ 3,316,305</u>	<u>\$ 5,912,174</u>



*The Mohawk Trail, now Route 2, began as a Native American trail. It was widened by the early settlers and then was developed as America's first scenic automobile route.*

#### Attractions by Region



#### ***Mohawk Valley***

North along the Connecticut River are rich farmland and magnificent scenery. Stop by any of the friendly hilltowns and you'll find old-time general stores, antique shops and cozy B&Bs.

#### **Recommendations:**

- Don't miss the historic Deerfield's mile-long street lined with eighteenth- and nineteenth-century houses.
- Hiking and biking trails and riverboat rides on the Quinnetukut II at Northfield Mountain Recreation Area.
- Thrilling white-water rafting and kayaking.
- In Williamson, the Clark Art Institute houses a breathtaking collection of Impressionists, Old Masters and silver. The Williams College Museum of Art mounts an ambitious schedule of exhibitions.
- The spectacular drive up the Notch Road to the summit of Mt. Greylock, the state's tallest mountain with panoramic views of the Berkshire Hills (novelists Herman Melville and Nathaniel Hawthorne met at the summit).

# University and College Fund Type

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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, Boston, Lowell, Dartmouth and Worcester Medical School campuses, the central administration office, the UMass Building Authority, UMass Clinical Services Division, UMass Medical School Teaching Hospital Trust Fund, Group Practice Plan and Self Insurance Trust. In addition, the UMass Foundation, UMass Dartmouth Foundation and the Worcester City Campus Corporation (doing business as UMass Health System) are included.

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

Bridgewater State College  
Framingham State College  
Fitchburg State College  
Massachusetts College of Art  
Massachusetts College of Liberal Arts  
Massachusetts Maritime Academy  
Massachusetts State College Building Authority  
Salem State College  
Worcester State College  
Westfield State College

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

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



*Hancock Shaker Village provides a fascinating glimpse into the Shaker community's life, buildings and starkly graceful furniture and furnishings.*



# University And College Fund Type Combining Balance Sheet

June 30, 1998  
(Amounts in thousands)

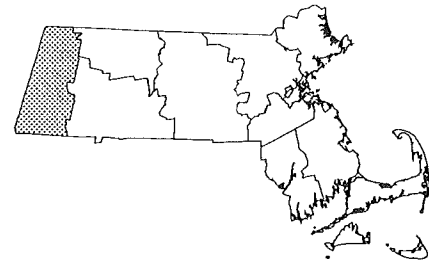
ASSETS	Current Funds		Loan Funds
	Unrestricted	Restricted	
Cash and short-term investments.....	\$ 108,809	\$ 12,436	\$ 2,217
Deposits.....	-	65,857	-
Investments.....	157,610	45,042	3,860
Receivables, net of allowance for uncollectibles:			
Due from federal government.....	-	18,441	-
Loans.....	-	-	49,167
Other receivables.....	184,365	32,573	233
Due from other funds.....	51,254	243	-
Inventory.....	10,201	-	-
Fixed assets.....	-	-	-
Other assets.....	9,559	1,558	-
Total assets.....	<u>\$ 521,798</u>	<u>\$ 176,150</u>	<u>\$ 55,477</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable.....	\$ 40,069	\$ 14,442	\$ 186
Accrued payroll.....	61,339	4,051	-
Compensated absences.....	121,966	1,841	-
Due to other funds.....	60,834	37,252	9
Deferred revenue.....	14,556	-	-
Agency liabilities.....	-	719	-
Claims and judgments.....	-	-	-
Deposits and unearned revenue.....	6,201	1,342	-
Other accrued liabilities.....	78,500	64,999	-
Capital leases.....	-	-	-
Bonds and notes payable.....	-	-	-
Total liabilities.....	<u>383,465</u>	<u>124,646</u>	<u>195</u>
Fund balances:			
Unrestricted.....	138,333	-	-
Restricted.....	-	51,504	55,282
Unexpended plant funds.....	-	-	-
Renewals and replacements.....	-	-	-
Retirement of indebtedness.....	-	-	-
Net investment in plant.....	-	-	-
Total fund balances.....	<u>138,333</u>	<u>51,504</u>	<u>55,282</u>
Total liabilities and fund balances.....	<u>\$ 521,798</u>	<u>\$ 176,150</u>	<u>\$ 55,477</u>

Endowment and Similar Funds	Plant Funds	Totals	
		1998	1997
\$ 5,526	\$ 35,857	\$ 164,845	\$ 137,221
-	66,340	132,197	112,263
116,802	65,038	388,352	377,390
-	-	18,441	23,182
-	-	49,167	48,585
2,845	26,215	246,231	149,738
15,037	12,446	78,980	67,698
-	-	10,201	15,814
-	2,383,937	2,383,937	2,410,708
4,177	1,156	16,450	26,475
<u>\$ 144,387</u>	<u>\$ 2,590,989</u>	<u>\$ 3,488,801</u>	<u>\$ 3,369,074</u>
\$ 16	\$ 9,491	\$ 64,204	\$ 73,929
-	46	65,436	61,131
-	-	123,807	118,558
-	9,502	107,597	108,674
2,281	24	16,861	16,317
-	-	719	-
-	-	-	39,905
750	129	8,422	8,068
1,124	3,249	147,872	63,610
-	70,202	70,202	49,924
-	262,648	262,648	316,739
<u>4,171</u>	<u>355,291</u>	<u>867,768</u>	<u>856,855</u>
39,608	-	177,941	133,602
100,608	-	207,394	185,938
-	73,060	73,060	57,980
-	35,078	35,078	24,983
-	27,968	27,968	21,931
-	2,099,592	2,099,592	2,087,785
<u>140,216</u>	<u>2,235,698</u>	<u>2,621,033</u>	<u>2,512,219</u>
<u>\$ 144,387</u>	<u>\$ 2,590,989</u>	<u>\$ 3,488,801</u>	<u>\$ 3,369,074</u>



*The Tanglewood estate in Lenox is the summer home of the Boston Symphony Orchestra. Popular American music is the forte of the National Music Foundation's concert series.*

#### Attractions by Region



#### ***Berkshires***

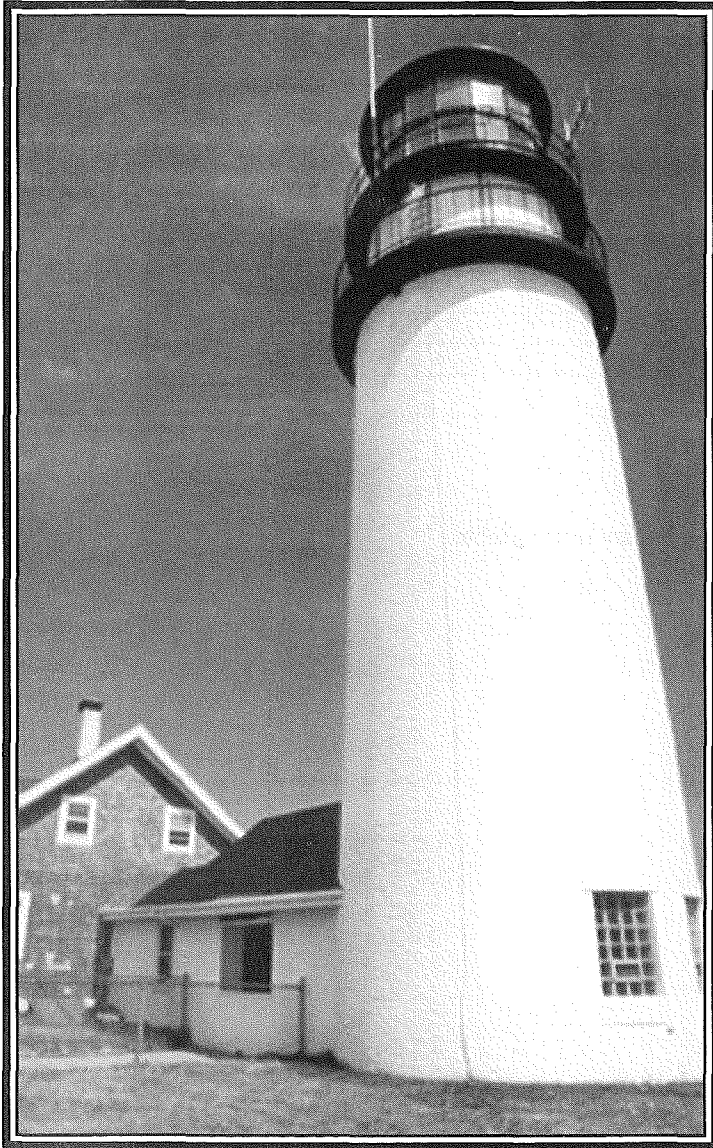
Looking for natural beauty, a culture-packed summer season, great skiing, and sophisticated dining and lodging? Look no further than the Berkshires.

#### **Recommendations:**

- Pack an elegant picnic, then listen to music under the stars at Tanglewood.
- The Jacob's Pillow Dance Festival in Becket, the oldest such festival in the country.
- Stars of stage and screen return each summer to practice their craft at the Berkshire and Williamstown Theatre Festivals.
- The largest collection of Norman Rockwell original illustrations at an elegant new museum in Stockbridge.
- Chesterwood, the summer home of sculptor Daniel Chester French, creator of the seated statue at the Lincoln Memorial.
- Arrowhead, the estate where Herman Melville penned *Moby Dick*.

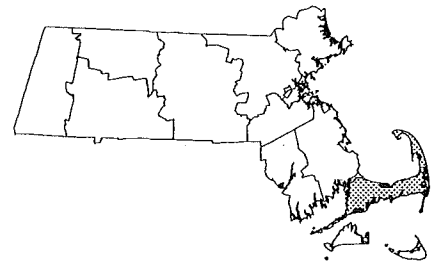
# General Fixed Assets Account Group

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



*Chatham Light is one of the Cape's many famous lighthouses.*

## Attractions by Region



### *Cape Cod*

Cape Cod is known as Massachusetts' year-round playground, with miles of warm-water beaches, fresh-caught seafood, hiking and biking trails, and challenging golf courses. This peninsula is known for its distinctive architectural style of gable-roofed houses, their shingles weathered to a soft gray.

#### **Recommendations:**

- Sandwich, the Cape's oldest town and home to Heritage Plantation with its collections of early American artifacts, antique cars, and folk art.
- The National Marine Fisheries Aquarium and the Woods Hole Oceanographic Institute in Woods Hole.
- The John F. Kennedy Memorial in Hyannis, a bustling seaside town with seafood restaurants and warm-water beaches.
- Chatham Light, one of the Cape's many lighthouses. The 27,000-acre Cape Cod National Seashore with its beaches.
- The lively artists' colony of Provincetown on the tip of the Cape.
- Whale watch trips from Barnstable and Provincetown.

## Schedule Of General Fixed Assets By Source

June 30, 1998  
(Amounts in thousands)

<u>GENERAL FIXED ASSETS:</u>	1998
Land.....	\$ 542,611
Buildings.....	2,402,156
Machinery and equipment.....	578,898
Construction in progress.....	150,062
Total general fixed assets.....	<u>\$ 3,673,727</u>

### INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE:

Acquired on or before June 30, 1990.....	\$ 1,857,177
Acquired subsequent to June 30, 1990 from:	
General Fund.....	393,457
Special Revenue Funds.....	86,685
Capital Projects Funds.....	1,331,876
Expendable Trust Funds.....	4,532
Total investment in general fixed assets.....	<u>\$ 3,673,727</u>

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

## Schedule Of General Fixed Assets By Function

June 30, 1998  
(Amounts in thousands)

Function	Land	Buildings	Machinery and Equipment	Total
Legislature.....	\$ -	\$ -	\$ 96	\$ 96
Judiciary.....	490	272,716	4,546	277,752
Inspector General.....	-	-	64	64
Governor and Lieutenant Governor.....	-	-	146	146
Secretary of the Commonwealth.....	5	18,035	2,234	20,274
Treasurer and Receiver - General.....	-	-	45,535	45,535
Auditor of the Commonwealth.....	-	-	243	243
Attorney General.....	-	-	931	931
Ethics Commission.....	-	-	45	45
District Attorney.....	-	-	2,210	2,210
Sheriff's Departments.....	221	21,478	353	22,052
Comptroller.....	-	-	359	359
Administration and finance.....	8,895	393,101	238,821	640,817
Environmental affairs.....	439,499	113,720	55,130	608,349
Communities and development.....	-	-	651	651
Health and human services.....	38,715	972,503	48,284	1,059,502
Transportation and construction.....	32,400	13,650	81,362	127,412
Education.....	-	-	1,690	1,690
Higher education.....	3	-	428	431
Public safety.....	22,200	596,505	71,293	689,998
Economic development.....	183	448	18,549	19,180
Elder affairs.....	-	-	44	44
Consumer affairs.....	-	-	1,033	1,033
Labor.....	-	-	4,851	4,851
Total by function.....	<u>\$ 542,611</u>	<u>\$ 2,402,156</u>	<u>\$ 578,898</u>	<u>3,523,665</u>
Construction in progress.....				150,062
Total general fixed assets.....				<u>\$ 3,673,727</u>

## Schedule Of Changes In General Fixed Assets By Function

Fiscal Year Ended June 30, 1998  
(Amounts in thousands)

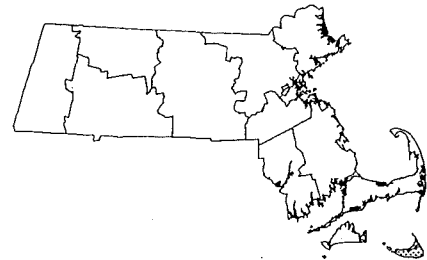
Function and activity	General Fixed Assets July 1, 1997	Additions	Retirements	General Fixed Assets June 30, 1998
Legislature.....	\$ -	\$ 96	\$ -	\$ 96
Judiciary.....	274,218	3,726	192	277,752
Inspector General.....	64	-	-	64
Governor and Lieutenant Governor.....	146	-	-	146
Secretary of the Commonwealth.....	19,683	853	262	20,274
Treasurer and Receiver - General.....	66,390	385	21,240	45,535
Auditor of the Commonwealth.....	345	239	341	243
Attorney General.....	888	43	-	931
Ethics Commission.....	20	25	-	45
District Attorney.....	2,346	-	136	2,210
Sheriff's Departments.....	-	22,052	-	22,052
Comptroller.....	359	-	-	359
Administration and finance.....	546,787	106,455	12,425	640,817
Environmental affairs.....	589,812	23,666	5,129	608,349
Communities and development.....	364	287	-	651
Health and human services.....	1,064,460	12,998	17,956	1,059,502
Transportation and construction.....	117,013	15,972	5,573	127,412
Education.....	1,756	446	512	1,690
Higher education.....	428	3	-	431
Public safety.....	696,195	7,667	13,864	689,998
Economic development.....	23,550	335	4,705	19,180
Elder affairs.....	157	-	113	44
Consumer affairs.....	1,071	31	69	1,033
Labor.....	1,641	3,260	50	4,851
Total by function.....	3,407,693	198,539	82,567	3,523,665
Construction in progress.....	98,178	51,884	-	150,062
Total general fixed assets.....	\$ 3,505,871	\$ 250,423	\$ 82,567	\$ 3,673,727

# Statistical Section



*Nantucket Island is famous for its artisans and their high quality craftsmanship. One of the most popular souvenirs from the Island is an exquisite handmade basket.*

Attractions by Region



## *Nantucket*

Step off the ferry or the plane and you're in another world. Thirty miles off Cape Cod, this crescent-shaped island retains a quiet charm found in past days when whaling ships made this island haven their home. You'll find lots to explore on foot or by bicycle: unspoiled beaches and solitary lighthouses, peaceful byways and lanes, historic mansions, and open-air farmers' stands.

### **Recommendations:**

- Nantucket Town's elegant restaurants and antique, craft and specialty stores. Sea captains' houses line the cobblestone streets.
- The Whaling Museum, a former spermaceti factory, now overflowing with artifacts and memorabilia from the island's once-thriving industry.
- Harbor cruises, whale watch trips and deep-sea fishing charters from Straight Wharf.
- The Daffodil Festival, which features millions of yellow flowers planted by islanders; the Cranberry Harvest, a fall weekend of harvest celebrations; and Nantucket Noel, a winter celebration, island-style.



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

June 30, 1998  
(Amounts in millions)

	1998	% Total	1997	% Total	1996	% Total	1995	% Total
Taxes.....	\$ 14,033	44.9	\$ 13,030	47.7	\$ 11,926	47.5	\$ 11,262	45.9
Federal reimbursements.....	4,385	14.0	4,124	15.1	3,861	15.4	4,174	17.0
Federal grants.....	1,470	4.7	1,457	5.3	1,482	5.9	1,187	4.8
Lotteries.....	3,392	10.9	3,375	12.3	3,201	12.8	2,957	12.0
Assessments.....	514	1.6	552	2.0	595	2.4	572	2.3
Motor vehicle licenses and registrations.....	295	0.9	295	1.1	263	1.0	307	1.3
Fees, investment earnings, etc.....	1,394	4.5	930	3.4	1,110	4.4	1,154	4.7
Proceeds of dedicated income tax bonds.....	-	-	-	-	-	-	-	-
Proceeds of general obligation bonds.....	1,347	4.3	899	3.3	940	3.7	810	3.3
Proceeds of special obligation bonds.....	100	0.3	-	-	147	0.6	-	-
Proceeds of refunding bonds.....	862	2.8	723	2.6	-	-	514	2.1
Proceeds of capital lease.....	15	0.1	62	0.2	26	0.1	18	0.1
Operating transfers.....	3,338	10.7	1,920	7.0	1,551	6.2	1,534	6.3
Other financing sources.....	104	0.3	6	-	-	-	49	0.2
Total revenues and other financing sources.....	<u>\$ 31,249</u>	<u>100.0</u>	<u>\$ 27,373</u>	<u>100.0</u>	<u>\$ 25,102</u>	<u>100.0</u>	<u>\$ 24,538</u>	<u>100.0</u>

1994	% Total	1993	% Total	1992	% Total	1991	% Total	1990	% Total	1989	% Total
\$ 10,611	45.7	\$ 10,021	44.9	\$ 9,479	45.6	\$ 9,143	41.1	\$ 9,007	49.8	\$ 8,695	50.9
3,904	16.8	3,376	15.1	3,021	14.5	3,075	13.8	2,092	11.4	1,942	11.4
1,205	5.2	1,118	5.0	1,199	5.8	1,088	4.9	1,042	5.8	1,045	6.1
2,600	11.2	2,148	9.6	1,831	8.8	1,692	7.8	1,657	9.2	1,447	8.5
544	2.3	597	2.7	787	3.8	1,542	6.9	277	1.5	243	1.4
284	1.2	331	1.5	300	1.4	290	1.3	306	1.7	237	1.4
1,113	4.8	1,215	5.4	1,710	8.2	1,455	6.5	1,188	6.6	1,038	6.1
-	-	-	-	-	-	1,363	6.1	-	-	-	-
392	1.7	368	1.7	721	3.4	1,030	4.7	1,430	7.9	1,374	8.0
298	1.3	-	-	100	0.5	-	-	-	-	-	-
836	3.6	1,891	8.5	574	2.8	-	-	-	-	226	1.3
34	0.1	13	0.1	17	0.1	28	0.1	7	-	35	0.2
1,367	5.9	1,177	5.3	1,021	4.9	1,477	6.6	1,068	5.9	805	4.7
35	0.2	46	0.2	47	0.2	36	0.2	30	0.2	5	-
<u>\$ 23,223</u>	<u>100.0</u>	<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>

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

June 30, 1998  
(Amounts in millions)

	1998	% Total	1997	% Total	1996	% Total	1995	% Total
Legislature.....	\$ 51	0.2	\$ 49	0.2	\$ 49	0.2	\$ 47	0.2
Judiciary.....	470	1.5	433	1.6	404	1.7	356	1.5
Inspector General.....	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor.....	5	-	5	-	5	-	5	-
Secretary of the Commonwealth.....	23	0.1	17	0.1	15	0.1	14	0.1
Treasurer and Receiver-General.....	2,649	8.7	2,711	10.0	2,576	10.5	2,353	9.7
Auditor of the Commonwealth.....	14	-	12	-	13	-	11	-
Attorney General.....	41	0.1	5	-	29	0.1	22	0.1
Ethics Commission.....	1	-	1	-	1	-	1	-
District Attorney.....	68	0.2	62	0.2	55	0.2	51	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	1	-
Sheriff's Department.....	40	0.1	-	-	-	-	-	-
Disabled Persons Protection Commission.....	2	-	1	-	1	-	1	-
Board of Library Commissioners.....	9	-	6	-	4	-	5	-
Comptroller.....	7	-	7	-	7	-	6	-
Administration and finance.....	1,058	3.5	937	3.5	943	3.9	876	3.6
Environmental affairs.....	216	0.7	196	0.7	205	0.8	174	0.7
Communities and development.....	351	1.2	344	1.3	347	1.4	340	1.4
Health and human services.....	5,058	16.6	4,507	16.7	4,606	18.8	4,813	19.8
Transportation and construction.....	117	0.4	151	0.6	155	0.6	112	0.5
Education.....	1,153	3.8	1,026	3.8	958	3.9	865	3.6
Educational affairs.....	-	-	-	-	14	0.1	6	-
Higher education.....	82	0.3	90	0.3	80	0.3	75	0.3
Public safety.....	853	2.8	860	3.2	841	3.4	732	3.0
Economic development.....	31	0.1	33	0.1	111	0.5	199	0.8
Elder affairs.....	179	0.6	174	0.6	155	0.6	161	0.7
Consumer affairs.....	57	0.2	37	0.1	35	0.1	34	0.1
Labor.....	186	0.6	189	0.7	121	0.5	24	0.1
Independent commissions.....	-	-	-	-	-	-	-	-
Medicaid.....	3,638	12.0	3,497	13.0	3,241	13.3	3,252	13.4
Pension.....	414	1.4	413	1.5	382	1.6	414	1.7
Direct local aid.....	4,047	13.3	3,677	13.6	3,351	13.7	3,073	12.6
Capital outlay:								
Local aid.....	102	0.3	181	0.7	116	0.5	94	0.4
Capital acquisition and construction.....	2,532	8.3	2,051	7.6	1,673	6.8	1,698	7.0
Debt service.....	1,215	4.0	1,278	4.7	1,192	4.9	1,234	5.1
Other financing uses:								
Payments to refunded bond escrow agent....	862	2.8	723	2.7	-	-	514	2.1
Transfers.....	4,883	16.1	3,311	12.3	2,753	11.3	2,732	11.2
Total expenditures and other financing uses...	\$ 30,417	100.0	\$ 26,987	100.0	\$ 24,441	100.0	\$ 24,297	100.0

1994	% Total	1993	% Total	1992	% Total	1991	% Total	1990	% Total	1989	% Total
\$ 43	0.2	\$ 41	0.2	\$ 44	0.2	\$ 40	0.2	\$ 44	0.2	\$ 49	0.3
338	1.5	306	1.4	315	1.6	298	1.4	305	1.7	280	1.6
1	-	1	-	1	-	1	-	1	-	1	-
4	-	4	-	4	-	4	-	5	-	6	-
12	0.1	14	0.1	12	0.1	13	0.1	11	0.1	14	0.1
2,052	8.9	1,659	7.4	1,379	6.8	1,290	6.0	1,193	6.5	1,022	5.8
11	-	10	-	10	-	11	0.1	11	0.1	13	0.1
38	0.2	36	0.2	18	0.1	89	0.4	29	0.2	43	0.2
1	-	1	-	1	-	1	-	1	-	1	-
47	0.2	44	0.2	39	0.2	42	0.2	47	0.3	81	0.5
1	-	-	-	1	-	1	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	-
5	-	5	-	4	-	21	0.1	20	0.1	-	-
6	-	6	-	5	-	5	-	6	-	5	-
863	3.7	682	3.0	833	4.1	878	4.1	874	4.7	485	2.7
169	0.7	162	0.7	141	0.7	172	0.8	171	0.9	185	1.0
358	1.6	364	1.6	397	2.0	410	1.9	403	2.2	390	2.2
4,327	18.8	4,034	18.3	4,007	19.7	5,011	23.4	4,118	22.3	3,532	19.9
120	0.5	273	1.2	92	0.5	176	0.8	162	0.9	60	0.3
458	2.0	469	2.1	392	1.9	339	1.6	332	1.8	329	1.9
3	-	10	-	17	-	-	-	-	-	-	-
67	0.3	69	0.3	1,288	6.3	1,211	5.7	1,155	6.3	1,164	6.7
693	3.0	611	2.7	658	3.2	148	0.7	154	0.8	164	0.9
214	0.9	210	0.9	194	1.0	169	0.8	159	0.9	202	1.1
155	0.7	150	0.7	137	0.7	143	0.7	150	0.8	175	1.0
33	0.1	30	0.1	27	0.1	32	0.1	34	0.2	50	0.3
24	0.1	24	0.1	19	0.1	21	0.1	23	0.1	24	0.1
-	-	-	-	-	-	-	-	-	-	28	0.2
3,216	14.0	3,151	14.0	2,853	14.3	2,872	13.4	1,929	10.4	2,336	13.2
830	3.6	893	4.0	751	3.7	706	3.3	672	3.6	663	3.7
2,727	11.8	2,547	11.3	2,278	11.2	2,608	12.2	2,937	15.9	2,961	16.7
100	0.4	105	0.5	87	0.4	226	1.1	208	1.1	112	0.6
1,464	6.4	1,133	5.0	1,157	5.7	945	4.4	929	5.0	1,125	6.3
1,152	5.0	1,143	5.1	901	4.4	1,407	6.6	775	4.2	654	3.7
836	3.6	1,891	8.4	574	2.8	-	-	-	-	226	1.3
2,651	11.5	2,364	10.5	1,654	8.2	2,098	9.8	1,613	8.7	1,348	7.6
<u>\$ 23,021</u>	<u>100.0</u>	<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>

**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</u> <u>June 30</u>	<u>Debt</u> <u>service</u>	<u>Total</u> <u>expenditures</u> <sup>(1)</sup>	<u>Ratio</u>
1998	\$ 1,215	\$ 24,672	4.9
1997	1,278	22,953	5.6
1996	1,192	21,688	5.5
1995	1,234	21,051	5.9
1994	1,151	19,534	5.9
1993	1,143	18,187	6.3
1992	901	18,062	5.0
1991	1,407	19,290	7.3
1990	775	16,858	4.6
1989	654	16,154	4.0

(1) 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 June 30</u>	<u>Massachusetts resident population</u>	<u>Total long- term bonds and notes payable</u>	<u>Per capita long-term debt</u>
1998	6,118	\$ 11,078,603	\$ 1.811
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

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

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

(Amounts in thousands)

Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio
1998	\$ 372,672	\$ 344,884	1.08
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

(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.
1998	271,133	1.3	6,118	-0.1	2.3
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

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



# **Nonagricultural Employment By Industry** **In Massachusetts And The United States For 1998**

(Amounts in thousands)

Type of industry	MA	% of MA Total	U.S.	% of U.S. Total	MA % vs. U.S. %
Manufacturing:					
Durable goods	279	8.7	11,053	8.7	100.0
Nondurable goods	168	5.2	7,578	6.0	86.7
Total manufacturing	447	13.9	18,631	14.7	94.4
Non-manufacturing:					
Construction and mining	109	3.4	6,552	5.2	65.4
Transportation and public utilities	138	4.3	6,591	5.3	81.1
Wholesale and retail	729	22.7	29,463	23.3	97.4
Finance, insurance and real estate	219	6.8	7,410	5.9	115.3
Other services	1,158	36.0	37,851	29.9	120.4
Federal, state and local government	413	12.9	19,966	15.8	81.6
Total Non-manufacturing	2,766	86.1	107,833	85.3	100.9
Total	3,213	100.0	126,464	100.0	

Sources: Massachusetts Department of Employment and Training  
United States Department of Commerce as of October, 1998

**Ten Largest Massachusetts Industries  
By Number Of Employees As Of October, 1998**

(Amounts in thousands)

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<u>Industry</u>	<u>Employees</u>
Services	1,158
Wholesale and retail trade	729
Manufacturing - durable goods	279
Local government	252
Finance, insurance and real estate	219
Manufacturing - nondurable goods	168
Transportation and public utilities	138
State government	100
Construction and mining	109
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 Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
1998	3,252	96	3.0	137,415	6,247	4.5	66.7
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

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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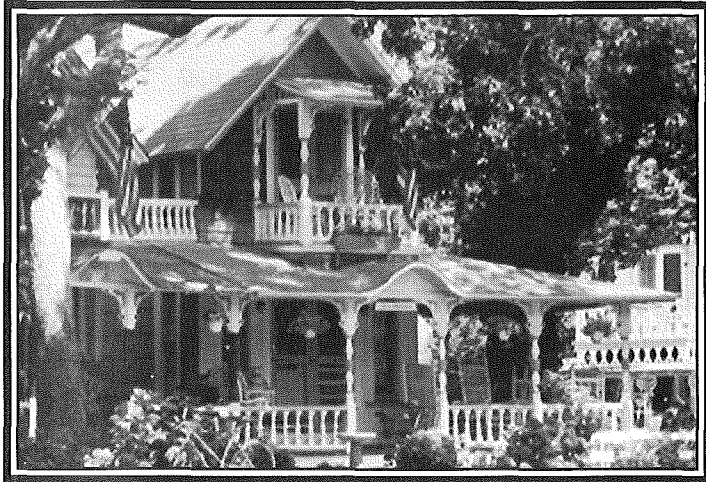
BankBoston  
Bell Atlantic  
Beth Israel-Deaconess Hospital  
Big Y Foods  
Boston University  
Brigham & Women's Hospital Inc.  
Digital Equipment Corporation  
Friendly Ice Cream Corporation  
General Electric Company  
Harvard Pilgrim Health Care, Inc.  
Harvard University  
Lucent Technologies  
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  
The Marsh & McLennan Management Co.  
United Parcel Service, Inc.  
Wal-Mart

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

## 1998 Fortune 500 Companies Headquartered in Massachusetts

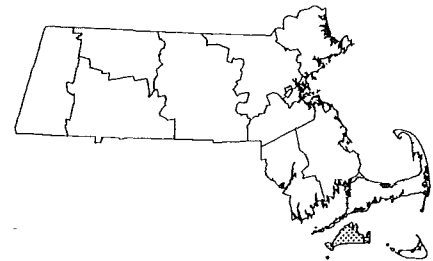
Ranking		Company	Industry	1997 Revenues (in millions)	
1998	1997				
100	108	Raytheon (Lexington)	Electronics, Electrical Equipment	\$	13,674
118	78	Digital Equipment (Maynard)	Computers, Office Equipment		13,047
132	126	Liberty Mutual Group (Boston)	Insurances, Property and Casualty (Mutual)		11,670
155	152	Gillette (Boston)	Metal Products		10,062
162	160	Mass. Mutual Life Ins. (Springfield)	Insurance Life and Health (Mutual)		9,551
191	168	John Hancock Mututal Life (Boston)	Insurance Life and Health (Mutual)		8,207
193	186	Fleet Financial Group (Boston)	Commercial Banks		8,095
208	215	TJX (Framingham)	Speciality Retailers		7,389
238	233	BankBoston Corp. (Boston)	Commercial Banks		6,727
303	348	Staples (Westborough)	Speciality Retailers		5,181
394	408	Harcourt General (Chestnut Hill)	General Merchandisers		3,692
402	390	Reebok International (Stoughton)	Apparel		3,637
409	458	Thermo Electron (Waltham)	Scientific Photo and Control Equipment		3,558
419	477	State St. Boston Corp. (Boston)	Commercial Banks		3,428
423	412	Allmerica Financial (Worcester)	Insurance, Property and Casualty (Mutual)		3,396
443	-	BJ's Wholesale Club (Natick)	Food		3,227
477	-	EMC (Hopkinton)	Computer Peripherals		2,938

Source: Fortune, April 27, 1998



*A fine example of the famous Victorian “gingerbread cottages” in Oak Bluffs.*

#### Attractions by Region



### *Martha’s Vineyard*

Once you’ve experienced the Vineyard’s charm, you’ll find it hard to leave. New England’s largest island has soft sandy beaches, pine forests, rolling hills and moors, and six delightful towns.

#### **Recommendations:**

- Oak Bluffs, famous for its Methodist campground and the brightly-painted Victorian “gingerbread cottages,” built in the mid-1800s as a religious retreat.
- The Flying Horses, the oldest working carousel in America.
- Vineyard Haven, a picturesque turn-of-the-century community and a year-round ferry port.
- Edgartown, once a prosperous whaling port, now an elegant yachting center filled with stately mariners’ homes. The town’s Old Whaling Church is a performing arts center.
- The nature trails and wildflowers at Felix Neck Wildlife Sanctuary.
- Travel Tip: For ferry and air services, plan well ahead.

## Calculation Of Transfers: Stabilization Fund

June 30, 1998  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Law Chapter 29, Section 5c most recently amended by Ch. 88 of Acts of 1997 and Ch. 175 of the Acts of 1998. 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.....	\$ 2,054,630
Highway Fund.....	207,413
Local Aid Fund.....	<u>(1,912,926)</u>

Consolidated Net Surplus.....	<u>349,117</u>
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Available to carry forward to subsequent fiscal year .....	<u>70,189</u>
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Consolidated net surplus before transfer to Capital Projects Fund.....	<u>278,928</u>
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Part 2: Calculation of transfers to Capital Projects Fund:

Transfer from General Fund to Capital Project Fund.....	<u>111,571</u>
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Net Consolidated surplus available for Stabilization Fund.....	<u><u>\$ 167,357</u></u>
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Part 3: Calculation of transfers to Stabilization Fund:

From the General Fund, @ 60%.....	\$ 100,414
From the Local Aid Fund, @ 40%.....	<u>66,943</u>
Total Transfers.....	<u><u>\$ 167,357</u></u>

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

Undesignated Fund Balance (Deficit) in the Operating Funds:

General Fund.....	\$ 1,842,645
Highway Fund.....	207,413
Local Aid Fund.....	<u>(1,979,869)</u>

Consolidated Net Surplus.....	<u><u>\$ 70,189</u></u>
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Part 5: Status of Stabilization Fund after transfers

Reserved for Stabilization - Accumulated Balances.....	\$ 842,231
Amount appropriated at the close of FY97.....	150,000
FY98 Calculated Transfers to Stabilization Fund.....	<u>167,357</u>

Reserved for Stabilization.....	<u><u>\$ 1,159,588</u></u>
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## Calculation Of Transfers: Tax Reduction Fund

June 30, 1998  
(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 Fund.

The first computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,  
to 7.5% of Budgeted Revenues and Other Financial Resources

Undesignated Fund Balance in the Stabilization Fund.....	\$ 1,159,588
Allowable Stabilization Balance .....	1,484,988
Stabilization Fund Excess, if any, transferrable to Tax Reduction Fund.....	\$ -

Part 2: Status of Stabilization Fund after transfers

Stabilization Fund Balance.....	\$ 1,159,588
Transfer to Tax Reduction Fund.....	-
Stabilization Fund Balance after transfer to Tax Reduction Fund.....	\$ 1,159,588

Part 3: Status of Tax Reduction Fund after transfers

Tax Reduction Fund Balance.....	\$ 205,163
Transfers from Stabilization Fund.....	-
Tax Reduction Fund Balance after transfers.....	\$ 205,163

The second computation is as follows:

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

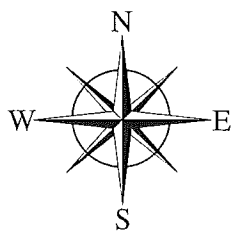
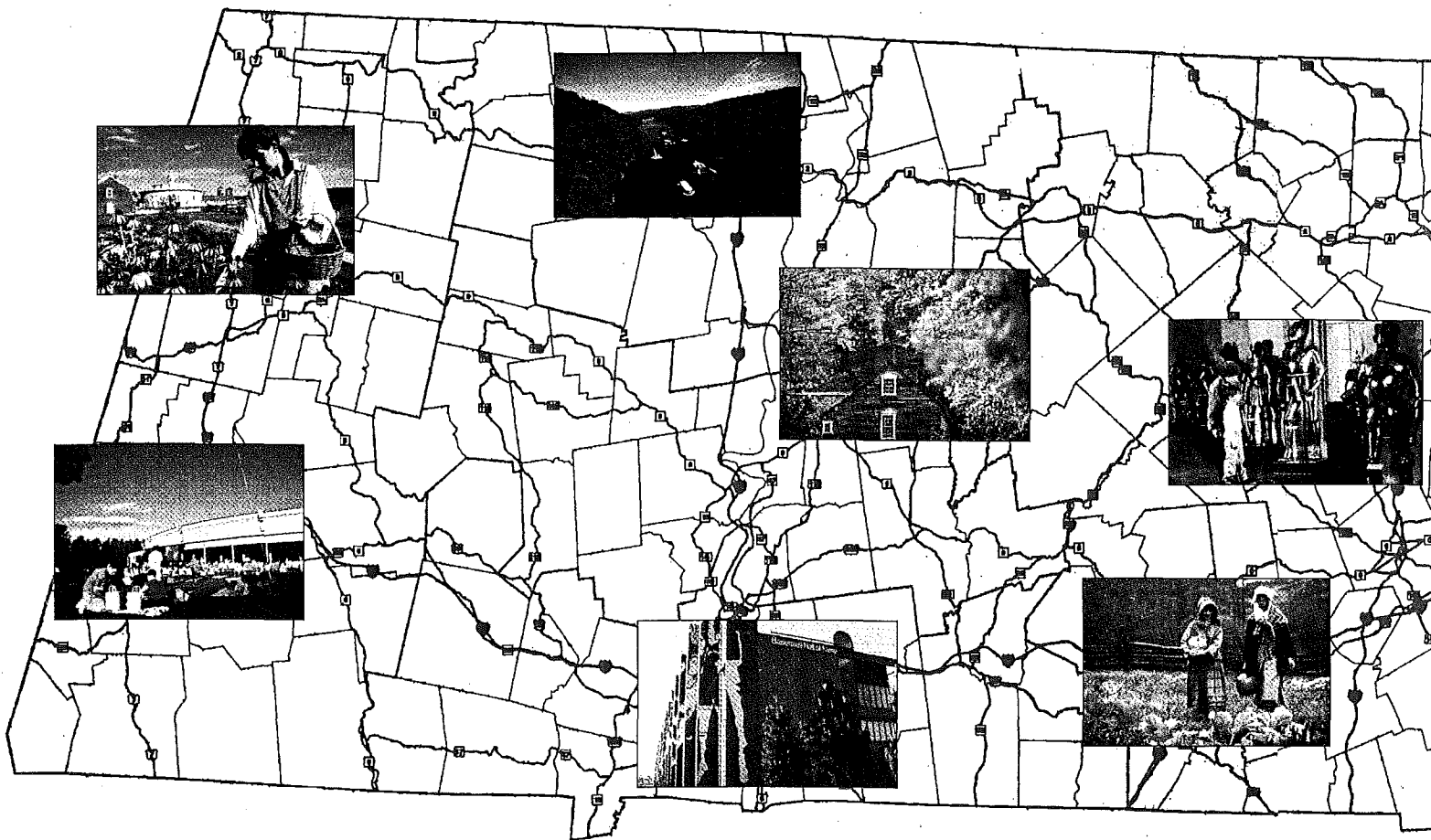
FY97 Allowable State Tax Revenues.....	\$ 14,157,614
Multiplied by Growth Factor.....	1.0742
Computed FY98 State Tax Revenue Base.....	15,208,109
Plus: Local Aid Adjustment .....	64,774
FY98 Computed Maximum and Allowable State Tax Revenues.....	\$ 15,272,883
FY98 State Tax Revenues .....	\$ 14,037,887
State Tax Revenue Excess, if any, transferrable to Tax Reduction Fund.....	\$ -





*Although the Comptroller's Office is located on Beacon Hill, across from the State House, only a third of the 109 employees of the Comptroller's Office live in the Boston/Greater Boston area. Staff commute in from Central Massachusetts, North Shore, Cape Ann, South Shore, Cape Cod and the Merrimack Valley.*





Miles 2 4 6 8 10 12 14 16 18 20 22  
 Kilometers 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34

