

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

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

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“From Roman times to the present day bridges that have achieved renown for their elegance have almost without exception been remarkable for their efficient use of materials. The visual expression of efficient structural function is thus a fundamental criterion of elegance in bridge design. It is one of the primary distinguishing factors between structural engineering art and architecture.”

Christopher Menn, Swiss engineer and bridge designer

“The greatest challenge that Menn believes he has faced, and hence the most satisfying bridge he has designed, is the bridge over the Charles River in Boston . . . it presented him with the most difficult functional constraints he had yet faced.

More and more, it has come to be seen as a great work – indeed, a realization of the often-misused term “Signature Bridge.” Menn achieved this ideal by a logical structural form which, however, was the product of his imagination. As he put it: “I think that I found a concept, which is very close to the ideal solution (that means a maximum of economy and aesthetics at the same time).”

The Leonard P. Zakim/Bunker Hill Bridge stands for the potential for an improved environment through structural art. The age of technology makes possible the art of the engineer who can fuse the efficiency of form, economy of constraints, and elegance of expression into symbols of conservation, accountability, and aesthetics.”

The Art of Structural Design – A Swiss Legacy
David P. Billington
Yale University Press 2003

“While working on my book, “The Big Dig, Reshaping an American City”, I realized that the Zakim Bridge is a fitting symbol of the Boston’s largest infrastructure project. Most of the cost of this beautiful bridge is hidden away: buried in the complex foundations that support the movement of the vehicles above.”

Peter Vanderwarker, cover photo

Peter Vanderwarker’s work appears regularly in Architectural Record and Architectural Digest magazines, among others. He has received grants from the National Endowment of the Arts and the Graham Foundation. His work is in the collection of the Boston Athenaeum and the MIT museum. With Robert Campbell, he is the co-author of *Cityscapes of Boston: An American City through Time*, published by Houghton Mifflin in 1991. He is the author and photographer of four books, most recently, *The Big Dig: Reshaping an American City*, published by Little Brown in 2001. His website is www.vanderwarker.com.

From the first press release announcing Christopher Menn’s design for the bridge, this project caught the attention of those who live and work in the City of Boston. Construction projects, especially ones as challenging, complex and as visible as this bridge draw curious and fascinated observers from all walks of life. The Leonard P. Zakim/Bunker Hill Bridge is the city’s newest visual design icon and an engineering marvel. Featured in this report is the work of three highly acclaimed professional photographers and one amateur photographer who, for two years, literally had a bird’s eye view of construction of the bridge from her 10th floor balcony.

Thanks to the photographers — Peter Vanderwarker, Andy Ryan, Steve Lipofsky and Caroline Crockett — and to HNTB and the Massachusetts Highway Department.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

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Introductory Section

Letter of Transmittal

Acknowledgements

Commonwealth Organizational Structure

Principal Commonwealth Officers

Advisory Board to the Comptroller

Certificate of Achievement



Photo by Andy Ryan

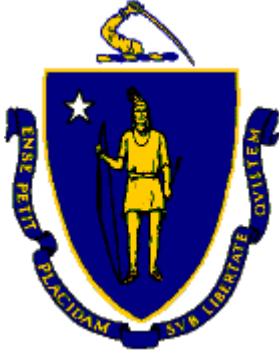
The Leonard P. Zakim Bunker Hill Bridge was not the first bridge built as part of the Big Dig. Opened ahead of schedule in October 1999, the four-lane Storrow Drive Connector Bridge is impressive in its own right.

Parallel and to the west of the Zakim Bridge, the companion bridge is 830 feet long and 76 feet wide with a main span 380 feet long and back spans of 225 feet. The bridge connects Storrow Drive and the Leverett Circle area on the northwestern edge of downtown Boston with points north of the Charles River.

Nine box girder sections — in cross section the largest in North America — were barged to the site and raised into place by cranes or (in the main span) jacks. It is one of the largest box girder bridges in the world. The approaches to the new bridge had to be built first with tolerances of only a fraction of an inch. The tight tolerances were quite challenging considering that pieces had to match up with a 380-foot span built off site and erected from the river.



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

December 31, 2003

*To the Citizens of the Commonwealth of Massachusetts,
Governor Mitt Romney, Lieutenant Governor Kerry Healey,
and Honorable Members of the General Court*

I am pleased to transmit the Commonwealth's fiscal 2003 (FY03) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results on that basis from FY03 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 budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 39 to 51 present the governmental operations on a modified accrual basis of accounting. The account groups for long-term debt and fixed assets are excluded in this presentation. The fund perspective 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 these liabilities. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-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 all long - term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the 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 format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues 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)

Governmental Funds - Statutory Basis, June 30, 2003:	
Budgeted Fund Balance.....	\$ 936.1
Non Budgeted Special Revenue Fund Balance.....	862.6
Capital Projects Fund Balance.....	<u>(10.0)</u>
Governmental Fund Balance - Statutory Basis, June 30, 2003.....	\$ 1,788.7
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	294.7
Owner Controlled Insurance Program Net Assets.....	<u>200.2</u>
Adjusted Statutory Governmental Fund Balance.....	2,283.6
Accruals, net of allowances and deferrals for increases /(decreases):	
Taxes.....	\$ 705.3
Medicaid.....	(289.7)
Compensated absences.....	(249.9)
Dedicated sales tax revenue due to the MBTA.....	(45.1)
Assistance due to the following entities:	
Massachusetts Water Pollution Abatement Trust.....	(76.0)
Massachusetts Turnpike Authority.....	(24.8)
Regional transit authorities.....	(64.8)
Other nonmajor component unit accruals.....	(52.8)
Other accruals:	
Uncompensated care liability.....	(143.3)
Claims, judgements and other risks.....	(52.2)
Workers' compensation and group insurance.....	(83.1)
Other accruals.....	<u>113.8</u>
Net decrease to governmental fund balances.....	<u>(262.6)</u>
Governmental fund balance (fund perspective).....	\$ 2,021.0
Plus: Fixed assets including infrastructure.....	27,532.1
Less: Accumulated depreciation.....	(6,649.3)
Plus: Deferred revenue.....	381.7
Less: Long term liabilities.....	<u>(31,391.0)</u>
Total governmental net assets (entity wide perspective).....	\$ <u>(8,105.5)</u>

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management's Discussion and Analysis (MD&A) section, and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative 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 153 departments. Due to changes predicated by the FY04 General Appropriations Act, seven of these departments are in the process of being closed or merged. Other departments have been repositioned especially within Health and Human Services. 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 entities defined as 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 & 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, 2003. OSA also plays a significant role in the 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 financial 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 2003, 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, 2002. The Certificate of Achievement is a prestigious national award, recognizing conformity 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.

CONCLUSIONS

The Commonwealth has many accomplishments in FY03 of which it can be proud.

The Office of the Comptroller continued its effort to build a more collaborative working relationship among members of this office and Chief Fiscal Officers (CFO) 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 being given increased authority and at the same time being held accountable for their actions, ensuring a balance of efficiency and integrity of the financial operations of the Commonwealth. We must maintain this standard to maintain the public trust. We strike this balance between efficiency and integrity of

operations through constant risk assessment and 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.

The Commonwealth is in the midst of the most significant financial systems upgrade in almost two decades. The Office of the Comptroller and the Information Technology Division have partnered with American Management Systems of Fairfax Virginia, to upgrade the Commonwealth's financial management system to a web based architecture. The new system will open May 10th for FY05 business. This project is focused 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.

One CFO recently being interviewed by the NewMMARS quality assurance team described the challenges of this fiscal year as the "perfect storm."

- The economic tightening is reducing staff;
- Fiscal officers are being challenged with reorganizations; and,
- A new financial system is going live.

In this environment, the challenge of maintaining effective controls is greater than ever. We continue to ask each department, at its highest levels, to assess its risks and target controls to manage those risks efficiently and effectively. Toward this end, the Office of the Comptroller, in conjunction with the Office of the State Auditor, has continued a multi-pronged effort to improve controls throughout the Commonwealth.

The description of the "entity" discussed on page 3 of this letter and in further detail in note 1 to the financial statements explains that this document not only includes information of state departments but also the audited financial statements issued by 60 different entities. The recent changes to financial reporting that require presentation in a consolidated net assets format have made the importance of timely issuance more critical than in the past. The failure of just one separately audited authority or other entity to issue audited financial statements can prevent the Commonwealth from meeting its obligations to the taxpayers and bond holders who rely on this information. The Commonwealth should enact legislation reinforcing the importance of timely issuance of financial statements by making it a fiduciary responsibility of the Trustees of these entities similar to the way the federal legislation known as Sarbanes-Oxley makes it a fiduciary obligation of CEO's, CFO's and Audit Committees of publicly traded companies.

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

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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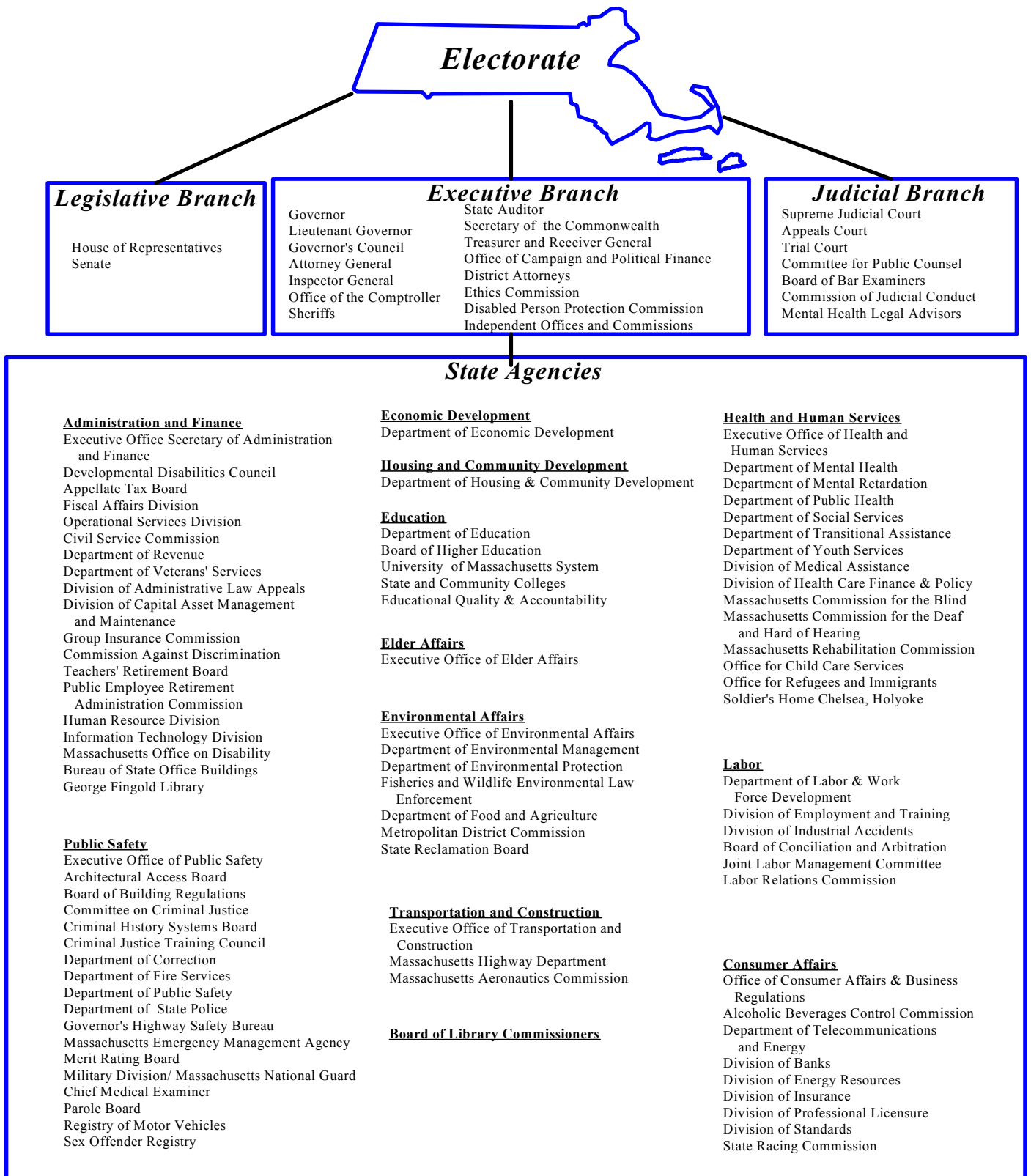
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**As of June 30, 2003*

CONSTITUTIONAL OFFICERS

Mitt Romney
Governor

Kerry Healey
Lieutenant Governor

William F. Galvin
Secretary of State

Thomas F. Reilly
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

Robert E. Travaglini
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

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

ADVISORY BOARD TO THE COMPTROLLER

Eric A. Kriss (Chair)
Secretary for Administration and Finance

A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

Thomas F. Reilly
Attorney General

Thomas M. Whitney
Gubernatorial Appointee

Mel Alan Barkan
Gubernatorial Appointee

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, 2002

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.



President

Executive Director



Andy Ryan's professional career began in 1983 shooting for the International Volunteer Program in Kingston, Jamaica. Since then he has photographed a wide variety of subjects ranging from the 1989 crackdown in Beijing's Tiananmen Square to the current construction of China's Three Gorges Dam. His work has been featured in *Scientific America*, *Conte Nash Traveler* and *Archaeology* magazine. He is currently documenting New York City's Second Avenue Project, an intensely complex tunnel project stretching the length of Second Avenue from Wall Street to 125th Street that will take 15 years to build.

In 1988 he began documenting all facets of the Central Artery Project for the Joint Venture Bechtel/Parsons Brinkerhoff. His images of the Central Artery Project illustrate the best selling book, *The Big Dig* (Silver Lining Press).

More information about Andy Ryan's photography can be found at www.andyryan.com.

Andy Ryan, photographer

Financial Section

*Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to The Basic Financial Statements
Required Supplementary Information
Other Supplementary Information*



Cable-stayed bridges are similar to suspension bridges in that the cables support the bridge deck. It does not have massive anchors at the ends, but instead transfers the weight directly to the towers. They are used for spans between 500 to 2,800 feet. The middle of the midspan is not the highest point on the bridge, as it would be with a suspension bridge such as San Francisco's Golden Gate. The only way to know that you've reached the middle of the bridge is by looking at the cables; where those from the south tower end and those from the north tower begin.

"For the past 14 years I've watched Boston undergo unprecedented change as I've documented the Project. The Leonard P. Zakim Bridge without question has become the symbol of our city's transformation; a sculpture of mammoth proportion and grace. I'm so fortunate to have been involved in its construction."

Andy Ryan, photographer



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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, 2003, 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 financial statements of the institutions of higher education nor their blended component units, which represent 81.0% percent and 49.7% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets and Statement of Activities of the Government-wide Financial Statements. We did not audit 98.9% and 97.9% 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 financial statements of the Massachusetts State Lottery Commission, which reflect .5% and 14.5% of the assets and the revenues, respectively of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .2% and 14.4% 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 the Owner Controlled Insurance Program, which represent 2.6% and .03% of the assets and the revenues, respectively, of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and 0.9% 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, which represent 88.0% and 100% of the total assets and total additions, respectively, of the Fiduciary Fund Types (as presented in the Fiduciary Fund 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 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, 2003, 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.

The Management's Discussion and Analysis, on pages 19 through 31, as well as the Budgetary Comparison Schedule – All Major Funds and notes thereto, on pages 114 through 119, are not a required part of the basic financial statements but are supplementary information required by the GASB. 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 Combined Balance Sheet – Non-Major Governmental Funds, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, the Combining Balance Sheet – Non-Major Special Revenue Funds, the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Special Revenue Funds, the Combining Balance Sheet – Non-Major Capital Projects Funds, and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Capital Projects 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.

Deloitte & Touche LLP

December 31, 2003



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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, 2003 (FY03). 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. 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.

Financial Highlights – Primary Commonwealth Government

Government – Wide Highlights

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY03 by nearly \$5.8 billion. Of this amount, “unrestricted net assets” is reported as a negative \$9.0 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, however, is paying for the construction of these assets and significant debt is being incurred to pay those costs. The Commonwealth's liability for school building assistance payments for municipal school construction also is a \$4.1 billion contributor to negative unrestricted net assets. There are also significant restricted net asset balances set aside for unemployment benefits and debt retirement.
- ◆ **Changes in Net Assets** – The Commonwealth's net assets decreased by over \$1.8 billion in FY03. Net assets of governmental activities decreased by over \$1.1 billion. This decrease in net assets is primarily attributable to an overall decrease in current cash, receivables and investments of \$115 million, coupled with an increase in current liabilities for \$216 million and an increase in long-term debt for \$1 billion. For the fiscal year, the Commonwealth's tax revenues increased \$473 million above prior year collections. Net assets of the business – type activities showed a decrease of nearly \$719 million. Expenses of governmental activities were over \$30.8 billion. General revenue, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was nearly \$16.3 billion.
- ◆ **Governmental Funds – Fund Balances** – As of the close of FY03, the Commonwealth's governmental funds reported a combined ending fund balance of over \$2.0 billion. Of the \$2.0 billion:

Fund Highlights

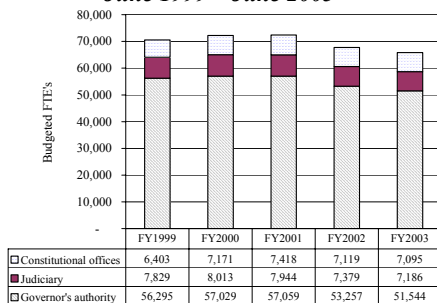
- \$145 million, net deficit, represents the unreserved fund balance. This is largely due to a \$582 million deficit in the highway fund and a \$14 million deficit in the lotteries fund due to the timing of accruals. The unreserved general fund balance of over \$619 million offsets these deficits.
- During FY03 the Legislature adopted a more straightforward definition of fiscal balance to include all of the budgeted activity. The result was the elimination of a number of funds, including the local aid fund. The previous definition of fiscal balance only included the fund balance within three major funds. As a result of these changes, several minor Governmental Funds have also been closed.
- Governmental reserves total nearly \$2.2 billion. They include \$51 million for continuing appropriations, \$641 million for stabilization, \$936 million in bond proceeds reserved for capital projects, largely connected with the Central Artery / Tunnel (CA/T) project and \$337 million reserved for retirement of indebtedness. An additional \$200 million is reserved for the CA/T owner controlled insurance program for workers' compensation and general liability. This reserve is net of \$76 million of projected long-term claims payable that are only reflected on the statement of net assets.

To meet the fiscal challenges of fiscal 2003 and beyond, the Commonwealth took a series of measures to remain in fiscal balance.

- \$550 million was removed from the Stabilization Fund on July 1. However, at the close of the fiscal year, \$227 million was redeposited into the fund from proceeds that resulted from tax loophole closure and residual balances deposited from the fund closures discussed above. An additional \$75 million was transferred to the fund from surplus. Beginning in FY05, an additional 0.5% of current year net tax revenues must be deposited into the Stabilization Fund before the year – end surplus is determined in addition to the current statutorily required carry-forward amount. Finally, the ceiling on the balance in the Stabilization Fund was increased from 10% to 15% of total current year budgeted revenues.
- All of the tobacco settlement proceeds for the year were used in support of current operations, up from 50% in the prior year.
- \$39 million was removed from surplus funds set aside for capital projects in previous years, also to support current operations.
- The Commonwealth refunded over \$3 billion in general obligation bonds, taking advantage of some of the lowest interest rates in history. The Commonwealth refrained from issuing tobacco settlement bonds or pension obligation bonds, which many of our peer states have either considered or sold.

- Approximately \$213.2 million of Medicaid related spending has been moved to a fund not controlled by the appropriation process, but subject to revenues, funded by fees and related federal financial participation.
- There was a \$878 million net decrease from the Unemployment Compensation Fund, reducing the ending balance in this fund to approximately \$627 million. The Department of Employment and Training estimates that the fund will be operating at a deficit by January 2004. State law provides that in the event of a deficit in this Fund that is not paid back by September 2004, additional revenues will be collected from employers in order to pay the interest that has accrued on the debt.
- In FY04, the pension obligation has been removed from the budget process using transfers of surplus and the transfer of the value of the Hynes Convention Center and the Boston Common Garage from the Massachusetts Convention Center Authority to the Pension Reserves Investment Trust.

Budgeted Full Time Equivalent Workforce Including Budgeted Higher Education June 1999 – June 2003



The Commonwealth also took measures operationally to achieve balance.

- The budgeted full time equivalent workforce, including budgeted higher education equivalent count dropped from 67,755 as of June 2002 to 65,825 as of June 2003. The graphic to the left details the reductions over the last five years. The FY04 General Appropriation Act included another employee retirement incentive reduction plan, which is expected to further reduce the Commonwealth's workforce.
- Starting in FY04, the employee's share of group health insurance premiums will increase from 15% to 20% of the cost of the insurance for those who earn more than \$35,000. All new employees hired after June 30, 2003 will contribute 25% of the cost of the insurance, regardless of salary.
- Tax decreases enacted earlier than FY02 were frozen. The income and the capital gains tax rate remains at 5.3%. Charitable deductions were eliminated and cigarette tax rates have doubled to \$1.51 per pack.

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 are composed of 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, as well as other supplementary information.

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

The government - wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net*

Assets, which present the assets, liabilities and net assets for the government as a whole. Also presented is 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 categories of the Commonwealth's operations. 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 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 bases of accounting 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.

Notes to the Financial Statements, Required Supplementary Information and Other 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 budgetary comparison schedules for the General, Highway and Local Aid Funds, along with a reconciliation comparing the original general appropriation act, all supplemental appropriations and actual budgetary spending. Variance columns are also provided. GASB Statement 41 - *Budgetary Comparison Schedule Perspective Differences*, which is effective for FY03, requires a further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures.

Other supplementary information is not mandatory, but is included to present combining schedules of minor governmental funds.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

Net Assets

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 over \$5.7 billion at the end of 2003. The *unrestricted net assets* are negative by nearly \$9.0 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that

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

Municipal school construction grants	\$ 4,074
Other long - term assistance to Authorities	697
Bonds issued to fund the MBTA	910
Central Artery / Tunnel Project to be transferred to the Turnpike.....	10,285
Central Artery / Tunnel Project to be transferred to Massport.....	<u>365</u>
Change in Unrestricted Net Assets due to Items Unique to the Commonwealth.....	<u>\$ 16,331</u>

it does not own. The most significant example of this is to the aforementioned Commonwealth bonding for the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be with the Turnpike Authority and Massport, a large portion of the liabilities will remain with the Commonwealth. Only slightly over \$2 billion of these transfers have taken place. As part of the budget submission for FY04, the Governor introduced legislation to consolidate the Turnpike Authority’s operations with the Commonwealth, effectively eliminating this large payable and other obligations. However, the legislation did not pass. Another example of this type of arrangement is school building assistance. The Commonwealth funds a large portion of costs incurred by cities and towns to construct or rehabilitate their schools. These obligations are part of the school construction grants program. In total, these types of liabilities amount to approximately \$16.3 billion at June 30, 2003.

Exclusive of assets where the Commonwealth acts as a fiduciary, the Commonwealth’s current cash and investments decreased by over \$467 million between July 1, 2002 and June 30, 2003. This is directly due to the large outflows of cash for unemployment compensation and for capital projects, along with continuing costs associated with the Commonwealth’s core expenses for debt service, Medicaid and in FY03, public safety. The year was also marked by a significant amount of commercial paper borrowing due to these fiscal conditions in order to finance events such as the payment of local aid.

Net of CA/T spending and transfers of \$984 million, long – term assets decreased by about \$109 million. A total of nearly \$22.5 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 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.

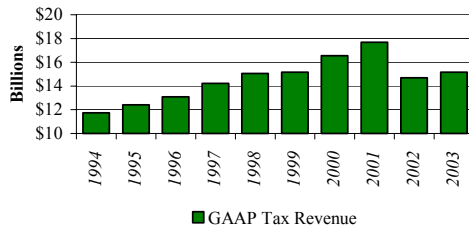
The bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were over \$7.6 billion, while its current liabilities were nearly \$6.8 billion. Restricted net assets 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. Note that certain amounts were reclassified from FY02 to conform to the FY03 presentation.

Net Assets as of June 30, 2003 and 2002
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Current and other non-capital assets.....	\$ 7,264	\$ 7,424	\$ 2,179	\$ 3,012	\$ 9,443	\$ 10,436
Capital assets.....	<u>20,883</u>	<u>19,666</u>	<u>1,590</u>	<u>1,486</u>	<u>22,473</u>	<u>21,152</u>
Total Assets.....	<u>28,147</u>	<u>27,090</u>	<u>3,769</u>	<u>4,498</u>	<u>31,916</u>	<u>31,588</u>
Long term liabilities.....	30,031	28,084	861	853	30,892	28,937
Other Liabilities.....	<u>6,221</u>	<u>5,982</u>	<u>566</u>	<u>585</u>	<u>6,787</u>	<u>6,567</u>
Total Liabilities.....	<u>36,252</u>	<u>34,066</u>	<u>1,427</u>	<u>1,438</u>	<u>37,679</u>	<u>35,504</u>
Net assets:						
Invested in capital assets, net of related debt.....	76	(105)	1,073	1,032	1,149	927
Restricted.....	1,154	2,694	946	1,784	2,100	4,478
Unrestricted.....	<u>(9,335)</u>	<u>(9,566)</u>	<u>322</u>	<u>244</u>	<u>(9,013)</u>	<u>(9,322)</u>
Total Net Assets (deficits)	<u>\$ (8,105)</u>	<u>\$ (6,977)</u>	<u>\$ 2,341</u>	<u>\$ 3,060</u>	<u>\$ (5,764)</u>	<u>\$ (3,917)</u>

Changes in Net Assets

Revenue from Taxation – GAAP Basis 1994-2003



The Commonwealth's net assets decreased by over \$1.8 billion. This drop is largely due to increased spending in the Unemployment Compensation Fund, and Higher Education, along with increases to Medicaid and other Health and Human Services largely connected to skyrocketing medical costs. Other programmatic expenses remained largely unchanged. The only major exception was for primary and secondary education, which dropped significantly due to a freeze on new school building construction assistance. Revenues increased, led by tax revenue increases of \$473 million and operating grants and contributions increases of \$432 million. Charges for services also increased by \$394 million. Approximately 45% 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.

The Commonwealth's revenues are presented in the table and graphics that follow. Note that certain amounts were reclassified from FY02 to conform to the FY03 presentation.

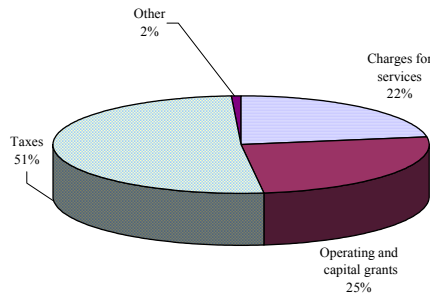
Changes in Net Assets during the Fiscal Years Ended June 30, 2003 and 2002 (in millions of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003 Percentage	June 30, 2002 Percentage	% Change
Revenues									
Program Revenues:									
Charges for services.....	\$ 6,652	\$ 6,474	\$ 1,943	\$ 1,727	\$ 8,595	\$ 8,201	25%	26%	0%
Operating grants and contributions.....	7,130	7,078	1,250	870	8,380	7,948	25%	25%	0%
Capital grants and contributions.....	508	-	-	77	508	77	1%	0%	1%
General Revenues:									
Taxes.....	15,162	14,689	-	-	15,162	14,689	45%	46%	-1%
Other.....	1,180	905	207	115	1,387	1,020	4%	3%	1%
Total Revenues.....	30,632	29,146	3,400	2,789	34,032	31,935	100%	100%	0%
Expenses									
Medicaid.....	6,177	5,979	-	-	6,177	5,979	17%	17%	0%
Direct local aid.....	5,119	5,253	-	-	5,119	5,253	14%	15%	0%
Other health and human services.....	4,314	4,196	-	-	4,314	4,196	12%	12%	0%
Lottery.....	3,470	3,454	-	-	3,470	3,454	10%	10%	0%
Higher education.....	-	-	2,480	2,365	2,480	2,365	7%	7%	0%
Primary and secondary education.....	1,385	1,836	-	-	1,385	1,836	4%	5%	-1%
Unemployment compensation.....	-	-	2,589	2,183	2,589	2,183	7%	6%	1%
Other.....	10,345	10,414	-	-	10,345	10,414	29%	29%	0%
Total Expenses.....	30,811	31,132	5,069	4,548	35,880	35,680	100%	100%	0%
Deficiency before transfers.....									
	(179)	(1,986)	(1,669)	(1,759)	(1,848)	(3,745)			
Transfers.....	(950)	(1,019)	950	1,019	-	-			
Decrease in Net assets (deficits).....	(1,129)	(3,005)	(719)	(740)	(1,848)	(3,745)			
Net assets - beginning.....	(6,976)	(3,971)	3,060	3,800	(3,916)	(171)			
Net assets - ending.....	\$ (8,105)	\$ (6,976)	\$ 2,341	\$ 3,060	\$ (5,764)	\$ (3,916)			

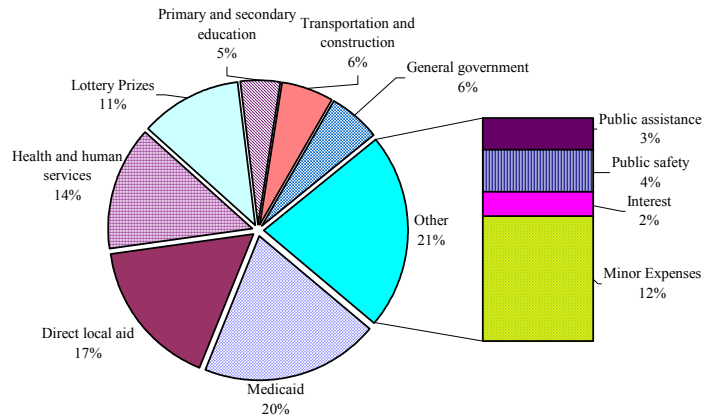
The largest category of tax revenue is income taxes. Of the \$15.2 billion in tax revenue within governmental activities, \$8.0 billion was from income taxation, \$3.8 billion from sales, \$929 million from corporations, \$678 million from motor fuels and nearly \$1.8 billion from other forms of taxation. 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 51% of the Commonwealth's charges for services.

Medicaid represents 20% of all the Commonwealth's governmental expenses. 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 summarizes governmental expenses of the Commonwealth.

Revenue – Governmental Activities
Fiscal Year Ending June 30, 2003

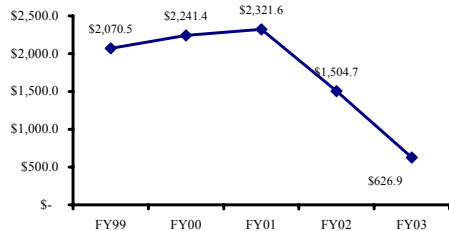


Major Expenses – Governmental Activities
Fiscal Year Ending June 30, 2003



Business – Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Year Ending June 30, 2003
(Amounts in Millions)



Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

The business - type activities decreased the Commonwealth's net assets by nearly \$719 million. This primarily resulted from an \$878 million decrease in the Commonwealth's Unemployment Compensation Fund due to extended benefits for unemployed workers during the year. This decline was offset by a \$159 million increase in the net assets of the schools of higher education, largely due to increases in net tuition and fee revenue (by nearly 13%) and in federal grants and reimbursements (by nearly 44%).

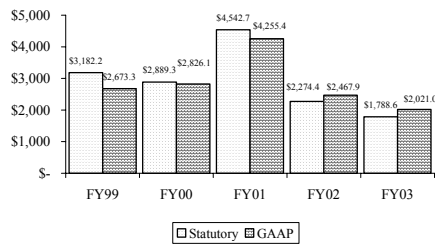
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

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

Governmental Funds

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.

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



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)

	FY99	FY00	FY01	FY02	FY03
Beginning fund balances	\$1,863.1	\$2,673.3	\$2,826.1	\$4,255.4	\$2,467.9
Restatement due to implementation of GASB 34	-	-	-	551.2	-
Revenues and other financing sources.....	33,272.7	38,174.4	39,256.4	36,476.6	42,798.0
Expenditures and other financing sources.....	32,462.5	38,021.6	37,827.1	38,815.3	43,244.9
Excess / (deficiency).....	810.2	152.8	1,429.3	(1,787.5)	(446.9)
Ending fund balances	<u>\$2,673.3</u>	<u>\$2,826.1</u>	<u>\$4,255.4</u>	<u>\$2,467.9</u>	<u>\$2,021.0</u>

As of the end of fiscal 2003, the Commonwealth's governmental funds reported combined ending fund balances of \$2.0 billion, a decrease of \$447 million from the previous year. However, of the \$2.0 billion, the following amounts are reserved or committed:

Governmental Funds - Reserves of Fund Balances

(Amounts in millions)

	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
Continuing appropriations	\$ 50.7	\$ 168.0	\$ (117.3)	-70%
Commonwealth stabilization	641.3	881.8	(240.5)	-27%
Retirement of indebtedness	337.3	350.8	(13.5)	-4%
Capital projects	936.2	1,053.8	(117.6)	-11%
Central artery				
Workers Compensation and				
General liability insurance reserve..	200.2	239.9	(39.7)	-17%
Unreserved	<u>(144.7)</u>	<u>(226.4)</u>	<u>81.7</u>	<u>-36%</u>
Total Fund Balances	<u>\$ 2,021.0</u>	<u>\$ 2,467.9</u>	<u>\$ (446.9)</u>	

During FY03 over \$550 million was used from the stabilization fund to balance the budget. These draws were offset by contributions to the stabilization fund in the amount of nearly \$310 million.

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 \$145 million of the governmental fund balance is an unreserved and undesignated deficit.

During FY03 the general, highway and local aid funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was over \$1.3 billion. Of this amount, over \$641 million was set aside in the Commonwealth's Stabilization Fund. Another \$49 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund. The remaining \$619 million is unreserved.

As of June 30, 2003, the Legislature closed 54 governmental funds and consolidated their respective fund balances and deficits to the Stabilization Fund. The local aid fund deficit was closed to the general fund. In addition, the Teacher, Principal, Superintendent Quality Endowment Fund was reclassified during FY03 as an "other governmental fund" as the Legislature adopted provisions to spend principal. This fund will close during FY04.

The fund balance of the general fund dropped by over \$1.0 billion during FY03. This is largely due to the closure of the local aid fund deficit into the General Fund.

Proprietary Funds

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

As discussed in the business – type activities above, the business type activities decreased the Commonwealth’s net assets by over \$720 million.

BUDGETARY HIGHLIGHTS

Differences between the original budget and final budget expenditures amount to over \$101 million, exclusive of transfers. Due to very low expectations of surpluses, supplemental budgets passed by the Legislation were very small. The supplemental budgets are summarized as follows:

- ◆ Increases in settlements and judgments by \$8.5 million.
- ◆ Increases in payments for snow plow operators and highway repairs for \$62.4 million.
- ◆ Increases for various courts, district attorneys, banking, regional transit authority assistance and supplemental school aid to local governments for \$25.1 million.

The original budget was passed in July of 2002, just after the start of FY03. Transfers of revenues and expenditures, largely from the closure of the local aid fund to the general fund resulted in nearly \$1.1 billion of additional financial uses, net.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth’s investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$30.8 billion, net of accumulated depreciation of \$8.3 billion, leaving a net book value of \$22.5 billion. 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, \$10.7 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 \$2.1 billion has already been transferred to these Authorities of completed portions of the project.

The total increase in the Commonwealth’s investment in capital assets from 2002 to 2003 was nearly \$1.7 billion, including increases to construction of the CA/T, but net of disposals and changes in accumulated depreciation. An additional \$211 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.

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

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

	Governmental Activities		Business - type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 674,362	\$ 643,917	\$ 58,478	\$ 68,185	\$ 732,840	\$ 712,102
Historical treasures	-	-	672	553	672	553
Construction in process	729,867	465,797	154,698	115,740	884,565	581,537
Construction in process - Central Artery / Tunnel Project	10,650,559	9,666,140	-	-	10,650,559	9,666,140
Buildings	1,888,286	1,787,727	1,000,699	922,153	2,888,985	2,709,880
Machinery and equipment	123,415	124,919	269,359	265,030	392,774	389,949
Infrastructure	6,816,307	6,977,621	-	-	6,816,307	6,977,621
Library collections	-	-	106,540	114,679	106,540	114,679
Total	\$ 20,882,796	\$ 19,666,121	\$ 1,590,446	\$ 1,486,340	\$ 22,473,242	\$ 21,152,461

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

The Commonwealth issued nearly \$5.0 billion in debt this year. Of this amount, \$1.9 billion to fund ongoing projects and over \$3.1 billion was in the form of general obligation refunding bonds, taking advantage of low interest rates. These refundings generated approximately \$127.8 million in present value debt service savings. Subsequent to year-end, the Commonwealth completed two additional refunding transactions which generated an additional \$47.6 million in present value debt service savings.

For governmental purposes, the \$1.9 billion in ongoing projects included debt issuances of:

- ◆ \$432.0 million for continuing costs of the Central Artery / Tunnel Project.
- ◆ \$284.5 million to bond for the final costs of the Massachusetts Bay Transportation Authority’s “forward funding” mechanism.
- ◆ \$1.2 billion of other projects including \$133.8 million for environmental costs, \$111.7 million for affordable housing, \$76.1 million for information technology and \$37.2 million for public safety.

Nearly \$738 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.

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

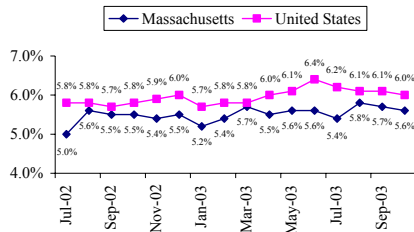
Changes in Long - Term Debt Obligations
(net of related premiums and discounts - amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 13,724,120	\$ 12,691,884	\$ -	\$ -	\$ 13,724,120	\$ 12,691,884
Special obligation bonds	739,061	763,926	-	-	739,061	763,926
Revenue obligation bonds	-	-	673,398	670,430	673,398	670,430
Grant anticipation notes	1,499,325	1,499,325	-	-	1,499,325	1,499,325
Total	\$ 15,962,506	\$ 14,955,135	\$ 673,398	\$ 670,430	\$ 16,635,904	\$ 15,625,565

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. However, the economy shows signs of improvement

*Monthly Unemployment Rate
July 2002 – October 2003*



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, updated in March of 2002, estimated that 34.3% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 26.7% for the United States as a whole. Massachusetts ranks third in the nation in educational attainment by age 25 within only 1.5% of the leader, Colorado.

Inflation has risen though in the past year. The Boston consumer price index rose 3.7% from July 2002 to July 2003. The largest component of this increase was due to fuel and utilities costs rising 17.6% during the period.

As of October 2003, the unemployment rate in the Commonwealth stood at 5.6%. This figure is down from a high of 5.8% in August, the highest rate since October of 1994. The Commonwealth is still below the national rate of 6.0%.

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, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.



There are a total of 115 total cables on the bridge. Each has its own floodlight for nightlight illumination. They are housed in plastic tubes with a spiral bead that breaks up rivulets of rainwater, which otherwise could throw the cable out of balance, leading to dangerous vibrations. A steel tube protects the lower portion of the cable and a silicone-filled damper absorbs vibrations, steadying the cable.

Photos by Massachusetts Highway Department

BASIC FINANCIAL STATEMENTS

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



The Leonard P. Zakim/Bunker Hill Bridge serves as the northern gateway to downtown Boston emerging from the underground Central Artery at Causeway Street near the Fleet Center. It is the widest cable-stayed bridge in the world and the first “hybrid” cable-stayed bridge in the United States, using both steel and concrete in its frame. More than 110,000 motorists use the bridge each day.

Andy Ryan, photographer

Statement of Net Assets

June 30, 2003

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Assets				
Current assets:				
Cash and cash equivalents.....	\$ 2,992,746	\$ 186,715	\$ 3,179,461	\$ 601,872
Cash with fiscal agent.....	580,731	-	580,731	-
Short-term investments.....	-	199,857	199,857	492,801
Assets held in trust.....	-	-	-	302
Receivables, net of allowance for uncollectibles:				
Taxes.....	1,749,982	-	1,749,982	-
Federal grants and reimbursements receivable.....	1,222,185	37,476	1,259,661	117,732
Loans.....	-	29,936	29,936	148,467
Other receivables.....	233,252	351,297	584,549	145,876
Due from cities and towns.....	4,910	-	4,910	15,564
Due from component units / business - type activity.....	3,778	-	3,778	-
Due from primary government.....	-	-	-	220,178
Inventory.....	-	-	-	34,554
Other current assets.....	-	25,207	25,207	17,113
Total current assets.....	6,787,584	830,488	7,618,072	1,794,459
Noncurrent assets:				
Cash and cash equivalents - restricted.....	476,789	337,747	814,536	1,140,270
Long-term investments.....	-	422,775	422,775	1,114,919
Restricted investments.....	-	353	353	670,530
Accounts receivable, net.....	-	51,779	51,779	44,420
Loans receivable, net.....	-	16,161	16,161	2,190,134
Due from primary government.....	-	-	-	295,591
Capital assets, net of accumulated depreciation.....	20,882,796	1,590,446	22,473,242	10,163,210
Other noncurrent assets.....	-	6,357	6,357	81,597
Other noncurrent assets - restricted.....	-	512,712	512,712	-
Total noncurrent assets.....	21,359,585	2,938,330	24,297,915	15,700,672
Total assets.....	28,147,169	3,768,818	31,915,987	17,495,130
Liabilities				
Current liabilities:				
Accounts payable and other liabilities.....	2,480,713	219,466	2,700,179	376,840
Accrued payroll.....	161,706	110,042	271,748	15,960
Compensated absences.....	249,865	88,371	338,236	18,630
Accrued interest payable.....	518,446	6,705	525,151	203,210
Tax refunds and abatements payable.....	708,404	15,730	724,134	-
Due to component units.....	242,245	-	242,245	-
Due to primary government.....	-	3,778	3,778	5,224
Due to federal government.....	18,195	-	18,195	-
Claims and judgments.....	84,696	-	84,696	-
Deferred revenue.....	-	61,219	61,219	5,849
Deposits and unearned revenue.....	-	15,775	15,775	-
Capital leases.....	23,535	18,902	42,437	17,770
Bonds, notes payable and other obligations.....	1,585,585	25,967	1,611,552	310,299
School construction grants and other contract assistance payable.....	148,058	-	148,058	-
Total current liabilities.....	6,221,448	565,955	6,787,403	953,782

(continued)

Statement of Net Assets

June 30, 2003

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
<i>(continued)</i>				
Noncurrent liabilities:				
Compensated absences.....	166,133	54,055	220,188	6,051
Boston teacher's retirement system net pension obligation.....	65,142	-	65,142	-
Accrued interest payable.....	-	-	-	52,989
Due to federal government - grants.....	-	9,904	9,904	-
Claims and judgments.....	75,700	-	75,700	-
Deferred revenue.....	-	13,459	13,459	91,602
Capital leases.....	52,219	73,032	125,251	537,701
Bonds, notes payable and other obligations.....	15,234,021	647,431	15,881,452	9,474,740
Due to component units - Central Artery / Tunnel Project.....	10,285,559	-	10,285,559	-
Due to related organizations.....	365,000	-	365,000	-
School construction grants and other contract assistance payable.....	3,547,944	-	3,547,944	-
Other noncurrent liabilities.....	239,544	63,602	303,146	217,924
Total noncurrent liabilities.....	30,031,262	861,483	30,892,745	10,381,007
Total liabilities.....	36,252,710	1,427,438	37,680,148	11,334,789
Net assets				
Invested in capital assets, net of related debt.....	75,455	1,073,152	1,148,607	3,893,351
Restricted for:				
Unemployment benefits.....	-	626,862	626,862	-
Retirement of indebtedness.....	337,306	-	337,306	157,846
Central artery workers' compensation and general liability.....	124,486	-	124,486	-
Other purposes.....	692,000	319,842	1,011,841	1,246,244
Unrestricted.....	(9,334,788)	321,523	(9,013,264)	862,900
Total net assets.....	\$ (8,105,541)	\$ 2,341,379	\$ (5,764,162)	\$ 6,160,341

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

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2003
(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.....	\$ 1,794,535	\$ 233,135	\$ 78,443	\$ -	\$ (1,482,957)	\$ -	\$ (1,482,957)	\$ -
Judiciary.....	589,858	74,412	1,198	-	(514,248)	-	(514,248)	-
Direct local aid.....	5,118,711	-	-	-	(5,118,711)	-	(5,118,711)	-
Medicaid.....	6,177,280	26,772	3,244,261	-	(2,906,247)	-	(2,906,247)	-
Group health insurance.....	732,252	93,529	-	-	(638,723)	-	(638,723)	-
Public assistance.....	1,017,997	-	536,984	-	(481,013)	-	(481,013)	-
Interest (unallocated).....	739,463	-	-	-	(739,463)	-	(739,463)	-
Pension.....	354,802	-	-	-	(354,802)	-	(354,802)	-
Environmental and recreation.....	341,810	132,531	39,807	-	(169,473)	-	(169,473)	-
Communities and development.....	585,221	1,373	379,187	-	(204,661)	-	(204,661)	-
Health and human services.....	4,314,493	966,813	1,748,596	-	(1,599,084)	-	(1,599,084)	-
Transportation and construction.....	1,780,295	7,813	9,275	508,235	(1,254,971)	-	(1,254,971)	-
Education.....	1,385,040	5,073	765,268	-	(614,699)	-	(614,699)	-
Public safety.....	1,277,697	520,496	101,137	-	(656,064)	-	(656,064)	-
Economic development.....	32,172	-	539	-	(31,633)	-	(31,633)	-
Elder affairs.....	315,040	680	40,797	-	(273,563)	-	(273,563)	-
Consumer.....	56,680	91,501	2,074	-	36,895	-	36,895	-
Labor.....	330,940	76,290	182,146	-	(72,505)	-	(72,505)	-
Lottery.....	3,470,046	4,421,621	-	-	951,575	-	951,575	-
Depreciation (unallocated).....	396,098	-	-	-	(396,098)	-	(396,098)	-
Total governmental activities.....	30,810,430	6,652,039	7,129,712	508,235	(16,520,444)	-	(16,520,444)	-
Business-Type Activities:								
Unemployment Compensation.....	2,589,107	940,475	715,826	-	-	(932,806)	(932,806)	-
Higher Education:								
University of Massachusetts.....	1,531,381	678,812	377,008	-	-	(475,561)	(475,561)	-
State colleges.....	425,154	182,428	38,371	-	-	(204,356)	(204,356)	-
Community colleges.....	523,403	141,480	118,563	-	-	(263,360)	(263,360)	-
Total business-type activities.....	5,069,045	1,943,194	1,249,768	-	-	(1,876,083)	(1,876,083)	-
Total primary government.....	\$ 35,879,475	\$ 8,595,234	\$ 8,379,481	\$ 508,235	\$ (16,520,444)	\$ (1,876,083)	\$ (18,396,527)	\$ -
Component Units:								
Massachusetts Bay Transportation Authority.....	\$ 1,239,649	\$ 317,567	\$ -	\$ 125,471	\$ -	\$ -	\$ -	\$ (796,611)
Massachusetts Turnpike Authority.....	316,684	256,002	5,876	-	-	-	-	(54,806)
Massachusetts Water Pollution Abatement Trust.....	158,721	3,219	13,202	82,949	-	-	-	(59,351)
Other nonmajor component units.....	423,866	249,320	109,934	278,966	-	-	-	214,354
Total component units.....	\$ 2,138,920	\$ 826,108	\$ 129,012	\$ 487,386	\$ -	\$ -	\$ -	\$ (696,414)

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income.....	\$ 7,968,244	\$ -	\$ 7,968,244	\$ -
Sales taxes.....	3,824,212	-	3,824,212	-
Corporate taxes.....	929,485	-	929,485	-
Motor and special fuel taxes.....	678,264	-	678,264	-
Other taxes.....	1,761,482	-	1,761,482	-
Miscellaneous:				
Investment earnings.....	99,268	81,001	180,269	197,686
Tobacco settlement.....	300,039	-	300,039	-
Pension contribution.....	34,114	-	34,114	-
Other revenue.....	746,265	126,295	872,560	839,135
Transfers.....	(950,217)	950,217	-	-
Total general revenues and transfers.....	15,391,157	1,157,513	16,548,670	1,036,821
Change in net assets.....	(1,129,287)	(718,570)	(1,847,857)	340,407
Net assets - beginning.....	(6,976,254)	3,059,949	(3,916,305)	5,819,934
Net assets - ending.....	\$ (8,105,541)	\$ 2,341,379	\$ (5,764,162)	\$ 6,160,341

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

(concluded)



“Sometimes concrete has to take roundabout way when being poured. Here, the Leverett Connector to the Zakim Bridge is getting it’s concrete from below, pumped up through a series of plastic pipes. The Registry Building passively awaits its demise.”



“The telltale sign of imminent pouring of concrete is the laying of green metal mesh. Here, the roadbed from the tunnel upward to the bridge is prepared to accept the concrete. This picture was taken from the sidewalk on Causeway Street. The Fleet Center is just out of sight to the left.”

At 240 feet, the Cornell tower crane is one of the tallest free-standing tower cranes in the U.S.



“Early in the South Tower’s construction the crane’s boom needed some repair. Two men are on the boom as it seems to point toward the Fleet Center. From my balcony it appeared that the workers had nothing to hold on to, but checking through my binoculars I was reassured to see a lifeline.”

Caroline Crockett, photographer

Governmental Fund Financial Statements



Photo by Caroline Crockett

The cable-stayed bridge became popular in Europe after World War II, when it proved to be a good, economical replacement for bombed-out crossings. This hybrid bridge had already garnered numerous international awards for design and construction and the bridge features a number of technical firsts, including the first use of ungrouted cables with internal dampening devices. Another first was the use of ISO-tensioning of cables. Typically cable stayed bridges tension the whole cable at once. On the Zakim/Bunker Hill Bridge each strand was tightened individually with a small hydraulic jack.

Caroline Crockett was a child during the Great Depression and was greatly influenced by World War II as a teen. She married and had six children and later worked as a copy editor. She went back to college at the age of 50 to earn a degree in archaeology, which was a lifelong dream. Although she lived in the Berkshires, in the late eighties she took a day trip to Boston and fell in love with the city. She soon relocated to Boston. When she retired, she moved to the 10th floor of an elderly housing apartment facing the old central artery. Little did she know what would soon be unfolding right in front of her. She had never taken pictures or owned a camera. She started taking pictures of this project at the age of 73. Now, she has a library of over 1,000 pictures of the Zakim Bridge. She has had a show at the West End Branch of the Boston Public Library and one at the Bunker Hill Monument. She is leaving her legacy collection to the Boston Public Library.

Balance Sheet
Governmental Funds
June 30, 2003
(Amounts in thousands)

	General	Highway	Local Aid	Lotteries	Debt Service	Capital Projects		Total
						Central Artery Statewide Roads and Bridges	Other Governmental Funds	
ASSETS								
Cash and short-term investments.....	\$ 2,072,456	\$ -	\$ -	\$ 40,076	\$ -	\$ -	\$ 880,214	\$ 2,992,746
Cash with fiscal agent.....	-	26,060	-	-	231,498	-	323,173	580,731
Restricted investments.....	-	-	-	-	-	-	476,789	476,789
Receivables, net of allowance for uncollectibles:								
Taxes.....	1,626,202	49,694	-	-	-	-	74,086	1,749,982
Due from federal government.....	731,266	-	-	-	-	-	490,919	1,222,185
Other receivables.....	116,064	2,380	-	5,445	-	-	109,363	233,252
Due from cities and towns.....	4,910	-	-	-	-	-	-	4,910
Due from other funds.....	916,219	5	-	-	-	981,862	222,776	2,120,862
Total assets.....	\$ 5,467,117	\$ 78,139	\$ -	\$ 45,521	\$ 231,498	\$ 981,862	\$ 2,577,320	\$ 9,381,458
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable.....	\$ 1,455,437	\$ 15,261	\$ -	\$ 52,182	\$ -	\$ 45,644	\$ 792,866	\$ 2,361,390
Accrued payroll.....	136,476	10,672	-	-	-	-	14,558	161,706
Compensated absences.....	198,952	21,086	-	2,170	-	-	27,657	249,865
Tax refunds and abatements payable.....	706,924	-	-	-	-	-	1,480	708,404
Due to other funds.....	1,121,021	600,512	-	-	-	-	395,551	2,117,084
Due to component units.....	99,726	12,952	-	-	-	-	129,567	242,245
Due to federal government.....	18,147	-	-	-	-	-	48	18,195
Deferred revenue.....	368,321	85	-	5,354	-	-	7,958	381,718
Claims and judgments.....	52,196	-	-	-	-	-	32,500	84,696
Bonds, notes payable and certificates of participation.....	-	-	-	-	-	-	857,100	857,100
Other accrued liabilities.....	-	-	-	-	-	-	178,036	178,036
Total liabilities.....	4,157,200	660,568	-	59,706	-	45,644	2,437,321	7,360,439
Fund balances (deficits):								
Reserved for continuing appropriations.....	49,402	1,194	-	-	-	-	79	50,675
Reserved for Commonwealth stabilization.....	641,325	-	-	-	-	-	-	641,325
Reserved for retirement of indebtedness.....	-	26,060	-	-	231,498	-	79,748	337,306
Reserved for capital projects.....	-	-	-	-	-	936,218	-	936,218
Reserved for central artery workers' compensation and general liability.....	-	-	-	-	-	-	200,186	200,186
Unreserved.....	619,190	(609,683)	-	(14,185)	-	-	(140,014)	(144,692)
Fund balances (deficits).....	1,309,917	(582,429)	-	(14,185)	231,498	936,218	139,999	2,021,018
Total liabilities and fund balances.....	\$ 5,467,117	\$ 78,139	\$ -	\$ 45,521	\$ 231,498	\$ 981,862	\$ 2,577,320	\$ 9,381,458

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, 2003
(Amounts in thousands)

Total fund balances	\$	2,021,018
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 674,362	
Construction in process	729,867	
Depreciable capital assets and infrastructure, net of \$6,649,306 of accumulated depreciation	8,828,006	
Central Artery / Tunnel project construction in process	10,650,559	
Capital assets, net of accumulated depreciation		20,882,796
Amounts presented in the statement of net assets, but not in fund balances due to different bases of accounting		
		381,718
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Boston teacher's retirement system net pension obligation	(65,142)	
Bonded debt	(15,962,506)	
Accrued interest on bonds, school construction grants and contract assistance payable	(459,733)	
School construction grants and contract assistance payable	(3,696,002)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel project	(10,650,559)	
Capital leases (including accrued interest)	(75,754)	
Claims and judgments	(75,700)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(405,677)	
Long - term liabilities (including current portions)		(31,391,073)
Net assets of governmental activities	\$	(8,105,541)

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, 2003
(Amounts in thousands)

	General	Highway	Local Aid	Lotteries	Debt Service	Capital Projects		Total
						Central Artery Statewide Roads and Bridges	Other Governmental Funds	
Revenues:								
Taxes.....	\$ 8,662,717	\$ 580,160	\$ 4,793,570	\$ 1,841	\$ -	\$ -	\$ 1,052,511	\$ 15,090,799
Assessments.....	87,245	11,018	-	-	-	-	547,190	645,453
Federal grants and reimbursements.....	3,448,693	1,953	-	-	-	-	4,183,423	7,634,068
Departmental.....	722,624	405,196	644	4,421,519	-	-	672,226	6,222,209
Miscellaneous.....	90,556	2,103	-	1,565	-	28,180	792,543	914,947
Total revenues.....	13,011,835	1,000,430	4,794,214	4,424,925	-	28,180	7,247,893	30,507,476
Expenditures:								
Current:								
Legislature.....	53,316	-	-	-	-	-	-	53,316
Judiciary.....	564,266	-	-	-	-	-	3,931	568,197
Inspector General.....	1,838	-	-	-	-	-	-	1,838
Governor and Lieutenant Governor.....	5,141	24	-	-	-	-	56	5,221
Secretary of the Commonwealth.....	36,512	-	-	-	-	-	2,499	39,011
Treasurer and Receiver-General.....	104,856	1,149	4,838	3,484,007	-	-	850,785	4,445,634
Auditor of the Commonwealth.....	15,689	-	584	-	-	-	85	16,359
Attorney General.....	40,024	423	867	-	-	-	13,883	55,197
Ethics Commission.....	625	-	628	-	-	-	-	1,252
District Attorney.....	64,956	2,716	-	-	-	-	16,986	84,657
Office of Campaign and Political Finance.....	498	-	501	-	-	-	-	999
Sheriff's Departments.....	210,801	347	141	-	-	-	4,044	215,333
Disabled Persons Protection Commission.....	1,603	-	-	-	-	-	33	1,637
Board of Library Commissioners.....	340	-	2,775	-	-	-	2,939	6,055
Comptroller.....	8,396	-	-	-	-	-	-	8,396
Administration and finance.....	923,326	5,450	141,905	-	-	-	131,281	1,201,962
Environmental affairs.....	53,327	23,106	22,005	-	-	-	137,150	235,588
Communities and development.....	62,935	-	23,663	-	-	-	389,521	476,119
Health and human services.....	3,481,489	-	1,199	-	-	-	2,479,682	5,962,369
Transportation and construction.....	25,713	114,773	17,523	-	-	-	59,990	218,000
Education.....	169,116	32,910	561,237	-	-	-	782,289	1,545,552
Higher education.....	96,087	-	-	-	-	-	14,571	110,657
Public safety.....	485,284	244,585	146,887	-	-	-	114,070	990,825
Economic development.....	3,510	-	-	-	-	-	25,035	28,545
Elder affairs.....	175,233	-	10,295	-	-	-	129,544	315,073
Consumer affairs.....	31,735	1,981	-	-	-	-	21,106	54,822
Labor.....	30,709	-	43	-	-	-	298,777	329,529
Medicaid.....	4,703,237	-	-	-	-	-	838,466	5,541,703
Pension.....	88,000	24,016	177,343	-	-	-	301	289,660
Direct local aid.....	11,551	2,385	5,089,480	-	-	-	34	5,103,450
Capital outlay:								
Local aid.....	-	-	-	-	-	-	15,261	15,261
Capital acquisition and construction.....	-	-	-	-	-	601,890	1,924,143	2,526,033
Debt service.....	-	-	-	-	1,467,007	-	-	1,467,007
Total expenditures.....	11,450,114	453,865	6,201,914	3,484,007	1,467,007	601,890	8,256,462	31,915,257
Excess (deficiency) of revenues over (under) expenditures.....	1,561,722	546,565	(1,407,700)	940,918	(1,467,007)	(573,710)	(1,008,569)	(1,407,781)

(continued)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
 Fiscal Year Ended June 30, 2003
 (Amounts in thousands)

	General	Highway	Local Aid	Lotteries	Debt Service	Capital Projects Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
Other financing sources:								
Proceeds of general obligation bonds.....	-	-	-	-	-	419,996	1,491,205	1,911,201
Proceeds of refunding bonds.....	-	-	-	-	3,398,239	-	-	3,398,239
Transfers in for debt service.....	-	-	-	-	1,462,007	-	-	1,462,007
Transfers in.....	959,276	12,073	2,685,311	-	-	72,220	1,790,124	5,519,004
Total other financing sources.....	959,276	12,073	2,685,311	-	4,860,246	492,216	3,281,329	12,290,451
Other financing uses:								
Payments to refunded bond escrow agent.....	-	-	-	-	3,398,239	-	-	3,398,239
Transfers out.....	2,053,262	106,818	87,249	957,482	-	20	2,264,935	5,469,764
Transfers of appropriations.....	919,536	-	-	-	-	-	2,090	921,626
Transfers of bond proceeds.....	-	-	-	-	-	-	77,867	77,867
Transfers out for debt service.....	613,677	604,933	154,558	-	-	-	88,840	1,462,008
Total other financing uses.....	3,586,475	711,751	241,807	957,482	3,398,239	20	2,433,732	11,329,504
Total other financing sources and uses.....	(2,627,199)	(699,678)	2,443,504	(957,482)	1,462,007	492,196	847,597	960,947
Net change in fund balances.....	(1,065,477)	(153,113)	1,035,804	(16,564)	(5,000)	(81,514)	(160,972)	(446,834)
Fund balances (deficits) at beginning of year.....	2,375,394	(429,316)	(1,035,804)	2,379	236,498	1,017,732	300,971	2,467,852
Fund balances (deficits) at end of year.....	\$ 1,309,917	\$ (582,429)	\$ -	\$ (14,185)	\$ 231,498	\$ 936,219	\$ 139,999	\$ 2,021,018

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

(concluded)

**Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the fiscal year ended June 30, 2003
(Amounts in thousands)

Amounts reported for governmental activities in the statement of activities on pages 42 and 43 are different because:

Net change in fund balances - total governmental funds from page 43	\$ (446,834)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in process, but excluding reductions and dispositions.....	232,256
Amounts presented in the statement of activities, but not in the changes in fund balances due to different bases of accounting.....	64,530
The issuance of long - term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items.....	(1,007,371)
Boston teacher's retirement system net pension obligation.....	(65,142)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....	93,274
Change in net assets of governmental activities as presented on page 37	\$ (1,129,287)

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

PROPRIETARY FUND FINANCIAL STATEMENTS



“This picture was taken through a three-inch crack in the fence along Causeway Street. The stairs beside the South Tower and crane to its left will each grow as the tower grows, up and up about 32 stories high.”

Caroline Crockett, photographer

“Framed by the Registry Building awaiting the wrecking ball and the Fleet Center, the South Tower squats with only a few cables attached. The Leverett Connector is open for south-bound traffic.”

Caroline Crockett, photographer



Statement of Net Assets

Proprietary Funds

June 30, 2003

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Assets					
Current assets:					
Cash and cash equivalents.....	\$ 2,655	\$ 26,107	\$ 92,167	\$ 65,786	\$ 186,715
Short-term investments	-	151,078	14,393	34,386	199,857
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	37,476	-	-	37,476
Loans.....	-	28,508	1,171	257	29,936
Other receivables.....	222,762	101,831	7,449	19,255	351,297
Other current assets.....	-	19,746	2,308	3,153	25,207
Total current assets	225,417	364,746	117,488	122,837	830,488
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	316,868	18,126	2,753	337,747
Long-term investments.....	-	402,990	12,971	6,814	422,775
Restricted investments.....	-	-	353	-	353
Accounts receivable, net.....	-	51,343	436	-	51,779
Loans receivable, net.....	-	789	13,757	1,615	16,161
Capital assets, net of accumulated depreciation.....	-	1,110,266	244,864	235,316	1,590,446
Other noncurrent assets.....	-	1,985	2,476	1,896	6,357
Other noncurrent assets - restricted.....	490,652	-	13,888	8,172	512,712
Total noncurrent assets	490,652	1,884,241	306,871	256,566	2,938,330
Total assets	716,069	2,248,987	424,359	379,403	3,768,818
Liabilities					
Current liabilities:					
Accounts payable and other liabilities.....	61,854	119,609	19,505	18,498	219,466
Accrued payroll.....	-	64,627	19,593	25,822	110,042
Compensated absences.....	-	52,732	16,236	19,403	88,371
Accrued interest payable.....	-	6,330	88	287	6,705
Tax refunds and abatements payable.....	15,730	-	-	-	15,730
Due to other funds.....	-	3,778	-	-	3,778
Deferred revenue.....	11,623	38,189	8,934	2,473	61,219
Student deposits and unearned revenues	-	3,937	4,119	7,719	15,775
Capital leases.....	-	10,920	3,371	4,611	18,902
Bonds, notes payable and other obligations.....	-	22,620	1,768	1,579	25,967
Total current liabilities	89,207	322,742	73,614	80,392	565,955
Noncurrent liabilities:					
Compensated absences.....	-	24,572	12,614	16,869	54,055
Due to federal government - grants.....	-	-	8,535	1,370	9,904
Deferred revenue.....	-	10,654	2,805	-	13,459
Capital leases.....	-	46,764	11,234	15,034	73,032
Bonds, notes payable and other obligations.....	-	566,294	46,392	34,745	647,431
Other noncurrent liabilities.....	-	51,365	8,965	3,273	63,603
Total noncurrent liabilities	-	699,649	90,545	71,290	861,484
Total liabilities	89,207	1,022,391	164,159	151,682	1,427,439
Net assets:					
Invested in capital assets, net of related debt.....	-	685,559	198,041	189,552	1,073,152
Restricted for:					
Unemployment benefits.....	626,862	-	-	-	626,862
Other purposes.....	-	284,619	24,276	10,947	319,842
Unrestricted.....	-	256,418	37,883	27,222	321,523
Total net assets	\$ 626,862	\$ 1,226,596	\$ 260,200	\$ 227,721	\$ 2,341,379

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, 2003

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution.....	\$ 912,029	\$ -	\$ -	\$ -	\$ 912,029
Net tuition and fees.....	-	289,441	130,766	110,668	530,875
Federal grants and reimbursements.....	715,826	377,008	38,371	118,563	1,249,768
Miscellaneous.....	28,446	389,371	51,662	30,812	500,290
Total operating revenues.....	1,656,301	1,055,820	220,799	260,043	3,192,963
Operating expenses:					
Unemployment compensation.....	2,589,107	-	-	-	2,589,107
Instruction.....	-	374,386	162,813	201,554	738,754
Research.....	-	275,838	7	50	275,895
Academic support.....	-	94,414	42,844	58,881	196,139
Student services.....	-	70,648	45,962	70,008	186,618
Scholarships and fellowships.....	-	18,570	4,968	31,989	55,528
Public service.....	-	184,881	3,296	6,048	194,225
Operation and maintenance of plant.....	-	98,135	46,673	49,877	194,684
Institutional support.....	-	114,174	55,350	65,820	235,344
Other operating expenses.....	-	26,777	221	3,144	30,142
Depreciation.....	-	104,017	17,061	19,883	140,961
Auxiliary operations.....	-	131,577	45,495	14,421	191,492
Total operating expenses.....	2,589,107	1,493,417	424,689	521,675	5,028,888
Operating income (loss).....	(932,806)	(437,597)	(203,890)	(261,632)	(1,835,925)
Nonoperating revenues (expenses) and transfers:					
Other Revenues.....	-	105,797	19,856	642	126,295
Other Expenses.....	-	(37,964)	(465)	(1,728)	(40,157)
Investment Income.....	55,007	22,605	1,900	1,489	81,001
Transfers.....	-	455,425	228,252	266,540	950,217
Nonoperating revenues (expenses) and transfers, net.....	55,007	545,863	249,543	266,942	1,117,356
Change in net assets.....	(877,799)	108,266	45,653	5,310	(718,570)
Total Net Assets - Beginning of fiscal year.....	1,504,661	1,118,330	214,547	222,411	3,059,949
Total Net Assets - End of fiscal year.....	\$ 626,862	\$ 1,226,596	\$ 260,200	\$ 227,721	\$ 2,341,379

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

Statement of Cash Flows - Combining

Proprietary Funds

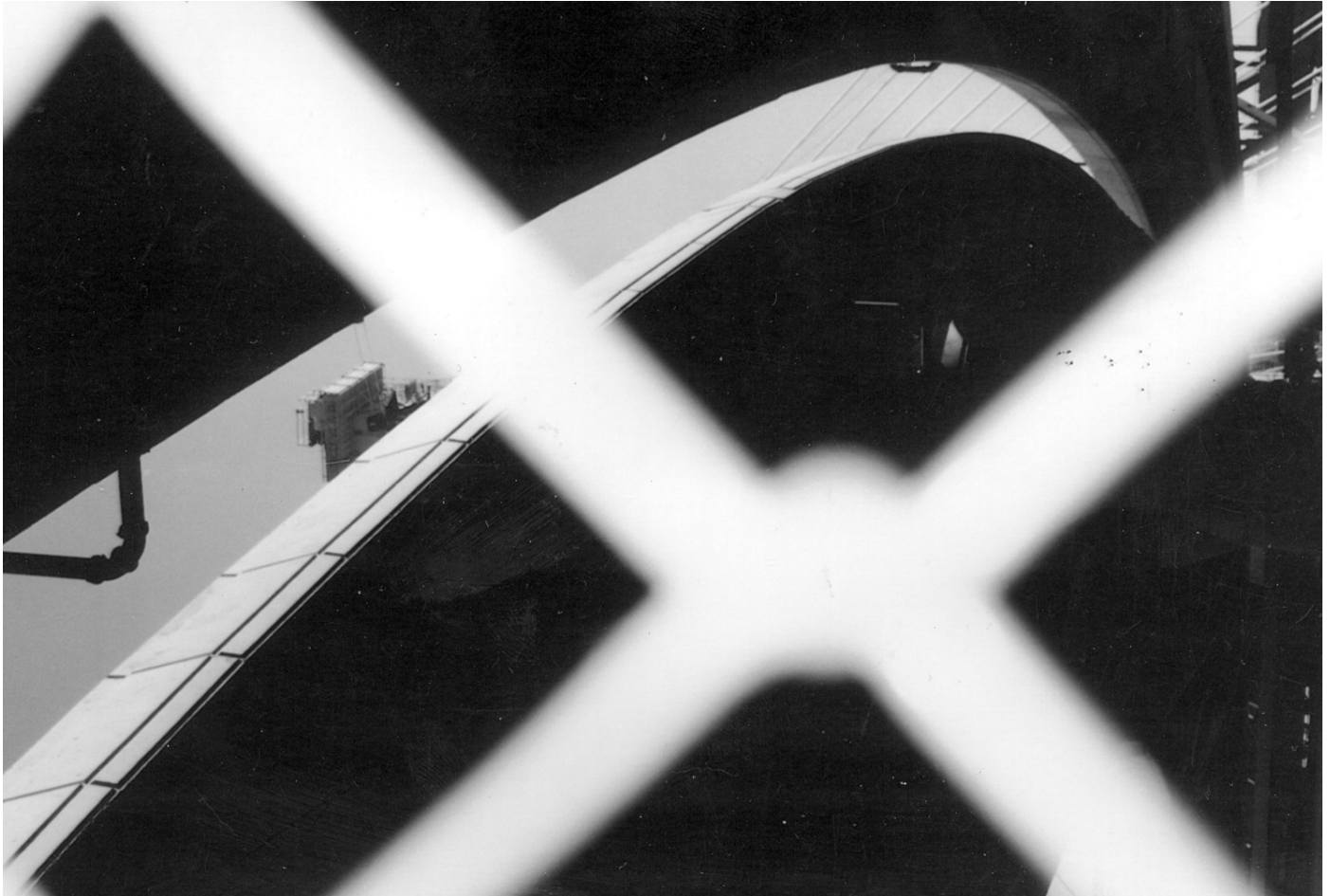
June 30, 2003

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Cash Flows from Operating Activities:					
Collection of Unemployment Contributions.....	\$ 2,554,847	\$ -	\$ -	\$ -	\$ 2,554,847
Tuition, Residence, Dining and Other Student Fees.....	-	298,563	131,589	113,503	543,655
Research grants and contracts.....	-	343,732	38,266	116,182	498,180
Payments to Suppliers.....	-	(349,877)	(109,354)	(130,146)	(589,377)
Payments to Employees.....	-	(952,029)	(229,735)	(282,196)	(1,463,960)
Payments to Students.....	-	(34,557)	(10,115)	(26,726)	(71,398)
Payments for Unemployment Benefits.....	(2,635,645)	-	-	-	(2,635,645)
Collection of Loans to Students and Employees.....	-	8,017	2,060	176	10,253
Income from Contract Services.....	-	-	2,533	1,867	4,401
Auxilliary Enterprise Charges.....	-	358,054	17,603	30	375,687
Other Receipts.....	28,446	-	15,751	23,533	67,730
Net Cash Provided By (Used By) Operating Activities.....	(52,352)	(328,097)	(141,401)	(183,777)	(705,627)
Cash Flows from Non-Capital Financing Activities:					
State Appropriations.....	-	453,139	187,742	216,226	857,107
Grants and Contracts.....	-	41,616	1,664	271	43,551
Student Organizations Agency Transactions.....	-	1,467	-	-	1,467
Assignment of Perkins Loans.....	-	-	(3,102)	(352)	(3,454)
Net Cash Provided By (Used By) Non-Capital Financing Activities..	-	496,222	186,304	216,145	898,671
Cash Flows from Capital and Related Financing Activities:					
Capital Appropriations.....	-	30,491	15,869	8,307	54,667
Purchases of Capital Assets.....	-	(143,307)	(38,816)	(26,395)	(208,518)
Proceeds from Debt Issuance.....	-	19,635	25,392	7,367	52,394
Other Capital Asset Activity.....	-	47,500	(13,716)	(1,400)	32,384
Net Purchases / Sales of Investments Held by Bond Trustee.....	-	(11,381)	-	6,030	(5,351)
Principal Paid on Capital Debt and Leases.....	-	(34,619)	(4,181)	(4,875)	(43,675)
Interest Paid on Capital Debt and Leases.....	-	(25,767)	(1,701)	(2,783)	(30,252)
Net Cash Provided By (Used By) Capital Financing Activities.....	-	(117,448)	(17,154)	(13,749)	(148,351)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments.....	-	852,214	1,531	31,691	885,437
Purchases of Investments.....	-	(988,671)	(3,368)	(55,048)	(1,047,088)
Investment Earnings.....	55,007	17,564	2,339	1,788	76,698
Net Cash Provided By (Used By) Investing Activities.....	55,007	(118,893)	502	(21,569)	(84,953)
Net Increase (Decrease) in Cash and Cash Equivalents.....	2,655	(68,216)	28,251	(2,950)	(40,260)
Cash and Cash Equivalents at the Beginning of the Fiscal Year.....	-	411,191	82,042	71,489	564,722
Cash and Cash Equivalents at the End of the Fiscal Year.....	\$ 2,655	\$ 342,975	\$ 110,292	\$ 68,539	\$ 524,462
Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities					
Operating income (loss).....	\$ (932,806)	\$ (437,597)	\$ (203,891)	\$ (261,632)	\$ (1,835,926)
Adjustments to Reconcile Operating income (loss) to net cash Provided By (Used By) Operating Activities:					
Depreciation Expense.....	-	104,017	17,064	19,883	140,964
Fringe Benefits Paid by the Commonwealth.....	-	-	31,331	43,908	75,238
Changes in Assets and Liabilities:					
Accounts Receivable, Net.....	(10,479)	(4,472)	(1,211)	(3,260)	(19,422)
Prepays, Inventories and Other Assets.....	-	2,849	(121)	237	2,965
Loans Receivable and Restricted Cash.....	-	-	112	11	123
Accounts Payable and Accrued Liabilities.....	(46,538)	(13,402)	4,337	(1,823)	(57,426)
Accrued Employee Compensation and Benefits.....	-	2,325	1,541	644	4,511
Student Deposits and Other Unearned Revenues.....	-	103	658	366	1,127
Deferred Revenue.....	541	10,849	1,297	(461)	12,226
Other noncurrent assets - restricted.....	936,930	-	-	-	936,930
Other Liabilities.....	-	7,231	7,482	18,350	33,063
Net Cash Provided By (Used By) Operating Activities.....	\$ (52,352)	\$ (328,097)	\$ (141,401)	\$ (183,777)	\$ (705,627)

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

FIDUCIARY FUND FINANCIAL STATEMENTS



Site constraints due to the location of the bridge and the complicated urban fabric of the area necessitated many of the unique features of the Leonard P. Zakim Bunker Hill Bridge. The bridge was built within a busy transportation corridor that already housed the Massachusetts Bay Transit Authority's Commuter Rail and Orange Line. In order to avoid impact to the Orange Line and its ventilation building, the legs of the bridge's concrete towers are inverted at a 55-degree angle and straddle the MBTA tracks as they surface from the Orange Line tunnel in Charlestown. The MBTA Orange Line passes within 6 feet of the shafts under the south tower. The supports closest to the subway tunnel are surrounded by 9 foot diameter steel tubes, allowing the shafts to move a full 6 inches without damaging the tunnel.

"Top of the tower peeps through a gap in the Leverett Connector. The fence protects the viewer from the 'Hard Hat' area."

Caroline Crockett, photographer

Statement of Net Assets

Fiduciary Funds
June 30, 2003
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
ASSETS					
Cash and short-term investments.....	\$ -	\$ -	\$ 5,834	\$ 265,078	\$ 270,912
Assets held in trust for pension benefits:					
Cash and short-term investments.....	776,518	30,548	-	-	807,066
Investments at fair value.....	26,994,602	1,102,796	-	-	28,097,398
Assets held in trust for pool participants:					
Cash and short-term investments.....	-	2,247,207	-	-	2,247,207
Annuity contracts.....	-	-	-	1,398,339	1,398,339
Assets held in trust.....	-	-	-	2,562,483	2,562,483
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	-	989	989
Other receivables.....	502,071	17,926	-	84,293	604,290
Other assets.....	2,707	111	-	-	2,818
Total assets.....	28,275,898	3,398,588	5,834	4,311,182	35,991,502
LIABILITIES					
Accounts payable.....	1,387,802	57,534	-	23,091	1,468,427
Accrued payroll.....	-	710	-	-	710
Due to cities and towns.....	-	-	-	27,103	27,103
Due to federal government.....	-	-	-	4	4
Prizes payable.....	-	-	-	1,398,339	1,398,339
Agency liabilities.....	-	-	-	2,862,645	2,862,645
Other accrued liabilities.....	-	33,327	-	-	33,327
Total liabilities.....	1,387,802	91,571	-	4,311,182	5,790,555
Net assets:					
Restricted for employees' pension benefits.....	26,888,096	-	-	-	26,888,096
Restricted for external investment trust fund participants...	-	3,307,017	-	-	3,307,017
Restricted for nonexpendable trusts.....	-	-	5,834	-	5,834
Total net assets.....	\$ 26,888,096	\$ 3,307,017	\$ 5,834	\$ -	\$ 30,200,947

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, 2003
(Amounts in thousands)

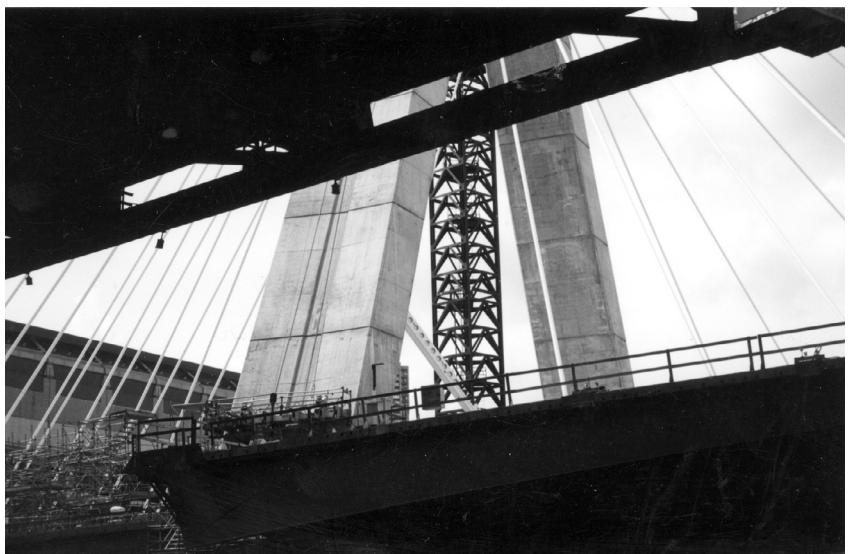
	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
Additions:				
Contribution:				
Employer contributions.....	\$ 762,685	\$ -	\$ -	\$ 762,685
Employee contributions.....	853,344	136,712	-	990,056
Proceeds from sale of units.....	-	11,547,989	-	11,547,989
Units issued - reinvestment of distributions.....	-	24,688	-	24,688
Total contributions.....	1,616,029	11,709,389	-	13,325,418
Net investment income (loss) :				
Net appreciation (depreciation) in fair value	159,876	6,216	-	166,092
Interest.....	377,591	48,218	-	425,809
Dividends.....	286,894	11,155	-	298,049
Real estate operating income, net.....	129,312	5,028	-	134,340
Alternative investments.....	5,855	228	-	6,083
Other.....	11,807	459	-	12,266
Total investment income (loss).....	971,335	71,304	-	1,042,639
Less: investment expense.....	59,258	4,727	-	63,985
Net investment income (loss)	912,077	66,577	-	978,654
Total additions.....	2,528,106	11,775,966	-	14,304,072
Deductions:				
Administration.....	13,520	-	-	13,520
Retirement benefits and refunds.....	2,004,044	60,604	-	2,064,648
Cost of units redeemed.....	-	11,812,212	-	11,812,212
Distribution to unit holders.....	-	31,114	-	31,114
Total deductions.....	2,017,564	11,903,930	-	13,921,494
Net increase (decrease).....	510,542	(127,964)	-	382,578
Net assets - beginning.....	26,377,554	3,434,981	5,834	29,818,369
Net assets - ending.....	\$ 26,888,096	\$ 3,307,017	\$ 5,834	\$ 30,200,947

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

Some of Menn's design innovations grew out of construction challenges. Although the cables connecting the towers to the main span attached to the outside of the roadway, this was not possible at either end, as there was no room to connect them that way on the back spans because of the close proximity of the old bridge. Because the Crossing's deck hangs only a few feet above the southern end of the Zakim's east side, engineers were forced to string the support cables straight behind the south tower, rather than to the sides of the deck, as they did in the middle portion of the bridge.

"One can get very close to the bridge on the Canal Walk. The base of the North Tower is seen through the complexity of the lock gates. The two ends of the roadbed are almost joined."

Caroline Crockett, photographer



Discretely Presented Component Unit Financial Statements



“The beauty of the bridge can be captured from any angle. I was privileged to be granted a walkover. I felt doll size.”

Caroline Crockett, photographer

Statement of Net Assets

Component Units

June 30, 2003

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Assets					
Current assets:					
Cash and cash equivalents.....	\$ 161,630	\$ -	\$ 225,511	\$ 214,731	\$ 601,872
Short-term investments.....	-	78,230	182,697	231,874	492,801
Assets held in trust.....	-	-	-	302	302
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	12,699	-	76,563	28,470	117,732
Loans.....	-	-	119,861	28,606	148,467
Other receivables.....	27,806	31,558	54,072	32,440	145,876
Due from cities and towns.....	-	-	-	15,564	15,564
Due from primary government.....	101,290	20,474	18,150	80,264	220,178
Inventory.....	33,833	-	-	721	34,554
Other current assets.....	3,011	4,055	-	10,047	17,113
Total current assets.....	340,269	134,317	676,854	643,019	1,794,459
Noncurrent assets:					
Cash and cash equivalents - restricted.....	927,822	18,781	-	193,667	1,140,270
Long - term investments.....	-	-	907,298	207,621	1,114,919
Restricted investments.....	-	670,530	-	-	670,530
Accounts receivables, net.....	-	39,800	-	4,620	44,420
Loans receivables, net.....	-	-	1,966,473	223,661	2,190,134
Due from primary government.....	-	-	-	295,591	295,591
Capital assets, net of accumulated depreciation.....	6,700,124	2,196,701	-	1,266,385	10,163,210
Other noncurrent assets.....	23,781	10,414	4,537	42,865	81,597
Total noncurrent assets.....	7,651,727	2,936,226	2,878,308	2,234,411	15,700,672
Total assets.....	7,991,996	3,070,543	3,555,162	2,877,429	17,495,130
Liabilities					
Current liabilities:					
Accounts payable and other liabilities.....	183,887	34,667	26,046	132,240	376,840
Accrued payroll.....	13,176	1,674	-	1,110	15,960
Compensated absences.....	14,944	3,034	-	652	18,630
Accrued interest payable.....	84,045	60,904	44,515	13,746	203,210
Due to primary government.....	-	-	-	5,224	5,224
Deferred revenue.....	-	1,777	-	4,072	5,849
Capital leases.....	17,164	-	-	606	17,770
Bonds, notes payable and other obligations - current.....	92,495	13,050	87,245	117,509	310,299
Total current liabilities.....	405,711	115,106	157,806	275,159	953,782
Noncurrent liabilities:					
Compensated absences.....	-	5,469	-	582	6,051
Accrued interest payable.....	-	38,217	1,117	13,655	52,989
Deferred revenue.....	22,754	39,932	-	28,916	91,602
Capital leases.....	535,658	-	-	2,043	537,701
Bonds, notes payable and other obligations.....	3,934,458	2,405,766	1,983,986	1,150,530	9,474,740
Other noncurrent liabilities.....	5,741	67,392	107,451	37,340	217,924
Total noncurrent liabilities.....	4,498,611	2,556,776	2,092,554	1,233,066	10,381,007
Total liabilities.....	4,904,322	2,671,882	2,250,360	1,508,225	11,334,789
Net Assets					
Invested in capital assets, net of related debt.....	2,939,502	65,748	-	888,101	3,893,351
Restricted for:					
Capital projects.....	-	-	-	157,846	157,846
Other purposes.....	20,848	40,672	1,109,261	75,463	1,246,244
Unrestricted.....	127,324	292,241	195,541	247,794	862,900
Total net assets.....	\$ 3,087,674	\$ 398,661	\$ 1,304,802	\$ 1,369,204	\$ 6,160,341

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, 2003
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Operating revenues and expenses:					
Charges for services.....	\$ 274,206	\$ 214,352	\$ 3,219	\$ 165,340	\$ 657,117
Other.....	43,361	41,650	-	83,980	168,991
Total operating revenues.....	317,567	256,002	3,219	249,320	826,108
Operating expenses:					
Cost of services.....	387,795	98,925	44,737	259,533	790,990
Administration costs.....	421,286	33,439	2,790	80,202	537,717
Depreciation.....	233,061	51,420	-	46,689	331,170
Total operating expenses.....	1,042,142	183,784	47,527	386,424	1,659,877
Operating income (loss).....	(724,575)	72,218	(44,308)	(137,104)	(833,769)
Nonoperating revenues (expenses):					
Operating grants.....	-	5,876	13,202	109,934	129,012
Interest income.....	5,508	33,869	124,223	34,086	197,686
Interest expense.....	(197,507)	(132,900)	(111,194)	(37,442)	(479,043)
Other nonoperating revenue (expense).....	834,252	-	-	4,883	839,135
Nonoperating revenues (expenses), net.....	642,253	(93,155)	26,231	111,461	686,790
Income (loss) before contributions and operating transfer.....	(82,322)	(20,937)	(18,077)	(25,643)	(146,979)
Capital contributions.....	125,471	-	82,949	278,966	487,386
Net income (loss) for the year.....	43,149	(20,937)	64,872	253,323	340,407
Net Assets - beginning.....	3,044,525	419,598	1,239,930	1,115,881	5,819,934
Net Assets - ending.....	\$ 3,087,674	\$ 398,661	\$ 1,304,802	\$ 1,369,204	\$ 6,160,341

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



The longest and thickest of the cables on the Zakim bridge is 500 feet long, from the top of the south tower to the southernmost point of the bridge. The cables are made of dozens of smaller cables and set into a central beam called a “splime.” The splime beam extension carries the last three-cable anchorage. The last cable cleared the old highway ramp by just 2 feet.

The bridge surface is much steeper than it seems from a distance, rising 5 feet in elevation for every 100 feet of road as the bridge must connect a subterranean expressway to an elevated highway in a relatively short distance. The bridge’s steep grade results in differences of height of the bridge’s two towers, the south tower stands about 35 feet shorter than the north tower, which rises 330 feet, or 30 stories. A flashing red light at the top serves as a warning to pilots. The bridge is 1,467 feet long, or slightly more than a quarter-mile. To fully digest the brevity of the bridge, drivers traveling 55 m.p.h. will cross it in 20 seconds.

“A visit to the Fleet Center Roof proves my viewpoint: Technology is truly an art form.”

Caroline Crockett, photographer

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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 footnote tables 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 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.

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. Certain portions related to municipal holdings of PRIT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets.
- **The Health Care Security Trust Account (HCST)** is the long - term investment account of the Health Care Security Trust, a minor governmental fund. The Health Care Security Trust was the ultimate

recipient of tobacco settlement remittances to the Commonwealth from fiscal year (FY) 99 through FY02. 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 FY03, certain Medicaid related revenues were also 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 following entities are audited separately 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 the Massachusetts Highway Department.

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
- Westfield State College
- Worcester 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 175 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

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.

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.

**B. Government – Wide
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 defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Government – Wide Financial Statements

The **Statement of Net Assets** presents all of 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, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

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.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

D. Measurement Focus and Basis of Accounting

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

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

Governmental Funds – Fund Financial Statements - account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; 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 – Government – wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth’s Institutions of Higher Education’s operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund Financial Statements are presented on the same basis of accounting as the business-type activities in the government – wide financial statements.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth 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.

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 and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals. The remaining trust fund in the Massachusetts School Fund, established in 1834 a fund “for the aid and encouragement of common schools.” The fund was originally capitalized from

the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

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.

Within those fund types, the Commonwealth has established the following funds:

Highway Fund, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

Local Aid Fund, a governmental 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. This fund was repealed effective June 30, 2003 pursuant to Chapter 26, Acts of 2003, Section 128. All future activity will be reported in the General Fund. The fund deficit at the end of FY03 has been transferred to the General Fund.

Lottery Funds, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

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

Capital Projects - Central Artery Statewide Roads and Bridges Fund accounts for the construction of a portion of the Central Artery / Tunnel project financed from FY01 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.

Reporting Standards

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.

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.

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 directly applicable to that department's operations. General revenue is derived from taxation, investment

income and other fees that are not allocated to specific programs. In general, taxation revenue is accrued when earned and slated to be received during the next fiscal year. A corresponding receivable is declared, if applicable. 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.

E. *Cash and Short-Term 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 Plan investments are carried at fair value determined by current market rates and quotations.

The Pension Trust Funds, with investments totaling approximately \$26,994,602,000, 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, 2003, the estimated fair value, determined by management with input from the investment managers, of these real estate and alternative investments was approximately \$4,093,922,000 in the Pension Trust Funds, representing 11.37% 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 and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth. The Commonwealth also manages pension assets on behalf of other governments.

The Commonwealth maintains a short-term investment pool. 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 assets is approximately \$2,247,207,000 and is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units are 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.

F. *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, 2003. 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, 2003, the market value of the securities on loan was \$2,000,097,000 and the value of the collateral including accrued interest, amounted to approximately \$2,064,954,000, of which \$408,000,000 was held in cash. As of June 30, 2003, securities on loan are included in investments at fair value in the accompanying Statement of Net Assets of Fiduciary Funds.

G. *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.

H. *Due From Cities and Towns*

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

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

I. *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.

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.

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.

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 but not in the year of disposal, regardless of date. Estimated useful lives are as follows:

<i>Type of Asset</i>	Estimated Useful Life (in years)
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, 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

Construction in Process

Construction in process includes all associated cumulative costs of a constructed fixed asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the Central Artery / Tunnel Project, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or the Massachusetts Port Authority, its engineers and respective boards. The chief engineer of the Highway Department, or their designees, jointly determine and certify to the MTA or the Massachusetts Port Authority that the respective authorities can safely open each such facility or segment thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June, 30 2003, approximately \$2,088,428,000 of project costs has been transferred to the various authorities, including \$10,252,000 of costs transferred outside of the current agreements to the Massachusetts Port Authority, out of the \$12,728,735,000 CA / T expended costs.

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.

J. *Interfund/Intrafund Transactions*

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

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

K. *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.

L. *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 financial 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 FY03, the weighted average discount rate was approximately 4.7%.

The Commonwealth recognizes contract assistance due to MCCA, R3N, MWPAT and MassDevelopment as long-term liabilities 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 is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

M. *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, accumulated vacation and sick leave expected to be liquidated with expendable available financial resources, defined as tax revenues earned but received during the next fiscal year, 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 business type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

- N. Long Term Obligations**
- Long-term obligations consist of unmatured long term debt obligations, amounts due to discretely presented component units and related organizations connected with the Central Artery / Tunnel Project, school construction grants and contract assistance payable to component units and other liabilities including capital lease obligations and the net pension obligation of the Commonwealth (representing the actuarially derived pension cost in excess of actual contributions made).
- O. 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 Agency Funds. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.
- P. 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.
- Q. 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 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.

R. *Reclassifications*

For FY03, certain reclassifications have been made to the FY02 balances to conform to the presentation in FY03. Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. Due to the provisions of GASB Statement 34 (“GASB 34”) *“Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments”*, major governmental and proprietary funds presented in a previous year may not be major funds presented in the current year.

S. *New Accounting Standards*

During FY03, the Commonwealth implemented the following new accounting standards issued by the GASB:

Technical Bulletin No. 2003 – 1 *“Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets”* supersedes Technical Bulletin 94-1, and clarifies guidance on derivatives disclosures, pending the results of the GASB’s ongoing project on reporting and measurement of derivatives and hedging activities. This bulletin applies an updated definition of derivatives and changes disclosure requirements for derivatives (mainly swaps associated with variable rate debt).

GASB Statement No. 41 *“Budgetary Comparison Schedules – Perspective Differences”* amends GASB 34’s, required supplemental information disclosure of adopted budget and actual amounts. Should there be a perspective difference between these amounts and fund perspective revenues and expenditures, reconciliation is required.

For FY04, the Commonwealth will be implementing the following:

Statement No. 39 *“Determining Whether Certain Organizations Are Component Units”* amends Statement No. 14, *“The Financial Reporting Entity.”*

For FY05, the Commonwealth will be implementing the following:

Statement No. 40 *“Deposit and Investment Risk Disclosures,”* amends Statement No. 3 *“Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”*.

As of the date of the opinion, the Commonwealth has not evaluated the financial impact of GASB Statements 39 and 40.

2. BUDGETARY CONTROL

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

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

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

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

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.

During FY03, the Commonwealth experienced a continued downturn in certain budgeted revenues. The revenue estimates, under the provisions of section 5D of Chapter 29 of the General Laws, were determined to be insufficient to meet all of the expenditures authorized for FY03. 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 the Governor’s authority under said section 9C, the Governor reduced allotments under section 9B of said Chapter 29. The amount of this reduction was proposed to be \$419,934,000. However, the Legislature enacted Section 74 of Chapter 4 of the Acts of 2003, which directed the Comptroller to transfer the amount of reductions proposed to the General Fund that would not cause a fund to go into deficit. The amount so transferred was \$73,914,000. Furthermore, the FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions. Alternatively, the Governor may propose specific additional revenues to equal the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure such deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The following table summarizes budgetary activity for all budgeted funds for FY03 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 184 of the Acts of 2002:		
Direct appropriations.....	\$ 21,685,399	\$ 21,684,096
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2002	1,312,749	1,312,749
Total Original Budget.....	22,998,148	22,996,845
Supplemental Acts of 2002:		
Chapter 300	-	2,781
Chapter 429.....	-	300
Supplemental Acts of 2003:		
Chapter 4.....	-	8,463
Chapter 6.....	-	62,338
Chapter 12.....	-	2,000
Total Before June 30, 2003	22,998,148	23,072,727
Supplemental Acts of 2003, passed after June 30, but for FY03:		
Chapter 55	-	25,138
Total Budgeted Revenues and Expenditures per Legislative Action	22,998,148	23,097,865
Plus: Transfers of Revenues and Expenditures (including rounding).....	-	1,088,092
Budgeted Revenues and Expenditures as Reported.....	<u>\$ 22,998,148</u>	<u>\$ 24,185,957</u>

3. DEPOSITS AND INVESTMENTS

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

Primary Government -

As of June 30, 2003, the carrying amount of the Primary Government’s total cash and cash equivalents was approximately \$1,143,982,000 and the corresponding bank balance was approximately \$775,024,000. Bank deposits in the amount of approximately \$9,030,000 were insured by the Federal Deposit Insurance Corporation and approximately \$112,253,000 were collateralized in the name of the Commonwealth and are held by various financial institutions. Deposits of approximately \$653,741,000 were uninsured and uncollateralized.

Component Units -

As of June 30, 2003, the carrying amount of the discretely presented component units' total cash and cash equivalents was approximately \$818,941,000 and the corresponding bank balances were approximately \$683,820,000. Bank deposits of approximately \$155,340,000 were insured by the Federal Deposit Insurance Corporation, approximately \$77,291,000 were collateralized in the name of the respective component units, and approximately \$451,189,000 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, 2003, were as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 570,192	\$ -	\$ -	\$ 570,192
U.S. Treasury obligations.....	175	7,734	-	7,909
Commercial paper.....	3,162,950	1	-	3,162,951
Government obligations.....	3,270,460	35,308	-	3,305,768
Equity securities.....	16,744,354	817	10,078	16,755,249
Fixed income securities.....	4,985,695	1,981	12,691	5,000,367
Asset backed investments.....	365	-	-	365
Notes.....	60,486	-	-	60,486
Other.....	4,353	6,419	9,470	20,242
	<u>\$ 28,799,030</u>	<u>\$ 52,260</u>	<u>\$ 32,239</u>	28,883,529
Money Market investments.....				1,185,191
Mutual fund investments.....				67,639
Annuity contracts.....				1,398,339
Real estate.....				1,906,553
Assets held in trust.....				2,561,884
Deposits with U. S. Treasury.....				490,652
Negotiable Certificates of Deposits.....				180,397
Other.....				3,274,707
Total.....				<u>\$39,948,891</u>

**A. 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.

Foreign Currency Exchange Contracts

Within the Pension Trust Funds, PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

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

When the contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

Futures Contracts

Within the Pension Trust Funds, PRIT 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.

Forward Purchase Agreement

During FY02, 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 during FY02. Such amounts were 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.

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, 2003, there were no material options outstanding.

Swap Agreements at PRIT and HST

During FY03, PRIT’s Core Realty Holdings LLC (a limited liability company inclusive of PRIT and HST – “LLC,”) entered into eight interest rate swap contracts for the purpose of hedging its floating – rate interest exposure. PRIT holds 99.41% of the LLC while HST holds the remaining 0.59%. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable – rate interest. Changes in the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts are included in real estate income, net in PRIT and HST’s financial statements.

As of June 30, 2003, the LLC had the following swap contracts in effect (amounts in thousands):

<u>Counterparty</u>	<u>Fixed Rate Paid</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fair-Value</u>
Fleet National Bank.....	4.82%	\$ 50,000	7/23/2002	7/1/2012	\$ (5,830)
Citibank, N. A. New York.....	4.32%	50,000	8/5/2002	8/1/2009	(4,522)
Bear Stearns Bank PLC.....	3.95%	50,000	8/19/2002	9/1/2007	(3,679)
Fleet National Bank.....	4.18%	50,000	12/2/2002	12/3/2012	(3,072)
Citibank, N. A. New York.....	3.68%	50,000	1/1/2003	1/1/2010	(2,458)
Mellon Bank.....	3.17%	50,000	1/30/2003	2/1/2008	(1,915)
Mellon Bank.....	3.82%	50,000	3/6/2003	6/1/2013	(1,316)
Bear Stearns Bank PLC.....	3.45%	50,000	5/13/2003	6/1/2011	(933)
		<u>\$400,000</u>			<u>\$ (23,725)</u>

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of PRIT’s financial statements. Such methods and assumptions incorporate standard valuation conventions and techniques such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result in only general approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market interest rates will generally increase the swaps’ termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts. As of June 30, 2003, neither the LLC, nor its counterparties expressed intentions to terminate its swap agreements prior to their scheduled maturity dates.

**B. Discretely Presented
Component Unit
Investments**

Investments of the discretely presented Component Units at June 30, 2003 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
Investment				
Repurchase agreements.....	\$ 42,561	\$ 361,570	\$ 3,058	\$ 407,189
U.S. Treasury obligations.....	-	-	-	-
Commercial paper.....	215,224	-	-	215,224
Government obligations.....	848,265	245,253	2,100	1,095,618
Equity securities.....	2,575	3,232	3,910	9,717
Fixed income securities.....	39,308	-	-	39,308
Notes.....	4,517	-	5,138	9,655
Other.....	-	51	4,611	4,662
	<u>\$1,152,450</u>	<u>\$ 610,106</u>	<u>\$ 18,817</u>	1,781,373
Mutual Fund Investments.....				189,906
Assets held in trust.....				302
Guaranteed investment contracts.....				1,171,121
Negotiable Certificate of deposits.....				18,059
Total.....				<u>\$ 3,160,761</u>

Component Unit Swap Agreement Investments

In FY99, the MTA entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This "Swaption" agreement runs through July 1, 2029 and carries a notional amount of \$100 million. The MTA received a premium payment in FY00 of \$5.4 million as part of the agreement. This premium was recorded by the MBTA as a deferred credit and is being recongnized as an adjustment of interest expense over the 30-year life of the agreement. MGTC had the right, but not the obligation, to exercise the swap option on January 1, April 1, July 1 and October 1 of any year from July 1, 2002 to July 1, 2029. MGTC had the right to enter the MTA into the swap when the average Bond Market Association Municipal Swap Index (BMA) / London Interbank Offered Rate (LIBOR) ratio exceeds 72% over 12 consecutive months beginning April 1, 2002. The MTA's payment obligation would be equal to the difference between the BMA and 67% of LIBOR, multiplied by the \$100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. MGTC exercised its option on October 1, 2002 and the MTA received \$56,000 of interest in January 2003. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

The MBTA has also entered into various agreements in order to provide the MBTA with a stable and predictable cost of fuel. These agreements create a synthetic fixed rate for the purchase of fuel for fixed periods of time rather than being exposed to unpredictable variations of fuel prices on the spot market. Prices are sourced through PLATT's Oilgram Price Report. The hedge agreements are summarized as follows (amount in thousands):

Commodity Type	Price Per Gallon	Initial Notional Amount Gallons	Trade Date	Termination Date	Counterparty (ratings - Moody's / S&P)
Bus Fuel - LS Jet Kero.....	\$0.6775	12,200	10/29/2001	7/31/2003	Aal / AA
Rail Fuel - New York Harbor No. 2.....	0.6390	13,140	10/29/2001	6/30/2003	Aal / AA
Bus Fuel - Jet Fuel.....	0.7925	3,945	9/12/2003	6/30/2004	Aal / AA
Rail Fuel - Heating Oil.....	0.7500	6,318	9/12/2003	6/30/2004	Aal / AA

The MBTA is exposed to basis risk on its fuel swaps, where the fuel price index used on the swaps may not fully offset the actual cost of the MBTA's fuel purchases.

The MBTA also has an "asset-side" swaption for a reserve investment. This swaption was executed in FY01 and has a notional amount of \$49,123,000. The MBTA received a lump – sum payment on the swaption of \$1,265,000 in FY02. The counterparty may execute its option annually on January 1 and July 1 from 2010 through 2030. The agreement has a fixed payable rate of 5.6% and a variable receivable rate at BMA. The counterparty has a Aa2 / Aa+ credit rating as of June 30, 2003. The agreement's fair value as of June 30, 2003 was a negative (\$2,185,000.)

In FY01, the MTA entered into five interest rate swap options with UBS AG, the Parent Company of UBSPaine Webber (UBS). These swaptions grant UBS the right to enter a swap with the MTA in which UBS would pay a floating rate and receive a fixed rate from the MTA. The swaption exercise dates and fixed rates due from the MTA are designed to match the call provisions and rates of certain of the MTA's bonds. If UBS exercises its option, the MTA expects to refund certain of its fixed rate bonds with floating rate bonds. The floating rate received by the MBTA under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the MTA's payments to UBS would match the payments expected to be made to fixed rate bondholders. UBS paid \$6.2 million on behalf of the MTA during FY01 to purchase insurance for the payments that the MTA may be required to make under the swaps, if exercised. This amount was recorded in the MTA's financial statements as prepaid insurance and is amortized over the life of the swap, which is 35 years.

As of December 31, 2002 the Authority had recorded a long-term receivable of \$16.4 million. A corresponding deferred credit totaling \$29.1 million was recorded during FY02 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The balance at December 31, 2002 was \$28.3 million. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In FY03, the MTA entered into five interest rate swap option agreements with Lehman Brothers Special Financing Inc. (Lehman). These Swaptions grant Lehman the right to enter a swap with the MTA in which Lehman would pay the MTA a fixed rate of 5% and the MTA would pay Lehman a floating rate of BMA. As a fixed – to – floating swap, the transaction was designed to "offset" the FY01 UBS swaption and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid \$6.4 million to the MTA during FY03 and will pay an additional \$28.8 million in subsequent years. This amount was recorded in the MTA's financial statements as a deferred credit and will be amortized over the life of the swap, which is 35 years.

A corresponding deferred credit totaling \$35.2 million was recorded during FY03 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In order to mitigate potential future market risks associated with the UBS and Lehman swaption agreements, the MTA set aside \$12.5 million in cash and investments in FY02.

Receivable amounts recorded by the MTA under these agreements are as follows (amount in thousands):

Due January 1,	UBS Amounts	Lehman Amounts
2003.....	\$ 3,280	\$ 5,416
2004.....	3,281	5,849
2005.....	3,281	5,849
2006.....	3,281	5,849
2007.....	3,281	5,848
2008.....	3,281	-
	<u>19,685</u>	<u>28,811</u>
Less: Current Portion.....	<u>(3,280)</u>	<u>(5,416)</u>
	<u>\$ 16,405</u>	<u>\$ 23,395</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>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables	\$ 2,061,653	\$ 1,229,208	\$ -	\$ 811,839	\$ 4,102,700
Business-type activity receivables.....	-	37,476	53,354	581,904	672,734
Less: allowance for uncollectibles.....	<u>(311,671)</u>	<u>(7,023)</u>	<u>(7,257)</u>	<u>(757,415)</u>	<u>(1,083,366)</u>
Receivables, net of allowance for uncollectibles	1,749,982	1,259,661	46,097	636,328	3,692,068
Less: Current Portion:					
Governmental activities	(1,749,982)	(1,222,185)	-	(233,252)	(3,205,419)
Business-type activities	<u>-</u>	<u>(37,476)</u>	<u>(29,936)</u>	<u>(351,297)</u>	<u>(418,709)</u>
Noncurrent receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,161</u>	<u>\$ 51,779</u>	<u>\$ 67,940</u>

<i>Discretely Presented Component Units</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Massachusetts Bay Transportation Authority	\$ -	\$ 12,699	\$ -	\$ 27,806	\$ 40,505
Massachusetts Turnpike Authority.....	-	-	-	71,358	71,358
Massachusetts Water Pollution Abatement Trust	-	76,563	2,086,334	54,072	2,216,969
Nonmajor Component Units	-	28,470	269,403	37,060	334,933
Less: allowance for uncollectibles.....	<u>-</u>	<u>-</u>	<u>(17,136)</u>	<u>-</u>	<u>(17,136)</u>
Receivables, net of allowance for uncollectibles	-	117,732	2,338,601	190,296	2,646,629
Less: Current Portion	<u>-</u>	<u>(117,732)</u>	<u>(148,467)</u>	<u>(145,876)</u>	<u>(412,075)</u>
Noncurrent receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,190,134</u>	<u>\$ 44,420</u>	<u>\$ 2,234,554</u>

5. RECEIVABLES AND PAYABLES BETWEEN FUNDS

Receivables and payables between funds reflected as due to/from primary government in the combined balance sheet at June 30, 2003 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	Highway Fund	\$ 600,512
	Nonmajor Governmental Funds.....	311,929
	Proprietary Funds - University of Massachusetts.....	3,778
Highway Fund	Nonmajor Governmental Funds.....	5
Central Artery Statewide Road and Bridge Fund	General Fund	981,862
Nonmajor Governmental Funds	General Fund	139,159
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>83,617</u>
Total Primary Government		\$ <u>2,120,862</u>

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 Related Organizations" 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 on a calendar year basis for the year ended December 31, 2002. The following summarizes the activity for CA / T for FY2003 (amounts in thousands):

Total Project budget as of June 30, 2003	\$ 14,625,000
I. Determination of MTA amounts:	
Cumulative Authorized Project Invoices as of June 30, 2003	\$ 12,728,735
Less: Amounts to be transferred to Massport as of December 31, 2002	(365,000)
Less: Amounts transferred previous to December 31, 2002 to the Turnpike Authority	<u>(2,078,176)</u>
Subtotal - Due to Component Units - Central Artery / Tunnel Project as of June 30, 2003	10,285,559
Less: Construction Expenses January 1 to June 30, 2003	(499,349)
Amounts recognized as contributed by the MTA as of December 31, 2002	<u>(1,555,000)</u>
Amounts not recognized as contributed to the MTA in their financial statements as of December 31, 2002	<u>\$ 8,231,210</u>
II. Determination of Massport Amounts:	
Massport's Portion of the Central Artery / Tunnel Project as determined under Massachusetts General Laws Chapter 81A	\$ 365,000
Amounts recognized as Due to Other Related Organizations	<u>\$ (365,000)</u>
Amounts contributed by Massport to the project as of June 30, 2003	<u><u>\$ 265,000</u></u>

6. FIXED ASSETS

Capital asset activities for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance
Capital assets not being depreciated:				
Land	\$ 643,917	\$ 32,464	\$ 2,019	\$ 674,362
Construction in process - non - Central Artery / Tunnel Project	465,797	396,614	132,542	729,869
Construction in process - Central Artery / Tunnel Project	<u>9,666,140</u>	<u>1,063,006</u>	<u>78,587</u>	<u>10,650,559</u>
Total capital assets not being depreciated	10,775,854	1,492,084	213,148	12,054,790
Capital assets being depreciated:				
Buildings	3,455,110	195,392	156,132	3,494,370
Machinery and equipment	676,042	57,310	28,170	705,182
Infrastructure.....	<u>10,734,113</u>	<u>104,376</u>	<u>-</u>	<u>10,838,489</u>
Total capital assets being depreciated	14,865,265	357,078	184,302	15,038,041
Less, accumulated depreciation:				
Buildings	1,667,383	72,045	133,344	1,606,084
Machinery and equipment	551,123	58,362	27,718	581,767
Infrastructure.....	<u>3,756,492</u>	<u>265,692</u>	<u>-</u>	<u>4,022,184</u>
Total accumulated depreciation	<u>5,974,998</u>	<u>396,099</u>	<u>161,062</u>	<u>6,210,035</u>
Total capital assets being depreciated, net	<u>8,890,267</u>	<u>(39,021)</u>	<u>23,240</u>	<u>8,828,006</u>
Governmental activity capital assets, net	<u>\$ 19,666,121</u>	<u>\$ 1,453,063</u>	<u>\$ 236,388</u>	<u>\$ 20,882,796</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land	\$ 68,185	\$ 4,946	\$ 14,653	\$ 58,478
Construction in process	115,740	123,085	84,127	154,698
Historical treasures	<u>553</u>	<u>120</u>	<u>1</u>	<u>672</u>
Total capital assets not being depreciated	184,478	128,151	98,781	213,848
Capital assets being depreciated:				
Buildings	2,115,075	182,559	4,582	2,293,052
Machinery and equipment	621,648	68,962	30,543	660,067
Library collections, not including historical treasures	<u>128,527</u>	<u>8,462</u>	<u>12,679</u>	<u>124,310</u>
Total capital assets being depreciated	2,865,250	259,983	47,804	3,077,429
Less, accumulated depreciation:				
Buildings	1,192,922	101,988	2,557	1,292,353
Machinery and Equipment	356,618	39,530	5,440	390,708
Library collections, not including historical treasures	<u>13,847</u>	<u>5,320</u>	<u>1,397</u>	<u>17,770</u>
Total accumulated depreciation	<u>1,563,387</u>	<u>146,838</u>	<u>9,394</u>	<u>1,700,831</u>
Total capital assets being depreciated, net	<u>1,301,863</u>	<u>113,145</u>	<u>38,410</u>	<u>1,376,598</u>
Business - type activity capital assets, net	<u>\$ 1,486,341</u>	<u>\$ 241,296</u>	<u>\$ 137,191</u>	<u>\$ 1,590,446</u>
Total Primary Government capital assets, net	<u>\$ 21,152,462</u>	<u>\$ 1,694,359</u>	<u>\$ 373,579</u>	<u>\$ 22,473,242</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, 2003 (amounts in thousands):

<i>Discretely Presented Component Units</i>	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance
Capital assets not being depreciated:				
Land	\$ 420,732	\$ 89	\$ 6	\$ 420,815
Construction in process	2,111,871	786,916	346,515	2,552,272
Total capital assets not being depreciated	2,532,603	787,005	346,521	2,973,087
Capital assets being depreciated:				
Buildings	7,273,119	316,844	3,105	7,586,858
Machinery and equipment	2,053,896	101,928	21,298	2,134,526
Infrastructure	1,401,424	5,387	155	1,406,656
Total capital assets being depreciated	10,728,439	424,159	24,558	11,128,040
Less, accumulated depreciation.....	3,639,223	331,170	32,476	3,937,917
Total capital assets being depreciated, net	7,089,216	92,989	(7,918)	7,190,123
Discretely Presented Component Unit capital assets, net	\$ 9,621,819	\$ 879,994	\$ 338,603	\$ 10,163,210

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term 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.

A. 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 FY03, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. Up to \$700,000,000 of RANs were issued during the year. All RANs were retired before the end of June 2003.

B. 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 FY03 the Commonwealth periodically issued BANs through the commercial paper program, beginning in August 2002. BANs were rolled over and paid down at various times during the fiscal year. At June 30, 2003, \$507,100,000 of BANs were outstanding.

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. These notes remained outstanding at year-end, but were subsequently retired on September 2, 2003 through the issuance of \$550,000,000 in General Obligation BANs that will mature on January 15, 2004.

On March 28, 2002, \$180,000,000 in General Obligation BANs were also issued to finance costs of the Central Artery / Tunnel Project, in advance of receiving certain contributions from the Massachusetts Port Authority (Massport). These BANs were retired in April, 2003 through the issuance of commercial paper. During June 2003, Massport delivered to the Commonwealth \$104,900,000 in satisfaction of a portion of the terms of the commercial paper BANs. \$75,100,000 remains outstanding as of June 30, 2003. It is expected that these commercial paper BANs will be retired with proceeds from payments from Massport.

C. Letter-of-Credit Facilities

During FY03, 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, 2003. The cost of the facility is approximately 0.15% on both unutilized and utilized amounts, and expires in December 2003.

D. Line-of-Credit Facilities

During FY03, the Commonwealth maintained line-of-credit facilities to provide liquidity support for commercial paper notes totaling \$800,000,000. The Commonwealth has a total of four line-of-credit facilities to provide such liquidity support, each in the amount of \$200,000,000. These facilities expire in September and December of 2004, and March and September of 2005. The annual cost of these facilities ranges from 0.125% to 0.17%.

The following schedule details short – term financing and credit agreement activity for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2002	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2003	Credit Limit June 30, 2003
General Fund:					
Revenue Anticipation Notes.....	\$ -	\$ 700,000	\$ (700,000)	\$ -	\$ -
Letter-of-Credit Agreements.....	-	-	-	-	200,000
Line-of-Credit Agreements.....	-	-	-	-	800,000
Subtotal - General Fund Activity.....	-	700,000	(700,000)	-	1,000,000
Capital Projects Funds:					
Bond Anticipation Notes.....	530,000	432,000	(104,900)	857,100	-
Subtotal - Capital Projects Funds Activity.....	530,000	432,000	(104,900)	857,100	-
Total Short-Term Financing And Credit Agreement Activity.....					
	\$ 530,000	\$ 1,132,000	\$ (804,900)	\$ 857,100	\$ 1,000,000

**E. Discretely Presented
Component Units**

The RTA's had \$100,996,000 of short – term notes payable outstanding at June 30, 2003. All the notes mature during FY04 and have interest rates ranging from 1.40% to 3.31%.

The FY03 General Appropriation Act amended the RTAs' enabling statute. After July 1, 2003, bonds and notes issued by the various RTAs are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

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, 2003, the Commonwealth had three types of long-term debt outstanding.

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.

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 FY03, when approximately \$10,113,000, (including accretion), of such bonds were issued. Outstanding COBs have maturity dates ranging from 2003 through 2023. 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 annual change in the 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 \$173,803,323, including accretion. 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.

County Debt Assumed

Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished governments of 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, 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, 2003, \$855,000 of these obligations remain outstanding.

Variable Rate Demand Bonds

Included in the long-term debt is \$1,542,615,000 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 December of 2003 and January of 2010. 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 range from 0.10% to 0.21% of the par amount of the bonds.

Other Variable Rate Bonds

As part of its refunding activities during FY03, the Commonwealth issued \$97,455,000 of refunding bonds which pay a variable rate interest that depends on changes in the Consumer Price Index (CPI). These bonds, which pay interest every six months, are not subject to periodic remarketing, nor do bondholders have the right to "put" such bonds back to the Commonwealth.

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 rate equal to a percentage of an ARS industry index, up to a maximum rate of 12.0%.

B. *Special Obligation Bonds*

The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2003, the Commonwealth had outstanding \$813,045,000 of such special obligation bonds, of which \$739,061,000 is allocated to debt not subject to the Commonwealth's statutory debt limit. These bonds are 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, 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*

The Commonwealth also issued 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, 2003, 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. *Interest Rate Swap Agreements*

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001 and 2003, the Commonwealth entered into interest rate swap agreements with certain counterparties. The purpose of these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve an all-in synthetic interest rate that is lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2013 to 2021. The swaps' total notional value of \$1,364,480,000 matches the par amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties' fixed rates ranging from 4.15% to 4.659% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds. For the majority of the bonds, the variable rate interest payments are determined by remarketing agents on either a weekly or daily basis. For a small portion of the relevant bonds, the variable rate is determined based on the change in the Consumer Price Index.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

Associated Refunding Issue	Notional Amounts (thousands)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Market Values (thousands)	Swap Termination Date	Counterparty Credit Rating
Series 1997B	\$ 162,768	8/12/1997	4.659%	Actual Bond Rate	\$ (28,036)	August 1, 2015	AA+/Aaa
Series 1997B	108,512	8/12/1997	4.659%	Actual Bond Rate	(17,937)	August 1, 2015	AAA/Aaa
Series 1998A & B	299,712	9/17/1998	4.174%	Actual Bond Rate	(39,753)	September 1, 2016	AAA/Aaa
Series 1998A & B	199,808	9/17/1998	4.174%	Actual Bond Rate	(23,245)	September 1, 2016	AAA/Aaa
Series 2001B & C	496,225	2/20/2001	4.150%	Actual Bond Rate	(69,776)	January 1, 2021	AAA/Aaa
Series 2003B	87,455	3/12/2003	4.500%	Actual Bond Rate	(5,340)	December 1, 2014	AA+/Aaa
Series 2003B	10,000	3/12/2003	4.500%	Actual Bond Rate	(19)	December 1, 2013	A/A2
Totals	\$ 1,364,480				\$ (184,106)		

Fair Market Value of the Interest Rate Swap Agreements

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2003) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative \$184,107,000 as of June 30, 2003. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2003, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the magnitude estimated if certain termination events occurred, as described below.

Credit Risk of the Interest Rate Swap Agreements

The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth could choose to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain a certain credit rating under the agreements, generally in the "A" category. If the Commonwealth's rating fell

below those levels, the Commonwealth's counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as noted below.

Basis, Market and Rollover Risk of the Interest Rate Swap Agreements

Because the terms on the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the BMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied significantly from the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process.

The swap contracts have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. If one or more of the swap agreements were terminated, then related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values.

Debt service on the variable rate bonds is as follows:

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2004	\$ -	\$ 28,264,150	\$ 30,203,563	\$ 58,467,713
2005	-	28,264,150	30,203,563	58,467,713
2006	-	28,264,150	30,203,563	58,467,713
2007	-	28,264,150	30,203,563	58,467,713
2008	2,340,000	28,229,050	30,165,409	60,734,459
2009-2013	358,785,000	130,350,992	138,563,416	627,699,408
2014-2018	722,845,000	57,648,875	61,473,058	841,966,933
2019-2023	280,510,000	9,119,417	9,803,373	299,432,790
Total	<u>\$ 1,364,480,000</u>	<u>\$ 338,404,934</u>	<u>\$ 360,819,508</u>	<u>\$ 2,063,704,442</u>

E. 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, 2003 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2002.....	\$ 14,955,135	\$ 8,483,658
General and special obligation bonds:		
Principal, less discount and issuance costs.....	1,911,201	(1,911,201)
Net premium and issuance costs.....	(65,743)	-
General obligation refunding bonds:		
Principal on Refunding Bonds.....	3,122,435	-
Principal on Refunded Bonds.....	(3,227,427)	-
Retired discount on Refunded Bonds.....	4,737	-
Increase in bonds authorized.....	-	2,149,124
Bonds retired.....	(737,832)	-
Balance June 30, 2003.....	<u>\$ 15,962,506</u>	<u>\$ 8,721,581</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, 2003, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business - Type Activities	
	General Obligation		Revenue Obligation	
	Principal	Interest	Principal	Interest
2004	\$ 728,485	\$ 791,228	\$ 25,967	\$ 33,771
2005	851,827	755,822	19,985	32,251
2006	979,782	716,367	21,137	31,309
2007	1,018,407	667,569	22,148	30,301
2008	1,046,640	616,805	24,705	29,250
2009 - 2013	4,927,506	2,275,956	133,434	128,109
2014 - 2018	3,385,527	1,163,392	125,056	93,556
2019 - 2023	2,027,979	494,342	116,539	61,823
2024 - 2028	388,374	219,257	82,685	36,910
2029 - 2033	607,979	46,726	98,998	11,812
2034 - 2038	-	-	2,744	215
Total long - term debt	15,962,506	7,747,464	673,398	489,307
Less: Current Portion	(728,485)	(791,228)	(25,967)	(33,771)
Long - term debt	\$ 15,234,021	\$ 6,956,236	\$ 647,431	\$ 455,536

The Commonwealth issued bonds and notes through both competitive and negotiated sales during FY03. The costs for legal counsel and underwriting fees for bond sales were \$667,000 and \$22,758,000 respectively. In addition, the Commonwealth paid \$166,000 for disclosure counsel services.

F. Bonds Defeased Through Refunding

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$3,122,435,000 of general obligation refunding bonds (exclusive of the aforementioned special obligation refunding bonds) during FY03. Net proceeds totaling approximately \$3,396,027,000 were used to purchase U.S. Government and U.S. Government Agency 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 in the Statement of Net Assets. 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 \$149,495,000 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 \$127,753,000. At June 30, 2003, approximately \$2,351,885,000 of the bonds refunded remain outstanding and are defeased.

G. 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, 2003, approximately \$3,615,898,000 of bonds refunded and defeased in prior fiscal years remain outstanding.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth’s ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY03 was approximately \$12,211,823,000. Outstanding debt subject to the limit at June 30, 2003 was approximately \$11,566,472,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

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

	<u>Debt Outstanding</u>
Balance June 30, 2003.....	\$ 15,962,506
Less amounts excluded:	
Discount and issuance cost.....	(68,718)
Chapter 5 of the Acts of 1992 Refunding.....	(10,600)
Special Obligation Principal.....	(748,124)
GANs Principal.....	(1,500,000)
County Debt Assumed.....	(855)
MBTA Forward Funding.....	(680,869)
Central Artery Tunnel.....	<u>(1,386,868)</u>
Outstanding Direct Debt.....	<u>\$ 11,566,472</u>

I. Changes in Long – Term Liabilities

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2003, 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, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance	Due Within One Year
Long - term debt:							
General obligation bonds	0.00 - 8.00%	2031	\$ 12,500,411	\$ 5,033,636	\$ 3,890,210	\$ 13,643,837	\$ 633,548
Special obligation bonds	4.00 - 5.50%	2017	772,812	-	24,688	748,124	25,933
Grant anticipation notes	0.00 - 7.00%	2015	1,500,000	-	-	1,500,000	-
Unamortized (Premiums) / Discounts:							
General obligation bonds			191,473	(65,743)	45,447	80,283	68,867
Special obligation bonds			(8,886)	-	177	(9,063)	137
Grant anticipation notes			(675)	-	-	(675)	-
Total long - term debt			14,955,135	4,967,893	3,960,522	15,962,506	<u>\$ 728,485</u>
Less: Current Portion.....			<u>(744,830)</u>	<u>728,485</u>	<u>744,830</u>	<u>(728,485)</u>	
Net long - term debt			<u>14,210,305</u>	<u>5,696,378</u>	<u>4,705,352</u>	<u>15,234,021</u>	
Other long - term liabilities:							
Due to Component Units - Central Artery / Tunnel Project.....			9,301,140	1,063,006	78,587	10,285,559	
Due to Related organizations.....			365,000	-	-	365,000	
School construction grants and other contract assistance payable.....			3,656,598	99,095	207,749	3,547,944	
Other liabilities.....			551,173	388,759	341,194	598,738	
Total Other long - term liabilities.....			<u>13,873,911</u>	<u>1,550,860</u>	<u>627,530</u>	<u>14,797,241</u>	
Total non - current liabilities			<u>\$ 28,084,216</u>	<u>\$ 7,247,238</u>	<u>\$ 5,332,882</u>	<u>\$ 30,031,262</u>	

<i>Business - Type Activities</i>	Interest Rates	Maturity Through	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance	Due Within One Year
Long - term debt:							
Revenue obligation debt	0.0 - 7.5%	2037	\$ 670,430	\$ 33,250	\$ 30,282	\$ 673,398	\$ 25,967
Other long - term liabilities:							
Compensated absences			140,423	18,492	16,488	142,427	88,371
Capital lease obligations.....			79,880	38,981	26,927	91,934	18,902
Other liabilities.....			149,750	48,994	111,779	86,965	-
Total Other long - term liabilities.....			370,053	106,467	155,194	321,326	-
Total Long - term liabilities.....			1,040,483	139,717	185,476	994,724	\$ 133,240
Less: Current Portion.....			(187,705)	133,240	(187,705)	133,240	
Total non - current liabilities			\$ 852,778	\$ 6,477	\$ (2,229)	\$ 861,484	

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2003 (December 31, 2002 for Massachusetts Turnpike Authority), net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately \$282,781,000, are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance	Due Within One Year
Major component units:							
MBTA	3.85 - 7.80%	2004-2030	\$ 3,879,721	\$ 727,675	\$ 417,056	\$ 4,190,340	\$ 92,495
MTA	5.05 - 5.65%	2004-2039	2,541,083	-	12,295	2,528,788	13,050
MWPAT	3.00 - 6.375%	2004-2030	1,736,425	391,685	73,050	2,055,060	87,245
Nonmajor component units	1.77 - 9.00%	2004-2034	1,123,255	313,649	225,286	1,211,618	35,495
Total bonds payable			9,280,484	1,433,009	727,687	9,985,806	228,285
Compensated absences			25,576	23,661	24,556	24,681	18,630
Total Component Units			\$ 9,306,060	\$ 1,456,670	\$ 752,243	\$ 10,010,487	\$ 246,915

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
2004.....	\$ 91,355	\$ 217,079	\$ 13,050	\$ 120,973	\$ 87,245	\$ 104,315	\$ 87,666	\$ 64,835	\$ 279,316	\$ 507,202
2005.....	103,075	212,776	39,935	119,066	88,945	100,519	40,928	64,378	272,883	496,739
2006.....	120,260	208,993	19,535	118,054	90,110	96,550	35,774	61,465	265,679	485,062
2007.....	139,540	204,880	19,890	117,009	92,680	96,083	30,817	52,543	282,927	470,515
2008.....	150,885	197,268	193,885	559,482	94,840	87,718	58,879	122,633	498,489	967,101
2009 - 2013.....	852,110	851,369	189,770	515,856	499,405	367,041	149,431	223,347	1,690,716	1,957,613
2014 - 2018.....	818,600	604,809	365,502	564,198	487,700	232,135	206,247	178,106	1,878,049	1,579,248
2019 - 2023.....	910,640	373,653	239,917	497,454	359,780	114,242	203,222	146,648	1,713,559	1,131,997
2024 - 2028.....	689,735	151,060	310,718	418,555	172,850	43,220	201,521	107,033	1,374,824	719,868
2029 - 2033.....	310,730	14,976	137,945	176,477	81,505	7,755	129,875	32,958	660,055	232,166
2034 - 2038.....	-	-	998,641	21,522	-	-	55,395	15,920	1,054,036	37,442
Total long - term debt*.....	4,186,930	3,036,863	2,528,788	3,228,646	2,055,060	1,249,578	1,199,755	1,069,866	9,970,533	8,584,953
Less: Current portion*.....	(91,355)	(217,079)	(13,050)	(120,973)	(87,245)	(104,315)	(87,666)	(64,835)	(279,316)	(507,202)
Long - term debt*.....	\$ 4,095,575	\$ 2,819,784	\$ 2,515,738	\$ 3,107,673	\$ 1,967,815	\$ 1,145,263	\$ 1,112,089	\$ 1,005,031	\$ 9,691,217	\$ 8,077,751

* Does not include certificates of participation described 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 "Forward Funding" of the MBTA, the COPs payments are not reimbursable by the Commonwealth, but are guaranteed.

The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2004.....	\$ 1,140	\$ 264
2005.....	1,135	176
2006.....	<u>1,135</u>	<u>88</u>
	3,410	528
Less: Current Portion.....	<u>(1,140)</u>	<u>-</u>
Long Term Portion.....	<u>\$ 2,270</u>	<u>\$ 528</u>

The remaining outstanding principal balance of COPs that were defeased in-substance in prior years is \$9,075,000 at June 30, 2003.

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, 2003, approximately \$663,545,000 of these bonds outstanding are considered defeased.

Interest Rate Swap Agreements – Discretely Presented Component Units

The MBTA and R3N have entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions

From FY00 through FY02, MBTA and R3N executed swap agreements, associated with particular series of bonds. On one of the agreements, the MBTA will receive a \$4,338,000 payment for the counterparty, due in FY07. The transactions are summarized as follows: (amounts in thousands):

Fixed Rate <u>Paid</u>	Variable Receive <u>Rate</u>	Component <u>Unit</u>	Notional <u>Amount</u>	Effective <u>Date</u>	Maturity <u>Date</u>	<u>Fair Value</u>
4.93%	BMA	MBTA	\$ 188,000	June, 2000	2005	\$ (16,416)
5.20%	BMA	MBTA	87,805	December, 2001	2022	(16,703)
4.53%	67% of LIBOR	R3N	<u>294,000</u>	May, 2002	2033	<u>9,387</u>
			<u>\$ 569,805</u>			<u>\$ (23,732)</u>

Swap Payments and Associated Debt

As of June 30, 2003, debt service requirements of the MBTA's variable rate bonds and net swap payments, applying a fixed rate of 4.93%, for the MBTA's 2000 series bonds, a fixed rate of 5.2% for the 2003 series bonds and assuming the BMA rate is .98% for all, with a variable rate on the applicable bonds is .95% for 2000 and 1.10% for the 2003 bonds, through the term of the swap were as follows. As rates vary, variable interest rate payments on the bonds and net swap payments will vary (amounts in thousands).

Fiscal Year Ending June 30,	Variable - Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2004	\$ -	\$ 2,705	\$ 11,128	\$ 13,833
2005	-	2,705	11,128	13,833
2006	-	1,216	4,942	6,158
2007	-	919	3,705	4,624
2008	-	919	3,705	4,624
2009 - 2013	5,995	4,594	18,527	29,116
2014 - 2018	35,960	3,578	14,429	53,967
2019 - 2023	<u>45,850</u>	<u>1,383</u>	<u>5,577</u>	<u>52,810</u>
	<u>\$ 87,805</u>	<u>\$ 18,019</u>	<u>\$ 73,141</u>	<u>\$ 178,965</u>

Swaptions for Forward Refundings

In addition, the MBTA has four swaptions generally exercisable from FY06 through FY11 on its variable rate general transportation system bonds. The swaptions are summarized as follows (amounts in thousands):

Execution Date	Notional Amount	Lump - Sum Payment From Counterparty	Due date of Payment	Counterparty Option Exercise Dates	Term of Swap	Fixed Payable Swap Rate	Variable Receivable Swap Rate	Counterparty Credit Rating as of June 30, 2003	Fair Value at June 30, 2003
FY02	\$ 188,000	\$ 12,230	FY06	Each March & September 2005 - 2010	2030	5.000%	67% of one-month LIBOR	Aa2 / AA+	\$ (22,796)
FY02	79,645	4,140	FY06	Each March & September 2009 - 2011	2030	5.610%	BMA	Aaaa / AAA	(6,087)
FY03	123,170	10,833	In annual installments from FY04 to FY20	Each March & September 2005 - 2010	2025	5.093%	BMA	Aa2 / AA+	(8,061)
FY03	96,085	6,728	In annual installments from FY04 to FY20	Each March & September 2006 - 2011	2026	5.037%	BMA	Aa2 / AA+	(5,400)
	<u>\$ 486,900</u>	<u>\$ 33,931</u>							<u>\$ (42,344)</u>

Credit Risk

Because all of R3N's and MBTA's swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the Component Units maintain strict credit standards for swap counterparties. For the MBTA, all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. On the MBTA's swap that matures in FY06, the counterparty is rated in the "A" category by both agencies. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the MBTA's benefit if they are downgraded below a designated threshold.

Basis Risk

Both R3N and the MBTA are exposed to basis risk if the relationship between the floating index the MBTA receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2003, the BMA rate was .98% while the variable rates on the associated MBTA bonds ranged from .95% to 1.1%. For R3N, the BMA rate assumed was 1.5%.

Termination Risk

R3N's and the MBTA's swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. Both R3N and the MBTA view such events to be remote. If at the time of the termination a swap has a negative value, R3N or the MBTA would be liable to the counterparty for a payment equal to the fair value of each swap.

Rollover Risk

Only the MBTA's 2000 series bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the MBTA will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place. The R3N bonds are not subject to rollover risk.

Market Access Risk and Potential Basis Risk

In the case of the swaptions, other than the FY02 swaption, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the MBTA would make net swap payments as required by the terms of each contract. There is no market access risk for the FY02 swaption. If any of the options are exercised, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

J. Bond Issuances Subsequent to June 30, 2003

The following bond and note series were issued subsequent to June 30, 2003 but before the date of 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>
<u>Primary Government</u>				
Special Obligation Refunding Notes - (Federal Grant Anticipation Notes) 2003 Series A - a crossover refunding	\$ 408,015	\$ 408,015	2.51%-3.39%	2009-2014
General Obligation Bonds Consolidated Loan of 2003 Series B and C	475,000	-	2%-5.25%	2004-2023
College Opportunity Bonds Series 2003A	6,343	-	Variable	2008-2023
General Obligation Bonds Consolidated Loan of 2003 Series D and General Obligation Refunding Bond, 2003 Series D	1,033,595	762,285	2.71%-5.50%	2004-2024
<u>Discretely Presented Component Units</u>				
Massachusetts Water Pollution Abatement Trust: Pool Program Bonds Series 9	311,580	-	2%-5.50%	2004-2023

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2003 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Major governmental funds:	
Highway	\$ 582,429
Lotteries.....	14,185
Other governmental funds:	
Federal Grants.....	5,928
General Capital Projects.....	282,861
Convention and Exhibition Center.....	502,569
Capital Expenditure Reserve.....	98,829
Highway Capital Projects	270,567

10. RETIREMENT SYSTEMS

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1981 to 1996. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years for GAAP reporting purposes.

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.

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, 2003, the Commonwealth's pension expenditure included payments totaling \$16,711,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

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.

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 SERS, TRS and SBRS are using "Entry Age Normal Cost" method to determine pension liabilities. The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring 2 years ago, etc., so that 100% of gains and losses occurring 5 years ago are recognized. The actuarial value of assets will be adjusted, if necessary, in order to remain between 85% and 115% of market value.

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, 2003, 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.....	48,766	37,041	2,696
Terminated employees entitled to benefits but not yet receiving them....	2,756	N/A	161
Subtotal.....	<u>51,522</u>	<u>37,041</u>	<u>2,857</u>
Current employees:			
Vested*.....	42,151	44,909	3,716
Non-vested*.....	40,001	44,097	2,681
Subtotal.....	<u>82,152</u>	<u>89,006</u>	<u>6,397</u>
Total.....	<u>133,674</u>	<u>126,047</u>	<u>9,254</u>

* Estimated

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.

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 for the January 1, 2003 valuation. The Commonwealth revised the actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL) effective January 1, 2001. The revised actuarial assumptions were the result of an experience study performed for the Commonwealth for the period 1995 to 1999 concluded in FY01.

The actuarial value of assets used to derive the UAL from January 1, 1990 to January 1, 1996 reflected the market value of plan assets. Beginning the January 1, 1998 actuarial valuation, the Commonwealth began implementing a method that averages realized and unrealized asset gains and losses over 5 years.

The most significant assumptions for the actuarial valuation are investment return and rate of salary increase. The valuation as of January 1, 2003 assumes an investment return rate of 8.25% per year. The salary increase is based on years of service and may also vary by age and job groups. The rate of salary increase assumption ranges from 4.75% to 12.00%. 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 most recent actuarial valuations at the dates 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						
2003	\$ 13,947,000	\$ 17,551,000	\$ 3,604,000	79.5 %	\$ 3,779,000	95.4 %
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						
2003	14,762,000	22,892,000	8,129,000	64.5	4,406,000	184.5
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
State - Boston Retirement System (Boston Teachers)						
2003	919,000	1,918,000	998,000	47.9	387,000	257.9
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.

Pension Actuarial Valuation

The Commonwealth's pension actuarial valuation was performed as of January 1, 2003 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time.

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 1981 to 1996. 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, 2003 was \$670,000,000.

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. Costs of administering the plan are funded out of plan assets.

Member contributions vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 – 1983	7% of regular compensation
1984 to 6/30/96	8% of regular compensation
7/1/96 to present	9% of regular compensation
7/1/96 to present	12% of regular compensation (State Police)
7/1/01 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000.

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 called for the payment of normal cost plus a level amortization payment of UAL such that the UAL is reduced to zero by June 30, 2018.

This legislation also directed 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. Under the

current schedule proposed on March 1, 2002, reflecting valuations as of January 1, 2001, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.15% increasing basis. Contributions by the Commonwealth of \$813,660,000 were made during the fiscal year ended June 30, 2003. Of this amount \$34,073,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties.

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

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

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

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

Actuarial Valuation as of January 1	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								
2003	\$ 397,698	\$ (117,299)	\$ (96,940)	\$ 377,338	\$ 280,929	\$ 1,325,401	71 %	74 %
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
Teachers' Retirement System								
2003	651,021	(83,468)	(68,980)	636,534	417,204	792,400	64	66
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
Boston Teachers Retirement System								
2003	76,151	3,411	2,819	76,743	52,944	(65,142)	70	69
2002	94,003	(67)	(56)	93,992	51,833	(41,343)	55	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

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.

Subsequent Event – Change in Budgetary Funding for Pensions and Transfer of Assets

On June 30, 2003, the Commonwealth enacted the General Appropriation Act (GAA) for fiscal year 2004. Within the Act, the Commonwealth changed its funding mechanism for its pension obligations, moving the funding “off – budget.” The original pension funding schedule called for an \$832.3 million appropriation. However, the fiscal year 2004 GAA amended the General Laws to allow annual pension appropriations to include the scheduled amount less the value of any capital assets transferred to the pension liability fund. The fiscal 2004 GAA funded the \$832.3 million pension obligation using \$687.3 million in cash from operating revenues and by the transfer of the Hynes Convention Center and the Boston Common Garage properties, valued at \$145.0 million.

Post-retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth’s employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$251,370,000 for the fiscal year ended June 30, 2003. There are approximately 51,398 participants eligible to receive benefits at June 30, 2003.

The Commonwealth has not performed an actuarial valuation of its post-retirement health care and life insurance benefit liability. Private industry typically sees an actuarial accrued liability of 10 to 20 times the current annual payments. For the Commonwealth this would extrapolate to an actuarial accrued liability of \$2.5 billion to \$5 billion.

The FY04 General Appropriation Act changed the employee contribution rates for group health insurance with the exception of current employees earning less than \$35,000 and retirees. Current employees as of July 1, 2003 will contribute 20% to their health insurance costs if they earn over \$35,000. New employees will contribute 25%. In fiscal 2006, the contribution rates will return to 15% for all employees.

11. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The 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, 2003 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Governmental Activities Total	Business - Type Activities			Business -Type Activities Total
	Capital Leases		Operating Leases	Capital Leases		Operating Leases			
	Principal	Interest		Principal			Interest		
2004	\$ 23,535	\$ 2,498	\$ 140,994	\$ 167,027	\$ 18,902	\$ 3,864	\$ 31,562	\$ 54,328	
2005	18,637	1,978	122,315	142,930	15,950	3,093	28,948	47,991	
2006	14,181	1,505	83,968	99,654	13,905	2,407	25,688	42,000	
2007	9,398	998	56,691	67,087	12,631	1,799	24,123	38,553	
2008	5,291	562	26,548	32,401	11,873	1,208	28,275	41,356	
2009 - 2013	4,712	500	53,464	58,676	18,076	1,449	357,697	377,222	
2014 - 2018	-	-	-	-	429	-	252	681	
2019 - 2023	-	-	-	-	168	-	-	168	
Total lease obligations.....	75,754	8,041	483,980	567,775	91,934	13,820	496,545	602,299	
Less: current portion:	(23,535)	(2,498)	(140,994)	(167,027)	(18,902)	(3,864)	(31,562)	(54,328)	
Long - term lease obligations	\$ 52,219	\$ 5,543	\$ 342,986	\$ 400,748	\$ 73,032	\$ 9,956	\$ 464,983	\$ 547,971	

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, 2003 (amounts in thousands):

Fiscal Year Ended <u>June 30</u>	Massachusetts Bay Transportation <u>Authority</u>	Nonmajor <u>Component Units</u>	<u>Total</u>
2004	\$ 48,479	\$ 746	\$ 49,225
2005	41,401	748	42,149
2006	42,448	745	43,193
2007	47,907	742	48,649
2008	53,017	5	53,022
2009 - 2013	310,258	-	310,258
2014 - 2018	<u>270,694</u>	<u>-</u>	<u>270,694</u>
Lease obligations	814,204	2,986	817,190
Less: Interest portion:	<u>(261,382)</u>	<u>(337)</u>	<u>(261,719)</u>
Present value of minimum lease payments	552,822	2,649	555,471
Less: current portions	<u>(17,164)</u>	<u>(606)</u>	<u>(17,770)</u>
Long - term lease obligations	<u>\$ 535,658</u>	<u>\$ 2,043</u>	<u>\$ 537,701</u>

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

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2004. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately \$974,000 of which \$862,000 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 \$29,300,000 in rental income of which \$14,000,000 was received for restaurant, concessions and service station rentals.

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 <u>June 30</u>	Massachusetts Bay Transportation <u>Authority</u>	Massachusetts Turnpike <u>Authority</u>	Nonmajor <u>Component Units</u>	<u>Total</u>
2004	\$ 13,875	\$ 869	\$ 2,384	\$ 17,128
2005	12,864	896	1,348	15,108
2006	13,130	455	1,223	14,808
2007	13,499	-	694	14,193
2008	13,471	-	1,039	14,510
2009 - 2013	57,283	-	932	58,215
2014 - 2018	-	-	166	166
2019 - 2023	-	-	74	74
2024 - 2028	-	-	4	4
Total lease obligations	<u>\$ 124,122</u>	<u>\$ 2,220</u>	<u>\$ 7,864</u>	<u>\$ 134,206</u>

12. COMMITMENTS

A. *Commitments to Discretely Presented Component Units and Other Entities*

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. For FY04, the base revenue is \$684,280,500.

In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The majority of these guarantees are for bonds outstanding for certain series' of the University of Massachusetts Building Authority. The Commonwealth guarantees these series of bonds to a maximum of \$200 million.

At June 30, 2003, the Commonwealth had commitments of approximately \$976,620,000 related to ongoing construction projects. The majority relate to construction funding for the Central Artery/Tunnel Project. The Central Artery/Tunnel Project continues to anticipate federal participation and payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort).

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2003, totaling \$2,833,700,000. The amount represents the residual balance of Commonwealth guaranteed debt that existed prior to the forward funding.

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, 2003, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$909,167,000 long-term and \$100,596,000 short-term.

Under Chapter 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to certain regional transit authorities (RTA's) 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 FY03, net expenditures were \$18,580,000. In addition, for FY03, the Commonwealth appropriated \$19,478,000 to the regional transit authorities to cover net costs of service for the calendar year ended December 31, 2002.

The FY03 General Appropriation Act amended Chapter 161B. After July 1, 2003, bonds and notes issued by the various RTA's are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

B. *Saltonstall Building*

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building and its surrounding area. Under the provisions of MDFA's bond authorization, the building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the building and will lease half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the building and surrounding area has been redeveloped as private office space, housing and retail establishments. Upon completion, the Commonwealth will be obligated for future lease payments for space it rents. However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation. It is currently anticipated that the initial lease payment will be due between December of 2003 and February of 2004. The Governor filed legislation in June 2003 to fund the cost of the FY04 lease payments. The legislation is currently pending.

C. *Central Artery / Tunnel Project*

The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the finance plan filed as of October 1, 2003. The current cost estimate is \$14.625 billion. The plan includes a maximum obligation of \$8.549 billion from the federal government. The finance plan is currently under review.

- D. Pension Trust Funds** At June 30, 2003, PRIT had outstanding commitments to invest approximately \$1,570,000,000 in alternative investments and \$100,000,000 in distressed debt. The fair value of the proposed investment commitments approximates their stated value.
- E. Commitments of 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, the Springfield Civic Center, along with the Hynes Convention Center and the Boston Common Garage on behalf of PRIT.
- As of June 30, 2003, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$33,262,000 to various local government units to be funded with grant awards.
- 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, 2002 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 \$52,196,000 as of June 30, 2003. 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, 2003, 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 \$6,907,000 that is expected to be reclaimed and paid in fiscal year 2004, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 2003 totaled approximately \$103,803,000. Since inception, approximately \$1,160,167,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

A. Tobacco Settlement

The 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 FY03, the Commonwealth received approximately \$300,039,000 or 89% of the base amounts, before adjustments including for volume and fluctuations in the consumer price index, as shown in the agreement. All amounts received were transferred to the Tobacco Settlement Fund, a budgeted fund, plus an additional \$7,763,000 in interest earnings pursuant to the General Laws. The majority of expenditures from the fund this year was for Health and Human Services, Elder Affairs and Medicaid costs. Pursuant to the FY03 General Appropriation Act an additional \$162,000,000 was transferred from the Tobacco Settlement Fund to fund Health and Human Services expenditures primarily in the Uncompensated Care Fund and the Children's and Seniors' Health Care Assistance Funds.

The amounts that might be payable, if any, by the Commonwealth for legal costs relating to the tobacco litigation cannot be determined at this time. The outside attorneys for the Commonwealth were awarded approximately \$775,000,000 in fees to be paid over time by the tobacco companies and, therefore, were not to be paid out of the Commonwealth's award. However, they have filed a breach of contract action against the Commonwealth seeking damages and declaratory and injunctive relief based on the Commonwealth's alleged failure to comply with a contingent attorney's fee agreement in connection with the plaintiff law firms' representation of the Commonwealth against the tobacco industry. On December 19, 2003, the jury returned a verdict, which eliminates any exposure of the Commonwealth to an immediate obligation to make any payment. If this judgment becomes final, the likelihood that the Commonwealth will have to pay any sum on the claim will depend on the actual payments received by the Commonwealth under the MSA up through 2025.

B. Unemployment Compensation Fund

The fund balance in the Unemployment Compensation Fund has declined to approximately \$491 million as of June 30, 2003. The Department of Employment and Training estimates that the fund will be operating at a deficit by January 2004. State law provides that in the event of a deficit in the Unemployment Compensation Fund that is not paid back by September 2004, additional revenues will be collected from employers in order to pay the interest

that has accrued on the debt.

**C. 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. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project.

The Project's OCIP activity is reported as a minor governmental (capital project) fund. The "Claims and Judgements" liabilities reported within the fund 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 FY03. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2003, the OCIP has accumulated approximately \$245,000,000 in assets that consist of approximately \$190,000,000 in cash and investments, approximately \$53,000,000 in funds held by the investment provider and approximately \$2,000,000 in interest income receivable. Net assets at year – end of approximately \$124,500,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the 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 the OCIP for occurrences through June 30, 2003 is \$108,200,000, of which \$32,500,000 is presented as a current liability in the minor governmental fund, while the remaining \$75,700,000 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, 2003. The estimate of \$108,200,000 does not reflect the maximum potential obligation of the Project to the end of the Project.

D. Claims and Judgments

The following amounts were recognized as of June 30, 2003 (amounts in thousands):

	Balance as of <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance as of <u>June 30, 2003</u>
Short-term.....	\$ 144,000	\$ 84,696	\$ 144,000	\$ 84,696
Long-term.....	175,100	75,700	175,100	75,700
	<u>\$ 319,100</u>	<u>\$ 160,396</u>	<u>\$ 319,100</u>	<u>\$ 160,396</u>

E. Discretely Presented Component Units

The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2003. Changes in the self-insurance reserves in fiscal 2003 and 2002 were as follows (amounts in thousands):

	<u>2003</u>	<u>2002</u>
Liability, beginning of year.....	\$ 86,644	\$ 69,476
Current year claims and changes in estimates.....	103,949	114,651
Claims payments.....	<u>(101,756)</u>	<u>(97,483)</u>
Liability, end of year.....	<u>\$ 88,837</u>	<u>\$ 86,644</u>

Required Supplementary Information

Other than Management Discussion and Analysis



Photo by Steve Lipofsky

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual
General Fund
Fiscal Year Ended June 30, 2003
(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 8,770,450	\$ 8,770,450	\$ 8,644,099	\$ (126,351)
Assessments.....	-	-	85,631	85,631
Federal grants and reimbursements.....	3,500,590	3,500,590	3,479,844	(20,746)
Departmental.....	1,049,870	1,044,870	733,165	(311,705)
Miscellaneous.....	-	-	88,752	88,752
Total revenues.....	13,320,910	13,315,910	13,031,491	(284,419)
Other financing sources:				
Fringe benefit cost recovery.....	-	-	157,406	157,406
Lottery reimbursements.....	-	85,706	73,222	(12,484)
Lottery distributions.....	-	1,000	1,000	-
Operating transfers in.....	756,370	119,664	368,806	249,142
Stabilization transfer.....	-	550,000	550,000	-
Total other financing sources.....	756,370	756,370	1,150,434	394,064
Total revenues and other financing sources.....	14,077,280	14,072,280	14,181,925	109,645
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	68,955	69,118	54,873	14,245
Judiciary.....	565,160	572,728	566,183	6,545
Inspector General.....	1,922	1,829	1,826	3
Governor and Lieutenant Governor.....	5,249	5,597	5,393	204
Secretary of the Commonwealth.....	36,706	36,591	36,404	187
Treasurer and Receiver-General.....	164,763	98,883	97,183	1,700
Auditor of the Commonwealth.....	15,680	15,586	15,577	9
Attorney General.....	30,190	30,360	29,249	1,111
Ethics Commission.....	632	630	630	-
District Attorney.....	65,460	65,607	65,113	494
Office of Campaign & Political Finance.....	499	497	495	2
Sheriff's Departments.....	206,560	211,450	210,178	1,272
Disabled Persons Protection Commission.....	1,631	1,660	1,604	56
Board of Library Commissioners.....	1,780	365	340	25
Comptroller.....	7,441	7,925	7,891	34
Administration and finance.....	1,043,087	1,031,352	969,212	62,140
Environmental affairs.....	54,836	54,791	53,234	1,557
Communities and development.....	66,816	67,347	60,810	6,537
Health and human services.....	3,585,934	3,538,833	3,467,590	71,243
Transportation and construction.....	13,575	20,083	17,849	2,234
Education.....	10,026	12,981	9,735	3,246
Higher education.....	990,077	992,272	966,394	25,878
Public safety.....	505,955	483,541	475,276	8,265
Economic development.....	3,608	3,771	3,586	185
Elder affairs.....	171,451	176,212	175,220	992
Consumer affairs.....	33,370	34,006	31,893	2,113
Labor.....	32,839	36,091	30,725	5,366
Medicaid.....	4,845,557	4,845,557	4,842,437	3,120
Pension.....	286,892	283,903	283,837	66
Debt service:				
Principal retirement.....	421,228	367,961	362,975	4,986
Interest and fiscal charges.....	353,261	265,582	250,702	14,880
Total expenditures.....	13,591,140	13,333,109	13,094,414	238,695
Other financing uses:				
Operating transfers out.....	-	230,645	230,645	-
Stabilization transfer.....	-	-	75,673	(75,673)
Fund consolidation transfer.....	-	-	1,802,426	(1,802,426)
Total other financing uses.....	-	230,645	2,108,744	(1,878,099)
Total expenditures and other financing uses.....	13,591,140	13,563,754	15,203,158	(1,639,404)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	486,140	508,526	(1,021,233)	(1,529,759)
Fund balances (deficit) at beginning of year.....	1,769,079	1,769,079	1,769,079	-
Fund balances (deficits) at end of year.....	\$ 2,255,219	\$ 2,277,605	\$ 747,846	\$ (1,529,759)

See note to required supplementary information-Budgetary Reporting

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual
Highway Fund
Fiscal Year Ended June 30, 2003
(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 587,390	\$ 587,390	\$ 578,534	\$ (8,856)
Assessments.....	-	-	11,018	11,018
Federal grants and reimbursements.....	10,610	10,610	1,953	(8,657)
Departmental.....	440,750	440,750	404,105	(36,645)
Miscellaneous.....	-	-	1,551	1,551
Total revenues.....	1,038,750	1,038,750	997,161	(41,589)
Other financing sources:				
Operating transfers in.....	3,014	3,014	11,700	8,686
Federal reimbursement transfer in.....	-	-	373	373
Total other financing sources.....	3,014	3,014	12,073	9,059
Total revenues and other financing sources.....	1,041,764	1,041,764	1,009,234	(32,530)
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Governor and Lieutenant Governor.....	-	28	24	4
Treasurer and Receiver-General.....	3,628	1,179	1,152	27
Attorney General.....	433	432	423	9
District Attorney.....	2,715	2,716	2,716	-
Sheriff's Departments.....	-	372	344	28
Administration and finance.....	5,607	5,646	5,425	221
Environmental affairs.....	21,737	24,394	23,114	1,280
Transportation and construction.....	49,556	123,247	118,128	5,119
Higher education.....	512	-	-	-
Public safety.....	241,318	249,136	243,940	5,196
Consumer affairs.....	2,022	2,079	1,966	113
Pension.....	55,773	58,762	58,748	14
Debt service:				
Principal retirement.....	238,726	283,713	279,869	3,844
Interest and fiscal charges.....	247,621	343,541	325,065	18,476
Total expenditures.....	869,648	1,095,245	1,060,914	34,331
Other financing uses:				
Fringe benefit cost assessment.....	-	-	24,630	(24,630)
Operating transfers out.....	-	82,188	82,188	-
Total other financing uses.....	-	82,188	106,818	(24,630)
Total expenditures and other financing uses.....	869,648	1,177,433	1,167,732	9,701
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	172,116	(135,669)	(158,498)	(22,829)
Fund balances (deficit) at beginning of year.....	(437,529)	(437,529)	(437,529)	-
Fund balances (deficits) at end of year.....	\$ (265,413)	\$ (573,198)	\$ (596,027)	\$ (22,829)

See note to required supplementary information-Budgetary Reporting

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

Local Aid Fund

Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 4,911,020	\$ 4,911,020	\$ 4,785,617	\$ (125,403)
Departmental.....	1,880	1,880	644	(1,236)
Total revenues.....	4,912,900	4,912,900	4,786,261	(126,639)
Other financing sources:				
Lottery distributions.....	-	856,710	881,197	24,487
Operating transfers in.....	856,710	-	1,688	1,688
Fund consolidation transfer.....	-	-	1,802,426	1,802,426
Total other financing sources.....	856,710	856,710	2,685,311	1,828,601
Total revenues and other financing sources.....	5,769,610	5,769,610	7,471,572	1,701,962
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Treasurer and Receiver-General.....	1,722	5,383	4,961	422
Auditor of the Commonwealth.....	585	584	582	2
Attorney General.....	883	882	865	17
Ethics Commission.....	633	633	633	-
Office of Campaign & Political Finance.....	499	499	498	1
Sheriff's Departments.....	-	147	140	7
Board of Library Commissioners.....	2,984	2,982	2,773	209
Administration and finance.....	218,954	178,553	135,281	43,272
Environmental affairs.....	26,297	26,378	22,014	4,364
Communities and development.....	29,994	29,994	23,617	6,377
Health and human services.....	359	1,363	1,198	165
Transportation and construction.....	17,484	19,705	17,521	2,184
Education.....	350,423	334,125	283,814	50,311
Higher education.....	3,433	125	125	-
Public safety.....	112,260	149,387	146,700	2,687
Elder affairs.....	10,417	10,417	10,295	122
Labor.....	46	43	43	-
Direct local aid.....	5,184,610	5,184,610	5,069,377	115,233
Pension.....	470,087	470,087	470,087	-
Debt service:				
Principal retirement.....	85,158	96,151	94,848	1,303
Interest and fiscal charges.....	67,182	60,530	59,710	820
Total expenditures.....	6,584,010	6,572,578	6,345,082	227,496
Other financing uses:				
Operating transfers out.....	-	7,365	7,365	-
Total other financing uses.....	-	7,365	7,365	-
Total expenditures and other financing uses.....	6,584,010	6,579,943	6,352,447	227,496
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(814,400)	(810,333)	1,119,125	1,929,458
Fund balances (deficit) at beginning of year.....	(1,119,125)	(1,119,125)	(1,119,125)	-
Fund balances (deficits) at end of year.....	\$ (1,933,525)	\$ (1,929,458)	\$ -	\$ 1,929,458

See note to required supplementary information-Budgetary Reporting

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)
for Major Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):**

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Local Aid Fund</u>
Revenues:			
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 13,031,491	\$ 997,161	\$ 4,786,261
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:			
Tax revenue	18,617	1,626	7,953
Federal reimbursements and other receivables.....	(35,623)	1,643	-
Reclassifications:			
Higher education revenue is reclassified for GAAP reporting.....	(119,845)	-	-
Reclassifications of revenue from administratively controlled funds to major funds for GAAP.....	117,195	-	-
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 13,011,835	\$ 1,000,430	\$ 4,794,214
Expenditures:			
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 13,094,414	\$ 1,060,914	\$ 6,345,082
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:			
Medicaid payments.....	(139,700)	-	-
Compensated absences and other accrued liabilities.....	27,820	(2,115)	11,390
Reclassifications:			
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	(613,677)	(604,934)	(154,558)
Higher education revenue is reclassified for GAAP reporting.....	(1,037,708)	-	-
Reclassifications of revenue from administratively controlled funds to major funds for GAAP.....	118,964	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 11,450,113	\$ 453,865	\$ 6,201,914
Other Financing Sources:			
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 1,150,434	\$ 12,073	\$ 2,685,311
Adjustments:			
Fund closure and consolidation amounts.....	(739,630)	-	-
Inflows from component units and other miscellaneous financing sources.....	105,273	-	-
Reclassifications:			
Reclassifications of other financing sources from administratively controlled funds to major funds for GAAP.....	443,199	-	-
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 959,276	\$ 12,073	\$ 2,685,311
Other Financing Uses:			
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,108,744	\$ 106,818	\$ 7,365
Adjustments and Reclassifications:			
Fund closure and consolidation amounts.....	(739,630)	-	-
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	917,865	-	-
Reclassifications of other financing uses from administratively controlled funds to major funds for GAAP.....	685,819	-	-
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	613,677	604,933	154,558
Outflows to component units and other miscellaneous financing uses.....	-	-	79,884
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 3,586,475	\$ 711,751	\$ 241,807

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.

“I also had the opportunity to photograph the grand opening of the bridge and had the wonderful experience of meeting Joyce Zakim and her kids. Bruce Springsteen played a moving acappella version of Thunder Road. Later, I was thrilled to be able to photograph the Barnum and Bailey elephants walking across the Zakim Bridge.

“Through all of these experiences, the real star of the show was the Zakim Bridge, itself. It’s a stirring experience just being near it. It’s instantly becoming Boston’s signature piece of architecture. The best part is that the bridge is named for a guy whose wish to bring all people together is as spiritually inspiring as is the structure that bears his name.”

Steve Lipofsky, photographer



Over a quarter of a million people crossed the span on Mother’s Day in 2002, and an estimated 800,000 more toured the landmark in October 2002. The buzz around the bridge grew even more when Bruce Springsteen – Zakim’s favorite performer – performed on the span as part of its dedication ceremony. Also performing at the dedication ceremony was The Children’s Bridge Festival Chorus, a powerful 300-voice choir of children ages 8-14 amassed from some of the best children’s choruses in the Boston area. The Children’s Festival Chorus performed a song commissioned specially for the Leonard P. Zakim Bunker Hill Bridge dedication and composed by Andy Vores. The Children’s Festival Chorus’ performance marked the debut of a new arts institution, the Boston Children’s Festival Chorus, whose mission is to create social change in Boston through children and music. The Chorus hopes to demonstrate to the entire city of Boston the power and excitement of children from diverse backgrounds, united in a music-making community, building another symbolic bridge to unite our city. A planned series of parks and recreation areas at the base of the bridge will further solidify the bridge’s place for the community.

Other Supplementary Information



“My personal experience with the Zakim bridge began when my best friend, who was Chief of Staff of the CA/T at the time invited me for a tour while it was still under construction. It was the thrill of a lifetime. We climbed up scaffolding to the top of one of the main towers, high above the city. The view was spectacular. I met some of the crew who were building the bridge, a great bunch and understandably proud of their work.”

Steve Lipofsky, photographer



Steve Lipofsky has lived and worked in the Boston area all his life. He has been the photographer for the Boston Red Sox and has been the Celtics’ photographer for 23 years. His clients include *Sports Illustrated*, *Time*, The Genesis Fund and many hundreds of corporations and publications throughout the world. You can view and purchase some of Steve’s work through his web site, www.Basketballphoto.com. Steve has driven nothing but MGs since 1973.

Combined Balance Sheet
Nonmajor Governmental Funds
June 30, 2003
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
ASSETS			
Cash and short-term investments.....	\$ 880,214	\$ -	\$ 880,214
Cash with fiscal agent.....	79,747	243,425	323,172
Restricted investments.....	476,789	-	476,789
Receivables, net of allowance for uncollectibles:			
Taxes.....	74,086	-	74,086
Due from federal government.....	490,919	-	490,919
Other receivables.....	107,447	1,916	109,363
Due from other funds.....	-	222,776	222,776
Total assets.....	\$ 2,109,202	\$ 468,118	\$ 2,577,320
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable.....	\$ 506,822	\$ 286,044	\$ 792,866
Accrued payroll.....	10,202	4,356	14,558
Compensated absences.....	19,591	8,066	27,657
Tax refunds and abatements payable.....	1,480	-	1,480
Due to other funds.....	129,969	265,582	395,551
Due to component units.....	111,417	18,150	129,567
Due to federal government.....	-	48	48
Deferred revenue.....	7,958	-	7,958
Claims and judgments.....	-	32,500	32,500
Bonds, notes payable and certificates of participation.....	-	857,100	857,100
Other accrued liabilities.....	178,036	-	178,036
Total liabilities.....	965,475	1,471,846	2,437,321
Fund balances (deficits):			
Reserved for continuing appropriations.....	79	-	79
Reserved for retirement of indebtedness.....	79,748	-	79,748
Reserved for central artery workers' compensation and general liability.....	-	200,186	200,186
Unreserved.....	1,063,900	(1,203,914)	(140,014)
Fund balances (deficits).....	1,143,727	(1,003,728)	139,999
Total liabilities and fund balances.....	\$ 2,109,202	\$ 468,118	\$ 2,577,320

Combined Statement Of Revenues, Expenditures And Changes In Fund Balances
Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2003
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Taxes.....	\$ 1,052,511	\$ -	\$ 1,052,511
Assessments.....	547,190	-	547,190
Federal grants and reimbursements.....	4,182,904	519	4,183,423
Departmental.....	671,768	458	672,226
Miscellaneous.....	666,815	125,728	792,543
Total revenues.....	7,121,188	126,705	7,247,893
Other financing sources:			
Proceeds of general obligation bonds.....	-	1,491,205	1,491,205
Operating transfers in.....	1,070,251	719,873	1,790,124
Total other financing sources.....	1,070,251	2,211,078	3,281,329
Total revenues and other financing sources.....	8,191,439	2,337,783	10,529,222
Expenditures:			
Current:			
Judiciary.....	3,931	-	3,931
Governor and Lieutenant Governor.....	56	-	56
Secretary of the Commonwealth.....	2,499	-	2,499
Treasurer and Receiver-General.....	850,786	-	850,786
Auditor of the Commonwealth.....	85	-	85
Attorney General.....	13,883	-	13,883
District Attorney.....	16,985	-	16,985
Sheriff's Departments.....	4,044	-	4,044
Disabled Persons Protection Commission.....	33	-	33
Board of Library Commissioners.....	2,939	-	2,939
Administration and finance.....	131,281	-	131,281
Environmental affairs.....	137,150	-	137,150
Communities and development.....	389,521	-	389,521
Health and human services.....	2,479,683	-	2,479,683
Transportation and construction.....	10,888	49,102	59,990
Education.....	782,289	-	782,289
Higher education.....	14,571	-	14,571
Public safety.....	114,070	-	114,070
Economic development.....	25,034	-	25,034
Elder affairs.....	129,544	-	129,544
Consumer affairs.....	21,106	-	21,106
Labor.....	298,777	-	298,777
Medicaid.....	838,466	-	838,466
Pension.....	301	-	301
Direct local aid.....	34	-	34
Capital outlay:			
Local aid.....	-	15,261	15,261
Capital acquisition and construction.....	-	1,924,143	1,924,143
Total expenditures.....	6,267,956	1,988,506	8,256,462
Other financing uses:			
Operating transfers out.....	2,011,731	253,204	2,264,935
Transfers of appropriations.....	2,090	-	2,090
Transfers of bond proceeds.....	-	77,867	77,867
Transfers out for debt service.....	77,441	11,399	88,840
Total other financing uses.....	2,091,262	342,470	2,433,732
Total expenditures and other financing uses.....	8,359,218	2,330,976	10,690,194
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(167,779)	6,807	(160,972)
Fund balances (deficits) at beginning of year.....	1,311,506	(1,010,535)	300,971
Fund balances (deficits) at end of year.....	\$ 1,143,727	\$ (1,003,728)	\$ 139,999

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003
(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Totals
ASSETS					
Cash and short-term investments.....	\$ -	\$ 152,028	\$ 6,691	\$ 721,495	\$ 880,214
Cash with fiscal agent.....	-	-	-	79,747	79,747
Restricted investments.....	-	-	-	476,789	476,789
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	77	74,009	74,086
Due from federal government.....	304,512	41,606	1,235	143,566	490,919
Other receivables.....	-	69,397	199	37,851	107,447
Total assets.....	\$ 304,512	\$ 263,031	\$ 8,202	\$ 1,533,457	\$ 2,109,202
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 240,254	\$ 92,602	\$ 412	\$ 173,554	506,822
Accrued payroll.....	8,028	49	207	1,918	10,202
Compensated absences.....	15,811	-	628	3,152	19,591
Tax refunds and abatements payable.....	-	-	-	1,480	1,480
Due to other funds.....	46,347	-	-	83,622	129,969
Due to other government.....	-	-	-	111,417	111,417
Deferred revenue.....	-	7,694	-	264	7,958
Other accrued liabilities.....	-	143,968	-	34,068	178,036
Total liabilities.....	310,440	244,313	1,247	409,475	965,475
Fund balances (deficits):					
Reserved for continuing appropriations.....	-	-	-	79	79
Reserved for retirement of indebtedness.....	-	-	-	79,748	79,748
Unreserved.....	(5,928)	18,718	6,955	1,044,155	1,063,900
Fund balances (deficits).....	(5,928)	18,718	6,955	1,123,982	1,143,727
Total liabilities and fund balances.....	\$ 304,512	\$ 263,031	\$ 8,202	\$ 1,533,457	\$ 2,109,202

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances
Nonmajor Special Revenue Funds
Fiscal Year Ended June 30, 2003
(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
Revenues:					
Taxes.....	\$ -	\$ -	\$ 8,342	\$ 1,044,169	\$ 1,052,511
Assessments.....	-	285,116	18,254	243,820	547,190
Federal grants and reimbursements.....	2,112,276	356,605	3,730	1,710,293	4,182,904
Departmental.....	-	472,806	71,444	127,518	671,768
Miscellaneous.....	76	2,309	36,977	627,453	666,815
Total revenues.....	2,112,352	1,116,836	138,747	3,753,253	7,121,188
Other financing sources:					
Operating transfers in.....	-	159,665	99,671	810,915	1,070,251
Total other financing sources.....	-	159,665	99,671	810,915	1,070,251
Total revenues and other financing sources.....	2,112,352	1,276,501	238,418	4,564,168	8,191,439
Expenditures:					
Current:					
Judiciary.....	1,025	-	-	2,906	3,931
Governor and Lieutenant Governor.....	-	-	-	56	56
Secretary of the Commonwealth.....	785	-	-	1,714	2,499
Treasurer and Receiver-General.....	665	-	-	850,121	850,786
Auditor of the Commonwealth.....	-	-	-	85	85
Attorney General.....	10,916	-	102	2,865	13,883
District Attorney.....	3,503	-	-	13,482	16,985
Sheriff's Departments.....	3,982	-	-	62	4,044
Disabled Persons Protection Commission.....	33	-	-	-	33
Board of Library Commissioners.....	2,939	-	-	-	2,939
Administration and finance.....	10,158	99	21,108	99,916	131,281
Environmental affairs.....	28,502	-	75,593	33,055	137,150
Communities and development.....	373,458	-	-	16,063	389,521
Health and human services.....	577,826	1,114,881	6	786,970	2,479,683
Transportation and construction.....	8,995	-	-	1,893	10,888
Education.....	742,137	-	470	39,682	782,289
Higher education.....	5,391	-	-	9,180	14,571
Public safety.....	70,064	-	168	43,838	114,070
Economic development.....	539	-	-	24,495	25,034
Elder affairs.....	31,438	-	-	98,106	129,544
Consumer affairs.....	1,193	-	-	19,913	21,106
Labor.....	168,619	48,840	-	81,318	298,777
Medicaid.....	-	-	-	838,466	838,466
Pension.....	-	-	301	-	301
Direct local aid.....	-	-	34	-	34
Total expenditures.....	2,042,168	1,163,820	97,781	2,964,186	6,267,956
Other financing uses:					
Operating transfers out.....	70,043	118,616	68,616	1,754,456	2,011,731
Transfers of appropriations.....	-	-	1,766	324	2,090
Transfers out for debt service.....	-	-	-	77,441	77,441
Total other financing uses.....	70,043	118,616	70,382	1,832,221	2,091,262
Total expenditures and other financing uses.....	2,112,211	1,282,436	168,163	4,796,407	8,359,218
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	141	(5,935)	70,255	(232,241)	(167,779)
Fund balances (deficits) at beginning of year.....	(6,069)	24,653	(63,300)	1,356,223	1,311,506
Fund balances (deficits) at end of year.....	\$ (5,928)	\$ 18,718	\$ 6,955	\$ 1,123,982	\$ 1,143,727

Combining Balance Sheet

Nonmajor Capital Projects Funds

June 30, 2003

(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
ASSETS						
Cash with fiscal agent.....	\$ -	\$ -	\$ -	\$ -	\$ 243,425	\$ 243,425
Other receivables.....	-	-	-	-	1,917	1,917
Due from other funds.....	139,158	-	-	-	83,618	222,776
Total assets.....	\$ 139,158	\$ -	\$ -	\$ -	\$ 328,960	\$ 468,118
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 101,781	\$ 19,501	\$ -	\$ 70,807	\$ 93,955	\$ 286,044
Accrued payroll.....	1,075	-	-	2,594	686	4,355
Compensated absences.....	1,013	-	-	7,012	41	8,066
Due to other funds.....	-	1,068	23,729	190,154	50,632	265,583
Due to component units.....	18,150	-	-	-	-	18,150
Due from federal government.....	-	-	-	-	48	48
Claims and judgments.....	-	-	-	-	32,500	32,500
Bonds, notes payable and certificate of participation	300,000	482,000	75,100	-	-	857,100
Total liabilities.....	422,019	502,569	98,829	270,567	177,862	1,471,846
Fund balances (deficits):						
Reserved for central artery workers' compensation	-	-	-	-	200,186	200,186
Unreserved.....	(282,861)	(502,569)	(98,829)	(270,567)	(49,088)	(1,203,914)
Fund balances (deficits).....	(282,861)	(502,569)	(98,829)	(270,567)	151,098	(1,003,728)
Total liabilities and fund balances.....	\$ 139,158	\$ -	\$ -	\$ -	\$ 328,960	\$ 468,118

Statement Of Revenues, Expenditures And Changes In Fund Balances
Capital Projects Funds
Nonmajor Capital Projects Funds
Fiscal Year Ended June 30, 2003
(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
Revenues:						
Federal grants and reimbursements.....	\$ -	\$ -	\$ -	\$ -	\$ 519	\$ 519
Departmental.....	-	-	-	-	458	458
Miscellaneous.....	-	-	104,931	10,392	10,405	125,728
Total revenues.....	-	-	104,931	10,392	11,382	126,705
Other financing sources:						
Proceeds of general obligation bonds.....	624,722	-	-	838,763	27,720	1,491,205
Operating transfers in.....	-	-	-	30,552	689,321	719,873
Total other financing sources.....	624,722	-	-	869,315	717,041	2,211,078
Total revenues and other financing sources.....	624,722	-	104,931	879,707	728,423	2,337,783
Expenditures:						
Current:						
Transportation and construction.....	-	-	-	-	49,102	49,102
Capital outlay:						
Local aid.....	-	-	-	-	15,261	15,261
Capital acquisition and construction.....	567,565	225,374	10,886	413,596	706,722	1,924,143
Total expenditures.....	567,565	225,374	10,886	413,596	771,085	1,988,506
Other financing uses:						
Operating transfers out.....	44,571	3	-	185,761	22,869	253,204
Transfers of bond proceeds.....	77,867	-	-	-	-	77,867
Transfers out for debt service.....	-	-	-	11,399	-	11,399
Total other financing uses.....	122,438	3	-	197,160	22,869	342,470
Total expenditures and other financing uses.....	690,003	225,377	10,886	610,756	793,954	2,330,976
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(65,281)	(225,377)	94,045	268,951	(65,531)	6,807
Fund balances (deficits) at beginning of year.....	(217,580)	(277,192)	(192,874)	(539,518)	216,628	(1,010,536)
Fund balances (deficits) at end of year.....	\$ (282,861)	\$ (502,569)	\$ (98,829)	\$ (270,567)	\$ 151,097	\$ (1,003,728)

A door at the bottom of the east leg leads to a ladder shaft to the top of the tower, giving workers access to cables for maintenance. A large pipe holds dry chemicals for extinguishing vehicle fires.

Photos by Massachusetts Highway Department



Statistical Section

Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types

Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat – All Governmental Fund Types

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

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

Component Units Revenue Bond Coverage for the Last Ten Fiscal Years

Calculation of Transfers – Stabilization Fund

Calculation of Transfers – Tax Reduction Fund

Ten-Year Schedule of Massachusetts and United States Resident Population

Nonagricultural Employment by 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

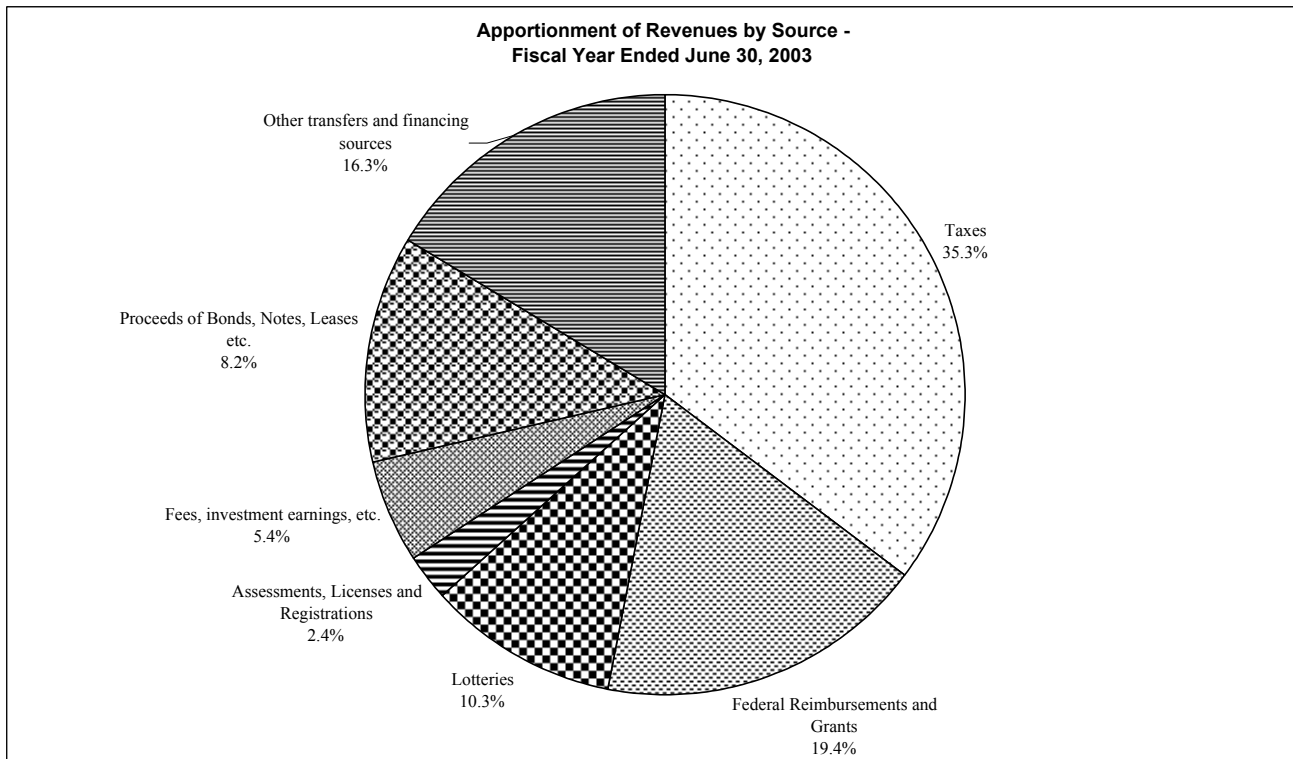


Photo by Steve Lipofsky

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

June 30, 2003
(Amounts in millions)

	2003	% Total	2002	% Total	2001	% Total	2000	% Total
Taxes.....	\$ 15,091	35.3	\$ 14,428	39.6	\$ 16,803	42.8	\$ 15,695	41.1
Federal reimbursements.....	5,522	12.9	5,267	14.4	4,716	12.0	4,496	11.8
Federal grants.....	2,112	4.9	1,812	5.0	1,644	4.2	1,565	4.1
Lotteries.....	4,423	10.3	4,425	12.1	4,136	10.5	3,914	10.3
Assessments.....	645	1.5	572	1.6	590	1.5	462	1.2
Motor vehicle licenses and registrations.....	383	0.9	326	0.9	311	0.8	285	0.7
Fees, investment earnings, etc.....	2,331	5.4	2,178	6.0	1,885	4.8	1,776	4.7
Proceeds of general obligation bonds.....	1,911	4.5	1,489	4.1	1,769	4.5	1,762	4.6
Proceeds of special obligation bonds.....	-	-	12	-	-	-	-	-
Proceeds of grant anticipation notes.....	-	-	-	-	600	1.5	602	1.6
Proceeds of refunding bonds.....	3,398	7.9	1,501	4.1	999	2.5	-	-
Proceeds of capital lease.....	-	-	10	-	31	0.1	9	0.0
Operating transfers.....	6,981	16.3	4,454	12.2	5,566	14.2	7,502	19.7
Other financing sources.....	-	-	3	-	206	0.5	106	0.3
Total revenues and other financing sources.....	\$ 42,798	100.0	\$ 36,477	99.9	\$ 39,256	100.0	\$ 38,174	100.0

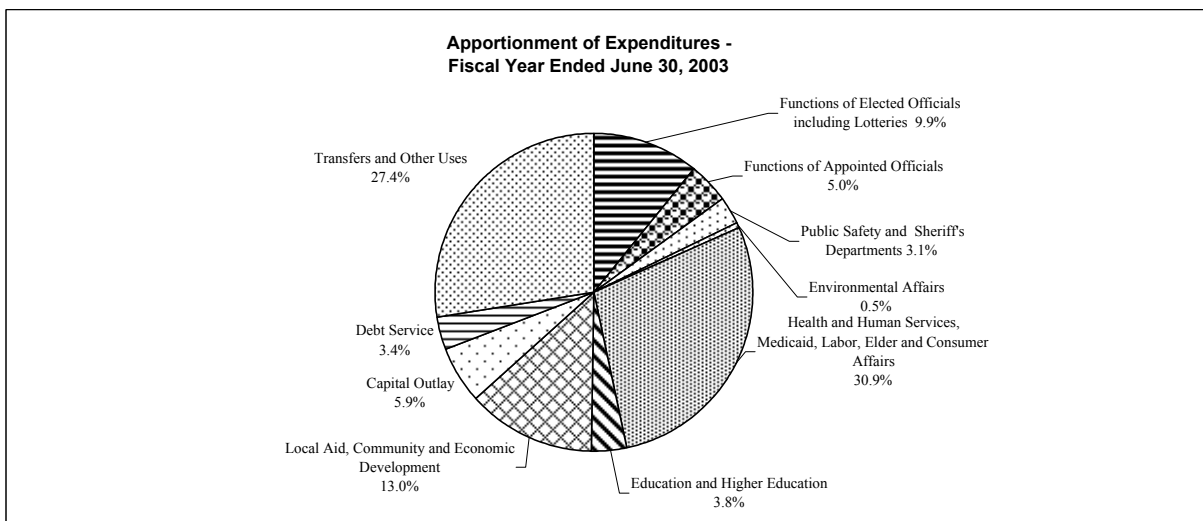


	1999	% Total	1998	% Total	1997	% Total	1996	% Total	1995	% Total	1994	% Total
\$	14,321	43.0	\$ 14,033	44.9	\$ 13,030	47.7	\$ 11,926	47.5	\$ 11,262	45.9	\$ 10,611	45.7
	4,213	12.7	4,385	14.0	4,124	15.1	3,861	15.4	4,174	17.0	3,904	16.8
	1,456	4.4	1,470	4.7	1,457	5.3	1,482	5.9	1,187	4.8	1,205	5.2
	3,570	10.7	3,392	10.9	3,375	12.3	3,201	12.8	2,957	12.0	2,600	11.2
	546	1.6	514	1.6	552	2.0	595	2.4	572	2.3	544	2.3
	281	0.8	295	0.9	295	1.1	263	1.0	307	1.3	284	1.2
	1,433	4.3	1,394	4.5	930	3.4	1,110	4.4	1,154	4.7	1,113	4.8
	1,015	3.0	1,347	4.3	899	3.3	940	3.7	810	3.3	392	1.7
	-	-	100	0.3	-	-	147	0.6	-	-	298	1.3
	319	1.0	-	-	-	-	-	-	-	-	-	-
	499	1.5	862	2.8	723	2.6	-	-	514	2.1	836	3.6
	9	0.1	15	0.1	62	0.2	26	0.1	18	0.1	34	0.1
	4,555	13.7	3,338	10.7	1,920	7.0	1,551	6.2	1,534	6.3	1,367	5.9
	1,056	3.2	104	0.3	6	-	-	-	49	0.2	35	0.2
\$	33,273	100.0	\$ 31,249	100.0	\$ 27,373	100.0	\$ 25,102	100.0	\$ 24,538	100.0	\$ 23,223	100.0

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

June 30, 2003
(Amounts in millions)

	2003	%	2002	%	2001	%	2000	%
		Total		Total		Total		Total
Legislature.....	\$ 53	0.1	\$ 60	0.2	\$ 57	0.2	\$ 51	0.1
Judiciary.....	568	1.3	593	1.5	597	1.6	544	1.4
Inspector General.....	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor.....	5	-	6	-	6	-	6	-
Secretary of the Commonwealth.....	39	0.1	36	0.1	45	0.1	42	0.1
Treasurer and Receiver-General.....	4,446	10.3	3,558	9.2	3,335	8.8	3,483	9.2
Auditor of the Commonwealth.....	16	-	16	-	15	-	15	-
Attorney General.....	55	0.1	62	0.2	36	0.1	34	0.1
Ethics Commission.....	1	-	1	-	2	-	1	-
District Attorney.....	85	0.2	89	0.2	86	0.2	77	0.2
Office of Campaign and Political Finance.....	1	0.0	5	-	1	-	1	-
Sheriff's Department.....	215	0.5	216	0.6	201	0.5	178	0.5
Disabled Persons Protection Commission.....	2	0.0	2	-	2	-	2	-
Board of Library Commissioners.....	6	-	10	-	11	-	10	-
Comptroller.....	8	-	8	-	8	-	8	-
Administration and finance.....	1,202	2.8	1,361	3.5	1,202	3.3	1,192	3.1
Environmental affairs.....	236	0.5	268	0.7	253	0.7	241	0.6
Communities and development.....	476	1.1	449	1.2	442	1.2	405	1.1
Health and human services.....	5,962	13.8	6,104	15.7	5,622	15.0	5,324	14.0
Transportation and construction.....	218	0.5	139	0.4	162	0.4	228	0.6
Education.....	1,546	3.6	1,506	3.9	1,492	3.9	1,353	3.6
Educational affairs.....	-	-	-	-	-	-	-	-
Higher education.....	111	0.3	119	0.3	136	0.4	111	0.3
Public safety.....	991	2.3	999	2.6	955	2.5	879	2.3
Economic development.....	29	0.1	32	0.1	51	0.1	38	0.1
Elder affairs.....	315	0.7	304	0.8	241	0.6	217	0.6
Consumer affairs.....	55	0.1	63	0.2	71	0.2	70	0.2
Labor.....	330	0.8	284	0.7	172	0.5	188	0.5
Medicaid.....	5,542	12.8	5,261	13.6	4,761	12.6	4,381	11.5
Pension.....	290	0.7	238	0.6	318	0.8	398	1.0
Direct local aid.....	5,103	11.8	5,231	13.5	5,012	13.2	4,717	12.4
Capital outlay:	-	-	-	-	-	-	-	-
Local aid.....	15	0.0	21	0.1	34	0.1	47	0.1
Capital acquisition and construction.....	2,526	5.8	2,562	6.6	2,566	6.8	2,469	6.5
Debt service.....	1,467	3.4	1,382	3.6	1,408	3.7	1,237	3.3
Other financing uses:	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent.....	3,398	7.9	1,277	3.3	999	2.6	-	-
Transfers.....	7,931	18.3	6,551	16.9	7,526	19.9	10,073	26.5
Total expenditures and other financing uses.....	\$ 43,245	100.0	\$ 38,815	100.0	\$ 37,827	100.0	\$ 38,022	100.0



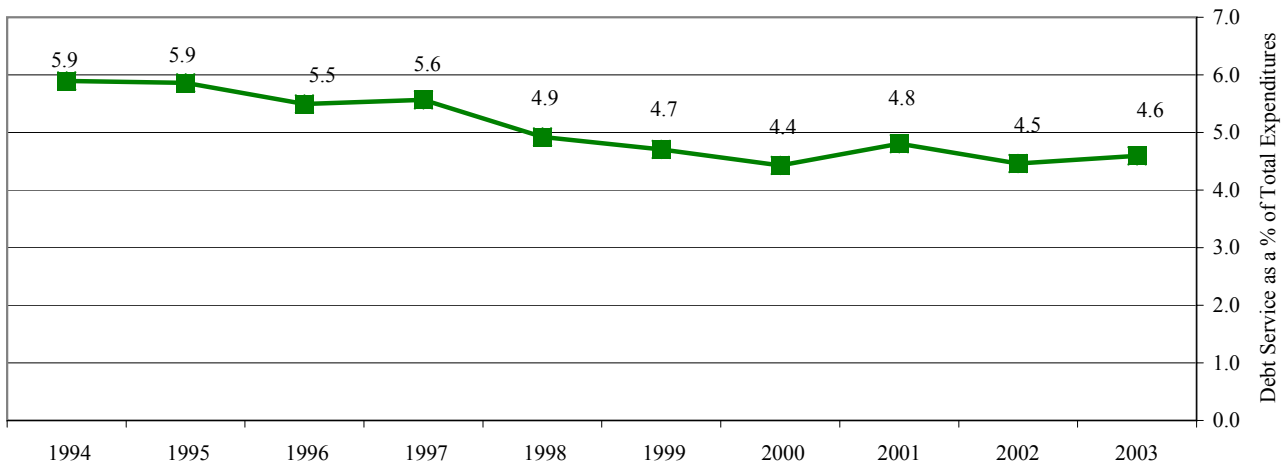
	1999	% Total	1998	% Total	1997	% Total	1996	% Total	1995	% Total	1994	% Total
\$	51	0.2	\$ 51	0.2	\$ 49	0.2	\$ 49	0.2	\$ 47	0.2	\$ 43	0.2
	511	1.6	470	1.5	433	1.6	404	1.7	356	1.5	338	1.5
	2	-	2	-	2	-	2	-	2	-	1	-
	5	-	5	-	5	-	5	-	5	-	4	-
	33	0.1	23	0.1	17	0.1	15	0.1	14	0.1	12	0.1
	2,783	8.6	2,649	8.7	2,711	10.0	2,576	10.5	2,353	9.7	2,052	8.9
	14	-	14	-	12	-	13	-	11	-	11	-
	49	0.2	41	0.1	5	-	29	0.1	22	0.1	38	0.2
	1	-	1	-	1	-	1	-	1	-	1	-
	72	0.2	68	0.2	62	0.2	55	0.2	51	0.2	47	0.2
	1	-	1	-	1	-	1	-	1	-	1	-
	134	0.4	40	0.1	-	-	-	-	-	-	-	-
	2	-	2	-	1	-	1	-	1	-	2	-
	10	-	9	-	6	-	4	-	5	-	5	-
	8	-	7	-	7	-	7	-	6	-	6	-
	1,056	3.3	1,058	3.5	937	3.5	943	3.9	876	3.6	863	3.7
	232	0.7	216	0.7	196	0.7	205	0.8	174	0.7	169	0.7
	356	1.1	351	1.2	344	1.3	347	1.4	340	1.4	358	1.6
	5,160	15.9	5,058	16.6	4,507	16.7	4,606	18.8	4,813	19.8	4,327	18.8
	137	0.4	117	0.4	151	0.6	155	0.6	112	0.5	120	0.5
	1,263	3.9	1,153	3.8	1,026	3.8	958	3.9	865	3.6	458	2.0
	-	-	-	-	-	-	14	0.1	6	-	3	-
	97	0.3	82	0.3	90	0.3	80	0.3	75	0.3	67	0.3
	860	2.6	853	2.8	860	3.2	841	3.4	732	3.0	693	3.0
	57	0.2	31	0.1	33	0.1	111	0.5	199	0.8	214	0.9
	197	0.6	179	0.6	174	0.6	155	0.6	161	0.7	155	0.7
	68	0.2	57	0.2	37	0.1	35	0.1	34	0.1	33	0.1
	166	0.5	186	0.6	189	0.7	121	0.5	24	0.1	24	0.1
	3,829	11.8	3,638	12.0	3,497	13.0	3,241	13.3	3,252	13.4	3,216	14.0
	324	1.0	414	1.4	413	1.5	382	1.6	414	1.7	830	3.6
	4,405	13.6	4,047	13.3	3,677	13.6	3,351	13.7	3,073	12.6	2,727	11.8
	73	0.2	102	0.3	181	0.7	116	0.5	94	0.4	100	0.4
	2,602	8.0	2,532	8.3	2,051	7.6	1,673	6.8	1,698	7.0	1,464	6.4
	1,212	3.7	1,215	4.0	1,278	4.7	1,192	4.9	1,234	5.1	1,152	5.0
	499	1.5	862	2.8	723	2.7	-	-	514	2.1	836	3.6
	6,193	19.1	4,883	16.1	3,311	12.3	2,753	11.3	2,732	11.2	2,651	11.5
\$	32,462	100.0	\$ 30,417	100.0	\$ 26,987	100.0	\$ 24,441	100.0	\$ 24,297	100.0	\$ 23,021	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)

<u>Fiscal year ended June 30</u>	<u>Debt service</u>	<u>Total expenditures</u>	<u>Ratio</u>
2003	\$ 1,467	\$ 31,915	4.6
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

Debt Service to Total Expenditures Ratio 1994 - 2003



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

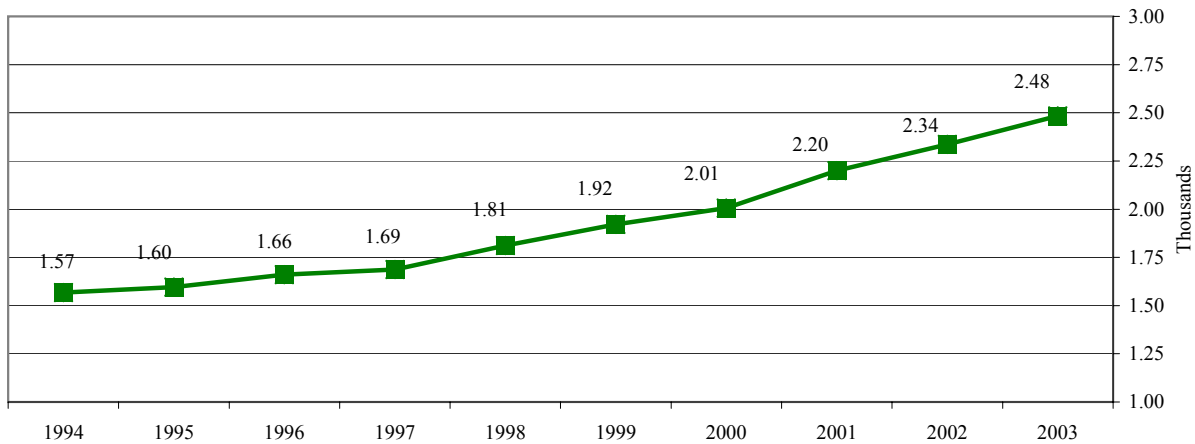
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population ⁽¹⁾	Total long- term bonds and notes payable	Per capita long-term debt
2003	6,428	\$ 15,962,506	\$ 2.48
2002	6,401	14,955,135	2.34
2001	6,362	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

(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 1994 - 2003

(thousands)



Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

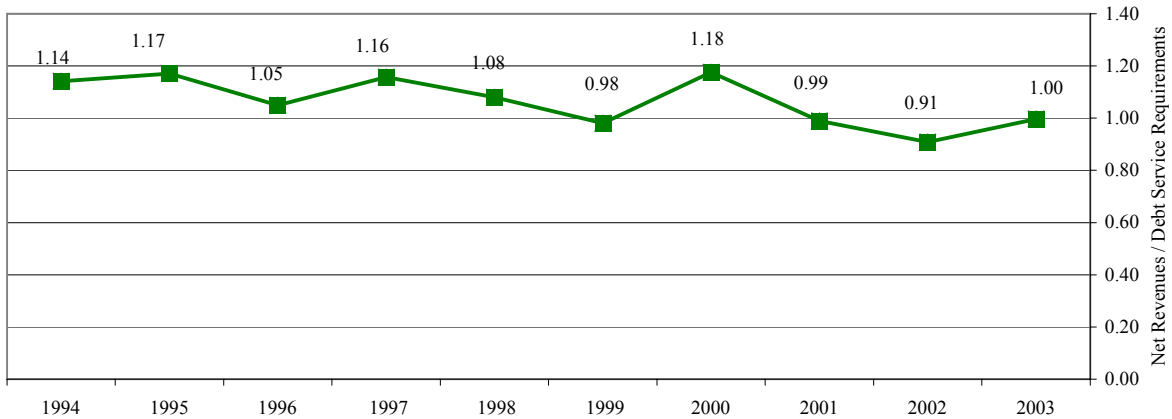
Fiscal year ended June 30	Net revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio
2003	\$ 663,234	\$ 665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08
1997	328,608	283,975	1.16
1996	288,599	275,068	1.05
1995	272,308	232,473	1.17
1994	220,185	192,975	1.14

(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

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 1994 - 2003





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Calculation Of Transfers: Stabilization Fund

June 30, 2003
(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 184 of the Acts of 2002 and Chapter 26 of the Acts of 2003. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

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

General Fund (net of the fund closing transfer).....	\$ 774,116
Highway Fund.....	<u>(623,281)</u>
Consolidated Undesignated fund balance / (deficit).....	<u>150,835</u>
Available to carry forward to subsequent fiscal year 1/2 % of Total Tax Revenue (per Schedule A).....	<u>75,162</u>
Net Consolidated net surplus / (deficit).....	<u><u>\$ 75,673</u></u>

Part 2: Calculation of transfers to Stabilization Fund:

From the General Fund, @ 100%.....	\$ <u>75,673</u>
Total Transfers.....	<u><u>\$ 75,673</u></u>

Part 3: Status of Consolidated Net Surplus after Stabilization Fund transfers:

Undesignated fund balance / (deficit):	
General Fund.....	\$ 698,444
Highway Fund.....	<u>(623,281)</u>
Consolidated Net Surplus.....	<u><u>\$ 75,163</u></u>

Part 4: Status of Stabilization Fund after transfers:

Reserved for Stabilization - Balance as of June 30, 2002	\$ 881,771
Add: FY2003 interest income and other adjustments	6,456
Retroactive tax on Trusts -Pursuant to Ch.4 Sec. 76 Acts of 2003.....	110,074
Unclaimed proceeds from Demutualization -Pursuant to Ch.4 Sec. 78 Acts of 2003.....	76,546
FY2003 Transfers from repealed funds per Ch.26 Acts of 2003 Sec. 713 (See Schedule D)	<u>40,805</u>
	1,115,652
FY2003 Calculated transfer of Consolidated Net Surplus (Part 2).....	<u>75,673</u>
Subtotal	<u>1,191,325</u>
Less: FY2003 Transfers from Stabilization Fund - Pursuant to Ch.184 Sec.189 Acts of 2002.....	<u>550,000</u>
Reserved for Stabilization after the transfers.....	<u><u>\$ 641,325</u></u>

Calculation Of Transfers: Tax Reduction Fund

June 30, 2003
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

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

Undesignated Fund Balance in the Stabilization Fund.....	\$ 641,325
Allowable Stabilization Balance (per Schedule B).....	2,415,827
Stabilization Fund Excess, if any, transferable to Tax Reduction Fund.....	\$ -

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund Balance.....	\$ 641,325
Transfer to Tax Reduction Fund.....	-
Stabilization Fund Balance after transfer to Tax Reduction Fund.....	\$ 641,325

Part 3: Status of Tax Reduction Fund after transfers:

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

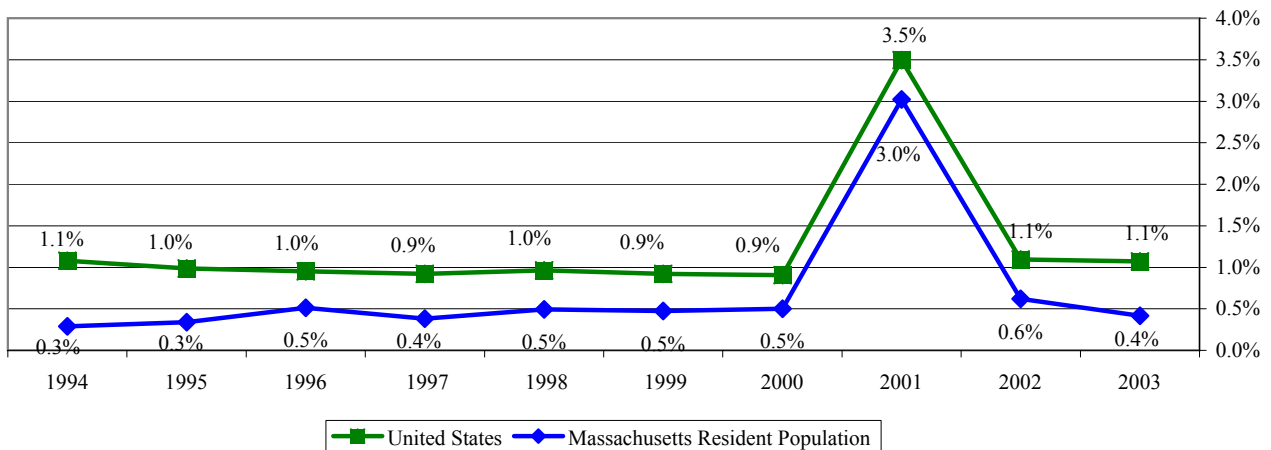
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2003	288,369	1.1%	6,428	0.4%	2.2%
2002	285,318	1.1%	6,401	0.6%	2.2%
2001	282,224	3.5%	6,362	3.0%	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%

(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.). FY01 reflects census 2000 data.

**Massachusetts and United States Estimated Year- to- Year Population Change
1994 - 2003**



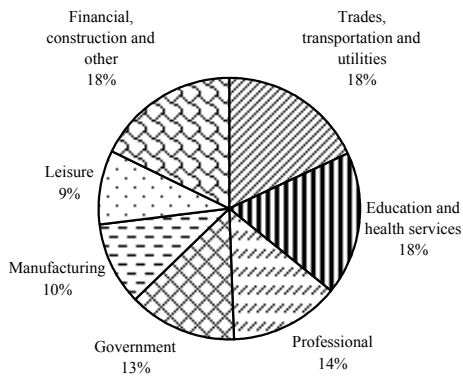
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2003

(Amounts in thousands)

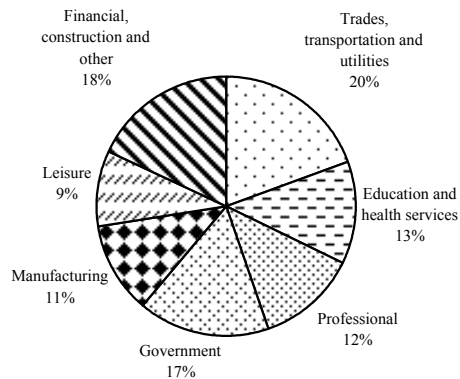
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	331	10.3%	14,772	11.4%	90.5%
Non-manufacturing:					
Construction	131	4.1%	6,837	5.3%	77.5%
Transportation, wholesale and retail trade, warehousing and public utilities	582	18.1%	25,393	19.5%	92.5%
Education and health services	574	17.8%	16,620	12.8%	139.4%
Financial activities	230	7.1%	8,023	6.2%	115.8%
Information activities	94	2.9%	3,301	2.5%	114.8%
Leisure and hospitality services	293	9.1%	12,111	9.3%	97.7%
Professional and business services	440	13.7%	16,068	12.4%	110.5%
Other services	119	3.7%	5,348	4.1%	90.1%
Federal, state and local government	426	13.2%	21,489	16.5%	79.9%
Total Non-manufacturing	2,890	89.7%	115,190	88.6%	101.2%
Total	3,221	100.0%	129,962	100.0%	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, August 2003 for June 2003.

**Massachusetts Employment by Industry
June 2003**



**United States Employment by Industry
June 2003**



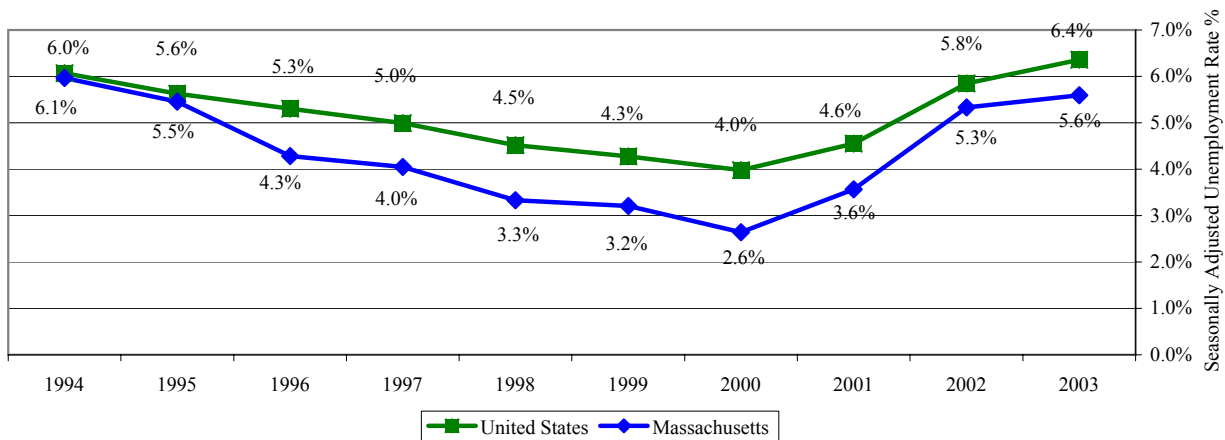
Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2003	3,447	193	5.6%	147,096	9,358	6.4%	88.0%
2002	3,488	186	5.3%	144,852	8,469	5.8%	91.1%
2001	3,389	121	3.6%	143,395	6,526	4.6%	78.4%
2000	3,313	87	2.6%	142,624	5,671	4.0%	66.4%
1999	3,286	105	3.2%	139,383	5,958	4.3%	75.0%
1998	3,271	109	3.3%	137,455	6,212	4.5%	73.7%
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%

Source: - Federal Bureau of Labor Statistics, September 2003. Amounts and rates previous from 1998 through 2002 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2003. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.

**Massachusetts and United States Unemployment Rates
Seasonally Adjusted June 1994 - June 2003**



Twenty-Five Largest Private Sector Massachusetts Employers
(Alphabetical Order)

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>
Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals
Fleet Boston	Boston	Banking
General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University
New England Medical Center	Boston	Hospital
President and Fellows of Harvard College	Boston	University
Raytheon Company	Lexington	Electronics / Defense
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking
The Brigham and Women's Hospital	Boston	Hospital
The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University
UMASS Memorial Medical Center, Inc.	Worcester	Hospital
Verizon New England, Inc.	Boston	Telecommunications

Sources: - Massachusetts Department of Employment and Training - March 2003 survey. In addition, Home Depot USA, Inc., S&S Credit Company, Inc., Sears, Roebuck & Company Inc., The May Department Stores Company, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York.

Standard and Poors 500 Companies Headquartered in Massachusetts

Company	Stock Symbol	Headquarters	Product or Service	Worldwide Employees	Latest Audited Revenues (\$millions)	Fortune 500 Rank	
						2003	2002
Raytheon Co. (New)	RTN	Lexington	Aerospace & Defense	76,400	\$ 16,760	105	119
FleetBoston Financial	FBF	Boston	Financials	50,000	8,696	115	106
TJX Companies Inc.	TJX	Framingham	Apparel Retail	89,000	11,981	161	179
Staples Inc.	SPLS	Framingham	Specialty Stores	57,816	11,596	165	178
John Hancock Financial Services	JHF	Boston	Diversified Financial Services	7,962	8,455	208	209
Gillette Co.	G	Boston	Personal Products	30,300	8,453	218	240
EMC Corp.	EMC	Hopkinton	Computer Storage & Peripherals	17,400	5,438	308	263
State Street Corp.	STT	Boston	Diversified Financial Services	19,501	4,396	340	313
Reebok International	RBK	Canton	Footwear	7,400	3,128	483	-
Boston Scientific	BSX	Natick	Health Care Equipment	13,900	2,919	-	-
Thermo Electron	TMO	Waltham	Electronic Equipment & Instruments	10,900	2,086	-	-
Analog Devices	ADI	Norwood	Semiconductors	8,600	1,782	-	-
PerkinElmer, Inc.	PKI	Wellesley	Electronic Equipment & Instruments	10,700	1,505	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	7,200	1,222	-	-
Biogen, Inc.	BGEN	Cambridge	Biotechnology	2,633	1,148	-	-
Waters Corporation	WAT	Milford	Electronic Equipment & Instruments	3,587	890	-	-
Parametric Technology	PMTC	Needham	Application Software	3,803	719	-	-
Millipore Corp.	MIL	Bedford	Electronic Equipment & Instruments	4,310	704	-	-

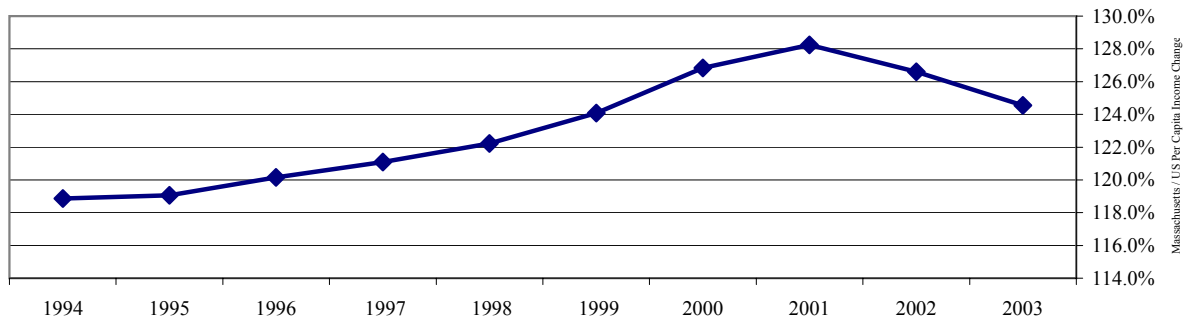
Sources: - Standard and Poors (from Standardandpoors.com) , the Boston Globe (May 20, 2003, section F) and Fortune Magazine (from fortune.com). BJ's Wholesale Club and Allmerica Financial are part of the Fortune 500, but are not part of the Standard & Poors 500.

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

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2003	\$ 31,658	1.7%	\$ 39,428	0.1%	124.5%
2002	31,129	2.3%	39,408	1.0%	126.6%
2001	30,436	0.2%	39,030	1.4%	128.2%
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%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2003 of June 30, 2003. 2002 restated by BEA. (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
1994 - 2003**



Bridge Facts

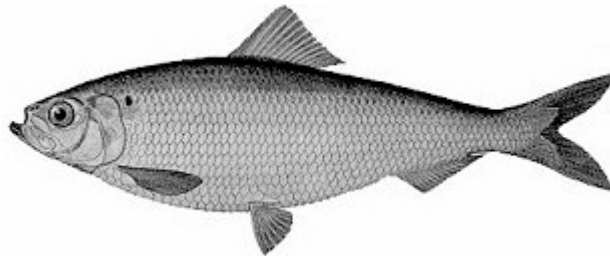
This is the first Christopher Menn bridge built outside Switzerland

It is asymmetrical with 6 northbound lanes and 4 southbound lanes.

The Zakim's cable-stayed design has no support columns into the river, leaving the busy waterway as open as possible to boaters and marine life.

Seventy diamond- and hexagonal-shaped holes, 35 between the North End ramp and the northbound and southbound lanes, allow light to filter through and dapple the river below. Without the holes, the 185 foot-wide bridge would have cast such a long shadow that spawning alewife may have lost their way, environmentalists theorized. This design will minimally disrupt the migration patterns of the fish.

(*Alosa pseudoharengus*)



The bridge was designed to have relatively smooth concrete pavement with grooves to help motorists avoid hydroplaning on wet days. Mitigation measures were also taken to reduce the potential for rain- and wind-induced cable vibrations.

The hollow concrete towers were cast in place. Nine box girder sections were barged into place and raised into place by cranes.

There are 246 floodlights that light the bridge. The lights at the foot of the towers reflect in the water and create a dramatic glow. They are normally purple but have been changed to another color to signal an event or celebration.

The Bridge was designed to withstand tornado-force winds, up to 400 miles per hour and to handle an earthquake of 7.9 on the Richter scale.

Fiber-optic cables are enclosed in a pipe that connect to video cameras and traffic "loop" detectors that feed information into the Big Dig's Intelligent Highway System.



Lenny Zakim was the Executive Director of the Anti-Defamation League of New England for 20 years. He was a master at coalition building and at getting people from Boston's traditionally segregated communities to talk and move together to improve the quality of life for all.

In the early 1980s, he began a black-Jewish Passover Seder. In its first year, six people attended the event, but by 1999 it attracted a record 650 people. Later, Zakim also organized a Catholic-Jewish Seder.

He also created *Team Harmony*, a program that brings many of Boston's best-known athletes into Massachusetts' schools to speak with youngsters personally about what they know from their own experience — that people of different backgrounds can be different and disagree, yet respect one another and work together to a great common purpose. "You've got to give young people the support to work against peer pressure," he said. "These kids have to know that if they stop a racial slur or a bigoted joke, when they stand up for the rights of anyone, they are being as heroic as any great athlete." *Team Harmony* rallies have involved over 10,000 students each year and have drawn the likes of the Boston Celtics, New England Patriots, Boston Red Sox and Boston Bruins, the rock band U2, former Senator Hillary Rodham Clinton and civil rights legend John Lewis.

Admirers of Lenny's work suggested endowing a chair in diversity in his name at Harvard University. Uninterested in the prestige, Lenny, once again, chose to focus himself on other efforts and declined, "I thanked them," he recalled, "and suggested that the most rewarding way to honor me would be to create a funding vehicle for the many small organizations that get left behind by mainstream philanthropy." With initial backing of Harvard's \$250,000 grant, the *Lenny Fund* was born. The *Lenny Fund* was set up to give grants to interfaith coalitions and schools, community organizations and programs focusing on domestic and youth violence, mentoring and healthcare. This year will mark the eighth *Annual Lenny Fund Grants*. To contact the *Lenny Fund*, call 617-951-6808.