

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2002*

***Martin J. Benison, CGFM***  
*Comptroller of the Commonwealth*

*This document and related information are available at*



*"Your Government, Your Way"*

*The Office of the Comptroller's home page is [www.mass.gov/osc/](http://www.mass.gov/osc/)*

"After eight consecutive sub-.500 seasons, including a second straight ninth-place finish in the American League in 1966, Red Sox general manager Dick O'Connell decided to place his faith in the young, brash, and confident Dick Williams, who had successfully managed his Triple-A affiliate in Toronto. After accepting the job, Williams was asked how he thought the team would do in the upcoming 1967 season. He predicted, "We'll win more than we lose."

Beating 100 to 1 odds to win the American League pennant with a team of young players and two budding superstars in Carl Yastrzemski, who won the MVP and the Triple Crown, and Jim Lonborg, who won the Cy Young Award, the team became known as the "Impossible Dream" Red Sox. Unfortunately they fell one game short of a World Series Championship, losing Game 7, 7-2, to the St. Louis Cardinals.

In a different era and a different sport, but part of the same starving-for-a-championship fan base, New England Patriots head coach Bill Belichick, off a 5-11 last-place season in the American Football Conference East division in 2000, said of his team's chances in 2001, "We'll be more competitive. We'll have more depth."

On the evening of February 3, 2002, at the Superdome in New Orleans in a suspended second or two, kicker Adam Vinatieri proceeded toward the ball with short, swift steps, driving it with the full force of his right leg, creating a perfect follow-through that sent the ball end-over-end 48 yards through the uprights and into all time. Vinatieri extended his arms in triumph.

The Patriots –the "Impossible Team" –had paid back St. Louis for an entire generation of frustrated Boston sports fans, beating the 14-point favorite St. Louis Rams in Super Bowl XXXVI, 20-17.

Hearts raced as the historic significance of the evening turned screams and cheers to tears. From the players to the coaches, from the owner to the fans watching at the Superdome, and from bars in Copley Square in Boston to the "End Zone" in Foxboro, people were watching—almost 1.3 million viewers, the most-watched program in Boston television history.

This sportswriter sat motionless in his seat in the press box at the Superdome in New Orleans, as the field area was a sky of confetti and players were leaping onto the field and into each other's arms.

Quickly, with an NFL type hovering over my shoulder, waiting for the ballot I was contemplating, I had to make the tough decision on who would be the game MVP. After all, what I had witnessed through 16 games and an equally improbable postseason was the epitome of the word team."

From *The Impossible Team*  
*The Worst to First Patriots' Super Bowl Season*  
By Nick Cafardo  
Triumph Press

Cover photography courtesy of George Martell and the Boston Herald

The Patriots coming onto the field of the Superdome after being introduced not as individual players, but at their request, as a team.

The Patriots Superbowl championship was the first in the franchise's 42-year history.

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For the Fiscal Year Ended June 30, 2002

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# INTRODUCTORY SECTION



*Letter of Transmittal*  
*Certificate of Achievement*  
*Commonwealth Organizational Structure*  
*Principal State Officials*

Americans love sports because they represent the most conspicuous manifestation of our democratic ideals. In principle, America was founded partly on the notion of meritocracy; nowhere in our society has this ideal found better expression than in sports . . . in the world of sports, the mantle of greatness will forever be granted to the unconnected among us with enough talent, courage, and perseverance to stake a claim.

Nowhere on Earth are sports a bigger deal (both from a business perspective and a fan interest level) than in America. And nowhere in America are sports a bigger deal than they are in Boston. For nearly two centuries, the city has been an unrivaled center of sports on all levels. Nowhere has the “American Dream” been better expressed through the games we play.

Boston is the Hollywood of sports. No city has a greater or more diverse sports history or embraces the sweaty endeavors of its teams and athletes with such unbridled passion. Some say that the one aspect of life that unites all Bostonians, apart from a rabid interest in politics, is sports.

Boston has been a sports mecca since renegade Puritans first raced horses south of the Shawmut Peninsula nearly four centuries ago. No less a historic figure than Ben Franklin was recognized as one of the best athletes in the Massachusetts Bay Colony in the early eighteenth century. The same British naval officers who would come to curse his name in later years gladly bet their shillings and crowns on the young apprentice boy as he challenged all comers to swimming races in Boston Harbor. Today the L Street Brownies ply the same waters as Franklin, and the bets are more likely to be placed on another tribe of Patriots.

Boston is the home of countless sports “firsts,” such as the first baseball dynasty (the Red

Stockings, who won four of five National Association pennants from 1871 to 1875), the first American NHL franchise (the Boston Bruins), and the first World Series Champions (the 1903 Boston Americans) among others. It is also home to the oldest indoor ice arena in the world (Matthews Arena, c. 1910) and the oldest concrete stadium in America (Harvard Stadium, c. 1903).

Bostonians know their games the way Londoners know the theater. And, like theater, so much of the experience of attending a game involves that intangible quality called atmosphere, which depends in part upon the knowledge and involvement of the crowd. The Boston Garden had tremendous atmosphere. In fact, any big game at Boston Garden could have been graded on two very quantifiable scales — heat and noise. Never has there been an indoor arena where the emotional barometer of a crowd has fluctuated as wildly or had as great an impact on events. Similar atmosphere can be found at Fenway Park, Matthews Arena, Harvard Stadium for the Yale game and the Back Bay during the Marathon.

Bostonians have been and always will be connected by the games they watch and the teams they support. In a city where tradition is everything, Bostonians are willing to pay the highest ticket prices and endure the worst traffic for the genuine article. After witnessing an Impossible Dream pennant, sixteen Celtics world championships, three improbable Super Bowl teams, the Big Bad Bruins, and a host of memorable events like the marathon, the men’s and women’s World Cups, and a most unforgettable Ryder Cup, Bostonians always expect that some measure of magic resides in almost any game. For most of the past century, sports in Boston have delivered nothing less.

Text from: *A Century of Boston Sports*  
by Richard Johnson  
Northeastern University Press

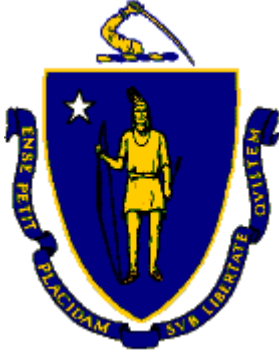
# Introductory Section

*Letter of Transmittal*  
*Certificate of Achievement*  
*Commonwealth Organizational Structure*  
*Principal State Officials*





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

***December 30, 2002***

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

I am pleased to transmit to you the Commonwealth's fiscal 2002 Comprehensive Annual Financial Report (CAFR) in the new format prescribed under Government Accounting Standards Board (GASB) Statements 34, 35, 37 and 38. This report is the culmination of a three-year process that involved many departments and authorities of the Commonwealth and countless hours of analysis, preparation and audit.

The report is the primary means of reporting the Commonwealth's financial activities. The objective of this new model is to provide a clearer picture of our government as a single, unified entity, while retaining certain traditional financial information previously provided.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the book includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary process. In the Commonwealth this is referred to as statutory basis. More detailed information on the statutory basis of accounting and the results on that basis from fiscal 2002 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget. Each state maintains different rules for this basis and therefore these statements should not be used for comparison across states.

The fund perspective statements on pages 37 to 49 present the governmental operation on the same basis (modified accrual basis of accounting) as previous CAFR's with one exception. The account groups for long-term debt and fixed assets have been deleted. In addition, there is a perspective difference. Certain funds that are shown as fiduciary under this perspective are not portrayed under GASB34, or are reclassified. This basis is designed to measure inter - period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long - term liabilities are excluded with the implicit assumption that future tax revenues will fund them. This fund perspective continues to provide results similar to the statutory basis financial statements published in October.

In addition to this "fund perspective," the new CAFR presents an "entity wide" perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting. All fixed assets, including road and bridge infrastructure, are added to the statements as are long - term liabilities such as outstanding debt.

The balance sheet has been reorganized into a “net assets format.” This format classifies assets and liabilities as short and long-term and then subtracts those liabilities from assets to arrive at net assets similar to a private company. Second, the statement of net assets includes capital assets not previously found on the Commonwealth’s balance sheet, including the historical cost of infrastructure including roads, bridges, tunnels and dams owned by the Commonwealth, net of accumulated depreciation. It also includes the long – term debt and commitments of long - term assistance to municipalities and authorities, previously not in the calculation of fund balance.

The Commonwealth’s statement of revenues, expenditures and changes in fund balances has been completely reorganized to a new statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The reader of the financial statements can now discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

To understand the difference between the Commonwealth’s budgetary fund balance and the GAAP basis fund perspective balance, as depicted in the fund financial statements and the Commonwealth’s governmental financial position under this new presentation, a series of accruals and adjustments must be analyzed as follows:

**Governmental Funds - Statutory to GAAP - Fund Perspective and to  
Governmental Net Assets**  
(Amounts in millions)

<b>Governmental Fund Balance - Statutory Basis, June 30, 2002.....</b>	<b>\$ 2,274.4</b>
Plus: Expendable Trust and Similar Fund Statutory Balances that are	
considered Governmental Funds under GASB 34.....	229.9
Liability Management Fund Net Assets.....	1.7
Owner Controlled Insurance Program Net Assets.....	239.9
Debt Service Fund Net Assets.....	<u>236.5</u>
<b>Adjusted Statutory Governmental Fund Balance .....</b>	<b>2,982.4</b>
Accruals, net of allowances and deferrals for {Increases / (decreases)}:	
Taxes.....	\$ 646.5
Medicaid.....	(393.1)
Compensated absences.....	(246.1)
MBTA.....	(23.7)
Massachusetts Water Pollution Abatement Trust.....	(33.8)
Massachusetts Turnpike Authority.....	(16.1)
Regional transit authorities .....	(72.5)
Other nonmajor component unit accruals .....	(4.6)
Uncompensated care liability .....	(110.3)
Claims, judgements and other risks.....	(76.1)
Workers' compensation and group insurance .....	(85.3)
Other accruals .....	<u>(99.4)</u>
Net increase / (decrease) to governmental fund balances.....	<u>(514.5)</u>
<b>Governmental fund balance (fund perspective) .....</b>	<b>\$ 2,467.9</b>
Plus: Fixed asset including infrastructure.....	25,641.2
Less: Accumulated depreciation.....	(6,414.3)
Plus: Deferred revenue.....	317.1
Less: Long term liabilities .....	<u>(29,427.4)</u>
<b>Total governmental net assets (entity wide perspective).....</b>	<b><u>\$ (7,415.5)</u></b>



This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of the Commonwealth's economic performance, a review of current initiatives and summary financial data. This section contains information that existed as of June 30, 2002. The **Financial Section** contains a Management's Discussion and Analysis (MD&A) section. Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth's MD&A can be found immediately following the independent auditor's report from Deloitte and Touche, LLP. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

### **REPORTING ENTITY**

The financial statements incorporate 156 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (MMARS) operated by the Office of the Comptroller.

In addition, the financial statements include 28 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 financial statements.

### **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, Deloitte and Touche, LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA with assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2002. 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.

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.

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.mass.gov/sao>.

The Office of the Comptroller prepares these statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

## **GOVERNMENT FINANCE OFFICER'S ASSOCIATION AWARD**

In fiscal year 2002, the Government Finance Officer's Association 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, 2001. 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 twelfth consecutive year that the Commonwealth has received this award.

## **RECOMMENDATIONS, CONCLUSIONS AND OTHER ACCOMPLISHMENTS**

The Commonwealth has many accomplishments in fiscal 2002 of which it can be proud.

The Office of the Comptroller has undertaken a major effort to build a more collaborative working relationship among members of this office and Chief Fiscal Officers (CFOs) of the Commonwealth in a program we call "PARTNERS in Financial Management" The second CFO conference brought together CFOs from across the Commonwealth for two days of meetings. PARTNERS stands for people, accountability, responsibility, trust, negotiation, efficiency, risk assessment and mitigation, and solutions. We have enhanced the mantra that all systems, big and small, depend on people who are integral to those systems. This recognizes that fiscal officers of the Commonwealth are all accountable for their actions, ensuring the uncompromising integrity of the financial statements of the Commonwealth. We must maintain this standard to maintain the public trust. The Office of the Comptroller continued to increase delegation this year to individual departments due to the level of trust that we have with them, based on prior results. We

must continually strive to balance accountability with efficiency, especially in order to continually serve the citizens of the Commonwealth, our customers. This balancing also targets controls to result in effective risk mitigation. Finally, we strive to find solutions to many of the Commonwealth's problems in conjunction with the rest of the CFOs, so that full input is heard.

Last year, the Commonwealth started the process of consolidating its web sites to better serve the citizens of the Commonwealth. With service to our citizens as key, the Commonwealth's new web portal "Mass.Gov" promises to bring government closer to the people. Mass.Gov is customer-focused. It provides services according to the needs of citizens and businesses, not according to government structure. Citizens are able to quickly find the information and services they need without having to navigate the bureaucracy of government. Mass.Gov provides comprehensive, integrated, and seamless services that our citizens will be able to bring into their homes or businesses at their convenience, twenty-four hours a day, seven days a week. The Office of the Comptroller contributed to joint projects with ITD to build internet based shared services for use by all internet based applications. In addition we continued to roll out new technology with real benefits to state departments and taxpayers. This year we released an internet based front end to the Billing and Accounts Receivable System allowing institutions of higher education to provide information regarding non performing receivables to the Comptroller for potential intercept against Commonwealth payments or tax refunds. This technology was developed so that any government entity authorized in statute could take advantage of this tool. In addition we piloted new financial software simplifying the vendor registration process, reducing administrative workloads in departments and reducing the time from contract registration to completed vendor registration.

In May of 2002, the Legislature enacted Information Technology Bond III, authorizing \$300 million for the Commonwealth to upgrade its technology infrastructure. Included in this legislation is funding for the Commonwealth to upgrade the statewide financial system from the 1980's, MMARS to a state of the art internet-based financial system. Last month, the Office of the Comptroller and the Information Technology Division entered into a joint project with American Management Systems, (AMS), of Fairfax, Virginia, to upgrade this key financial system. The new system is slated to be completed in time for the opening of FY05. This project will focus on changing business practices in order to minimize customization to this product. This strategy will insure the Commonwealth can upgrade to current releases in the future at a reasonable cost. The goal is to keep current with technology in the future and at the same time control the total cost of system ownership. Benefits will accrue directly to the users of the financial system. In addition, this updated technology will allow for the future integration of Commonwealth internet-based applications into "back office" financial systems. The Comptroller, the Information Technology Division and AMS have assigned a highly motivated, highly dedicated team to this project to insure its success.

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 must express special thanks to those



in the Commonwealth who worked tirelessly to implement the new financial statement. Individuals throughout state government valued and depreciated infrastructure. Institutions of higher education and the Commonwealth public authorities needed to work in concert with their auditors and my office to adopt and implement new accounting policies and procedures. This additional work came at a time when administrative resources were being reduced. While many governments sought additional resources for this task, the Commonwealth redeployed existing resources to implement this standard at no additional cost. Special thanks goes to Eric Berman who led this effort on behalf of the Commonwealth and is now looked to nationally as one of government's leading experts on this new standard. To Eric and the Financial Reporting and Analysis Bureau – I thank you. Our office has undertaken many tasks this year. We are embarking on the redesign of the state accounting system, MMARS. This will be a significant effort but will provide enduring benefits to the Commonwealth. I am proud to have all the employees of the Comptroller's Office on my team to help tackle these and other difficult issues in the future.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth

**REPORT PREPARED BY:**

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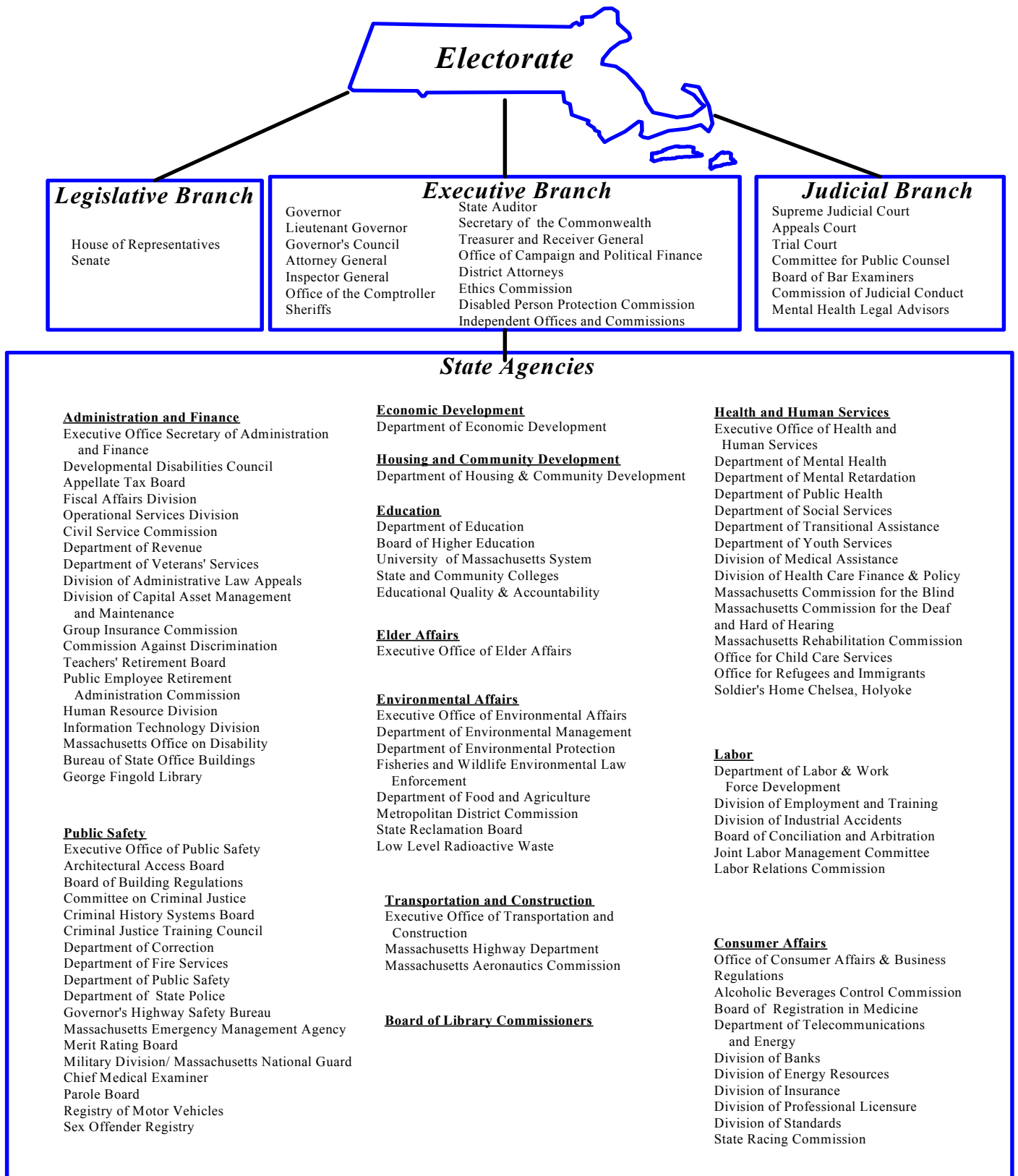
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*Director Resource Management*



## **CONSTITUTIONAL OFFICERS**

Jane Swift  
*Governor*

W. Mitt Romney  
*Governor - Elect\**

Kerry Healey  
*Lieutenant Governor – Elect\**

William F. Galvin  
*Secretary of State*

Thomas F. Reilly  
*Attorney General*

Shannon P. O'Brien  
*Treasurer and Receiver-General*

Timothy Cahill  
*Treasurer and Receiver – General - Elect\*\**

A. Joseph DeNucci  
*Auditor*

## **LEGISLATIVE OFFICERS**

Thomas F. Birmingham  
*President of the Senate*

Thomas M. Finneran  
*Speaker of the House*

## **JUDICIAL OFFICERS**

Margaret H. Marshall  
*Chief Justice, Supreme Judicial Court*

Christopher J. Armstrong  
*Chief Justice, Appeals Court*

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

*\*Governor and Lieutenant Governor - Elect takes office January 2, 2003*

*\*\* Treasurer and Receiver – General - Elect takes office January 15, 2003*

## **ADVISORY BOARD TO THE COMPTROLLER**

Kevin J. Sullivan (Chair)  
*Secretary for Administration and Finance*

A. Joseph DeNucci  
*Auditor*

Shannon P. O'Brien  
*Treasurer and Receiver-General*

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

Presented to

Commonwealth of  
Massachusetts

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

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.



*William Patrick Pate*  
President

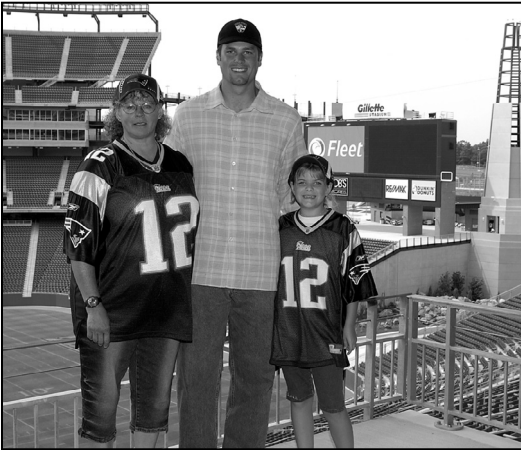
*Jeffrey L. Esser*  
Executive Director



In 1862 Boston Common, the public park in the middle of downtown Boston, was the site of the first football game ever played. Twelve years later, the first college football game was played in Cambridge between Harvard College and McGill University. Boston has been home to five different football teams, including two that later became the Washington Redskins and Indianapolis Colts. The most recent of the five, the New England Patriots, came to town in 1960.

The Patriots first played at Boston University. After three seasons, the team relocated to Fenway Park. For the 1969 season they played at Boston College and in 1970 at Harvard Stadium. In 1971, the Patriots moved to Foxboro to what is now known as Foxboro Stadium.

This year, the Patriots moved for hopefully the last time to Gillette Stadium, the first state-of-the-art football stadium in New England, and the largest, multi-purpose entertainment venue in the region. It boasts a bridge and a 12-story lighthouse. The seating capacity is 68,000 with over 2,000 seats in 80 luxury suites, 3,000 in two clubhouses and 680 wheelchair and companion spaces. It has over 350 concession stands and 1,000 television monitors.



The first soccer game in America was played in Boston Common. The beautiful game — aka soccer — flourished in Boston in the twenties as an influx of former professional and even a few national team players from England, Scotland and Northern Ireland immigrated. Boston still remains a strong base for soccer players. The New England Revolution took the Los Angeles Galaxy into double overtime in this year's Major League Soccer Cup. L.A. won the championship in front of an MLS record-breaking 61,316 fans at Gillette Stadium.

This season the Boston Breakers became the first team in league history to finish undefeated at home. In November, the U.S. Women's National Team won the 2002 Women's Gold Cup in dramatic fashion with a 94th minute “golden

goal” from Mia Hamm in sudden death overtime to defeat Canada, 2-1, in the championship game. Five Boston Breakers players, representing three countries, participated.

# *Financial Section*

*Independent Auditors' Report*

*General Purpose Financial Statements*

*Notes to General Purpose Financial Statements*

*Combining and Individual Fund Statements and Account Group Schedules*



On February 4th, 2002, the coldest day of the year, it was 15 degrees. An estimated 1.2 million people came to Boston and crammed into City Hall Plaza and stood 15 deep all along the route of a victory rally for the Patriots. Many of them arrived before dawn.

The parade started at noon with a flotilla of thirteen “Duck Tour” amphibious vehicles with the Patriots and the championship trophy on board. Fans roared, church bells rang and people threw confetti. It was the first time Boston held a victory parade for a hometown team since Larry Bird and 1986 Celtics won the NBA championship.





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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2002, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the institutions of higher education nor their blended component units, which represent 63.5% percent and 49.6% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets of the Government-wide Financial Statements. We also did not audit 98.9% and 100% respectively of the total assets and total revenues of the Commonwealth's Component Units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the Massachusetts State Lottery Commission, the financial statements of which reflect .3% and 15.3% of the assets and the revenues, respectively of the Governmental funds (as presented in the Combining Balance Sheet of the Governmental Fund Financial Statements) and .1% and 15.2% of the total assets and total revenues, respectively of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the Owner Controlled Insurance Program, the financial statements of which represent 2.6% and .03% of the assets and the revenues, respectively of the Governmental funds (as presented in the Combining Balance Sheet of the Governmental Fund Financial Statements) and 1.1% and .03% of the total assets and total revenues, respectively of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust, the financial statements of which represent 87.9% and 100% of the total assets and total additions of the Fiduciary Fund Types (as presented in the Government-wide Financial Statements). 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 in the the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the fiscal year ended June 30, 2002 the Commonwealth adopted the provisions of GASB Statements No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method and included the requirement for reporting a Management’s Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

Also as discussed in Note 1, beginning net assets and fund balance have been restated to account for the correction of an error in the Internal Service Funds in the prior year.

The Management’s Discussion and Analysis, on pages 19 through 30, as well as the Combined Schedule of Revenues, Expenditures and Changes in Fund Balance – Statutory Basis – Budget and Actual and notes thereto, on pages 104 through 106, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combining Balance Sheet – Non-major Governmental Funds and the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-major Governmental Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic 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 basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 30, 2002



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## Management's Discussion and Analysis

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements, which follow. Unlike the letter of transmittal, this analysis is required by the Governmental Accounting Standards Board, (GASB,) which provides preparers with guidelines on what must be included and excluded from this analysis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Because the Commonwealth is implementing new reporting standards for fiscal 2002, resulting in significant changes in content and structure, much of the information is not comparable to prior years. However, in future years, comparisons will be more meaningful and will go farther towards explaining the Commonwealth's financial position and results of operations.

### Financial Highlights – Primary Commonwealth Government

#### *Government – Wide Highlights*

- ♦ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2002 by nearly \$4.4 billion. Of this amount, “unrestricted net assets” is reported as a negative \$15.5 billion. The primary reason for this is that the Commonwealth is incurring long term obligations to either construct or assist political subdivisions in constructing assets owned by these political subdivisions. For example, upon completion the Central Artery / Third Harbor Tunnel will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth is currently constructing these assets and significant debt is being incurred in that process. There are also large restricted net asset balances set aside for capital projects, unemployment benefits and debt retirement. Unrestricted net assets represent the amount available to be used to meet the Commonwealth's ongoing obligations to its citizens and creditors.
- **Changes in Net Assets** – The Commonwealth's net assets decreased by over \$3.7 billion in fiscal 2002. Net assets of governmental activities decreased by over \$3.0 billion. This decrease in net assets is primarily attributable to the Commonwealth spending down its reserves and the sudden decline in tax revenues. For the fiscal year, the Commonwealth's tax revenues dropped \$2.4 billion below prior year collections. Net assets of the business – type activities showed a decrease of nearly \$739 million. Expenses of governmental activities were nearly \$30 billion, while general revenue (taxes, investment income and tobacco settlement income) from governmental activities was slightly over \$13.3 billion.
- ♦ **Governmental Funds – Fund Balances** – As of the close of fiscal year 2002, the Commonwealth's governmental funds reported a combined ending fund balance of nearly \$2.5 billion. Of the \$2.5 billion:

#### *Fund Highlights*

**Reserves Used to Balance the Budget**  
(Amounts in Thousands)

	FY02	FY03 (as budgeted)
Stabilization.....	\$ 1,030,000	\$ 550,000
Transitional Escrow.....	422,000	-
Health Care Security Trust .....	60,000	-
Caseload Mitigation .....	56,000	75,000
Medical Security Trust .....	35,000	-
Tax Reduction .....	33,605	-
MBTA Infrastructure Renovation .....	24,000	-
Massachusetts Clean Elections .....	-	20,164
Ratepayer Parity Trust .....	-	31,793
Operating Surpluses Transferred from Capital Projects .....	176,174	-
<b>Total Completed and Estimated</b>		
<b>Budgetary Transfers .....</b>	<b>\$ 1,836,779</b>	<b>\$ 676,957</b>

**Budget – Funded Workforce**  
(Full – Time Equivalents)

	Governor's Authority	Judiciary	Other
1998	54,939	7,309	4,766
1999	56,295	7,829	6,403
2000	57,029	8,013	7,171
2001	58,030	8,204	7,421
2002	53,257	7,379	7,119

Source: Executive Office for  
Administration and Finance

- \$226 million, net deficit, represents the “unreserved and undesignated fund balances” largely due to a \$1.1 billion deficit in the local aid fund and a nearly \$540 million deficit in the highway capital projects fund due to the timing of bond sales. The unreserved general fund balance of over \$1.4 billion offsets these deficits.
- Governmental reserves total nearly \$2.7 billion. They include \$86 million for continuing appropriations, \$881 million for stabilization, \$1 billion reserve in bond proceeds reserved for capital projects, largely connected with the Central Artery / Tunnel (CA/T) project and \$351 million reserved for retirement of indebtedness. During the year, the reserve for stabilization saw a dramatic decline due to measures passed to balance the budget. Other reserves that were used in this fashion are depicted at the left.

The unreserved and undesignated deficit balance of nearly \$226 million is roughly 0.7% of the \$30 billion of governmental fund expenditures for 2002.

To meet the fiscal challenges of fiscal 2002 and beyond, the Commonwealth took a series of measures to remain in fiscal balance.

- ◆ The Commonwealth transferred over \$1 billion out of stabilization during fiscal 2002 including \$442 million transitioned from fiscal 2001. An additional \$550 million will be transferred from stabilization in fiscal 2003.
- ◆ Over \$176 million in operating surplus previously set aside to fund capital projects was removed from capital projects funds.

The Commonwealth also took other operational measures to achieve balance.

- ◆ 3,240 employees took advantage of an early-retirement program offered by the Commonwealth in the executive branch and higher education, saving the Commonwealth \$30.8 million in fiscal 2002 and \$165.8 million in FY03. Filling of vacancies in these positions amounted to \$1.4 million in fiscal 2002 and is expected to amount to \$29 million in fiscal 2003. Additional staff reduction measures, including layoffs, have commenced.
- ◆ A tax package estimated to increase tax revenues by \$1.1 billion in FY03 was enacted including increases in taxes on cigarettes and capital gains, the elimination of the personal income tax charitable deduction, and increases in personal income tax exemptions.
- ◆ In addition, the fiscal 2003 General Appropriations Act increased certain fees.

The Governor during fiscal 2002 used her gubernatorial powers as authorized in Massachusetts General Laws Chapter 29, Section 9C to reduce spending. This practice has continued in fiscal 2003.

Finally, the Treasurer – Receiver General refunded \$1.4 billion in older, higher interest debt to take advantage of historically low interest rates to save on current debt service.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting and other supplementary information, in addition to the basic financial statements themselves.

### Government – wide Financial Statements and how they relate to other perspectives

These new **government - wide financial statements** present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which presents the assets, liabilities and net assets for the government as a whole, and the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements have separate sections for three different types of Commonwealth programs or activities. These activities are *Governmental Activities*, *Business-Type Activities* and *Discretely Presented Component Units*.

The government – wide financial statements can be found immediately following this discussion and analysis.

### Fund Financial Statements and Major Component Unit Financial Statements

*Funds* are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Their financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government – wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*. Further discussion on the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. They operate similar to private - sector businesses. Major component units are presented discretely along with minor component units in the aggregate.



## Notes to the Financial Statements and Required Supplementary Information

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government – wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes a budgetary comparison schedule, which contains a reconciliation comparing the original general appropriation act, all supplemental appropriations and actual budgetary spending. A variance column is also provided. The ending balance contained in this statement is the budgetary fund balance. The fund balance for the General Fund as presented in the governmental fund financial statements. Other supplementary information includes combining schedules for nonmajor governmental funds.

## GOVERNMENT – WIDE FINANCIAL ANALYSIS

### Net Assets

#### *Major Long – Term Obligations for Assets of Political Subdivisions (amounts in millions)*

Municipal school construction grants .....	\$	3,629
Bonds issued to fund the MBTA .....		625
Central Artery / Tunnel Project to be transferred to the Turnpike.....		9,311
Central Artery / Tunnel Project to be transferred to Massport.....		355
Change in Unrestricted Net Assets due to Items Unique to the Commonwealth.....	\$	<u>13,920</u>

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of nearly \$4.4 billion at the end of 2002. The *unrestricted net assets* are negative by \$15.5 billion. Of this \$15.5 billion, nearly \$14 billion is a result of three activities where the Commonwealth decided to fund assets that it does not own. Among other things, this was due to the aforementioned Commonwealth bonding for the Central Artery / Tunnel Project (project) capital costs. Pursuant to the Metropolitan Highway System legislation from 1997, the project will transfer primarily to the Massachusetts Turnpike Authority, a component unit of the Commonwealth, upon each segment's completion. In effect, the assets will largely be with the Turnpike Authority, while a large portion of the liabilities will remain with the Commonwealth. In addition, the Commonwealth funds a large portion of debt issued by cities and towns to construct or rehabilitate their schools. These obligations are part of the school construction grants program (known as school building assistance). These liabilities amount to approximately \$3.6 billion at June 30, 2002.

Exclusive of assets where the Commonwealth acts as a fiduciary, the Commonwealth's current cash and investments decreased by nearly \$1.7 billion between July 1, 2001 and June 30, 2002. This is directly due to the drop in tax revenue and continuation or rises in the Commonwealth's core expenses for debt service, Medicaid and direct local aid. The year was marked by a significant amount of commercial paper borrowing due to fiscal conditions to finance events such as the payment of local aid. Over \$1.8 billion was also drawn from longer – term reserves to pay for current expenses and nearly \$2.1 billion was expensed from the unemployment compensation fund due to the downturn in the economy.

Long – term assets increased by about \$2.3 billion. A total of \$20.7 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB Statement 34 requires the addition of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets for the first time to the face of the

Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were \$7.7 billion, while its current liabilities were nearly \$6.6 billion. Restricted net assets noted above represent resources that are subject to external constraints on resources. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year.

**Net Assets as of June 30, 2002**  
(in millions of dollars)

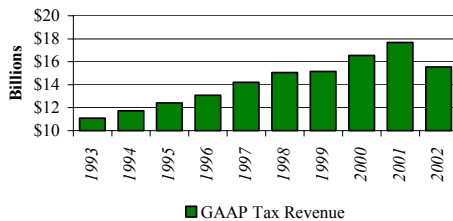
	<b>June 30, 2002</b>		
	<b><u>Governmental</u></b>	<b><u>Business-Type</u></b>	<b><u>Total Primary</u></b>
	<b><u>Activities</u></b>	<b><u>Activities</u></b>	<b><u>Government</u></b>
Current and other non-capital assets.....	\$ 7,424	\$ 3,012	\$ 10,436
Capital assets .....	<u>19,227</u>	<u>1,486</u>	<u>20,713</u>
<b>Total Assets</b>	<b><u>26,651</u></b>	<b><u>4,498</u></b>	<b><u>31,149</u></b>
Long-term liabilities .....	28,084	853	28,937
Other liabilities .....	<u>5,982</u>	<u>585</u>	<u>6,567</u>
<b>Total Liabilities</b>	<b><u>34,066</u></b>	<b><u>1,438</u></b>	<b><u>35,504</u></b>
Net assets:			
Invested in capital assets,			
net of related debt .....	5,611	1,032	6,643
Restricted .....	2,694	1,784	4,478
Unrestricted .....	<u>(15,721)</u>	<u>244</u>	<u>(15,477)</u>
<b>Total Net Assets .....</b>	<b><u>\$ (7,416)</u></b>	<b><u>\$ 3,060</u></b>	<b><u>\$ (4,356)</u></b>

**Changes in Net Assets**  
(Amounts in millions)

<b>Total net assets as of June 30, 2001 .....</b>	<b>\$ (612)</b>
Decrease in cash, investments, receivables and payables .....	(3,012)
Increase in capital assets, net of accumulated depreciation .....	2,367
Increase in outstanding long - term obligations .....	<u>(3,099)</u>
<b>Total Net Assets, June 30, 2002 .....</b>	<b><u>\$ (4,356)</u></b>

### Changes in Net Assets

#### Revenue from Taxation – GAAP Basis 1993-2002



The Commonwealth's net assets decreased by \$3.7 billion. This drop is directly due to dramatic declines in tax revenues while programmatic expenses remained largely unchanged, or in the case of health care related items, increased. From a fund perspective, Medicaid and Health and Human Services rose 9.5% combined or \$983 million from 2001. Approximately half of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. From a fund perspective, federal grants and reimbursements increased by over \$700 million this year, largely due to \$378 million being drawn in federal unemployment compensation grants and federal participation in the Medicaid program, coupled with large increases in operating grants and contributions activity at the Institutions of Higher Education. The largest drops in tax revenue were in income and corporate taxation, together amounting to nearly a \$2.3 billion decline. Sales taxation declined by \$47 million. Motor fuels and other taxation combined were down only \$9 million.

The Commonwealth's revenues are presented in the table and graphics that follow:

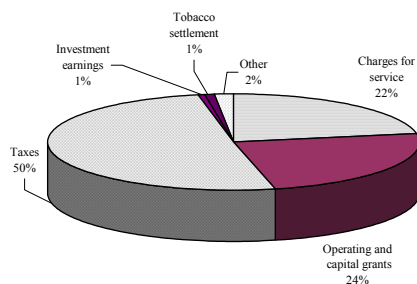
#### Changes in Net Assets as of June 30, 2002 (in millions of dollars except percentages)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Percentage of Primary Government</u>
<b>Revenues</b>				
Program Revenues .....	\$ 13,552	\$ 1,824	\$ 15,377	50%
General revenues				
Taxes .....	14,689	850	15,539	50%
Other .....	-	115	115	0%
<b>Total Revenues .....</b>	<b>28,241</b>	<b>2,789</b>	<b>31,031</b>	<b>100%</b>
<b>Expenses</b>				
Medicaid .....	5,979	-	5,979	17%
Direct local aid .....	5,253	-	5,253	15%
Health and human services .....	4,196	-	4,196	12%
Lottery .....	3,454	-	3,454	10%
Higher education .....	-	2,365	2,365	7%
Primary and secondary education .....	1,836	-	1,836	5%
Unemployment compensation .....	-	2,183	2,183	6%
Other .....	9,509	-	9,509	27%
<b>Total Expenses .....</b>	<b>30,227</b>	<b>4,548</b>	<b>34,775</b>	<b>100%</b>
<b>Excess (deficiency) before transfers .....</b>	<b>(1,986)</b>	<b>(1,759)</b>	<b>(3,744)</b>	
Transfers .....	(1,019)	1,019	-	
<b>Increase (decrease) in net assets</b>	<b>(3,005)</b>	<b>(740)</b>	<b>(3,744)</b>	
Net assets - beginning - restated .....	(4,411)	3,799	(612)	
<b>Net assets - ending .....</b>	<b>\$ (7,416)</b>	<b>\$ 3,059</b>	<b>\$ (4,356)</b>	

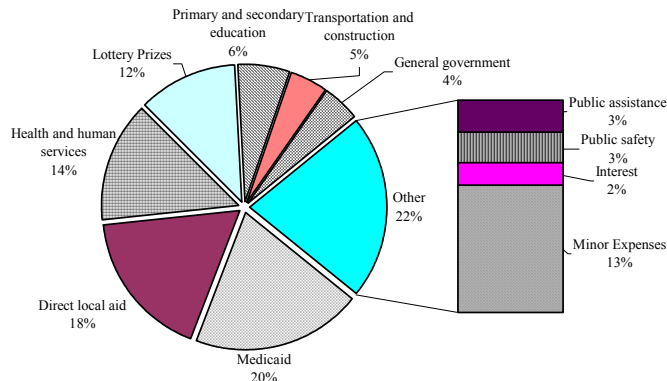
Of tax revenues received, the largest category is income taxes. Of the \$14.7 billion in tax revenue within governmental activities, \$8.3 billion was from income taxation, \$3.7 billion from sales, \$584 million from corporations, \$666 million from motor fuels and \$1.5 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. The largest capital grants are for transportation, including federal grants for the Central Artery / Tunnel project. Finally, Lottery revenues encompass approximately 2/3 of the charges for services.

20% of all the Commonwealth's governmental expenses are for Medicaid. However, it must be noted that over half of the Medicaid expenses are subsidized in the form of federal grants. These subsidies are noted below in the "charges for services" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, nearly 70% of these funds are earmarked for public education or related activities. Below is a chart that details some of the larger governmental expenses of the Commonwealth.

**Revenue – Governmental Activities**  
*Fiscal Year Ending June 30, 2002*

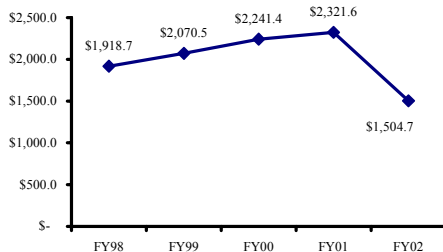


**Major Expenses – Governmental Activities**  
*Fiscal Year Ending June 30, 2002*



## Business – Type Activities

**Unemployment Compensation Fund**  
**Net Assets**  
*Fiscal Year Ending June 30, 2002*  
(Amounts in Millions)



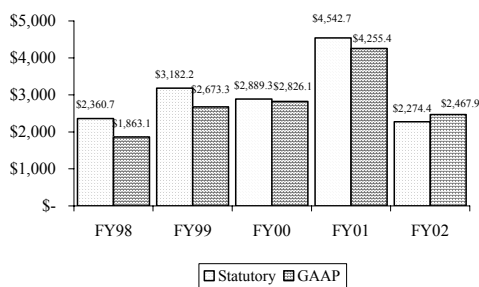
Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth under Statement 34, the institutions of higher education were judged to be such entities because of their lack of separate taxation. Also, Statement 34 requires unemployment compensation to be portrayed as a business – type activity.

The business - type activities decreased the Commonwealth's net assets by over \$739 million. This resulted from primarily an \$817 million decrease in the Commonwealth's Unemployment Compensation Fund due to the large increase in the number of unemployed workers during the year. This decline was offset by a \$78 million increase in the net assets of the schools of higher education, largely due to increases in net tuition and fee revenue (by nearly 25%) and in federal grants and reimbursements (by over 115%). The Unemployment Compensation Fund activity will be a significant indicator of the fiscal health of the business – type activities of the Commonwealth during any continued economic downturn.

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

### Governmental Funds

**Governmental Fund Balance  
Statutory vs. GAAP**  
(Amounts in Millions)



As noted earlier, the Commonwealth uses fund accounting to ensure and demonstrate interperiod equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

Governmental funds account for the near term inflows, outflows and balances of spendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental accruals. There are four major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals. From the governmental fund perspective, additional major adjustments are necessary to present the government wide statements, largely for debt and fixed assets activity.

### Governmental Fund Operations - GAAP Basis - Fund Perspective (Amounts in millions)

	FY98	FY99	FY00	FY01	FY02
Beginning fund balances .....	\$ 1,030.6	\$ 1,863.1	\$ 2,673.3	\$ 2,826.1	\$ 4,255.4
Restatement due to implementation of GASB 34 .....	-	-	-	-	551.2
Revenues and other financing sources .....	31,249.3	33,272.7	38,174.4	39,256.4	36,476.6
Expenditures and other financing sources .....	30,416.8	32,462.5	38,021.6	37,827.1	38,815.3
Excess / (deficiency) .....	832.5	810.2	152.8	1,429.3	(1,787.5)
Ending fund balances .....	<u>\$ 1,863.1</u>	<u>\$ 2,673.3</u>	<u>\$ 2,826.1</u>	<u>\$ 4,255.4</u>	<u>\$ 2,467.9</u>

As of the end of fiscal 2002, the Commonwealth's governmental funds reported combined ending fund balances of \$2.5 billion, a decrease of \$1.8 billion from the previous year. However, of the \$2.5 billion, the following amounts are reserved or committed:

#### Governmental Funds - Reserves of Fund Balances (Amounts in millions)

	2002	2001	Change	Percentage Change
Continuing appropriations .....	\$ 168.0	\$ 290.0	\$ (122.0)	-42%
Tax Reduction .....	-	33.6	(33.6)	-100%
Commonwealth stabilization .....	881.8	1,715.0	(833.2)	-49%
Retirement of indebtedness .....	350.8	109.3	241.5	221%
Capital projects .....	1,053.8	1,772.8	(719.0)	-41%
Central artery				
Workers Compensation .....	239.9	147.2	92.7	63%
Unreserved .....	(226.4)	187.5	(413.9)	-221%
<b>Total Fund Balances .....</b>	<b>\$ 2,467.9</b>	<b>\$ 4,255.4</b>	<b>\$ (1,787.5)</b>	

The tax reduction fund balance was transferred to the general fund as part of the measures taken to balance the budget. Over \$1 billion was used from the stabilization fund to balance the budget. The amounts reserved for capital projects represent projects that are in process, but have been bonded for in advance. As project costs are expended, the reserve will decrease. The bulk of these funds relate to the Central Artery / Tunnel project. The reserve for central artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance program. The reserve will continue to decline as claims arise during the windup of the project. The remaining \$226 million of the governmental fund balance is an unreserved and undesignated deficit.

The general, highway and local aid funds are the chief operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was over \$2.4 billion. Of this amount, over \$881 million was set aside administratively in the aforementioned Commonwealth's Stabilization fund. The remaining \$1.4 billion is unreserved. However, this balance offsets a combined deficit of an equal amount in the highway and local aid funds. The administration and the Legislature have taken a balanced approach using \$867 million from the Stabilization and Tax reduction reserves combined with necessary reductions in service levels throughout the Commonwealth. Another \$86 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund.

The fund balance of the general fund dropped by nearly \$355 million during fiscal 2002. This is largely due to lower tax revenues with increasing expenditures.

### **Proprietary Funds**

Proprietary Funds report activities of the Commonwealth that are structured similar to businesses. Proprietary funds provide the same type of information as the government – wide financial statements, only in more detail.

As discussed in the business – type activities above, the business type activities decreased the Commonwealth's net assets by over \$739 million.

### **BUDGETARY HIGHLIGHTS**

Differences between the original and final budget expenditures amount to over \$400 million. The supplemental budgets are summarized as follows:

- ◆ Increases in Medicaid spending by nearly \$300 million.
- ◆ Increases to Health and Human Services functions by \$162 million.
- ◆ Supplemental budgets to give incentives for early retirement.
- ◆ A final supplemental budget with acts necessary to close the fiscal year in balance.

Both the Medicaid and the remaining Health and Human Service functions increased as a result of prescription drug price increases.

The original budget was delayed for fiscal 2002 due to the aforementioned decline in tax revenues. After the passage of the budget in December 2001, several supplemental budgets were needed to address the costs of government, specifically Health and Human services functions. Of the \$300 million increase in these expenditures between the original and final budgets, almost all of this additional spending is in relation to the Medicaid program. Details of these changes are found in the required supplementary information following the footnotes to the financial statements.

The aforementioned draws on reserves could hamper the ability to provide services in the future at current levels without significant changes to revenue streams or expenditure structures.

**CAPITAL ASSET AND DEBT  
ADMINISTRATION**  
**Capital Assets**

The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$28.7 billion, net of accumulated depreciation of \$8.0 billion, leaving a net book value of \$20.7 billion. With the implementation of GASB Statements 34, 35, 37 and 38 as of July 1, 2001 (fiscal 2002), infrastructure assets are now reported on the Commonwealth's statement of net assets. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. Of the investment in capital assets noted above though, \$9.7 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project. An additional \$2 billion has already been transferred to these Authorities of completed portions of the project. Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure.

Including the implementation of infrastructure, the total increase in the Commonwealth's investment in capital assets from 2001 to 2002 was nearly \$16.1 billion, net of disposals and changes in accumulated depreciation. An additional \$912.2 million, net, was transferred from construction in process to fixed assets. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

*Continued*

The following table details the capital asset activity for the Commonwealth:

**Changes in Capital Assets**  
(net of depreciation - amounts in thousands)

	Governmental <u>Activities</u>		Business - type <u>Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land .....	\$ 643,917	\$ 595,295	\$ 68,185	\$ 63,814	\$ 712,102	\$ 659,109
Historical treasures .....	-	-	553	536	553	536
Construction in process .....	465,797	30,478	115,740	130,423	581,537	160,901
Construction in process - Central Artery / Tunnel Project .....	9,666,140	8,293,818	-	-	9,666,140	8,293,818
Buildings .....	1,326,480	648,038	922,153	788,395	2,248,633	1,436,433
Machinery and equipment .....	146,895	152,041	265,030	209,782	411,925	361,823
Infrastructure .....	6,977,621	7,318,142	-	-	6,977,621	7,318,142
Library collections .....	-	-	114,679	115,410	114,679	115,410
<b>Total .....</b>	<b>\$ 19,226,850</b>	<b>\$ 17,037,812</b>	<b>\$ 1,486,340</b>	<b>\$ 1,308,360</b>	<b>\$ 20,713,190</b>	<b>\$ 18,346,172</b>

## Debt Administration

The Commonwealth issues short-term and long-term debt that is primarily of a general obligation nature. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. The Commonwealth's outstanding governmental debt increased by nearly \$956 million, net of refunding issues, in fiscal 2002, largely for bonds issued related to the Central Artery / Tunnel project. In summary, nearly \$2.9 billion in general, special obligation and refunding debt was issued. For governmental purposes, the \$2.9 billion includes:

- ◆ Nearly \$1.4 billion in refunding bonds were issued including special obligation bonds issued in a "cross - over" refunding. The escrow funded by the refunding bonds and related premium secures the principal related to \$190 million of previously issued special obligation bonds, exclusive of call premiums, which will mature during fiscal 2003, 2004, 2006 and 2008. As these bonds are not defeased, a liability exists for the undefeased debt.
- ◆ Nearly \$1.5 billion in new general and special obligation debt was issued, taking advantage of some of the lowest interest rates in history.
- ◆ Over \$692 million in bond principal was repaid.

Additional information on the Commonwealth's short and long-term debt obligations can be found in the notes to the financial statements of this report.

Below is a table, which details the Commonwealth's debt activity for the fiscal year:



**Changes in Long - Term Debt Obligations**  
(net of related premiums and discounts - amounts in thousands)

	<u>Governmental Activities</u>		<u>Business - type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
General obligation bonds .....	\$ 12,691,884	\$ 11,957,934	\$ -	\$ -	\$ 12,691,884	\$ 11,957,934
Special obligation bonds .....	763,926	542,195	-	-	763,926	542,195
Revenue obligation bonds .....	-	-	670,430	575,148	670,430	575,148
Grant anticipation notes .....	1,499,325	1,499,325	-	-	1,499,325	1,499,325
<b>Total .....</b>	<b>\$ 14,955,135</b>	<b>\$ 13,999,454</b>	<b>\$ 670,430</b>	<b>\$ 575,148</b>	<b>\$ 15,625,565</b>	<b>\$ 14,574,602</b>

**ECONOMIC FACTORS AND NEXT  
YEAR'S BUDGETS AND RATES**

Massachusetts and the rest of the nation are in the midst of a profound economic downturn. Even though our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and full of ingenuity, no sector is immune from this current recession.

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.

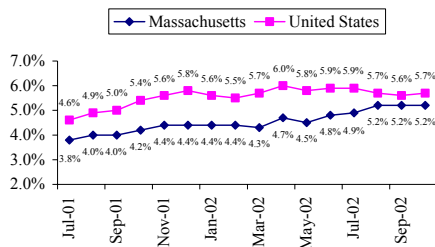
Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census has estimated that 35% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 25.1% for 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 1.9% from July 2001 to July 2002, as opposed to only 1.5% for the rest of the country.

As of October 2002, the unemployment rate in the Commonwealth stood at 5.2%. However, since fiscal 2000, the rate has dramatically risen. The Commonwealth, though, is still well below the national rate of 5.7%.

Due to the recession, tax revenues have dropped sharply in the Commonwealth. The largest drops have come from income taxes, which were down 18% from the previous year.

*Monthly Unemployment Rate  
July 2001 – October 2002*



**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.

# ***BASIC FINANCIAL STATEMENTS***

## ***Government-wide Financial Statements***

### ***Statement of Net Assets***

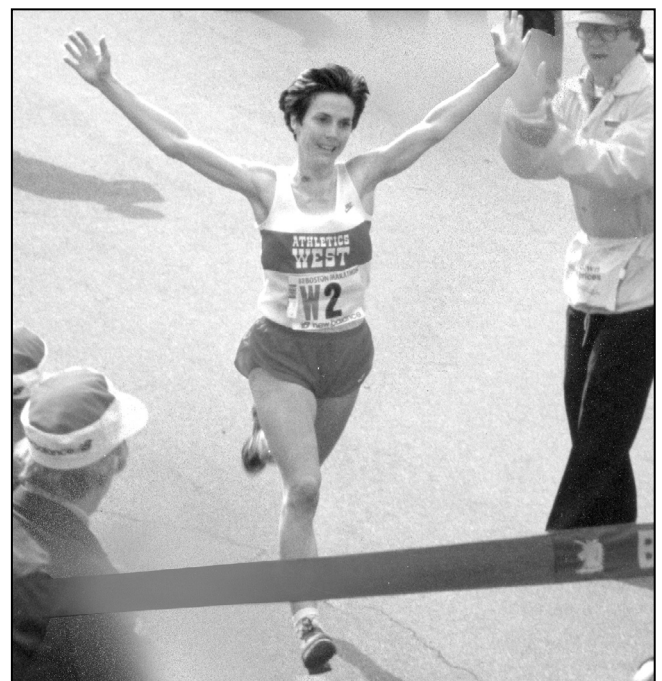
### ***Statement of Activities***



*“When testing the limits of your potential, racing can be harder mentally than physically. After all, your body is in pretty substantial distress, and your mind’s main task seems to be to figure out how to better the situation as soon as possible.”*

Bill Rodgers, Champion Marathoner

In 1897 fifteen runners competed in the first Boston Marathon, which is the world’s oldest annually contested marathon. For much of the 20th century the Boston Marathon was strictly the domain of working-class athletes. The occupations of most marathon champions ranged from the teacher to typesetter. Typically these men ran to and from work or on the borders of a forty-plus-hour week. Not only did they face this challenge, but they also dealt with primitive shoes and training conditions, as well as an amateur establishment that forbade them any reward except for medal and post-race bowl of beef stew. This hard-bitten amateur tradition continued up through the first Marathon triumphs by a special education teacher named Bill Rodgers.



# Statement of Net Assets

June 30, 2002

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
<b>Assets</b>				
Current assets:				
Cash and cash equivalents.....	\$ 3,430,141	\$ 174,509	\$ 3,604,650	\$ 682,395
Cash with fiscal agent.....	622,880	-	622,880	-
Short-term investments.....	-	173,560	173,560	254,316
Assets held in trust.....	-	-	-	6,398
Receivables, net of allowance for uncollectibles:				
Taxes.....	1,536,092	199,339	1,735,431	-
Federal grants and reimbursements receivable.....	1,093,913	27,705	1,121,617	120,793
Loans.....	-	36,810	36,810	160,571
Other receivables.....	240,934	150,679	391,612	129,553
Due from cities and towns.....	4,135	-	4,135	13,187
Due from component units / business - type activity.....	14,578	-	14,578	-
Due from primary government.....	-	-	-	218,162
Other current assets.....	-	24,145	24,145	43,099
<b>Total current assets.....</b>	<b>6,942,673</b>	<b>786,745</b>	<b>7,729,418</b>	<b>1,628,473</b>
Noncurrent assets:				
Cash and cash equivalents - restricted.....	481,410	390,203	871,613	1,099,856
Long-term investments.....	-	333,481	333,481	811,576
Restricted investments.....	-	400	400	885,058
Accounts receivable, net.....	-	49,591	49,591	40,517
Loans receivable, net.....	-	15,080	15,080	1,927,076
Due from primary government.....	-	-	-	196,496
Capital assets, net of accumulated depreciation.....	19,226,850	1,486,341	20,713,191	9,621,819
Other noncurrent assets.....	-	8,692	8,692	69,283
Other noncurrent assets - restricted.....	-	1,427,582	1,427,582	-
<b>Total noncurrent assets.....</b>	<b>19,708,260</b>	<b>3,711,371</b>	<b>23,419,632</b>	<b>14,651,681</b>
<b>Total assets.....</b>	<b>26,650,933</b>	<b>4,498,116</b>	<b>31,149,049</b>	<b>16,280,154</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and other liabilities.....	2,390,210	260,445	2,650,655	351,294
Accrued payroll.....	148,254	105,278	253,532	29,282
Compensated absences.....	246,054	83,109	329,163	19,370
Accrued interest payable.....	442,042	6,372	448,414	188,681
Tax refunds and abatements payable.....	906,857	14,799	921,656	-
Due to component units.....	250,570	-	250,570	-
Due to primary government.....	-	10,828	10,828	2,689
Due to federal government.....	18,189	-	18,189	-
Claims and judgments.....	112,200	-	112,200	-
Deferred revenue.....	-	42,333	42,333	6,489
Deposits and unearned revenue.....	-	15,170	15,170	-
Capital leases.....	24,472	16,756	41,228	15,045
Bonds, notes payable and other obligations.....	1,274,830	30,337	1,305,167	301,758
School construction grants and other contract assistance payable.....	168,565	-	168,565	-
<b>Total current liabilities.....</b>	<b>5,982,243</b>	<b>585,426</b>	<b>6,567,669</b>	<b>914,608</b>

(continued)

# Statement of Net Assets

June 30, 2002

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
<i>(continued)</i>				
Noncurrent liabilities:				
Compensated absences.....	172,548	57,314	229,862	6,206
Accrued interest payable.....	-	-	-	48,154
Due to primary government.....	-	-	-	3,750
Due to federal government - grants.....	-	4,183	4,183	-
Claims and judgments.....	86,000	-	86,000	-
Deferred revenue.....	-	20,116	20,116	103,780
Capital leases.....	66,674	63,124	129,798	536,524
Bonds, notes payable and other obligations.....	14,210,305	640,095	14,850,400	8,733,328
Due to component units - Central Artery / Tunnel Project.....	9,311,393	-	9,311,393	-
Due to related organizations.....	354,747	-	354,747	-
School construction grants and other contract assistance payable.....	3,656,598	-	3,656,598	-
Other noncurrent liabilities.....	225,950	67,909	293,859	113,870
<b>Total noncurrent liabilities.....</b>	<b>28,084,215</b>	<b>852,741</b>	<b>28,936,956</b>	<b>9,545,612</b>
<b>Total liabilities.....</b>	<b>34,066,458</b>	<b>1,438,167</b>	<b>35,504,626</b>	<b>10,460,220</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt.....	5,611,252	1,032,022	6,643,274	3,264,164
Restricted for:				
Capital projects.....	1,053,829	-	1,053,829	299,092
Unemployment benefits.....	-	1,504,661	1,504,661	-
Retirement of indebtedness.....	350,798	-	350,798	38,164
Central artery workers' compensation and general liability.....	239,917	-	239,917	-
Other purposes.....	1,049,771	279,661	1,329,432	1,298,911
Unrestricted.....	(15,721,092)	243,605	(15,477,487)	919,603
<b>Total net assets.....</b>	<b>\$ (7,415,525)</b>	<b>\$ 3,059,949</b>	<b>\$ (4,355,577)</b>	<b>\$ 5,819,934</b>

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

*(concluded)*

**Statement of Activities**  
Fiscal Year Ended June 30, 2002  
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				
					Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental Activities:									
General government.....	\$ 1,297,875	\$ 158,825	\$ 104,196	\$ -	\$ (1,034,853)	\$ -	\$ (1,034,853)	\$ -	
Judiciary.....	566,689	62,982	1,460	-	(502,248)	-	(502,248)	-	
Direct local aid.....	5,252,805	-	-	-	(5,252,805)	-	(5,252,805)	-	
Medicaid.....	5,978,811	90,081	3,227,770	-	(2,660,960)	-	(2,660,960)	-	
Group health insurance.....	770,832	81,089	-	-	(689,743)	-	(689,743)	-	
Public assistance.....	1,029,645	-	518,888	-	(510,757)	-	(510,757)	-	
Interest (unallocated).....	687,817	-	-	-	(687,817)	-	(687,817)	-	
Pension.....	237,472	-	-	-	(237,472)	-	(237,472)	-	
Environmental and recreation.....	402,462	124,317	37,616	-	(240,529)	-	(240,529)	-	
Communities and development.....	551,334	1,282	311,860	-	(238,192)	-	(238,192)	-	
Health and human services.....	4,196,434	909,777	1,435,421	237	(1,851,000)	-	(1,851,000)	-	
Transportation and construction.....	1,354,052	6,995	514,558	101	(832,398)	-	(832,398)	-	
Education.....	1,835,755	3,909	646,573	-	(1,185,272)	-	(1,185,272)	-	
Public safety.....	941,352	451,101	86,946	-	(403,305)	-	(403,305)	-	
Economic development.....	33,795	-	644	-	(33,151)	-	(33,151)	-	
Elder affairs.....	304,201	783	35,687	-	(267,731)	-	(267,731)	-	
Consumer.....	63,660	91,115	1,465	-	28,920	-	28,920	-	
Labor.....	285,462	68,679	155,027	-	(61,757)	-	(61,757)	-	
Lottery.....	3,453,858	4,423,052	-	-	969,194	-	969,194	-	
Depreciation (unallocated).....	614,795	-	-	-	(614,795)	-	(614,795)	-	
Total governmental activities.....	29,859,108	6,473,988	7,078,110	338	(16,306,671)	-	(16,306,671)	-	
Business-Type Activities:									
Unemployment Compensation.....	2,183,100	25,183	378,316	-	-	(1,779,602)	(1,779,602)	-	
Higher Education:									
University of Massachusetts.....	1,437,518	584,633	346,295	60,289	-	(446,301)	(446,301)	-	
State colleges.....	418,593	147,902	36,243	7,231	-	(227,217)	(227,217)	-	
Community colleges.....	508,895	119,671	108,995	9,641	-	(270,588)	(270,588)	-	
Total business-type activities.....	4,548,107	877,389	869,848	77,161	-	(2,723,708)	(2,723,708)	-	
Total primary government.....	\$ 34,407,214	\$ 7,351,378	\$ 7,947,958	\$ 77,499	\$ (16,306,671)	\$ (2,723,708)	\$ (19,030,380)	\$ -	
Massachusetts Bay Transportation Authority.....	\$ 1,226,703	\$ 321,119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (905,584)	
Massachusetts Turnpike Authority.....	314,850	235,523	12,737	-	-	-	-	(66,590)	
Massachusetts Water Pollution Abatement Trust.....	120,101	2,918	9,584	-	-	-	-	(107,599)	
Other nonmajor component units.....	442,475	242,925	145,539	-	-	-	-	(54,010)	
Total component units.....	\$ 2,104,129	\$ 802,485	\$ 167,860	\$ -	\$ -	\$ -	\$ -	\$ (1,133,783)	

(continued)

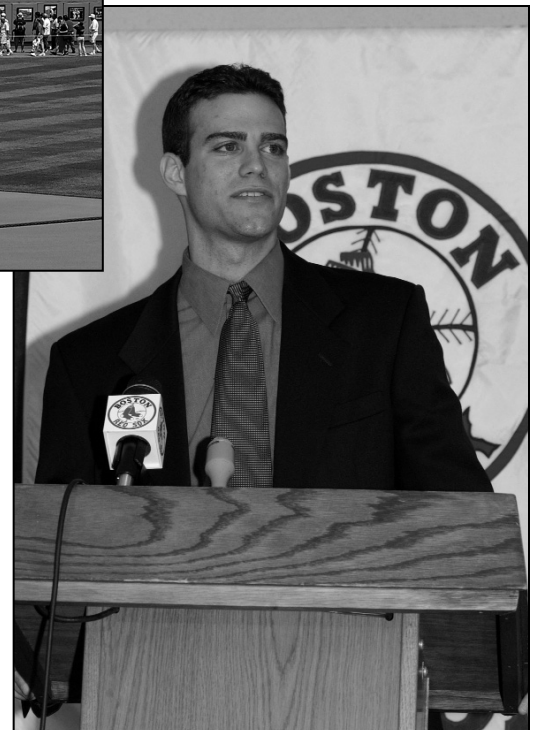
	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income.....	\$ 8,265,737	\$ -	\$ 8,265,737	\$ -
Sales taxes.....	3,697,730	-	3,697,730	-
Corporate taxes.....	583,582	-	583,582	-
Motor and special fuel taxes.....	665,743	-	665,743	-
Other taxes.....	1,475,804	-	1,475,804	-
Unemployment taxes.....	-	850,319	850,319	-
Miscellaneous:				
Investment earnings.....	154,100	112,333	266,433	205,509
Tobacco settlement.....	304,518	-	304,518	-
Pension contribution.....	29,846	-	29,846	-
Other revenue.....	416,623	3,249	419,871	848,317
Capital contributions.....	-	-	-	392,651
Transfers.....	(1,018,603)	1,018,603	-	-
Resources expended for component units.....	(1,272,782)	-	(1,272,782)	-
<b>Total general revenues and transfers.....</b>	<b>13,302,298</b>	<b>1,984,504</b>	<b>15,286,801</b>	<b>1,446,476</b>
<b>Change in net assets.....</b>	<b>(3,004,374)</b>	<b>(739,204)</b>	<b>(3,743,578)</b>	<b>312,693</b>
Net assets - beginning (restated, see Note 1).....	(4,411,151)	3,799,153	(611,998)	5,507,241
<b>Net assets - ending.....</b>	<b>\$ (7,415,525)</b>	<b>\$ 3,059,949</b>	<b>\$ (4,355,577)</b>	<b>\$ 5,819,934</b>

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

(concluded)



The old Fenway Park was far different from the park we enjoy today. For one, the Dead Ball era ballpark was defensive fortress. Because batters found it difficult just to hit balls off the wooden ancestor of the now famous “Green Monster,” balls hit over the Wall inspired bold sports page headlines. Fenway also possessed sun fields like no other park, which wreaked havoc with visiting players in an era when most games were played in the twilight of late afternoon. The first World Series game was held here, which matched the American League Boston Pilgrims (now the Red Sox) against the National League’s Pittsburgh Pirates.



In November, the Boston Red Sox made 28-year-old Theo Epstein the youngest general manager in baseball history. Epstein is the 11<sup>th</sup> general manager in Red Sox history. At his first press conference he said, “No one person is going to turn the Red Sox into a world championship organization. It’s going to happen, but it’s going to be a group effort.” He also stated that as much as he would like to improve plate discipline throughout the organization, he would not try and alter Garciaparra’s free-swinging style.

# Governmental Fund Financial Statements

*"Baseball gives every American boy a chance to excel, not just to be as good as someone else but to be better than someone else. This is the nature of man and the name of the game."*

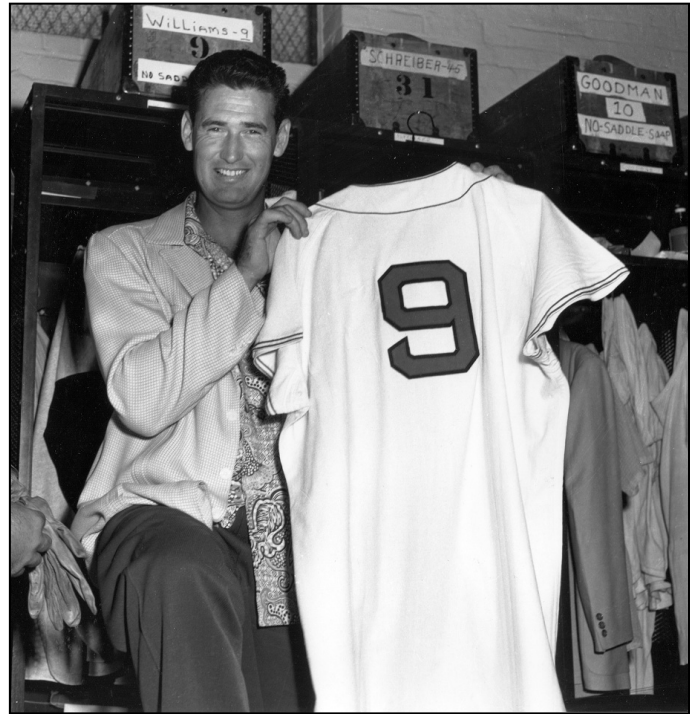
Ted Williams

*"I never got down. I remained positive. I was swinging the bat well. It was bad luck here or there."*

Nomar Garciaparra, who was brought out of a slump with a three home run, 10 RBI night.

*"You just shake your head and tip your cap."*

Ken Griffey, Jr. on watching Nomar hit three homers (two of which were grandslams) and chalk up 10 RBIs in that one nine-inning game.



Earlier this year the spotlight was on the Jesse Burkett Little League team from Worcester, as they captured the attention of the entire state through it's exciting season as they made the final playoff of the Little League World Series. The pitcher's (Frank Flynn) fastball was clocked at 74 miles per hour. The third baseman (4'4" Andy Fallon) got one of the only two hits his team managed against Louisville. This triumph was a much-needed uplift for Worcester who lost six firefighters in a warehouse fire three years ago. One of the firefighters, Tom Spencer, was an assistant coach for a local Little League team. An award, now called the Spencer Cup was given to the team.



**Balance Sheet**  
Governmental Funds  
June 30, 2002  
(Amounts in thousands)

					Capital Projects		Teacher, Principal, Superintendent	Other Governmental	Total
	General	Local Aid	Lotteries	Debt Service	Highway	Central Artery Statewide Roads and Bridges	Quality Endowment	Funds	
<b>ASSETS</b>									
Cash and short-term investments.....	\$ 2,391,856	\$ -	\$ 20,197	\$ -	\$ -	\$ -	\$ 71,664	\$ 946,424	\$ 3,430,141
Cash with fiscal agent.....	-	-	-	236,498	-	-	-	386,383	622,880
Restricted investments.....	-	-	-	-	-	-	-	481,410	481,410
Receivables, net of allowance for uncollectibles:									
Taxes.....	876,831	554,433	-	-	-	-	-	104,828	1,536,092
Due from federal government.....	548,422	-	-	-	-	-	-	545,490	1,093,913
Other receivables.....	102,776	-	8,039	-	-	-	-	130,118	240,934
Due from cities and towns.....	3,578	557	-	-	-	-	-	-	4,135
Due from other funds.....	2,071,471	-	-	-	-	1,097,231	-	224,480	3,393,182
Due from component units.....	3,750	-	-	-	-	-	-	-	3,750
<b>Total assets.....</b>	<b>\$ 5,998,685</b>	<b>\$ 554,990</b>	<b>\$ 28,236</b>	<b>\$ 236,498</b>	<b>\$ -</b>	<b>\$ 1,097,231</b>	<b>\$ 71,664</b>	<b>\$ 2,819,134</b>	<b>\$ 10,806,437</b>
<b>LIABILITIES AND FUND BALANCES</b>									
Liabilities:									
Accounts payable.....	\$ 1,205,800	\$ 184,443	\$ 18,529	\$ -	\$ 50,282	\$ 79,500	\$ 160	\$ 772,264	\$ 2,310,979
Accrued payroll.....	107,099	18,158	-	-	1,665	-	-	21,332	148,254
Compensated absences.....	182,773	8,072	2,075	-	4,961	-	7	48,166	246,054
Tax refunds and abatements payable.....	533,402	355,602	-	-	-	-	-	17,854	906,857
Due to other funds.....	1,254,713	878,172	-	-	482,610	-	-	766,859	3,382,354
Due to component units.....	55,182	42,109	-	-	-	-	-	153,279	250,570
Due to federal government.....	17,548	-	-	-	-	-	-	641	18,189
Deferred revenue.....	190,275	104,238	5,252	-	-	-	-	17,423	317,188
Claims and judgments.....	76,500	-	-	-	-	-	-	35,700	112,200
Bonds, notes payable and certificates of participation.....	-	-	-	-	-	-	-	530,000	530,000
Other accrued liabilities.....	-	-	-	-	-	-	-	115,939	115,939
<b>Total liabilities.....</b>	<b>3,623,292</b>	<b>1,590,794</b>	<b>25,856</b>	<b>-</b>	<b>539,518</b>	<b>79,500</b>	<b>167</b>	<b>2,479,457</b>	<b>8,338,584</b>
Fund balances (deficits):									
Reserved for continuing appropriations.....	85,953	28,284	-	-	-	-	-	53,763	168,000
Reserved for Commonwealth stabilization.....	881,771	-	-	-	-	-	-	-	881,771
Reserved for retirement of indebtedness.....	-	-	-	236,498	-	-	-	114,300	350,798
Reserved for capital projects.....	-	-	-	-	-	1,017,730	-	36,098	1,053,829
Reserved for central artery workers' compensation and general liability.....	-	-	-	-	-	-	-	239,917	239,917
Unreserved.....	1,407,669	(1,064,087)	2,380	-	(539,518)	-	71,497	(104,401)	(226,462)
<b>Fund balances (deficits).....</b>	<b>2,375,393</b>	<b>(1,035,804)</b>	<b>2,380</b>	<b>236,498</b>	<b>(539,518)</b>	<b>1,017,730</b>	<b>71,497</b>	<b>339,677</b>	<b>2,467,853</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 5,998,685</b>	<b>\$ 554,990</b>	<b>\$ 28,236</b>	<b>\$ 236,498</b>	<b>\$ -</b>	<b>\$ 1,097,231</b>	<b>\$ 71,664</b>	<b>\$ 2,819,134</b>	<b>\$ 10,806,437</b>

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

# Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2002  
(Amounts in thousands)

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total fund balances</b> .....	<b>\$</b>	<b>2,467,853</b>
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Capital assets used in governmental activities are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:

Land .....	643,917	
Construction in process .....	465,797	
Depreciable capital assets and infrastructure, net of \$6,414,269 of accumulated depreciation .....	8,450,996	
Central Artery / Tunnel Project construction in process .....	9,666,140	
Capital assets, net of accumulated depreciation .....		19,226,850

Amounts presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting .....		317,188
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Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:

Bonded debt .....	(14,955,135)	
Accrued interest on bonds, school construction grants and contract assistance payable .....	(405,334)	
School construction grants and contract assistance payable .....	(3,825,163)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project .....	(9,666,140)	
Capital leases (including accrued interest) .....	(91,146)	
Claims and judgments .....	(86,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims .....	(384,537)	
Lottery prizes payable .....	(13,961)	
Long-term liabilities .....		(29,427,416)
<b>Net assets of governmental activities</b> .....	<b>\$</b>	<b>(7,415,525)</b>

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

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
Fiscal Year Ended June 30, 2002  
(Amounts in thousands)

					Capital Projects		Teacher, Principal, Superintendent Quality Endowment	Other Governmental Funds	Total
	General	Local Aid	Lotteries	Debt Service	Highway	Central Artery Statewide Roads and Bridges			
<b>Revenues:</b>									
Taxes.....	\$ 8,203,974	\$ 4,646,844	\$ 2,022	\$ -	\$ -	\$ -	\$ -	\$ 1,575,071	\$ 14,427,910
Assessments.....	85,833	-	-	-	-	-	-	486,604	572,437
Federal grants and reimbursements.....	3,304,433	-	-	-	-	-	-	3,774,013	7,078,446
Departmental.....	617,808	2,244	4,417,800	-	-	-	-	1,058,674	6,096,527
Miscellaneous.....	124,070	-	6,929	-	-	40,210	1,836	659,465	832,509
<b>Total revenues.....</b>	<b>12,336,117</b>	<b>4,649,088</b>	<b>4,426,752</b>	<b>-</b>	<b>-</b>	<b>40,210</b>	<b>1,836</b>	<b>7,553,827</b>	<b>29,007,830</b>
<b>Expenditures:</b>									
Current:									
Legislature.....	60,045	-	-	-	-	-	-	1	60,046
Judiciary.....	589,207	-	-	-	-	-	-	3,896	593,102
Inspector General.....	1,992	-	-	-	-	-	-	-	1,992
Governor and Lieutenant Governor.....	5,517	-	-	-	-	-	-	-	5,517
Secretary of the Commonwealth.....	34,529	-	-	-	-	-	-	1,071	35,600
Treasurer and Receiver-General.....	99,691	4,949	3,450,398	-	-	-	-	3,653	3,558,692
Auditor of the Commonwealth.....	14,632	640	-	-	-	-	-	308	15,580
Attorney General.....	47,025	956	-	-	-	-	-	13,728	61,708
Ethics Commission.....	708	710	-	-	-	-	-	-	1,418
District Attorney.....	69,196	-	-	-	-	-	-	19,887	89,082
Office of Campaign and Political Finance.....	545	547	-	-	-	-	-	4,235	5,327
Sheriff's Departments.....	211,227	141	-	-	-	-	-	4,079	215,446
Disabled Persons Protection Commission.....	1,704	-	-	-	-	-	-	58	1,762
Board of Library Commissioners.....	3,813	3,167	-	-	-	-	-	3,286	10,266
Comptroller.....	8,405	-	-	-	-	-	-	-	8,405
Administration and finance.....	1,058,128	111,944	-	-	-	-	-	190,998	1,361,070
Environmental affairs.....	72,093	24,997	-	-	-	-	-	170,981	268,071
Communities and development.....	82,237	34,604	-	-	-	-	-	332,500	449,340
Health and human services.....	3,559,310	1,415	-	-	-	-	-	2,543,168	6,103,892
Transportation and construction.....	3,150	565	-	-	-	-	-	135,381	139,096
Education.....	177,977	603,082	-	-	-	-	3,041	721,668	1,505,768
Higher education.....	104,213	-	-	-	-	-	-	14,468	118,681
Public safety.....	500,005	157,123	-	-	-	-	-	341,635	998,762
Economic development.....	6,342	744	-	-	-	-	-	24,979	32,065
Elder affairs.....	174,428	11,171	-	-	-	-	-	118,592	304,191
Consumer affairs.....	40,632	-	-	-	-	-	-	21,791	62,423
Labor.....	40,302	-	-	-	-	-	-	243,732	284,034
Medicaid.....	4,626,236	-	-	-	-	-	-	635,039	5,261,275
Pension.....	47,565	166,748	-	-	-	-	-	23,160	237,472
Direct local aid.....	14,347	5,203,218	-	-	-	-	-	13,873	5,231,438
Capital outlay:									
Local aid.....	-	-	-	-	-	-	-	21,368	21,368
Capital acquisition and construction.....	-	-	-	-	431,752	764,488	-	1,366,012	2,562,252
Debt service.....	-	-	-	1,382,150	-	-	-	-	1,382,150
<b>Total expenditures.....</b>	<b>11,655,201</b>	<b>6,326,719</b>	<b>3,450,398</b>	<b>1,382,150</b>	<b>431,752</b>	<b>764,488</b>	<b>3,041</b>	<b>6,973,543</b>	<b>30,987,292</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>680,916</b>	<b>(1,677,631)</b>	<b>976,354</b>	<b>(1,382,150)</b>	<b>(431,752)</b>	<b>(724,278)</b>	<b>(1,205)</b>	<b>580,284</b>	<b>(1,979,463)</b>

(continued)

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
Fiscal Year Ended June 30, 2002  
(Amounts in thousands)

	General	Local Aid	Lotteries	Debt Service	Highway	Capital Projects Central Artery Statewide Roads and Bridges	Teacher, Principal, Superintendent Quality Endowment	Other Governmental Funds	Total
<b>Other financing sources:</b>									
Proceeds of general obligation bonds.....	-	-	-	-	915,192	-	-	573,985	1,489,176
Proceeds of special obligation bonds.....	-	-	-	11,645	-	-	-	-	11,645
Proceeds of refunding bonds.....	-	-	-	1,501,414	-	-	-	-	1,501,414
Proceeds of capital leases.....	9,924	-	-	-	-	-	-	-	9,924
Transfers in for debt service .....	-	-	-	1,382,150	-	-	-	-	1,382,150
Transfers from component units.....	2,534	-	-	-	-	-	-	-	2,534
Operating transfers in.....	719,899	870,988	-	-	8,993	104,662	-	1,367,420	3,071,963
<b>Total other financing sources.....</b>	<b>732,357</b>	<b>870,988</b>	<b>-</b>	<b>2,895,210</b>	<b>924,185</b>	<b>104,662</b>	<b>-</b>	<b>1,941,404</b>	<b>7,468,806</b>
<b>Other financing uses:</b>									
Payments to refunded bond escrow agent.....	-	-	-	1,276,561	-	-	-	-	1,276,561
Operating transfers out.....	175,459	77,812	960,958	-	177,043	27	88	1,622,822	3,014,209
Transfers of appropriations.....	967,843	-	-	-	-	-	-	2,507	970,351
Transfers of bond proceeds.....	-	-	-	-	191	-	-	105,814	106,005
Transfers out for debt service.....	557,637	147,207	-	-	-	-	-	677,306	1,382,150
Transfers to component units.....	67,157	131,240	-	-	5,111	-	-	875,313	1,078,820
<b>Total other financing uses.....</b>	<b>1,768,097</b>	<b>356,259</b>	<b>960,958</b>	<b>1,276,561</b>	<b>182,346</b>	<b>27</b>	<b>88</b>	<b>3,283,762</b>	<b>7,828,097</b>
<b>Total other financing sources and uses.....</b>	<b>(1,035,739)</b>	<b>514,729</b>	<b>(960,958)</b>	<b>1,618,648</b>	<b>741,839</b>	<b>104,635</b>	<b>(88)</b>	<b>(1,342,357)</b>	<b>(359,291)</b>
<b>Net change in fund balances.....</b>	<b>(354,823)</b>	<b>(1,162,902)</b>	<b>15,396</b>	<b>236,498</b>	<b>310,087</b>	<b>(619,643)</b>	<b>(1,294)</b>	<b>(762,073)</b>	<b>(2,338,754)</b>
Fund balance (deficits) at beginning of year (restated, see Note 1).....	2,730,216	127,098	(13,017)	-	(849,605)	1,637,373	72,790	1,101,750	4,806,606
<b>Fund balance (deficits) at end of year.....</b>	<b>\$ 2,375,393</b>	<b>\$ (1,035,804)</b>	<b>\$ 2,380</b>	<b>\$ 236,498</b>	<b>\$ (539,518)</b>	<b>\$ 1,017,730</b>	<b>\$ 71,497</b>	<b>\$ 339,677</b>	<b>\$ 2,467,853</b>
The notes to the financial statements are an integral part of this statement.									(concluded)



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# ***PROPRIETARY FUND FINANCIAL STATEMENTS***



In September a four-walled, state-of-the-art 36'x25' glass-paned court for the U.S. Open Squash Championships was installed on the floor of Boston's world-renowned Symphony Hall. This competition was the hall's first-ever sporting event.

Using the same principle as the colorful wraps seen on many MBTA buses here in Boston, player visibility and focus is ensured because each approximate 5'x7' glass panel is designed with a one-way viewing system. This is accomplished by baking in a series of black, white and colored ceramic dots into the glass, then when combined with bright interior court lighting and a darkened exterior, viewing is ideal for spectators, but does not distract competitors.

# Statement of Net Assets

## Proprietary Funds

June 30, 2002

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 40,970	\$ 68,197	\$ 65,341	\$ 174,509
Short-term investments .....	-	135,307	16,316	21,937	173,560
Receivables, net of allowance for uncollectibles:					
Taxes .....	199,339	-	-	-	199,339
Federal grants and reimbursements receivable.....	-	26,630	274	801	27,705
Loans.....	-	35,223	1,473	114	36,810
Other receivables.....	12,944	114,141	7,174	16,419	150,679
Other current assets.....	-	18,942	1,791	3,411	24,145
<b>Total current assets.....</b>	<b>212,283</b>	<b>371,213</b>	<b>95,226</b>	<b>108,023</b>	<b>786,745</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	370,221	13,845	6,137	390,203
Long-term investments.....	-	312,737	9,209	11,535	333,481
Restricted investments.....	-	-	400	-	400
Accounts receivable, net.....	-	49,512	79	-	49,591
Loans receivable, net.....	-	-	13,466	1,615	15,080
Capital assets, net of accumulated depreciation.....	-	1,033,316	211,900	241,125	1,486,341
Other noncurrent assets.....	-	5,638	2,536	518	8,692
Other noncurrent assets - restricted.....	1,427,582	-	-	-	1,427,582
<b>Total noncurrent assets.....</b>	<b>1,427,582</b>	<b>1,771,424</b>	<b>251,435</b>	<b>260,930</b>	<b>3,711,371</b>
<b>Total assets.....</b>	<b>1,639,865</b>	<b>2,142,637</b>	<b>346,661</b>	<b>368,953</b>	<b>4,498,116</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and other liabilities.....	108,392	114,612	13,138	24,303	260,445
Accrued payroll.....	-	62,655	18,480	24,143	105,278
Compensated absences.....	-	50,119	14,535	18,455	83,109
Accrued interest payable.....	-	6,263	109	-	6,372
Tax refunds and abatements payable.....	14,799	-	-	-	14,799
Due to primary government.....	-	10,828	-	-	10,828
Deferred revenue.....	12,013	20,236	7,963	2,122	42,333
Student deposits and unearned revenues .....	-	4,706	3,663	6,801	15,170
Capital leases.....	-	9,490	3,238	4,028	16,756
Bonds, notes payable and other obligations.....	-	28,429	968	940	30,337
<b>Total current liabilities.....</b>	<b>135,204</b>	<b>307,338</b>	<b>62,092</b>	<b>80,792</b>	<b>585,426</b>
Noncurrent liabilities:					
Compensated absences.....	-	26,920	12,818	17,576	57,314
Due to federal government - grants.....	-	-	2,867	1,317	4,183
Deferred revenue.....	-	17,758	2,358	-	20,116
Capital leases.....	-	34,148	14,433	14,544	63,124
Bonds, notes payable and other obligations.....	-	588,861	22,837	28,396	640,095
Other noncurrent liabilities.....	-	49,282	14,709	3,918	67,909
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>716,969</b>	<b>70,022</b>	<b>65,751</b>	<b>852,741</b>
<b>Total liabilities.....</b>	<b>135,204</b>	<b>1,024,307</b>	<b>132,114</b>	<b>146,543</b>	<b>1,438,167</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt.....	-	653,508	169,619	208,895	1,032,022
Restricted for:					
Unemployment benefits.....	1,504,661	-	-	-	1,504,661
Other purposes.....	-	249,852	21,127	8,682	279,661
Unrestricted.....	-	214,970	23,802	4,833	243,605
<b>Total net assets.....</b>	<b>\$ 1,504,661</b>	<b>\$ 1,118,330</b>	<b>\$ 214,547</b>	<b>\$ 222,410</b>	<b>\$ 3,059,949</b>

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

# Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 850,319	\$ -	\$ -	\$ -	\$ 850,319
Net tuition and fees.....	-	273,367	102,102	91,426	466,894
Federal grants and reimbursements.....	378,316	346,295	36,243	108,995	869,848
Investment earnings.....	112,333	-	-	-	112,333
Miscellaneous.....	25,183	311,266	45,801	28,246	410,495
<b>Total operating revenues.....</b>	<b>1,366,151</b>	<b>930,928</b>	<b>184,145</b>	<b>228,666</b>	<b>2,709,890</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	2,183,100	-	-	-	2,183,100
Instruction.....	-	392,059	165,663	202,536	760,258
Research.....	-	245,106	10	23	245,138
Academic support.....	-	97,648	43,433	57,136	198,217
Student services.....	-	74,061	45,828	62,934	182,823
Scholarships and fellowships.....	-	21,646	4,125	31,577	57,348
Public service.....	-	169,622	2,997	6,437	179,056
Operation and maintenance of plant.....	-	115,638	43,282	48,402	207,322
Institutional support.....	-	100,475	54,860	65,185	220,520
Other operating expenses.....	-	21,115	765	3,229	25,109
Depreciation.....	-	82,179	16,709	18,242	117,130
Auxiliary operations.....	-	117,969	40,920	13,194	172,083
<b>Total operating expenses.....</b>	<b>2,183,100</b>	<b>1,437,518</b>	<b>418,593</b>	<b>508,895</b>	<b>4,548,107</b>
<b>Operating income (loss).....</b>	<b>(816,950)</b>	<b>(506,590)</b>	<b>(234,448)</b>	<b>(280,229)</b>	<b>(1,838,217)</b>
Nonoperating revenues (expenses), net.....	-	575,142	236,849	287,021	1,099,012
<b>Change in net assets.....</b>	<b>(816,950)</b>	<b>68,552</b>	<b>2,401</b>	<b>6,792</b>	<b>(739,204)</b>
Total net assets beginning (restated, see Note 1).....	2,321,611	1,049,778	212,146	215,618	3,799,153
<b>Total net assets - ending.....</b>	<b>\$ 1,504,661</b>	<b>\$ 1,118,330</b>	<b>\$ 214,547</b>	<b>\$ 222,410</b>	<b>\$ 3,059,949</b>

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



**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2002**  
**(Amounts in thousands)**

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Cash flows from operating activities:</b>					
Collection of unemployment taxes.....	\$ 850,319	\$ -	\$ -	\$ -	\$ 850,319
Tuition, residence, dining and other student fees.....	-	235,079	104,033	95,807	434,919
Research grants and contracts.....	-	346,489	36,542	109,194	492,225
Payments to suppliers.....	-	(380,015)	(109,536)	(127,541)	(617,092)
Payments to employees.....	-	(912,751)	(254,933)	(295,170)	(1,462,854)
Payments to students.....	-	(28,497)	(11,441)	(26,786)	(66,725)
Payments for unemployment benefits.....	(2,183,100)	-	-	-	(2,183,100)
Collection of loans to students and employees.....	-	5,656	2,601	204	8,461
Income from contract services.....	-	-	133	1,911	2,044
Auxilliary enterprise charges.....	-	299,363	22,352	742	322,457
Other receipts.....	73,338	-	23,243	21,260	117,841
<b>Net cash provided by (used by) operating activities.....</b>	<b>(1,259,443)</b>	<b>(434,676)</b>	<b>(187,006)</b>	<b>(220,379)</b>	<b>(2,101,504)</b>
<b>Cash flows from operating activities:</b>					
State appropriations.....	-	470,204	200,868	236,760	907,832
Grants and contracts.....	378,316	51,710	1,948	21	431,994
Student organizations agency transactions.....	-	(297)	1,356	(228)	830
<b>Net cash provided by (used by) non-capital financing activities.....</b>	<b>378,316</b>	<b>521,617</b>	<b>204,171</b>	<b>236,553</b>	<b>1,340,657</b>
<b>Cash flows from capital and related financing activities:</b>					
Capital appropriations.....	-	63,633	4,555	5,851	74,039
Purchases of capital assets.....	-	(180,357)	(17,895)	(11,666)	(209,918)
Proceeds from the sale of capital assets.....	-	-	-	1,427	1,427
Proceeds from debt issuance.....	-	119,810	-	-	119,810
Other capital asset activity.....	-	8,317	534	1,317	10,168
Net purchases / sales of investments held by bond trustee.....	-	(38,168)	-	-	(38,168)
Principal paid on capital debt and leases.....	-	(27,404)	(3,974)	(3,912)	(35,291)
Interest paid on capital debt and leases.....	-	(26,173)	(1,521)	(2,745)	(30,438)
<b>Net cash provided by (used by) capital financing activities.....</b>	<b>-</b>	<b>(80,342)</b>	<b>(18,302)</b>	<b>(9,727)</b>	<b>(108,370)</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales and maturities of investments.....	743,611	500,698	4,314	23,550	1,272,172
Purchases of investments.....	-	(532,845)	(4,909)	(24,769)	(562,523)
Investment earnings.....	112,333	22,268	2,733	1,304	138,638
Other.....	25,183	-	-	-	25,183
<b>Net cash provided by (used by) investing activities.....</b>	<b>881,127</b>	<b>(9,879)</b>	<b>2,137</b>	<b>84</b>	<b>873,470</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-</b>	<b>(3,280)</b>	<b>1,001</b>	<b>6,531</b>	<b>4,252</b>
Cash and cash equivalents beginning.....	-	414,471	81,041	64,947	560,460
<b>Cash and cash equivalents ending.....</b>	<b>\$ -</b>	<b>\$ 411,191</b>	<b>\$ 82,042</b>	<b>\$ 71,478</b>	<b>\$ 564,712</b>
Reconciliation of cash and cash equivalents to cash and cash equivalents with statement of net assets:					
Cash and cash equivalents, current unrestricted.....	\$ -	\$ 40,970	\$ 68,197	\$ 65,341	\$ 174,509
Cash and cash equivalents, non-current restricted.....	-	370,221	13,845	6,137	390,203
<b>Total cash and cash equivalents, restricted and unrestricted</b>	<b>\$ -</b>	<b>\$ 411,191</b>	<b>\$ 82,042</b>	<b>\$ 71,478</b>	<b>\$ 564,712</b>
<b>Reconciliation of net operating revenues (expenses) to net Cash provided (used) by operating activities</b>					
Operating income (loss).....	\$ (816,950)	\$ (506,590)	\$ (234,448)	\$ (280,229)	\$ (1,838,217)
<b>Adjustments to reconcile operating net income (loss) to net cash provided (used) by operating activities:</b>					
Depreciation expense.....	-	82,154	16,781	19,776	118,711
Fringe benefits paid by the commonwealth.....	-	-	25,806	43,926	69,732
Changes in assets and liabilities:					
Accounts receivable, net.....	-	14,066	(548)	1,431	14,949
Prepays, inventories and other assets.....	890,288	1,651	496	(116)	892,319
Loans receivable and restricted cash.....	-	-	134	(84)	51
Accounts payable and accrued liabilities.....	-	5,816	(2,755)	(2,464)	598
Accrued employee compensation and benefits.....	(1,332,781)	27,011	3,060	(104)	(1,302,814)
Student deposits and other unearned revenues.....	-	11,482	1,035	735	13,253
Deferred revenue.....	-	963	2,930	(537)	3,356
Funds held by others.....	-	-	112	13	125
Other liabilities.....	-	(71,229)	389	(2,726)	(73,565)
<b>Net cash provided by (used by) operating activities.....</b>	<b>\$ (1,259,443)</b>	<b>\$ (434,676)</b>	<b>\$ (187,006)</b>	<b>\$ (220,379)</b>	<b>\$ (2,101,504)</b>

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

# ***FIDUCIARY FUND FINANCIAL STATEMENTS***



*"The one thing I want to be able to do after it's all over is say, 'That was my best.' It's better to lose that way than win with something less than that. But it's fun to win, isn't it?"*

Tenley Albright  
Olympic Gold Medalist

Dr. Tenley Albright became the first American woman to win an Olympic gold medal in Figure skating. A native of Newton, Massachusetts, who suffered from nonparalytic polio, Albright served as an inspiration to thousands of young men and women who trained at the Skating Club of Boston, founded more than 75 years ago. The Club, which is the 3rd oldest skating club in the United States, will celebrate its 90th anniversary this year.

# Statement of Net Assets

## Fiduciary Funds

June 30, 2002

(Amounts in thousands)

	Pension Trust	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
<b>ASSETS</b>					
Cash and short-term investments.....	\$ -	\$ -	\$ 5,834	\$ 292,599	\$ 298,433
Assets held in trust for pension benefits:					
Cash and short-term investments.....	903,548	-	-	-	903,548
Investments at fair value.....	26,835,258	-	-	-	26,835,258
Assets held in trust for pool participants:					
Cash and short-term investments.....	-	2,452,891	-	-	2,452,891
Annuity contracts.....	-	-	-	1,418,745	1,418,745
Assets held in trust.....	-	-	-	2,444,690	2,444,690
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	-	993	993
Other receivables.....	453,294	1,043	-	66,443	520,780
Other assets.....	13,467	-	-	-	13,467
<b>Total assets.....</b>	<b>28,205,567</b>	<b>2,453,934</b>	<b>5,834</b>	<b>4,223,470</b>	<b>34,888,805</b>
<b>LIABILITIES</b>					
Accounts payable.....	844,768	793	-	51,957	897,518
Due to cities and towns.....	-	-	-	34,536	34,536
Due to federal government.....	-	-	-	6	6
Prizes payable.....	-	-	-	1,418,745	1,418,745
Agency liabilities.....	-	-	-	2,718,226	2,718,226
Other accrued liabilities.....	-	1,405	-	-	1,405
<b>Total liabilities.....</b>	<b>844,768</b>	<b>2,198</b>	<b>-</b>	<b>4,223,470</b>	<b>5,070,436</b>
<b>Net assets:</b>					
Restricted for employees' pension benefits.....	27,360,799	-	-	-	27,360,799
Restricted for external investment trust fund partic	-	2,451,736	-	-	2,451,736
Restricted for nonexpendable trusts.....	-	-	5,834	-	5,834
<b>Total net assets.....</b>	<b>\$ 27,360,799</b>	<b>\$ 2,451,736</b>	<b>\$ 5,834</b>	<b>\$ -</b>	<b>\$ 29,818,369</b>

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

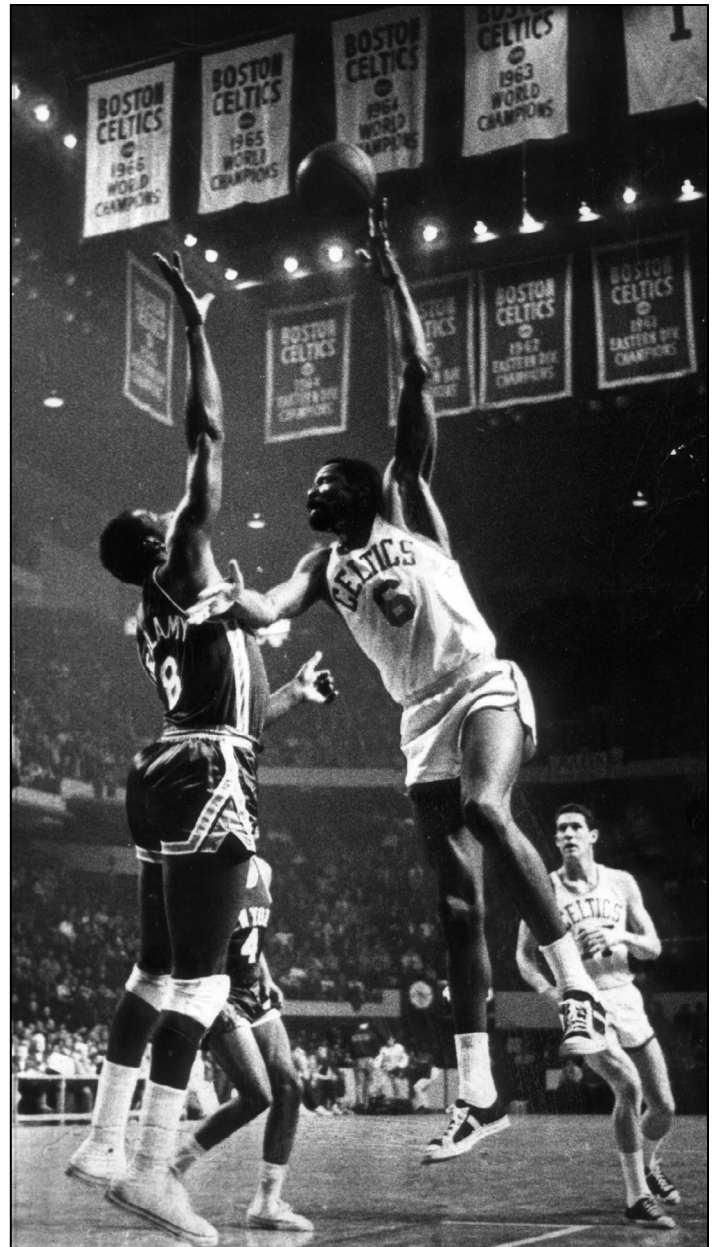
**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**Fiscal Year Ended June 30, 2002**  
**(Amounts in thousands)**

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
<b>Additions:</b>				
Contribution:				
Employer contributions.....	\$ 736,086	\$ -	\$ -	\$ 736,086
Employee contributions.....	963,265	-	-	963,265
Proceeds from sale of units.....	-	8,735,966	-	8,735,966
Units issued - reinvestment of distributions.....	-	61,165	-	61,165
<b>Total contributions.....</b>	<b>1,699,351</b>	<b>8,797,131</b>	<b>-</b>	<b>10,496,482</b>
Net investment income (loss) :				
Net appreciation (depreciation) in fair value .....	(2,838,788)	-	-	(2,838,788)
Interest.....	496,570	73,817	-	570,387
Dividends.....	231,909	-	-	231,909
Real estate operating income, net.....	140,153	-	-	140,153
Alternative investments.....	7,321	-	-	7,321
Other.....	10,764	-	-	10,764
<b>Total investment income (loss).....</b>	<b>(1,952,071)</b>	<b>73,817</b>	<b>-</b>	<b>(1,878,254)</b>
Less: investment expense.....	69,820	2,863	-	72,683
<b>Net investment income (loss) .....</b>	<b>(2,021,891)</b>	<b>70,954</b>	<b>-</b>	<b>(1,950,937)</b>
<b>Total additions.....</b>	<b>(322,540)</b>	<b>8,868,085</b>	<b>-</b>	<b>8,545,545</b>
<b>Deductions:</b>				
Administration.....	13,285	-	-	13,285
Retirement benefits and refunds.....	1,806,723	-	-	1,806,723
Cost of units redeemed.....	-	9,235,718	-	9,235,718
Distribution to unit holders.....	-	70,954	-	70,954
<b>Total deductions.....</b>	<b>1,820,008</b>	<b>9,306,672</b>	<b>-</b>	<b>11,126,680</b>
<b>Net increase (decrease).....</b>	<b>(2,142,548)</b>	<b>(438,587)</b>	<b>-</b>	<b>(2,581,135)</b>
Net assets - beginning.....	29,503,347	2,890,323	5,834	32,399,504
<b>Net assets - ending.....</b>	<b>\$ 27,360,799</b>	<b>\$ 2,451,736</b>	<b>\$ 5,834</b>	<b>\$ 29,818,369</b>

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



In 1968 the Basketball Hall of Fame opened its doors in Springfield, Massachusetts. Seventy-seven years earlier, in 1891, the game of “basket ball” was invented by Dr. James Naismith, a physical education instructor at Springfield College, as an indoor “athletic distraction” for rowdy students during the long New England winter. The original game consisted of 13 rules, and featured a soccer ball and a peach basket.



The new Basketball Hall of Fame opened this year. This 80,000-square-foot, \$45 million venue, features state-of-art multi media and interactive exhibits. It includes a 136-foot spire supporting a 13-foot illuminated basketball that can be seen for miles around, a 120-foot-high diameter containing a full-size basketball court; a vast curved roof over the museum, retail spaces, and a pedestrian bridge to Springfield’s Riverfront Park.

# COMPONENT UNIT FINANCIAL STATEMENTS



*"I've never wanted to sit in a fancy luxury box. I'm in the same seat every game, right in the midst of the crowd. And I'm there because I want to be there."*

Red Auerbach,  
Hall of Fame basketball coach  
and executive.

*"It was like 2 old gunslingers saying meet me out front, and only one could survive, but in this case, we both shot each other, but we both survived."*

Magic Johnson, on his rivalry  
with Larry Bird.



# Statement of Net Assets

Component Units

June 30, 2002

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents.....	\$ 188,188	\$ -	\$ 232,943	\$ 261,264	\$ 682,395
Short-term investments.....	-	85,243	56,297	112,776	254,316
Assets held in trust.....	-	-	-	6,398	6,398
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	7,708	-	99,442	13,643	120,793
Loans.....	-	-	134,645	25,926	160,571
Other receivables.....	33,405	20,971	47,364	27,813	129,553
Due from cities and towns.....	-	-	-	13,187	13,187
Due from primary government.....	94,470	16,393	20,650	86,649	218,162
Inventory.....	32,870	-	-	838	33,708
Other current assets.....	5,101	1,392	-	2,898	9,391
<b>Total current assets.....</b>	<b>361,742</b>	<b>123,999</b>	<b>591,341</b>	<b>551,391</b>	<b>1,628,473</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	739,227	12,287	-	348,342	1,099,856
Long - term investments.....	-	-	774,565	37,011	811,576
Restricted investments.....	-	697,544	-	187,514	885,058
Accounts receivables, net.....	-	19,685	-	20,832	40,517
Loans receivables, net.....	-	-	1,706,689	220,387	1,927,076
Due from primary government.....	-	-	-	196,496	196,496
Capital assets, net of accumulated depreciation.....	6,497,670	2,194,025	-	930,124	9,621,819
Other noncurrent assets.....	19,399	10,660	2,641	36,583	69,283
<b>Total noncurrent assets.....</b>	<b>7,256,296</b>	<b>2,934,201</b>	<b>2,483,895</b>	<b>1,977,289</b>	<b>14,651,681</b>
<b>Total assets.....</b>	<b>7,618,038</b>	<b>3,058,200</b>	<b>3,075,236</b>	<b>2,528,680</b>	<b>16,280,154</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and other liabilities.....	186,331	30,891	28,032	106,040	351,294
Accrued payroll.....	26,989	1,161	-	1,132	29,282
Compensated absences.....	14,944	3,000	-	1,426	19,370
Accrued interest payable.....	75,742	61,190	38,191	13,558	188,681
Due to primary government.....	-	-	-	2,689	2,689
Deferred revenue.....	-	2,178	-	4,311	6,489
Capital leases.....	14,489	-	-	556	15,045
Bonds, notes payable and other obligations - current.....	113,461	12,295	73,050	102,952	301,758
<b>Total current liabilities.....</b>	<b>431,956</b>	<b>110,715</b>	<b>139,273</b>	<b>232,664</b>	<b>914,608</b>
Noncurrent liabilities:					
Compensated absences.....	-	6,089	-	117	6,206
Accrued interest payable.....	-	31,051	-	17,103	48,154
Due to primary government.....	-	-	-	3,750	3,750
Deferred revenue.....	26,713	42,460	-	34,607	103,780
Capital leases.....	533,984	-	-	2,540	536,524
Bonds, notes payable and other obligations.....	3,575,547	2,414,265	1,663,989	1,079,527	8,733,328
Other noncurrent liabilities.....	5,313	34,022	32,044	42,491	113,870
<b>Total noncurrent liabilities.....</b>	<b>4,141,557</b>	<b>2,527,887</b>	<b>1,696,033</b>	<b>1,180,135</b>	<b>9,545,612</b>
<b>Total liabilities.....</b>	<b>4,573,513</b>	<b>2,638,602</b>	<b>1,835,306</b>	<b>1,412,799</b>	<b>10,460,220</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt.....	2,891,730	(232,535)	-	604,969	3,264,164
Restricted for:					
Debt service.....	-	299,092	-	-	299,092
Capital projects.....	-	37,328	-	836	38,164
Other purposes.....	11,746	44,603	1,026,312	216,250	1,298,911
Unrestricted.....	141,049	271,110	213,618	293,826	919,603
<b>Total net assets.....</b>	<b>\$ 3,044,525</b>	<b>\$ 419,598</b>	<b>\$ 1,239,930</b>	<b>\$ 1,115,881</b>	<b>\$ 5,819,934</b>

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

**Statement of Revenues, Expenses and Changes in Net Assets**  
**Component Units**  
Fiscal Year Ending June 30, 2002  
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>Operating revenues and expenses:</b>					
Charges for services.....	\$ 283,288	\$ 201,757	\$ 2,918	\$ 165,084	\$ 653,047
Other.....	37,831	33,766	-	77,841	149,438
<b>Total operating revenues.....</b>	<b>321,119</b>	<b>235,523</b>	<b>2,918</b>	<b>242,925</b>	<b>802,485</b>
<b>Operating expenses:</b>					
Cost of services .....	360,943	98,836	19,795	307,275	786,849
Administration costs.....	436,026	32,734	7,194	44,417	520,371
Depreciation.....	220,671	53,223	597	43,871	318,362
<b>Total operating expenses.....</b>	<b>1,017,640</b>	<b>184,793</b>	<b>27,586</b>	<b>395,562</b>	<b>1,625,581</b>
<b>Operating income (loss).....</b>	<b>(696,521)</b>	<b>50,730</b>	<b>(24,668)</b>	<b>(152,637)</b>	<b>(823,096)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating grants.....	-	12,737	9,584	145,539	167,860
Interest income.....	16,367	33,338	118,210	37,594	205,509
Interest expense.....	(209,063)	(130,057)	(92,515)	(46,913)	(478,548)
Other nonoperating revenue (expense).....	806,596	-	-	42,664	849,260
<b>Nonoperating revenues (expenses), net.....</b>	<b>613,900</b>	<b>(83,982)</b>	<b>35,279</b>	<b>178,884</b>	<b>744,081</b>
<b>Income (loss) before contributions and operating transfer.....</b>	<b>(82,621)</b>	<b>(33,252)</b>	<b>10,611</b>	<b>26,247</b>	<b>(79,015)</b>
Capital contributions.....	137,936	-	67,849	186,866	392,651
Transfer to other funds.....	-	-	-	(943)	(943)
<b>Net income (loss) for the year.....</b>	<b>55,315</b>	<b>(33,252)</b>	<b>78,460</b>	<b>212,170</b>	<b>312,693</b>
Net Assets - beginning.....	2,989,210	452,850	1,161,470	903,711	5,507,241
<b>Net Assets - ending.....</b>	<b>\$ 3,044,525</b>	<b>\$ 419,598</b>	<b>\$ 1,239,930</b>	<b>\$ 1,115,881</b>	<b>\$ 5,819,934</b>

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





Tom Yawkey chose to live every Boston fan's dream as sportsman-owner of the Red Sox. Fans related to Yawkey in basic, human terms because his love for and devotion to the team equaled and exceeded their own. Tom Yawkey not only began rebuilding the Red Sox when he bought the team on his thirtieth birthday, but also rebuilt Fenway Park into the architectural gem it is today. Yawkey became an immediate hero in Boston when, at the height of the Depression, he hired hundreds of union laborers to rebuild Fenway between the 1933 and 1934 seasons.

Yawkey was often a quiet presence within the ballpark. He loved to don khakis and a windbreaker and play pepper with Luis Aparicio's son or some of the batboys. More than one embarrassed player reportedly mistook him for a member of the grounds crew. Being a philanthropist was Yawkey's greatest legacy. In 1953, he willingly accepted the stewardship of the Jimmy Fund of the Dana Farber Cancer Institute. The Jimmy Fund was started in 1948 when the Variety Club and the Boston Braves baseball team joined forces to help a 12-year-old cancer patient dubbed "Jimmy." On a national radio broadcast, millions heard the boy visit his heroes from the Braves as they stood by his hospital bed. Contributions poured in from people everywhere, launching an effort that continues to bring hope to

thousands of kids like Jimmy. The Boston Red Sox have raised millions of dollars for the Jimmy Fund. Both Tom and Jean Yawkey made considerable donations to the cause as well.

Ted Williams was a hero in the ballpark, on the battlefield, and in the hearts of millions of children suffering from cancer. Famous for his extraordinary batting record during his decades-long career with the Red Sox, he will also be remembered for his heroism as a fighter pilot in two wars, and his tireless efforts on behalf of the Jimmy Fund. Ted went everywhere to support the cause and he made countless visits to the bedsides of sick children at the Jimmy Fund Clinic. When he started working with the Jimmy Fund in the 1940s, almost every child with cancer died. Today, three out of four children with cancer survive. "During his lifetime, Ted was uncomfortable when praised for all he did for the Jimmy Fund," says Edward J. Benz Jr., M.D., Dana-Farber hospital president. "But, let me say now that his commitment to the Jimmy Fund and to the children facing cancer should go in the record books as among the most any professional athlete has done to advance a cause."

To learn more about the Jimmy Fund (the official charity of the Red Sox), visit their website: [www.jimmyfund.org](http://www.jimmyfund.org).

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below. Except where noted, all numbers in the footnotes and other sections of this Comprehensive Annual Financial Report are in thousands.

### 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.

### i. Component Units and Details of Departments and Funds that are Separately Audited

**Blended Component Units, Departments and Funds that are Separately Audited** – Blended component units are entities that are legally separate from the Commonwealth, but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

- **The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension net assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.
- **The Health Care Security Trust Account (HST)** is the long - term investment account of the Health Care Security Trust (HCST) a minor governmental fund. The Health Care Security Trust was the recipient of tobacco settlement remittances to the Commonwealth from fiscal 1999 through fiscal 2002. The HCST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HCST. The HCST utilizes certain resources and staff

of PRIT or PRIM. In fiscal 2003, all tobacco settlement remittances received in fiscal 2003 will be transferred to the tobacco settlement fund (also a minor governmental fund). Also certain other short – term Medicaid related revenues during fiscal 2003 through the Health Care Quality Improvement Fund (a minor governmental fund) will be managed by the HCST.

- **The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. Portions of MMDT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets. MMDT is established by the Treasurer – Receiver General, who serves as trustee. The securities within the portfolio are valued on the basis of the amortized cost valuation method. Net interest income is determined at the close of business each day, and consists of interest accrued or discount earned, accumulated gains or losses on the portfolio and amortization of premiums and expenses. All income so determined is declared as a daily dividend to participants paid monthly. Participation is voluntary and units are unlimited.

**The following departments are separately audited from the Commonwealth but are not legally separate from the Commonwealth:**

- **The Massachusetts State Lottery Commission** runs the Commonwealth's lottery. The net assets of the Commission and results of operations are presented as part of the Commonwealth's governmental activities.
- **The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP)** provides worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery / Tunnel Project. The OCIP is managed by management of the Central Artery / Tunnel Project and is presented as a minor governmental fund within the governmental activities.

The institutions of higher education of the Commonwealth have operations and net assets that are presented as part of the Commonwealth's business – type activities. These systems include:

- **The University of Massachusetts System** including its discretely presented component units, the University of Massachusetts Building Authority, the University of Massachusetts Foundation, Inc., and the Worcester City Campus Corporation (doing business as Umass Health System.) The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. Finally, the University System includes the University of Massachusetts Dartmouth Foundation, Inc.
- **The State and Community College System** includes 9 State and 15 Community Colleges located throughout the Commonwealth. The following are Community Colleges:
  - Berkshire Community College
  - Bunker Hill Community College
  - Bristol Community College
  - Cape Cod Community College
  - Greenfield Community College

- Holyoke Community College
- Massasoit Community College
- Massachusetts Bay Community College
- Middlesex Community College
- Mount Wachusett Community College
- Northern Essex Community College
- North Shore Community College
- Quinsigamond Community College
- Roxbury Community College
- Springfield Technical Community College

The following are State Colleges:

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

Within the State and Community College system is a blended component unit, The Massachusetts State College Building Authority.

***Discretely Presented Component Units that are Separately Audited*** – Discrete component units are entities which are legally separate (often called Authorities) 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 basic financial statements includes the financial data of the following entities:

*Major Component Units:*

- **The Massachusetts Bay Transportation Authority (MBTA)** provides mass transit facilities within the Greater Boston metropolitan area, comprising 78 cities and towns.
- **The Massachusetts Turnpike Authority (MTA)** operates the Massachusetts Turnpike and the Boston harbor tunnel crossings that are part of the Metropolitan Highway System.
- **The Massachusetts Water Pollution Abatement Trust (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's state revolving fund.

*Minor Component Units*

- **The Massachusetts Convention Center Authority (MCCA)**
- **The Massachusetts Development Finance Agency (MassDevelopment)**
- **The Massachusetts Technology Park Corporation (MTPC)**
- **The Massachusetts Community Development Finance Corporation (MCDFC)**
- **Commonwealth Corporation**
- **The Massachusetts International Trade Council, Inc. (MITC)**
- **The Community Economic Development Assistance Corporation (CEDAC)**

- **The Massachusetts Housing Partnership (MHP)**
- **Route 3 North Transportation Improvements Association (R3N)**
- **The Commonwealth Zoological Corporation**
- **The Regional Transit Authorities (15 separate entities) including:**
  - Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transit 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 Regional Transit Authority
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority

All of the component units, except for MTPC, were audited by a firm other than Deloitte & Touche, LLP.

**ii. Related Organizations**

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.

**iii. Availability of Financial Statements**

The Commonwealth's component units, Departments and Funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities. To obtain their phone numbers, you may contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

**iv. Program and Other Revenue Recognition**

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are applicable to that department's operations. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs. Revenues and expenses of business type activities and proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

**B. Government – Wide and Fund Financial Statements**

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government (the Commonwealth), and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**i. Government – Wide Financial Statements**

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for

bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. They often have resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

## ii. *Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government – wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. The Commonwealth presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental net assets. For the proprietary funds, a statement of net assets and a statement of changes in net assets is presented along with a statement of cash flows. As the business-type activities are presented in the same basis of accounting as the proprietary funds, no further reconciliation is necessary.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

## C. *Measurement Focus and Basis of Accounting - Government Wide*

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**Governmental Funds** – account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. 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.

**Business – type Activities** – account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth’s Institutions of Higher Education’s operations are reported as systems within the proprietary funds.

**i. Measurement Focus  
Basis of Accounting  
– Fund Perspective**

The Commonwealth has established the following funds (further divided by fund types):

**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.

**Local Aid Fund** 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 municipalities or used to finance programs that benefit local communities and a major portion of the court systems.

**Lottery Funds** account for the operations of the State and Arts Lotteries, which primarily finance the aforementioned local aid fund.

**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 – Highway** accounts for the proceeds of bonds sold to finance construction of state highways and to fund the Commonwealth’s share of Federally sponsored highway construction.

**Capital Projects - Central Artery Statewide Roads and Bridges Fund** accounts for the construction of a portion of the Central Artery / Tunnel project financed from fiscal 2001 forward, as well as various other statewide road and bridge projects. These expenditures are financed from bond proceeds, certain revenues from Registry of Motor Vehicles fees (net of debt service expenditures) and payments from authorities.

**Teacher, Principal and Superintendent Quality Endowment Fund** is an endowment of \$70 million administered by the commissioner of education. The fund consists of an initial appropriation, along with public and private gifts, grants and donations. Investment earnings of the fund are expended for high achieving teaching professionals in the Commonwealth who are awarded with \$5,000 salary bonuses from these earnings.



Additionally, the Commonwealth reports the following fund types:

**Governmental Fund Types:**

*Special Revenue Funds* account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

*Capital Projects Funds* account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

*Permanent Funds* report resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that benefit the government or its citizens.

**Proprietary Fund Types:**

*Unemployment Compensation Fund* reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

*College and University Information* is presented here, aggregated by the University's activity, the State Colleges activity and the Community College's activity.

**Fiduciary Fund Types:**

*Pension Trust Funds* report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's pension plans. These include the State Employees' and Teachers' Retirement Systems and assets held in trust for the cities and towns.

*External Investment Trust Funds* account 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.

*Private Purpose Funds* account for various gifts and bequests held by the Commonwealth, of which only the income is expendable for purpose specified by the donor.

*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.

As allowed by GASB statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

**ii. Fiscal Year Ends**

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority which utilizes a December 31 year end.

**D. Assets, Liabilities and  
Net Assets / Fund  
Balance**

***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 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 \$26,835,258,000, at fair value, are permitted to make investments in equity securities, fixed income securities, 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. For investments traded in an active market, the fair value of the investment will be its market price. 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 Pension Trust 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, 2002, the estimated fair value, determined by management with input from the investment managers, of these real estate and alternative investments was approximately \$3,500,739,000 in the Pension Trust Funds, representing 11.0%, of the total assets of the Fiduciary Fund Type.

Pension Trust Fund and External Investment Trust Fund net assets have been restricted as follows:

“Restricted for employee’s pension benefits” identifies resources held in trust for the members and beneficiaries of the Commonwealth’s pension plans.

“Restricted for external investment trust fund participants” identifies the portion of pooled cash held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

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 \$2,453,934,000 and is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units is approximately \$1,095,950,000 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.

**E. *Securities Lending Program***

Under the securities lending programs, PRIT receives fees for allowing its lending agents to borrow from PRIT's public market equity and fixed income securities, respectively, for a predetermined period of time. These loans are secured with collateral (U.S. Treasury securities), typically equaling 102% of the market value of the domestic securities borrowed and 105% on borrowings of international securities. Pursuant to the Operations Support Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan at June 30, 2002. The collateral securities cannot be pledged or sold by PRIT unless the lending agent(s) default. The lending agents are required to indemnify PRIT in the event that they fail to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agents fail to perform their obligations as stipulated in the agreements.

At June 30, 2002, the market value of the securities on loan was \$1,249,322,000 and the value of the collateral including accrued interest, amounted to approximately \$1,352,713,000. As of June 30, 2002, securities on loan are included in investments at fair value in the accompanying Statement of Fiduciary Net Assets.

**F. *Receivables***

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and receivables" or "Due from federal government."

**G. *Due From Cities and Towns***

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

**H. *Fixed Assets***

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

**i. *Methods used to value capital assets***

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

**ii. *Capitalization Policies***

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized, regardless of cost. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

**iii. Depreciation and useful lives**

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

<i>Type of Asset</i>	<b>Estimated Useful Life (in years)</b>
Buildings .....	40
Infrastructure - roads, bridges and tunnels .....	40
Infrastructure - beaches, boardwalks, bikeways, etc. ....	25
Infrastructure - dams, water and sewer systems .....	50
Furniture .....	10
Library collections that are not historical treasures .....	15
Equipment, office equipment and life safety equipment .....	10
Computer hardware and software .....	3 to 7
Vehicles .....	5

**I. Interfund/Intrafund Transactions**

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.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

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."

**J. Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery**

Certain costs of nine "central service" agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also 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 is accounted for in the governmental funds. The Commonwealth has elected not to present its cost allocation and recovery separately in the Statement of Activities.

**K. School Construction Grants and Contract Assistance 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. This amount is recorded as long-term

liability in the statement of net assets. The amount to be paid during the next fiscal year is reported as current. For the governmental fund statements, the amounts expected to be liquidated with available financial resources are reported as expenditures and fund liabilities. The liability for school construction grants payable is the present value of the cash flows due to municipalities for the life of the program for existing commitments, discounted at the incremental borrowing rate of the Commonwealth, approximated by the Treasurer and Receiver-General for the fiscal year. During fiscal 2002, the discount rate was 4%.

The Commonwealth recognizes contract assistance due to MCCA, R3N, MWPAT and MassDevelopment on the statement of net assets. These liabilities equate to portions or the whole of certain debt service of these entities. In addition, a payable was declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

**L. *Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. Amounts to be paid during the next fiscal year are reported as current. For the governmental fund statements for governmental funds vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

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.

**M. *Lottery Revenue and Prizes***

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. Though the annuities are in the Commonwealth's name, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

**N. *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.

**O. *Net Assets***

The Commonwealth reports net assets as reserved where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

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

“Restricted for unemployment benefits” – identifies amounts solely for payment of unemployment compensation.

“Restricted for retirement of indebtedness” – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

“Restricted for central artery workers’ compensation and general liability” – identifies amounts held to pay future workers’ compensation and general liability claims through the Central Artery / Tunnel project’s owner controlled insurance program.

“Restricted for other purposes” – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the Commonwealth through constitutional or enabling statutes. Included in this restriction are reserves for stabilization and prior appropriations continued.

**P. *Reclassifications and Restatement***

During fiscal 2002, the Commonwealth implemented the following new accounting standards issued by the GASB:

Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments (GASB 34). GASB 34 as amended by Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – Omnibus establishes new financial reporting standards for state and local governments. The requirements of this statement result in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account groups. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

Statement No. 35 Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities (GASB 35). GASB 35 establishes financial reporting standards for public colleges and universities within the guidelines of GASB 34 and 37. The institutions of higher education in the Commonwealth, reported as business-type activities, adopted the requirements of GASB 35. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

Statement No. 38 Certain Financial Note Disclosures (GASB 38). GASB 38 amends certain note disclosures and adds additional note disclosure requirements related to GASB 34, 35 and 37.

In addition, during fiscal 2002, certain assets held by an insurance company on behalf of the owner controlled insurance program (OCIP) for the payment of general liability claims were included in the financial statements. The OCIP is reported within the other governmental funds. The beginning fund balance of the other governmental funds has been restated to reflect these assets, previously unrecorded receivable balances identified as the result of an audit of the workers’ compensation and general liability program, and an adjustment to incurred but not yet reported claims (IBNR).

As a result of these changes, balances previously reported for OCIP have been restated as follows (amounts in thousands):

Net assets (retained earnings) as audited, June 30, 2001.....	\$	147,236
Change in cash and investments .....		56,283
Change in receivables .....		20,365
Increase in incurred but not yet reported claims and judgements - reduction in net assets.....		(9,597)
Restated net assets as of June 30, 2001 .....	\$	<u>214,287</u>

Due to changes in the reporting of certain assets in the OCIP, as previously discussed, and the implementation of Statements 34, 35, and 37, the following amounts have been reclassified and beginning balances have been restated (amounts in thousands):

<i>Governmental Funds and Activities</i>	June 30, 2001 As Previously Reported	Fund Reclassifications	Accounting Adjustments	June 30, 2001 As Restated
Major governmental funds:				
General fund .....	\$ 2,730,216	\$ -	\$ -	\$ 2,730,216
Previously reported as special revenue funds:				
Local aid fund .....	-	127,098	-	127,098
Lotteries fund .....	-	(13,017)	-	(13,017)
Previously reported as debt service fund:				
Debt service fund .....	-	-	-	-
Previously reported as capital project fund fund:				
Highway capital projects fund .....	-	(849,605)	-	(849,605)
	<u>-</u>	<u>1,637,373</u>	<u>-</u>	<u>1,637,373</u>
Total major governmental funds .....	<u>2,730,216</u>	<u>901,849</u>	<u>-</u>	<u>3,632,065</u>
Nonmajor governmental funds:				
Previously reported as special revenue funds:				
Federal grants fund .....	(6,245)	-	-	(6,245)
Highway fund .....	(265,289)	-	-	(265,289)
Local aid fund .....	127,098	(127,098)	-	-
Environmental funds .....	(53,914)	-	-	(53,914)
Lotteries fund .....	(13,017)	13,017	-	-
Universal health care fund .....	153,679	-	-	153,679
Other minor funds .....	<u>1,086,496</u>	<u>1,586</u>	<u>-</u>	<u>1,088,082</u>
Nonmajor governmental funds .....	<u>1,028,808</u>	<u>(112,495)</u>	<u>-</u>	<u>916,313</u>
Capital project funds:				
General capital projects fund .....	(107,117)	-	-	(107,117)
Capital investment trust fund .....	3,851	-	-	3,851
Convention and exhibition center fund .....	(154,832)	-	-	(154,832)
Capital improvements and investment trust fund .....	108,133	-	-	108,133
Capital expenditure reserve fund .....	(143,427)	-	-	(143,427)
Highway capital projects fund .....	(849,605)	849,605	-	-
Federal highway construction fund .....	(280)	-	-	(280)
Central artery statewide roads and bridges fund .....	<u>1,637,373</u>	<u>(1,637,373)</u>	<u>-</u>	<u>-</u>
Capital needs investment trust fund .....	16,017	-	-	16,017
Government land bank fund .....	(6,300)	-	-	(6,300)
Intercity bus capital fund .....	(3,531)	-	-	(3,531)
Local aid capital projects fund .....	(3,823)	-	-	(3,823)
Owner controlled insurance program * .....	<u>-</u>	<u>214,287</u>	<u>38,934</u>	<u>253,221</u>
Total capital projects fund balances .....	<u>496,459</u>	<u>(573,481)</u>	<u>38,934</u>	<u>(38,088)</u>

\* As restated

(Continued)

(continued)

	June 30, 2001 As Previously Reported	Fund Reclassifications	Accounting Adjustments	June 30, 2001 As Restated
<b>Proprietary Funds and Business - Type Activities</b>				
Major funds:				
Previously reported as fiduciary funds and expendable trusts:				
Unemployment compensation fund .....	-	2,321,611	-	2,321,611
Previously reported as university and college type:				
Higher education systems .....	-	3,066,949	-	3,066,949
Total major proprietary funds .....	-	5,388,560	-	5,388,560
Nonmajor funds:				
Internal service funds .....	(100,060)	100,060	-	-
Subtotal Proprietary funds and business - type activities .....	(100,060)	5,488,620	-	5,388,560
Adoption of GASB 34, 35 and 37:				
Capital assets, net of accumulated depreciation .....	-	-	(1,605,999)	(1,605,999)
Other accounting changes .....	-	-	16,592	16,592
Adoption of GASB 34, 35 and 37 .....	-	-	(1,589,407)	(1,589,407)
<b>Total Proprietary funds and business - type activities .....</b>	<b>(100,060)</b>	<b>5,488,620</b>	<b>(1,589,407)</b>	<b>3,799,153</b>
<b>Total Primary Government .....</b>	<b>\$ 9,885,759</b>	<b>\$ 270,472</b>	<b>\$ (10,768,229)</b>	<b>\$ (611,998)</b>
<b>Other adjustments:</b>				
Fiduciary funds:				
Pension trust funds .....	29,503,347	-	-	29,503,347
External investment trust funds .....	2,890,323	-	-	2,890,323
Private purpose funds - non - expendable trust .....	5,834	-	-	5,834
Total fiduciary funds .....	32,399,504	-	-	32,399,504
University and college type:				
Higher education systems .....	3,066,949	(3,066,949)	-	-
Total university and college type .....	3,066,949	(3,066,949)	-	-
Account groups:				
General fixed assets .....	4,010,561	-	(4,010,561)	-
Total account groups .....	4,010,561	-	(4,010,561)	-
<b>Total other adjustments .....</b>	<b>\$ 39,477,014</b>	<b>\$ (3,066,949)</b>	<b>\$ (4,010,561)</b>	<b>\$ 32,399,504</b>

(Concluded)

## 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 a budget for expenditure 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 FY02 appropriations act, Chapter 177, Acts of 2001, authorized \$21,238,263,000 in direct appropriations. In addition, the act contained \$975,257,000 in authorizations to retain and expend certain non-tax revenues of which \$970,218,000 were estimated to be collected and expended. The Act and supplemental appropriations also included \$135,159,000 in interagency chargebacks. Chapter 177 included estimates of \$14,929,954,500 in tax revenues and \$6,860,600,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total \$21,790,554,500 and with unreserved balances of \$369,500,000 (exclusive of the Mosquito and Greenhead Fly Control Fund which became a non-budgeted fund in FY02) carried forward from the FY01, the budget as presented in this original appropriation act was considered to be in balance.

During FY02, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 183 - 199, Chapters 203 and 220 of the Acts of 2001 and Chapter 118 of the Acts of 2002, which included numerous supplemental budgetary appropriations. These supplements added \$512,919,000 of indirect appropriations and \$11,857,000 in retained revenue authorizations.

Subsequent to June 30, 2002, the Legislature passed and the Governor signed Chapters 300 of the Acts of 2002, which included \$45,799,000 in additional supplemental appropriations and \$3,116,500 in additional retained revenue authorizations. The cumulative FY02 appropriations, retained revenues and interagency chargebacks totals \$23,068,792,000. Appropriations continued from FY01 totaled \$290,029,000 and certain interfund transfers directed by statute totaled \$1,874,431,000.

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.

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

During FY02, the Commonwealth experienced a significant downturn in the collection of certain tax revenues. The revenue estimates, under the provisions of section 5D of Chapter 29 of General Laws, were determined to be insufficient to meet all of the expenditures authorized to be made for FY02. Therefore, in accordance with section 9C of said Chapter 29, the Secretary for Administration and Finance notified the Governor and the House and Senate Committees on Ways and Means of the amount of the probable deficiency of revenue. In accordance with powers granted to the Governor under said section 9C, the Governor reduced allotments under section 9B of said Chapter 29. The amount of this reduction was \$120,257,000.

### 3. DEPOSITS AND INVESTMENTS

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***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, 2002, the carrying amount of the Primary Government's total cash and cash equivalents was \$2,275,651,000 and the corresponding bank balance was \$1,947,385,000. Bank deposits in the amount of \$5,548,000 were insured by the Federal Deposit Insurance Corporation, \$119,942,000 were collateralized in the name of the Commonwealth and are held by various financial institutions. Deposits of \$1,821,895,000 were uninsured and uncollateralized.

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

As of June 30, 2002, the carrying amount of the discretely presented component unit's total cash and cash equivalents was \$1,630,235,000 and the corresponding bank balances were \$1,251,504,000. Bank deposits of \$148,442,000 were insured by the Federal Deposit Insurance Corporation, \$56,893,000 were collateralized in the name of the respective component units, and \$1,046,169,000 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.

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 Government at June 30, 2002, were as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 506,354	\$ 6,449	\$ 464	\$ 513,267
U.S. Treasury obligations.....	2,333,101	7,013	-	2,340,114
Commercial paper.....	3,969,251	-	-	3,969,251
Government obligations.....	3,051,986	23,463	7,361	3,082,810
Equity securities.....	15,350,070	791	53,439	15,404,300
Fixed income securities.....	2,243,205	237	652,259	2,895,701
Asset backed investments.....	110	-	26	136
Notes.....	301,565	-	-	301,565
Other.....	453	12,816	1,648	14,917
	<u>\$ 27,756,095</u>	<u>\$ 50,769</u>	<u>\$ 715,197</u>	28,522,061
Mutual fund investments.....				60,511
Annuity contracts.....				1,418,745
Real estate.....				1,861,249
Assets held in trust.....				2,444,691
Deposits with U. S. Treasury.....				1,427,582
Negotiable Certificates of Deposits.....				176,724
Other.....				3,199,884
Total.....				<u>\$ 39,111,447</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.

**iii) Forward Purchase Agreement** – During fiscal 2002, the Commonwealth entered into a forward purchase agreement with two investment providers to receive investment earnings on grant draws for the payment of the Commonwealth’s Grant Anticipation Notes’ (GANs) principal and interest for the period from June 19, 2002 to July 15, 2014 for note payments approximately six to eleven months after these grant draws. The value of this contract to the Commonwealth was satisfied at closing with a payment to the Commonwealth of \$76,435,000. Such amounts are presented as an inflow to the Highway Fund and revenue to the Commonwealth. The agreements may only be terminated in the event of a defeasance or refunding of the GANs by the Commonwealth. Should termination occur, the Commonwealth may be liable for a termination amount to be agreed upon between the Commonwealth and the providers at the termination date.

**iv) 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, 2002, there were no material options outstanding.

**Component Units** – Investments of the discretely presented Component Units at June 30, 2002 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 14,052	\$ 196,969	\$ 5,879	\$ 216,900
U.S. Treasury obligations.....	76,807	-	-	76,807
Commercial paper.....	110,995	-	-	110,995
Government obligations.....	597,511	150	32,194	629,855
Equity securities.....	2,182	-	1,044	3,226
Fixed income securities.....	44,148	-	516	44,664
Notes.....	8,433	-	5,837	14,270
Other.....	101	-	3,885	3,986
	<u>\$ 854,229</u>	<u>\$ 197,119</u>	<u>\$ 49,355</u>	1,100,703
Mutual Fund Investments.....				2,799
Assets held in trust.....				6,398
Guaranteed investment contracts.....				987,684
Negotiable Certificate of deposits.....				11,779
Total.....				<u>\$ 2,109,363</u>

**4. RECEIVABLES**

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets as follows (amounts in thousands):

<i>Primary Government</i>	<u>Taxes Receivable</u>	<u>Federal Grants and Reimbursements</u>	<u>Loans</u>	<u>Other Receivables</u>	<u>Total</u>
Governmental receivables .....	\$ 1,854,849	\$ 1,101,583	\$ -	\$ 814,668	\$ 3,771,100
Business-type activity receivables.....	300,046	27,705	59,230	267,544	654,525
Less: allowance for uncollectibles.....	(419,464)	(7,670)	(7,340)	(641,008)	(1,075,482)
Receivables, net of allowance for uncollectibles .....	1,735,431	1,121,618	51,890	441,204	3,350,143
Less: Current Portion:					
Governmental activities .....	(1,536,092)	(1,093,913)	-	(240,934)	(2,870,939)
Business-type activities .....	(199,339)	(27,705)	(36,810)	(150,679)	(414,533)
Noncurrent receivables .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,080</u>	<u>\$ 49,592</u>	<u>\$ 64,671</u>

<i>Discretely Presented Component Units</i>	<u>Taxes Receivable</u>	<u>Federal Grants and Reimbursements</u>	<u>Loans</u>	<u>Other Receivables</u>	<u>Total</u>
Massachusetts Bay Transportation Authority .....	\$ -	\$ 7,708	\$ -	\$ 33,405	\$ 41,113
Massachusetts Turnpike Authority.....	-	-	-	41,738	41,738
Massachusetts Water Pollution Abatement Trust .....	-	99,442	1,841,334	47,364	1,988,140
Nonmajor Component Units .....	-	17,377	255,112	45,299	317,788
Less: allowance for uncollectibles.....	-	-	(8,799)	(1,470)	(10,269)
Receivables, net of allowance for uncollectibles .....	\$ -	\$ 124,527	\$ 2,087,647	\$ 166,336	\$ 2,378,510
Less: Current Portion .....	-	(120,793)	(160,571)	(129,553)	(410,917)
Noncurrent receivables .....	<u>\$ -</u>	<u>\$ 3,734</u>	<u>\$ 1,927,076</u>	<u>\$ 36,783</u>	<u>\$ 1,967,593</u>

\*On the statement of net assets for component units, the long - term portions of federal grants and reimbursements and other receivables are combined to total \$40,517.

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

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at June 30, 2002 are summarized as follows (amounts in thousands):

### *Primary Government*

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Governmental Funds</u>		
General Fund	Local Aid Fund .....	\$ 878,172
	Highway Capital Projects Fund .....	482,610
	Nonmajor Governmental Funds .....	699,861
	Proprietary Funds - University of Massachusetts .....	10,828
Central Artery Statewide Road and Bridge Fund	General Fund .....	1,097,231
Nonmajor Governmental Funds	General Fund .....	157,482
Nonmajor Governmental Funds	Nonmajor Governmental Funds ....	<u>66,998</u>
<b>Total Primary Government .....</b>		<b><u>\$ 3,393,182</u></b>

### *Component Units*

Due to / from the Commonwealth and Component Units:

Massachusetts Turnpike Authority	General Fund .....	\$ 16,393 (1)
Massachusetts Water Pollution Abatement Trust	Local Aid Fund .....	13,115
	Nonmajor Governmental Funds ....	20,650
Massachusetts Bay Transportation Authority	Nonmajor Governmental Funds ....	118,133 (2)
Nonmajor Component Units	General Fund .....	62,625 (3)
	Local Aid Fund .....	28,994
	Nonmajor Governmental Funds ....	193,889 (4)
	Accrued Interest Payable .....	<u>36,708</u>
<b>Total Component Units .....</b>		<b><u>\$ 490,507</u></b>

- (1) - Includes a timing difference from the Massachusetts Turnpike Authority due to the Authority's fiscal year ending on December 31, 2001.
- (2) - Includes a difference of accrual for the Massachusetts Bay Transportation Authority for taxes receivable.
- (3) - Includes long term contract assistance payable to the Massachusetts Convention Center Authority, a nonmajor Component Unit.
- (4) - Includes long term contract assistance payable to the Route 3 North Transportation Improvements Association, included as a nonmajor Component Unit.

The Commonwealth is currently engaged in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project will depress the Central Artery (Interstate 93) through downtown Boston and connect the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA, a component unit and MassPort, a related organization, have contributed to the costs of construction. Once completed the assets of the project will be transferred to these entities for operations and maintenance.

All contributions to the Central Artery / Tunnel Project from component units are reflected as additions to construction in process on the various component units' financial statements, pursuant to Massachusetts General Laws, Chapter 81A. The Commonwealth reflects these payments as transfers from component units.

As part of the Commonwealth's implementation of GASB 34, the Commonwealth has recorded the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This construction in process amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" for the MTA's portion and "Due to Other – Central Artery / Tunnel Project" for Massport's portion. As portions of the project are completed and transferred to either the Turnpike Authority or Massport in accordance with Massachusetts General Laws, Chapter 81A (MGL 81A) (upon agreement of the various engineers and the Authorities' Boards of Directors), these amounts will be reduced for the value of the assets transferred.

The MTA presents its audited financial statements under GASB 34 on a calendar year basis for the year ended December 31, 2001. For fiscal 2002, the Commonwealth had the following payable to Component Units – Central Artery / Tunnel Project activity (amounts in thousands):

<b>Total Project budget as of June 30, 2002 .....</b>	<b><u>\$ 14,625,000</u></b>
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**I. Determination of MTA amounts:**

Cumulative Authorized Project Invoices as of June 30, 2002 .....	\$ 11,675,980
Less: Amounts to be transferred to Massport as of December 31, 2001 .....	(354,747)
Less: Amounts transferred previous to December 31, 2001 to Massport .....	(10,252)
Less: Amounts transferred previous to December 31, 2001 to the MTA .....	<u>(1,999,589)</u>

<b>Subtotal - Due to Component Units - Central Artery / Tunnel Project as of June 30, 2002 .....</b>	<b>9,311,393</b>
Less: Construction Expenses January 1 to June 30, 2002 .....	(724,670)
Amounts recognized as contributed by the MTA as of December 31, 2001 .....	<u>(1,555,000)</u>

Amounts not recognized as contributed to the MTA in their financial statements as of December 31, 2001 .....	<u>\$ 7,031,723</u>
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**II. Determination of Massport Amounts:**

Massport's Portion of the Central Artery / Tunnel Project as determined under Massachusetts General Laws Chapter 81A .....	\$ 365,000
Less: Amounts transferred to Massport as of June 30, 2002 .....	<u>(10,253)</u>

<b>Due to Related Organizations - Central Artery / Tunnel Project as of June 30, 2002 .....</b>	<b><u>\$ 354,747</u></b>
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**6. FIXED ASSETS**

Capital asset activities for the fiscal year ended June 30, 2002 are as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 595,295	\$ 48,797	\$ 175	\$ 643,917
Construction in process - non - Central Artery / Tunnel project .....	30,478	455,190	19,871	465,797
Construction in process - Central Artery / Tunnel project .....	8,293,818	1,372,322	-	9,666,140
Total capital assets not being depreciated .....	8,919,591	1,876,309	20,046	10,775,854
Capital assets being depreciated:				
Buildings .....	2,708,408	746,702	-	3,455,110
Machinery and equipment .....	658,038	37,465	19,461	676,042
Infrastructure.....	10,560,317	173,796	-	10,734,113
Total capital assets being depreciated .....	13,926,763	957,963	19,461	14,865,265
Less, accumulated depreciation:				
Buildings .....	2,060,370	68,260	-	2,128,630
Machinery and equipment .....	505,997	32,218	9,068	529,147
Infrastructure.....	3,242,175	514,317	-	3,756,492
Total accumulated depreciation .....	5,808,542	614,795	9,068	6,414,269
Total capital assets being depreciated, net .....	8,118,221	343,168	10,393	8,450,996
Governmental activity capital assets, net .....	<u>\$ 17,037,812</u>	<u>\$ 2,219,477</u>	<u>\$ 30,439</u>	<u>\$ 19,226,850</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land .....	\$ 63,814	\$ 4,621	\$ 250	\$ 68,185
Construction in process .....	130,423	132,603	147,286	115,740
Historical treasures .....	536	17	-	553
Total capital assets not being depreciated .....	194,773	137,240	147,536	184,477
Capital assets being depreciated:				
Buildings .....	1,923,684	193,836	2,446	2,115,075
Machinery and equipment .....	538,157	121,134	37,644	621,648
Library collections, not including historical treasures .....	127,798	7,782	7,053	128,527
Total capital assets being depreciated .....	2,589,640	322,753	47,143	2,865,250
Less, accumulated depreciation:				
Buildings .....	1,135,289	79,169	21,536	1,192,922
Machinery and Equipment .....	328,375	35,955	7,713	356,618
Infrastructure.....	12,388	2,132	673	13,847
Total accumulated depreciation .....	1,476,053	117,256	29,922	1,563,388
Total capital assets being depreciated, net .....	1,113,587	205,497	17,222	1,301,863
Business - type activity capital assets, net .....	<u>\$ 1,308,360</u>	<u>\$ 342,737</u>	<u>\$ 164,758</u>	<u>\$ 1,486,341</u>
Total Primary Government capital assets, net .....	<u>\$ 18,346,172</u>	<u>\$ 2,562,214</u>	<u>\$ 195,197</u>	<u>\$ 20,713,191</u>

Depreciation expense is not charged to particular functions of the primary government. It is charged in the aggregate.



**Discretely Presented Component Units** – Fixed assets consist of the following at June 30, 2002 (amounts in thousands):

<i>Discretely Presented Component Units</i>	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 411,472	\$ 9,292	\$ 32	\$ 420,732
Construction in process .....	1,745,735	673,500	307,364	2,111,871
Total capital assets not being depreciated .....	2,157,207	682,792	307,396	2,532,603
Capital assets being depreciated:				
Buildings .....	7,028,656	246,009	1,546	7,273,119
Machinery and equipment .....	1,952,373	109,357	7,834	2,053,896
Infrastructure .....	1,386,266	15,158	-	1,401,424
Total capital assets being depreciated .....	10,367,295	370,524	9,380	10,728,439
Less, accumulated depreciation .....	3,344,571	303,848	9,196	3,639,223
Total capital assets being depreciated, net .....	7,022,724	66,676	184	7,089,216
Discretely Presented Component Unit capital assets, net .....	\$ 9,179,931	\$ 749,468	\$ 307,580	\$ 9,621,819

## 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.

The following table summarizes short-term financing and credit activity for fiscal 2002 (amounts in thousands):

<i>Primary Government</i>	July 1, 2001 Beginning Balance	Issued / Drawn	Redeemed / Retired	June 30, 2002 Ending Balance	Credit Limit
Commercial paper (RANs) .....	\$ -	\$ 683,000	\$ 683,000	\$ -	\$ -
Letters of credit facilities .....	-	-	-	-	200,000
Lines of credit facilities .....	-	-	-	-	800,000
Bond anticipation notes * .....	400,000	830,000	700,000	530,000	-
Total Primary Government .....	\$ 400,000	\$ 1,513,000	\$ 1,383,000	\$ 530,000	\$ 1,000,000
<i>Discretely Presented Component Units</i>	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance	Credit Limit
Nonmajor component units:					
Revolving lines of credit .....	\$ -	\$ 350	\$ -	\$ 350	\$ 1,000
Revenue anticipation notes .....	87,513	64,042	88,233	63,322	-
Discretely Presented Component Units .....	\$ 87,513	\$ 64,392	\$ 88,233	\$ 63,672	\$ 1,000

Amounts are included as part of current bonds, notes payable and other obligations within the Statement of Net Assets.

\* The June 30, 2002 balance includes General Obligation Notes of \$350,000,000 and General Obligation BANs for CA/T project for \$180,000,000.

**General Fund** –The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During FY02, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. Up to \$683,000,000 of RANs were issued during the year. All RANs were retired before the end of May, 2002.

**Capital Projects Funds** – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

During FY02 the Commonwealth periodically issued BANs through the commercial paper program, beginning in August 2001. BANs were rolled over and paid down at various times during the fiscal year. No more than \$300,000,000 of BANs were outstanding under the commercial paper program at any time and all BANs were retired before the end of February, 2002.

During FY02, the Commonwealth also sold BANs on a stand-alone basis. On September 5, 2001, \$350,000,000 of General Obligation BANs were issued to finance costs associated with the development of Convention Centers in Boston, Worcester and Springfield, and to retire a portion of BANs issued prior to the sale. The BANs mature on September 1, 2003.

On March 28, 2002, \$180,000,000 of General Obligation BANs were issued. The BANs, issued to finance costs of the Central Artery / Tunnel Project, in advance of receiving certain contributions from the Massachusetts Port Authority (Massport), mature on April 25, 2003. The amount remaining to be paid by Massport totals approximately \$205 million, payable in three installments of approximately \$105 million, \$50 million and \$50 million on December 31, 2002, 2003 and 2004, respectively. Due to the events of September 11, 2001, Massport has experienced significant reductions in revenues and operations, as well as increases in certain expenses. The duration of these circumstances cannot be known. Massport has advised the Commonwealth that it does not expect to issue bonds to meet its December 2002 obligation until the summer of 2003. The Commonwealth has agreed to reschedule the payment due from Massport. The FY03 general appropriation act has provisions for the Commonwealth to charge Massport interest costs related to this transaction due to the delay in payment.

**Letter-of-Credit Agreements** – During FY02, 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 repayable 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, 2002. The existing letter of credit facility expires on December 28, 2003. The cost of the facility is approximately 0.15% on both unutilized and utilized amounts.

**Line-of-Credit Agreements** – During FY02, the Commonwealth maintained line-of-credit facilities to provide liquidity support for commercial paper notes. The total of such facilities was increased from \$400,000,000 to \$800,000,000

during the course of the fiscal year. The Commonwealth has a total of four line-of-credit facilities to provide such liquidity support for each in the amount of \$200,000,000. No such advances were drawn during the fiscal year ended June 30, 2002. These facilities expire in September and December of 2004, and March and September of 2005 respectively. The cost of these facilities ranges from 0.125% to 0.17%.

***Discretely Presented Component Units -***

The RTAs had \$63,672,000 short-term notes payable outstanding at June 30, 2002. All the notes mature during fiscal year 2002 and have interest rates ranging from 2.25% to 4.95%.

Subsequent to June 30, 2002, the RTAs rolled over \$37,083,000 of revenue anticipation notes with interest rates ranging from 1.63% to 2.75% due in fiscal year 2003.

## **8. LONG-TERM OBLIGATIONS**

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, 2002, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes.

***A. General Obligation Bonds***

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.

***i. 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 2002 when approximately \$5,636,000 of such bonds was issued. Outstanding COBs had maturity dates ranging from 2002 through 2021. 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 \$174,157,000. 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.

**ii. 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, 2002, \$1,115,000 of these obligations remains outstanding.

**B. 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, 2002, the Commonwealth had outstanding \$837,910,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21-cent motor fuel excise tax imposed on gasoline.

In June of 2002, the Commonwealth sold \$319,130,000 of special obligation revenue bonds, Series 2002A. Of this amount, \$183,180,000 was issued to refund prior special obligation bonds. The remainder was used to fund capital spending in the Commonwealth. The escrow funded by the refunding bonds and related premium will be used only to secure the principal related to \$190,075,000, exclusive of related call premium in previously issued special obligation bonds maturing on June 1, 2003, 2004, 2006 and 2008. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of motor fuel excise taxes. Interest on a portion of the newly issued refunding bonds will be paid from the proceeds of the escrow until the aforementioned prior bonds are called for redemption. This technique, which is generally referred to as a "crossover refunding," results in economic savings to the Commonwealth similar to a normal refunding, but does not meet the accounting definition of defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed. Until such time as the escrow is used to repay the principal of the refunded bonds, such amounts will be reported in the Highway Capital Projects Fund.

**C. 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, 2002, 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.

***D. 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.

***E. Interest Rate Swap Agreements***

As of June 30, 2002, \$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.

***F. 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.

### **G. Outstanding Debt**

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.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2002 are as follows (amounts in thousands):

<u>Primary Government</u>	<u>Bonds Outstanding</u>	<u>Authorized and Unissued</u>
Balance, July 1, 2001.....	\$ 13,999,454	\$ 9,290,418
General and special obligation bonds:		
Principal, less discount and issuance costs.....	1,486,314	(1,486,314)
Principal issued for sinking fund.....	11,645	-
Net premium and issuance costs.....	(27,687)	-
General and special obligation refunding bonds:		
Principal on refunding bonds .....	1,360,170	-
Refunded principal, exclusive of cross - over refunding .....	(1,168,626)	-
Retired discount on refunded bonds .....	(13,794)	-
Increase in bonds authorized .....	-	679,554
Bonds retired .....	(692,341)	-
Balance, June 30, 2002.....	14,955,135	
Less: Current portion of general long - term debt - governmental activities.....	(744,830)	-
Long - term portion of general long - term debt - governmental activities.....	<u>\$ 14,210,305</u>	<u>\$ 8,483,658</u>

**Business Type Activities - Colleges and University Debt**— 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.

At June 30, 2002, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows for both governmental and business-type activities (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business - Type Activities	
	General Obligation		Revenue Obligation	
	Principal	Interest	Principal	Interest
2003 .....	\$ 744,830	\$ 739,821	\$ 30,337	\$ 33,877
2004 .....	757,020	700,456	24,582	32,760
2005 .....	822,162	666,861	19,245	31,416
2006 .....	944,752	625,151	20,044	30,494
2007 .....	983,127	577,368	21,326	29,549
2008 - 2012 .....	4,848,232	2,123,589	119,438	130,246
2013 - 2017 .....	3,567,934	997,514	122,896	97,302
2018 - 2022 .....	1,692,925	359,574	118,773	65,670
2023 - 2027 .....	233,399	126,947	82,643	39,570
2028 - 2032 .....	360,754	35,532	106,535	15,998
2023 - 2037 .....	-	-	4,613	477
Total long - term debt .....	14,955,135	6,952,813	670,432	507,359
Less: Current Portion .....	(744,830)	(739,821)	(30,337)	(33,877)
Long - term debt .....	<u>\$ 14,210,305</u>	<u>\$ 6,212,992</u>	<u>\$ 640,095</u>	<u>\$ 473,483</u>

The above schedule assumes the variable rate to be paid at 5%.

#### ***H. Bonds Defeased Through Refunding***

The Commonwealth issued bonds and notes through both competitive and negotiated sales during fiscal year 2002. The costs for legal counsel and underwriting fees (including estimated amounts related to competitive sales) for bond sales were \$593,000 and \$14,327,000 respectively. In addition, the Commonwealth paid \$186,000 for disclosure counsel services.

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$1,176,990,000 of general obligation refunding bonds during fiscal year 2002. Net proceeds totaling approximately \$1,267,751,000 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 long-term obligations. 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 \$55,013,000 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 \$47,141,000. At June 30, 2002, approximately \$1,090,330,000 of the bonds refunded remain outstanding and are defeased.

#### ***I. 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, 2002, approximately \$2,286,432,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

**J. Statutory Debt Limit**

The Massachusetts General Laws establish limits on the amount of governmental 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 2002 was approximately \$11,630,307,000. Outstanding governmental debt subject to the limit at June 30, 2002 was approximately \$11,014,062,000. 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 governmental debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Balance, June 30, 2002.....	\$ 14,955,135
Less amounts excluded:	
Discount and issuance costs.....	(181,910)
Chapter 5 of the Acts of 1992 refunding.....	(22,043)
Special obligation principal.....	(772,812)
Grant anticipation notes principal.....	(1,500,000)
County debt assumed .....	(1,115)
Bonds sold for the MBTA forward funding .....	(625,000)
Bonds sold for the Central Artery / Tunnel Project .....	<u>(838,193)</u>
Outstanding direct debt subject to statutory debt limit .....	<u>\$ 11,014,062</u>



Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2002, the following changes occurred in liabilities reported as part of the long term liabilities in the statement of net assets (amounts in thousands):

<i>Primary Government Governmental Activities</i>	Interest Rates	Maturity Through	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance	Due Within One Year
Long - term debt:							
General obligation bonds .....	0.00 - 8.00%	2031	\$ 11,677,383	\$ 2,612,288	\$ 1,789,260	\$ 12,500,411	\$ 667,956
Special obligation bonds .....	4.00 - 5.50%	2017	539,242	256,792	23,222	772,812	24,688
Grant anticipation notes .....	0.00 - 7.00%	2015	1,500,000	-	-	1,500,000	-
Unamortized (Premiums) / Discounts:							
General obligation bonds .....			280,551	(26,993)	62,085	191,473	52,009
Special obligation bonds .....			2,953	(11,646)	193	(8,886)	177
Grant anticipation notes .....			(675)	-	-	(675)	-
Total long - term debt .....			13,999,454	2,830,441	1,874,760	14,955,135	744,830
Other long - term liabilities .....			11,825,018	2,630,916	30,733	14,425,201	551,291
Total non - current liabilities .....			<u>\$ 25,824,472</u>	<u>\$ 5,461,357</u>	<u>\$ 1,905,493</u>	<u>\$ 29,380,336</u>	<u>\$ 1,296,121</u>
<i>Business - Type Activities</i>			July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance	Due Within One Year
Long - term debt:							
Revenue obligation debt .....	0.0 - 7.5%	2037	\$ 575,148	\$ 107,138	\$ 11,856	\$ 670,430	\$ 30,337
Other long - term liabilities .....			220,731	180,872	31,550	370,053	157,368
Total non - current liabilities .....			<u>\$ 795,879</u>	<u>\$ 288,010</u>	<u>\$ 43,406</u>	<u>\$ 1,040,483</u>	<u>\$ 187,705</u>

**Discretely Presented Component Units** – Bonds and notes outstanding at June 30, 2002 (December 31, 2001 for Massachusetts Turnpike Authority), net of unamortized discount of approximately \$165,203,000 and unamortized loss on refunding of approximately \$143,826,000, are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance	Due Within One Year
Major component units:							
MBTA .....	3.85 - 7.80%	2003-2030	\$ 4,001,237	\$ -	\$ 312,229	\$ 3,689,008	\$ 113,461
MTA .....	5.05 - 5.65%	2004-2039	2,430,994	-	4,434	2,426,560	12,295
MWPAT .....	3.00 - 6.375%	2003-2030	1,677,710	322,228	262,899	1,737,039	73,050
Nonmajor component units .....	1.77 - 9.00%	2003-2034	900,759	596,353	378,306	1,118,806	62,214
Total bonds payable .....			9,010,700	918,581	957,868	8,971,413	261,020
Compensated absences .....			24,900	17,096	16,420	25,576	19,370
Total Component Units .....			<u>\$ 9,035,600</u>	<u>\$ 935,677</u>	<u>\$ 974,288</u>	<u>\$ 8,996,989</u>	<u>\$ 280,390</u>

The amounts below represent the gross 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 and interest are as follows (amounts in thousands):

Fiscal Year Ended June 30,	Massachusetts Bay Transportation Authority		Massachusetts Turnpike Authority		Massachusetts Water Pollution Abatement Trust		Nonmajor Component Units		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003.....	\$ 112,321	\$ 210,860	\$ 12,295	\$ 121,697	\$ 73,050	\$ 89,248	\$ 62,184	\$ 41,139	\$ 259,850	\$ 462,944
2004.....	88,535	204,891	13,050	120,973	75,055	85,973	75,522	80,159	252,162	491,996
2005.....	94,315	200,229	39,935	119,066	76,480	82,578	35,223	59,730	245,953	461,603
2006.....	115,165	196,891	19,535	118,054	76,915	79,059	34,911	56,816	246,526	450,820
2007.....	130,795	192,820	19,890	117,009	79,230	79,082	32,861	47,847	262,776	436,758
2008 - 2012.....	779,345	838,467	193,885	559,482	422,185	311,916	125,868	218,241	1,521,283	1,928,106
2013 - 2017.....	794,635	603,078	189,770	515,856	416,470	205,991	167,587	179,914	1,568,462	1,504,839
2018 - 2022.....	807,580	387,023	365,502	564,198	291,905	99,180	167,885	155,306	1,632,872	1,205,707
2023 - 2027.....	671,205	175,775	239,917	497,454	158,565	38,853	161,470	118,184	1,231,157	830,266
2028 - 2032.....	281,275	32,036	310,718	418,555	66,570	6,340	188,458	54,304	847,021	511,235
2033 - 2037.....	-	-	137,945	176,477	-	-	65,125	5,679	203,070	182,156
2038 - 2041.....	-	-	998,641	21,522	-	-	3,555	289	1,002,196	21,811
Total long - term debt*....	3,875,171	3,042,070	2,541,083	3,350,343	1,736,425	1,078,220	1,120,649	1,017,608	9,273,328	8,488,241
Less: Current portion*.....	(112,321)	(210,860)	(12,295)	(121,697)	(73,050)	(89,248)	(62,184)	(41,139)	(259,850)	(462,944)
Long - term debt*.....	\$ 3,762,850	\$ 2,831,210	\$ 2,528,788	\$ 3,228,646	\$ 1,663,375	\$ 988,972	\$ 1,058,465	\$ 976,469	\$ 9,013,478	\$ 8,025,297

\* Does not include certificates of participation below.

The MBTA issued certificates of participation (COPs) 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):

Fiscal Year Ended June 30	Principal	Interest
2003.....	\$ 1,140	\$ 353
2004.....	1,140	264
2005.....	1,135	176
2006.....	1,135	88
	<u>\$ 4,550</u>	<u>\$ 881</u>

The remaining outstanding principal balance of COPs that were defeased in-substance in prior years is \$9,075,000 at June 30, 2002.

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, 2002, approximately \$1,800,000,000 of these bonds outstanding are considered defeased.

On February 22, 1995, Pioneer Valley Transit Authority (PVTa) (a non major component unit) 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 appropriating the necessary funds in the Authority's annual budget. As of June 30, 2002, the principal amount of certificates outstanding is \$1,228,000.

**K. Bond Issuances  
Subsequent to June 30,  
2002**

The following bond series' were issued subsequent to June 30, 2002, but before the date of the audit opinion (amounts in thousands):

<u>Description</u>	<u>Issue Size</u>	<u>Refunding Portion</u>	<u>Interest Rate Range (%)</u>	<u>FY of Maturities</u>
<b><u>Primary Government</u></b>				
General Obligation Bonds Consolidated Loan of 2002, Series C	\$ 1,828,230	\$ 1,329,000	4.125% - 5.5%	2010-2021
General Obligation Bonds Consolidated Loan of 2002, Series D	670,745	357,725	2.5% - 5.5%	2003-2022
General Obligation Refunding Bonds, Consolidated Loan of 2002, Series A, Delayed Delivery	446,435	446,435	5.50%	2007-2011
General Obligation Refunding Bonds, Consolidated Loan of 2002, Series B, Delayed Delivery	102,820	102,820	5%	2006
General Obligation Bonds Consolidated Loan of 2002, Series E	734,350	-	2% - 5.5%	2005-2023
General Obligation Refunding Bonds, Consolidated Loan of 2003, Series A, Delayed Delivery	108,825	108,825	5.375%	2008
College Opportunity Bonds, Series 2002A	5,970	-	Variable	2007- 2022
<b><u>Component Units</u></b>				
Massachusetts Water Pollution Abatement Trust:				
MWRA Program Bonds, Series 2002A	124,800	-	3% - 5.25%	2004-2033
Pool Program Bonds, Series 8	266,885	-	3% - 5%	2004-2033
Massachusetts Bay Transportation Authority:				
Senior Sales Tax Bonds, 2002 Series A	396,885	-	3% - 5.25%	2004-2033

## 9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2002 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Major governmental funds:	
Local Aid.....	\$ 1,035,804
Highway Capital Projects.....	539,518
Other governmental funds:	
Federal Grants.....	6,069
Highway.....	429,317
Environmental Funds.....	63,300
General Capital Projects.....	217,580
Capital Investment Trust .....	957
Convention and Exhibition Center.....	277,192
Capital Improvement and Investment Trust .....	29,858
Capital Expenditure Reserve.....	192,874
Local Capital Projects.....	11,221
MBTA State and Local Contribution .....	167
Government Land Bank.....	35,097
Mosquito and Greenhead Fly Control .....	1,413
Board of Registration in Medicine .....	41
Motor Vehicle Safety Inspection .....	25,210

## 10. RETIREMENT SYSTEMS

### A. 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.

**B. Plan Descriptions**

The *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.

The *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.

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, 2002, the Commonwealth's pension expenditure included payments totaling \$17,374,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

The *State – Boston Retirement System* (SBRS) is a hybrid multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity (BTRS). 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 post-retirement benefit increases for all retirees of the SERS, TRS, BTRS and COLA of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and BTRS as of January 1, 2002, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>BTRS</u>
Retirees and beneficiaries			
currently receiving benefits.....	44,313	34,970	2,593
Terminated employees entitled to benefits but not yet receiving them....	2,842	N/A	128
Subtotal.....	47,155	34,970	2,721
Current employees:			
Vested*.....	45,566	46,637	3,621
Non-vested*.....	42,952	42,790	2,656
Subtotal.....	88,518	89,427	6,277
Total.....	135,673	124,397	8,998

**C. 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 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.

**D. Funding Progress**

During FY01, 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.

The SERS, TRS and BTRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 2001. These assumptions remained the same as of the January 1, 2002 valuation. 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 1995 to 1999 concluded in FY01. The Commonwealth has fully phased-in its UAL from a market value of assets to an actuarial valuation of assets. The actuarial value of assets used to derive the UAL from January 1, 1990 to January 1, 1996 reflects the market value of plan assets. To reduce the potential volatility of the market value approach, in the January 1, 1998 actuarial valuation, the Commonwealth began implementing a method that averages realized and unrealized asset gains and losses over 5 years.

Therefore, gains and losses in a given year are recognized over a five-year period. On January 1, 1998, the Commonwealth began phasing in this methodology and used 97% of market value as the actuarial value of assets. This methodology was fully phased in as of January 1, 2001. The most

significant assumptions for the actuarial valuation are investment return and rate of salary increase. The valuation as of January 1, 2002 assumes an investment return rate of 8.25% per year. The salary increase is based on years of service and it varies by age and service groups. Other assumptions include mortality, disability, turnover and retirement rates, along with cost of living increase.

The following table presents the schedule of funding progress as presented in the eight 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 (SERS)						
2002	\$ 15,002,000	\$ 15,961,000	\$ 959,000	94.0 %	\$ 4,034,000	23.8 %
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 (TRS)						
2002	15,712,000	20,620,000	4,908,000	76.2	4,264,000	115.1
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
Boston Teachers (BTRS)						
2002	984,000	1,756,000	772,000	56.0	370,000	208.6
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.

**E. Pension Actuarial Valuation**

The Commonwealth's pension actuarial valuation was performed as of January 1, 2002 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time.

**F. Contributions Required and Contributions Made**

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, 2002 was \$730,000,000.

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 BTRS 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 BTRS 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 proposed on March 1, 2002, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023. Contributions by the Commonwealth of \$795,782,000 were made during the fiscal year ended June 30, 2002. Of this amount \$49,772,000 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

On May 17, 2002, the Governor signed into law a bill that extended the Commonwealth's pension funding schedule to 2023, and reduced the FY02 pension appropriation.

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



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

Actuarial Valuation as of January 1	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
State Employees' Retirement System								
2002	\$ 215,795	\$ (111,506)	\$ (92,152)	\$ 196,441	\$ 266,660	\$ 1,421,811	124	% 136
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
Teachers' Retirement System								
2002	411,225	(82,377)	(68,079)	396,927	410,143	1,011,729	100	103
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
Boston Teachers Retirement System								
2002	940,003	(67)	(56)	93,992	51,833	41,343	6	55
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

**G. Post-retirement Health  
Care and Life  
Insurance Benefits**

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.

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 \$236,041,000 for the fiscal year ended June 30, 2002. There are approximately 49,900 participants eligible to receive benefits at June 30, 2002.

## 11. LEASES

### *Primary Government – Governmental Activities*

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. At June 30, 2002, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals approximately \$91,146,000. This liability is reported as a Long-Term obligation in both the governmental and business-type activities. Equipment acquired under capital leases and included as fixed assets totaled approximately \$110,562,000.

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.

**Business - Type Activities – University and Colleges information** – At June 30, 2002, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled approximately \$79,880,000. Equipment acquired under capital leases is included in University and College Fund fixed assets.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for Governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2002 (amounts in thousands):

### *Primary Government*

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities			
	Capital Leases		Operating Leases	Total	Capital Leases		Operating Leases	Total
	Principal	Interest			Principal	Interest		
2003 .....	\$ 24,472	\$ 3,145	\$ 135,336	\$ 162,953	\$ 16,756	\$ 3,909	\$ 29,738	\$ 50,403
2004 .....	20,177	2,765	108,994	131,936	14,735	3,033	28,044	45,812
2005 .....	17,627	2,333	89,449	109,409	11,414	2,320	25,212	38,946
2006 .....	12,336	1,632	50,063	64,031	9,743	1,758	22,184	33,685
2007 .....	8,307	1,098	22,135	31,540	9,462	1,351	20,669	31,482
2008 - 2012 .....	8,227	1,090	58,926	68,243	17,173	1,498	330,389	349,060
2013 - 2017 .....	-	-	-	-	429	-	1,279	1,708
2018 - 2022 .....	-	-	-	-	129	-	506	635
Total lease obligations.....	91,146	12,063	464,903	568,112	79,841	13,869	458,021	551,731
Less: current portion: .....	(24,472)	(3,145)	(135,336)	(162,953)	(16,756)	(3,909)	(29,738)	(376,309)
Long - term lease obligations .	\$ 66,674	\$ 8,918	\$ 329,567	\$ 405,159	\$ 63,085	\$ 9,961	\$ 428,284	\$ 175,422

***Discretely Presented 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, 2002 (amounts in thousands):

Fiscal Year Ended June 30	Massachusetts Bay Transportation Authority	Nonmajor Component Units	Total
2003 .....	\$ 46,773	\$ 717	\$ 47,490
2004 .....	48,474	717	49,191
2005 .....	41,383	716	42,099
2006 .....	42,418	713	43,131
2007 .....	47,829	711	48,540
2008 - 2012 .....	296,491	-	296,491
2013 - 2017 .....	224,691	-	224,691
2018 - 2022 .....	94,080	-	94,080
Lease obligations .....	842,139	3,574	845,713
Less: Interest portion: .....	(293,666)	(478)	(294,144)
Present value of minimum			
lease payments .....	548,473	3,096	551,569
Less: current portions .....	(14,489)	(556)	(15,045)
Long - term lease obligations .....	\$ 533,984	\$ 2,540	\$ 536,524

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 \$948,000 of which \$854,000 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 \$25,760,000 in rental income of which \$13,952,000 was received for restaurant, concessions and service station rentals. Rental income for the next five years is expected to approximate \$22,975,000 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):

Fiscal Year Ended June 30	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Nonmajor Component Units	Total
2003 .....	\$ 14,071	\$ 855	\$ 3,690	\$ 18,616
2004 .....	13,651	869	1,856	16,376
2005 .....	12,804	890	844	14,538
2006 .....	13,070	455	692	14,217
2007 .....	13,439	-	160	13,599
2008 - 2012 .....	63,423	-	336	63,759
2013 - 2017 .....	7,520	-	336	7,856
2018 - 2022 .....	-	-	218	218
2023 - 2027 .....	-	-	74	74
2028 - 2032 .....	-	-	19	19
Total lease obligations .....	<u>\$ 137,978</u>	<u>\$ 3,069</u>	<u>\$ 8,225</u>	<u>\$ 149,272</u>

## 12. 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. The dedicated sales tax is equal to the greater of the amount raised by the sales tax or the base revenue subject to an adjustment for inflation, capped at 3% annually. For fiscal 2003, the base revenue is \$684,280,500.

**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 2002, net expenditures were \$17,602,000. In addition, for fiscal year 2002, the Commonwealth appropriated \$18,423,000 to the regional transit authorities to cover net costs of service for the calendar year ended December 31, 2001.

**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, 2002 is \$3,264,345,000.

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, 2002, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support is approximately \$169,312,000 long term and \$96,856,000 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, 2002 was approximately \$381,794,000.

At June 30, 2002, the Commonwealth had commitments of approximately \$1,657,409,000 for 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).

**Saltonstall Building** – The Commonwealth has authorized MassDevelopment to redevelop the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building is to be leased by MassDevelopment for a lease term up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment 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 Commonwealth is currently engaged in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T). The project will depress the Central Artery (Interstate 93) through downtown Boston and connect the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan Airport. In addition to Commonwealth debt and funds from the Federal Government, the Massachusetts Turnpike Authority and Port Authority have contributed to the cost of construction. Once completed the assets will be transferred to these entities for operation and maintenance. The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the finance plan filed as of August 31, 2002. The current cost estimate is \$14.625 billion. The plan includes a maximum obligation of \$8.549 billion from the federal government. As of September 30, 2002, the project was 84% complete. Project milestones have been reviewed to include I-90 opening and I-93 Northbound opening in January 2003 and I-93 Southbound opening in January 2004.

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.

All payments pursuant to the agreements have been made from the MTA, except for the \$4,000,000 being held in escrow, pending an eminent domain settlement. 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, 2002, PRIT had outstanding commitments to invest approximately \$858,262,000 in real estate, and approximately \$1,714,824,000 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.

***Discretely Presented Component Units -***

Chapter 152 of the Acts of 1997 provides \$609,400,000 for the construction of a Convention and Exhibition Center that 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, 2002, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$173,000,000 to various local government units to be funded with grant awards.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-eight loan agreements with thirteen banks totaling approximately \$450,003,000 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 \$50,259,000 at June 30, 2002.

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, 2001 approximated \$13,000,000.

## **13. 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 general operations. 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 \$76,500,000 as of June 30, 2002. 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 that received the assistance. As of June 30, 2002, 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 \$4,987,000 that is expected to be reclaimed and paid in fiscal year 2003, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 2002 totaled approximately \$87,757,000. Since inception, approximately \$1,056,364,000 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 2002, the Commonwealth received approximately \$304,518,000 or 91% of the estimated amounts shown in the agreement. Of that amount approximately \$152,259,000 was transferred to the Tobacco Settlement Fund to finance health care costs. The remaining receipts from fiscal 2002 are held for future use. However, the fiscal 2003 budget earmarked the entire settlement receipts for the year to be deposited into the Tobacco Settlement Fund to pay for current year costs. A number of the outside attorneys for the Commonwealth have filed suit against the Commonwealth for the difference between the balance that had been previously awarded to the attorneys to be paid over time by the tobacco companies (and not the Commonwealth's award) for fees and 25% of the Commonwealth's tobacco settlement payments. In an early ruling in the case, the Court found that the attorney's arguments may ultimately inure to the benefit of all five law firms that represented the Commonwealth in the legal action against tobacco manufacturers. The effect of this ruling is to increase the potential exposure for the Commonwealth to approximately \$1.3 billion.

***Central Artery/Tunnel Project – Owner Controlled Insurance Program (OCIP)*** – The Commonwealth of Massachusetts has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project by establishing an Owner Controlled Insurance Program in 1992.

In 1996 the Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. Any amounts that remain in the Trust after all losses and other obligations of the Project are paid will be repaid to the Project for distribution in accordance with funding agreements with the federal government. There are currently discussions pending under which the Trust assets would become “defederalized” and therefore no longer restricted as to the ultimate distribution at the end of the Project.

During fiscal 2002, certain assets held by an insurance company on behalf of the owner controlled insurance program (OCIP) for the payment of general liability claims were included in the financial statements. The beginning balance has been restated to reflect these assets, previously unrecorded receivable balances identified as the result of an audit of the workers’ compensation and general liability program, and a change in accounting estimate made by management relating to incurred but not yet reported claims. As of June 30, 2002 the balances held outside of the trust amount to \$59.3 million.

The Project’s OCIP activity is reported as a minor governmental (capital project) fund. The “Claims and Judgements liabilities” reported within the fund therein represents the Project’s liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year for fiscal 2002. The remaining liability is reported as part of the non-current liability in the statement of net assets.

The OCIP’s assets are to be available to pay the obligations under the Owner Controlled Insurance Programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of \$1,000,000 per claim, \$3,000,000 per occurrence for worker’s compensation and \$2,000,000 per enrolled contractor or other named insureds, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

The estimated Claims and Judgements liability for occurrences through June 30, 2002 is \$120,900,000, of which \$31,800,000 is presented as a current liability in the minor governmental fund, while the remaining \$89,100,000 is presented on the statement of net assets. 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, 2002. The estimate of \$120,900,000 does not reflect the maximum potential obligation of the Project to the end of the Project.

The United States Department of Justice has an ongoing investigation of the OCIP. Also, as part of their approval process of the Project’s Finance Plan, the U. S. Department of Transportation Office of the Inspector General reviews the OCIP. The Project updated its October 2001 plan in March 2002, by agreeing to remove \$133 million in federal funds from the trust. This process was completed in July 2002. In August 2002 an additional \$81 million in federal funds were removed to defederalize the OCIP Trust.



**Claims and Judgments** - The following amounts were recognized as of June 30, 2002 (amounts in thousands):

	Balance as of July 1, 2001	Additions	Reductions	Balance as of June 30, 2002
Short-term.....	\$ 27,000	\$ 112,200	\$ (27,000)	\$ 112,200
Long-term.....	113,000	86,000	(113,000)	86,000
	<u>\$ 140,000</u>	<u>\$ 198,200</u>	<u>\$ (140,000)</u>	<u>\$ 198,200</u>

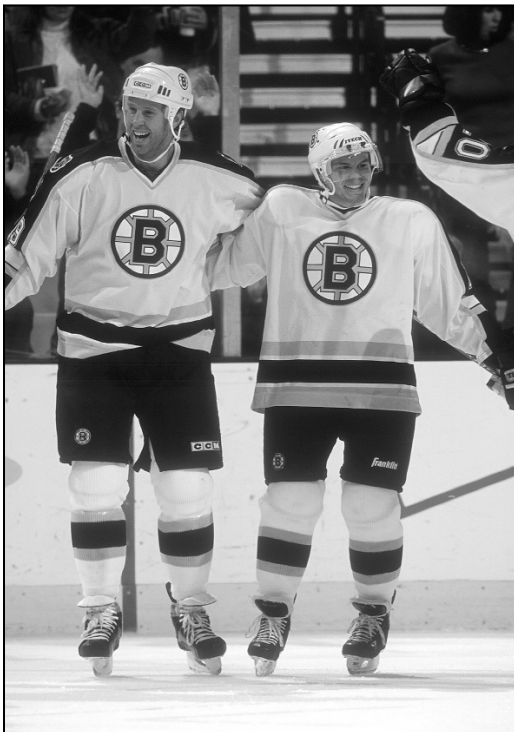
**Discretely Presented Component Units** - The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2002. Changes in the self-insurance reserves in fiscal 2002 and 2001 were as follows (amounts in thousands):

	2002	2001
Liability, beginning of year.....	\$ 69,476	\$ 60,846
Current year claims and changes in estimates.....	114,651	90,958
Claims payments.....	<u>(97,483)</u>	<u>(82,328)</u>
Liability, end of year.....	<u>\$ 86,644</u>	<u>\$ 69,476</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, 2001, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$8,511,000.

# *Required Supplementary Information*

*Other than Management Discussion and Analysis*



In 1928 the brand new Boston Garden became the home ice of America's first NHL team, the Boston Bruins, which entered the league four years earlier. This storied franchise currently boasts 42 former players in the Hockey Hall of Fame. The modern-day home to the Bruins, the FleetCenter, hosted the NHL All-Star Game in 1996.

*"Forget about style; worry about results."*

Bobby Orr

## Budgeted Funds

Combined Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual  
Fiscal Year Ended June 30, 2002  
(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance over/(under)
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 14,930,000	\$ 14,930,100	\$ 13,622,710	\$ (1,307,390)
Assessments.....	-	2,700	129,354	126,654
Federal grants and reimbursements.....	4,126,300	4,126,300	4,334,934	208,634
Departmental.....	1,672,300	1,422,389	1,205,629	(216,760)
Miscellaneous.....	-	92,483	265,492	173,009
<b>Total revenues.....</b>	<b>20,728,600</b>	<b>20,573,972</b>	<b>19,558,119</b>	<b>(1,015,853)</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	-	-	161,524	161,524
Lottery reimbursements.....	-	87,341	87,341	-
Lottery distributions.....	-	857,700	871,136	13,436
Caseload increase mitigation transfer.....	-	-	4,878	4,878
Tobacco settlement transfer.....	-	154,728	154,728	-
Operating transfers in.....	1,062,000	221,911	515,531	293,620
Transfer for transitional escrow.....	-	-	579,215	579,215
Stabilization transfer.....	-	-	1,030,000	1,030,000
Capital projects funds year end transfer .....	-	-	51,369	51,369
Federal reimbursement transfer in.....	-	-	1,902	1,902
Transfer for tax reduction.....	-	-	33,605	33,605
<b>Total other financing sources.....</b>	<b>1,062,000</b>	<b>1,321,680</b>	<b>3,491,229</b>	<b>2,169,549</b>
<b>Total revenues and other financing sources.....</b>	<b>21,790,600</b>	<b>21,895,652</b>	<b>23,049,348</b>	<b>1,153,696</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	88,227	72,850	58,909	13,941
Judiciary.....	584,123	587,686	580,057	7,629
Inspector General.....	2,019	1,975	1,973	2
Governor and Lieutenant Governor.....	5,611	5,655	5,542	113
Secretary of the Commonwealth.....	35,088	35,028	34,693	335
Treasurer and Receiver-General.....	187,159	121,024	119,114	1,910
Auditor of the Commonwealth.....	15,380	15,351	15,347	4
Attorney General.....	35,687	36,335	35,674	661
Ethics Commission.....	1,415	1,412	1,411	1
District Attorney.....	79,566	81,253	81,056	197
Office of Campaign & Political Finance.....	1,089	1,088	1,440	(352)
Sheriff's Departments.....	193,220	215,292	211,973	3,319
Disabled Persons Protection Commission.....	1,616	1,714	1,708	6
Board of Library Commissioners.....	7,251	7,270	6,984	286
Comptroller.....	8,352	8,415	8,410	5
Administration and finance.....	1,429,507	1,386,683	1,344,343	42,340
Environmental affairs.....	226,182	234,966	221,717	13,249
Communities and development.....	122,269	123,018	116,790	6,228
Health and human services.....	4,241,579	4,403,293	4,312,159	91,134
Transportation and construction.....	129,104	151,990	145,917	6,073
Education.....	464,899	462,232	412,846	49,386
Higher education.....	1,014,147	1,039,047	1,029,516	9,531
Public safety.....	850,519	945,382	917,982	27,400
Economic development.....	46,362	46,241	34,008	12,233
Elder affairs.....	276,755	291,729	273,759	17,970
Consumer affairs.....	46,909	48,552	46,872	1,680
Labor.....	83,542	89,750	59,319	30,431
Direct local aid.....	5,191,844	5,193,357	5,189,116	4,241
Medicaid.....	4,985,458	5,282,868	5,259,275	23,593
Pension.....	931,029	797,064	795,782	1,282
Debt service:				
Principal retirement.....	659,802	710,674	692,001	18,673
Interest and fiscal charges.....	691,889	641,017	612,734	28,283
<b>Total expenditures.....</b>	<b>22,637,599</b>	<b>23,040,211</b>	<b>22,628,427</b>	<b>411,784</b>
<b>Other financing uses:</b>				
Fringe benefit cost assessment.....	-	-	53,267	(53,267)
Operating transfers out.....	-	252,049	252,049	-
Sewer rate relief.....	-	58,655	58,655	-
Caseload increase mitigation transfer.....	-	4,878	4,878	-
Stabilization transfer.....	-	1,030,000	1,030,000	-
Transfer for transitional escrow.....	-	579,215	579,215	-
Transfer for capital projects due to debt defeasance.....	-	34,590	34,590	-
Transfer for tax reduction.....	-	33,605	33,605	-
<b>Total other financing uses.....</b>	<b>-</b>	<b>1,992,992</b>	<b>2,046,259</b>	<b>(53,267)</b>
<b>Total expenditures and other financing uses.....</b>	<b>22,637,599</b>	<b>25,033,203</b>	<b>24,674,686</b>	<b>358,517</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(846,999)</b>	<b>(3,137,551)</b>	<b>(1,625,338)</b>	<b>1,512,213</b>
Fund balances (deficit) at beginning of year.....	3,013,322	3,013,322	3,013,322	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,166,323</b>	<b>\$ (124,229)</b>	<b>\$ 1,387,984</b>	<b>\$ 1,512,213</b>

See note to required supplementary information-Budgetary Reporting

**Note to Required Supplementary Information – Budgetary Reporting***Statutory Basis of 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.

*Budgetary Approval*

State finance law requires that the Governor and the Legislature approve a balanced budget. 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 that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a 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 that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the “original budget column” and the final legally adopted budget, including supplemental appropriations, be reflected in the “final budget” column. The “actual” column contains the statutory inflows and outflows related to budgetary accounts. The “variance” column contains the difference between the “final budget” and the “actual” columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget. An overall net positive variance of nearly \$359 million on a statutory basis is reflected in the statement.

# Other Supplementary Information



The Leary Firefighters Foundation was founded by Worcester native, actor Denis Leary, in response to the Worcester firefighter tragedy in 1999. Leary's cousin and a childhood friend were among the six firefighters killed in the blaze.

Its mission is to provide funding for the highest level of equipment, technology, and training and resources for firefighters and to the families of firefighters who have perished or been injured in the line of duty.

One of their annual fundraisers — the Celebrity Hat Trick — featured celebrities like Sean Penn, Steve Tyler, Tim Robbins, Michael J. Fox and hockey greats like Phil

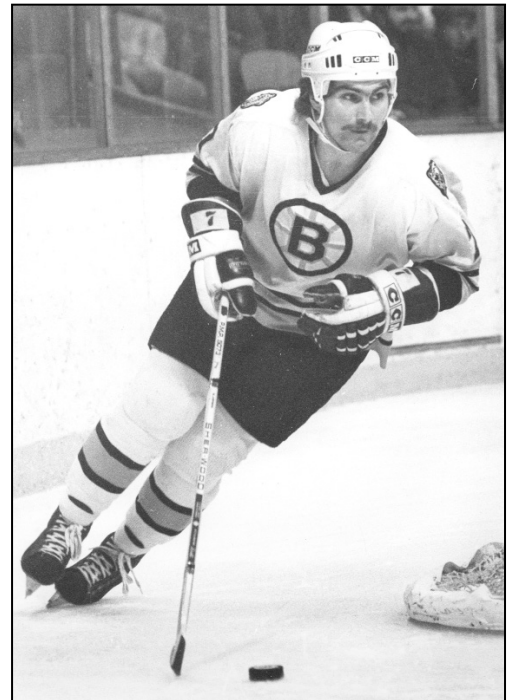
Esposito, Johnny Bucyk, Russ Courtnall and Cam Neely who joined Denis Leary to raise over \$400,000 this year for the Worcester firefighters.

Boston Bruins great Terry O'Reilly was honored this year by having his number retired. No player has worn the number 24 since O'Reilly retired.



"This is an honor that Terry truly deserves," said Harry Sinden, Bruins president. "He epitomized the Boston Bruins and the game of hockey to a generation of fans with his combination of talent, toughness and effort on every shift. I don't think there was every a player

who wore the uniform of his team with more pride. He is the first person who comes to mind when someone uses the phrase 'a true Bruin'," said Sinden. "He was the model of a Bruins player to his teammates and fans alike and that phrase is a high compliment because of Terry."



**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2002**  
**(Amounts in thousands)**

	Other Special Revenue	Other Capital Projects	Expendable Trusts Classified as Governmental	Total
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 716,650	\$ -	\$ 229,775	\$ 946,424
Cash with fiscal agent.....	106,835	279,548	-	386,383
Restricted investments.....	481,410	-	-	481,410
Receivables, net of allowance for uncollectibles:				
Taxes.....	104,828	-	-	104,828
Due from federal government.....	544,277	-	1,213	545,490
Other receivables.....	111,985	2,137	15,996	130,118
Due from other funds.....	63	224,417	-	224,480
<b>Total assets.....</b>	<b>\$ 2,066,048</b>	<b>\$ 506,102</b>	<b>\$ 246,984</b>	<b>\$ 2,819,134</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable.....	\$ 485,860	\$ 269,299	\$ 17,105	\$ 772,264
Accrued payroll.....	19,291	1,240	801	21,332
Compensated absences.....	46,156	914	1,096	48,166
Tax refunds and abatements payable.....	17,854	-	-	17,854
Due to other funds.....	647,544	119,315	-	766,859
Due to component units.....	132,629	20,650	-	153,279
Due to federal government.....	641	-	-	641
Deferred revenue.....	17,396	-	27	17,423
Claims and judgments.....	-	35,700	-	35,700
Bonds, notes payable and certificates of participation.....	-	530,000	-	530,000
Other accrued liabilities.....	110,952	-	4,987	115,939
<b>Total liabilities.....</b>	<b>1,478,323</b>	<b>977,118</b>	<b>24,016</b>	<b>2,479,457</b>
Fund balances (deficits):				
Reserved for continuing appropriations.....	53,763	-	-	53,763
Reserved for retirement of indebtedness.....	114,300	-	-	114,300
Reserved for capital projects.....	-	36,098	-	36,098
Reserved for central artery workers' compensation and general liability.....	-	239,917	-	239,917
Unreserved.....	419,662	(747,032)	222,968	(104,401)
<b>Fund balances (deficits).....</b>	<b>587,725</b>	<b>(471,016)</b>	<b>222,968</b>	<b>339,677</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 2,066,048</b>	<b>\$ 506,102</b>	<b>\$ 246,984</b>	<b>\$ 2,819,134</b>

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

Nonmajor Governmental Funds  
Fiscal Year Ended June 30, 2002  
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Expendable Trusts Classified as Governmental	Total
<b>Revenues:</b>				
Taxes.....	\$ 1,575,071	\$ -	\$ -	\$ 1,575,071
Assessments.....	486,520	-	84	486,604
Federal grants and reimbursements.....	3,756,399	338	17,276	3,774,013
Departmental.....	1,049,783	2,104	6,788	1,058,674
Miscellaneous.....	453,041	22,174	184,250	659,465
<b>Total revenues.....</b>	<b>7,320,814</b>	<b>24,616</b>	<b>208,397</b>	<b>7,553,827</b>
<b>Other financing sources:</b>				
Proceeds of general obligation bonds.....	-	573,985	-	573,985
Proceeds of grant anticipation notes.....	-	-	-	-
Operating transfers in.....	629,465	709,146	28,809	1,367,420
<b>Total other financing sources.....</b>	<b>629,465</b>	<b>1,283,131</b>	<b>28,809</b>	<b>1,941,404</b>
<b>Total revenues and other financing sources.....</b>	<b>7,950,279</b>	<b>1,307,747</b>	<b>237,206</b>	<b>9,495,232</b>
<b>Expenditures:</b>				
Current:				
Legislature.....	1	-	-	1
Judiciary.....	3,745	-	151	3,896
Secretary of the Commonwealth.....	1,057	-	14	1,071
Treasurer and Receiver-General.....	3,653	-	-	3,653
Auditor of the Commonwealth.....	-	-	308	308
Attorney General.....	11,825	-	1,903	13,728
District Attorney.....	15,618	-	4,269	19,887
Office of Campaign and Political Finance.....	4,235	-	-	4,235
Sheriff's Departments.....	4,079	-	-	4,079
Disabled Persons Protection Commission.....	58	-	-	58
Board of Library Commissioners.....	3,286	-	-	3,286
Administration and finance.....	182,779	-	8,219	190,998
Environmental affairs.....	160,345	-	10,637	170,981
Communities and development.....	309,894	-	22,605	332,500
Health and human services.....	2,520,187	-	22,981	2,543,168
Transportation and construction.....	111,756	23,100	525	135,381
Education.....	720,186	-	1,482	721,668
Higher education.....	5,494	-	8,974	14,468
Public safety.....	338,123	-	3,512	341,635
Economic development.....	24,114	-	865	24,979
Elder affairs.....	118,505	-	87	118,592
Consumer affairs.....	15,927	-	5,864	21,791
Labor.....	193,948	-	49,784	243,732
Medicaid.....	635,039	-	-	635,039
Pension.....	23,160	-	-	23,160
Direct local aid.....	13,873	-	-	13,873
Capital outlay:				
Local aid.....	-	21,368	-	21,368
Capital acquisition and construction.....	-	1,366,012	-	1,366,012
<b>Total expenditures.....</b>	<b>5,420,885</b>	<b>1,410,479</b>	<b>142,179</b>	<b>6,973,543</b>
<b>Other financing uses:</b>				
Operating transfers out.....	1,323,963	203,274	95,585	1,622,822
Transfers of appropriations.....	2,507	-	-	2,507
Transfers of bond proceeds.....	-	105,814	-	105,814
Transfers out for debt service.....	677,306	-	-	677,306
Transfers to component units.....	854,205	21,108	-	875,313
<b>Total other financing uses.....</b>	<b>2,857,981</b>	<b>330,196</b>	<b>95,585</b>	<b>3,283,762</b>
<b>Total expenditures and other financing uses.....</b>	<b>8,278,866</b>	<b>1,740,676</b>	<b>237,763</b>	<b>10,257,305</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(328,587)</b>	<b>(432,929)</b>	<b>(557)</b>	<b>(762,073)</b>
Fund balance (deficits) at beginning of year.....	916,312	(38,088)	223,525	1,101,750
<b>Fund balance (deficits) at end of year.....</b>	<b>\$ 587,725</b>	<b>\$ (471,016)</b>	<b>\$ 222,968</b>	<b>\$ 339,677</b>





In 1852 the first intercollegiate sporting event in American history took place – a race between the Harvard and Yale crew teams. Harvard won the two-mile competition by two lengths.



The Head Of The Charles® Regatta, the world's largest two-day rowing event, was first held on October 16, 1965. It was established as a "head of the river" race similar to the traditional races held in England, and was to be held on the Charles River. "Head" races, a class of regattas, are generally three miles long. Boats race against each other and the clock, starting sequentially approximately fifteen seconds apart. Winners of each race receive the honorary title of "Head of the River" or, in this case, "Head Of The Charles." The Head of the Charles Regatta is the largest and most prestigious annual rowing event in the world.



# 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*

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*Ten-Year Schedule of Massachusetts and United States Resident Population*

*Nonagricultural Employment by Industry in Massachusetts and the United States*

*Ten Largest Massachusetts Industries by Number of Employees*

*Ten-Year Schedule of Civilian Labor Force, Unemployment and Unemployment Rates for Massachusetts and the United States*

*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*

*Massachusetts General Information*



In 1913 the U.S. Open golf tournament, held at the Country Club in Brookline, was won by local amateur golfer Francis Ouimet. Fourteen years later, another major tournament, the Ryder Cup was inaugurated at the Worcester Country Club. The 1999 Ryder Cup, back in the Boston area at the Country Club, drew 180,000 spectators and featured a record-setting comeback victory by the American team.

*“But you don't have to go up in the stands and play your foul balls. I do.”*



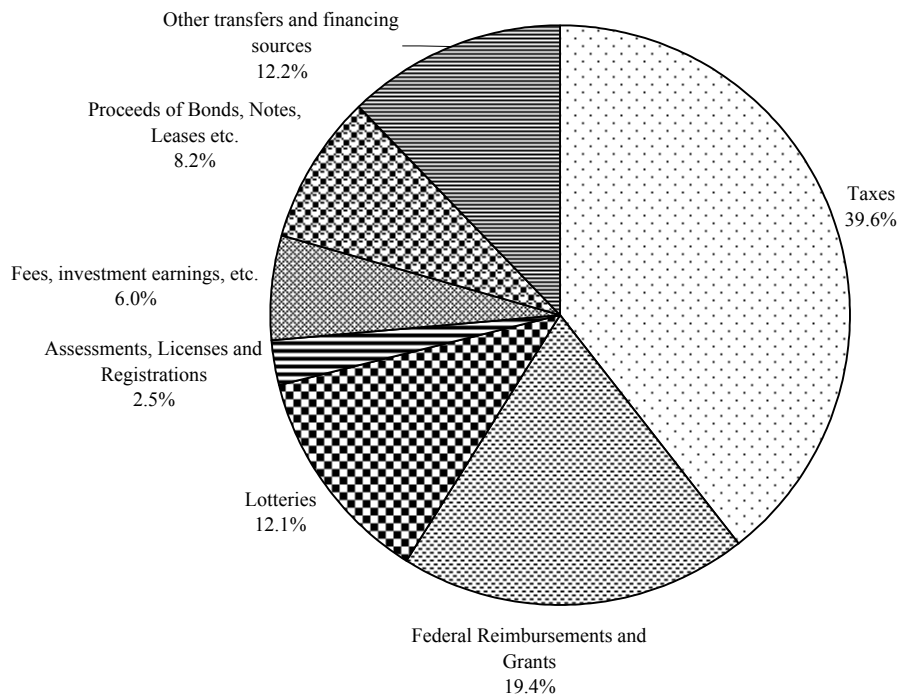
Sam Snead, to Ted Williams, arguing which was more difficult, to hit a moving baseball or a stationary golf ball.

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

June 30, 2002  
(Amounts in millions)

	2002	% Total	2001	% Total	2000	% Total	1999	% Total
Taxes.....	\$ 14,428	39.6	\$ 16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0
Federal reimbursements.....	5,267	14.4	4,716	12.0	4,496	11.8	4,213	12.7
Federal grants.....	1,812	5.0	1,644	4.2	1,565	4.1	1,456	4.4
Lotteries.....	4,425	12.1	4,136	10.5	3,914	10.3	3,570	10.7
Assessments.....	572	1.6	590	1.5	462	1.2	546	1.6
Motor vehicle licenses and registrations.....	326	0.9	311	0.8	285	0.7	281	0.8
Fees, investment earnings, etc.....	2,178	6.0	1,885	4.8	1,776	4.7	1,433	4.3
Proceeds of dedicated income tax bonds.....	-	-	-	-	-	-	-	-
Proceeds of general obligation bonds.....	1,489	4.1	1,769	4.5	1,762	4.6	1,015	3.0
Proceeds of special obligation bonds.....	12	-	-	-	-	-	-	-
Proceeds of grant anticipation notes.....	-	-	600	1.5	602	1.6	319	1.0
Proceeds of refunding bonds.....	1,501	4.1	999	2.5	-	-	499	1.5
Proceeds of capital lease.....	10	-	31	0.1	9	0.0	9	0.1
Operating transfers.....	4,454	12.2	5,566	14.2	7,502	19.7	4,555	13.7
Other financing sources.....	3	-	206	0.5	106	0.3	1,056	3.2
Total revenues and other financing sources.....	<u>\$ 36,477</u>	<u>100.0</u>	<u>\$ 39,256</u>	<u>100.0</u>	<u>\$ 38,174</u>	<u>100.0</u>	<u>\$ 33,273</u>	<u>100.0</u>

**Apportionment of Revenues by Source -  
Fiscal Year Ended June 30, 2002**

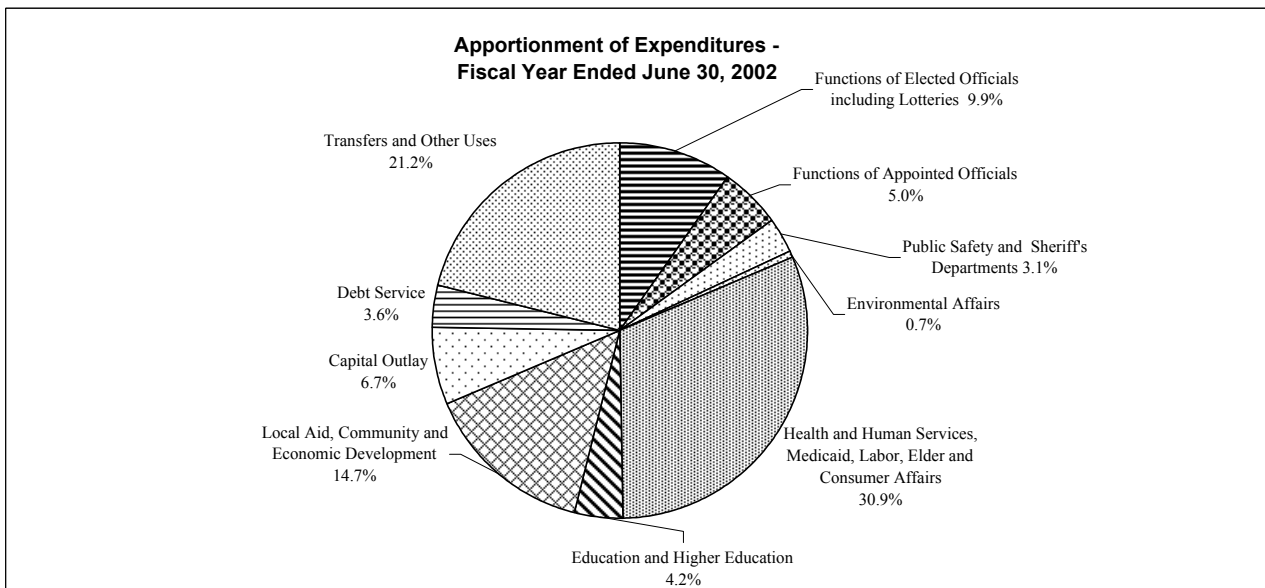


1998	% Total	1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total
\$ 14,033	44.9	\$ 13,030	47.7	\$ 11,926	47.5	\$ 11,262	45.9	\$ 10,611	45.7	\$ 10,021	44.9
4,385	14.0	4,124	15.1	3,861	15.4	4,174	17.0	3,904	16.8	3,376	15.1
1,470	4.7	1,457	5.3	1,482	5.9	1,187	4.8	1,205	5.2	1,118	5.0
3,392	10.9	3,375	12.3	3,201	12.8	2,957	12.0	2,600	11.2	2,148	9.6
514	1.6	552	2.0	595	2.4	572	2.3	544	2.3	597	2.7
295	0.9	295	1.1	263	1.0	307	1.3	284	1.2	331	1.5
1,394	4.5	930	3.4	1,110	4.4	1,154	4.7	1,113	4.8	1,215	5.4
-	-	-	-	-	-	-	-	-	-	-	-
1,347	4.3	899	3.3	940	3.7	810	3.3	392	1.7	368	1.7
100	0.3	-	-	147	0.6	-	-	298	1.3	-	-
-	-	-	-	-	-	-	-	-	-	-	-
862	2.8	723	2.6	-	-	514	2.1	836	3.6	1,891	8.5
15	0.1	62	0.2	26	0.1	18	0.1	34	0.1	13	0.1
3,338	10.7	1,920	7.0	1,551	6.2	1,534	6.3	1,367	5.9	1,177	5.3
104	0.3	6	-	-	-	49	0.2	35	0.2	46	0.2
<u>\$ 31,249</u>	<u>100.0</u>	<u>\$ 27,373</u>	<u>100.0</u>	<u>\$ 25,102</u>	<u>100.0</u>	<u>\$ 24,538</u>	<u>100.0</u>	<u>\$ 23,223</u>	<u>100.0</u>	<u>\$ 22,301</u>	<u>100.0</u>

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

June 30, 2002  
(Amounts in millions)

	2002	% Total	2001	% Total	2000	% Total	1999	% Total	1998	% Total
Legislature.....	\$ 60	0.2	\$ 57	0.2	\$ 51	0.1	\$ 51	0.2	\$ 51	0.2
Judiciary.....	593	1.5	597	1.6	544	1.4	511	1.6	470	1.5
Inspector General.....	2	-	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor.....	6	-	6	-	6	-	5	-	5	-
Secretary of the Commonwealth.....	36	0.1	45	0.1	42	0.1	33	0.1	23	0.1
Treasurer and Receiver-General.....	3,558	9.2	3,335	8.8	3,483	9.2	2,783	8.6	2,649	8.7
Auditor of the Commonwealth.....	16	-	15	-	15	-	14	-	14	-
Attorney General.....	62	0.2	36	0.1	34	0.1	49	0.2	41	0.1
Ethics Commission.....	1	-	2	-	1	-	1	-	1	-
District Attorney.....	89	0.2	86	0.2	77	0.2	72	0.2	68	0.2
Office of Campaign and Political Finance.....	5	-	1	-	1	-	1	-	1	-
Sheriff's Department.....	216	0.6	201	0.5	178	0.5	134	0.4	40	0.1
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	-	2	-
Board of Library Commissioners.....	10	-	11	-	10	-	10	-	9	-
Comptroller.....	8	-	8	-	8	-	8	-	7	-
Administration and finance.....	1,361	3.5	1,202	3.3	1,192	3.1	1,056	3.3	1,058	3.5
Environmental affairs.....	268	0.7	253	0.7	241	0.6	232	0.7	216	0.7
Communities and development.....	449	1.2	442	1.2	405	1.1	356	1.1	351	1.2
Health and human services.....	6,104	15.7	5,622	15.0	5,324	14.0	5,160	15.9	5,058	16.6
Transportation and construction.....	139	0.4	162	0.4	228	0.6	137	0.4	117	0.4
Education.....	1,506	3.9	1,492	3.9	1,353	3.6	1,263	3.9	1,153	3.8
Educational affairs.....	-	-	-	-	-	-	-	-	-	-
Higher education.....	119	0.3	136	0.4	111	0.3	97	0.3	82	0.3
Public safety.....	999	2.6	955	2.5	879	2.3	860	2.6	853	2.8
Economic development.....	32	0.1	51	0.1	38	0.1	57	0.2	31	0.1
Elder affairs.....	304	0.8	241	0.6	217	0.6	197	0.6	179	0.6
Consumer affairs.....	63	0.2	71	0.2	70	0.2	68	0.2	57	0.2
Labor.....	284	0.7	172	0.5	188	0.5	166	0.5	186	0.6
Medicaid.....	5,261	13.6	4,761	12.6	4,381	11.5	3,829	11.8	3,638	12.0
Pension.....	238	0.6	318	0.8	398	1.0	324	1.0	414	1.4
Direct local aid.....	5,231	13.5	5,012	13.2	4,717	12.4	4,405	13.6	4,047	13.3
Capital outlay:	-	-	-	-	-	-	-	-	-	-
Local aid.....	21	0.1	34	0.1	47	0.1	73	0.2	102	0.3
Capital acquisition and construction.....	2,562	6.6	2,566	6.8	2,469	6.5	2,602	8.0	2,532	8.3
Debt service.....	1,382	3.6	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.....	1,277	3.3	999	2.6	-	-	499	1.5	862	2.8
Transfers.....	6,551	16.9	7,526	19.9	10,073	26.5	6,193	19.1	4,883	16.1
Total expenditures and other financing uses.....	\$ 38,815	100.0	\$ 37,827	100.0	\$ 38,022	100.0	\$ 32,462	100.0	\$ 30,417	100.0



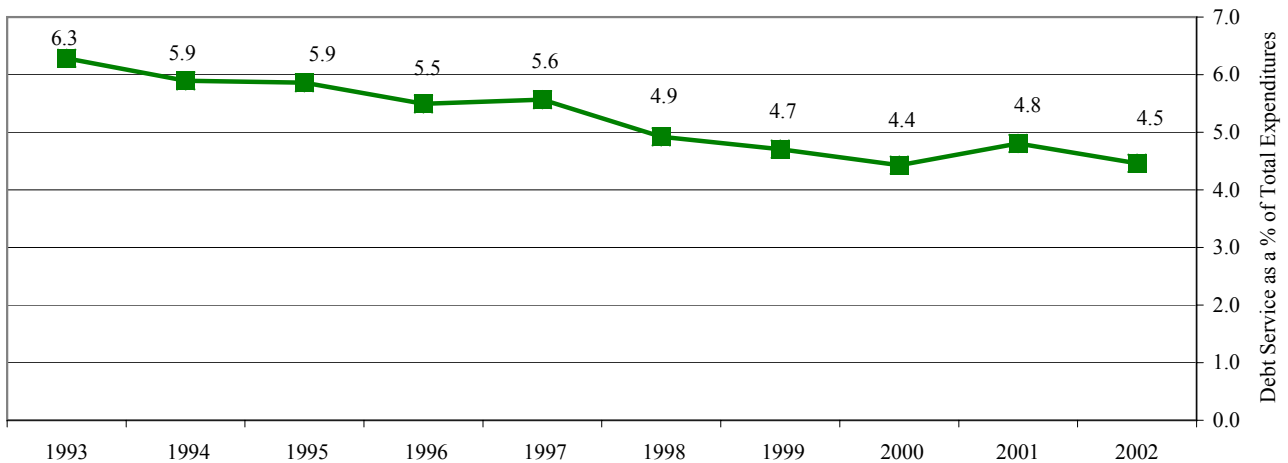
	1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total
\$	49	0.2	\$ 49	0.2	\$ 47	0.2	\$ 43	0.2	\$ 41	0.2
	433	1.6	404	1.7	356	1.5	338	1.5	306	1.4
	2	-	2	-	2	-	1	-	1	-
	5	-	5	-	5	-	4	-	4	-
	17	0.1	15	0.1	14	0.1	12	0.1	14	0.1
	2,711	10.0	2,576	10.5	2,353	9.7	2,052	8.9	1,659	7.4
	12	-	13	-	11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

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

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total expenditures	Ratio
2002	\$ 1,382	\$ 30,987	4.5
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 1993 - 2002**



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

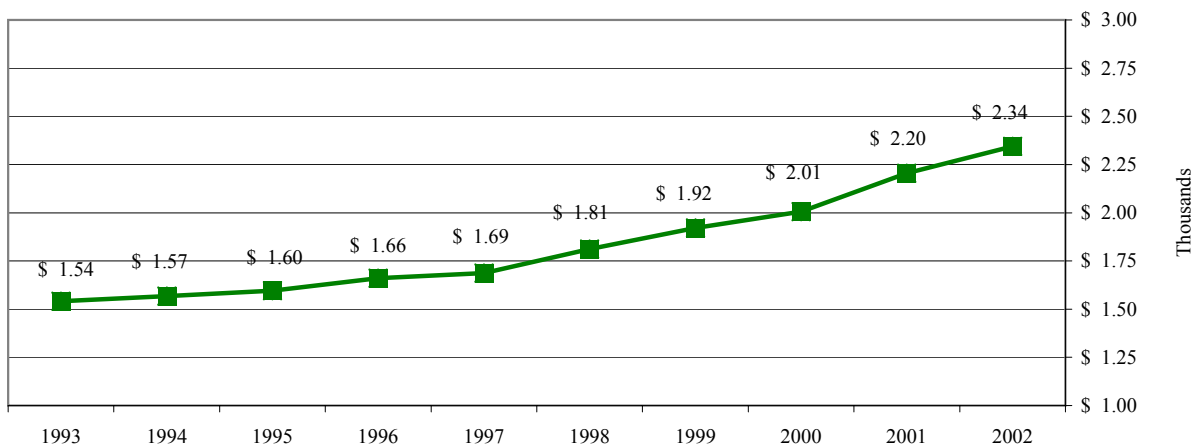
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population <sup>(1)</sup>	Total long- term bonds and notes payable	Per capita long-term debt
2002	6,379	\$ 14,955,135	\$ 2.34
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

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)*

### Per Capita Direct Commonwealth Debt 1993 - 2002

(thousands)





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

(Amounts in thousands)

Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio
2002	\$ 716,951	\$ 789,318	0.91
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 <sup>(3)</sup>	220,185	192,975	1.14
1993	332,195	305,156	1.09

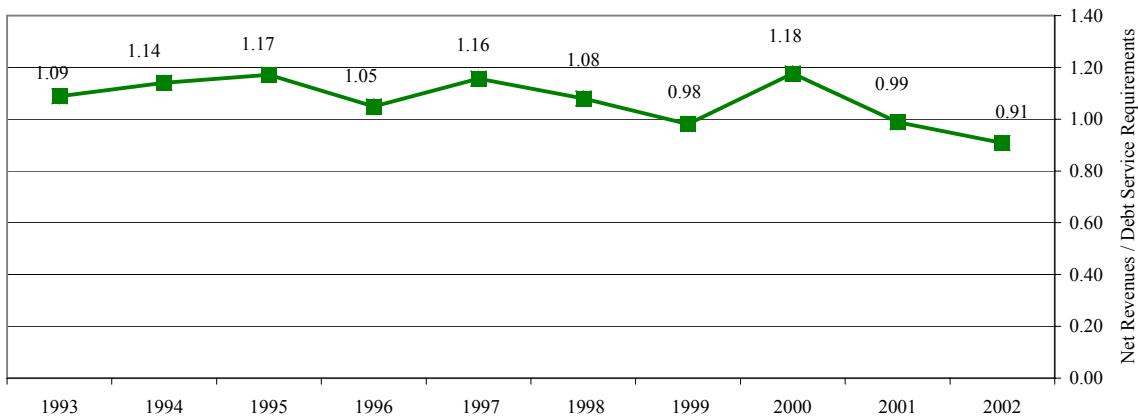
(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

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

Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 1993 - 2002





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## Calculation Of Transfers: Stabilization Fund

June 30, 2002  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 300 of the Acts of 2002. It presents information contained in the official books and accounting records of the Commonwealth. Financial Statements supporting this calculation are presented in the Statutory Basis Financial Report.

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

	Balances before final transfers	Transfer from Capital Projects Ch. 118 s.24	Transfer from Stabilization Fund Ch. 300 s.60	Total
General Fund.....	\$ 1,454,632	\$ 51,369	\$ 180,000	\$ 1,686,001
Highway Fund.....	(466,885)	-	-	(466,885)
Local Aid Fund.....	(1,147,409)	-	-	(1,147,409)
Consolidated Undesignated fund balance / (deficit).....	\$ (159,662)	\$ 51,369	\$ 180,000	\$ 71,707
Available to carry forward to subsequent fiscal year (per Schedule A).....				\$ 71,707
Net Consolidated net surplus / (deficit).....				-

**Part 2:** Calculation of transfers to the One-Time Capital Projects Improvement Fund:

Transfer from General Fund to the One-Time Capital Projects Improvement Fund (5%).....	-
Transfer from General Fund to the Open Space Acquisition Fund (15%).....	-
Consolidated net surplus after transfers.....	\$ -

**Part 3:** Calculation of transfers to Capital Projects Fund:

Transfer from General Fund to Capital Project Fund - (per Schedule B) .....	-
Net Consolidated surplus available for Stabilization Fund.....	\$ -

**Part 4:** Calculation of transfers to Stabilization Fund:

From the General Fund, @ 60%.....	\$ -
From the Local Aid Fund, @ 40%.....	-
Total Transfers.....	\$ -

**Part 5:** Status of Consolidated Net Surplus after Stabilization Fund transfers:

Undesignated fund balance / (deficit):	
General Fund.....	\$ 1,686,001
Highway Fund.....	(466,885)
Local Aid Fund .....	(1,147,409)
Consolidated Net Surplus.....	\$ 71,707

**Part 6:** Status of Stabilization Fund after transfers:

Reserved for Stabilization - Balance as of June 30, 2002 before the transfers .....	\$ 881,771
Plus: FY2002 Calculated Transfers to Stabilization Fund (per Part 5) .....	-
Reserved for Stabilization after the transfers.....	\$ 881,771

**Part 7:** Amounts reserved for Capital Projects:

Reserved for Capital Projects - Balance as of June 30, 2002 after the transfer (Part 3).....	\$ 39,674
----------------------------------------------------------------------------------------------	-----------

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2002

(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 300 of the Acts of 2002. It presents information contained in the official books and accounting records of the Commonwealth. Financial Statements supporting this calculation are presented in the Statutory Basis Financial Report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,  
to 10% of Budgeted Revenues and Other Financial Resources:

Undesignated Fund Balance in the Stabilization Fund.....	\$ 881,771
Allowable Stabilization Balance (per Schedule C).....	<u>2,117,492</u>
Stabilization Fund Excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund Balance.....	\$ 881,771
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund Balance after transfer to Tax Reduction Fund.....	<u>\$ 881,771</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund Balance.....	\$ -
Transfers from Stabilization Fund.....	<u>-</u>
Tax Reduction Fund Balance after transfers.....	<u>\$ -</u>

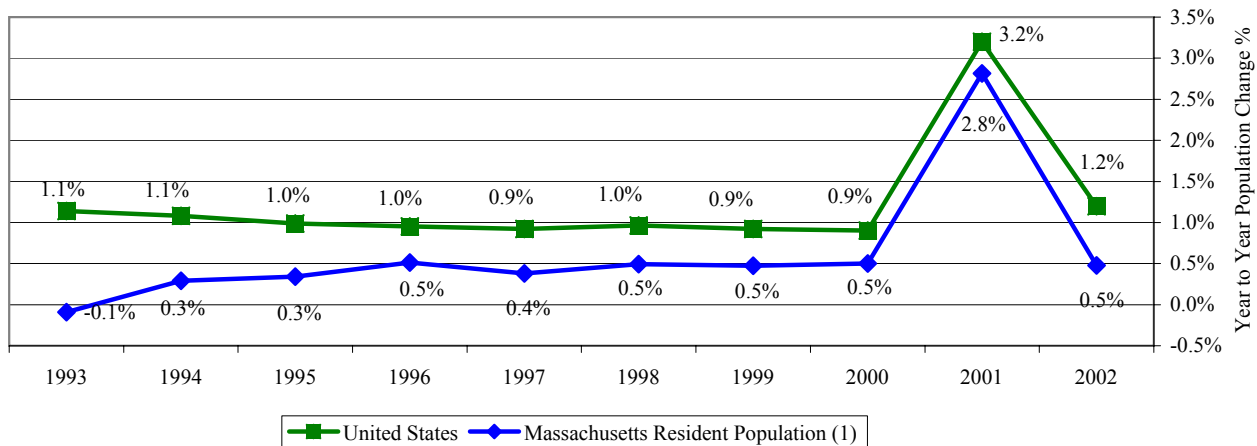
## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2002	284,797	1.2%	6,379	0.5%	2.2%
2001	281,422	3.2%	6,349	2.8%	2.3%
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%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

**Massachusetts and United States Estimated Year- to- Year Population Change  
1993 - 2002**



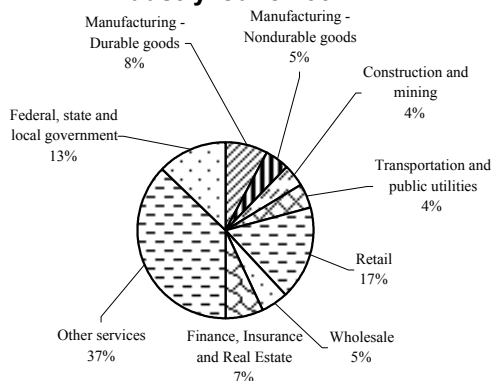
## Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2002

(Amounts in thousands)

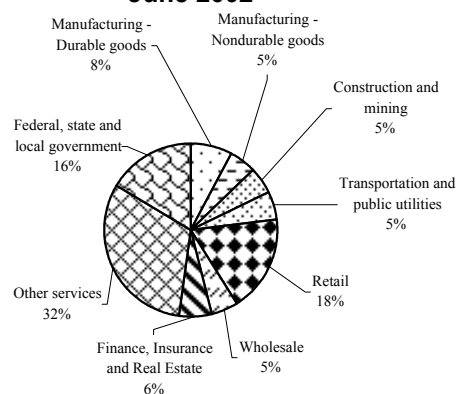
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing:					
Durable goods	254	7.7%	9,947	7.6%	100.9%
Nondurable goods	149	4.5%	6,803	5.2%	86.5%
<b>Total manufacturing</b>	<b>402</b>	<b>12.2%</b>	<b>16,750</b>	<b>12.9%</b>	<b>95.0%</b>
Non-manufacturing:					
Construction and mining	140	4.3%	6,552	5.0%	84.5%
Transportation and public utilities	139	4.2%	6,802	5.2%	80.8%
Retail	570	17.3%	23,305	17.9%	96.8%
Wholesale	163	4.9%	6,681	5.1%	96.4%
Finance, Insurance and Real Estate	233	7.1%	7,740	5.9%	119.0%
Other services	1,218	37.0%	41,128	31.6%	117.2%
Federal, state and local government	425	12.9%	21,225	16.3%	79.2%
<b>Total Non-manufacturing</b>	<b>2,887</b>	<b>87.8%</b>	<b>113,433</b>	<b>87.1%</b>	<b>100.7%</b>
<b>Total</b>	<b>3,289</b>	<b>100.0%</b>	<b>130,183</b>	<b>100.0%</b>	

Source: - Bureau of Labor Statistics, October 2002 for June 2002

**Massachusetts Employment by Industry June 2002**



**United States Employment by Industry June 2002**



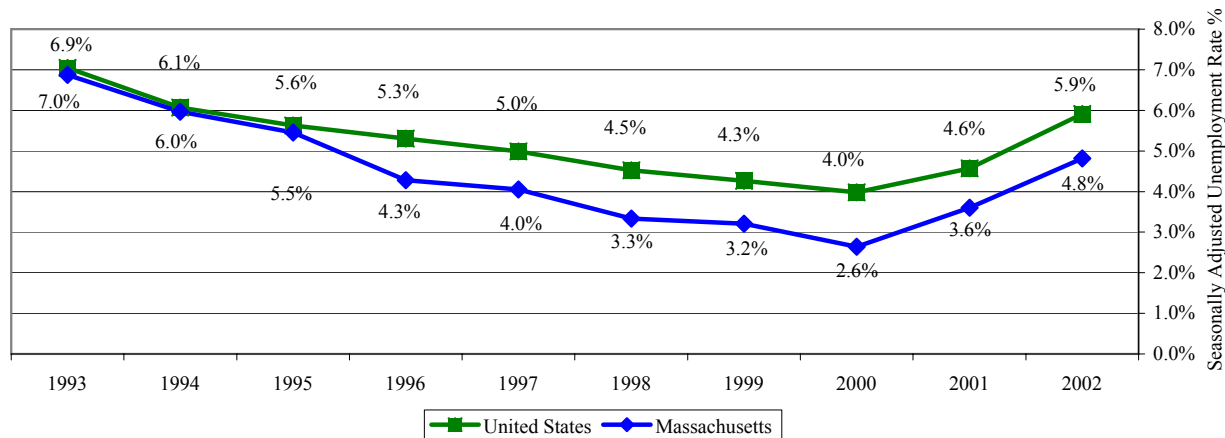
## Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2002	3,373	163	4.8%	142,476	8,424	5.9%	81.5%
2001	3,283	118	3.6%	141,468	6,465	4.6%	78.7%
2000	3,230	85	2.6%	140,837	5,602	4.0%	66.3%
1999	3,292	106	3.2%	139,358	5,943	4.3%	75.2%
1998	3,272	109	3.3%	137,453	6,216	4.5%	73.6%
1997	3,268	132	4.0%	136,211	6,799	5.0%	81.1%
1996	3,167	136	4.3%	133,697	7,095	5.3%	80.7%
1995	3,160	172	5.5%	131,949	7,427	5.6%	97.0%
1994	3,159	188	6.0%	130,561	7,927	6.1%	98.3%
1993	3,160	217	6.9%	129,411	9,121	7.0%	97.5%

Source: - Federal Bureau of Labor Statistics, August 2002. Amounts and rates previous to 2002 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001.

**Massachusetts and United States Unemployment Rates  
Seasonally Adjusted June 1993 - June 2002**



## Twenty-Five Largest Private Sector Massachusetts Employers

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Massachusetts Employees</u>	<u>2001 Revenues (\$millions)</u>
State Street Bank and Trust Company	Boston	Banking	22,619	5,637
New England Medical Center	Boston	Hospital	17,620	976
President and Fellows of Harvard College	Boston	University	15,000	Privately Held
Raytheon Company	Lexington	Electronics / Defense	15,000	16,895
FMR Corp. (Fidelity Investments)	Boston	Investments	10,500	2,726
UMASS Memorial Hospitals	Worcester	Hospital	8,683	184
Fleet Boston	Boston	Banking	8,500	19,190
Putnam Investment	Boston	Investments	7,800	675
General Electric Company Inc	Lynn	Conglomerate	7,700	125,913
The Brigham and Women's Hospital	Boston	Hospital	7,500	920
North Shore Medical Center	Lynn	Hospital	7,024	Not Reported
Boston Medical Center Corporation	Boston	Hospital	6,500	Privately Held
Quaker Fabrics	Fall River	Textiles	6,456	473
Bose Systems Corporation	Framingham	Electronics	6,000	453
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	9,361
New England Life Insurance Company (Metropolitan Life Insurance)	Boston	Insurance	4,200	31,928
Boston Safe Deposit and Trust Company / Boston Company (Mellon Bank)	Boston	Investments	4,034	2,658
Bayer Corporation	Wilmington	Pharmaceutical	4,000	28,938
Polaroid Corporation	Cambridge	Photographic	4,000	1,856
Children's Hospital Corporation	Boston	Hospital	3,832	486

*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>2002</u>	<u>2001</u>
FleetBoston Financial	FBF	Boston	Banks	56,000	\$ 19,190	106	81
Raytheon Co. (New)	RTN	Lexington	Aerospace & Defense	87,200	16,867	119	111
Staples Inc.	SPLS	Framingham	Specialty Stores	53,918	10,744	178	178
TJX Companies Inc.	TJX	Framingham	Apparel Retail	77,000	10,709	179	195
John Hancock Financial Services	JHF	Boston	Diversified Financial Services	8,355	9,361	209	-
Gillette Co.	G	Boston	Personal Products	31,500	8,084	240	188
EMC Corp.	EMC	Hopkinton	Computer Storage & Peripherals	20,100	7,091	263	216
State Street Corp.	STT	Boston	Diversified Financial Services	19,753	5,637	313	304
Reebok International	RBK	Canton	Footwear	6,700	2,993	-	-
Boston Scientific	BSX	Natick	Health Care Equipment	14,400	2,673	-	-
Thermo Electron	TMO	Waltham	Electronic Equipment & Instruments	12,000	2,188	-	430
Analog Devices	ADI	Norwood	Semiconductors	9,000	1,898	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	8,400	1,441	-	-
PerkinElmer, Inc.	PKI	Wellesley	Electronic Equipment & Instruments	10,800	1,330	-	-
Biogen, Inc.	BGEN	Cambridge	Biotechnology	1,992	1,043	-	-
Genzyme Corp	GENZ	Cambridge	Biotechnology	5,200	982	-	-
Parametric Technology	PMTC	Needham	Application Software	4,533	898	-	-
Millipore Corp.	MIL	Bedford	Electronic Equipment & Instruments	4,160	657	-	-

Sources: - Standard and Poors (from [Standardandpoors.com](http://Standardandpoors.com)) , the Boston Globe (May 21, 2002, page E28) and Fortune Magazine (from [fortune.com](http://fortune.com)).  
Massachusetts Mutual Life Insurance, Liberty Mutual Group, BJ's Wholesale Club, Allmerica Financial and NSTAR are all part of  
the Fortune 500, but are not part of the Standard and Poors 500. Sapient was deleted from the S&P 500 in May of 2002.

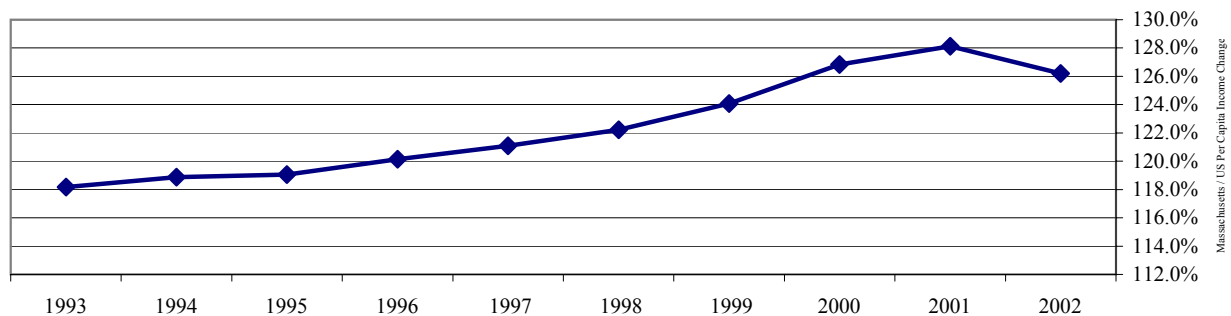
## Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States <sup>(1)</sup>	% Change	Massachusetts <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2002	31,268	2.4%	39,458	0.9%	126.2%
2001	30,523	0.5%	39,108	1.6%	128.1%
2000	30,363	7.4%	38,509	9.8%	126.8%
1999	28,278	3.5%	35,087	5.1%	124.1%
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%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2002 of June 30, 2002. (1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year.

Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau )

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change  
1993 - 2002**



# MASSACHUSETTS GENERAL INFORMATION

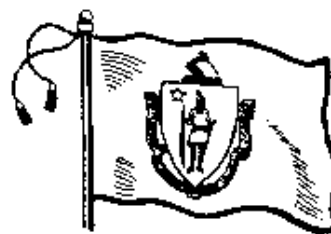
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,379,304

**Capital:** Boston  
**Nickname:** Bay State

**The State Seal**



**The State Flag**



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

**The State Flower**



**The Mayflower**

**The State Fish**



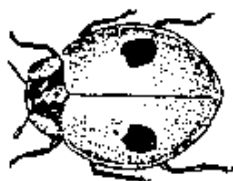
**The Cod**, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**The State Bird**



**The Black Capped Chickadee**

**The State Insect**



**The Lady Bug**

**The State Tree**



**The American Elm** was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

**The State Dog**



**The Boston Terrier**, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

**Beverage:** Cranberry Juice  
**Dessert:** Boston Cream Pie

**Muffin:** The Corn Muffin  
**Cookie:** Chocolate Chip

**Horse:** The Morgan Horse  
**Bean:** Navy Bean



The Massachusetts Sports Commission (now partnership), a not-for-profit organization, was established in 1992. Their mission is to enrich the region and enhance the quality of life for all citizens of Massachusetts through the development and growth of sport.

Recently hosted record-breaking events include the 2000 US Olympic Gymnastics Trials and the 2001 US Figure Skating Championships. Upcoming events include the 2003 & 2004 USA Indoor Track & Field Championships, the 2004 US Olympic Gymnastics Trials, the 2006 NCAA Women's Final Four and the 2006 World Curling Championships.



The New England Sports Museum resides on the 5th and 6th levels of the FleetCenter, home of the Boston Celtics and Boston Bruins. The Museum is dedicated to using sports to teach the values of leadership, respect and cooperation to youth while honoring leading citizens and athletes of New England.

The Sports Museum also houses one of the finest collections of

film, video, photographs and research material in North America. Included in the collections are over one thousand hours of rare sports film and video footage, a comprehensive photo library of over two thousand titles covering a multitude of sports, files of primary source materials such as scrapbooks and diaries of prominent sports figures, artifacts such as uniforms, trophies, medals, equipment and much more.

The Museum has access to and utilizes many private libraries and has developed relationships with hundreds of public and private collections for both archival and display purposes. Included in this network is the 6,000-volume library of curator Richard Johnson, and collections of many prominent athletes.

On the New England Sports Museum's website ([www.sportsmuseum.org](http://www.sportsmuseum.org)) you will also find BostonBids.com. BostonBids.com is a charity auction site that collects authentic, unique and - generally "unavailable" items from a variety of sources for ongoing online auctions. Proceeds of the bidding from the auctioned items go to FleetCenter Neighborhood Charities and other designated charities.

All historical text from *A Century of Boston Sports* by Richard Johnson, Northeastern University Press.

*Note: Richard Johnson is the curator of the New England Sports Museum and is a consultant for numerous sports exhibits and film documentaries, including Ken Burns' Baseball.*

All photography unless otherwise noted is from the New England Sports Museum (NESM).

Special thanks to Steve Lipofsky, official photographer of the Celtics and Basketballphoto.com.

All quotes from *The Ultimate Dictionary of Sports Quotations* by Carlo DeVito, Checkmark Books.

Introduction City of Boston

Page 12 Tom Brady at Gillette Stadium, courtesy of Steve Lipofsky  
Boston Breakers, courtesy of the Boston Breakers

Page 13 Governor Swift and the Boston Patriots courtesy of Rose Marston, Governor's Office  
Fans at the Patriots Victory Celebration, City of Boston

Page 31 Marathon runners; 1980 wheelchair division winner; Joan Benoit, courtesy NESM

Page 36 Fenway Park on Ted Williams day, courtesy of Steve Lipofsky  
Theo Epstein, courtesy Brita Meng Outzen and the Boston Red Sox

Page 37 Ted Williams, NESM  
Worcester Little League player, courtesy of Jeff Loughlin

Page 43 Boston Symphony Hall, courtesy of Jim Guan, Office of the Comptroller

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Bill Russell, Bob Cousy, NESM

Page 51 Paul Pierce, courtesy of Steve Lipofsky  
Larry Bird and Magic Johnson, courtesy of Jim Langone Basketball Hall of Fame

Page 54 Tom Yawkey and Ted Williams, NESM

Page 103 Sergei Samsonov and Joe Thornton, Jozef Stumpel, John Grahame and Sean O'Donnell, courtesy of  
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Page 107 Michael J. Fox, courtesy of the Denis Leary Foundation  
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2002 Head of the Charles rowers, courtesy of Carlos Ridruejo

Page 111 Fleet Classic Open, courtesy of Gretchen Vrieze, golfers, NESM

Page 129 Mural at the New England Sports Museum, courtesy of Jim Guan  
2000 U.S. Olympic Trials, courtesy of Massachusetts Sports Commission