

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2001

Martin J. Benison, 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:
www.state.ma.us/osc/osc.htm*

“Hail to the Sunrise”

Charlemont, Massachusetts

Sculpture by Joseph P. Polia, 1932

Located on the famous Mohawk Trail, facing East overlooking the Deerfield river at the site of the old Indian fordway, Hail to the Sunrise depicts a Mohawk Indian beckoning with uplifted arms in supplication to the Great Spirit the new-born day of hope and peace for America.

It is a monument to the Five Indian Nations of the Mohawk Trail. The inscription on the arrowhead tablet at the statue's base reads: “Hail to the Sunrise - In Memory of the Mohawk Indian.” This eight foot statue is a 900 pound bronze casting erected on a nine-ton boulder. The memorial includes a pool with 100 inscribed stones from various tribes and councils from throughout the United States.

After years of fundraising, it was erected by the Improved Order of the Red Men and their women's auxiliary, the Allied Councils of Pocahontas of the Old Deerfield conference.

Impressive unveiling ceremonies were held on October 1, 1932, with the surrounding hills ablaze with foliage of highly-painted Indian colors. Joe Mitchell Chapple in his address at the unveiling said; “Hail to the Sunrise symbolizes the hopefulness of humanity through the ages. This is an occasion when we commemorate the Red Man – not only the organization that has kept alive the great fundamental traditions of Freedom, Friendship, and Charity, but the race of Red Men from whom we have taken and inherited the boundless territory of this great republic.”

The Improved Order of Red Men and Degree of Pocahontas were consolidated in 1834 from the St. Tamina Society, the Sons of Liberty and the Society of Red Men. Washington, Hancock and Adams were early promoters and organizers of this Order.

The Improved Order is the United States oldest benevolent society of distinctively American origin. Congress granted the Order Charter “To Inspire Fraternity and Greater Love of the Principles of American Liberty.”

Photography courtesy of Kindra Clineff, Massachusetts Office of Tourism and Travel

Research courtesy of Gerald G. Moothart, Past Great Inchochee, Great Council United States and the History of the Improved Order of the Red Men and Pocahontas by Robert E. Davis, Norma Coli, Charlemont Historical Commission and the Blue Heron Farm, The Mohawk Trail by William B. Browne, Elder Printing Co, the Greenfield Recorder Gazette.

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*“Every tree is a living liberty-pole on which
a thousand bright flags are waving.”*

Henry David Thoreau

*T*he state tree of Massachusetts is the American Elm, a stately, magnificent tree whose leaves turn a bright yellow in the fall. The American Elm was an early symbol of our national independence. It was an American Elm that was Boston’s Liberty tree. The famous “Liberty Tree,” was a gathering site for patriotic citizens. British soldiers destroyed it as a final act of hostility during their hurried retreat from Boston in 1775.

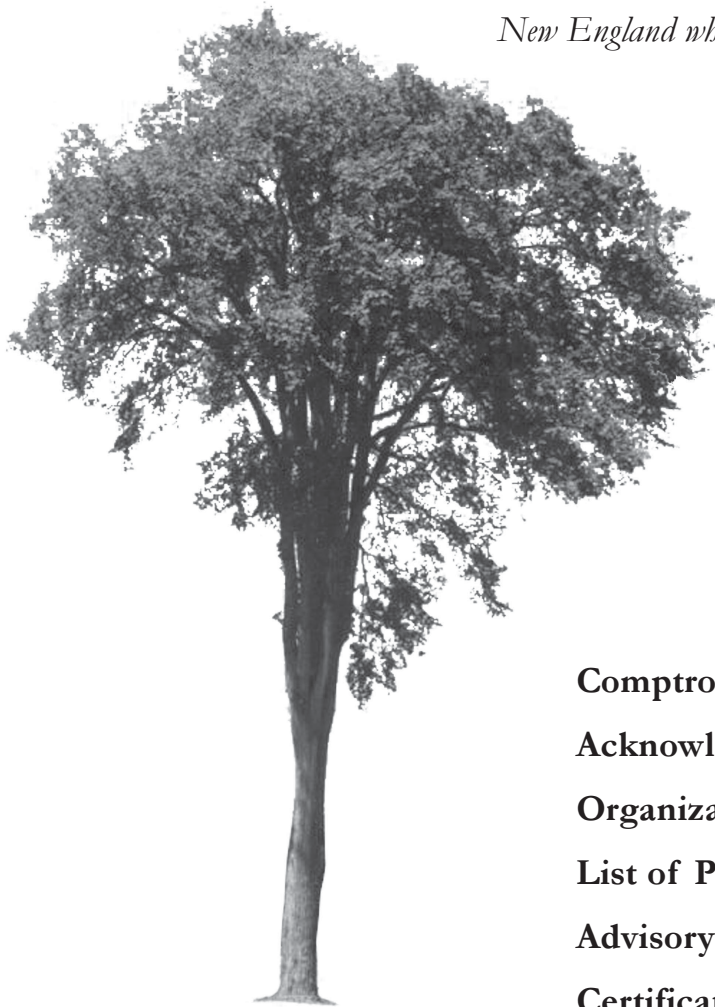
American Elms were the most popular shade tree for generations. Their graceful and majestic presence literally defined the streets of America. However over a period of 30 years, they slowly vanished from the landscape as Dutch Elm disease ravaged these trees almost to a point of extinction. Professional botanists, foresters and researchers have waged a battle against the disease. New disease-resistant varieties of purely American Elm have been developed. One of these is the American Liberty Elm.

One particularly comprehensive site dealing with the restoration of our state tree is www.elmpost.org, which discusses the history of the species and current efforts to restore it, and provides links to sources of trees and information.

*American Elm photo, courtesy of the Carley family
All other photography unless otherwise noted, courtesy of
Kindra Clineff , Massachusetts Office of Travel and Tourism*

Introductory Section

This fall, 11 trees were planted on Boston Common as a living memorial to honor and remember the people of New England who lost their lives on September 11th, 2001.



Comptroller's Letter of Transmittal

Acknowledgments

Organization Chart of State Government

List of Principal State Officials

Advisory Board to the Comptroller

Certificate of Achievement



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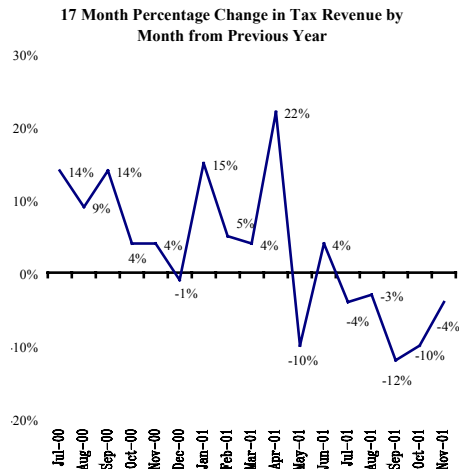
*Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108*

December 19, 2001

***To the Citizens of the Commonwealth of Massachusetts,
Governor Jane Swift, and Honorable Members of the General
Court***

I am pleased to report that through fiscal year 2001 the Commonwealth's financial condition remained strong, however the picture is changing. Since fiscal year 1994 this office has reported that the fiscal health of the Commonwealth is strong. The Commonwealth has enjoyed over seven years of prosperity and growth. The Commonwealth's unemployment level shrunk during the time period by 42% from 205,000 citizens unemployed in 1994 to 86,000 in 2000. At some point the economy was anticipated to slow down. As of June 30, 2001, the Federal Reserve Bank of Boston, in its monthly "New England Economic Indicators," reported that the number of people unemployed in our Commonwealth has increased to 113,000 or a rate of 3.4%. The rate increased to 4.2% in October, the latest figures available. Both rates are under the "full employment" threshold of 5%, but the rate is rising. The same report shows that the consumer confidence index has slipped in our Commonwealth from a rate of 156 a year ago, to 94 as of October, with future expectations for a slower economy. This softening economy is reflected in tax receipts for the first quarter of fiscal year 2002. This softening economy is reflected in tax receipts for the first five months of the fiscal year. The Secretary for Administration and Finance revised his tax revenue estimate downward from nearly \$15.7 billion to over \$14.9 billion, a decrease of over \$700 million. As of the end of November, tax collections totaled nearly \$5.7 billion, or \$450 million below the same period in fiscal year 2001. These results portray a real decline from last year's economic boom.

Prudent planning throughout the 1990s has left the Commonwealth well positioned for this economic slow down. The Commonwealth ends fiscal year 2001 with a \$3 billion surplus in its budgeted funds. Since fiscal year 1991, the Commonwealth's Stabilization Fund, sometimes called the "rainy day fund," has grown from a balance of \$59 million to over \$1.7 billion, its maximum. In addition, in the final set of appropriation acts for the fiscal year, the Commonwealth set aside over \$579 million in fiscal year 2001 surpluses. Of this amount, \$422 million was used to balance the fiscal year 2002 budget, with the remainder held in stabilization. In previous years, year-end transfers of budget surpluses were made to the capital project funds to make strategic investments for the management of the Commonwealth's capital budget, to defease high interest debt that otherwise could not be refunded, and to increase reserves. Similar transfers may not be able to be made during this period of economic slowdown.



The results of fiscal year 2001 helped prepare the Commonwealth for this changing economy. For the eleventh consecutive year, revenues have exceeded expenditures in the governmental funds. As of June 30, 2001, I am now pleased to report a positive Generally Accepted Accounting Principles (GAAP) governmental fund balance of \$4.4 billion. In fiscal year 1990 and fiscal year 1991, the Commonwealth resorted to over \$1.8 billion in deficit borrowing to start down the road of putting its fiscal house in order. In 1991 the Statutory Basis Fund Balance in the budgeted funds was \$237 million. This same balance when computed in accordance with GAAP, was a deficit of \$761 million. Today's GAAP fund balance in excess of \$4.4 billion is the strongest evidence of the Commonwealth's over decade long commitment to conservative budgeting and strategic investments in its future stability to prepare for this slowdown. But, this fund balance contains a considerable amount of funds that are not "free cash." \$1.7 billion of this balance is reserved for Stabilization. Another \$1.8 billion is reserved in capital project funds containing bond proceeds that must be used for the Central Artery / Tunnel Project ("CA/T.")

The Stabilization Fund is a strategic tool at decision makers' disposal to assist the Commonwealth through this difficult time. It may be used in three circumstances. The first is to make up any difference between the actual state revenues and the allowable state revenues in the case of a revenue shortfall. The second is to replace federal funds in the case of a shortfall. Finally, the fund may be used for any event that threatens the health, safety, welfare, or stability of the Commonwealth, including an economic downturn.

As portrayed in the graphics of the monthly change in tax revenues for the past sixteen months, the slowdown is definitely here. The Commonwealth has begun to tap these resources in connection with budget reductions as part of the recently enacted fiscal year 2002 budget. The administration and Legislature have wisely taken a balanced approach using \$806 million from reserves combined with necessary reductions in service levels throughout the state. This assures that the structural gap faced in preparing the fiscal year 2003 budget will be less ominous and reserve will be available in future years. This plan to use surpluses judiciously over multiple years is essential to exiting this economic downturn with a service level that can be supported with available resources.

This Comprehensive Annual Financial Report, ("CAFR,") is prepared by the Office of the Comptroller and we are responsible for the fair presentation of the financial statements of the Commonwealth. The report 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 fiscal year 2001.

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 in accordance with Section 12 of Chapter 7A of the General Laws.

BUDGETED FUNDS OPERATIONS

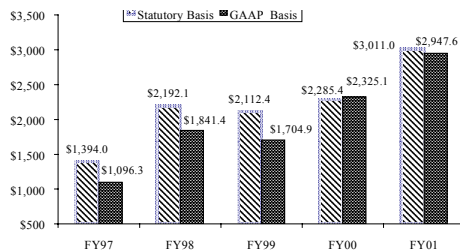
The portion of state finances that generates the greatest degree of interest is the Budgeted Funds. These funds include the General, Local Aid, Highway, and certain Special Revenue Funds which comprise the annual state budget. These funds are also important to analyze as the bulk of their revenues are derived from taxation and federal reimbursements. The expenditures in these funds are largely general governmental operations, Medicaid, Local Aid, debt service and public assistance.

Budgeted Funds Operations - GAAP Basis					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 709.2	\$ 1,096.3	\$ 1,841.4	\$ 1,704.9	\$ 2,325.1
Revenues and other financing sources....	18,845.9	20,339.9	20,655.7	25,914.1	23,123.4
Expenditures and other financing uses...	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>	<u>25,293.9</u>	<u>22,500.9</u>
Excess (deficiency).....	387.1	745.1	(136.5)	620.2	622.5
Ending fund balances	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>	<u>\$ 2,325.1</u>	<u>\$ 2,947.6</u>

Budgeted Funds Operations - Statutory Basis					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 1,173.0	\$ 1,394.0	\$ 2,192.1	\$ 2,112.4	\$ 2,285.4
Revenues and other financing sources..	19,223.3	21,404.6	21,566.9	26,221.1	23,797.6
Expenditures and other financing uses..	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,072.0</u>
Excess (deficiency).....	221.0	798.1	(79.7)	173.0	725.6
Ending fund balances.....	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>

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

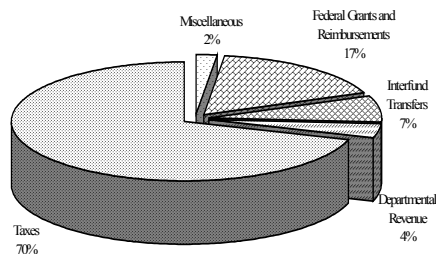
**GAAP VS. STATUTORY
FUND BALANCE**
(Amounts in millions)



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 a combined positive ending fund balance since 1991. The GAAP fund balance mirrored this trend also reporting positive fund balances for seven of these eleven years. The GAAP vs. Statutory fund balance chart to the right tracks these fund balances over the last five years demonstrating the close symmetry between the Commonwealth's statutory accounting and GAAP. During this five year period, fund balance increased from \$1.4 billion to \$3.0 billion.

Over the same period on a GAAP basis, operating gains have improved the fund balance from \$1.1 billion to over \$2.9 billion, a cumulative improvement of over \$1.8 billion.

BUDGETED FUND – GAAP BASIS
Revenue and Other Financing Sources

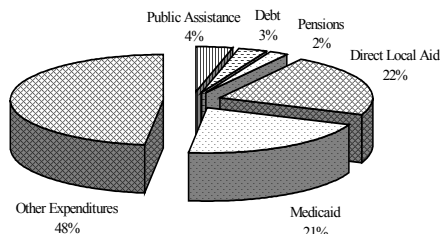


In fiscal year 2001, the revenues and other financing sources in the budgeted funds totaled \$23.1 billion. The Budgeted Funds - GAAP Basis chart shows the percentage of revenue by type contributing to that total. Budgeted Funds expenditures and other financing uses totaled \$22.5 billion. The chart depicts the percentage of each major program in this total.

A comprehensive process is conducted with all departments to convert the statutory basis of accounting to GAAP. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record individual accruals.

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

BUDGETED FUND – GAAP BASIS
Expenditures and Other Financing Uses



For the Medicaid program, expenditures under the statutory basis of accounting are equivalent to cash disbursements. Thus, bills for services rendered during the fiscal year but not paid, or rate adjustments owed but not paid, are not measured in that year. Rather, they are reported statutorily in the next fiscal year when the cash is received or paid. Under GAAP however, 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 fiscal year 2001 were \$4.8 billion, which is 9% higher than fiscal year 2000. The value of this liability in fiscal year 2001, net of federal reimbursement, was \$358.1 million. For several years, the Commonwealth aggressively pursued a policy to constrain expenditure growth in Medicaid, thus helping to balance the overall budget. For the last couple years, Medicaid has grown at rates higher than the overall budget.

This growth is at least partially due to the Commonwealth's expanded eligibility for services, initiated in fiscal year 1998. It is important to assure Medicaid service conforms to affordable growth in the overall budget.

The second 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 earned, are accrued and reported as expenditures of the current fiscal year. This accrual increased 30% in fiscal year 2001 due primarily to changes in accrual policies that coincided with the implementation of a new single human resources and payroll system. After accounting for this one time change the liability and usage trend for compensated absences has been relatively consistent. The liability accrued in fiscal year 2001 was \$223.8 million.

The third difference is claims and judgments. Under the statutory basis, amounts owed as a result of lawsuits for torts, tax disputes, eminent domain land takings, or other legal actions are not measured as expenditures until the issue is adjudicated and the settlement is paid. Under GAAP, an analysis is performed on all pending litigation, and an amount is accrued for that portion of litigation where a settlement against the Commonwealth is considered probable and reasonably estimable. Just under \$30 million has been recorded as the current year accrual.

The fourth difference between statutory and GAAP relates to the recognition of tax revenue. A taxpayer's obligation incurred during a fiscal year usually is not fully collected until the ensuing fiscal year; under the statutory basis of accounting this revenue is not recognized until the cash is received. However, under GAAP, an analysis is conducted in conjunction with the Department of Revenue ("DOR,") and an accrual for revenue earned is computed. In fiscal year 2001, the value of accrued tax revenue from all sources was \$559.9 million.

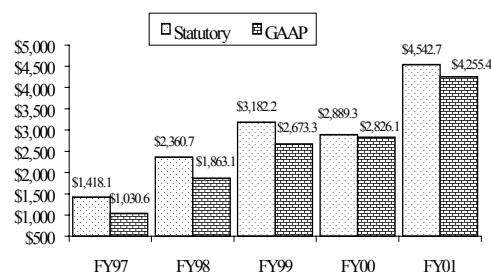
A large number of other accruals are recorded in all funds for things like receivables for fees and fines or receivables and payables between the Commonwealth and its authorities but these accruals do not aggregate to a significant adjustment to fund balance.

GOVERNMENTAL FUND OPERATIONS

The Governmental fund type includes all funds where the Commonwealth imposes its sovereign authority to collect 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 table.

The Commonwealth bonds for capital projects in arrears. These expenditures and financing sources are recorded in the Capital Projects Funds component of the Governmental Funds total. The practice of bonding in arrears allows for a high degree of certainty in project spending, mitigating a potential adverse tax consequence. As a result of this practice the Governmental Funds positive fund balance includes fiscal year 2001 expenditures that will not be funded by bonds until fiscal year 2002. Between July 1 and December 18, 2001, the Commonwealth issued \$576.8 million in General Obligation Debt to finance these expenditures. In addition, the Commonwealth issued \$350

GOVERNMENTAL FUND BALANCE
Statutory vs. GAAP
(Amounts in millions)



million in Bond Anticipation Notes. All of this amount was reimbursement for expenditures temporarily financed through the Commonwealth's cash flow and the balance has been set-aside to finance expenditures as they occur in the coming year. Also subsequent to year-end, the Commonwealth refunded nearly \$1.2 billion of existing debt taking advantage of favorable interest rates.

Governmental Fund Operations - GAAP Basis
(Amounts in millions)

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 644.6	\$ 1,030.6	\$ 1,863.1	\$ 2,673.3	\$ 2,826.1
Revenues and other financing sources.....	27,372.9	31,249.3	33,272.7	38,174.4	39,256.4
Expenditures and other financing sources..	<u>26,986.9</u>	<u>30,416.8</u>	<u>32,462.5</u>	<u>38,021.6</u>	<u>37,827.1</u>
Excess	386.0	832.5	810.2	152.8	1,429.3
Ending fund balances	<u>\$ 1,030.6</u>	<u>\$ 1,863.1</u>	<u>\$ 2,673.3</u>	<u>\$ 2,826.1</u>	<u>\$ 4,255.4</u>

The Central Artery / Tunnel Project has frequently been referred to as the largest public works project in the history of the United States and an engineering masterpiece. Recently the cost of the project has been the target of public scrutiny.

As indicated in the Notes to the General Purpose Financial Statements, the financial disclosure portion of the project is under review with various federal agencies. The Commonwealth has aggressively responded to these concerns regarding the integrity of the cost estimates. For the second year, an independent evaluation of the entire estimate for the project has been undertaken. In the proposed finance plan released August 31, 2001, the cost of the project has risen \$400 million to \$14.475 billion. It is important to note that the federal government has capped its contribution to this project. The Central Artery's current finance plan includes state sources to fund this increase. The plan also reported that the project is over 69% complete.

Central Artery / Tunnel Project
(Amounts in Billions)

Sources of Funds	<u>2001</u>
Federal Funds	\$7.049
GANS	1.500
Massachusetts Turnpike Authority	1.706
Massachusetts Port Authority	0.300
Other Commonwealth Debt	3.077
Commonwealth Operating Funds and Investment Earnings	<u>0.843</u>
Total Sources	<u>\$14.475</u>
Costs of Construction	
Actual Costs through of FY2001	\$10.425
Estimated Spending:	
Fiscal year 2002	1.472
Fiscal year 2003	1.122
Fiscal year 2004	0.985
Fiscal year 2005	0.336
Fiscal year 2006	<u>0.135</u>
Total Estimated Costs of Construction	<u>\$14.475</u>

The bulk of the spending remaining on the Project will occur during fiscal year 2002 and fiscal year 2003. Completion is expected to be during fiscal year 2006. However, a leak has developed in the tunnel sections of Interstate 90 under the Fort Point Channel in Boston. As of October 1, 2001, the estimate of the opening of this phase of the project has been pushed back at least two months, from September 2002 to November of 2002, at the earliest.

Pursuant to statute and agreements with the Massachusetts Turnpike Authority (the "MTA") and the Massachusetts Port Authority ("MassPort,") the entities have committed to significant ongoing contributions to the Commonwealth as part of the financing for this project. These funds are in addition to funds from the Commonwealth and federal funds for the project.

The Special Revenue funds receive all revenues from the Master Settlement Agreement (“MSA”) between the states and the tobacco industry to recover health care costs for tobacco related illnesses. The MSA estimates the Commonwealth revenues for the first 25 years of the settlement at approximately \$7.6 billion. However, this estimate is prior to future adjustments for inflation and changes in the volume of domestic cigarette sales. The original statute creating the Trust Fund required that 30% of payments into the fund and investments thereon be transferred to the budgeted funds for appropriation by the Legislature. In fiscal year 2001, the Commonwealth received \$242 million or 87% of the estimated amounts shown in the settlement agreement. Of the \$242 million, \$82 million was transferred to the Tobacco Settlement Fund, a budgeted fund. For fiscal years 2002 through 2004, the legislature has increased to 50% the amount available for appropriation. The majority of expenditures from this fund were for Health and Human Services, Elder Affairs and Medicaid costs.

Beginning in fiscal year 2001, a board of public and private sector investment experts, appointed by the Governor, the Attorney General and the Treasurer-Receiver-General, began managing the investment of funds in the Health Care Security Trust Fund, which receives all funds in the MSA due to the Commonwealth. This board has broad discretion on investment choices to increase the assets in the fund.

INTERNAL SERVICE FUNDS

The Commonwealth maintains for GAAP reporting purposes four Internal Service Funds. These funds account for (1) the operations of the State Employees Workers’ Compensation Program, (2) owner controlled insurance program for the Central Artery/Tunnel Project, (3) for the health insurance programs administered by the Group Insurance Commission and (4) managing Commonwealth tort claims.

Internal Service Fund Operations					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning retained earnings (deficits).....	\$ (151.0)	\$ (140.3)	\$ (102.9)	\$ (87.0)	\$ (73.9)
Operating gain (loss).....	3.2	26.6	1.0	(2.7)	(38.3)
Other revenues	<u>7.5</u>	<u>10.8</u>	<u>14.9</u>	<u>15.8</u>	<u>12.2</u>
Ending retained earnings (deficits).....	<u>\$ (140.3)</u>	<u>\$ (102.9)</u>	<u>\$ (87.0)</u>	<u>\$ (73.9)</u>	<u>\$ (100.0)</u>

The Human Resource Division of the Commonwealth administers the Commonwealth's self-insured State Employees Workers’ Compensation Program. Revenues of the program represent amounts charged to the various Commonwealth departments. Expenses are for claims and settlements, and accrued expenses for incurred claims, which will be paid in the future.

The traditional policy followed by the Commonwealth has been to set “chargebacks” to Commonwealth departments equivalent to claims actually paid, typically referred to as a “pay-as-you-go” approach.

As a result, an unfunded actuarial liability of \$262.3 million has accumulated, of which \$35.8 million is expected to be paid within one year. The Commonwealth should consider a plan to base annual chargebacks on an actuarial valuation, thus eventually funding such liability.

For the Central Artery/Tunnel Project, the Executive Office of Transportation and Construction, with the approval of the Federal Highway Administration, has created a special program to cover all participants' workers' compensation and general liability claims on the project. In this arrangement, annual premiums and investment earnings are accumulated by the insurance carrier and held in trust on behalf of the Commonwealth to fund current and future claims. This approach has been universally viewed as a cost effective alternative to the traditional approach of each contractor and subcontractor purchasing insurance for their workers. The benefits, in addition to economies of scale, come from eliminating disputes between insurance carriers of responsibility for claims and the instituting of comprehensive safety programs at the project. The approach is reducing the financial impact to the federal government and the Commonwealth of a potentially expensive component of the large, multi-year construction project.

While the concept has been sound, serious questions have been raised regarding the funding levels and funding methods of the program as well as the responsiveness of the insurance carrier, American International Group (AIG). The Commonwealth needs to increase its management oversight of this program. The Highway Department has begun to address these issues by engaging independent auditors and actuaries to review the funding of the programs and the handling of these Commonwealth assets. The work must be completed. Annual audits including actuarial reports should be conducted and be filed on a timely basis.

The Group Insurance Commission manages the health insurance program for Commonwealth employees, retirees, and their beneficiaries. Revenues to the program are amounts contributed by individuals, participant organizations, or by the Commonwealth. The expenses are claims and accruals for claims incurred but not reported. The accumulated balance, a small deficit, is not material to the size of the program, suggesting that symmetry of revenues to expenses is reasonable and change is not warranted.

The Liability Management Reduction Fund is used for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims. Through this fund, as well as other measures, the Commonwealth departments have a greater role in managing these costs.

FIDUCIARY FUND OPERATIONS

The Fiduciary type of funds consists of funds where the Commonwealth is acting as an agent, or steward for funds, on behalf of another party. The Fiduciary Fund Type includes the Expendable Trust, Non-expendable Trust, Pension Trust, External Investment Trust and the 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 Expendable Trusts ended fiscal year 2001 with a fund balance of \$5.7 billion. This balance is composed of \$296.3 million in various Commonwealth held Expendable Trusts, \$2.3 billion in the Unemployment Compensation Trust Fund and \$3.1 billion in the Deferred Compensation Trust.

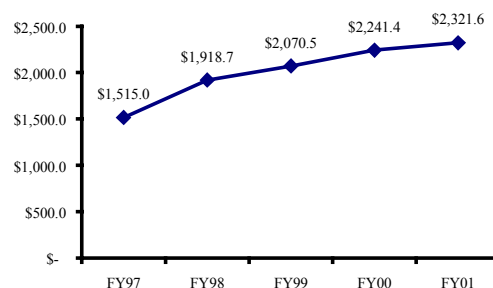
The External Investment Trust is comprised of the portion of investments held by the State Treasurer and Receiver - General on behalf of political sub-divisions in the Massachusetts Municipal Depository Trust ("MMDT.") The MMDT was established by the State Treasurer as a pooled investment trust.

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 employee pension benefits as Pension Trust Funds. Pursuant to the pension reform laws, the Commonwealth funds its pension liabilities on a long-term schedule. It is the responsibility of the Public Employee Retirement Administration Commission ("PERAC") to complete actuarial updates for the funding schedule. The current funding schedule is designed to fully fund the systems by fiscal year 2018. Coupled with the large balance in the unemployment trust fund this progress in funding the Commonwealth pension system are examples of the Commonwealth wisely using good times to prepare for the inevitable downturn.

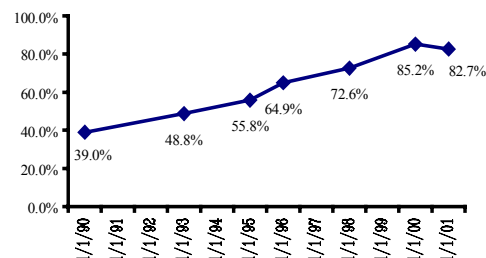
The Pension Funding Progress Graph presents the excellent results over the past eight years of meeting the objective of having a fully funded plan. Note 10 details the progress by system.

The following table presents a five-year trend analysis of the Pension Trust Funds Operations. The net reduction in revenue of \$465.8 million is the result of change in fair value of pension investments during the fiscal year when netted with contributions and other income.

Fund Balance
For Unemployment Compensation Fund
(Amounts in millions)



Pension Funding Process
Funded Ratio



**Source: Public Employee Retirement Administration
Commission Actuarial Valuation Report – 1/1/01**

Pension Trust Funds (Amounts in millions)					
	FY97	FY98	FY99	FY00	FY01
		(as restated)			
Beginning fund balances	\$ 15,956.2	\$ 19,560.0	\$ 23,960.0	\$ 27,112.3	\$ 31,579.4
Revenues (Net Reduction).....	4,729.4	5,644.0	4,517.1	5,944.3	(465.8)
Expenses.....	<u>1,125.6</u>	<u>1,244.0</u>	<u>1,364.8</u>	<u>1,477.2</u>	<u>1,610.2</u>
Excess (Deficiency).....	3,603.8	4,400.0	3,152.3	4,467.1	(2,076.0)
Ending fund balances.....	<u>\$ 19,560.0</u>	<u>\$ 23,960.0</u>	<u>\$ 27,112.3</u>	<u>\$ 31,579.4</u>	<u>\$ 29,503.4</u>

UNIVERSITY AND COLLEGE FUNDS

Since fiscal year 1993, 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 and Lowell.
- 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 \$3.0 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)

	FY97	FY98	FY99	FY00	FY01
Beginning fund balances.....	\$ 2,363.3	\$ 2,512.2	\$ 2,621.0	\$ 2,768.0	\$ 2,944.3
Revenues and other additions.....	1,823.7	1,461.6	1,506.8	1,631.4	1,652.4
Expenditures and other deductions.....	2,381.8	2,053.9	2,218.1	2,374.6	2,592.9
Net transfers, including state appropriations.....	707.0	781.2	858.3	934.6	1,067.3
Net assets transferred to UMass Memorial Health Care, Inc.....	-	(70.5)	-	-	-
Loss from discontinued operations	-	(9.6)	-	(15.1)	(4.2)
Net Increase	148.9	108.8	147.0	176.3	122.6
Ending fund balances.....	<u>\$ 2,512.2</u>	<u>\$ 2,621.0</u>	<u>\$ 2,768.0</u>	<u>\$ 2,944.3</u>	<u>\$ 3,066.9</u>

In fiscal year 2001, the University and 22 out of 24 colleges are commended for producing stand-alone audited financial statements on a timely basis in conformity with GAAP. These 23 institutions have demonstrated accountability to their trustees, the Governor and Legislature, and to all concerned parties, by preparing financial statements in accordance with GAAP.

For several years both the Comptroller's Office and the Board of Higher Education 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. The broad flexibility over financial matters granted the institutions warrant accountability through annual audits. All 25 institutions producing timely audited financial statements on a consistent basis is a goal we must continue to work towards.

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 Fund Balance/ Retained Earnings	Operating Gain/ (Loss)	Subsidy	Other Changes	Ending Fund Balance/ Retained Earnings
Massachusetts Bay Transportation Authority.....	\$ (98)	\$ (646)	\$ 799	\$ 82	\$ 137
Massachusetts Turnpike Authority.....	344	42	-	67	453
Regional Transit Authorities.....	6	(99)	50	48	5
Massachusetts Water Pollution Abatement Trust.....	122	(13)	8	141	258
Massachusetts Development Finance Agency.....	164	(9)	51	(54)	152
Massachusetts Convention Center Authority.....	11	(16)	17	4	16
Massachusetts Technology Park Corporation	16	-	-	-	16
Corporation for Business Work and Learning.....	12	(60)	9	51	12
Massachusetts Community Development Finance Corporation.....	2	(1)	-	(2)	(1)
Community Economic Development Assistance Corporation.....	70	13	-	1	84
Mass. Interaction.....	8	(15)	4	4	1
Massachusetts Housing Partnership.....	17	5	4	(9)	17
Route 3 North Transportation Improvements Association.....	-	-	-	-	-
Commonwealth Zoological Corporation.....	8	(6)	11	1	14
Massachusetts International Trade Council.....	1	(1)	1	-	1
Total.....	<u>\$ 683</u>	<u>\$ (806)</u>	<u>\$ 954</u>	<u>\$ 334</u>	<u>\$ 1,165</u>

The Mass. Interaction (formally MCET) will be liquidating during fiscal year 2002. The United States Department of Education has agreed to allow them to transfer their remaining grants to a not-for-profit entity. The financial statements presented for fiscal year 2001 are on the liquidation basis of accounting. For those interested in more detailed information on the working of these political subdivisions of the Commonwealth, Note 1 to the financial statements provides contact information where audited financial statements for each of these entities may be obtained.

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 ("OSA,") have performed an independent audit of the Commonwealth's general purpose financial statements for the fiscal year ended June 30, 2001. OSA also plays a large role in the simultaneous audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133.

An integral part of any audit of financial statements is a plan that the audit obtains reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with applicable standards, the auditors obtain a sufficient understanding of the Commonwealth's internal controls to enable them to properly plan the audit and to determine the nature, timing and extent of the audit procedures to be performed. However, because of the characteristics of fraud, a properly planned and performed audit may not detect such illegal acts.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. 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. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.state.ma.us/sao>.

We express our gratitude to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and counsel. The independent auditor's report is presented in the Financial Section.

INTERNAL CONTROL ENVIRONMENT

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.

The Office of the Comptroller continues to deliver training sessions and workshops for department managers regarding risk assessment and mitigation 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 Office of the Comptroller has been working to further strengthen the guidance for Internal Controls for the Commonwealth through a statewide Internal Control Campaign. Using the Committee of Sponsoring Organizations ("COSO") Report of the Treadway Commission as a basis, the office has issued an expanded and updated Internal Control Guide for managers of the Commonwealth. The goal of this effort is to present a sound set of practices that enhance financial credibility throughout the Commonwealth.

As part of the fiscal year 2001 audit, the Commonwealth continued the emphasis on the analysis of departmental internal control plans. The

goal is to have departments not just think of their plans as fiscal control documents but management documents that assess risk across all programmatic areas of the department and document strategies to mitigate those risks. The plans, which included developing customized training for particular departments, scheduling monthly internal control classes, devoting hundreds of single audit hours in the review of internal control plans, development of internal control models and risk assessment techniques and making managers generally aware of the importance of these controls. As a result of this emphasis, the number of current year findings have decreased, the findings repeated from previous years have decreased, and the findings resolved in one year reached an all time high. We clearly have the attention of our departments and plan to continue this focus next year through the continuation of the education process, expansion into program areas to compliment our success in the financial arena, and increased communication of internal information at all levels of government.

REPORTING ENTITY

The financial statements incorporate the 156 departments, agencies, boards, commissions, institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system 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 criteria for inclusion in the reporting entity in accordance with GAAP, 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.

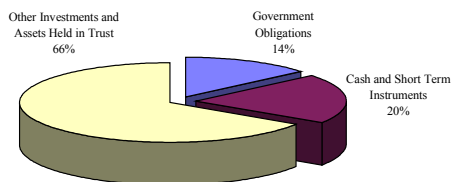
During fiscal year 2001 and for the next three years, the Commonwealth will take steps to upgrade MMARS from a “green screen” mainframe-based system to one that is an Internet based application. We believe that it is time to upgrade the system to take advantage of current and future technologies to position the Commonwealth to provide seamless

integration of its e-government applications to its “back-end” budgetary control and financial management systems.

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 Investment
Primary Government at June 30, 2001
(Amounts in millions)***



* Includes amounts that are in Pension Trust Funds

The State Treasurer and Receiver – General controls cash and investments with the exception of pension assets, which are managed by the Pension Reserves Investment Trust. 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; the Treasurer issues disbursements. 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” are employed by the Treasurer’s Office to maximize daily cash balances. The Treasurer manages these cash balances in MMDT and other 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 reporting 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.

Fiscal year 2001 is the eighth 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 Commonwealth and federal government is computed.

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

Fiscal Year	Authorized - Unissued	Principal Outstanding
2001	\$9.3	\$14.0
2000	11.5	12.4
1999	12.0	11.8
1998	12.3	11.0
1997	12.0	10.3

DEBT

The Commonwealth funds its capital appropriations by authorizing the issuance of long-term bonds. The Long-Term Debt table 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 graph of Debt Service as a Percent of Governmental Expenditures.

In fiscal year 1997, Standard and Poor's upgraded the rating for the 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 Aa2 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. 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 fiscal year 2001.

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.

During fiscal year 2001, the Commonwealth issued a significant amount of debt for various purposes. Details of the debt issuance are portrayed in the table Commonwealth Debt Issuance – Fiscal Year 2001. The Commonwealth also defeased debt through the use of \$650 million of transfers and operating surplus through the escrow and irrevocable trust with an escrow agent that purchased U. S. Government securities. Through this action, the Commonwealth defeased debt service payments of approximately \$624 million, plus related unamortized discount, during fiscal year 2001, with an additional \$33 million occurring on July 1, 2001. The savings from this defeasance was used to fund the CA / T pursuant to the finance plan passed during fiscal year 2000.

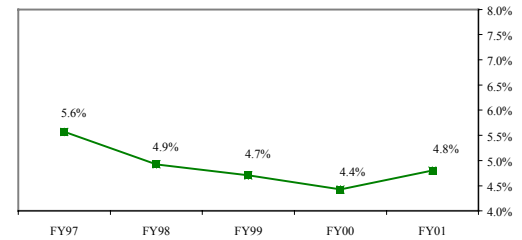
RISK FINANCING

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 fiscal year 2001, approximately \$32 million was expended to settle 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, as well as future payments due from previously settled cases, an additional \$27.0 million has been accrued in the Governmental Funds at June 30, 2001.

ECONOMIC AND FINANCIAL PROSPECTS

Massachusetts and the rest of the nation are in the midst of a profound economic downturn exacerbated by the events of September 11th. Even though our Commonwealth is home to many world-renowned institutions of medicine and higher

Debt Service as a Percent of Governmental Expenditures



*Includes Defeased Debt Service in fiscal year 2001

Commonwealth Debt Issuance

**Debt Outstanding as of
June 30, 2000** **\$12,383,101**

New Debt

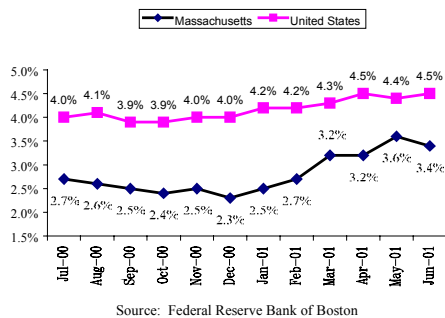
General Obligation Bonds including Fixed Rate, Variable Rate, Auction Rate, Demand Bonds and College Opportunity Bonds	1,752,198
Grant Anticipation Notes	577,605
Refund Bonds	964,645
Total New Debt Issued	3,294,448

Retired Debt

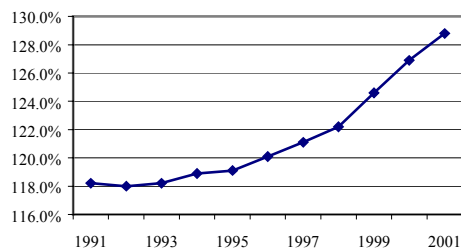
Refunded Debt	(911,270)
Defeased Debt with Cash	(638,853)
Retired Debt	(127,972)
Total Debt Retired	(1,678,095)
Net Debt Issued (Retired)	1,616,353

**Debt Outstanding as of
June 30, 2001** **\$13,999,454**

Monthly Unemployment Rate July 2000 – June 2001



Massachusetts vs. United States Year to Year Per Capita Net Income Change 1991 – 2001



education, both public and private, keeping the economy relatively stable and full of ingenuity, no sector is immune from the economy. Tourism, a significant component of our economy, is our third largest industry. Most economic data points to a significant drop in activity in the short term for the tourism industry. According to a report released by the Massachusetts Office of Travel and Tourism on October 10, 2001, the lodging industry component alone is expected to lose \$241 million in sales this year post September 11th. Overall, the lodging industry, according to the report is expected to generate over \$324 million less in sales this year than in 2000.

Massachusetts' employment had been growing steadily since 1992. The Massachusetts' seasonally adjusted unemployment rate, currently at 3.4%, remains below the national seasonally adjusted rate of 4.5% as of June 30, 2001. Massachusetts' rate however, has risen quickly from a low of 2.3% in December of 2000. Also as of June 30, 2001, Commonwealth per capita income still outpaced the nation as shown in the Massachusetts vs. United States Year-to-Year Per Capita Income Graph. This graph shows that Massachusetts's per capita income level has been and is increasingly growing compared to the rest of the nation.

The Commonwealth, with an international reputation for medical, cultural, historical, and educational institutions, remains the economic and educational hub of New England. The Commonwealth's economy remains diversified but its strongest component is its knowledge-based technology and service industries.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census has estimated that 35% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 25.1% for the United States as a whole. Our capital, Boston, has over 20 hospitals and three medical schools.

Inflation continues to largely be in check. The Boston consumer price index though has risen 4.9% from July 2000 to July 2001, as opposed to only 3.0% for the rest of the country.

The Commonwealth did not finalize its fiscal year 2002 budget until December 5th. In the absence of a budget, the Commonwealth had operated under a provisional budget of \$22.6 billion, virtually all of which was comprised of the lower of the House or Senate budget proposals for each respective budgeted line item. Budgeted revenues and other sources, as estimated by the Executive Office for Administration and Finance, however, were projected at approximately \$21.5 billion, including transfers and other receipts. The estimate assumes tax revenues will be 7.1% lower than the fiscal year 2001 actual collections of \$16.0 billion, after accounting for sales tax funds dedicated to the MBTA. This estimate also reflects the impact of two tax cuts effective for calendar year 2001.

On November 7, 2000 Massachusetts's voters approved two initiative programs that reduced personal income taxes beyond what was in the fiscal year 2000 budget. A 5.85% rate was effective for tax year 2000 and a 5.8% rate was effective on January 1, 2001. The voters reduced the 2001 rate to 5.6%, the 2002 rate to 5.3% and thereafter to 5%. This rate reduction has an impact of \$135 million in fiscal year 2001 rising to \$1.2 billion when fully implemented in fiscal year 2004. Economic theory suggests that the tax reduction will return to the Commonwealth in the form of increased spending activity and therefore, higher tax receipts. In the short run, it will also force the Commonwealth to live within the means that the citizens have stipulated.

Charitable donations will also be deductible from earned income beginning in tax year 2001. This has an estimated impact of \$80 million in 2001 and \$192 million when fully implemented. The charitable deduction will help stimulate the not-for-profit sector in the Commonwealth.

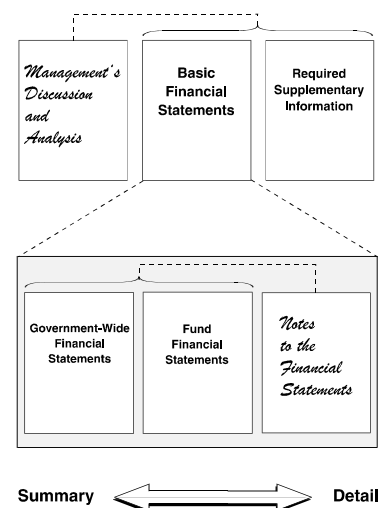
After accounting for vetoes and overrides in the budget as passed, the Executive Office for Administration and Finance projects the Commonwealth's total budgeted expenditures and other uses in fiscal year 2001 at \$22.1 billion. This estimate assumes the spending in the Commonwealth will decrease by 1.4% from fiscal year 2000.

The Administration is engaged in an extensive mid-year review of this estimate. The Governor will release her recommended budget for fiscal year 2003 in late January, at which time the fiscal year 2002 forecast may be revised.

GASB 34 IMPLEMENTATION

2001 is the final year of this report in its present form. Since June 30 1999, the Commonwealth has been in the process of implementing GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." We are also implementing the related statements, number 35, which applies GASB 34 to Public Colleges and Universities, number 37, which is a partial restatement of GASB 34 and number 38, "Certain Financial Statement Note Disclosures." The effect of these changes will be profound in the 'look and feel' of the financial statements. It will also portray a more holistic view of the Commonwealth on the face of its financial statements, including infrastructure assets for the first time. The financial effect of these changes has not been quantified at this time. We are working diligently with all of the component units, schools of higher education, infrastructure agencies such as the Division of Capital Asset Management and the Highway Department and of course, the Information Technology Division to assure that all is in order for the implementation which is required for fiscal year 2002. Our challenge is to convert all of these entities as uniformly as possible. Our goal is to present the Secretary for Administration and Finance a restated set of fiscal year 2001's financial statements under the new presentation later this spring.

Required Components of the Commonwealth's Fiscal Year 2002 Annual Financial Report under GASB 34



The major components of the new financial statements will include a Management's Discussion and Analysis, which will look somewhat like our current introduction, but with more financial analysis. The holistic view will be presented in the Government-wide financial statements – essentially a layering of new information on top of the current fund perspective financial statements. There will be the new Note format and a budgetary statement will be presented as required supplementary information. We believe that this redesign will be easier for the average reader to understand the complete financial picture of the Commonwealth.

We are working closely with the GASB, the National Association of State Auditors, Comptrollers and Treasurers ("NASACT") the Association of Government Accountants ("AGA") and GFOA, to implement Statement 34. We have already released implementation guides for our schools of higher education and component units for statements 34 and 35. We are about to release a conversion guide as well. All of this information is available on our website. We are also providing technical assistance and advice to our Cities, Towns and other entities who would like to use our expertise and best practices to apply to their governments. We have taken the first steps to reach our goal of issuing a pro – forma fiscal year 2001 CAFR in GASB Statements 34 and 35 format.

SIGNIFICANT ACCOMPLISHMENTS

In fiscal year 2001, there were a number of significant accomplishments that demonstrate accountability and sound financial management.

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, 2000. 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 eleventh consecutive year that the Commonwealth has received this award.

On both a statutory and GAAP basis, the Commonwealth has maintained a positive fund balance for the tenth consecutive year. The Commonwealth Stabilization Fund balance, sometimes called the "rainy day" fund, has grown to its limit of over \$1.7 billion, representing the Commonwealth's reserves for future purposes. In addition, the Commonwealth reserved \$579 million in a transitional escrow fund, largely being used for fiscal year 2002 purposes to help soften the economic blow.

The non-tax revenue optimization campaign was very successful in fiscal year 2001. 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, and the Comptroller's Office.

The task force provided leadership and sponsored projects by which outside experts were engaged on a contingent fee basis, and departments optimized various sources of non-tax revenue (such as federal reimbursement) by over \$203 million during fiscal year 2001. 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 fiscal year 2002.

RECOMMENDATIONS AND CONCLUSIONS

The Commonwealth has many accomplishments in fiscal year 2001 of which it can be proud. A large number of projects to enhance or re-engineer business processes with new technology have been performed.

The Executive Office of Health and Human Services released a new system, MassCares, designed to provide all its departments and clients information that will enable them to manage services in a holistic manner. In addition, the Commonwealth release it's new intention based web portal Mass.Gov. providing citizen easy access to information and service when they want it. Quick passage of the Information Technology bond is critical to future releases of these new services as well as other projects that will insure the Commonwealth keep pace with new technologies to enhance service to citizens.

The Office of the Comptroller continued to enhance its MassFinance website at <http://www.massfinance.state.ma.us>, adding the ability of citizens, employees and vendors of the Commonwealth to access government information they want – when they want it. Commonwealth vendors can now access their remittance information, including scheduled payment and actual payment information, on-line at their convenience. Most recently, MassFinance was enhanced to allow citizens as well as municipal officials the ability to query local aid payments and assessments. In support of the e-Government initiative, the Office of the Comptroller continues to make improvements enhancing this website by bringing more information and services to the public.

Prior to HRCMS, 68% of employees received their pay through direct deposit. Today, over 93% do, reducing banking costs across the Commonwealth. All payroll deductions have also moved to electronic processes. Checks and paper reports have been replaced with electronic payments and data files for all payroll deductions, such as purchases of transit passes, insurance, annuities and payments among the Commonwealth departments. This project eliminated the control risks and inefficiencies associated with the payment payroll expenditures.

Building upon the observations in this letter, a detailed review of these financial statements suggests the need for action to further improve and strengthen state finance law and fiscal practice.

The Commonwealth should define the term “Chief Fiscal Officer” in law. Central to our partnership with CFO's is ensuring they are empowered to do the job we ask of them. Too often, a department's Chief Fiscal Officer is not directly accountable to the Chief Executive Officer of the department. Too often, the CFO does not have the proper

functions reporting to them, enhancing internal controls. We will work to pass legislation strengthening the CFO's role.

The legislature should enact early retirement legislation (ERIP). The current economic climate forces governments to reduce expenditures and act more efficiently. The recently enacted budget makes difficult budget reductions throughout state government. Now state managers are challenged to implement those decisions. ERIP is a valuable tool that will reduce forced separations through layoffs and provide managers with a valuable tool to manager more efficiently.

The Commonwealth must constantly monitor and update its systems and controls. We have asked each department, at its highest levels, to assess its risks and target controls to manage those risks efficiently and effectively. Toward this end, the Office of the Comptroller has continued a multi-pronged effort to improve controls throughout the Commonwealth. This effort must continue.

The Commonwealth must ensure that its bills are paid on time. A solid reputation of timely bill payments benefits both our business partners and the taxpayers. During fiscal year 2000, this office began a campaign with the Chief Fiscal Officers in the 154 state departments to improve the percentage of bills paid within 30 days. The timing and focus on bill paying improved the Commonwealth's bill payment track record this year to 84% of all bills paid within 30 days. This effort will continue until we have reached and maintained a 95% level.

The Commonwealth should reduce the number of funds and eliminate funds that have chronic deficits. The Commonwealth currently maintains over 100 governmental funds to record its financial activity. This excess number of funds fragments the Commonwealth's financial picture. Many of these funds have structural imbalances leading to chronic deficits. The effort to reduce the number of funds should continue. A fund should be a self balancing set of accounts where decision makers want to set aside a specific set of revenues to fund a specific set of activities. Nineteen of the 57 budgeted funds are in the environmental fund group. Fifteen of these nineteen funds contribute to accumulated deficits of \$96.7 million in this fund group.

Cash flow requires careful attention. In difficult times, the Commonwealth cashflow requires careful attention. Much of the Commonwealth surplus funds are reserved and held by the Treasurer segregated from pooled cash. At the same time, many of the Commonwealth deficit funds represent an unbudgeted drain on cash flow. The Commonwealth needs to develop a carefully orchestrated plan to insure sufficient cash is available to make timely payments throughout the fiscal year.

The Commonwealth should continue to emphasize optimization of both tax and non-tax revenues. This statewide campaign has generated nearly \$989 million in revenues since fiscal year 1996. The revenue optimization strategy should continue.

I again would like to express my thanks to the many dedicated people within the Office of the State Comptroller. We have had another successful year within the office. I am proud to have all the employees on my team to help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison
Comptroller



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REPORT PREPARED BY:

Eric S. Berman, CPA
Deputy Comptroller

Financial Reporting And Analysis Bureau:

Bhavdeep J. Trivedi, CGFM
Director

John Haran, CPA, CGFM
Accountant

Pauline Lieu, CPA, CGFM
Accountant

Neil Gouse, CGFM
Accountant

Baheja Azizi
Systems Analyst

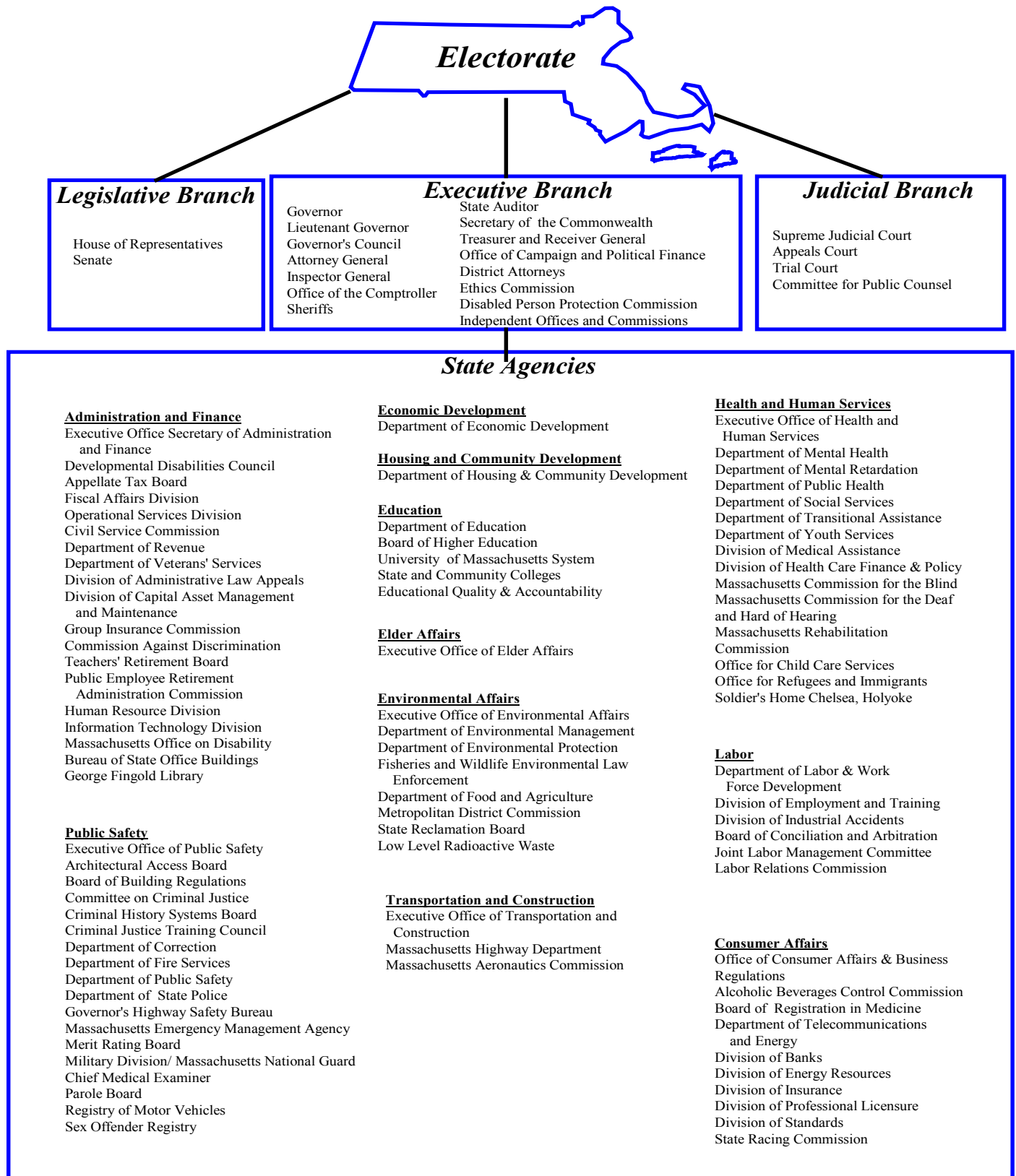
Cathy DiGianni
Administrative Secretary

Babatola Yussuf
Intern

James Powers, CPA
Special Projects

Lauren Johnson
Art Direction
Director Resource Management

Vinh Nguyen
Layout and Design



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Governor

William F. Galvin
Secretary of State

Thomas F. Reilly
Attorney General

Shannon P. O'Brien
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

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Thomas M. Finneran
Speaker of the House

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Chief Justice, Supreme Judicial Court

Joseph P. Warner
Chief Justice, Appeals Court

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

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Secretary for Administration and Finance

A. Joseph DeNucci
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Shannon P. O'Brien
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Barbara A. Dortch-Okara
Chief Justice for Administration and Management, Trial Court

Thomas F. Reilly
Attorney General

Certificate of Achievement for Excellence in Financial Reporting

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Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

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.



Thomas A. Gruen
President

Jeffrey L. Esser
Executive Director



*Whale watch boat,
Gloucester Harbor*



Chatham Fish Pier



Massachusetts' 1,500 miles of coastline are a rich and diverse fabric of natural wonders and economic engines that both improve our quality of life and enrich our economy and draw businesses, tourists, and residents alike. The Coast Alliance recently reported, in State of the Coasts, that coastal industries contribute \$70.7 billion to Massachusetts. Each of the Ports of Massachusetts - Boston, Fall River, Gloucester, New Bedford and Salem - offers its own specialties and capabilities. Lying off Cape Cod are Martha's Vineyard, Nantucket, and the Elizabeth Island group. Martha's Vineyard, triangular in shape, is about 19 miles long and less than 10 miles in width.

Fisherman at Menemsha, Martha's Vineyard

Financial Section



Duck Harbor Beach , Cape Cod

Independent Auditors' Report

General Purpose Financial Statements

Notes to General Purpose Financial Statements

Combining and Individual Fund Statements and Account Group Schedules



City of Springfield



White Elephant Shop, Essex

Massachusetts, according to the 2000 United States census, has a population of 6,349,097.

It has a gross area of 8,257 square miles and a net land area of 7,838, and ranks 13th in population and 45th in area among the states of the nation. It is divided into 14 counties, varying in size and population from Nantucket (area 50.34 sq. mi., pop. 9,520) to Middlesex (area 844.21 sq. mi., pop. 1,465,396).



Berkshire countryside



Newbury Street, Boston

Independent Auditors' Report

Mr. Martin J. Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts ("Commonwealth") as of June 30, 2001, 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 100% of the total assets and 100% of the total revenues of the University and College Fund Type. We did not audit either the financial statements of the Massachusetts Municipal Depository Trust or the financial statements of the Pension Reserves Investment Trust, the financial statements of which reflect 82.5% and 77.4% percent, respectively, of the total assets and total additions of the Fiduciary Fund Type. We did not audit the financial statements of the discretely presented component units listed in Note 1 which reflect 99.0% of the total assets and 99.5% of the total revenues of the Discretely Presented Component Units. We also did not audit the financial statements of the Massachusetts State Lottery Commission, the financial statements of which reflect .6% percent and 25.3% percent, respectively, of the total assets and total revenues of the Special Revenue Funds and 27.3% and 3.3% of the assets and liabilities of the Fiduciary Fund Type. 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, Special Revenue Funds and the Discretely Presented Component Units referred to above, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth as of June 30, 2001, 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 accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal year 2001 the Commonwealth changed its method of accounting for contributions in aid to conform with the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

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. 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 taken as a whole.

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.

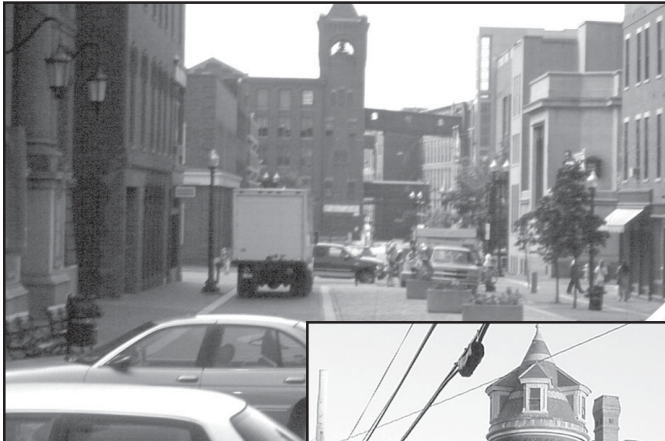
Deloitte & Touche LLP

December 18, 2001

General Purpose Financial Statements

The counties are made up of 49 cities and 302 towns, of which Boston with a population of 589,141 is the largest and Gosnold with a population of 86 is the smallest. More than half of Massachusetts's total population lives in the Greater Boston area.

Statistics, courtesy of the Secretary of State



Downtown Lawrence



Oaks Bluff exterior



*Unique apartment building,
Hudson, courtesy of
Executive Office of
Environment Affairs*



Deerfield Inn



West Concord

All Fund Types, Account Groups And Discretely Presented Component Units

Combined Balance Sheet

June 30, 2001
(Amounts in thousands)

	Primary				
	Governmental Fund Types				Proprietary Fund Types
	General	Special Revenue	Debt Service	Capital Projects	Internal Service
ASSETS AND OTHER DEBITS					
Cash and short-term investments.....	\$ 4,245,747	\$ 1,441,840	\$ -	\$ -	\$ -
Cash with fiscal agent.....	-	109,313	-	-	-
Deposits.....	-	-	-	-	-
Investments.....	-	-	-	-	-
Restricted investments.....	-	-	-	-	178,498
Investments of deferred compensation plan.....	-	-	-	-	-
Policyholder life insurance contracts.....	-	-	-	-	-
Annuity contracts.....	-	-	-	-	-
Assets held in trust.....	-	-	-	-	24,027
Receivables, net of allowance for uncollectible:					
Taxes.....	868,638	647,504	-	-	-
Due from federal government.....	543,402	532,019	-	-	-
Loans.....	-	-	-	-	-
Other receivables.....	119,644	105,397	-	-	54,489
Due from cities and towns.....	1,273	557	-	-	-
Due from primary government.....	-	-	-	-	-
Due from other funds.....	1,132,256	270	-	2,269,624	21,340
Due from component units.....	3,750	-	-	1,115	-
Inventory.....	-	13,700	-	-	-
Fixed assets.....	-	-	-	-	-
Other assets.....	-	-	-	-	-
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.....	<u>\$ 6,914,710</u>	<u>\$ 2,850,600</u>	<u>\$ -</u>	<u>\$ 2,270,739</u>	<u>\$ 278,354</u>
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities					
Accounts payable.....	\$ 1,149,189	\$ 642,664	\$ -	\$ 463,250	\$ 763
Accrued payroll.....	99,831	39,848	-	2,305	2
Compensated absences.....	177,187	56,819	-	5,072	-
Tax refunds and abatements payable.....	445,881	297,254	-	-	-
Due to cities and towns.....	-	-	-	-	-
Due to primary government.....	-	-	-	-	-
Due to other funds.....	2,052,688	443,074	-	897,632	-
Due to component units.....	53,609	95,656	-	3,159	-
Due to federal government.....	17,991	-	-	-	-
Deferred revenue.....	161,118	130,636	-	-	-
Prizes payable.....	-	-	-	-	-
Agency liabilities.....	-	-	-	-	-
Claims and judgments.....	27,000	-	-	-	377,649
Deposits and unearned revenue.....	-	18,966	-	-	-
Other accrued liabilities.....	-	96,875	-	-	-
Capital lease obligations.....	-	-	-	-	-
Bonds, notes payable and certificates of participation.....	-	-	-	402,862	-
School construction grants payable.....	-	-	-	-	-
Total liabilities.....	<u>4,184,494</u>	<u>1,821,792</u>	<u>-</u>	<u>1,774,280</u>	<u>378,414</u>
Equity (deficit) 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.....	-	-	-	-	147,236
Unreserved.....	-	-	-	-	(247,296)
Fund balances (deficit):					
Reserved for continuing appropriations.....	187,391	102,639	-	-	-
Reserved for tax reduction.....	33,565	-	-	-	-
Reserved for Commonwealth stabilization.....	1,714,990	-	-	-	-
Reserved for employees' pension benefits.....	-	-	-	-	-
Reserved for deferred compensation.....	-	-	-	-	-
Reserved for unemployment benefits.....	-	-	-	-	-
Reserved for retirement of indebtedness.....	-	109,313	-	-	-
Reserved for nonexpendable trusts.....	-	-	-	-	-
Reserved for capital projects.....	-	7,465	-	1,765,374	-
Reserved for investment pool participants.....	-	-	-	-	-
Restricted.....	-	-	-	-	-
Unexpended plant funds.....	-	-	-	-	-
Renewals and replacements.....	-	-	-	-	-
Net investment in plant.....	-	-	-	-	-
Designated for specific purpose.....	-	-	-	-	-
Unreserved and undesignated.....	794,270	809,391	-	(1,268,915)	-
Total equity (deficit) and other credits.....	<u>2,730,216</u>	<u>1,028,808</u>	<u>-</u>	<u>496,459</u>	<u>(100,060)</u>
Total liabilities, equity and other credits.....	<u>\$ 6,914,710</u>	<u>\$ 2,850,600</u>	<u>\$ -</u>	<u>\$ 2,270,739</u>	<u>\$ 278,354</u>

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	2001	2000	
\$ 4,348,475	\$ 234,569	\$ -	\$ -	\$ 10,270,631	\$ 8,235,493	\$ 2,309,184
-	-	-	-	109,313	76,033	-
2,171,193	360,912	-	-	2,532,105	2,203,766	-
29,279,535	589,588	-	-	29,869,123	31,876,116	882,322
-	-	-	-	178,498	266,552	797,382
3,074,756	-	-	-	3,074,756	3,094,327	-
36,871	-	-	-	36,871	34,681	-
1,409,121	-	-	-	1,409,121	1,406,527	-
2,299,419	-	-	-	2,323,446	2,143,227	6,137
208,011	-	-	-	1,724,153	2,059,740	-
1,071	24,863	-	-	1,101,355	1,035,215	133,921
4,555	51,281	-	-	55,836	56,233	2,037,355
438,151	161,983	-	-	879,664	893,838	117,136
-	-	-	-	1,830	5,261	17,443
-	-	-	-	-	-	189,615
-	107,197	-	-	3,530,687	1,120,239	-
-	-	-	-	4,865	29,251	-
-	9,657	-	-	23,357	37,300	35,577
-	2,931,321	4,010,561	-	6,941,882	6,621,883	9,189,297
21,456	32,695	-	-	54,151	38,638	131,957
-	-	-	109,313	109,313	76,033	-
-	-	-	19,674,367	19,674,367	17,394,780	-
<u>\$ 43,292,614</u>	<u>\$ 4,504,066</u>	<u>\$ 4,010,561</u>	<u>\$ 19,783,680</u>	<u>\$ 83,905,324</u>	<u>\$ 78,705,133</u>	<u>\$ 15,847,326</u>
\$ 1,134,055	\$ 112,078	\$ -	\$ -	\$ 3,501,999	\$ 3,378,932	\$ 125,624
351	88,611	-	-	230,948	207,141	46,197
1,062	126,780	-	154,192	521,112	482,972	9,889
13,347	-	-	-	756,482	1,076,959	-
32,829	-	-	-	32,829	26,476	145
-	-	-	-	-	-	4,865
-	137,293	-	-	3,530,687	1,120,239	-
-	-	-	-	152,424	400,904	-
-	-	-	-	17,991	22,106	165
9,470	46,861	-	-	348,085	403,785	111,894
1,409,121	-	-	10,501	1,419,622	1,412,936	-
2,560,238	4,276	-	-	2,564,514	2,373,902	6,201
-	-	-	113,000	517,649	549,237	85,785
-	11,099	-	-	30,065	14,316	-
2,301	64,275	-	-	163,451	209,253	384,444
-	89,394	-	92,308	181,702	128,490	552,373
-	756,450	-	13,999,454	15,158,766	12,891,005	8,876,274
-	-	-	5,414,225	5,414,225	4,746,571	-
<u>5,162,774</u>	<u>1,437,117</u>	<u>-</u>	<u>19,783,680</u>	<u>34,542,551</u>	<u>29,445,224</u>	<u>10,203,856</u>
-	-	4,010,561	-	4,010,561	3,917,730	-
-	-	-	-	-	-	4,355,236
-	-	-	-	-	-	550,773
-	-	-	-	-	-	11,284
-	-	-	-	147,236	169,561	-
-	-	-	-	(247,296)	(243,498)	602,913
-	-	-	-	290,030	252,466	-
-	-	-	-	33,565	7,203	-
-	-	-	-	1,714,990	1,608,382	-
29,503,347	-	-	-	29,503,347	31,579,452	-
3,112,410	-	-	-	3,112,410	3,133,670	-
2,321,611	-	-	-	2,321,611	2,241,376	-
-	41,117	-	-	150,430	765,438	-
5,834	-	-	-	5,834	5,834	-
-	-	-	-	1,772,839	230,882	-
2,890,323	-	-	-	2,890,323	2,400,474	-
-	266,943	-	-	266,943	262,370	-
-	50,862	-	-	50,862	67,676	-
-	45,444	-	-	45,444	34,486	-
-	2,499,202	-	-	2,499,202	2,349,008	-
-	-	-	-	-	-	-
296,315	163,381	-	-	794,442	477,399	123,264
<u>38,129,840</u>	<u>3,066,949</u>	<u>4,010,561</u>	<u>-</u>	<u>49,362,773</u>	<u>49,259,909</u>	<u>5,643,470</u>
<u>\$ 43,292,614</u>	<u>\$ 4,504,066</u>	<u>\$ 4,010,561</u>	<u>\$ 19,783,680</u>	<u>\$ 83,905,324</u>	<u>\$ 78,705,133</u>	<u>\$ 15,847,326</u>

All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units
Combined Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Primary		
	Governmental Fund Type:		
	General	Special Revenue	Debt Service
Revenues:			
Taxes.....	\$ 9,616,547	\$ 7,186,323	\$ -
Assessments.....	78,699	512,279	-
Federal grants and reimbursements.....	3,098,177	3,261,224	-
Departmental.....	600,540	5,007,816	-
Deferred compensation contributions.....	-	-	-
Miscellaneous.....	229,725	364,860	-
Total revenues.....	<u>13,623,688</u>	<u>16,332,502</u>	<u>-</u>
Other financing sources			
Proceeds of general obligation bonds.....	-	-	-
Proceeds of grant anticipation notes.....	-	600,009	-
Proceeds of refunding bonds.....	-	-	998,729
Proceeds of capital leases.....	30,613	-	-
Transfers in from primary government.....	-	-	-
Transfers in for debt service.....	-	-	1,407,900
Transfers from component units.....	5,707	-	-
Operating transfers in.....	487,201	1,386,461	-
Total other financing sources.....	<u>523,521</u>	<u>1,986,470</u>	<u>2,406,629</u>
Total revenues and other financing sources.....	<u>14,147,209</u>	<u>18,318,972</u>	<u>2,406,629</u>
Expenditures:			
Current:			
Legislature.....	57,303	-	-
Judiciary.....	595,803	716	-
Inspector General.....	2,467	-	-
Governor and Lieutenant Governor.....	5,960	-	-
Secretary of the Commonwealth.....	43,776	973	-
Treasurer and Receiver-General.....	124,675	3,210,297	-
Auditor of the Commonwealth.....	14,677	734	-
Attorney General.....	25,374	10,791	-
Ethics Commission.....	771	775	-
District Attorney.....	70,067	15,603	-
Office of Campaign and Political Finance.....	537	537	-
Sheriff's Departments.....	198,365	3,092	-
Disabled Persons Protection Commission.....	1,675	25	-
Board of Library Commissioners.....	4,395	6,337	-
Comptroller.....	8,206	-	-
Administration and finance.....	903,493	298,226	-
Environmental affairs.....	73,664	179,375	-
Communities and development.....	96,582	345,486	-
Health and human services.....	3,505,435	2,116,129	-
Transportation and construction.....	739	161,692	-
Education.....	211,872	1,279,980	-
Higher education.....	132,175	4,273	-
Public safety.....	487,710	467,006	-
Economic development.....	14,716	36,071	-
Elder affairs.....	175,698	65,350	-
Consumer affairs.....	44,574	26,766	-
Labor.....	32,959	139,093	-
Medicaid.....	4,240,835	519,947	-
Pension.....	109,402	208,891	-
Deferred compensation.....	-	-	-
Direct local aid.....	27,841	4,984,646	-
Capital outlay:			
Local aid.....	-	-	-
Capital acquisition and construction.....	-	-	-
Debt service:			
Debt service.....	-	-	1,407,900
Total expenditures.....	<u>11,211,746</u>	<u>14,082,811</u>	<u>1,407,900</u>
Other financing uses			
Payments to refunded bond escrow agent.....	-	-	998,729
Operating transfers out.....	548,746	2,751,301	-
Transfers of appropriations.....	1,059,323	2,350	-
Transfers of bond proceeds.....	-	-	-
Transfers out for debt service.....	283,779	1,124,121	-
Transfers to component units.....	98,299	862,146	-
Total other financing uses.....	<u>1,990,147</u>	<u>4,739,918</u>	<u>998,729</u>
Total expenditures and other financing uses.....	<u>13,201,893</u>	<u>18,822,729</u>	<u>2,406,629</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	945,316	(503,757)	-
Fund balance (deficits) at beginning of year.....	1,784,900	1,532,565	-
Fund balance (deficits) at end of year.....	<u>\$ 2,730,216</u>	<u>\$ 1,028,808</u>	<u>\$ -</u>
See notes to general purpose financial statement:			

Capital Projects	Fiduciary Fund Type Expendable Trust	Government		Component Unit
		Totals (Memorandum Only)		Massachusetts Technology Park Corporation
		2001	2000	
\$ -	\$ 882,894	\$ 17,685,764	\$ 16,558,568	\$ -
-	82	591,060	462,562	-
1,034	41,050	6,401,485	6,092,655	-
147	21,706	5,630,209	5,279,320	51,305
-	115,567	115,567	756,596	-
129,069	333,491	1,057,145	1,013,559	6,649
130,250	1,394,790	31,481,230	30,163,260	57,954
1,768,815	-	1,768,815	1,761,621	-
-	-	600,009	-	-
-	-	998,729	-	-
-	-	30,613	8,851	-
-	-	-	-	900
-	-	1,407,900	-	-
200,000	-	205,707	105,515	792
2,284,588	24,249	4,182,499	8,124,243	-
4,253,403	24,249	9,194,272	10,000,230	1,692
4,383,653	1,419,039	40,675,502	40,163,490	59,646
-	-	57,303	51,443	-
-	192	596,711	544,513	-
-	-	2,467	2,461	-
-	-	5,960	5,613	-
-	74	44,823	41,645	-
-	112	3,335,084	3,483,981	-
-	201	15,612	15,517	-
-	2,097	38,262	36,094	-
-	-	1,546	1,448	-
-	4,524	90,194	80,316	-
-	-	1,074	903	-
-	14	201,471	178,145	-
-	-	1,700	1,584	-
-	-	10,732	10,019	-
-	-	8,206	7,742	-
-	6,064	1,207,783	1,197,483	-
-	14,557	267,596	253,085	-
-	23,842	465,910	407,362	-
-	26,473	5,648,037	5,344,472	-
-	551	162,982	228,810	-
-	6,632	1,498,484	1,357,016	-
-	2,109	138,557	110,994	-
-	2,471	957,187	881,130	-
-	312	51,099	38,577	28,567
-	18	241,066	216,584	-
-	14,364	85,704	83,976	-
-	1,015,413	1,187,465	1,085,914	-
-	-	4,760,782	4,380,690	-
-	-	318,293	398,206	-
-	136,827	136,827	103,324	-
-	-	5,012,487	4,717,477	-
33,801	-	33,801	46,613	-
2,565,630	-	2,565,630	2,468,790	-
-	-	1,407,900	1,237,015	-
2,599,431	1,256,847	30,558,735	29,018,942	28,567
-	-	998,729	-	-
730,618	91,694	4,122,359	8,065,991	-
-	-	1,061,673	930,517	-
65,846	-	65,846	62,360	-
-	-	1,407,900	-	-
15	-	960,460	1,080,034	-
796,479	91,694	8,616,967	10,138,902	-
3,395,910	1,348,541	39,175,702	39,157,844	28,567
987,743	70,498	1,499,800	1,005,646	31,079
(491,284)	5,659,838	8,486,019	7,480,373	92,185
\$ 496,459	\$ 5,730,336	\$ 9,985,819	\$ 8,486,019	\$ 123,264

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, 2001
(Amounts in thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes.....	\$ 9,058,700	\$ 9,602,242	\$ 543,542
Assessments.....	-	68,527	68,527
Federal grants and reimbursements.....	2,889,400	2,991,936	102,536
Departmental.....	821,700	622,199	(199,501)
Miscellaneous.....	-	145,932	145,932
Total revenues.....	12,769,800	13,430,836	661,036
Other financing sources:			
Operating transfers in.....	222,200	496,947	274,747
Stabilization transfer.....	-	-	-
Federal reimbursement transfer in.....	-	-	-
Total other financing sources.....	222,200	496,947	274,747
Total revenues and other financing sources.....	12,992,000	13,927,783	935,783
Expenditures:			
Legislature.....	85,172	55,536	29,636
Judiciary.....	605,653	587,983	17,670
Inspector General.....	2,468	2,454	14
Governor and Lieutenant Governor.....	6,366	5,981	385
Secretary of the Commonwealth.....	44,559	43,306	1,253
Treasurer and Receiver-General.....	117,641	109,486	8,155
Auditor of the Commonwealth.....	14,727	14,726	1
Attorney General.....	33,354	30,595	2,759
Ethics Commission.....	772	770	2
District Attorney.....	69,041	68,748	293
Office of Campaign and Political Finance.....	543	539	4
Sheriff's Departments.....	199,034	196,284	2,750
Disabled Persons Protection Commission.....	1,682	1,673	9
Board of Library Commissioners.....	4,395	4,395	-
Comptroller.....	7,695	7,676	19
Administration and finance.....	947,033	935,458	11,575
Environmental affairs.....	90,672	77,647	13,025
Communities and development.....	119,179	100,927	18,252
Health and human services.....	3,545,824	3,490,665	55,159
Transportation and construction.....	17,841	17,619	222
Education.....	24,455	17,906	6,549
Higher education.....	1,106,832	1,099,442	7,390
Public safety.....	483,869	472,732	11,137
Economic development.....	16,009	15,608	401
Elder affairs.....	178,544	175,515	3,029
Consumer affairs.....	48,027	44,500	3,527
Labor.....	46,091	40,899	5,192
Direct local aid.....	13,258	13,248	10
Medicaid.....	4,146,549	4,087,485	59,064
Pension.....	428,549	427,430	1,119
Debt service:			
Principal retirement.....	53,412	46,222	7,190
Interest and fiscal charges.....	245,811	237,557	8,254
Total expenditures.....	12,705,057	12,431,012	274,045
Other financing uses:			
Fringe benefit cost assessment.....	-	-	-
Operating transfers out.....	1,095,325	1,129,787	(34,462)
Stabilization transfer.....	-	31,016	(31,016)
Total other financing uses.....	1,095,325	1,160,803	(65,478)
Total expenditures and other financing uses.....	13,800,382	13,591,815	208,567
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(808,382)	335,968	1,144,350
Fund balances (deficits) at beginning of year.....	257,463	257,463	-
Fund balances (deficits) at end of year.....	\$ (550,919)	\$ 593,431	\$ 1,144,350

See notes to general purpose financial statements.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 6,145,100	\$ 6,472,413	\$ 327,313	\$ 15,203,800	\$ 16,074,655	\$ 870,855
23,651	23,976	325	23,651	92,503	68,852
908,500	982,222	73,722	3,797,900	3,974,158	176,258
411,015	540,640	129,625	1,232,715	1,162,839	(69,876)
93,234	139,084	45,850	93,234	285,016	191,782
7,581,500	8,158,335	576,835	20,351,300	21,589,171	1,237,871
993,652	1,658,013	664,361	1,215,852	2,154,960	939,108
-	51,693	51,693	-	51,693	51,693
-	1,717	1,717	-	1,717	1,717
993,652	1,711,423	717,771	1,215,852	2,208,370	992,518
8,575,152	9,869,758	1,294,606	21,567,152	23,797,541	2,230,389
-	-	-	85,172	55,536	29,636
84	82	2	605,737	588,065	17,672
-	-	-	2,468	2,454	14
-	-	-	6,366	5,981	385
125	125	-	44,684	43,431	1,253
51,899	26,420	25,479	169,540	135,906	33,634
732	732	-	15,459	15,458	1
3,333	3,127	206	36,687	33,722	2,965
774	772	2	1,546	1,542	4
12,407	12,044	363	81,448	80,792	656
545	540	5	1,088	1,079	9
594	515	79	199,628	196,799	2,829
-	-	-	1,682	1,673	9
3,320	3,319	1	7,715	7,714	1
507	506	1	8,202	8,182	20
375,971	331,236	44,735	1,323,004	1,266,694	56,310
165,900	156,995	8,905	256,572	234,642	21,930
40,288	39,914	374	159,467	140,841	18,626
768,662	728,427	40,235	4,314,486	4,219,092	95,394
190,681	182,319	8,362	208,522	199,938	8,584
418,118	367,497	50,621	442,573	385,403	57,170
2,887	2,816	71	1,109,719	1,102,258	7,461
406,041	400,828	5,213	889,910	873,560	16,350
50,059	35,702	14,357	66,068	51,310	14,758
44,445	38,521	5,924	222,989	214,036	8,953
6,853	6,627	226	54,880	51,127	3,753
33,246	12,944	20,302	79,337	53,843	25,494
4,971,159	4,956,192	14,967	4,984,417	4,969,440	14,977
580,667	554,857	25,810	4,727,216	4,642,342	84,874
612,934	612,691	243	1,041,483	1,040,121	1,362
88,861	82,204	6,657	142,273	128,426	13,847
315,948	309,956	5,992	561,759	547,513	14,246
9,147,040	8,867,908	279,132	21,852,097	21,298,920	553,177
-	72,496	(72,496)	-	72,496	(72,496)
493,139	519,069	(25,930)	1,588,464	1,648,856	(60,392)
-	20,677	(20,677)	-	51,693	(51,693)
493,139	612,242	(119,103)	1,588,464	1,773,045	(184,581)
9,640,179	9,480,150	160,029	23,440,561	23,071,965	368,596
(1,065,027)	389,608	1,454,635	(1,873,409)	725,576	2,598,985
2,027,978	2,027,978	-	2,285,441	2,285,441	-
\$ 962,951	\$ 2,417,586	\$ 1,454,635	\$ 412,032	\$ 3,011,017	\$ 2,598,985

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, 2001
(Amounts in thousands)

	Primary Government				
	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)		
	Internal Service Funds	Nonexpendable Trust Funds	2001	2000	Component Units
Operating revenues:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 622,946
Donations.....	-	-	-	-	1,946
Other.....	870,571	-	870,571	741,544	62,747
Total operating revenues.....	870,571	-	870,571	741,544	687,639
Operating expenses:					
Claims and judgments expense.....	908,860	-	908,860	744,290	-
Cost of services and administration.....	-	-	-	1	1,202,956
Depreciation.....	-	-	-	-	289,475
Total operating expenses.....	908,860	-	908,860	744,291	1,492,431
Operating income (loss).....	(38,289)	-	(38,289)	(2,747)	(804,792)
Nonoperating revenues (expenses):					
Operating grants.....	-	-	-	-	97,072
Interest income.....	12,166	-	12,166	15,829	227,911
Interest expense.....	-	-	-	-	(459,765)
Other income.....	-	-	-	-	410,595
Other expenses.....	-	-	-	-	(84,789)
Nonoperating revenues (expenses), net.....	12,166	-	12,166	15,829	191,024
Income (loss) before operating transfers.....	(26,123)	-	(26,123)	13,082	(613,768)
Transfers in (out):					
Transfers out to component units.....	-	-	-	-	(792)
Transfers in from primary government.....	-	-	-	-	959,560
Transfers out to primary government.....	-	-	-	-	(5,707)
Transfers in (out), net.....	-	-	-	-	953,061
Net income (loss).....	(26,123)	-	(26,123)	13,082	339,293
Add: Depreciation of fixed assets acquired from contributed capital.....	-	-	-	-	142,542
Increase (decrease) in retained earnings/fund balances.....	(26,123)	-	(26,123)	13,082	481,835
Retained earnings/fund balances (deficits) at beginning of year.....	(73,937)	5,834	(68,103)	(81,185)	683,135
Retained earnings/fund balances (deficits) at end of year.....	\$ (100,060)	\$ 5,834	\$ (94,226)	\$ (68,103)	\$ 1,164,970
Contributed capital at beginning of year.....					\$ 4,448,246
Add: Capital contributions.....					161,037
Less: Depreciation of fixed assets acquired from contributed capital.....					(254,047)
Contributed capital at end of year.....					\$ 4,355,236

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, 2001
(Amounts in thousands)

	Primary Government				
	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)		
	Internal Service Funds	Nonexpendable Trust Funds	2001	2000	Component Units
Cash flows from operating activities:					
Operating income (loss).....	\$ (38,289)	\$ -	\$ (38,289)	\$ (2,747)	\$ (804,792)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization.....	-	-	-	-	289,475
Other nonoperating revenues.....	-	-	-	-	269,997
Other nonoperating expenses.....	-	-	-	-	(84,789)
Net change in incurred but not reported (IBNR) items.....	(4,289)	-	(4,289)	30,142	-
Change in assets and liabilities:					
Assets held in trust.....	(2,747)	-	(2,747)	(2,694)	-
Due from federal government.....	-	-	-	-	(11,034)
Loans.....	-	-	-	-	(302,689)
Other receivables.....	(54,489)	-	(54,489)	-	10,475
Due from cities and towns.....	-	-	-	-	(265)
Due from primary government.....	-	-	-	-	211,274
Due from other funds.....	(767)	-	(767)	3,613	-
Inventory.....	-	-	-	-	6,714
Restricted and other assets.....	88,053	-	88,053	-	(9,529)
Accounts payable.....	358	-	358	405	27,402
Accrued payroll.....	2	-	2	-	4,727
Compensated absences.....	-	-	-	-	750
Deferred revenue.....	-	-	-	-	1,176
Claims and judgments.....	-	-	-	-	13,919
Other accrued liabilities.....	-	-	-	-	84,305
Due to primary government.....	-	-	-	-	(124,386)
Due to federal government.....	-	-	-	-	141
Total adjustments.....	26,121	-	26,121	31,466	387,663
Net cash provided by (used for) operating activities.....	(12,168)	-	(12,168)	28,719	(417,129)
Cash flows from noncapital financing activities:					
Operating grants.....	-	-	-	-	97,072
Transfers out to component units.....	-	-	-	-	(792)
Transfers in from primary government.....	-	-	-	-	959,560
Transfers out to primary government.....	-	-	-	-	(5,707)
Net cash provided by (used for) noncapital financing activities.....	-	-	-	-	1,050,133
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets.....	-	-	-	-	(800,866)
Proceeds from the issuance of bonds and notes.....	-	-	-	-	1,522,833
Interest on bonds and notes.....	-	-	-	-	(459,765)
Capital contributions.....	-	-	-	-	159,806
Principal payments on bonds and notes.....	-	-	-	-	(492,794)
Proceeds from sale of equipment.....	-	-	-	-	158,180
Net cash provided by (used for) capital and related financing activities	-	-	-	-	87,394
Cash flows from investing activities:					
Purchases of investments.....	2	-	2	(44,549)	(4,547,625)
Sales and maturities of investments.....	-	-	-	-	4,675,439
Interest income-net of related expenses.....	12,166	-	12,166	15,829	227,911
Net cash provided by (used for) investing activities.....	12,168	-	12,168	(28,720)	355,725
Net increase (decrease) in cash and cash equivalents.....	-	-	-	(1)	1,076,123
Cash and cash equivalents at beginning of year	-	5,834	5,834	5,835	1,113,435
Cash and cash equivalents at end of year.....	\$ -	\$ 5,834	\$ 5,834	\$ 5,834	\$ 2,189,558
Reconciliation to Combined Balance Sheet:					
Cash and cash equivalents at end of year.....	\$ -	\$ 5,834	\$ 5,834	\$ 5,834	\$ 2,189,558
Cash and cash equivalents at end of year, Component Units Governmental Funds.....	-	-	-	-	119,626
Cash and cash equivalents at end of year, Pension, Expendable and External Investment Trusts and Agency..	-	4,342,641	4,342,641	3,996,684	-
Cash and cash equivalents per the Combined Balance Sheet.....	\$ -	\$ 4,348,475	\$ 4,348,475	\$ 4,002,518	\$ 2,309,184

See notes to general purpose financial statements.

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	2001	2000
Additions:		
Contribution:		
Employer contributions.....	\$ 979,414	\$ 923,993
Employee contributions.....	774,109	705,539
Total contributions.....	1,753,523	1,629,532
Net investment income (loss) :		
Net appreciation (depreciation) in fair value of investments.....	(3,098,005)	3,532,073
Interest.....	579,065	479,945
Dividends.....	227,599	238,365
Real estate operating income, net.....	132,158	118,530
Alternative investments.....	5,654	5,641
Other.....	8,900	6,240
Total investment income (loss).....	(2,144,629)	4,380,794
Less: investment expense.....	74,754	65,990
Net investment income (loss)	(2,219,383)	4,314,804
Total additions.....	(465,860)	5,944,336
Deductions:		
Administration.....	12,601	12,133
Retirement benefits and refunds.....	1,597,644	1,465,150
Total deductions.....	1,610,245	1,477,283
Net increase (decrease).....	(2,076,105)	4,467,053
Net assets available for pension benefits at beginning of year (fund balance reserved for employees' pension benefits).....	31,579,452	27,112,399
Net assets available for pension benefits at end of year (fund balance reserved for employees' pension benefits).....	\$ 29,503,347	\$ 31,579,452

See notes to general purpose financial statements.

External Investment Trust Fund
Statement of Changes in Net Assets Held in Trust For Pool Participants

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	2001	2000
Additions:		
Proceeds from sale of units.....	\$ 6,297,291	\$ 5,331,223
Units issued in reinvestment of distributions from net investment income.....	119,596	95,064
Total contributions.....	<u>6,416,887</u>	<u>5,426,287</u>
Net investment income:		
Interest.....	140,215	111,673
Total investment income.....	140,215	111,673
Less: management fees.....	4,046	3,775
Net investment income.....	<u>136,169</u>	<u>107,898</u>
Total additions.....	<u>6,553,056</u>	<u>5,534,185</u>
Deductions:		
Cost of units redeemed.....	5,927,037	5,126,359
Distributions to unit holders from net interest income.....	136,170	107,898
Total deductions.....	<u>6,063,207</u>	<u>5,234,257</u>
Net increase	489,849	299,928
Net assets held in trust for pool participants at beginning of year (fund balance reserved for investment pool participants).....	<u>2,400,474</u>	<u>2,100,546</u>
Net assets held in trust for pool participants at end of year (fund balance reserved for investment pool participants).....	<u>\$ 2,890,323</u>	<u>\$ 2,400,474</u>
See notes to general purpose financial statements.		

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenues.....	\$ 971,437	\$ -	\$ -
Federal appropriations.....	-	5,879	145
Federal grants and contracts.....	-	276,647	734
State grants and contracts.....	-	81,768	40
Local grants and contracts.....	-	6,624	-
Private gifts, grants and contracts.....	-	77,710	25
Investment income	-	109	92
Endowment income.....	-	1,666	-
Net realized/unrealized gain (loss) on investments.....	-	110	10
Interest on loans receivable.....	-	-	1,073
Reimbursed loan cancellations.....	-	-	101
Other income.....	-	4,026	114
Expended for plant facilities.....	-	-	-
Retirement of indebtedness.....	-	-	-
Other additions.....	-	56	259
Total revenue and other additions.....	971,437	454,595	2,593
Expenditures and other deductions:			
Educational and general expenditures.....	1,619,541	483,221	-
Auxiliary enterprises expenditures.....	171,361	-	-
Indirect costs recovered.....	-	54,712	-
Independent operations.....	24,002	-	-
Refunded to grantors and donors.....	-	1,298	39
Loan cancellations and write-offs.....	-	-	623
Administrative and collection costs.....	-	-	1,182
Retirement of indebtedness.....	-	-	-
Interest on indebtedness.....	-	-	-
Expended for plant facilities.....	-	-	-
Depreciation and amortization.....	-	-	-
Disposal of plant facilities.....	-	-	-
Other deductions.....	-	-	-
Total expenditures and other deductions.....	1,814,904	539,231	1,844
Mandatory transfers:			
Principal and interest.....	(33,447)	(389)	-
Renewals and replacements.....	(555)	(253)	-
Student loan fund matching.....	(1,833)	1,738	95
Operating transfers out.....	(60,143)	67	-
Nonmandatory transfers:			
Transfers of appropriation.....	1,005,940	55,733	-
Transfers of bond proceeds.....	-	9,408	-
Unexpended plant funds.....	(48,326)	-	-
Renewals and replacements.....	(33,567)	(5,556)	-
Other nonmandatory transfers.....	(7,176)	1,239	110
Total transfers.....	820,893	61,987	205
Net increase (decrease) for the year.....	(22,574)	(22,649)	954
Loss from discontinued operations.....	(4,246)	-	-
Net increase (decrease) after discontinued operations.....	(26,820)	(22,649)	954
Fund balances at beginning of year.....	154,341	57,130	57,167
Fund balances at end of year.....	\$ 127,521	\$ 34,481	\$ 58,121

See notes to general purpose financial statements.

Endowment and Similar Funds	Plant Funds	Totals (Memorandum Only)	
		2001	2000
\$ -	\$ -	\$ 971,437	\$ 978,093
-	-	6,024	6,264
-	233	277,614	253,130
-	16,119	97,927	95,089
-	-	6,624	4,202
42,442	841	121,018	110,094
183	16,973	17,357	10,301
3,044	-	4,710	3,175
(15,357)	744	(14,493)	(4,340)
-	-	1,073	914
-	-	101	894
55	1,579	5,774	4,799
-	131,644	131,644	142,735
-	22,460	22,460	22,589
-	2,804	3,119	3,495
<u>30,367</u>	<u>193,397</u>	<u>1,652,389</u>	<u>1,631,434</u>
-	-	2,102,762	1,890,817
-	-	171,361	190,227
-	-	54,712	50,000
-	-	24,002	19,939
-	-	1,337	1,232
-	-	623	822
-	4,581	5,763	2,946
-	20,068	20,068	20,963
-	30,906	30,906	22,764
-	128,735	128,735	114,368
-	1,165	1,165	996
-	47,243	47,243	45,429
480	3,753	4,233	14,156
<u>480</u>	<u>236,451</u>	<u>2,592,910</u>	<u>2,374,659</u>
-	33,836	-	-
-	808	-	-
-	-	-	-
(64)	-	(60,140)	(58,252)
-	-	1,061,673	930,517
-	56,438	65,846	62,360
-	48,326	-	-
-	39,123	-	-
(4,746)	10,573	-	-
<u>(4,810)</u>	<u>189,104</u>	<u>1,067,379</u>	<u>934,625</u>
25,077	146,050	126,858	191,400
-	-	(4,246)	(15,105)
25,077	146,050	122,612	176,295
185,124	2,490,575	2,944,337	2,768,042
<u>\$ 210,201</u>	<u>\$ 2,636,625</u>	<u>\$ 3,066,949</u>	<u>\$ 2,944,337</u>

University And College Fund Type

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Current Funds		Totals (Memorandum Only)	
	Unrestricted	Restricted	2001	2000
Revenues and other additions:				
Tuition and fees.....	\$ 513,551	\$ 404	\$ 513,955	\$ 502,377
Federal appropriations.....	-	6,012	6,012	6,015
Federal grants and contracts.....	-	225,916	225,916	206,393
State grants and contracts.....	1,819	76,219	78,038	77,279
Local grants and contracts.....	-	6,175	6,175	8,339
Private gifts, grants and contracts.....	19,392	78,312	97,704	85,117
Endowment income.....	281	1,136	1,417	1,646
Sales and service, educational.....	16,552	8	16,560	16,445
Sales and service, auxiliary enterprises.....	203,610	-	203,610	221,805
Sales and service, independent operations.....	30,377	-	30,377	25,867
Sales and service, public services.....	58,850	-	58,850	71,127
Recovery of indirect costs.....	54,712	-	54,712	50,000
Other investment income.....	26,665	163	26,828	27,856
Other.....	45,628	2,300	47,928	44,796
Total revenues and other additions.....	971,437	396,645	1,368,082	1,345,062
Expenditures:				
Instruction.....	664,569	59,475	724,044	662,334
Research.....	56,362	168,997	225,359	190,349
Public service.....	85,470	59,338	144,808	106,867
Academic support.....	172,211	40,470	212,681	185,346
Student services.....	168,123	13,499	181,622	163,217
Institutional support.....	234,901	4,480	239,381	238,736
Operation and maintenance of plant.....	181,104	6,331	187,435	170,067
Scholarships and fellowships.....	56,089	130,070	186,159	178,769
Auxiliary enterprises.....	172,073	-	172,073	184,827
Independent operations.....	24,002	561	24,563	20,471
Total expenditures.....	1,814,904	483,221	2,298,125	2,100,983
Transfers and other changes:				
Mandatory transfers:				
Principal and interest.....	(33,447)	(389)	(33,836)	(35,895)
Renewals and replacements.....	(555)	(253)	(808)	(524)
Student loan fund matching.....	(1,833)	1,738	(95)	(106)
Operating transfers out.....	(60,143)	67	(60,076)	(58,173)
Nonmandatory transfers:				
Transfers of appropriation.....	1,005,940	55,733	1,061,673	930,517
Transfers of bond proceeds.....	-	9,408	9,408	12,482
Unexpended plant funds.....	(48,326)	-	(48,326)	(29,851)
Renewals and replacements.....	(33,567)	(5,556)	(39,123)	(50,633)
Other nonmandatory transfers.....	(7,176)	1,239	(5,937)	1,165
Refunds to grantors and donors.....	-	(1,298)	(1,298)	(1,141)
Excess (deficiency) of restricted receipts over transfers to revenue.....	-	3,238	3,238	12,168
Total transfers and other changes.....	820,893	63,927	884,820	780,009
Total increase (decrease) in fund balances.....	(22,574)	(22,649)	(45,223)	24,088
Loss from discontinued operations.....	(4,246)	-	(4,246)	(15,105)
Net increase (decrease) after discontinued operations.....	\$ (26,820)	\$ (22,649)	\$ (49,469)	\$ 8,983

See notes to general purpose financial statements.



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Discretely Presented Component Units
All Governmental Fund Type
Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
ASSETS			
Cash and short-term investments.....	\$ 1,291,489	\$ 13,802	\$ 18,432
Investments.....	-	-	-
Restricted investments.....	-	790,069	-
Assets held in trust.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Due from federal government.....	-	-	9,802
Loans.....	-	-	-
Other receivables.....	15,297	19,974	16,046
Due from cities and towns.....	-	-	16,938
Due from primary government.....	100,999	-	56,051
Inventory.....	34,871	-	399
Fixed assets.....	6,295,220	2,203,454	208,756
Other assets.....	98,644	7,781	5,175
Total assets.....	<u>\$ 7,836,520</u>	<u>\$ 3,035,080</u>	<u>\$ 331,599</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable.....	\$ 56,957	\$ 6,679	\$ 17,743
Accrued payroll.....	44,392	593	432
Compensated absences.....	-	8,440	718
Due to cities and towns.....	-	-	145
Due to primary government.....	-	-	1,115
Due to federal government.....	-	-	-
Deferred revenue.....	27,590	23,886	261
Agency liabilities.....	-	-	-
Claims and judgments.....	82,918	-	2,867
Other accrued liabilities.....	84,606	111,638	4,512
Capital lease obligations.....	548,730	-	3,608
Bonds, notes payable and certificates of participation.....	4,002,117	2,430,994	91,181
Total liabilities.....	<u>4,847,310</u>	<u>2,582,230</u>	<u>122,582</u>
Fund equity:			
Contributed capital.....	2,851,939	-	204,367
Retained earnings (deficits):			
Reserved for investment programs.....	-	452,850	-
Reserved for bond retirement.....	-	-	251
Unreserved.....	137,271	-	4,399
Fund balance:			
Fund balance.....	-	-	-
Total fund equity.....	<u>2,989,210</u>	<u>452,850</u>	<u>209,017</u>
Total liabilities and fund equity.....	<u>\$ 7,836,520</u>	<u>\$ 3,035,080</u>	<u>\$ 331,599</u>

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Development Finance Agency	Massachusetts Convention Center Authority	Massachusetts Technology Park Corporation	Economic Development Entities	Total
\$ 241,524	\$ 162,677	\$ 21,921	\$ 124,163	\$ 435,176	\$ 2,309,184
833,006	33,412	-	-	15,904	882,322
-	-	1,125	-	6,188	797,382
-	6,137	-	-	-	6,137
114,596	-	-	-	9,523	133,921
1,734,657	94,131	-	-	208,567	2,037,355
46,109	4,920	826	6,378	7,586	117,136
-	-	-	-	505	17,443
-	12,568	17,797	45	2,155	189,615
-	-	-	-	307	35,577
-	74,823	319,064	14,124	73,856	9,189,297
3,570	599	1,109	6,798	8,281	131,957
<u>\$ 2,973,462</u>	<u>\$ 389,267</u>	<u>\$ 361,842</u>	<u>\$ 151,508</u>	<u>\$ 768,048</u>	<u>\$ 15,847,326</u>
\$ -	\$ 12,308	\$ 14,160	\$ 2,498	\$ 15,279	\$ 125,624
-	-	-	-	780	46,197
-	264	-	-	467	9,889
-	-	-	-	-	145
-	3,750	-	-	-	4,865
-	-	-	-	165	165
1,515	9,837	1,933	6,600	40,272	111,894
-	6,201	-	-	-	6,201
-	-	-	-	-	85,785
132,816	2,539	32,673	560	15,100	384,444
-	16	-	-	19	552,373
1,677,661	94,360	57,592	-	522,369	8,876,274
<u>1,811,992</u>	<u>129,275</u>	<u>106,358</u>	<u>9,658</u>	<u>594,451</u>	<u>10,203,856</u>
903,256	108,299	239,681	2,667	45,027	4,355,236
-	-	-	1,500	96,423	550,773
-	-	-	-	11,033	11,284
258,214	151,693	15,803	14,419	21,114	602,913
-	-	-	123,264	-	123,264
<u>1,161,470</u>	<u>259,992</u>	<u>255,484</u>	<u>141,850</u>	<u>173,597</u>	<u>5,643,470</u>
<u>\$ 2,973,462</u>	<u>\$ 389,267</u>	<u>\$ 361,842</u>	<u>\$ 151,508</u>	<u>\$ 768,048</u>	<u>\$ 15,847,326</u>

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
Operating revenues:			
Charges for services.....	\$ 319,800	\$ 186,219	\$ 72,834
Donations.....	-	-	-
Other.....	-	29,035	1,552
Total operating revenues.....	<u>319,800</u>	<u>215,254</u>	<u>74,386</u>
Operating expenses:			
Cost of services and administration.....	763,552	120,466	154,879
Depreciation.....	201,932	53,201	19,306
Total operating expenses.....	<u>965,484</u>	<u>173,667</u>	<u>174,185</u>
Operating income (loss).....	<u>(645,684)</u>	<u>41,587</u>	<u>(99,799)</u>
Nonoperating revenues (expenses):			
Operating grants.....	-	-	35,029
Interest income.....	41,255	54,257	1,150
Interest expense.....	(225,414)	(127,462)	(4,320)
Other income.....	149,785	140,598	1,327
Other expenses.....	-	-	(4,481)
Nonoperating revenues (expenses), net.....	<u>(34,374)</u>	<u>67,393</u>	<u>28,705</u>
Income (loss) before transfers	<u>(680,058)</u>	<u>108,980</u>	<u>(71,094)</u>
Transfers:			
Transfers out to component units.....	-	-	-
Transfers in from primary government.....	799,135	-	50,139
Transfers out to primary government.....	-	-	-
Total transfers.....	<u>799,135</u>	<u>-</u>	<u>50,139</u>
Net income (loss).....	<u>119,077</u>	<u>108,980</u>	<u>(20,955)</u>
Add: Depreciation of fixed assets.....	<u>115,852</u>	<u>-</u>	<u>19,275</u>
Increase (decrease) in retained earnings.....	<u>234,929</u>	<u>108,980</u>	<u>(1,680)</u>
Retained earnings (deficits) at beginning of year.....	<u>(97,658)</u>	<u>343,870</u>	<u>6,330</u>
Retained earnings (deficits) at end of year.....	<u>\$ 137,271</u>	<u>\$ 452,850</u>	<u>\$ 4,650</u>
Contributed capital at beginning of year.....	\$ 2,967,790	\$ -	\$ 191,551
Add: Capital contributions, net.....	-	-	32,156
Less: Depreciation of fixed assets	<u>(115,851)</u>	<u>-</u>	<u>(19,340)</u>
Contributed capital at end of year.....	<u>\$ 2,851,939</u>	<u>\$ -</u>	<u>\$ 204,367</u>

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Development Finance Agency	Massachusetts Convention Center Authority	Massachusetts Technology Park Corporation	Economic Development Entities	Total
\$ -	\$ 9,654	\$ 18,397	\$ -	\$ 16,042	\$ 622,946
-	-	-	-	1,946	1,946
5,621	9,658	104	1,057	15,720	62,747
5,621	19,312	18,501	1,057	33,708	687,639
18,214	24,212	25,184	243	96,206	1,202,956
-	4,574	8,922	699	841	289,475
18,214	28,786	34,106	942	97,047	1,492,431
(12,593)	(9,474)	(15,605)	115	(63,339)	(804,792)
2,522	3,429	-	-	56,092	97,072
114,593	10,767	357	245	5,287	227,911
(83,948)	(4,931)	(5,472)	-	(8,218)	(459,765)
107,481	5,476	1,442	-	4,486	410,595
-	(68,313)	(129)	(1)	(11,865)	(84,789)
140,648	(53,572)	(3,802)	244	45,782	191,024
128,055	(63,046)	(19,407)	359	(17,557)	(613,768)
-	-	-	(792)	-	(792)
8,000	51,351	22,647	-	28,288	959,560
-	-	(5,707)	-	-	(5,707)
8,000	51,351	16,940	(792)	28,288	953,061
136,055	(11,695)	(2,467)	(433)	10,731	339,293
-	-	7,415	-	-	142,542
136,055	(11,695)	4,948	(433)	10,731	481,835
122,159	163,388	10,855	16,352	117,839	683,135
\$ 258,214	\$ 151,693	\$ 15,803	\$ 15,919	\$ 128,570	\$ 1,164,970
\$ 903,256	\$ 218,482	\$ 148,109	\$ 2,667	\$ 16,391	\$ 4,448,246
-	-	98,987	-	29,894	161,037
-	(110,183)	(7,415)	-	(1,258)	(254,047)
\$ 903,256	\$ 108,299	\$ 239,681	\$ 2,667	\$ 45,027	\$ 4,355,236

Discretely Presented Component Units

Proprietary Fund Type Combining Statement Of Cash Flows

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Regional Transit Authorities
Cash flows from operating activities:			
Operating income (loss).....	\$ (645,684)	\$ 41,587	\$ (99,799)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization.....	201,932	53,201	19,306
Other nonoperating revenues.....	149,785	-	1,327
Other nonoperating expenses.....	-	-	(4,481)
Change in assets and liabilities:			
Due from federal government.....	-	-	2,630
Loans.....	-	-	-
Other receivables.....	6,897	(1,948)	(4,608)
Due from cities and towns.....	-	-	(749)
Due from primary government.....	218,555	-	(5,224)
Inventory.....	6,757	-	(15)
Restricted and other assets.....	3,791	(1,464)	(3,406)
Accounts payable.....	7,280	503	4,438
Accrued payroll.....	5,705	(1,191)	50
Compensated absences.....	-	597	(17)
Deferred revenue.....	(3,222)	4,133	123
Claims and judgments.....	8,060	-	166
Other accrued liabilities.....	8,819	72,467	755
Due to primary government.....	-	(100,000)	1,115
Due to federal government.....	-	-	(24)
Total adjustments.....	<u>614,359</u>	<u>26,298</u>	<u>11,386</u>
Net cash provided by (used for) operating activities.....	<u>(31,325)</u>	<u>67,885</u>	<u>(88,413)</u>
Cash flows from noncapital financing activities:			
Operating grants.....	-	-	35,029
Transfers out to component units.....	-	-	-
Transfers in from primary government.....	799,135	-	50,139
Transfers out to primary government.....	-	-	-
Net cash provided by (used for) noncapital financing activities.....	<u>799,135</u>	<u>-</u>	<u>85,168</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets.....	(327,709)	(228,275)	(29,339)
Proceeds from the issuance of bonds and notes.....	600,000	-	87,664
Interest on bonds and notes.....	(225,414)	(127,462)	(4,320)
Capital contributions.....	-	-	32,183
Principal payments on bonds and notes.....	(325,720)	-	(78,750)
Proceeds from sale of equipment.....	-	151,752	-
Net cash provided by (used for) capital and related financing activities.....	<u>(278,843)</u>	<u>(203,985)</u>	<u>7,438</u>
Cash flows from investing activities:			
Purchases of investments.....	-	(2,808,062)	-
Sales and maturities of investments.....	134,157	2,887,306	18
Interest income.....	41,255	54,257	1,150
Net cash provided by (used for) investing activities.....	<u>175,412</u>	<u>133,501</u>	<u>1,168</u>
Net increase (decrease) in cash and cash equivalents.....	664,379	(2,599)	5,361
Cash and cash equivalents at beginning of year (as restated).....	<u>627,110</u>	<u>16,401</u>	<u>13,071</u>
Cash and cash equivalents at end of year.....	<u>\$ 1,291,489</u>	<u>\$ 13,802</u>	<u>\$ 18,432</u>

See notes to general purpose financial statements.

Massachusetts Water Pollution Abatement Trust	Massachusetts Development Finance Agency	Massachusetts Convention Center Authority	Massachusetts Technology Park Corporation	Economic Development Entities	Total
\$ (12,593)	\$ (9,474)	\$ (15,605)	\$ 115	\$ (63,339)	\$ (804,792)
-	4,574	8,922	699	841	289,475
107,481	5,476	1,442	-	4,486	269,997
-	(68,313)	(129)	(1)	(11,865)	(84,789)
(12,855)	-	-	-	(809)	(11,034)
(272,095)	(14,913)	-	-	(15,681)	(302,689)
(8,859)	18,818	255	5	(85)	10,475
-	-	-	-	484	(265)
-	(12,568)	10,646	-	(135)	211,274
-	-	-	-	(28)	6,714
(2,153)	(332)	108	23	(6,096)	(9,529)
-	6,667	5,717	(6)	2,803	27,402
-	-	-	-	163	4,727
-	78	-	-	92	750
98	-	1,144	-	(1,100)	1,176
-	5,693	-	-	-	13,919
1,207	2,488	(4,712)	362	2,919	84,305
-	(25,500)	-	-	(1)	(124,386)
-	-	-	-	165	141
(187,176)	(77,832)	23,393	1,082	(23,847)	387,663
(199,769)	(87,306)	7,788	1,197	(87,186)	(417,129)
2,522	3,429	-	-	56,092	97,072
-	-	-	(792)	-	(792)
8,000	51,351	22,647	-	28,288	959,560
-	-	(5,707)	-	-	(5,707)
10,522	54,780	16,940	(792)	84,380	1,050,133
-	(47,829)	(100,921)	(364)	(66,429)	(800,866)
341,430	82,358	-	-	411,381	1,522,833
(83,948)	(4,931)	(5,472)	-	(8,218)	(459,765)
-	-	98,987	-	28,636	159,806
(60,505)	(501)	(14,195)	-	(13,123)	(492,794)
-	6,428	-	-	-	158,180
196,977	35,525	(21,601)	(364)	352,247	87,394
(1,688,500)	(24,175)	(64)	-	(26,824)	(4,547,625)
1,581,981	39,074	-	-	32,903	4,675,439
114,593	10,767	357	245	5,287	227,911
8,074	25,666	293	245	11,366	355,725
15,804	28,665	3,420	286	360,807	1,076,123
225,720	134,012	18,501	4,251	74,369	1,113,435
\$ 241,524	\$ 162,677	\$ 21,921	\$ 4,537	\$ 435,176	\$ 2,189,558



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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 accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

a. Reporting Entity –

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 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. The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties in recent years.

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 is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 35 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) 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 the Pension Trust Funds. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.

In addition, the following entities are blended into the discretely presented university and college 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 nine member 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 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.
- (5) The Worcester City Campus Corporation, doing business as UMass Health System including Worcester Foundation for Biomedical Research, Inc., a subsidiary, is a not-for-profit organization founded for the purpose of fostering and promoting growth, progress and the general welfare of the University. 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.
- (6) The University of Massachusetts Dartmouth Foundation, Inc., incorporated as a charitable corporation under Massachusetts General Laws, renders financial assistance to educational programs of the University. It is governed by a twenty-five member board.

Discrete Component Units – Discrete component units are entities which are legally separate 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 and Rail Connections Inc. (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 five are appointed by the Governor. Through June 30, 2001 the Commonwealth guaranteed the debt of the MBTA and funded 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 by 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 also manages Springfield Symphony Hall. 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.
- (6) The Massachusetts Development Finance Agency (MDFA) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, as well as blighted, decadent or substandard property for the purpose of stimulating economic development and to provide housing to low and moderate income persons. The MDFA is governed by a board of directors comprised of eleven members including the Commissioner of Administration, the Secretary of Communities and Development and nine appointments made by the Governor. The MDFA is authorized to issue up to \$50,000,000 of general obligation bonds and the Commonwealth also provides subsidy assistance. The MDFA also requires Commonwealth approval to issue bonded debt. On September 30, 1998, the Government Land Bank merged with the Massachusetts Industrial Finance Agency, a related organization to create Massachusetts Development Finance Corporation.
- (7) The Massachusetts Technology Park Corporation (MTPC) manages the expansion of industrial and commercial activity and employment opportunities in the Commonwealth. It provides support to firms to maintain, expand and locate their business activities within the Commonwealth thereby creating and retaining more rewarding employment opportunities for citizens of the Commonwealth. MTPC also manages a segregated trust fund. The purpose of the trust fund is to generate the maximum economic and environmental benefits over time from renewable energy to the ratepayers of the Commonwealth by promoting the increased availability, use, and affordability of renewable energy and related enterprises, institutions, and projects.

MTPC is governed by a board of directors comprised of twenty-three members including the Director 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 funds to MTPC to support economic development programs administered by the Organization.

Economic Development Authorities –

- (8) 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.
- (9) Commonwealth Corporation provides services that promote business modernization, economic growth and opportunities for gainful and fulfilling employment. Commonwealth Corporation 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.
- (10) 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.
- (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, thereby, controlling the level of services, projects, and activities the entity provides.
- (12) The Mass. Interaction (formerly MCET) (MAI) operates a statewide telecommunication network for the Commonwealth's public and private sector to improve the quality of education. MAI 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. As a result of budget cuts proposed under the Commonwealth's fiscal year 2002 General Appropriation Act, the board of directors of MAI approved a plan of liquidation on October 31, 2001. The financial statements of MAI are presented on a liquidation basis.

- (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, 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) Route 3 North Transportation Improvements Association (R3N) finances the design, reconstruction operation and maintenance of Route 3 North. In accordance with a development agreement by and between Modern Continental Co. and the Commonwealth of Massachusetts, R3N is governed by a three member board of directors. Two ex-officio officers of the Commonwealth, the Secretary of Executive Office of Transportation and Construction and the Secretary of Executive Office of Administration and Finance and one board member appointed by the Developer.
- (15) The Commonwealth Zoological Corporation, doing business as Zoo New England, 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.

Availability of Financial Information for Component Units, Individual Institutions of Higher Education and Other entities -

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 columns of the general purpose financial statements.

The following component units were audited by Deloitte & Touche LLP:***Discretely Presented:***

Massachusetts Technology Park Corporation
75 North Drive
Westborough, MA 01581

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
18 Tremont Street
Suite 1020
Boston, MA 02108

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

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 5099
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 Development Finance Agency
75 Federal Street
Boston, MA 02110

Massachusetts Housing Partnership
2 Oliver Street
Boston, MA 02109

Massachusetts International Trade Council, Inc.
10 Park Plaza, Suite 3720
Boston, MA 02116

Massachusetts Turnpike Authority
Ten Park Plaza, Suite 4160
Boston, MA 02116

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

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 Broad Street
Nantucket, MA 02554

Pioneer Valley Transit Authority
2808 Main Street
Springfield, MA 01107

Route 3 North Transportation Improvements Association
C/o Commonwealth of Massachusetts Executive Office of
Transportation and Construction
10 Park Plaza
Boston, MA 02116

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 Pension Trust Funds:

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

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 Building Authority
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

Worcester City Campus Corporation (UMass Health System)
University of Massachusetts Worcester
55 Lake Avenue North
Worcester, MA 01655

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

Bunker Hill Community College
New Rutherford Avenue
Charlestown, MA 02129

Cape Cod Community College
2240 Iyanough Road
West Barnstable, MA 02668

Fitchburg State College
160 Pearl Street
Fitchburg, MA 01420

Framingham State College
100 State Street
Framingham, MA 01701

Greenfield Community College
One College Drive
Greenfield, MA 01301

Holyoke Community College
303 Homestead Avenue
Holyoke, MA 01040

Massachusetts Bay Community College
50 Oakland Avenue
Wellesley, MA 02181

Massachusetts College of Art
621 Huntington Avenue
Boston, MA 02115

Massachusetts College of Liberal Arts
375 Church Street,
North Adams, MA 01247

Massachusetts Maritime Academy
101 Academy Drive
Buzzards Bay, MA 02532

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

North Shore Community College
One Ferncroft Road
Danvers, MA 01923

Northern Essex Community College
100 Elliot Street
Haverhill, MA 01830

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 audits performed:

Roxbury Community College
1234 Columbus Avenue
Roxbury Crossing, MA 02120

Salem State College
352 Lafayette Street
Salem, MA 01970

The following External Investment Trust was audited by a firm other than Deloitte & Touche, LLP:

Massachusetts Municipal Depository Trust
Office of the State Treasurer
One Ashburton Place, 12th Floor
Boston, MA 02108

The following Expendable Trust was audited by Deloitte & Touche, LLP:

Commonwealth of Massachusetts Deferred Compensation Plan
C/O Office of the State Treasurer
One Ashburton Place, 12th Floor
Boston, MA 02108

The following special revenue fund was audited by a firm other than Deloitte & Touche, LLP:

Massachusetts State Lottery Commission
60 Columbian Street
Braintree, MA 02184

The following are “related organizations” under GASB Statement No. 14, *“The Financial Reporting Entity”*: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments.

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 aggregated according to state finance law to support specific governmental activities.

The Debt Service Fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest.

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 and assets held in trust for the cities and towns.

External Investment Trust Fund accounts for the portion of pooled cash held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

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 body 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 and capital leases 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, school construction grants, capital leases, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Funds, the discretely presented Component Units and the Proprietary 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. The discretely presented component unit MTPC is accounted for on the current financial resources and 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, External Investment Trust and Pension Trust Funds and discretely presented Component Units, except for MTPC governmental activities, 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 June 30, 2001, dated October 24, 2001.

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 or amortized 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. All Commonwealth, Component Unit, Pension and Deferred Compensation Plan investments are carried at fair value determined by current market rates and quotations.

The Pension Trust Funds, with investments totaling approximately \$29,279,535,000, 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, 2001, the estimated fair value, determined by management with input from the investment managers, of these real estate and alternative investments was approximately \$3,423,332,000 in the Pension Trust Funds, representing 8.0%, of the total assets of the Fiduciary Fund Type.

The Commonwealth maintains a short-term investment pool established by the State Treasurer on June 8, 1977 through a Declaration of Trust. The investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of net asset is approximately \$2,890,323,000 is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units is approximately \$882,322,000 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, 2001, the market value of the securities on loan from PRIT was approximately \$1,013,676,000. The value of the collateral held by PRIT amounted to approximately \$1,077,746,000 at June 30, 2001. 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 event 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, 2001 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. 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 associated 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 depreciated 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 Payable -

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 Fund 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 liquidated within a year 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 employee’s workers’ compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth’s employees and retirees. The Internal Service Funds account for workers’ compensation and group insurance risk financing activities.

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.

“Reserved for Commonwealth stabilization” – identifies amounts set aside according to Section 5C of Chapter 29.

“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 deferred compensation” – identifies

amounts held for employees payment of deferred compensation in accordance with Internal Revenue Service Code Section 457.

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

“Reserved for retirement of indebtedness” – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to 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.

“Reserved for investment pool participants” – accounts for assets held for governmental entities and other local governmental and political subdivisions, in an external investment trust.

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 eliminations have not been made in the aggregation of this data.

r. Reclassifications -

For the fiscal year ended June 30, 2001, certain reclassifications have been made to the fiscal year 2000 balances to conform to the presentation used in fiscal year 2001. Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth.

s. New Accounting Standards -

Beginning in fiscal year 2001, the Commonwealth implemented Governmental Accounting Standards Board Statement No. 33 (GASB33,) Accounting and Financial Reporting for Nonexchange Transactions. The provisions of this standard had no material effect on the

Commonwealth’s governmental funds. The standard required the Commonwealth’s component units, however, to recognize grants and contributions as non-operating revenue on the statement of revenues, expenses and changes in retained earnings. In prior periods, grants and contributions had been recorded as a direct increase to contributions in aid in the net asset section of the balance sheet. The total effect on the Commonwealth’s financial statements of these entities adopting provisions of GASB 33 during fiscal year 2001 was approximately \$451,000,000.

For fiscal year 2002, the Commonwealth will be implementing the following:

Statement 34 Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments

Statement 35 Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities

Statement 37 Basic Financial Statements – and Management’s Discussion and Analysis – Omnibus

Statement 38 Certain Financial Statement Note Disclosures

As of the date of the opinion, the Commonwealth had not determined the financial impact of the implementation of Statements 34, 35 and 37, which are all interrelated. Statement 38 will have no financial impact on the governmental funds of 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 appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the

approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

The original fiscal year 2001 appropriations act, Chapter 159, Acts of 2000, authorized \$20,523,689,000 in direct appropriations. In addition, the act contained \$955,049,000 in authorizations to retain and expend certain non-tax revenues of which \$938,804,000 were estimated to be collected and expended. The Act also included \$121,074,000 in interagency chargebacks. Chapter 159 included estimates of \$15,203,800,000 in tax revenues and approximately \$6,383,045,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$21,586,845,000 and with unreserved balances of approximately \$391,328,000 carried forward from the fiscal year 2000, the budget as presented in this original appropriation act was considered to be in balance.

Section 3 of Chapter 236, of the Acts of 2000, which was a supplemental budget for 2000, also authorized any excess funds from the final 2000 reconciliation of lottery revenues be carried forward and distributed to cities and towns. This amount totaled approximately \$955,000.

During fiscal year 2001, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 196, 236, 311, 316, 354, 378, 384 and 410 of the Acts of 2000 and Chapters 3, 7, 8, 15 and 24 of the Acts of 2001, which included numerous supplemental budgetary appropriations. These supplements added \$606,273,000 of indirect appropriations and \$55,022,000 in retained revenue authorizations.

Subsequent to June 30, 2001, the Legislature passed and the Governor signed Chapters 88 of the Acts of 2001, which included \$164,150,000 in additional supplemental appropriations and \$1,337,000 in additional retained revenue authorizations. The cumulative fiscal year 2001 appropriations, retained revenues and interagency

chargebacks totals \$22,427,549,000. Appropriations continued from fiscal year 2000 totaled approximately \$252,466,000 and certain interfund transfers directed by statute totaled approximately \$760,545,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. 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.

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

	General Fund	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Statutory basis).....	\$ 335,968	\$ 389,608
Entity differences:		
Excess of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds.....	-	(180,986)
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory purposes are accounted for in the General Fund for GAAP.....	711,335	(711,335)
Basis of accounting differences:		
Net change in taxes receivable.....	(211,676)	(139,304)
Net change in due from federal government.....	64,913	(17,234)
Net change in other receivables and other assets.....	1,617,187	7,771
Net change in tax refunds and abatements payable.....	192,947	128,631
Net change in accounts payable and other liabilities.....	(1,765,358)	19,092
Excess change of revenues and other financing sources over expenditures and other financing uses (GAAP basis).....	\$ 945,316	\$ (503,757)

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, 2001, the carrying amount of the Primary Government's total cash and cash equivalents was \$1,080,918,000 and the corresponding bank balance was \$1,159,799,000. Bank deposits in the amount of \$5,672,000 were insured by the Federal Deposit Insurance Corporation, \$124,934,000 were collateralized in the name of the Commonwealth and are held by various financial institutions. Deposits of \$1,029,193,000 were uninsured and uncollateralized.

Component Units -

As of June 30, 2001, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$1,796,578,000 and the corresponding bank balances were \$1,444,877,000. Bank deposits of \$174,844,000 were insured by the Federal Deposit Insurance Corporation, \$941,000 were collateralized in the name of the respective component units, and \$1,269,092,000 were uninsured and uncollateralized.

Investments – The investments are reported at fair value in the financial statements. 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, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. 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, 2001, are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
Investment				
Repurchase agreements.....	\$ 893,885	\$ 2,069	\$ 49,051	\$ 945,005
U.S. Treasury obligations.....	2,025,746	14,593	-	2,040,339
Commercial paper.....	5,795,279	-	-	5,795,279
Government obligations.....	4,121,730	22,171	855	4,144,756
Equity securities.....	18,045,859	3,567	22,194	18,071,620
Fixed income securities.....	3,569,616	102	131,594	3,701,312
Asset backed investments.....	78	-	35	113
Notes.....	571,492	-	-	571,492
Other.....	-	5,133	7,365	12,498
	<u>\$ 35,023,685</u>	<u>\$ 47,635</u>	<u>\$ 211,094</u>	35,282,414
Money market investments.....				797,440
Mutual fund investments.....				53,084
Annuity contracts.....				1,409,121
Real estate.....				1,732,287
Assets held in trust.....				2,323,446
Deposits with U.S. Treasury.....				2,171,193
Negotiable Certificates of Deposits.....				150,256
Other.....				1,692,078
Total.....				<u>\$ 45,611,319</u>

Following is a reconciliation of investments as summarized on page 67 to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 45,611,319
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	9,299,026
Restricted investments reported separately in the combined balance sheet.....	178,498
Assets held in trust reported separately in the combined balance sheet.....	2,323,446
Annuity contracts reported separately in the combined balance sheet.....	1,409,121
Deposits reported separately in the combined balance sheet.....	<u>2,532,105</u>
Investments as reported on the combined balance sheet.....	<u>\$ 29,869,123</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 2001 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 1,080,918
Cash with fiscal agent.....	(109,313)
Short-term investments.....	<u>9,299,026</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$ 10,270,631</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.

i) 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.

ii) 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 gain or loss. The notional value of the futures contracts at June 30, 2001 for the Pension Trust Funds was approximately \$212,922,000 resulting with an unrealized loss of approximately \$559,000.

At June 30, 2001, U. S. Treasury Bills, U. S. Treasury Inflation Indexed Notes and asset-backed securities with principle of \$10,885,000, \$1,500,000, and \$2,600,000, respectively, were pledged to cover margin requirements for open futures contracts.

iii) 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, bear the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 2001, there were no material options outstanding.

Component Units – Investments of the discretely presented Component Units at June 30, 2001 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
Investment				
Repurchase agreements.....	\$ 5,500	\$ 317,385	\$ 3,226	\$ 326,111
U.S. Treasury obligations.....	101,645	-	-	101,645
Commercial paper.....	184,829	-	-	184,829
Government obligations.....	274,063	393,752	25,790	693,605
Equity securities.....	-	-	1,630	1,630
Fixed income securities.....	-	-	516	516
Asset backed investments.....	-	-	-	-
Notes.....	23,516	-	6,188	29,704
Other.....	-	-	4,784	4,784
	<u>\$ 589,553</u>	<u>\$ 711,137</u>	<u>\$ 42,134</u>	1,342,824
Assets held in trust.....				6,137
Guaranteed investment contracts.....				834,665
Negotiable Certificate of deposits.....				<u>14,821</u>
Total.....				<u>\$ 2,198,447</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.....	\$ 2,198,447
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	512,606
Restricted investments reported separately in the combined balance sheet.....	797,382
Assets held in trust reported separately in the combined balance sheet.....	<u>6,137</u>
Investments as reported in the combined balance sheet.....	<u>\$ 882,322</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 2001 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 1,796,578
Short-term investments reported as cash and cash equivalents.....	<u>512,606</u>
Cash and cash equivalents as reported in the combined balance sheet.....	<u>\$ 2,309,184</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.....	\$ 1,064,882	\$ 548,863	\$ -	\$ 660,006	\$ (742,067)	\$ 1,531,684
Special Revenue Funds.....	778,427	532,019	-	133,996	(159,522)	1,284,920
Internal Service Funds.....	-	-	-	54,489	-	54,489
Trust and Agency Funds.....	306,140	4,000	4,555	1,135,350	(798,257)	651,788
University and College Fund.....	-	24,863	58,889	193,125	(38,750)	238,127
Subtotal.....	2,149,449	1,109,745	63,444	2,176,966	<u>\$(1,738,596)</u>	3,761,008
Less allowance for uncollectibles	<u>(425,296)</u>	<u>(8,390)</u>	<u>(7,608)</u>	<u>(1,297,302)</u>		
Net receivable.....	<u>\$ 1,724,153</u>	<u>\$ 1,101,355</u>	<u>\$ 55,836</u>	<u>\$ 879,664</u>		<u>\$ 3,761,008</u>

Component Units –

	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
MBTA.....	\$ -	\$ -	\$ 15,297	\$ -	\$ 15,297
MTA.....	-	-	20,616	(642)	19,974
Regional Transit Authorities.....	9,802	-	16,190	(144)	25,848
MWPAT.....	114,596	1,734,657	46,109	-	1,895,362
MDFA.....	-	108,804	4,920	(14,673)	99,051
MCCA.....	-	-	907	(81)	826
MTPC.....	-	-	6,378	-	6,378
Economic Development Entities.....	<u>9,523</u>	<u>213,638</u>	<u>7,614</u>	<u>(5,099)</u>	<u>225,676</u>
Subtotal.....	133,921	2,057,099	118,031	<u>\$ (20,639)</u>	2,288,412
Less allowance for uncollectibles	<u>-</u>	<u>(19,744)</u>	<u>(895)</u>		
Net receivable.....	<u>\$ 133,921</u>	<u>\$ 2,037,355</u>	<u>\$ 117,136</u>		<u>\$ 2,288,412</u>

6. FIXED ASSETS**Primary Government-**

General Fixed Asset Account Group – Changes in general fixed assets by category at June 30, 2001 are as follows (amounts in thousands):

	Balance at July 1, 2000	Additions	Retirements	Balance at June 30, 2001
Land.....	\$ 579,995	\$ 15,644	\$ 344	\$ 595,295
Buildings.....	2,648,197	236,957	176,746	2,708,408
Machinery and equipment.....	656,209	98,968	78,797	676,380
Construction in progress.....	33,329	39,097	41,948	30,478
Totals at historical cost.....	<u>\$3,917,730</u>	<u>\$ 390,666</u>	<u>\$ 297,835</u>	<u>\$ 4,010,561</u>

University and College Fund Type – Fixed assets consist of the following at June 30, 2001 (amounts in thousands):

	Amount
Land.....	\$ 53,402
Buildings.....	2,057,984
Machinery and equipment.....	704,711
Construction in progress.....	<u>120,327</u>
	2,936,424
Less accumulated depreciation.....	<u>(5,103)</u>
Total.....	<u>\$ 2,931,321</u>

Component Units – Fixed assets consist of the following at June 30, 2001 (amounts in thousands):

	Amount
Land and improvements.....	\$ 282,565
Infrastructure.....	1,386,266
Structures and improvements.....	6,872,763
Equipment, furniture, fixtures and vehicles.....	<u>2,103,005</u>
Total.....	10,644,599
Less accumulated depreciation.....	<u>(3,246,439)</u>
Net fixed assets.....	7,398,160
Construction in progress.....	<u>1,791,137</u>
Total.....	<u>\$ 9,189,297</u>

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

Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

General Fund – Prior to June 30, 2000 the Commonwealth was authorized by Massachusetts General Laws to issue short-term notes to finance working capital advances to the MBTA. As a result of the Forward Funding of the MBTA, the Commonwealth is no longer authorized to provide working capital advances to the MBTA or to finance such advances by issuing short-term notes. Therefore, no such notes were outstanding on June 30, 2001.

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During fiscal year 2001, no RANs were issued or were outstanding.

Capital Projects Funds – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects.

In September 2000, December 2000, and March of 2001 through its commercial paper program, the Commonwealth issued BANs of \$220,000,000, \$250,000,000 and \$250,000,000, respectively. BANs were rolled over and paid down at various times during the fiscal year. No more than \$250,000,000 of commercial paper obligations were outstanding at any time. On June 30, 2001, \$100,000,000 of BANs were outstanding through the commercial paper program, all of which were retired before July 12, 2001.

In September and October 2001 the Commonwealth issued a combined total of \$250,000,000 of additional BANs through the commercial paper program to temporarily finance capital projects. The balance was paid down to \$50,000,000 as of December 18, 2001.

Letter-of-Credit Agreements – During fiscal year 2001, the Commonwealth maintained a letter-of-credit agreement with a bank in order to provide credit and liquidity support for its commercial paper program. The letter of credit was available to secure up to \$200,000,000

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 payable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 2001. The existing letter of credit agreement expires on December 28, 2003. The cost of the facility is approximately 0.15% on both unutilized and utilized amounts.

Line-of-Credit Agreement – During fiscal year 2001, the Commonwealth maintained line-of-credit agreements to provide liquidity support for commercial paper notes. On September 28, 1999, the Commonwealth entered into line-of-credit agreements with two banks to provide a total of \$400,000,000 in liquidity support for the Commonwealth's commercial paper program. These agreements expire in September of 2002 and 2004, respectively. The cost of these facilities is approximately 0.11% on both unutilized and utilized amounts.

On or before December 31, 2001 the Commonwealth expects to establish an additional line of credit for \$200,000,000.

Bonds Anticipation Notes – On September 7, 2000, the Commonwealth sold \$400,000,000 of General Obligation Bond Anticipation Notes, on a stand-alone basis, with an interest rate of 5.0%. The notes matured on September 6, 2001. The notes were issued to finance costs associated with the development of convention centers in Boston and Worcester, although the Commonwealth reserved the right to use the note proceeds to pay other capital costs of the Commonwealth. The notes were retired on September 6, 2001, from a combination of the proceeds of long-term bonds and additional notes.

On September 5, 2001, the Commonwealth sold \$350,000,000 of General Obligation Bond Anticipation Notes, on a stand-alone basis, with an interest rate of 4.0%. The notes mature on September 1, 2003. The notes were issued to partially refinance the notes issued in the prior year and to provide additional funding for costs associated with the development of convention centers in Boston and Worcester.

Component Units -

The RTAs had \$87,513,000 short-term notes payable outstanding at June 30, 2001. All the notes mature during fiscal year 2002 and have interest rates ranging from 2.93% to 5.00%.

Subsequent to June 30, 2001, the RTAs rolled over \$45,657,000 of revenue anticipation notes with interest rates ranging from 3.00% to 3.65% due in fiscal year 2002.

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 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 to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, 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, 2001, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes.

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.

In August 2001, the Commonwealth issued \$935,530,000 of Consolidated General Obligation Bonds. Of the \$935,530,000, \$596,745,000 were general obligation refunding bonds. The remaining \$338,785,000 were issued to finance various capital projects of the Commonwealth. The Bonds have maturities from fiscal year 2002 through 2022, with interest rates ranging from 2.40% to 5.125%.

On October 31, 2001 the Commonwealth issued \$823,845,000 of General Obligation Bonds, with annual maturities from November 1, 2003 to 2021 with coupons from 3% to 6%. A portion of the net proceeds was used to refund \$585,785,000 of outstanding General Obligation Bonds. The remainder is to be used to finance various capital projects of the Commonwealth.

College Opportunity Bonds - Some Commonwealth general obligation debt is issued as College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year including fiscal year 2001 when approximately \$6,626,000 of such bonds were issued. Outstanding COBs had maturity dates ranging from 2001 through 2020. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's 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 approximately \$172,177,000. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. The full faith and credit of the Commonwealth back these bonds. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan.

On August 1, 2001, the Commonwealth issued approximately \$5,636,000 of additional College Opportunity Bonds, with maturities from 2006 to 2021. The terms and conditions of these bonds are the same as those issued in fiscal years 1996 through 2001.

County Debt Assumed - Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998 and

that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2001, \$1,375,000 of these obligations remains outstanding.

Special Obligation Bonds - The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2001, the Commonwealth had outstanding \$542,195,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21.00 cent motor fuel excise tax imposed on gasoline. No new special obligation bonds were issued during the fiscal year.

Federal Highway Grant Anticipation Notes (GANS) - The Commonwealth also issues Federal Highway GANS to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes 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. At June 30, 2001, the Commonwealth has \$1,499,325,000 of GANS outstanding, including accrued interest on capital appreciation bonds 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. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANS.

Variable Rate Demand Bonds - Included in the long-term debt is \$1,542,600,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2007 through 2030 in varying amounts. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds (a "put"). The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The Commonwealth pays an annual

fee to the remarketing agents equal to 0.05% of the par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold. During any such period the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between September of 2003 and February of 2006. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding. The Commonwealth currently pays an annual fee to maintain these agreements which averages 0.124% of the par amount of the bonds.

As of June 30, 2001, \$1,267,000,000 of the VRDBs have been issued as general obligation refunding bonds. In connection with the issuance of such refunding 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 specified fix rate. Only the net difference in interest payments is exchanged with the counterparty. The Commonwealth continues to pay interest to the bondholders at the applicable variable rates. Through these agreements the Commonwealth has effectively fixed its interest rate payment obligations on the relevant VRDBs at rates ranging from 4.15% to 4.659%, not including the cost of liquidity and remarketing. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap is terminated. A termination of the swap may also result in the Commonwealth making or receiving a termination payment.

Auction Rate Securities – Also included in the long-term debt is \$401,500,000 of general obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required

to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index.

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and accreted 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 the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including discount and issuance cost) and debt authorized and unissued at June 30, 2001 as follows (amounts in thousands):

Purpose	Bonds Outstanding	Maturities	Authorized and Unissued
GANS.....	\$ 1,499,325	2005-2015	\$ -
Capital Projects:			
General.....	4,808,198	2001-2025	3,518,937
Highway.....	6,239,921	2001-2031	4,852,312
Local Aid.....	1,366,201	2001-2021	161,704
Other.....	85,809	2001-2021	757,465
	<u>12,500,129</u>		<u>9,290,418</u>
Total.....	<u>\$ 13,999,454</u>		<u>\$ 9,290,418</u>

Interest rates on the Commonwealth's debt outstanding at the end of fiscal year 2001 ranged from 0.1% to 8.0%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2001 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2000.....	\$ 12,383,101	\$ 11,585,706
General and special obligation bonds:		
Principal, less discount and issuance costs.....	1,768,815	(1,768,815)
Net premium and issuance costs.....	(16,617)	-
Grant Anticipation Notes:		
Principal, less discount and issuance costs	600,009	(600,009)
Premium and issuance costs.....	(22,404)	-
Defeased Debt:		
Principal on Defeased Debt.....	(611,493)	-
Retired discount on Defeased Debt.....	(27,360)	-
General obligation refunding bonds:		
Principal on Refunding Bonds.....	964,645	-
Principal on Refunded Bonds.....	(907,661)	-
Retired discount on Refunded Bonds.....	(3,609)	-
Increase in bonds authorized.....	-	282,345
Contributions in lieu of bonds.....	-	41
Bonds retired.....	(127,972)	-
Deauthorized.....	-	(136,778)
Reversions.....	-	(72,072)
Balance June 30, 2001.....	<u>\$ 13,999,454</u>	<u>\$ 9,290,418</u>

At June 30, 2001, 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
2002.....	\$ 699,441	\$ 691,869	\$ 1,391,310
2003.....	751,941	653,439	1,405,380
2004.....	734,485	620,897	1,355,382
2005.....	796,597	588,028	1,384,625
2006.....	903,532	547,136	1,450,668
2007 and thereafter.....	10,113,458	3,440,054	13,553,512
Total.....	<u>\$ 13,999,454</u>	<u>\$ 6,541,423</u>	<u>\$ 20,540,877</u>

The Commonwealth issued bonds and notes through both competitive and negotiated sales during fiscal year 2001. The costs for legal counsel and underwriting fees (including estimated amounts related to competitive sales) for bond sales were \$739,569 and \$11,261,499 respectively. In addition, the Commonwealth paid \$80,000 for disclosure counsel services.

Bonds Defeased Through Refunding – As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds

through the issuance of \$964,645,000 of general obligation refunding bonds during fiscal year 2001. Net proceeds totaling approximately \$994,347,000 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 this refunding, 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 \$39,640,000 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 \$41,875,000. At June 30, 2001, approximately \$911,270,000 of the bonds refunded remain outstanding and are defeased.

In August 2001, the Commonwealth refunded additional general obligation bonds through the issuance of \$596,745,000 of general obligation refunding bonds. Net proceeds totaling approximately \$629,240,000 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 as of the date of the refunding and the liabilities therefore will be removed from the General Long-term Obligations Account Group in fiscal year 2002. As a result of this refunding, 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 \$30,145,000 over the next 12 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 \$23,932,000.

Bonds Defeased Through Operating Surplus – At the end of fiscal year 2000, pursuant to the provisions of Chapter 87 of the Acts of 2000, the Commonwealth set aside \$650,000,000 of surplus funds in the debt defeasance fund to defease additional debt of the Commonwealth. \$500,000,000 of the funds were attributable to fiscal year 2000 and \$150,000,000 were from prior fiscal years. In July, August and December of 2000, the State Treasurer expended a combined total of \$650,037,000 from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general

obligation bonds maturing on August 1, 2000 through and including July 1, 2001. The securities purchased consisted of U.S. Government securities and certain obligations issued by federal agencies, all of which are being held by a third-party trustee in an irrevocable trust. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to these transactions is \$638,853,000, including \$32,810,000 of bonds maturing on July 1, 2001. The amount that would have been expended for debt service on such bonds in fiscal 2001 (approximately \$624,589,000) was deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund, pursuant to the provisions of the act. An additional \$34,589,000, related to the defeased bonds maturing on July 1, 2001 was deposited in this fund on that date.

Prior Defeasance - In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2001, approximately \$2,128,782,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

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 2001 was approximately \$11,076,483,000. Outstanding debt subject to the limit at June 30, 2001 was approximately \$10,279,959,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general

obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

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

	Debt Outstanding
Balance June 30, 2001.....	\$ 13,999,454
Less amounts excluded:	
Discount and issuance cost.....	(282,829)
Chapter 5 of the Acts of 1992 Refunding.....	(71,054)
Special Obligation Principal.....	(539,242)
GANs Principal.....	(1,500,000)
County Debt Assumed.....	(1,375)
MBTA Forward Funding.....	(325,000)
Central Artery Tunnel.....	(999,995)
Outstanding Direct Debt.....	<u>\$ 10,279,959</u>

General Long-Term 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, 2001, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Balance July 1, 2000	Bond Issuances	Bond Discount	Bond Principal Retirement	Increase*	(Decrease)**	Balance June 30, 2001
Bonds and Notes Payable:							
Long-term bonds.....	\$ 12,383,101	\$ 3,333,469	\$ (42,630)	\$ (1,035,633)	\$ -	\$ (638,853)	\$ 13,999,454
Other liabilities:							
Capital leases obligations.....	53,459	-	-	-	38,849	-	92,308
School construction grants.....	4,746,571	-	-	-	667,654	-	5,414,225
Compensated absences.....	146,473	-	-	-	7,719	-	154,192
Claims, judgements, and other.....	134,800	-	-	-	-	(21,800)	113,000
Lottery prizes payable.....	6,409	-	-	-	4,092	-	10,501
Total.....	<u>\$ 17,470,813</u>	<u>\$ 3,333,469</u>	<u>\$ (42,630)</u>	<u>\$ (1,035,633)</u>	<u>\$ 718,314</u>	<u>\$ (660,653)</u>	<u>\$ 19,783,680</u>

* The increase in long-term bonds is due to the Commonwealth assuming county debt during the fiscal year

** The decrease in long-term bonds represents amounts related to defeased debt.

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 \$278,000,000. 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, 2001 was as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MHEFA capital asset program..	Variable	\$ 194,912	2001-2034
Building authorities and state colleges.....	3.0%-12.0%	<u>561,538</u>	2001-2025
		<u>\$ 756,450</u>	

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

Fiscal Years Ending June 30,	Amount
2002.....	\$ 18,502
2003.....	33,672
2004.....	27,273
2005.....	21,559
2006	22,442
2007 and thereafter.....	<u>633,002</u>
Total.....	<u>\$ 756,450</u>

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

	Amount
Balance, July 1, 2000	\$ 507,904
Principal, less issuance and discount cost.....	280,879
Bonds retired, net of amortization of discount.....	<u>(32,333)</u>
Balance, June 30, 2001.....	<u>\$ 756,450</u>

Component Units – Bonds and notes outstanding at June 30, 2001 (December 31, 2000 for Massachusetts Turnpike Authority), net of unamortized discount of approximately \$183,415,000 and unamortized loss on refunding of approximately \$65,617,000, are as follows (amounts in thousands):

Purpose	Interest Rate %	Amount	Maturity Dates
MBTA:			
General transportation system.....	3.85 - 7.00	\$ 3,364,452	2007-2030
Boston Metropolitan District.....	5.00 - 6.00	30,825	2002-2014
Revenue Bonds.....	4.40 - 5.75	600,000	2030
MTA:			
Revenue Serial Bonds.....	3.90 - 5.65	2,430,994	2004-2039
RTAs:			
Notes payable.....	6.96	1,200	2006
MWPAT:			
MWPAT Revenue Bonds.....	4.00 - 6.375	1,166,016	2000-2030
Subordinated Revenue Refunding.....	4.00 - 6.00	511,645	2000-2029
MDFA:			
Notes payable.....	5.13 - 6.31	94,360	2002-2030
MCCA:			
Current interest serial bonds.....	4.85 - 5.45	12,350	2001-2008
Compound interest serial bonds.....	5.375 - 6.80	45,242	2001-2013
Economic Development Entities:			
Notes payable.....	1.00 - 9.18	132,736	2002-2013
Serial Bonds.....	4.40 - 5.575	<u>389,633</u>	2004-2033
Total.....		<u>\$ 8,779,453</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):

Years Ending,	MBTA	MTA	RTAs	MWPAT	MDFA	MCCA	Economic Development Entities	Total
2002.....	\$ 115,804	\$ 7,945	\$ -	\$ 65,935	\$ 31,350	\$ 11,054	\$ 9,842	\$ 241,930
2003.....	124,081	12,295	-	68,625	10,655	8,399	7,786	231,841
2004.....	127,915	13,050	-	70,020	10,665	7,936	9,850	239,436
2005.....	135,420	39,935	-	71,425	10,675	7,548	13,468	278,471
2006	147,330	19,535	1,200	71,795	10,680	6,568	9,588	266,696
2007 and thereafter.....	<u>3,475,725</u>	<u>2,456,268</u>	<u>-</u>	<u>1,329,910</u>	<u>20,335</u>	<u>16,475</u>	<u>476,507</u>	<u>7,775,220</u>
Total.....	<u>\$4,126,275</u>	<u>\$ 2,549,028</u>	<u>\$ 1,200</u>	<u>\$ 1,677,710</u>	<u>\$ 94,360</u>	<u>\$ 57,980</u>	<u>\$ 527,041</u>	<u>\$ 9,033,594</u>

During the fiscal year ended June 30, 2001 (December 31, 2000 for Massachusetts Turnpike Authority) the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	MBTA	MTA	RTAs	MWPAT	MDEA	MCCA	Economic Development Entities	Total
Balance, July 1, 2000.....	\$ 3,570,635	\$ 2,426,628	\$ -	\$ 1,396,736	\$ 12,467	\$ 71,787	\$ 123,939	\$ 7,602,192
Principal, less discount issuance costs.....	600,000	4,366	1,200	341,430	82,358	-	411,366	1,440,720
Debt retired, net of amortization of discount.....	(175,358)	-	-	(60,505)	(465)	(14,195)	(12,936)	(263,459)
Balance, June 30, 2001.....	<u>\$ 3,995,277</u>	<u>\$ 2,430,994</u>	<u>\$ 1,200</u>	<u>\$ 1,677,661</u>	<u>\$ 94,360</u>	<u>\$ 57,592</u>	<u>\$ 522,369</u>	<u>\$ 8,779,453</u>

The MBTA issued certificates of participation in the amounts of approximately \$28,565,000 on December 15, 1988 and approximately \$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>
2002.....	\$ 1,150
2003.....	1,140
2004.....	1,140
2005.....	1,140
2006.....	1,135
2007 and thereafter.....	<u>1,135</u>
Total.....	<u>\$ 6,840</u>

On February 22, 1995, Pioneer Valley Transit Authority (PVTA) issued certificates of participation of approximately \$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 appropriated the necessary funds in the Authority's annual budget. As of June 30, 2001, the principal amount of certificates outstanding is \$2,468,000.

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. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2001, approximately

\$1,943,220,000 of these bonds outstanding are considered defeased.

Massachusetts Bay Transportation Authority – In August 2001, the Massachusetts Bay Transportation Authority defeased \$117,975,000 of General Transportation System Bonds by placing \$122,680,000 of proceeds from the assessment bonds in an irrevocable trust fund to provide for future debt service payments on the old debt.

Massachusetts Water Pollution Abatement Trust - In July 2001, the Trust issued Pool Loan Program Bonds in the amount of \$321,805,000, which included partial refunding of Pool Loan Program Bonds as well as the South Essex Sewerage District Loan Program.

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 2001 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Federal Grants.....	6,245
Highway.....	265,289
Environmental.....	53,914
Lotteries.....	13,017
Capital Projects:	
General Capital Projects.....	107,117
Convention and Exhibition Center.....	154,832
Capital Expenditure Reserve.....	143,427
Highway.....	849,605
Federal Highway Construction.....	280
Government Land Bank.....	6,300
Intercity Bus.....	3,531
Local Aid.....	3,823
Internal Service Funds:	
Employees Workers' Compensation.....	240,960
Employees Group Health Insurance	7,922

The Environmental Fund has incurred a deficit primarily due to increased state funding for clean up of hazardous waste for the Environmental Permitting and Compliance Fund. 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.

Deficits in the Capital Projects Funds reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds and the amortization of the net cost of forward funding the MBTA.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$248,882,000. Funding of these deficits is dependent upon legislative 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 assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1997 and prior. 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. During the year ended June 30, 2001, the Commonwealth's pension expenditure included payments totaling \$18,072,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

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 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 of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and SBRS as of January 1, 2001, the date of the most recent valuation, is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries			
currently receiving benefits.....	44,027	32,631	2,426
Terminated employees entitled to benefits but not yet receiving them.....	2,775	-	115
Subtotal.....	46,802	32,631	2,541
Current employees:			
Vested.....	41,250	37,868	1,586
Non-vested.....	45,868	48,930	3,985
Subtotal.....	87,118	86,798	5,571
Total.....	133,920	119,429	8,112

Benefit Provisions – Massachusetts General Laws established 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.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

During fiscal year 2001, the legislature passed Chapter 114 of the Acts of 2000, which modified Chapter 32 of the General Laws. This modification became effective on July 1, 2001. In Chapter 114, teachers who are members of the State Teachers Retirement System, or teachers who are members of the State – Boston retirement system before 1975, who resigned or took an unpaid leave of absence because of maternity leave will be allowed to "buy back" into the fund up to a maximum of four years. The member must pay the amount determined by the retirement board by December 31, 2001 to qualify, as long as the member has worked longer than ten years. If the member completes ten years of service after December 31, 2001, payment can be made within 18 months of completion of ten years of service. In addition, the law creates a superannuation retirement benefit program for

all teachers hired on or after July 1, 2001. This program has a contribution rate of 11 percent of regular compensation. To be eligible for the alternative benefit at retirement, the teacher must have completed thirty years of eligible service. All previous members may elect to participate in the program, as long as they participate with the equivalent of a minimum of five years of employee contributions at the new rate. If the member retires before five years, the teacher must pay into the system, the amount that would have been paid in one lump sum, or in installments as the Board may prescribe. The alternative benefit is calculated as the percentage of average compensation determined under the current formula increased by 2% of the average annual compensation for each full year of service in excess of 24 years. The election to participate is irrevocable.

Funding Progress - The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 2001. The Commonwealth has revised actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL.) The revised actuarial assumptions are the result of an experience study commissioned by the Commonwealth for the period 1996 to 1999 concluded in fiscal year 2001. The Commonwealth has fully phased-in its UAL from a market value of assets to an actuarial valuation of assets. In the third year of transition as of January 1, 2001 the calculated actuarial value of assets was 97% of the market value compared to 91% in the 2000 valuation and 97% in the 1998 valuation.

A significant change in assumption as of the January 1, 2001 valuation, that resulted from the experience study, was to modify projected salary increase percentage to reflect different groups of employees and years of service. The applicable annual rate in the current valuation range from 4.75% to 12% compared to the prior actuarial assumption of a single rate of 6%.

Other significant assumptions include (a) cost of living (inflation rate) increases of 3% per year on the first \$12,000 of the retirees total allowance, and (b) interest rate credited to the annuity savings fund of 4.5% 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 six 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 Employees' Retirement System						
2001	\$ 13,922,000	\$ 15,170,000	\$ 1,248,000	91.8 %	\$ 3,700,000	33.7 %
2000	13,364,000	14,138,000	773,000	94.5	3,472,000	22.3
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						
2001	14,390,000	18,170,000	3,779,000	79.2	4,072,000	92.8
2000	13,681,000	16,420,000	2,739,000	83.3	3,704,000	73.9
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 (Boston Teachers)						
2001	918,000	1,502,000	583,000	61.1	304,000	191.8
2000	860,000	1,381,000	521,000	62.3	285,000	182.8
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.

Pension Actuarial Valuation – The Commonwealth's pension actuarial valuation was performed as of January 1, 2001 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time.

The Commonwealth was financially responsible 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 by the Legislature 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 accrued liability for COLA as of January 1, 2001 was \$764,000,000.

Contributions Required and Contributions Made – The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement

allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983 and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12% respectively of their regular 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 of 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. The current legislatively approved funding schedule, a valuation as of January 1, 1999, was filed by the Secretary of Administration and Finance on March 1, 2000 has been deemed approved by the Legislature. Under the current schedule the amortization payments are designed to eliminate the unfunded liability by fiscal year

2018. Based on the previous funding schedule required contributions by the Commonwealth of \$1,022,050,000 were made during the fiscal year ended June 30, 2001.

Of this amount \$43,048,000 represents payments for COLA granted to participants in 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 plus amortization of net pension obligation 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	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
State Employees' Retirement System								
2001	\$ 275,204	\$ (109,731)	\$ (133,387)	\$ 298,861	\$ 320,381	\$ 1,351,592	116 %	107 %
2000	352,084	(108,400)	107,190	350,873	367,000	1,330,071	104	105
1999	319,454	(103,188)	98,556	314,822	378,000	1,313,944	118	120
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
Teachers' Retirement System								
2001	475,053	(78,498)	(95,421)	491,976	539,000	998,513	113	110
2000	480,873	(79,487)	78,599	479,985	468,000	951,489	97	98
1999	373,777	(70,312)	67,155	370,620	481,826	963,474	129	130
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
State-Boston Retirement System								
2001	66,820	1,542	1,875	66,488	86,000	815	129	129
2000	58,266	448	(443)	58,271	45,000	18,697	77	77
1999	53,453	(989)	944	53,409	36,000	5,426	67	67
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

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.

Post-retirement Health Care and Life Insurance Benefits – In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$209,643,000 for the fiscal year ended June 30, 2001. There are approximately 46,000 participants eligible to receive benefits at June 30, 2001.

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.

Accordingly, the Plan-Trust Declaration has been prepared 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 (Treasurer) of the Commonwealth of Massachusetts is the plan trustee. Per statute, the Treasurer is 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.

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. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For the fiscal year ended June 30, 2001, capital lease/purchase expenditures totaled approximately \$37,775,000. At June 30, 2001, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals approximately \$92,308,000. This liability is reported in the General Long-Term Obligations Account Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totaled approximately \$112,432,000.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature. Operating lease expenditures for the fiscal year ended June 30, 2001 was approximately \$168,479,000.

The following is a schedule of future minimum payments under non-cancelable leases as of June 30, 2001 (amounts in thousands):

Fiscal Year Ending June 30,	Capital Leases	Operating Leases
2002.....	\$ 23,748	\$ 121,392
2003.....	19,388	97,991
2004.....	16,275	70,870
2005.....	14,437	47,687
2006.....	9,886	20,842
2007 and thereafter.....	<u>18,599</u>	<u>68,336</u>
Total.....	102,333	427,118
Less interest.....	<u>(10,025)</u>	<u>-</u>
Present value	<u>\$ 92,308</u>	<u>\$ 427,118</u>

University and College Fund – At June 30, 2001, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled approximately \$89,394,000. 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 expenditures for the fiscal year ended June 30, 2001 were approximately 15,479,000.

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

Fiscal Year Ending June 30,	Capital Leases	Operating Leases
2002.....	\$ 22,600	\$ 13,853
2003.....	18,539	11,871
2004.....	15,578	9,363
2005.....	11,961	7,991
2006.....	9,452	5,079
2007 and thereafter.....	<u>28,259</u>	<u>11,961</u>
Total payments.....	106,389	<u>60,118</u>
Less amounts representing interest.....	<u>(16,995)</u>	
Present value of minimum lease payments .	<u>\$ 89,394</u>	

Component Units –

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, 2001 (amounts in thousands):

Years Ending June 30,	MBTA	RTAs	MDFA	Economic Development Entities
2002.....	\$ 43,825	\$ 712	\$16	\$8
2003.....	46,773	712	-	4
2004.....	48,380	712	-	4
2005.....	41,140	712	-	5
2006.....	42,097	712	-	2
2007 and thereafter.....	<u>652,814</u>	<u>711</u>	<u>-</u>	<u>-</u>
Total payments.....	875,029	4,271	16	23
Less amount representing interest.....	<u>(326,299)</u>	<u>(663)</u>	<u>-</u>	<u>(4)</u>
Present value of net minimum lease payments....	<u>\$548,730</u>	<u>\$3,608</u>	<u>\$16</u>	<u>\$19</u>

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 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2004. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately \$1,058,000 of which \$925,000 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 approximately \$11,351,000 in rental income. Rental income for the next five years is expected to approximate \$8,693,000 per year based on leases currently in effect.

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

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

Years Ending June 30,	MBTA	MIA	RTAs	MDFA	MIPC	Economic Development Entities
2002.....	\$ 13,382	\$ 925	\$ 158	\$ 698	\$ 1,000	\$ 1,417
2003.....	14,071	925	141	702	1,000	1,493
2004.....	13,651	1,388	141	516	333	817
2005.....	12,804	-	142	283	-	376
2006.....	13,370	-	142	-	-	225
2007 and thereafter.....	84,083	-	1,009	-	-	93
Total payments.....	<u>\$151,361</u>	<u>\$ 3,238</u>	<u>\$ 1,733</u>	<u>\$ 2,199</u>	<u>\$ 2,333</u>	<u>\$ 4,421</u>

13. COMMITMENTS

Primary Government –

Governmental Funds - As part of the General Appropriation Act of 2000 (Chapter 127 of the Acts of 1999) the funding mechanism for the net cost of service and other costs of the Massachusetts Bay Transportation Authority (MBTA) was changed. The change was effective July 1, 2000. Under the new funding method (Forward Funding), the MBTA's costs will be funded on a current basis. This method apportions a "dedicated sales tax" amounting to 1% of applicable sales in the Commonwealth, directly to the MBTA. The dedicated sales tax will be equal to the greater of the amount raised by the sales tax or \$645,000,000, (the base revenue,) subject to an adjustment for inflation, capped at 3% annually.

Regional Transit Authorities - Under Chapter 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. During fiscal year 2001, net expenditures were \$16,417,000. In addition, for fiscal year 2001, the Commonwealth appropriated \$17,232,000 to the regional transit authorities to cover net costs of service for the calendar year ended December 31, 2000.

MBTA and Other Authorities - The Commonwealth continues to guarantee MBTA debt issued prior to June 30, 2000 but no longer provides contract assistance on this debt. The amount of debt issued prior to June 30, 2000 that remains outstanding at June 30, 2001 totaled \$4,095,450,000.

The MBTA's forward funding legislation provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. This new debt is not backed by the full faith and credit of the Commonwealth. Finally, the MBTA will not receive any principal or interest subsidies from the Commonwealth for the repayment of either the prior debt or new debt of the MBTA beyond the pledged revenues.

In addition to the MBTA, the Commonwealth guarantees debt of a number of Public Authorities. At June 30, 2001, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$196,641,000 long-term and \$86,266,000 short-term.

In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities but does not provide contract assistance. The guaranteed long-term debt outstanding at June 30, 2001 was approximately \$395,302,000.

At June 30, 2001, the Commonwealth had commitments of approximately \$1,707,745,000 related to ongoing construction projects. The majority relate to construction funding for the Central Artery/Tunnel Project. The Central Artery/Tunnel Project continues to anticipate federal participation and payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort).

On August 9, 2000, the Route 3 North Transportation Improvements Association issued its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000, in the aggregate principal amount of \$394,305,000, payable from lease payments to be appropriated annually by the Commonwealth through fiscal 2033. The bonds are an indirect obligation of the Commonwealth.

Saltonstall Building - On July 19, 2000, after reviewing proposals received from various development teams to redevelop the Saltonstall State Office Building, the Governor filed legislation that would authorize the Massachusetts Development Finance Agency (MDFA) to undertake the redevelopment. The provisions of the Governor's bill were added to the bond authorization legislation approved August 10, 2000 relating to preservation and management of the Commonwealth's real property assets. Under the provisions relating to the Saltonstall Building, the building is to be leased by the MDFA for a lease term of up to 50 years, with extension terms permitted for an aggregate of 30 more years). The

MDFA will renovate the building and lease half of it back to the Commonwealth for office space and related parking (for a comparable lease term). The remainder of the building is to be redeveloped as private office space, as well as private housing units and retail establishments.

Central Artery / Tunnel Project – The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the finance plan filed as of October 1, 2001. The current cost estimate is \$14.475 billion, an increase of \$400,000,000 from the October 1, 2000 plan. The largest components of the increase were added costs of construction and the addition of a project contingency budget. Both plans include a maximum obligation of \$8.549 billion from the federal government. Project milestones have been reviewed to include a nine-month extension to the I-90 opening and a four-month extension to the I-93 opening. The I-90 opening may be delayed further due to a major leak in the Fort Point Channel Tunnel discovered in October 2001. The finance plan is currently under review.

To make up for the \$400,000,000 in needed funds, the Governor immediately filed a bill to raise the bonding authority for the project in place under Chapter 87 of the Acts of 2000 from \$1.350 billion to \$1.5 billion. An additional \$175,000,000 is expected to come from \$50,000,000 in interest earnings and \$125,000,000 in bond capacity generated from higher than expected license and registration renewal fees. Both of these amounts will be reported within the Central Artery Statewide Road and Bridge Infrastructure Fund.

In connection with the Central Artery / Tunnel Project, on May 8, 2000, the State Treasurer's office was advised that the staff of the Securities and Exchange Commission (SEC) is conducting a formal investigation in the matter of "Certain Municipal Securities/Massachusetts Central Artery (B-1610)." This is pursuant to a formal order of private investigation issued by the SEC. The attorneys on behalf of the Commonwealth believe that the likelihood of loss by the Commonwealth is remote.

During fiscal year 2001, the Commonwealth received payments from MTA and MassPort pursuant to three separate memoranda of understandings dated September 12, 1997 and August 13, 1998 and February 19, 1999 respectively. The MTA and MassPort made payments to the Commonwealth to finance portion of the Central Artery/Tunnel Project in the amount of \$200,000,000 and \$65,000,000 respectively. The payments totaling \$200,000,000 in fiscal year 2001 from MTA are presented

as a "Transfer in Component Units" in the Capital Projects Fund. An additional \$4,000,000 is being held in escrow, pending an eminent domain settlement.

All payments pursuant to the agreements have been made from the MTA, except for the \$4,000,000 noted above. MassPort is due to make payments for the project under the agreements from fiscal 2003 through 2005 in the amounts of \$104,000,000, \$50,000,000 and \$51,000,000 in those respective fiscal years.

Pension Trust Funds – At June 30, 2001, PRIT had outstanding commitments to invest approximately \$437,165,000 in real estate, and approximately \$1,750,215,000 in alternative investments. The fair value of the proposed investment commitments approximates their stated value.

PRIT regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities to assist in managing exposure to market risks such as interest rates. These financial instruments include forward foreign currency exchange contracts and financial futures contracts.

PRIT may enter into "TBA" (to be announced) purchase or sale commitments to purchase or sell mortgage backed securities. The risk of loss is in addition to the risk of decline in the value of PRIT's other assets. See PRIT footnotes to financial statements for more detail.

Component Units -

Chapter 152 of the Acts of 1997 provides \$609,400,000 for the construction of a Convention and Exhibition Center which will provide 600,000 square feet of exhibit space at a site in South Boston. 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 Massachusetts Convention Center Authority (MCCA) will oversee construction of the new facility. The MCCA will operate the new center, along with the Hynes Convention Center, the Boston Common Garage, and the Springfield Civic Center.

As of June 30, 2001, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$248,700,000 to various local government units to be funded with grant awards.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-three loan agreements with ten banks totaling approximately \$440,932,000 pursuant to the

Massachusetts Nationwide Interstate Banking and Community Reinvestment Act. Related to that, MHP has funding commitments outstanding for funds not yet advanced of approximately \$45,528,000 at June 30, 2001. 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, 2000 approximated \$21,400,000. Projected construction expenses for calendar 2001 approximate \$71,800,000.

14. CONTINGENCIES

Primary Government -

Governmental Funds – 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 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 \$27,000,000 as of June 30, 2001. 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, 2001, 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 \$4,925,000 which is expected to be reclaimed and paid in fiscal year 2002, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted

during fiscal year 2001 totaled approximately \$86,585,000. Since inception, approximately \$968,607,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

Tobacco Settlement – A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments. In fiscal year 2001, the Commonwealth received approximately \$242,470,000 or 87% of the estimated amounts shown in the agreement. Of that amount approximately \$81,506,000 was transferred to the Tobacco Settlement Fund, a budgeted fund. The majority of expenditures from the fund this year were for Health and Human Services, Elder Affairs and Medicaid costs. The remaining receipts from fiscal 2001 are held for future use.

The amounts that might be payable, if any, by the Commonwealth for legal costs relating to the tobacco litigation cannot be determined at this time. The outside attorneys for the Commonwealth were awarded approximately \$775,000,000 in fees to be paid over time by the tobacco companies and, therefore, were not to be paid out of the Commonwealth's award. The outside attorneys have notified the Attorney General that they reserve their right to submit a claim to the Commonwealth for the difference between the \$775,000,000 and 25 percent of the Commonwealth's settlement payments.

Internal Service Fund - It is the policy of the Commonwealth to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation for the state employees 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, 2001, including claims incurred but not reported, is estimated to be \$294,249,000.

Central Artery/Tunnel Project – Owner Controlled Insurance Program (OCIP) - The Commonwealth has assumed responsibility for providing workers' compensation and general liability insurance coverage for all contractors and subcontractors working on the Central Artery/Tunnel Project by implementing OCIP. As part of its initial financial planning, Project management determined that an OCIP could provide necessary insurance coverage at a substantially lower aggregate cost than could be obtained if each contractor purchased coverage separately, because of economies of scale in the purchase of coverage from a single carrier, elimination of cross claims among contractors, and implementation of a cost-effective safety and loss control program for the entire Project.

The OCIP is presently structured as a retrospectively rated insurance program with loss retention (or deductible) levels of \$1,000,000 per claim, \$3,000,000 per occurrence for workers compensation and \$2,000,000 per claim, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these deductible levels.

As part of the OCIP, the Project has agreed to establish and fund a Trust, held by an independent third party Trustee, in an amount necessary to cover the Project's potential cumulative liabilities to the carrier for these loss costs, administrative expenses and certain defined contingencies under the OCIP. The OCIP is expected to cover such costs through the construction period and through the period after the construction during which all claims will be resolved and paid, referred to as the "tail period".

The amounts payable for workers' compensation coverage are based on standard premium at rates approved by the Insurance Commissioner. General liability premiums are based on negotiated rates and are paid directly to the insurance carrier, which holds the premium for three years, after which time, amounts may be transferred to (or from) the Trust based on loss experience for that year. In addition, the Trust earns investment income, part of which is paid to the carrier as part of its compensation and the remainder is credited to the Project and held in the Trust to cover the Project's cumulative obligations. The amounts in the Trust are restricted by its terms and cannot

be used for other purposes. Any amounts which remain in the Trust after all losses and other obligations of the Project are paid, will be re-paid to the Project for distribution in accordance with funding agreements with the federal government. During fiscal year 2001, \$50,000,000 was transferred to the project.

The Project's OCIP activity is reported as an Internal Service Fund. The "Claims and Judgements liabilities" reported therein represents the Project's liabilities as estimated an independent actuary for incurred losses as of the end of the fiscal year. The Internal Service Fund also includes amounts set aside in the Trust to cover the Project's cumulative workers' compensation loss, its general liability loss and premium obligations along with certain other expenses, from the inception of the OCIP (1992) through the end of the tail period.

The estimated Claims and Judgements liability for occurrences through June 30, 2001 is \$83,400,000. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2001. This estimate does not reflect the maximum potential obligation of the Project under the terms of the OCIP agreement.

For a period of time prior to the finalization of the amended and restated agreements related to the OCIP, portion of the premiums for comprehensive general liability coverage were placed in a segregated account held by a custodian. The amount reflected as premiums in the financial statements with respect to the OCIP represents the amount transferred to the Trust from that segregated account.

The United States Department of Justice has notified the Project that it is conducting an investigation of the OCIP. The United States Department of Transportation ("US DOT") Inspector General's Office is also conducting an on-going audit of the Plan. The Project intends to update its October 3, 2000 report to the Federal Highway Administration (FHWA) and anticipates making a recommendation over the appropriate level of funding in the OCIP Trust. Management does not expect that the results of these investigations will have a material effect on the financial statements of the Commonwealth.

Claims and Judgements - Changes in the balance of claims and judgements liabilities for the primary government during fiscal 2001 were as follows (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Liability, beginning of year.....	\$ 549,237	\$ 521,062
Current year claims and changes in estimates.....	940,078	906,126
Claims payments.....	<u>(971,666)</u>	<u>(877,951)</u>
Liability, end of year.....	<u>\$ 517,649</u>	<u>\$ 549,237</u>

The following amounts were recognized in the following funds as of June 30, 2001 related to the liability for Claims and Judgements:

	<u>2001</u>
General Fund.....	\$ 27,000
Internal Service Funds.....	377,649
General Long Term Debt Account Group.....	<u>113,000</u>
Liability, end of year.....	<u>\$ 517,649</u>

Component Units - The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2001. Changes in the self-insurance reserves in fiscal 2001 and 2000 were as follows (amounts in thousands):

	<u>2001</u>	<u>2000</u>
Liability, beginning of year.....	\$60,846	\$ 73,218
Current year claims and changes in estimates.....	90,958	69,973
Claims payments.....	<u>(82,328)</u>	<u>(82,345)</u>
Liability, end of year.....	<u>\$ 69,476</u>	<u>\$ 60,846</u>

Other Contingencies - 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, 2000, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$9,000,000.

Higher Education - During fiscal year 1998, UMass Memorial Health Care, Inc., (UMass Memorial) a non-related party was created to merge all of the subsidiaries to the UMass Health System. 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 contribute to capital improvements to shared facilities.

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 \$31,500,000 contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with UMass. This contribution was made during fiscal year 2001. 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.

Certain academic funds (net assets) held by the Clinical 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.

UMass is reimbursed by, and reimburses, UMass Memorial for certain services provided and purchased. For the fiscal year ended June 30, 2001, the revenues for services provided to UMass Memorial were \$98,600,000. At June 30, 2001, UMass has recorded a receivable in the amount of \$34,900,000 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, 2001 of \$6,400,000 for amounts due to UMass Memorial for shared services and other agreed-upon payments due to UMass Memorial.

15. SUBSEQUENT EVENTS

Prior to the events of September 11, 2001, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other tax revenues for the Commonwealth.

The events of September 11 increased the risk of a possible recession and a delay in recovery.

On December 5, 2001, the Commonwealth passed its FY02 General Appropriation Act retroactive to July 1, 2001. Previous to its passage, the Commonwealth had been operating on interim spending authorizations. The General Appropriation Act anticipates total budgeted expenditures at \$22.3 billion for the fiscal year.

We celebrate our cultures...

Irish Festival



Gate to Chinatown



Portuguese fishing boat exhibit

*Art of Black Dance and Music,
courtesy De Ama Battle*



Combining and Individual Fund Statements and Account Group Schedules

A third of the population is of foreign stock. Of the total 1980 population, 55.2% identified with a single ancestry group, 33% with the multi-ancestry group, and 11.7% were not specified. Of the single ancestry groups, the six leading groups were: Irish (21%), English (14.5%), Italian (13.6%), French (9.9%), Portuguese (6%) and Polish (5.1%). In 2000, African-Americans comprised 5.4%, Hispanics 6.8%, Native Americans .2%, and Asians 3.8% of the State.

Statistics, courtesy of the Secretary of State



Lowell Folk Festival

*Boston Chinese Opera Troupe
Courtesy, Susanna Peck*





*Blue Heron Farm
Charlemont, Courtesy of
the Coli Family*



*Apples at
Shelburne Farm*

Roadside farm stand



*Westport Rivers
Vineyards*

Maple Syrup



Agriculture is an important part of the character and economy of the Bay State. There are over 6,100 farms in the state with a total of 570,000 acres in production. The farmland value at \$5,597 an acre is the 4th highest in the nation. Agri-Tourism allows farmers an opportunity to diversify their operations and attain economic growth. Over 150 farms offer visitors activities such as hiking, cross country skiing, cut-your-own Christmas trees, harvest festivals, bed and breakfast accommodations, farm tours, petting zoos and more.

Blue Heron Farm in Charlemont is a perfect example of this enterprise. On this 140 acre organic farm, continuously farmed since at least 1797, the Coli family maintains a large herd of dairy goats for breeding stock and milk, harvests a delicious crop of highbush blueberries, breeds gentle Norwegian Fjord horses, and produces an abundant supply of pure maple syrup.

Year round, the public may enjoy a farm holiday in this serene setting while staying in the sugarhouse, a log cabin surrounded by pastures, or a secluded camp site at the edge of a lush hayfield.

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, Judicial System and Independent Commissions are paid from the General Fund. It similarly receives a significant portion of sales, individual income and corporate taxes, and the full amount of most other governmental taxes.

Revenues and expenditures associated with federal reimbursement-based programs are primarily 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.



Haymarket, Boston's North End

The North End, Boston's oldest neighborhood retains its 1630's web of narrow streets and— despite ensuing landfill— proximity to harborside wharves where European immigrants arrived in ever-increasing numbers up to the early 20th century. The North End, in fact, brings to mind the New World phenomenon of an ethnic melting pot. Covering one square mile and always densely populated, it has been home to successive influxes of English, Polish, Russian, Jewish, Portuguese, Irish and ultimately Italian families. Italian-Americans have been dominant since the 1870's, as evidenced by a Mediterranean ambience of espresso cafes and trattorias, religious festivals and boisterous street life including the famous Haymarket.

Text courtesy of the North End website

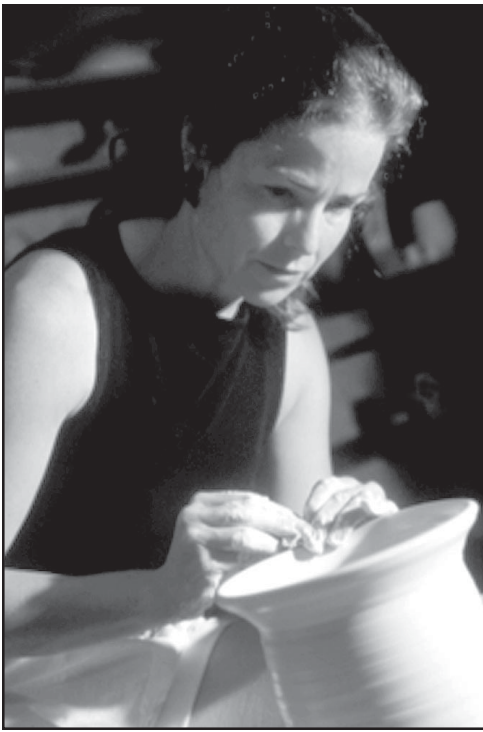
General Fund Balance Sheet

June 30, 2001
(Amounts in thousands)

	2001	2000
ASSETS		
Cash and short-term investments.....	\$ 4,245,747	\$ 2,298,140
Receivables, net of allowance for uncollectibles:		
Taxes.....	868,638	1,080,175
Due from federal government.....	543,402	493,430
Other receivables.....	119,644	105,087
Due from cities and towns.....	1,273	4,766
Due from other funds.....	1,132,256	510,645
Due from component units.....	3,750	29,251
Total assets.....	<u>\$ 6,914,710</u>	<u>\$ 4,521,494</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable.....	\$ 1,149,189	\$ 995,210
Accrued payroll.....	99,831	87,859
Compensated absences.....	177,187	158,311
Tax refunds and abatements payable.....	445,881	638,828
Due to other funds.....	2,052,688	397,706
Due to component units.....	53,609	209,622
Due to federal government.....	17,991	22,082
Deferred revenue.....	161,118	194,476
Claims and judgments.....	27,000	32,500
Total liabilities.....	<u>4,184,494</u>	<u>2,736,594</u>
Fund balance:		
Reserved for continuing appropriations.....	187,391	184,143
Reserved for tax reduction.....	33,565	7,203
Reserved for Commonwealth stabilization.....	1,714,990	1,608,382
Unreserved.....	794,270	(14,828)
Total fund balance.....	<u>2,730,216</u>	<u>1,784,900</u>
Total liabilities and fund balances.....	<u>\$ 6,914,710</u>	<u>\$ 4,521,494</u>

General Fund
Statement Of Revenues, Expenditures And Changes In Fund Balances
Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	2001	2000
Revenues:		
Taxes.....	\$ 9,616,547	\$ 9,343,264
Assessments.....	78,699	73,061
Federal grants and reimbursements.....	3,098,177	2,915,672
Departmental.....	600,540	546,620
Miscellaneous.....	229,725	228,663
Total revenues.....	13,623,688	13,107,280
Other financing sources:		
Proceeds of capital leases.....	30,613	8,851
Transfers from component units.....	5,707	5,515
Operating transfers in.....	487,201	1,009,667
Total other financing sources.....	523,521	1,024,033
Total revenues and other financing sources.....	14,147,209	14,131,313
Expenditures:		
Current:		
Legislature.....	57,303	51,443
Judiciary.....	595,803	543,996
Inspector General.....	2,467	2,461
Governor and Lieutenant Governor.....	5,960	5,563
Secretary of the Commonwealth.....	43,776	40,859
Treasurer and Receiver-General.....	124,675	79,755
Auditor of the Commonwealth.....	14,677	14,538
Attorney General.....	25,374	26,369
Ethics Commission.....	771	722
District Attorney.....	70,067	64,958
Office of Campaign and Political Finance.....	537	451
Sheriff's Departments.....	198,365	175,848
Disabled Persons Protection Commission.....	1,675	1,584
Board of Library Commissioners.....	4,395	4,395
Comptroller.....	8,206	7,742
Administration and finance.....	903,493	892,306
Environmental affairs.....	73,664	67,727
Communities and development.....	96,582	97,672
Health and human services.....	3,505,435	3,325,401
Transportation and construction.....	739	48,189
Education.....	211,872	182,634
Higher education.....	132,175	107,746
Public safety.....	487,710	465,058
Economic development.....	14,716	11,285
Elder affairs.....	175,698	177,073
Consumer affairs.....	44,574	40,391
Labor.....	32,959	38,901
Medicaid.....	4,240,835	3,902,274
Pension.....	109,402	143,454
Direct local aid.....	27,841	16,130
Total expenditures.....	11,211,746	10,536,925
Other financing uses:		
Operating transfers out.....	548,746	3,904,647
Transfers of appropriations.....	1,059,323	928,355
Transfers out for debt service.....	283,779	655,795
Transfers to component units.....	98,299	636,826
Total other financing uses.....	1,990,147	6,125,623
Total expenditures and other financing uses.....	13,201,893	16,662,548
Excess (deficiency) of revenues and other financing source: over expenditures and other financing uses.....	945,316	(2,531,235)
Fund balance at beginning of year.....	1,784,900	4,316,135
Fund balance at end of year.....	\$ 2,730,216	\$ 1,784,900



*Atherton Potter,
Tewksbury*

Massachusetts has a rich tradition of artisans working and selling their crafts. Rocky Neck Art Colony in Gloucester is the oldest artist colony in America. The Society of Arts and Crafts in Boston is America's oldest non-profit craft organization, fostering the development, sales, recognition and education of crafts for over one hundred years and currently promoting the work of over 400 craft artists.



*Vase by J. Kramer,
courtesy of the Society of
Arts & Crafts*



*Whale's Tale baskets,
New Bedford*



*Tea pot by C. Sanford, courtesy of The
Society of Arts & Crafts*



Sparrow House Pottery, Plymouth

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 - account 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 primarily 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 income and corporate taxes, thirty-two percent of sales tax 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.

Tourism is one of Massachusetts' largest industries, bringing nearly 29 million visitors annually. A major reason visitors come to Massachusetts is the availability of nationally acclaimed cultural programming and activities. Massachusetts is like a tapestry. No matter where you look, you find historic attractions, world-class museums, and an international reputation for excellence in the arts.

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.

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.



Wang Center for the Performing Arts, Boston

Special Revenue Funds

Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

	Federal Grants	Highway	Local Aid	Environmental
ASSETS				
Cash and short-term investments.....	\$ -	\$ -	\$ 239,759	\$ -
Cash with fiscal agent.....	-	26,061	-	-
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	49,098	543,184	694
Due from federal government.....	220,370	-	-	628
Other receivables.....	-	697	-	22,385
Due from cities and towns.....	-	-	557	-
Due from other funds.....	-	270	-	-
Inventory.....	13,700	-	-	-
Total assets.....	<u>\$ 234,070</u>	<u>\$ 76,126</u>	<u>\$ 783,500</u>	<u>\$ 23,707</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable.....	\$ 160,076	\$ 16,009	\$ 229,557	\$ 11,335
Accrued payroll.....	6,234	11,393	19,457	2,093
Compensated absences.....	14,499	22,699	7,148	5,467
Tax refunds and abatements payable.....	-	-	297,254	-
Due to other funds.....	26,840	280,638	-	58,390
Due to component units.....	-	10,578	21,170	-
Deferred revenue.....	13,700	98	81,816	336
Deposits and unearned revenue.....	18,966	-	-	-
Other accrued liabilities.....	-	-	-	-
Total liabilities.....	<u>240,315</u>	<u>341,415</u>	<u>656,402</u>	<u>77,621</u>
Fund balances (deficits):				
Reserved for continuing appropriations.....	-	7,026	33,240	4,471
Reserved for retirement of indebtedness.....	-	26,061	-	-
Reserved for capital projects.....	-	-	-	-
Unreserved.....	<u>(6,245)</u>	<u>(298,376)</u>	<u>93,858</u>	<u>(58,385)</u>
Fund balances (deficits).....	<u>(6,245)</u>	<u>(265,289)</u>	<u>127,098</u>	<u>(53,914)</u>
Total liabilities and fund balances.....	<u>\$ 234,070</u>	<u>\$ 76,126</u>	<u>\$ 783,500</u>	<u>\$ 23,707</u>

Lotteries	Universal Health Care	Other	Totals	
			2001	2000
\$ 8,370	\$ 246,769	\$ 946,942	\$ 1,441,840	\$ 1,727,829
-	-	83,252	109,313	76,033
-	-	54,528	647,504	762,039
-	27,500	283,521	532,019	520,625
8,647	66,406	7,262	105,397	146,681
-	-	-	557	495
-	-	-	270	141
-	-	-	13,700	25,169
<u>\$ 17,017</u>	<u>\$ 340,675</u>	<u>\$ 1,375,505</u>	<u>\$ 2,850,600</u>	<u>\$ 3,259,012</u>
\$ 22,451	\$ 61,055	\$ 142,181	\$ 642,664	\$ 701,516
-	48	623	39,848	36,552
2,174	-	4,832	56,819	57,581
-	-	-	297,254	425,885
-	-	77,206	443,074	170,594
-	-	63,908	95,656	30,512
5,409	29,018	259	130,636	180,318
-	-	-	18,966	-
-	96,875	-	96,875	123,489
<u>30,034</u>	<u>186,996</u>	<u>289,009</u>	<u>1,821,792</u>	<u>1,726,447</u>
-	-	57,902	102,639	68,323
-	-	83,252	109,313	726,033
-	-	7,465	7,465	7,374
(13,017)	153,679	937,877	809,391	730,835
<u>(13,017)</u>	<u>153,679</u>	<u>1,086,496</u>	<u>1,028,808</u>	<u>1,532,565</u>
<u>\$ 17,017</u>	<u>\$ 340,675</u>	<u>\$ 1,375,505</u>	<u>\$ 2,850,600</u>	<u>\$ 3,259,012</u>

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Federal Grants	Highway	Local Aid	Environmental
Revenues:				
Taxes.....	\$ -	\$ 565,731	\$ 5,588,473	\$ 8,093
Assessments.....	-	10,168	-	23,038
Federal grants and reimbursements.....	1,643,767	562	-	2,795
Departmental.....	-	328,367	969	54,828
Miscellaneous.....	46	2,114	613	36,108
Total revenues.....	1,643,813	906,942	5,590,055	124,862
Other financing sources:				
Proceeds of grant anticipation notes.....	-	-	-	-
Operating transfers in.....	-	7,416	861,132	555
Total other financing sources.....	-	7,416	861,132	555
Total revenues and other financing sources.....	1,643,813	914,358	6,451,187	125,417
Expenditures:				
Current:				
Judiciary.....	632	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-
Secretary of the Commonwealth.....	973	-	-	-
Treasurer and Receiver-General.....	2,305	1,250	5,564	-
Auditor of the Commonwealth.....	-	-	734	-
Attorney General.....	7,632	541	975	125
Ethics Commission.....	-	-	775	-
District Attorney.....	3,416	3,341	-	-
Office of Campaign and Political Finance.....	-	-	537	-
Sheriff's Departments.....	2,579	311	133	-
Disabled Persons Protection Commission.....	25	-	-	-
Board of Library Commissioners.....	3,013	-	3,324	-
Administration and finance.....	5,357	6,449	153,689	30,482
Environmental affairs.....	19,326	28,849	26,335	94,601
Communities and development.....	305,572	-	37,451	-
Health and human services.....	493,160	-	1,556	80
Transportation and construction.....	5,902	150,881	565	44
Education.....	535,645	39,989	636,882	571
Higher education.....	4,201	-	-	-
Public safety.....	46,143	226,345	156,376	166
Economic development.....	1,376	-	800	-
Elder affairs.....	27,000	-	11,421	-
Consumer affairs.....	772	2,222	-	-
Labor.....	124,889	-	-	-
Medicaid.....	-	-	-	-
Pension.....	-	24,998	183,581	312
Direct local aid.....	-	46,485	4,938,118	43
Total expenditures.....	1,589,918	531,661	6,158,816	126,424
Other financing uses:				
Operating transfers out.....	68,893	349,901	162,050	17,124
Transfers of appropriations.....	-	-	-	1,785
Transfers out for debt service.....	-	331,742	79,495	-
Transfers to component units.....	-	10,027	34,837	-
Total other financing uses.....	68,893	691,670	276,382	18,909
Total expenditures and other financing uses.....	1,658,811	1,223,331	6,435,198	145,333
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(14,998)	(308,973)	15,989	(19,916)
Fund balances (deficits) at beginning of year.....	8,753	43,684	111,109	(33,998)
Fund balances (deficits) at end of year.....	\$ (6,245)	\$ (265,289)	\$ 127,098	\$ (53,914)

Lotteries	Universal Health Care	Other	Totals	
			2001	2000
\$ 2,018	\$ -	\$ 1,022,008	\$ 7,186,323	\$ 6,352,218
-	318,293	160,780	512,279	389,415
-	222,156	1,391,944	3,261,224	3,143,371
4,129,346	391,450	102,856	5,007,816	4,715,446
6,798	15,261	303,920	364,860	421,123
4,138,162	947,160	2,981,508	16,332,502	15,021,573
-	-	600,009	600,009	-
-	180,124	337,234	1,386,461	5,110,785
-	180,124	937,243	1,986,470	5,110,785
4,138,162	1,127,284	3,918,751	18,318,972	20,132,358
-	-	84	716	276
-	-	-	-	50
-	-	-	973	727
3,200,776	-	402	3,210,297	3,402,952
-	-	-	734	738
-	-	1,518	10,791	8,090
-	-	-	775	726
-	-	8,846	15,603	11,895
-	-	-	537	452
-	-	69	3,092	2,288
-	-	-	25	-
-	-	-	6,337	5,624
-	99	102,150	298,226	299,843
-	-	10,264	179,375	173,063
-	-	2,463	345,486	307,792
-	871,157	750,176	2,116,129	1,998,123
-	-	4,300	161,692	180,062
-	-	66,893	1,279,980	1,170,233
-	-	72	4,273	3,095
-	-	37,976	467,006	413,903
-	-	33,895	36,071	26,926
-	-	26,929	65,350	39,476
-	14,323	9,449	26,766	29,737
-	-	14,204	139,093	148,778
-	-	519,947	519,947	478,416
-	-	-	208,891	254,752
-	-	-	4,984,646	4,701,347
3,200,776	885,579	1,589,637	14,082,811	13,659,364
951,464	252,323	949,546	2,751,301	2,450,440
-	-	565	2,350	2,162
-	-	712,884	1,124,121	581,220
-	-	817,282	862,146	101,037
951,464	252,323	2,480,277	4,739,918	3,134,859
4,152,240	1,137,902	4,069,914	18,822,729	16,794,223
(14,078)	(10,618)	(151,163)	(503,757)	3,338,135
1,061	164,297	1,237,659	1,532,565	(1,805,570)
\$ (13,017)	\$ 153,679	\$ 1,086,496	\$ 1,028,808	\$ 1,532,565

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

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Highway			Local Aid		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes.....	\$ 602,200	\$ 564,622	\$ (37,578)	\$ 5,254,700	\$ 5,578,947	\$ 324,247
Assessments.....	-	10,168	10,168	-	-	-
Federal grants and reimbursements.....	2,500	562	(1,938)	-	-	-
Departmental.....	294,400	328,504	34,104	6,200	969	(5,231)
Miscellaneous.....	-	2,108	2,108	-	624	624
Total revenues.....	899,100	905,964	6,864	5,260,900	5,580,540	319,640
Other financing sources:						
Operating transfers in.....	-	5,700	5,700	808,600	861,132	52,532
Stabilization transfer.....	-	-	-	-	-	-
Federal reimbursement transfer in.....	-	1,717	1,717	-	-	-
Total other financing sources.....	-	7,417	7,417	808,600	861,132	52,532
Total revenues and other financing sources.....	899,100	913,381	14,281	6,069,500	6,441,672	372,172
Expenditures:						
Judiciary.....	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-
Treasurer and Receiver-General.....	45,689	20,478	25,211	5,816	5,549	267
Auditor of the Commonwealth.....	-	-	-	732	732	-
Attorney General.....	541	541	-	967	964	3
Ethics Commission.....	-	-	-	774	772	2
District Attorney.....	3,641	3,341	300	-	-	-
Office of Campaign & Political Finance.....	-	-	-	545	540	5
Sheriff's Departments.....	353	313	40	145	133	12
Board of Library Commissioners.....	-	-	-	3,320	3,319	1
Comptroller.....	-	-	-	-	-	-
Administration and finance.....	11,861	6,435	5,426	167,104	164,346	2,758
Environmental affairs.....	30,492	28,747	1,745	33,435	32,035	1,400
Communities and development.....	-	-	-	37,859	37,501	358
Health and human services.....	-	-	-	1,650	1,552	98
Transportation and construction.....	168,253	160,568	7,685	17,105	17,046	59
Education.....	-	-	-	350,171	300,605	49,566
Higher education.....	-	-	-	-	-	-
Public safety.....	228,826	226,015	2,811	158,420	156,221	2,199
Economic development.....	-	-	-	800	800	-
Elder affairs.....	-	-	-	11,643	11,421	222
Consumer affairs.....	2,289	2,214	75	-	-	-
Labor.....	-	-	-	-	-	-
Direct local aid.....	43,472	43,472	-	4,927,687	4,912,720	14,967
Medicaid.....	-	-	-	-	-	-
Pension.....	68,003	67,760	243	544,009	544,009	-
Debt service:						
Principal retirement.....	74,125	68,971	5,154	14,717	13,215	1,502
Interest and fiscal charges.....	248,239	243,538	4,701	67,570	66,281	1,289
Total expenditures.....	925,784	872,393	53,391	6,344,469	6,269,761	74,708
Other financing uses:						
Fringe benefit cost assessment.....	-	41,110	(41,110)	-	-	-
Operating transfers out.....	308,791	308,791	-	141,373	141,373	-
Stabilization transfer.....	-	-	-	-	20,677	(20,677)
Total other financing uses.....	308,791	349,901	(41,110)	141,373	162,050	(20,677)
Total expenditures and other financing uses.....	1,234,575	1,222,294	12,281	6,485,842	6,431,811	54,031
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(335,475)	(308,913)	26,562	(416,342)	9,861	426,203
Fund balances (deficit) at beginning of year.....	30,399	30,399	-	8,362	8,362	-
Fund balances (deficit) at end of year.....	\$ (305,076)	\$ (278,514)	\$ 26,562	\$ (407,980)	\$ 18,223	\$ 426,203

Commonwealth Stabilization			Administrative Control			Environmental		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,700	\$ 8,091	\$ (609)
-	-	-	-	-	-	23,651	13,808	(9,843)
-	-	-	-	41,374	41,374	3,959	2,434	(1,525)
-	-	-	4,096	105,472	101,376	55,022	56,307	1,285
65,000	80,845	15,845	380	432	52	27,854	36,095	8,241
65,000	80,845	15,845	4,476	147,278	142,802	119,186	116,735	(2,451)
-	-	-	-	616,147	616,147	100	555	455
-	51,693	51,693	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	51,693	51,693	-	616,147	616,147	100	555	455
65,000	132,538	67,538	4,476	763,425	758,949	119,286	117,290	(1,996)
-	-	-	-	-	-	-	-	-
-	-	-	125	125	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	162	125	37
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	507	506	1	-	-	-
-	-	-	97,207	90,286	6,921	34,328	30,482	3,846
-	-	-	427	409	18	99,966	94,440	5,526
-	-	-	-	-	-	-	-	-
-	-	-	11,576	11,124	452	89	80	9
-	-	-	396	361	35	52	44	8
-	-	-	-	-	-	-	-	-
-	-	-	19	19	-	1,809	1,784	25
-	-	-	12,705	12,616	89	166	166	-
-	-	-	-	-	-	-	-	-
-	-	-	198	189	9	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	922	922	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	123,160	115,635	7,525	137,494	128,043	9,451
-	-	-	-	1,787	(1,787)	-	17,052	(17,052)
-	25,930	(25,930)	41,276	41,276	-	73	73	-
-	-	-	-	-	-	-	-	-
-	25,930	(25,930)	41,276	43,063	(1,787)	73	17,125	(17,052)
-	25,930	(25,930)	164,436	158,698	5,738	137,567	145,168	(7,601)
65,000	106,608	41,608	(159,960)	604,727	764,687	(18,281)	(27,878)	(9,597)
1,608,382	1,608,382	-	12,395	12,395	-	(40,441)	(40,441)	-
\$ 1,673,382	\$ 1,714,990	\$ 41,608	\$ (147,565)	\$ 617,122	\$ 764,687	\$ (58,722)	\$ (68,319)	\$ (9,597)

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, 2001
(Amounts in thousands)

	Other			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes.....	\$ 279,500	\$ 320,753	\$ 41,253	\$ 6,145,100	\$ 6,472,413	\$ 327,313
Assessments.....	-	-	-	23,651	23,976	325
Federal grants and reimbursements.....	902,041	937,852	35,811	908,500	982,222	73,722
Departmental.....	51,297	49,388	(1,909)	411,015	540,640	129,625
Miscellaneous.....	-	18,980	18,980	93,234	139,084	45,850
Total revenues.....	1,232,838	1,326,973	94,135	7,581,500	8,158,335	576,835
Other financing sources:						
Operating transfers in.....	184,952	174,479	(10,473)	993,652	1,658,013	664,361
Stabilization transfer.....	-	-	-	-	51,693	51,693
Federal reimbursement transfer in.....	-	-	-	-	1,717	1,717
Total other financing sources.....	184,952	174,479	(10,473)	993,652	1,711,423	717,771
Total revenues and other financing sources.....	1,417,790	1,501,452	83,662	8,575,152	9,869,758	1,294,606
Expenditures:						
Judiciary.....	84	82	2	84	82	2
Secretary of the Commonwealth.....	-	-	-	125	125	-
Treasurer and Receiver-General.....	394	393	1	51,899	26,420	25,479
Auditor of the Commonwealth.....	-	-	-	732	732	-
Attorney General.....	1,663	1,497	166	3,333	3,127	206
Ethics Commission.....	-	-	-	774	772	2
District Attorney.....	8,766	8,703	63	12,407	12,044	363
Office of Campaign & Political Finance.....	-	-	-	545	540	5
Sheriff's Departments.....	96	69	27	594	515	79
Board of Library Commissioners.....	-	-	-	3,320	3,319	1
Comptroller.....	-	-	-	507	506	1
Administration and finance.....	65,471	39,687	25,784	375,971	331,236	44,735
Environmental affairs.....	1,580	1,364	216	165,900	156,995	8,905
Communities and development.....	2,429	2,413	16	40,288	39,914	374
Health and human services.....	755,347	715,671	39,676	768,662	728,427	40,235
Transportation and construction.....	4,875	4,300	575	190,681	182,319	8,362
Education.....	67,947	66,892	1,055	418,118	367,497	50,621
Higher education.....	1,059	1,013	46	2,887	2,816	71
Public safety.....	5,924	5,810	114	406,041	400,828	5,213
Economic development.....	49,259	34,902	14,357	50,059	35,702	14,357
Elder affairs.....	32,604	26,911	5,693	44,445	38,521	5,924
Consumer affairs.....	4,564	4,413	151	6,853	6,627	226
Labor.....	33,246	12,944	20,302	33,246	12,944	20,302
Direct local aid.....	-	-	-	4,971,159	4,956,192	14,967
Medicaid.....	580,667	554,857	25,810	580,667	554,857	25,810
Pension.....	-	-	-	612,934	612,691	243
Debt service:						
Principal retirement.....	19	18	1	88,861	82,204	6,657
Interest and fiscal charges.....	139	137	2	315,948	309,956	5,992
Total expenditures.....	1,616,133	1,482,076	134,057	9,147,040	8,867,908	279,132
Other financing uses:						
Fringe benefit cost assessment.....	-	12,547	(12,547)	-	72,496	(72,496)
Operating transfers out.....	1,626	1,626	-	493,139	519,069	(25,930)
Stabilization transfer.....	-	-	-	-	20,677	(20,677)
Total other financing uses.....	1,626	14,173	(12,547)	493,139	612,242	(119,103)
Total expenditures and other financing uses.....	1,617,759	1,496,249	121,510	9,640,179	9,480,150	160,029
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(199,969)	5,203	205,172	(1,065,027)	389,608	1,454,635
Fund balances (deficit) at beginning of year.....	408,881	408,881	-	2,027,978	2,027,978	-
Fund balances (deficit) at end of year.....	\$ 208,912	\$ 414,084	\$ 205,172	\$ 962,951	\$ 2,417,586	\$ 1,454,635

Capital Projects Funds

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

General Capital Projects - to account for proceeds of bonds sold to fund the construction or acquisition of capital assets for general Commonwealth purposes, excluding highway construction and projects targeted for specific localities or purposes.

Capital Investment Trust - to account for a transfer from the General Fund to finance appropriated items of a capital nature pursuant to sections 2E and 107 of Chapter 88 of the Acts of 1997.

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

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

Capital Expenditure Reserve - to account for amounts paid by the Massachusetts Turnpike Authority as payment toward the acquisition cost of the Third Harbor Tunnel and Federal financial participation money related to expenditure amounts paid by Massachusetts Port Authority as determined by a feasibility study; used to pay principal and interest on certain bonds, related notes or direct capital expenditures.

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

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

Central Artery and Statewide Road and Bridge - to account for bond proceeds, certain revenues from Registry of Motor Vehicle fees, (net of debt service expenditures) and payments from authorities. The purpose of expenditures of the fund is to meet the estimated additional costs associated with the Central Artery/Ted Williams Tunnel Project and for costs of the statewide road and bridge program. As promulgated in Chapters 87 and 125 (sections 7 through 10) of the Acts of 2000, this fund also receives and expends interest revenue and receives and expends savings from the defeasance of debt that occurred during FY01.

Capital Needs Investment Trust - to account for the activities promulgated in Chapter 159 of the Acts of 2000 (the General Appropriation Act,) Section 357. The fund accounts for certain transferred portions of tax revenues during fiscal year 2001 through fiscal year 2005 to the following funds and purposes: to the Affordable Housing Trust Fund, to the Department of Education for virtual education space, for its information management system and for technological purposes and curriculum development and finally, for the rehabilitation and reuse of mental health, mental retardation facilities and other capital needs of the Commonwealth. The fund expires as of June 30, 2005 with any remaining balance transferred to the Stabilization Fund.

LOCAL AID FUNDS:

The Comptroller in Fiscal Year 2000 eliminated six capital projects funds set up by the Comptroller under Chapter 7A of the General Laws. The activity in these funds has become immaterial and has been consolidated into one fund. The former six funds are the Lockup Facilities Improvements, County Correctional Facilities, State Recreational Areas, Metropolitan Parks, Suffolk County Jail Facility and Local Infrastructure Capital Projects Funds. In addition, the Water Pollution Control Capital Projects Fund is consolidated for FY01.

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

OTHER FUNDS:

These funds account for the proceeds of bonds used to finance land and transportation equipment for economic development.

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

Intercity Bus Capital - to account for proceeds of bonds used for the acquisition and leasing of inter-city coaches and for planning and other relevant costs.

Capital Projects Funds
Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

	General	Capital Investment Trust	Convention and Exhibition Center	Capital Improvements and Investment Trust	Capital Expenditure Reserve	Highway
ASSETS						
Receivables, net of allowance for uncollectibles:						
Other receivables.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds.....	1,108	5,118	275,664	121,632	-	-
Due from component unit.....	1,115	-	-	-	-	-
Total assets.....	<u>\$ 2,223</u>	<u>\$ 5,118</u>	<u>\$ 275,664</u>	<u>\$ 121,632</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 105,082	\$ 1,267	\$ 27,634	\$ 13,499	\$ 4,828	\$ 88,423
Accrued payroll.....	298	-	-	-	10	1,429
Compensated absences.....	801	-	-	-	-	4,241
Due to other funds.....	-	-	-	-	138,589	755,512
Due to component units.....	3,159	-	-	-	-	-
Due to federal government.....	-	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-	-
Bonds, notes payable and certificates of participation.....	-	-	402,862	-	-	-
Total liabilities.....	<u>109,340</u>	<u>1,267</u>	<u>430,496</u>	<u>13,499</u>	<u>143,427</u>	<u>849,605</u>
Fund balances (deficits):						
Reserved for capital projects.....	-	3,851	-	108,133	-	-
Unreserved.....	(107,117)	-	(154,832)	-	(143,427)	(849,605)
Fund balances (deficits).....	<u>(107,117)</u>	<u>3,851</u>	<u>(154,832)</u>	<u>108,133</u>	<u>(143,427)</u>	<u>(849,605)</u>
Total liabilities and fund balances.....	<u>\$ 2,223</u>	<u>\$ 5,118</u>	<u>\$ 275,664</u>	<u>\$ 121,632</u>	<u>\$ -</u>	<u>\$ -</u>

Federal Highway Construction	Central Artery Statewide Road and Bridge	Capital Needs Investment Trust	Government Land Bank	Intercity Bus Capital	Local Aid Capital Projects	Totals	
						2001	2000
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53
165,079	1,681,490	18,229	-	-	1,304	2,269,624	482,399
-	-	-	-	-	-	1,115	-
<u>\$ 165,079</u>	<u>\$ 1,681,490</u>	<u>\$ 18,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,304</u>	<u>\$ 2,270,739</u>	<u>\$ 482,452</u>
\$ 164,807	\$ 44,117	\$ 2,212	\$ 6,300	\$ -	\$ 5,081	\$ 463,250	\$ 389,593
545	-	-	-	-	23	2,305	2,315
7	-	-	-	-	23	5,072	4,962
-	-	-	-	3,531	-	897,632	416,049
-	-	-	-	-	-	3,159	160,770
-	-	-	-	-	-	-	24
-	-	-	-	-	-	-	23
-	-	-	-	-	-	402,862	-
<u>165,359</u>	<u>44,117</u>	<u>2,212</u>	<u>6,300</u>	<u>3,531</u>	<u>5,127</u>	<u>1,774,280</u>	<u>973,736</u>
-	1,637,373	16,017	-	-	-	1,765,374	223,508
(280)	-	-	(6,300)	(3,531)	(3,823)	(1,268,915)	(714,792)
<u>(280)</u>	<u>1,637,373</u>	<u>16,017</u>	<u>(6,300)</u>	<u>(3,531)</u>	<u>(3,823)</u>	<u>496,459</u>	<u>(491,284)</u>
<u>\$ 165,079</u>	<u>\$ 1,681,490</u>	<u>\$ 18,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,304</u>	<u>\$ 2,270,739</u>	<u>\$ 482,452</u>

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	General	Capital Investment Trust	Convention and Exhibition Center	Capital Improvements and Investment Trust	Capital Expenditure Reserve	Highway
Revenues:						
Federal grants and reimbursements.....	\$ 835	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental.....	-	-	-	-	-	-
Miscellaneous.....	-	-	-	-	4,795	-
Total revenues.....	835	-	-	-	4,795	-
Other financing sources:						
Proceeds of general obligation bonds.....	372,819	-	-	-	-	341,525
Transfers from component units.....	-	-	-	-	-	-
Operating transfers in.....	34,462	-	-	-	-	404,450
Total other financing sources.....	407,281	-	-	-	-	745,975
Total revenues and other financing sources.....	408,116	-	-	-	4,795	745,975
Expenditures:						
Capital outlay:						
Local aid.....	-	-	-	-	-	-
Capital acquisition and construction.....	383,981	5,942	125,030	103,553	81,936	365,230
Total expenditures.....	383,981	5,942	125,030	103,553	81,936	365,230
Other financing uses:						
Operating transfers out.....	23,130	1	-	12	24,132	659,255
Transfers of bond proceeds.....	63,822	16	-	2,001	-	7
Transfers to component units.....	15	-	-	-	-	-
Total other financing uses.....	86,967	17	-	2,013	24,132	659,262
Total expenditures and other financing uses.....	470,948	5,959	125,030	105,566	106,068	1,024,492
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(62,832)	(5,959)	(125,030)	(105,566)	(101,273)	(278,517)
Fund balances (deficits) at beginning of year.....	(44,285)	9,810	(29,802)	213,699	(42,154)	(571,088)
Fund balances (deficits) at end of year.....	\$ (107,117)	\$ 3,851	\$ (154,832)	\$ 108,133	\$ (143,427)	\$ (849,605)

Federal Highway Construction	Central Artery Statewide Road and Bridge	Capital Needs Investment Trust	Government Land Bank	Intercity Bus Capital	Local Aid Capital Projects	Totals	
						2001	2000
\$ 199	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,034	\$ 2,216
147	-	-	-	-	-	147	96
47	124,227	-	-	-	-	129,069	63,523
393	124,227	-	-	-	-	130,250	65,835
-	999,995	-	13,880	-	40,596	1,768,815	1,761,621
-	200,000	-	-	-	-	200,000	100,000
1,108,186	692,490	45,000	-	-	-	2,284,588	1,983,262
1,108,186	1,892,485	45,000	13,880	-	40,596	4,253,403	3,844,883
1,108,579	2,016,712	45,000	13,880	-	40,596	4,383,653	3,910,718
-	-	-	-	-	33,801	33,801	46,613
1,105,336	379,339	8,983	6,300	-	-	2,565,630	2,468,790
1,105,336	379,339	8,983	6,300	-	33,801	2,599,431	2,515,403
3,515	-	20,000	-	-	573	730,618	1,644,854
-	-	-	-	-	-	65,846	62,360
-	-	-	-	-	-	15	342,171
3,515	-	20,000	-	-	573	796,479	2,049,385
1,108,851	379,339	28,983	6,300	-	34,374	3,395,910	4,564,788
(272)	1,637,373	16,017	7,580	-	6,222	987,743	(654,070)
(8)	-	-	(13,880)	(3,531)	(10,045)	(491,284)	162,786
\$ (280)	\$ 1,637,373	\$ 16,017	\$ (6,300)	\$ (3,531)	\$ (3,823)	\$ 496,459	\$ (491,284)

“If you don’t like the weather in New England, just wait a few minutes.”

Mark Twain

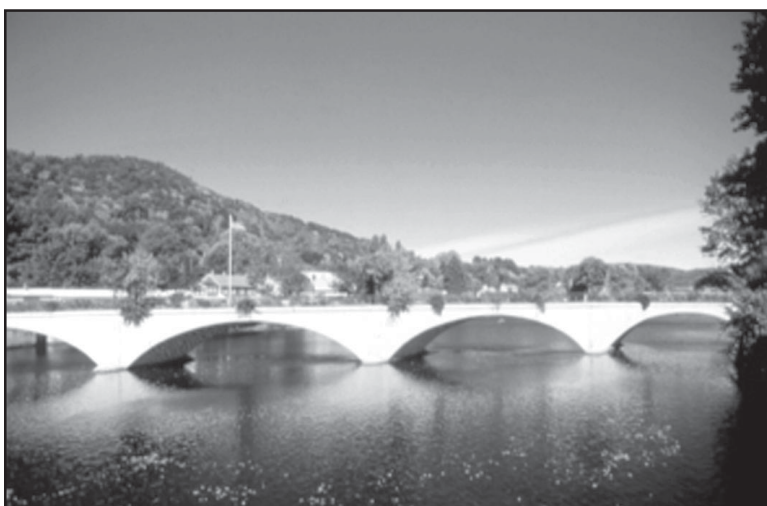


Housatonic River, Great Barrington



Mayflower gardens, Plymouth

Spring is at its peak from April until the middle of June. To the north and west of Boston many towns hold maple syrup festivals, and the gardens of southern Massachusetts are alive with color as their flowers come into full bloom. Many cities and towns host garden tours, including the famous Beacon Hill Hidden Garden Tour in Boston.



Bridge of Flowers, Shelburne Falls



Borderland State Park, North Easton

Internal Service Funds

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

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

Central Artery Workers' Owner Controlled Insurance Program Trust - accounts for the Commonwealth Insurance Program which includes workers' compensation and general liability for all contractors and subcontractors on the Commonwealth's Central Artery/Tunnel Project.

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

Liability Management and Reduction Fund - accounts for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgements, settlements and litigation costs in tort claims.

The Swan Boats are as much a part of Boston as the bean and the cod. They are the harbinger of Spring to native Bostonians. Famed in the stories Make Way For Ducklings and The Trumpet of the Swan, the Swan Boats are the only boats of their kind in the world! To the delight of the young and old each April for over 120 years, the Swan Boats have appeared in the Public Garden Lagoon with preening grace.

They slowly cruise the lagoon in the Boston's Public gardens and under the the world's smallest suspension bridge.

This Boston tradition dates back to the 1870's when Robert Paget, whose descendants continue to operate the business, was granted a boat for hire license by the City of Boston. In 1877, he capitalized on the bicycle principle and with the help of others, developed a catamaran which housed a paddle wheel arrangement that was foot-propelled. To cover the



Swan Boats, Public Garden , Boston

captain, Robert suggested a swan! The idea came to him from his familiarity with the opera Lohengrin. The opera is based on a medieval German story in which Lohengrin, a knight of the Grail crosses a river in a boat drawn by a swan to defend the innocence of his heroine, Princess Elsa. The current fleet consists of six boats, the oldest of which was built in 1918.

The tradition, which began over 120 years ago, has grown to become a symbol of Boston and the city's unique blend of history and beauty. Paul Paget, grandson of Robert Paget, and his wife Marilyn maintain the charm and integrity of a vision that became a reality for a young boat builder and his wife many years ago.

Text, courtesy of www.swamboats.com

Internal Service Funds
Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

	Employees Workers' Compensation	Central Artery Owner Controlled Insurance Program Trust	Employees Group Health Insurance	Liability Management and Reduction Fund	Totals	
					2001	2000
ASSETS						
Restricted investments.....	\$ -	\$ 176,147	\$ -	\$ 2,351	\$ 178,498	\$ 266,552
Assets held in trust.....	-	-	24,027	-	24,027	21,280
Other receivables.....	-	54,489	-	-	54,489	-
Due from other funds.....	21,340	-	-	-	21,340	20,573
Total assets.....	<u>\$ 21,340</u>	<u>\$ 230,636</u>	<u>\$ 24,027</u>	<u>\$ 2,351</u>	<u>\$ 278,354</u>	<u>\$ 308,405</u>
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable.....	\$ -	\$ -	\$ -	\$ 763	\$ 763	\$ 405
Accrued payroll.....	-	-	-	2	2	-
Claims and judgments.....	\$ 262,300	83,400	31,949	-	377,649	381,937
Total liabilities.....	<u>262,300</u>	<u>83,400</u>	<u>31,949</u>	<u>765</u>	<u>378,414</u>	<u>382,342</u>
Fund equity (deficit):						
Retained earnings:						
Reserved for central artery workers' compensation.....	-	147,236	-	-	147,236	169,561
Unreserved.....	(240,960)	-	(7,922)	1,586	(247,296)	(243,498)
Total fund equity (deficit).....	<u>(240,960)</u>	<u>147,236</u>	<u>(7,922)</u>	<u>1,586</u>	<u>(100,060)</u>	<u>(73,937)</u>
Total liabilities and fund equity.....	<u>\$ 21,340</u>	<u>\$ 230,636</u>	<u>\$ 24,027</u>	<u>\$ 2,351</u>	<u>\$ 278,354</u>	<u>\$ 308,405</u>

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

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Employees Workers' Compensation	Central Artery Owner Controlled Insurance Program Trust	Employees Group Health Insurance	Liability Management and Reduction Fund	Totals	
					2001	2000
Operating revenues:						
Premiums.....	\$ 47,454	\$ 54,489	\$ 764,510	\$ 4,118	\$ 870,571	\$ 741,544
Total operating revenues.....	47,454	54,489	764,510	4,118	870,571	741,544
Operating expenses:						
Attorney General.....	-	-	-	72	72	41
Claims-judgments and other.....	46,687	101,054	761,764	3,572	913,077	774,391
Change in incurred but not reported claims.....	6,882	(12,141)	970	-	(4,289)	(30,142)
Net claims and judgments.....	53,569	88,913	762,734	3,644	908,860	744,290
Operating income (loss).....	(6,115)	(34,424)	1,776	474	(38,289)	(2,746)
Nonoperating revenues:						
Interest income-net of related expense.....	-	12,099	-	67	12,166	15,829
Total nonoperating revenues.....	-	12,099	-	67	12,166	15,829
Net income (loss).....	(6,115)	(22,325)	1,776	541	(26,123)	13,083
Retained earnings (deficit) at beginning of year.....	(234,845)	169,561	(9,698)	1,045	(73,937)	(87,020)
Retained earnings (deficit) at end of year.....	\$ (240,960)	\$ 147,236	\$ (7,922)	\$ 1,586	\$ (100,060)	\$ (73,937)

Internal Service Funds
Combining Statement Of Cash Flows

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Employees Workers' Compensation	Central Artery Owner Controlled Insurance Program Trust	Employees Group Health Insurance	Liability Management and Reduction Fund	Totals	
					2001	2000
Cash flows from operating activities:						
Operating income (loss).....	\$ (6,116)	\$ (34,424)	\$ 1,776	\$ 474	\$ (38,290)	\$ (2,746)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Net change in incurred but not reported (IBNR) items	6,882	(12,141)	970	-	(4,289)	30,142
Change in assets and liabilities:						
Assets held in trust.....	-	-	(2,747)	-	(2,747)	(2,694)
Other receivables.....	-	(54,489)	-	-	(54,489)	-
Due from other funds.....	(767)	-	-	-	(767)	3,613
Restricted and other assets.....	-	88,955	-	(901)	88,054	-
Accounts payable.....	-	-	-	358	358	405
Accrued payable.....	-	-	-	2	2	-
Total adjustments.....	6,115	22,325	(1,777)	(541)	26,122	31,466
Net cash provided by (used for) operating activities.....	(1)	(12,099)	(1)	(67)	(12,168)	28,720
Cash flows from investing activities:						
Purchases of investments.....	1	-	1	-	2	(44,549)
Interest income-net of related expense.....	-	12,099	-	67	12,166	15,829
Net cash provided by (used for) investing activities.....	1	12,099	1	67	12,168	(28,720)
Net increase in cash and cash equivalents.....	-	-	-	-	-	-
Cash and cash equivalents at beginning of year.....	-	-	-	-	-	-
Cash and cash equivalents at end of year.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Fiduciary Funds

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

EXPENDABLE TRUST FUNDS:

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, 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 - accounts 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.

EXTERNAL INVESTMENT TRUST:

External Investment trust - accounts for the portion of pooled cash held under the custodianship of the Commonwealth for the various local governmental units and other political sub-divisions of the state..

AGENCY FUNDS:

Central Agency Funds - account for cash and investments held or managed by the Commonwealth on behalf of others, 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, 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.

Fiduciary Fund Types

Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

ASSETS	Expendable Trust Funds	Non- expendable Trust Funds	Pension Trust Funds
Cash and short-term investments.....	\$ 306,406	\$ 5,834	\$ 879,346
Deposits.....	2,171,193	-	-
Investments.....	-	-	29,279,535
Investments of deferred compensation plan.....	3,074,756	-	-
Policyholder life insurance contracts.....	36,871	-	-
Annuity contracts.....	-	-	-
Assets held in trust.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Taxes.....	206,820	-	-
Due from federal government.....	1,071	-	-
Loans.....	4,555	-	-
Other receivables.....	25,951	-	355,745
Other assets.....	-	-	21,456
Total assets.....	<u>\$ 5,827,623</u>	<u>\$ 5,834</u>	<u>\$ 30,536,082</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable.....	\$ 68,132	\$ -	\$ 1,032,735
Accrued payroll.....	351	-	-
Compensated absences.....	1,062	-	-
Tax refunds and abatements payable.....	13,347	-	-
Due to cities and towns.....	-	-	-
Deferred revenue.....	9,470	-	-
Prizes payable.....	-	-	-
Agency liabilities.....	4,925	-	-
Other accrued liabilities.....	-	-	-
Total liabilities.....	<u>97,287</u>	<u>-</u>	<u>1,032,735</u>
Fund balances:			
Reserved for employees' pension benefits.....	-	-	29,503,347
Reserved for deferred compensation.....	3,112,410	-	-
Reserved for unemployment benefits.....	2,321,611	-	-
Reserved for nonexpendable trusts.....	-	5,834	-
Reserved for investment pool participants.....	-	-	-
Unreserved.....	296,315	-	-
Total fund balances.....	<u>5,730,336</u>	<u>5,834</u>	<u>29,503,347</u>
Total liabilities and fund balances.....	<u>\$ 5,827,623</u>	<u>\$ 5,834</u>	<u>\$ 30,536,082</u>

External Investment Trust	Agency Funds	Totals	
		2001	2000
\$ 2,890,198	\$ 266,691	\$ 4,348,475	\$ 4,003,043
-	-	2,171,193	2,050,556
-	-	29,279,535	31,280,296
-	-	3,074,756	3,094,327
-	-	36,871	34,681
-	1,409,121	1,409,121	1,406,527
-	2,299,419	2,299,419	2,121,947
-	1,191	208,011	217,526
-	-	1,071	1,214
-	-	4,555	4,437
3,511	52,944	438,151	457,135
-	-	21,456	11,357
<u>\$ 2,893,709</u>	<u>\$ 4,029,366</u>	<u>\$ 43,292,614</u>	<u>\$ 44,683,046</u>
\$ 1,085	\$ 32,103	\$ 1,134,055	\$ 1,203,553
-	-	351	290
-	-	1,062	813
-	-	13,347	12,246
-	32,829	32,829	26,476
-	-	9,470	9,122
-	1,409,121	1,409,121	1,406,527
-	2,555,313	2,560,238	2,369,700
2,301	-	2,301	8,721
<u>3,386</u>	<u>4,029,366</u>	<u>5,162,774</u>	<u>5,037,448</u>
-	-	29,503,347	31,579,452
-	-	3,112,410	3,133,670
-	-	2,321,611	2,241,376
-	-	5,834	5,834
2,890,323	-	2,890,323	2,400,474
-	-	296,315	284,792
<u>2,890,323</u>	<u>-</u>	<u>38,129,840</u>	<u>39,645,598</u>
<u>\$ 2,893,709</u>	<u>\$ 4,029,366</u>	<u>\$ 43,292,614</u>	<u>\$ 44,683,046</u>

Expendable Trust Funds
Combining Balance Sheet

June 30, 2001

(Amounts in thousands)

ASSETS	Deferred Compensation Trust	Unemployment Compensation	Other Expendable Trust	Totals	
				2001	2000
Cash and short-term investments.....	\$ 363	\$ -	\$ 306,043	\$ 306,406	\$ 299,237
Deposits.....	-	2,171,193	-	2,171,193	2,050,556
Investments of deferred compensation plan.....	3,074,756	-	-	3,074,756	3,094,327
Policyholder life insurance contracts.....	36,871	-	-	36,871	34,681
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	206,820	-	206,820	216,279
Due from federal government.....	-	60	1,011	1,071	1,214
Loans.....	-	-	4,555	4,555	4,437
Other receivables.....	420	10,873	14,658	25,951	24,611
Total assets.....	<u>\$ 3,112,410</u>	<u>\$ 2,388,946</u>	<u>\$ 326,267</u>	<u>\$ 5,827,623</u>	<u>\$ 5,725,342</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ -	\$ 44,756	\$ 23,376	\$ 68,132	\$ 36,484
Accrued payroll.....	-	-	351	351	290
Compensated absences.....	-	-	1,062	1,062	813
Tax refunds payable.....	-	13,347	-	13,347	12,246
Deferred revenue.....	-	9,232	238	9,470	9,122
Agency liabilities.....	-	-	4,925	4,925	6,549
Total liabilities.....	<u>-</u>	<u>67,335</u>	<u>29,952</u>	<u>97,287</u>	<u>65,504</u>
Fund balances:					
Reserved for deferred compensation.....	3,112,410	-	-	3,112,410	3,133,670
Reserved for unemployment benefits.....	-	2,321,611	-	2,321,611	2,241,376
Unreserved.....	-	-	296,315	296,315	284,792
Total fund balances.....	<u>3,112,410</u>	<u>2,321,611</u>	<u>296,315</u>	<u>5,730,336</u>	<u>5,659,838</u>
Total liabilities and fund balances.....	<u>\$ 3,112,410</u>	<u>\$ 2,388,946</u>	<u>\$ 326,267</u>	<u>\$ 5,827,623</u>	<u>\$ 5,725,342</u>

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

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Deferred Compensation Trust	Unemployment Compensation	Other Expendable Trust	Totals	
				2001	2000
Revenues:					
Taxes.....	\$ -	\$ 882,894	\$ -	\$ 882,894	\$ 863,086
Assessments.....	-	-	82	82	86
Federal grants and reimbursements.....	-	20,515	20,535	41,050	31,396
Departmental.....	-	12,696	9,010	21,706	17,158
Deferred compensation.....	115,567	-	-	115,567	756,596
Miscellaneous.....	-	136,996	196,495	333,491	300,250
Total revenues.....	115,567	1,053,101	226,122	1,394,790	1,968,572
Other financing sources:					
Operating transfers in.....	-	-	24,249	24,249	20,529
Total other financing sources.....	-	-	24,249	24,249	20,529
Total revenues and other financing sources...	115,567	1,053,101	250,371	1,419,039	1,989,101
Expenditures:					
Current:					
Judiciary.....	-	-	192	192	241
Secretary of the Commonwealth.....	-	-	74	74	59
Treasurer and Receiver-General.....	-	-	112	112	1,274
Auditor of the Commonwealth.....	-	-	201	201	241
Attorney General.....	-	-	2,097	2,097	1,635
District Attorney.....	-	-	4,524	4,524	3,463
Sheriff's department.....	-	-	14	14	9
Administration and finance.....	-	-	6,064	6,064	5,334
Environmental affairs.....	-	-	14,557	14,557	12,295
Communities and development.....	-	-	23,842	23,842	1,898
Health and human services.....	-	-	26,473	26,473	20,948
Transportation and construction.....	-	-	551	551	559
Education.....	-	-	6,632	6,632	4,149
Higher education.....	-	-	2,109	2,109	153
Public safety.....	-	-	2,471	2,471	2,169
Economic development.....	-	-	312	312	366
Elder affairs.....	-	-	18	18	35
Consumer affairs.....	-	-	14,364	14,364	13,848
Labor.....	-	972,866	42,547	1,015,413	898,235
Deferred compensation.....	136,827	-	-	136,827	103,324
Total expenditures.....	136,827	972,866	147,154	1,256,847	1,070,235
Other financing uses:					
Operating transfers out.....	-	-	91,694	91,694	66,050
Total other financing uses.....	-	-	91,694	91,694	66,050
Total expenditures and other financing uses..	136,827	972,866	238,848	1,348,541	1,136,285
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(21,260)	80,235	11,523	70,498	852,816
Fund balances at beginning of year	3,133,670	2,241,376	284,792	5,659,838	4,807,022
Fund balances at end of year.....	\$ 3,112,410	\$ 2,321,611	\$ 296,315	\$ 5,730,336	\$ 5,659,838

Deferred Compensation Trust Fund
Schedule of Net Assets Available for Deferred Compensation

December 31, 2000
(Amounts in thousands)

ASSETS	<u>2000</u>	<u>1999</u>
Cash.....	\$ 363	\$ 525
Investments.....	3,074,756	3,094,327
Employee contributions receivable.....	420	4,137
Policyholder life insurance contracts.....	36,871	34,681
Total assets.....	<u>\$ 3,112,410</u>	<u>\$ 3,133,670</u>
 LIABILITIES		
Liabilities:		
Accounts payable.....	<u>\$ -</u>	<u>\$ -</u>
Total liabilities.....	<u>-</u>	<u>-</u>
Net assets available for plan benefits (fund balance reserved for deferred compensation).....	 <u>\$ 3,112,410</u>	 <u>\$ 3,133,670</u>

Deferred Compensation Trust Fund
Schedule Of Changes In Net Assets Available For Deferred Compensation

Year Ended December 31, 2000
(Amounts in thousands)

	2000	1999
Additions:		
Employee contributions.....	\$ 226,233	\$ 222,024
Net increase (decrease) in policyholder account value of universal life insurance contracts.....	2,190	(568)
Interest income.....	4,421	4,500
Mutual fund investment income (loss).....	(117,277)	530,640
Total additions.....	<u>115,567</u>	<u>756,596</u>
Deductions:		
Distributions to participants.....	128,365	93,143
Administration.....	4,504	5,481
Life insurance premiums.....	3,958	4,700
Total deductions.....	<u>136,827</u>	<u>103,324</u>
Net additions (deduction).....	(21,260)	653,272
Net assets available for plan benefits at beginning of year (fund balance reserved for deferred compensation).....	<u>3,133,670</u>	<u>2,480,398</u>
Net assets available for plan benefits at end of year (fund balance reserved for deferred compensation).....	<u><u>\$ 3,112,410</u></u>	<u><u>\$ 3,133,670</u></u>

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

June 30, 2001
(Amounts in thousands)

(Amount in thousands)				
			Totals	
	State			
ASSETS	Employees'	Teachers'		
	PERS	PERS	2001	2000
Cash and short-term investments.....	\$ 437,392	\$ 441,954	\$ 879,346	\$ 1,013,225
Investments.....	14,206,160	15,073,375	29,279,535	31,280,296
Other receivables, net of allowance for uncollectibles.....	145,748	209,997	355,745	382,656
Other assets.....	10,520	10,936	21,456	11,357
Total assets.....	<u>\$14,799,820</u>	<u>\$15,736,262</u>	<u>\$ 30,536,082</u>	<u>\$ 32,687,534</u>
LIABILITIES				
Accounts payable.....	<u>\$ 506,541</u>	<u>\$ 526,194</u>	<u>\$ 1,032,735</u>	<u>\$ 1,108,082</u>
Total liabilities.....	<u>506,541</u>	<u>526,194</u>	<u>1,032,735</u>	<u>1,108,082</u>
Net assets available for pension benefits (fund balance reserved for employees' pension benefits).....	<u>\$14,293,279</u>	<u>\$15,210,068</u>	<u>\$ 29,503,347</u>	<u>\$ 31,579,452</u>

Pension Trust Funds

Combining Statement of Changes in Net Assets Available for Pension Benefits

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	Totals	
			2001	2000
Additions:				
Contribution:				
Employer contributions.....	\$ 408,141	\$ 571,273	\$ 979,414	\$ 923,993
Employees contributions.....	359,005	415,104	774,109	705,539
Total contributions.....	767,146	986,377	1,753,523	1,629,532
Net investment income (loss):				
Net appreciation (depreciation) in fair value of investments....	(1,521,264)	(1,576,741)	(3,098,005)	3,532,073
Interest.....	284,348	294,717	579,065	479,945
Dividends.....	111,762	115,837	227,599	238,365
Real estate operating income, net.....	64,896	67,262	132,158	118,530
Alternative investments.....	2,776	2,878	5,654	5,641
Other.....	4,370	4,530	8,900	6,240
Total investment income (loss):.....	(1,053,112)	(1,091,517)	(2,144,629)	4,380,794
Less: investment expense.....	36,708	38,046	74,754	65,990
Net investment income (loss) :.....	(1,089,820)	(1,129,563)	(2,219,383)	4,314,804
Total additions.....	(322,674)	(143,186)	(465,860)	5,944,336
Deductions:				
Administration.....	4,770	7,831	12,601	12,133
Retirement benefits and refunds.....	822,168	775,476	1,597,644	1,465,150
Total deductions.....	826,938	783,307	1,610,245	1,477,283
Net increase (decrease).....	(1,149,612)	(926,493)	(2,076,105)	4,467,053
Net assets available for pension benefits at beginning of year (fund balances reserved for employees' pension benefits).....	15,442,891	16,136,561	31,579,452	27,112,399
Net assets available for pension benefits at end of year (fund balances reserved for employees' pension benefits).....	\$ 14,293,279	\$ 15,210,068	\$ 29,503,347	\$ 31,579,452

External Investment Trust Fund
Statement of Net Assets Held in Trust For Pool Participants

June 30, 2001
(Amounts in thousands)

ASSETS	2001	2000
Cash and short-term investments.....	\$ 2,890,198	\$ 2,403,576
Other receivables.....	3,511	5,619
Total assets.....	<u>2,893,709</u>	<u>2,409,195</u>
 LIABILITIES		
Liabilities:		
Accounts payable.....	1,085	-
Other accrued liabilities.....	2,301	8,721
Total liabilities.....	<u>3,386</u>	<u>8,721</u>
Net assets held in trust for pool participants		
(fund balance reserved for investment pool participants)....	<u>\$ 2,890,323</u>	<u>\$ 2,400,474</u>

External Investment Trust Fund
Statement of Changes in Net Assets Held in Trust For Pool Participants

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	2001	2000
Additions:		
Proceeds from sale of units.....	\$ 6,297,291	\$ 5,331,223
Units issued in reinvestment of distributions from net investment income.....	119,596	95,064
Total contributions.....	<u>6,416,887</u>	<u>5,426,287</u>
Net investment income:		
Interest.....	140,215	111,673
Total investment income.....	140,215	111,673
Less: management fees.....	4,046	3,775
Net investment income.....	<u>136,169</u>	<u>107,898</u>
Total additions.....	<u>6,553,056</u>	<u>5,534,185</u>
Deductions:		
Cost of units redeemed.....	5,927,037	5,126,359
Distributions to unit holders from net interest income.....	136,170	107,898
Total deductions.....	<u>6,063,207</u>	<u>5,234,257</u>
Net increase	489,849	299,928
Net assets held in trust for pool participants at beginning of year (fund balance reserved for investment pool participants).....	<u>2,400,474</u>	<u>2,100,546</u>
Net assets held in trust for pool participants at end of year (fund balance reserved for investment pool participants).....	<u><u>\$ 2,890,323</u></u>	<u><u>\$ 2,400,474</u></u>

Agency Funds
Combining Statement of Changes in Assets and Liabilities
Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
<u>Central Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 210,584	\$ 4,063,282	\$ 4,079,456	\$ 194,410
Annuity contracts.....	1,406,527	204,894	202,300	1,409,121
Taxes receivable.....	1,247	1,191	1,247	1,191
Total assets.....	<u>\$ 1,618,358</u>	<u>\$ 4,269,367</u>	<u>\$ 4,283,003</u>	<u>\$ 1,604,722</u>
LIABILITIES				
Accounts payable.....	\$ 58,987	\$ 1,567,266	\$ 1,594,150	\$ 32,103
Due to cities and towns.....	26,476	337,446	331,093	32,829
Due to federal government.....	-	29	29	-
Prizes payable.....	1,406,527	204,894	202,300	1,409,121
Agency liabilities.....	126,368	2,181,163	2,176,862	130,669
Total liabilities.....	<u>\$ 1,618,358</u>	<u>\$ 4,290,798</u>	<u>\$ 4,304,434</u>	<u>\$ 1,604,722</u>
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and short-term investments.....	\$ 70,501	\$ 820,213	\$ 818,519	\$ 72,195
Assets held in trust.....	45,634	34,895	25,174	55,355
Other receivables.....	44,249	52,944	44,249	52,944
Total assets.....	<u>\$ 160,384</u>	<u>\$ 908,052</u>	<u>\$ 887,942</u>	<u>\$ 180,494</u>
LIABILITIES				
Accounts payable.....	\$ -	\$ 354,000	\$ 354,000	\$ -
Agency liabilities.....	160,384	487,780	467,670	180,494
Total liabilities.....	<u>\$ 160,384</u>	<u>\$ 841,780</u>	<u>\$ 821,670</u>	<u>\$ 180,494</u>
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	2,076,313	189,874	22,123	2,244,064
Total assets.....	<u>\$ 2,076,399</u>	<u>\$ 189,874</u>	<u>\$ 22,123</u>	<u>\$ 2,244,150</u>
LIABILITIES				
Agency liabilities.....	\$ 2,076,399	\$ 189,874	\$ 22,123	\$ 2,244,150
Total liabilities.....	<u>\$ 2,076,399</u>	<u>\$ 189,874</u>	<u>\$ 22,123</u>	<u>\$ 2,244,150</u>

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
<u>Total Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 281,171	\$ 4,883,495	\$ 4,897,975	\$ 266,691
Annuity contracts.....	1,406,527	204,894	202,300	1,409,121
Assets held in trust.....	2,121,947	224,769	47,297	2,299,419
Taxes receivable.....	1,247	1,191	1,247	1,191
Other receivables.....	44,249	52,944	44,249	52,944
Total assets.....	<u>\$ 3,855,141</u>	<u>\$ 5,367,293</u>	<u>\$ 5,193,068</u>	<u>\$ 4,029,366</u>
LIABILITIES				
Accounts payable.....	\$ 58,987	\$ 1,921,266	\$ 1,948,150	\$ 32,103
Due to cities and towns.....	26,476	337,446	331,093	32,829
Due to federal government.....	-	29	29	-
Prizes payable.....	1,406,527	204,894	202,300	1,409,121
Agency liabilities.....	2,363,151	2,858,817	2,666,655	2,555,313
Total liabilities.....	<u>\$ 3,855,141</u>	<u>\$ 5,322,452</u>	<u>\$ 5,148,227</u>	<u>\$ 4,029,366</u>

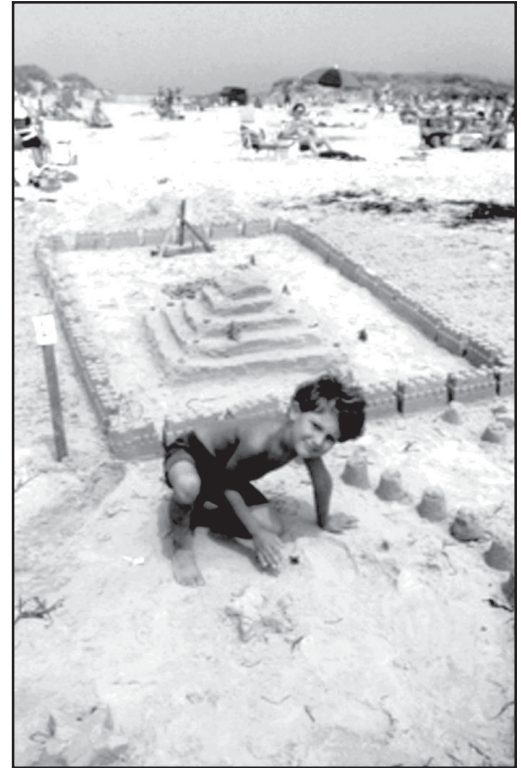


Boardwalk at Salisbury Beach

Summer season in Massachusetts lasts from mid-June to the beginning of September. Travelers and natives alike flock to New England's popular lakes, beaches, and coast. Boston empties as its large student population departs for Summer vacation, and the city comes alive with innumerable outdoor concerts and festivals. Music lovers take advantage of the balmy days to sit and be serenaded at these concerts in the city's parks. The Berkshires, Massachusetts' westernmost region, play host to world renown Summer theater and serve as the seasonal home of the Boston Symphony. In the north the White and Green Mountain National Forests we take advantage of hiking, biking, boating and camping opportunities.



South Pond, Savoy Mountain



Horseneck Beach, Buzzards Bay



Daughters of the American Revolution (DAR) State Forest, Goshin

University and College Fund Type

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

University of Massachusetts System includes the campuses at Amherst, Boston, Lowell, Dartmouth and Worcester Medical School campuses, the central administration office and the UMass Building Authority. 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
Fitchburg State College
Framingham State College
Massachusetts College of Art
Massachusetts College of Liberal Arts
Massachusetts Maritime Academy
Massachusetts State College Building Authority
Salem State College
Westfield State College
Worcester State College

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

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massachusetts Bay Community College
Massasoit 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

Why do leaves change color? Native-American legend says that the red leaves symbolize the killing of the Great Bear of the Heavens; the yellow leaves represent the cooking fires. The more prosaic explanation is that the colors are already present in the leaves but are hidden by green chlorophyll. The warm, sunny days and cool nights of early fall cause the trees to produce a corky substance that blocks the flow of water to the leaves. Without water, the chlorophyll breaks down, revealing the vibrant colors. Once the production stops, the true brilliance of the leaf is revealed in bright yellows, oranges, reds, browns, and even sometimes purples!

Text courtesy of Office of Travel and Tourism

University And College Fund Type

Combining Balance Sheet

June 30, 2001
(Amounts in thousands)

ASSETS	Current Funds		Loan Funds
	Unrestricted	Restricted	
Cash and short-term investments.....	\$ 148,714	\$ 17,065	\$ 2,230
Deposits.....	-	-	-
Investments.....	212,048	50,861	4,648
Asset held in trust.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Due from federal government.....	-	24,863	-
Loans.....	-	-	51,281
Other receivables.....	100,478	45,618	94
Due from other funds.....	85,983	1,154	180
Inventory.....	9,657	-	-
Fixed assets.....	-	-	-
Other assets.....	12,436	3,008	-
Total assets.....	<u>\$ 569,316</u>	<u>\$ 142,569</u>	<u>\$ 58,433</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable.....	\$ 66,519	\$ 14,521	\$ 141
Accrued payroll.....	84,656	3,857	-
Compensated absences.....	124,588	2,192	-
Due to other funds.....	80,126	53,393	-
Deferred revenue.....	17,149	29,056	-
Agency liabilities.....	-	4,276	-
Deposits and unearned revenue.....	10,395	668	36
Other accrued liabilities.....	52,765	125	135
Capital lease obligations.....	-	-	-
Bonds and notes payable.....	5,597	-	-
Total liabilities.....	<u>441,795</u>	<u>108,088</u>	<u>312</u>
Fund balances:			
Unrestricted.....	127,521	-	-
Restricted.....	-	34,481	58,121
Unexpended plant funds.....	-	-	-
Renewals and replacements.....	-	-	-
Retirement of indebtedness.....	-	-	-
Net investment in plant.....	-	-	-
Total fund balances.....	<u>127,521</u>	<u>34,481</u>	<u>58,121</u>
Total liabilities and fund balances.....	<u>\$ 569,316</u>	<u>\$ 142,569</u>	<u>\$ 58,433</u>

Endowment and Similar Funds	Plant Funds	Totals	
		2001	2000
\$ 3,150	\$ 63,410	\$ 234,569	\$ 206,481
-	360,912	360,912	153,210
172,487	149,544	589,588	595,820
-	-	-	-
-	-	24,863	19,946
-	-	51,281	51,796
12,859	2,934	161,983	184,882
18,942	938	107,197	106,481
-	-	9,657	12,131
-	2,931,321	2,931,321	2,704,163
7,280	9,971	32,695	27,271
<u>\$ 214,718</u>	<u>\$ 3,519,030</u>	<u>\$ 4,504,066</u>	<u>\$ 4,062,181</u>
\$ 14	\$ 30,883	\$ 112,078	\$ 88,655
-	98	88,611	80,125
-	-	126,780	114,832
-	3,774	137,293	135,890
635	21	46,861	19,846
-	-	4,276	4,202
-	-	11,099	14,316
3,193	8,057	64,275	77,043
-	89,394	89,394	75,031
675	750,178	756,450	507,904
<u>4,517</u>	<u>882,405</u>	<u>1,437,117</u>	<u>1,117,844</u>
35,860	-	163,381	191,392
174,341	-	266,943	262,370
-	50,862	50,862	67,676
-	45,444	45,444	34,486
-	41,117	41,117	39,405
-	2,499,202	2,499,202	2,349,008
<u>210,201</u>	<u>2,636,625</u>	<u>3,066,949</u>	<u>2,944,337</u>
<u>\$ 214,718</u>	<u>\$ 3,519,030</u>	<u>\$ 4,504,066</u>	<u>\$ 4,062,181</u>



North Bridge, Concord



Bicycle path on Wachusett Mountain

Autumn is the most popular season lasting from early September until November. The brilliant autumn foliage lasts from September through the end of October. The foliage peaks at different times in different regions. Northern regions generally peak early in the season, with the foliage in the south in full force towards the middle of October. Each region hosts numerous harvest festivals, and Salem hosts Haunted Happenings, the premier Halloween celebration in the U.S. to around 45 degrees. If we are lucky, we are treated to an “Indian Summer.” During this time the temperature rises several degrees and for a few weeks it almost feels as if summer has returned.

Walden Pond boathouse



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.

Winter, in Massachusetts lasts from December through March. We enjoy the great outdoors - Alpine and cross country skiing, ice fishing and skating on ponds and lakes. Local Holiday celebrations in Boston and Nantucket draw numerous visitors for caroling, wassail and other New England Holiday traditions.

First Night Boston, the original citywide festival of art and culture, is the country's oldest and largest New Year's Eve celebration. On Monday, December 31, 2001 from 1:00 p.m. to midnight, First Night 2002 will present its 26th annual day-long festival of art, music, dance, ice sculpture, fireworks and more. First Night 2002 is an alcohol free event that welcomes children, families and revelers of all ages to celebrate community and unity through art. First Night Boston is 100% wheelchair accessible, and many performances are ASL interpreted. First Night 2002 will include over 1000 artists and 250 performances at over 50 venues throughout the city, at least 4 monumental ice sculpture installations, each utilizing over 30 - 40 tons of ice and incorporating state-of-the-art theatrical lighting, an enormous



Puppets in the grand procession at Boston's First Night

Springfield hosts the Annual Bright Nights at Forest Park, the largest holiday lights display in New England and a holiday tradition for many families in the region.



Bright Lights in Springfield

Schedule Of General Fixed Assets By Source

June 30, 2001
(Amounts in thousands)

<u>GENERAL FIXED ASSETS:</u>	<u>2001</u>
Land.....	\$ 595,295
Buildings.....	2,708,408
Machinery and equipment.....	676,380
Construction in progress.....	30,478
Total general fixed assets.....	<u>\$ 4,010,561</u>

INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE:

Acquired on or before June 30, 2000.....	\$ 1,857,176
Acquired subsequent to June 30, 2000 from:	
General Fund.....	466,071
Special Revenue Funds.....	135,571
Capital Projects Funds.....	1,546,941
Expendable Trust Funds.....	4,802
Total investment in general fixed assets.....	<u>\$ 4,010,561</u>

Sources of general fixed assets acquired on or before June 30, 2000 are not available.

Schedule Of General Fixed Assets By Function

June 30, 2001
(Amounts in thousands)

Function	Land	Buildings	Machinery and Equipment	Total
Legislature.....	\$ -	\$ -	\$ 96	\$ 96
Judiciary.....	1,747	562,577	6,824	571,148
Inspector General.....	-	-	64	64
Governor and Lieutenant Governor.....	-	-	146	146
Secretary of the Commonwealth.....	15	18,202	2,217	20,434
Sheriff's department.....	3,475	216,858	8,257	228,590
Treasurer and Receiver - General.....	-	-	77,340	77,340
Auditor of the Commonwealth.....	-	-	458	458
Attorney General.....	-	-	888	888
Ethics Commission.....	-	-	60	60
District Attorney.....	-	-	2,215	2,215
Comptroller.....	-	-	306	306
Administration and finance.....	12,920	332,881	244,809	590,610
Environmental affairs.....	479,006	117,167	58,789	654,962
Communities and development.....	-	-	387	387
Health and human services.....	38,724	795,978	82,077	916,779
Transportation and construction.....	36,986	38,324	77,854	153,164
Education.....	-	-	2,296	2,296
Higher education.....	-	-	566	566
Public safety.....	22,223	625,610	97,332	745,165
Economic development.....	40	-	1,186	1,226
Elder affairs.....	-	-	128	128
Consumer affairs.....	-	-	1,967	1,967
Labor.....	158	812	10,118	11,088
Total by function.....	<u>\$ 595,294</u>	<u>\$ 2,708,409</u>	<u>\$ 676,380</u>	<u>3,980,083</u>
Construction in progress.....				<u>30,478</u>
Total general fixed assets.....				<u><u>\$ 4,010,561</u></u>

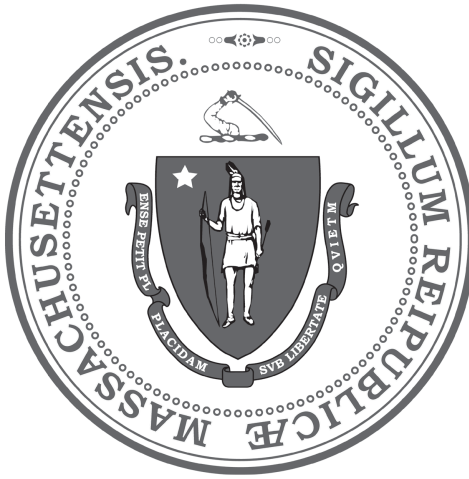
Schedule Of Changes In General Fixed Assets By Function

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

Function and activity	General Fixed Assets July 1, 2000	Additions	Retirements	General Fixed Assets June 30, 2001
Legislature.....	\$ 96	\$ -	\$ -	\$ 96
Judiciary.....	404,389	166,759	-	571,148
Inspector General.....	64	-	-	64
Governor and Lieutenant Governor.....	146	-	-	146
Secretary of the Commonwealth.....	20,338	198	102	20,434
Sheriff's department.....	225,894	2,780	84	228,590
Treasurer and Receiver - General.....	47,101	30,239	-	77,340
Auditor of the Commonwealth.....	435	23	-	458
Attorney General.....	888	-	-	888
Ethics Commission.....	71	-	11	60
District Attorney.....	2,199	16	-	2,215
Comptroller.....	199	107	-	306
Administration and finance.....	735,888	64,200	209,478	590,610
Environmental affairs.....	642,092	12,870	-	654,962
Communities and development.....	617	105	335	387
Health and human services.....	909,772	31,046	24,039	916,779
Transportation and construction.....	148,451	14,304	9,591	153,164
Education.....	1,827	469	-	2,296
Higher education.....	566	-	-	566
Public safety.....	727,192	27,601	9,628	745,165
Economic development.....	1,274	-	48	1,226
Elder affairs.....	136	52	60	128
Consumer affairs.....	1,539	429	1	1,967
Labor.....	13,225	372	2,509	11,088
Total by function.....	3,884,399	351,570	255,886	3,980,083
Construction in progress.....	33,329	39,097	41,948	30,478
Total general fixed assets.....	<u>\$3,917,728</u>	<u>\$ 390,667</u>	<u>\$ 297,834</u>	<u>\$ 4,010,561</u>

Statistical Section



Ten-Year Schedule of Revenues and

Other Financing Sources – *All Governmental Fund Types*

Ten-Year Schedule of Expenditures and

Other Financing Uses by Secretariat – *All Governmental Fund Types*

**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures for General
Bonded Debt To Total Expenditures – *All Governmental Fund Types***

Ten-Year Schedule of Per Capita General Long – *Term Bonded Debt*

Component Units Revenue Bond Coverage for the Last Ten Fiscal Years

Calculation of Transfers – *Stabilization Fund*

Calculation of Transfers – *Tax Reduction Fund*

Ten-Year Schedule of Massachusetts and United States Resident Population

**Nonagricultural Employment By Sector and
Industry in Massachusetts and the United States**

**Ten-Year Schedule of Civilian Labor Force,
Unemployment and Unemployment Rates**

Twenty-Five Largest Private Sector Massachusetts Employers

Standard and Poors 500 Companies headquartered in Massachusetts

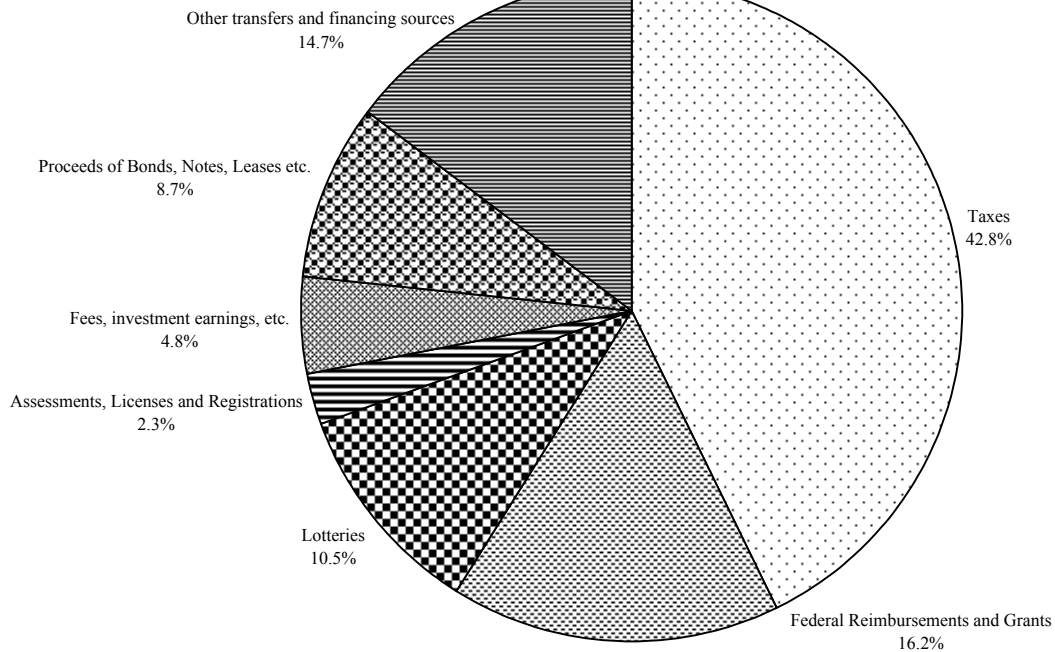
**Ten-Year Schedule of Massachusetts and
United States Resident Per Capita Net Income**

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

June 30, 2001
(Amounts in millions)

	2001	% Total	2000	% Total	1999	% Total	1998	% Total
Taxes.....	\$ 16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0	\$ 14,033	44.9
Federal reimbursements.....	4,716	12.0	4,496	11.8	4,213	12.7	4,385	14.0
Federal grants.....	1,644	4.2	1,565	4.1	1,456	4.4	1,470	4.7
Lotteries.....	4,136	10.5	3,914	10.3	3,570	10.7	3,392	10.9
Assessments.....	590	1.5	462	1.2	546	1.6	514	1.6
Motor vehicle licenses and registrations.....	311	0.8	285	0.7	281	0.8	295	0.9
Fees, investment earnings, etc.....	1,885	4.8	1,776	4.7	1,433	4.3	1,394	4.5
Proceeds of dedicated income tax bonds.....	-	-	-	-	-	-	-	-
Proceeds of general obligation bonds.....	1,769	4.5	1,762	4.6	1,015	3.0	1,347	4.3
Proceeds of special obligation bonds.....	-	-	-	-	-	-	100	0.3
Proceeds of grant anticipation notes.....	600	1.5	602	1.6	319	1.0	-	-
Proceeds of refunding bonds.....	999	2.5	-	-	499	1.5	862	2.8
Proceeds of capital lease.....	31	0.1	9	0.0	9	0.1	15	0.1
Operating transfers.....	5,566	14.2	7,502	19.7	4,555	13.7	3,338	10.7
Other financing sources.....	206	0.5	106	0.3	1,056	3.2	104	0.3
Total revenues and other financing sources.....	<u>\$ 39,256</u>	<u>100.0</u>	<u>\$ 38,174</u>	<u>100.0</u>	<u>\$ 33,273</u>	<u>100.0</u>	<u>\$ 31,249</u>	<u>100.0</u>

**Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2001**

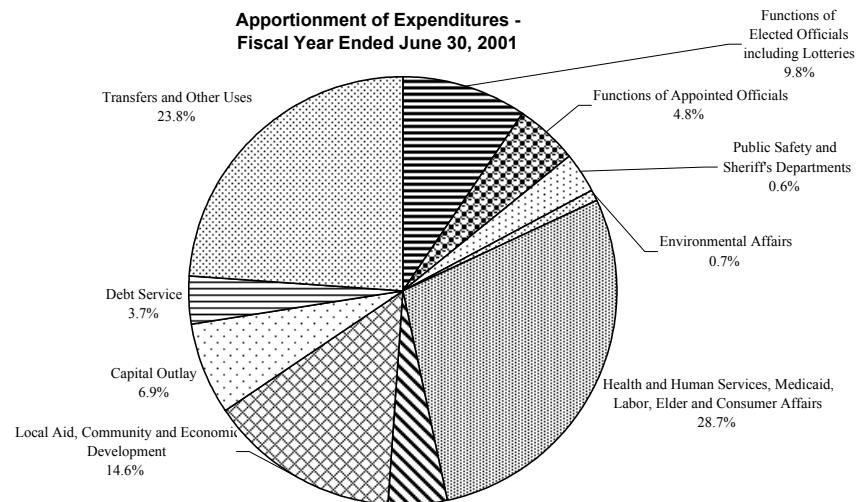


1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total	1992	% Total
\$ 13,030	47.7	\$ 11,926	47.5	\$ 11,262	45.9	\$ 10,611	45.7	\$ 10,021	44.9	\$ 9,479	45.6
4,124	15.1	3,861	15.4	4,174	17.0	3,904	16.8	3,376	15.1	3,021	14.5
1,457	5.3	1,482	5.9	1,187	4.8	1,205	5.2	1,118	5.0	1,199	5.8
3,375	12.3	3,201	12.8	2,957	12.0	2,600	11.2	2,148	9.6	1,831	8.8
552	2.0	595	2.4	572	2.3	544	2.3	597	2.7	787	3.8
295	1.1	263	1.0	307	1.3	284	1.2	331	1.5	300	1.4
930	3.4	1,110	4.4	1,154	4.7	1,113	4.8	1,215	5.4	1,710	8.2
-	-	-	-	-	-	-	-	-	-	-	-
899	3.3	940	3.7	810	3.3	392	1.7	368	1.7	721	3.4
-	-	147	0.6	-	-	298	1.3	-	-	100	0.5
-	-	-	-	-	-	-	-	-	-	-	-
723	2.6	-	-	514	2.1	836	3.6	1,891	8.5	574	2.8
62	0.2	26	0.1	18	0.1	34	0.1	13	0.1	17	0.1
1,920	7.0	1,551	6.2	1,534	6.3	1,367	5.9	1,177	5.3	1,021	4.9
6	-	-	-	49	0.2	35	0.2	46	0.2	47	0.2
<u>\$ 27,373</u>	<u>100.0</u>	<u>\$ 25,102</u>	<u>100.0</u>	<u>\$ 24,538</u>	<u>100.0</u>	<u>\$ 23,223</u>	<u>100.0</u>	<u>\$ 22,301</u>	<u>100.0</u>	<u>\$ 20,807</u>	<u>100.0</u>

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

June 30, 2001
(Amounts in millions)

	2001	% Total	2000	% Total	1999	% Total	1998	% Total
Legislature.....	\$ 57	0.2	\$ 51	0.1	\$ 51	0.2	\$ 51	0.2
Judiciary.....	597	1.6	544	1.4	511	1.6	470	1.5
Inspector General.....	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor.....	6	-	6	-	5	-	5	-
Secretary of the Commonwealth.....	45	0.1	42	0.1	33	0.1	23	0.1
Treasurer and Receiver-General.....	3,335	8.8	3,483	9.2	2,783	8.6	2,649	8.7
Auditor of the Commonwealth.....	15	-	15	-	14	-	14	-
Attorney General.....	36	0.1	34	0.1	49	0.2	41	0.1
Ethics Commission.....	2	-	1	-	1	-	1	-
District Attorney.....	86	0.2	77	0.2	72	0.2	68	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	1	-
Sheriff's Department.....	201	0.5	178	0.5	134	0.4	40	0.1
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	-
Board of Library Commissioners.....	11	-	10	-	10	-	9	-
Comptroller.....	8	-	8	-	8	-	7	-
Administration and finance.....	1,202	3.3	1,192	3.1	1,056	3.3	1,058	3.5
Environmental affairs.....	253	0.7	241	0.6	232	0.7	216	0.7
Communities and development.....	442	1.2	405	1.1	356	1.1	351	1.2
Health and human services.....	5,622	15.0	5,324	14.0	5,160	15.9	5,058	16.6
Transportation and construction.....	162	0.4	228	0.6	137	0.4	117	0.4
Education.....	1,492	3.9	1,353	3.6	1,263	3.9	1,153	3.8
Educational affairs.....	-	-	-	-	-	-	-	-
Higher education.....	136	0.4	111	0.3	97	0.3	82	0.3
Public safety.....	955	2.5	879	2.3	860	2.6	853	2.8
Economic development.....	51	0.1	38	0.1	57	0.2	31	0.1
Elder affairs.....	241	0.6	217	0.6	197	0.6	179	0.6
Consumer affairs.....	71	0.2	70	0.2	68	0.2	57	0.2
Labor.....	172	0.5	188	0.5	166	0.5	186	0.6
Medicaid.....	4,761	12.6	4,381	11.5	3,829	11.8	3,638	12.0
Pension.....	318	0.8	398	1.0	324	1.0	414	1.4
Direct local aid.....	5,012	13.2	4,717	12.4	4,405	13.6	4,047	13.3
Capital outlay:								
Local aid.....	34	0.1	47	0.1	73	0.2	102	0.3
Capital acquisition and construction.....	2,566	6.8	2,469	6.5	2,602	8.0	2,532	8.3
Debt service.....	1,408	3.7	1,237	3.3	1,212	3.7	1,215	4.0
Other financing uses:								
Payments to refunded bond escrow agent.....	999	2.6	-	-	499	1.5	862	2.8
Transfers.....	7,526	19.9	10,073	26.5	6,193	19.1	4,883	16.1
Total expenditures and other financing uses.....	\$ 37,827	100.0	\$ 38,022	100.0	\$ 32,462	100.0	\$ 30,417	100.0



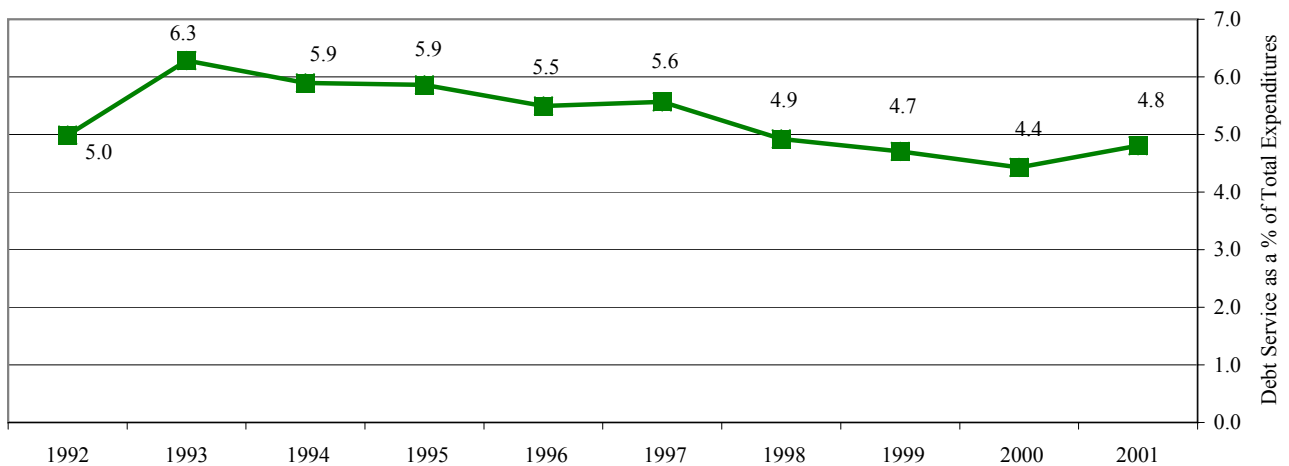
	1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total	1992	% Total
\$	49	0.2	\$ 49	0.2	\$ 47	0.2	\$ 43	0.2	\$ 41	0.2	\$ 44	0.2
	433	1.6	404	1.7	356	1.5	338	1.5	306	1.4	315	1.6
	2	-	2	-	2	-	1	-	1	-	1	-
	5	-	5	-	5	-	4	-	4	-	4	-
	17	0.1	15	0.1	14	0.1	12	0.1	14	0.1	12	0.1
	2,711	10.0	2,576	10.5	2,353	9.7	2,052	8.9	1,659	7.4	1,379	6.8
	12	-	13	-	11	-	11	-	10	-	10	-
	5	-	29	0.1	22	0.1	38	0.2	36	0.2	18	0.1
	1	-	1	-	1	-	1	-	1	-	1	-
	62	0.2	55	0.2	51	0.2	47	0.2	44	0.2	39	0.2
	1	-	1	-	1	-	1	-	-	-	1	-
	-	-	-	-	-	-	-	-	-	-	-	-
	1	-	1	-	1	-	2	-	-	-	-	-
	6	-	4	-	5	-	5	-	5	-	4	-
	7	-	7	-	6	-	6	-	6	-	5	-
	937	3.5	943	3.9	876	3.6	863	3.7	682	3.0	833	4.1
	196	0.7	205	0.8	174	0.7	169	0.7	162	0.7	141	0.7
	344	1.3	347	1.4	340	1.4	358	1.6	364	1.6	397	2.0
	4,507	16.7	4,606	18.8	4,813	19.8	4,327	18.8	4,034	18.3	4,007	19.7
	151	0.6	155	0.6	112	0.5	120	0.5	273	1.2	92	0.5
	1,026	3.8	958	3.9	865	3.6	458	2.0	469	2.1	392	1.9
	-	-	14	0.1	6	-	3	-	10	-	17	-
	90	0.3	80	0.3	75	0.3	67	0.3	69	0.3	1,288	6.3
	860	3.2	841	3.4	732	3.0	693	3.0	611	2.7	658	3.2
	33	0.1	111	0.5	199	0.8	214	0.9	210	0.9	194	1.0
	174	0.6	155	0.6	161	0.7	155	0.7	150	0.7	137	0.7
	37	0.1	35	0.1	34	0.1	33	0.1	30	0.1	27	0.1
	189	0.7	121	0.5	24	0.1	24	0.1	24	0.1	19	0.1
	3,497	13.0	3,241	13.3	3,252	13.4	3,216	14.0	3,151	14.0	2,853	14.3
	413	1.5	382	1.6	414	1.7	830	3.6	893	4.0	751	3.7
	3,677	13.6	3,351	13.7	3,073	12.6	2,727	11.8	2,547	11.3	2,278	11.2
	181	0.7	116	0.5	94	0.4	100	0.4	105	0.5	87	0.4
	2,051	7.6	1,673	6.8	1,698	7.0	1,464	6.4	1,133	5.0	1,157	5.7
	1,278	4.7	1,192	4.9	1,234	5.1	1,152	5.0	1,143	5.1	901	4.4
	723	2.7	-	-	514	2.1	836	3.6	1,891	8.4	574	2.8
	3,311	12.3	2,753	11.3	2,732	11.2	2,651	11.5	2,364	10.5	1,654	8.2
\$	26,987	100.0	\$ 24,441	100.0	\$ 24,297	100.0	\$ 23,021	100.0	\$ 22,442	100.0	\$ 20,290	100.0

**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 June 30</u>	<u>Debt service</u>	<u>Total expenditures</u>	<u>Ratio</u>
2001	\$ 1,408	\$ 29,302	4.8
2000	1,237	27,949	4.4
1999	1,212	25,772	4.7
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

Debt Service to Total Expenditures Ratio 1991 - 2001



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

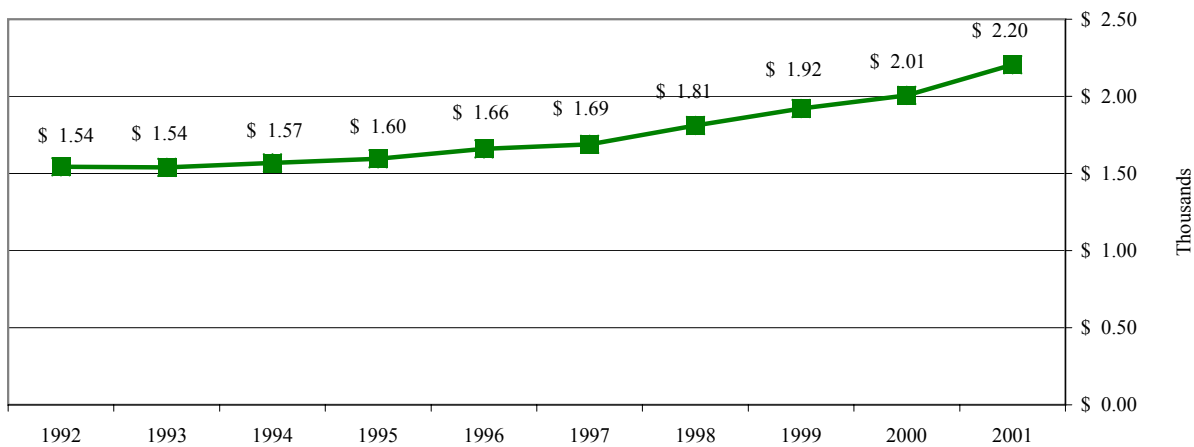
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population ⁽¹⁾	Total long- term bonds and notes payable	Per capita long-term debt
2001	6,349	\$ 13,999,454	\$ 2.20
2000	6,175	12,383,101	2.01
1999	6,144	11,808,461	1.92
1998	6,115	11,078,603	1.81
1997	6,085	10,271,294	1.69
1996	6,062	10,065,578	1.66
1995	6,031	9,628,466	1.60
1994	6,011	9,427,745	1.57
1993	5,993	9,231,458	1.54
1992	5,999	9,264,430	1.54

(1) Population estimates have been restated to most current Massachusetts Institute of Socio-Economic Research (MISER) data. Population data is reported as of 7/1 of the previous year. *Source: - MISER*

Per Capita Direct Commonwealth Debt 1992 - 2001

(thousands)



Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

Fiscal year ended June 30	Net revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio
2001	\$ 520,850	\$ 526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
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 ⁽³⁾	220,185	192,975	1.14
1993	332,195	305,156	1.09
1992	310,372	295,389	1.05

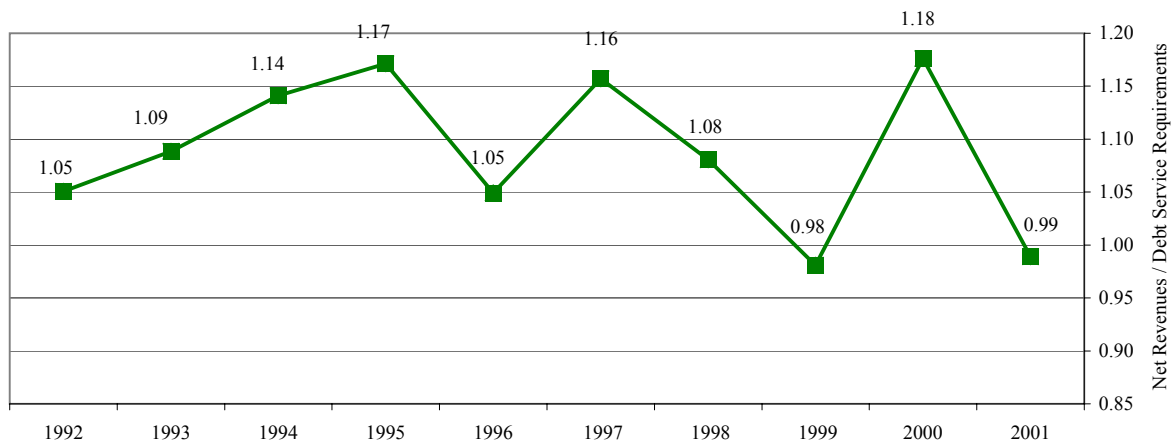
(1) Net revenues represent the regular recurring operating income (loss) plus operating grants transfers and depreciation of only those Authorities with revenue bonds outstanding

(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 Standard 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

Component Units Revenue Bond Coverage 1992 - 2001





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Calculation Of Transfers: Stabilization Fund

June 30, 2001
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Law Chapter 29, Section 5c.

Part 1: Undesignated fund balance(deficit) in the Operating Funds:

	Total
General Fund.....	\$ 475,860
Highway Fund.....	(311,601)
Local Aid Fund.....	5,660
Undesignated fund balance before the transfers.....	\$ 169,919
Available to carry forward to subsequent fiscal year (per Schedule A).....	83,764
Consolidated net surplus before transfer to Capital Projects Fund.....	86,155

Part 2: Calculation of transfers to Capital Projects Fund

Transfer from General Fund to Capital Project Fund (per Schedule B).....	34,462
Net Consolidated surplus available for Stabilization Fund.....	\$ 51,693

Part 3: Calculation of transfers to Stabilization Fund

From the General Fund, @ 60%.....	\$ 31,016
From the Local Aid Fund, @ 40%.....	20,677
Total Transfers.....	\$ 51,693

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

Undesignated fund balance:	
General Fund.....	410,382
Highway Fund.....	(311,601)
Local Aid Fund	(15,017)
Consolidated Net Surplus.....	\$ 83,764

Part 5: Status of Stabilization Fund after transfers

Reserved for Stabilization - Balance as of June 30, 2001 before the transfers	\$ 1,689,227
FY2001 Calculated Transfers to Stabilization Fund (per Part 3)	51,693
Reserved for Stabilization after the transfers.....	\$ 1,740,920

Part 6: Amounts reserved for Capital Projects

Reserved for Capital Projects - Balance as of June 30, 2001 before the transfers	\$ -
FY2001 Calculated Transfers to Capital Projects Fund (per Schedule B)	34,462
Balance available.....	\$ 34,462

Calculation Of Transfers: Tax Reduction Fund

June 30, 2001
(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. Support

The 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.....	\$ 1,740,920
Allowable Stabilization Balance (per Schedule C).....	<u>1,714,990</u>
Stabilization Fund Excess, if any, transferable to Tax Reduction Fund.....	<u>\$ 25,930</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund Balance.....	\$ 1,740,920
Transfer to Tax Reduction Fund.....	<u>25,930</u>
Stabilization Fund Balance after transfer to Tax Reduction Fund.....	<u>\$ 1,714,990</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund Balance.....	\$ 7,635
Transfers from Stabilization Fund.....	<u>25,930</u>
Tax Reduction Fund Balance after transfers.....	<u>\$ 33,565</u>

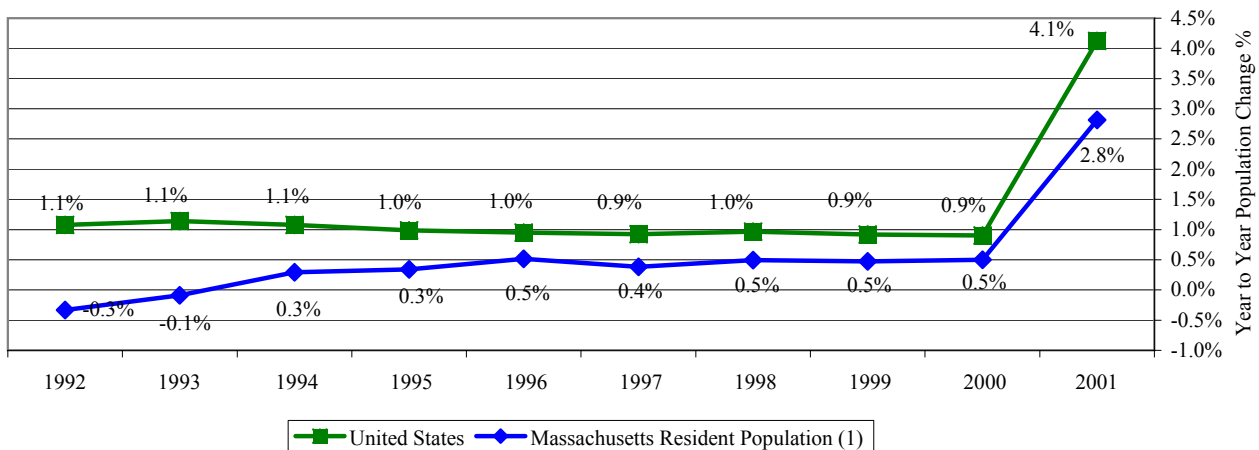
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2001	283,941	4.1%	6,349	2.8%	2.2%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%
1998	267,784	1.0%	6,115	0.5%	2.3%
1997	265,229	0.9%	6,085	0.4%	2.3%
1996	262,803	1.0%	6,062	0.5%	2.3%
1995	260,327	1.0%	6,031	0.3%	2.3%
1994	257,783	1.1%	6,011	0.3%	2.3%
1993	255,030	1.1%	5,993	-0.1%	2.4%
1992	252,153	1.1%	5,999	-0.3%	2.4%

(1) Population estimates have been restated to most current Massachusetts Institute of Socio-Economic Research (MISER) data. Population data is reported as of 7/1 of the previous year. *Source: - MISER*

**Massachusetts and United States Estimated Year- to- Year Population Change
1992 - 2001**



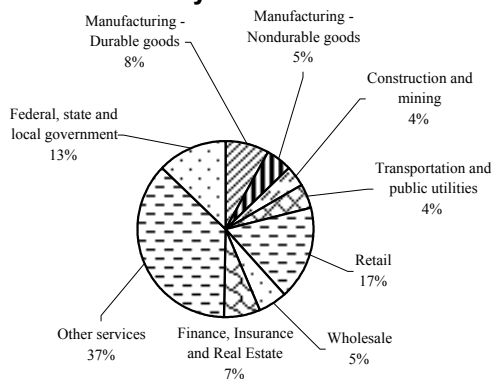
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2001

(Amounts in thousands)

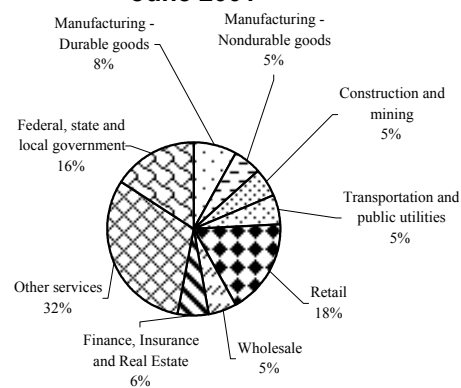
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing:					
Durable goods	267	7.9%	10,695	8.1%	97.8%
Nondurable goods	159	4.7%	7,071	5.4%	88.1%
Total manufacturing	426	12.7%	17,766	13.5%	93.9%
Non-manufacturing:					
Construction and mining	139	4.1%	6,867	5.2%	79.3%
Transportation and public utilities	146	4.3%	7,114	5.4%	80.4%
Retail	576	17.1%	23,570	17.9%	95.7%
Wholesale	177	5.3%	7,022	5.3%	98.8%
Finance, Insurance and Real Estate	231	6.9%	7,631	5.8%	118.6%
Other services	1,244	37.0%	41,087	31.2%	118.6%
Federal, state and local government	427	12.7%	20,815	15.8%	80.4%
Total Non-manufacturing	2,940	87.3%	114,106	86.5%	100.9%
Total	3,366	100.0%	131,872	100.0%	

Source: - Federal Reserve Bank of Boston, "New England Economic Indicators." September 2001 edition reflecting June 2001 results.

**Massachusetts Employment by
Industry June 2001**



**United States Employment by Industry
June 2001**



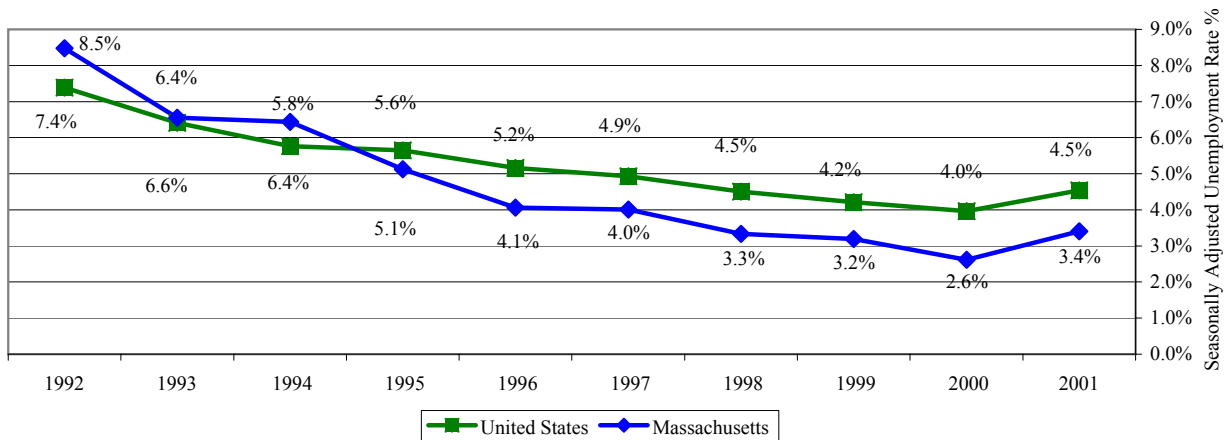
**Ten-Year Schedule Of Annual Average Civilian Labor Force,
Unemployment And Unemployment Rates
For Massachusetts And The United States**

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2001	3,350	114	3.4%	141,354	6,422	4.5%	74.9%
2000	3,287	86	2.6%	140,762	5,583	4.0%	65.9%
1999	3,278	105	3.2%	139,369	5,876	4.2%	75.8%
1998	3,273	109	3.3%	137,665	6,202	4.5%	73.9%
1997	3,261	131	4.0%	136,290	6,725	4.9%	81.2%
1996	3,176	129	4.1%	134,574	6,948	5.2%	78.7%
1995	3,161	162	5.1%	132,440	7,476	5.6%	90.8%
1994	3,183	205	6.4%	131,836	7,600	5.8%	111.7%
1993	3,158	207	6.6%	128,633	8,252	6.4%	102.2%
1992	3,126	265	8.5%	126,983	9,384	7.4%	114.7%

Source: - Federal Reserve Bank of Boston, "New England Economic Indicators." September 2001 edition reflecting June 2001 results.

**Massachusetts and United States Unemployment Rates
1992 - 2001**



Twenty-Five Largest Private Sector Massachusetts Employers

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Massachusetts Employees</u>	<u>2000 Revenues (\$millions)</u>
President and Fellows of Harvard College	Boston	University	15,000	Privately Held
UMASS Memorial Hospitals	Worcester	Hospital	8,683	184
FMR Corp. (Fidelity Investments)	Boston	Investments	8,500	Privately Held
Fleet Boston	Boston	Banking	8,500	14,880
State Street Bank and Trust Company	Boston	Banking	7,619	3,615
The Brigham and Women's Hospital	Boston	Hospital	7,500	920
Boston Medical Center Corporation	Boston	Hospital	6,600	34
Raytheon Company	Lexington	Electronics / Defense	6,000	16,895
Putnam Investment	Boston	Investments	6,000	675
Liberty International Holdings (Liberty Mutual Insurance)	Boston	Insurance	5,750	4,690
Norton Company	Worcester	Abrasives	5,500	2,314
Stone & Webster Engineering / Construction	Boston	Construction	5,400	720
Caritas Christi Inc. / St. Elizabeth's Medical Center	Boston	Hospital	5,327	235
Beth Israel Deaconess Medical Center	Boston	Hospital	5,000	731
John Hancock Life Insurance Company / John Hancock Financial Services	Boston	Insurance	4,650	13,525
Quaker Fabrics	Fall River	Textiles	4,356	423
Bose Systems Corporation	Framingham	Electronics	4,000	1,553
The Children's Hospital Corporation	Boston	Hospital	3,832	486
The Massachusetts General Hospital	Boston	Hospital	3,647	1,013
New England Medical Center	Boston	Hospital	3,620	1,060
North Shore Medical Center	Lynn	Hospital	3,524	Not Reported
Lahey Clinic	Burlington	Hospital	3,500	700
NSTAR Electric & Gas Corporation	Boston	Utility	3,400	2,700
Modern Continental Construction Company	Boston	Construction	3,000	634
Dennison Manufacturing Company (Avery Dennison Corporation)	Framingham	Office Products	3,000	500

Sources: - Rankings - "D & B Business Rankings, Boston Edition" 2002 Edition, Dun & Bradstreet. Pages E1-3. Courtesy of the Kirstein Business Branch of the Boston Public Library. Revenue - D & B Business Rankings "sales volume" as well as companies' annual reports "operating revenue." Actual employee numbers maybe higher due to various companies' subsidiaries below 1,800 employees not counted.

Standard and Poors 500 Companies Headquartered in Massachusetts

<u>Company</u>	<u>Stock Symbol</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Worldwide Employees</u>	<u>Latest Audited Revenues (\$millions)</u>	<u>Fortune 500 Rank</u>	
						<u>2001</u>	<u>2000</u>
FleetBoston Financial	FBF	Boston	Banks	53,026	\$ 22,608	81	80
Raytheon Co. (New)	RTN	Lexington	Aerospace & Defense	93,696	18,321	111	82
Staples Inc.	SPLS	Framingham	Specialty Stores	37,985	10,674	178	192
Gillette Co.	G	Boston	Personal Products	35,200	9,986	188	172
TJX Companies Inc.	TJX	Framingham	Apparel Retail	77,000	9,579	195	196
EMC Corp.	EMC	Hopkinton	Computer Storage & Peripherals	24,175	8,873	216	260
State Street Corp.	STT	Boston	Diversified Financial Services	19,355	5,921	304	345
Thermo Electron	TMO	Waltham	Electronic Equipment & Instrum	21,461	3,886	430	369
Analog Devices	ADI	Norwood	Semiconductors	9,000	2,578	-	-
Biogen, Inc.	BGEN	Cambridge	Biotechnology	1,475	927	-	-
Boston Scientific	BSX	Natick	Health Care Equipment	13,500	2,664	-	-
Millipore Corp.	MIL	Bedford	Electronic Equipment & Instrum	4,200	600	-	-
Parametric Technology	PMTC	Needham	Application Software	4,000	935	-	-
PerkinElmer, Inc.	PKI	Wellesley	Electronic Equipment & Instrum	13,000	1,695	-	-
Reebok International	RBK	Canton	Footwear	6,000	2,865	-	-
Sapient Corp.	SAPE	Cambridge	IT Consulting & Services	2,300	503	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	10,000	3,044	-	-

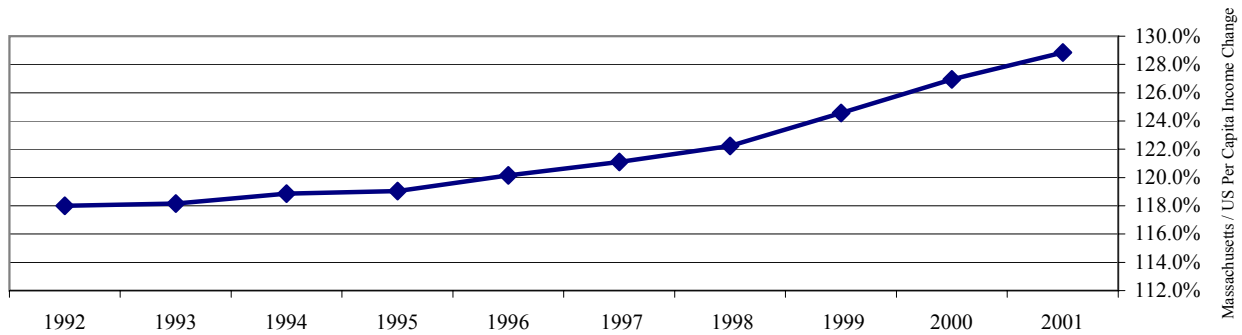
Sources: - Standard and Poors (from Standardandpoors.com) and Fortune Magazine (from fortune.com)

Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

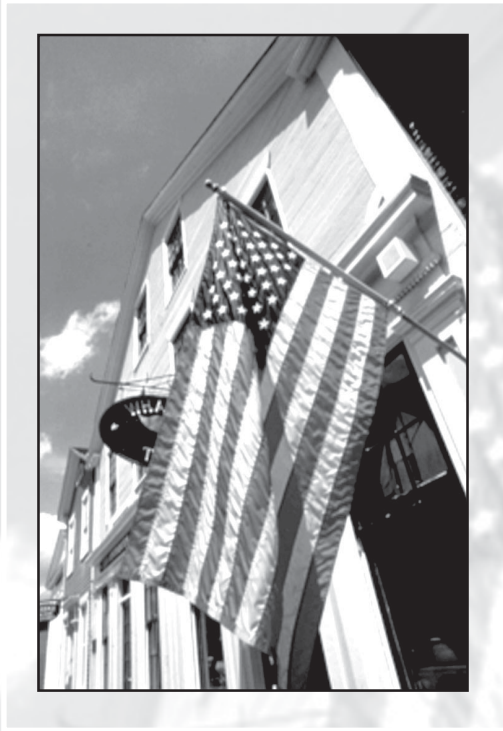
Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2001	30,932	2.4%	39,855	3.9%	128.8%
2000	30,209	5.8%	38,351	7.9%	126.9%
1999	28,542	4.5%	35,551	6.5%	124.6%
1998	27,322	5.6%	33,394	6.6%	122.2%
1997	25,874	5.0%	31,332	5.8%	121.1%
1996	24,651	4.6%	29,618	5.6%	120.1%
1995	23,562	4.3%	28,051	4.5%	119.1%
1994	22,581	4.0%	26,841	4.6%	118.9%
1993	21,718	3.0%	25,664	3.2%	118.2%
1992	21,082	4.9%	24,876	4.7%	118.0%
1991	20,089	2.6%	23,749	2.3%	118.2%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2001 as of June 30, 2001, population for per capita calculation from MISER

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change
1991 - 2001**



Katherine Lee Bates was born in Falmouth in 1859 and graduated from Wellesley College. She later taught there for many years. She was known for her work on the history of American literature. In 1893 after viewing Pike's Peak, she was inspired to write a poem. It was revised over the years. That poem, published by the *Boston Evening Transcript* in 1904, was later set to a melody by Samuel Ward and became "*America the Beautiful*."



New Bedford Historic District

In 1893, when she was thirty-four, Katharine Lee Bates was invited to teach summer school in Colorado Springs. "*One day some of the other teachers and I decided to go on a trip to 14,000-foot Pikes Peak. We hired a prairie wagon. Near the top we had to leave the wagon and go the rest of the way on mules. I was very tired. But when I saw the view, I felt great joy. All the wonder of America seemed displayed there, with the sea-like expanse.*"

Most everyone is familiar with the first two stanzas, but perhaps not these:

*O beautiful for heroes proved
In liberating strife.
Who more than self their country loved
And mercy more than life!
America! America!
May God thy gold refine
Till all success be nobleness
And every gain divine!*

*O beautiful for patriot dream
That sees beyond the years
Thine alabaster cities gleam
Undimmed by human tears!
America! America!
God shed his grace on thee
And crown thy good with brotherhood
From sea to shining sea!*

*O beautiful for glory-tale
Of liberating strife
When once and twice,
for man's avail
Men lavished precious life!
America! America!
God shed his grace on thee
Till selfish gain no longer stain
The banner of the free!*

Courtesy, Falmouth Historical Society