

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2009*

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

*This document and related information are available at*



*"Your Government, Your Way"*

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



*View of the sea side garden*

## House of Seven Gables

The House of the Seven Gables inspired author Nathaniel Hawthorne to write his legendary novel of the same name. Also known as the Turner-Ingersoll Mansion, it is a unique building with a mysterious secret staircase. Built in 1668, this is the oldest surviving 17th century wooden mansion in New England.

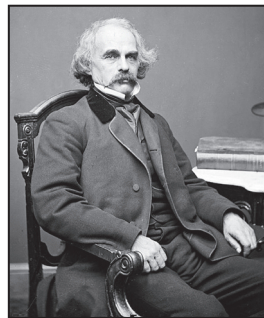
Caroline Emmerton, a philanthropist and preservationist, founded The House of the Seven Gables Settlement Association to assist immigrant families who were settling in Salem. Inspired by Jane Addam's Hull House, she purchased what was the old Turner Mansion in 1908 and worked with architect, Joseph Everett Chandler to restore it to its original seven gables.

Over time Emmerton and the organization's trustees acquired and moved to the site five additional 17th, 18th and 19th century structures: The Retire Becket House (1655); The Hooper Hathaway House (1682); Nathaniel Hawthorne's Birthplace (c1750); The Phippen House (c.

1782); and The Counting House (c. 1830). The House of the Seven Gables' campus constitutes its own national historic district on The National Register of Historic Places.

*Text and photo courtesy of the House of Seven Gables  
www.7gables.org*

*House of Seven Gables Salem, Massachusetts  
Photograph courtesy of The House of the Seven Gables*



## Nathaniel Hawthorne (1804-1864)

While not a particularly fine example of Georgian architecture, this house is best known for one famous inhabitant. It was here, in this modest home, that Nathaniel Hawthorne was born on July

*Photo courtesy of Wikipedia*

4th, 1804 to Elizabeth and Nathaniel Hawthorne. Tragically,

Nathaniel's father, a sea captain, died while on a voyage when Nathaniel was only five years old. This left Elizabeth with three small children and little wealth. She and her children were left no alternative but to move out of this house and accept the charity of her family, the Mannings. Elizabeth Hawthorne was not alone in losing her husband on an ocean voyage. In the late 1700's upwards of one in four women were widows who had lost their men to the sea.



*Nathaniel Hawthorne's Birthplace  
Photo courtesy of The House of the Seven Gables*

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

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*Photography from AS I REMEMBER IT:  
Portrait of Dorothy West*

This film was written, produced and directed by Salem Mekuria and distributed by Women Make Movies - [www.wmm.com](http://www.wmm.com)

West worked for the Works Progress Administration's Federal Writers' Project until the mid-1940s. She then moved to Oak Bluffs on Martha's Vineyard, where she wrote her first



*Dorothy West at book signing*

novel, *The Living Is Easy*. In 1982 a feminist press brought *The Living Is Easy* back into print, giving new attention to West. At age 85 West finally finished a second novel, titled *The Wedding*. Published in 1995, the novel was a best-seller. West died at the age of 91 and was one of the last surviving members of the Harlem Renaissance.

The Dorothy West home is now a stop on the African American Heritage Trail of Martha's Vineyard and the dedication plaque quotes the author "There is no life that does not contribute to history."



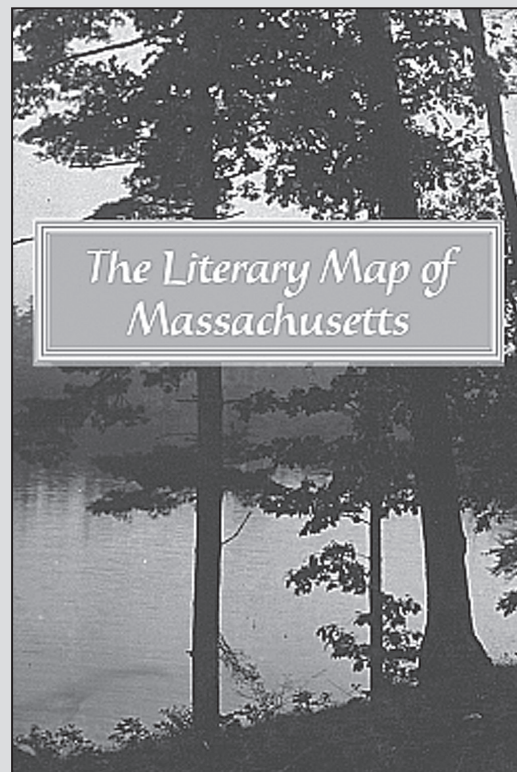
*Photograph courtesy of  
Elaine Weintraub*

### **Dorothy West (1907-1998)**

Dorothy West was born in Boston on July 2, 1907, to Isaac Christopher West, an emancipated slave who later became a successful businessman, and Rachel Pease Benson, who was one of 22 children. West reportedly wrote her first story at the age of 7. In 1926, West tied for second place in a writing contest sponsored by Opportunity, a journal published by the National Urban League, with

her short story "The Typewriter". The person West tied with was future novelist Zora Neale Hurston.

Shortly before winning, West moved to Harlem with her cousin, the poet Helene Johnson. There West met other writers of the Harlem Renaissance, including Langston Hughes who gave West the nickname of "The Kid", by which she was known during her time in Harlem. West's principal contribution was to publish the magazine *Challenge*, which she founded in 1934 with \$40 and the magazine's successor, *New Challenge*. These magazines were among the first to publish literature featuring realistic portrayals of African Americans.



*The theme for this year's report was inspired by the Massachusetts Literary Map published by the Massachusetts Center for the Book. This map is a guide to over 250 of the Commonwealth's literary heritage sites.*

*Special thanks to Sharon Shaloo, Executive Director of the Massachusetts Center for the Book for her generous assistance.*

# Introductory Section

*Letter of Transmittal*

*Acknowledgements*

*Commonwealth Organizational Structure*

*Constitutional Officers*

*Advisory Board to the Comptroller*

*Certificate of Achievement*

*Wisdom and knowledge,  
as well as virtue,  
diffused generally among  
the body of the people  
being necessary for  
the preservation of their  
rights and liberties . . .  
it shall be the duty of  
legislatures and magis-  
trates,  
in all future periods  
of this commonwealth,  
to cherish the interests  
of literature.*

*from the Massachusetts Constitution, Chapter V, Section II,  
The Encouragement of Literature, etc.*



The Massachusetts Center for the Book (MCB) is the Commonwealth Affiliate of the Center for the Book in the Library of Congress. It is funded by sustaining grants from the Massachusetts Board of Library Commissioners, the Boston Athenaeum/Calderwood Writing Initiative, Boston Public Library, and Simmons College Graduate School of Library and Information Sciences and receives additional support from the Massachusetts Cultural Council, Mass Humanities, Library of Congress, and Target Stores. Established in 2000, MCB works with partners in the Commonwealth and with the network of state-center affiliates across the nation to connect readers with Massachusetts authors and with the rich tradition of books and reading in the Bay State.

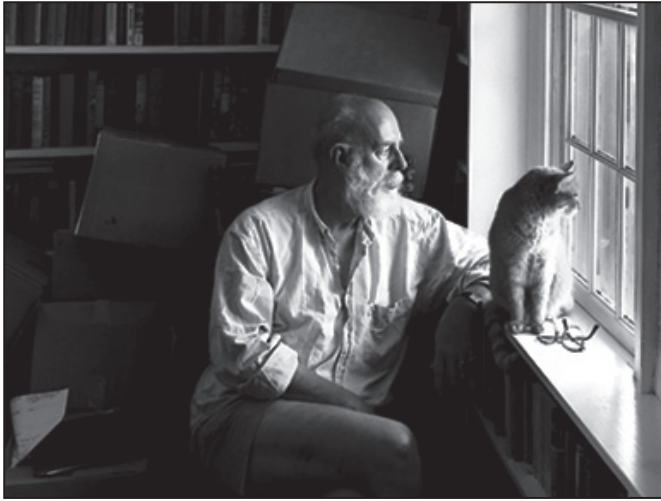
MCB programs include the annual Massachusetts Book Awards, Letters About Literature student writing project, and the Literary Map of Massachusetts, a cultural tourism guide to literary heritage sites in the Commonwealth, a sampling of which are featured in this report.

*To see the sites included in the Literary map: [www.massbook.org](http://www.massbook.org)*

*© Massachusetts Center for the Book*

*All rights reserved*





*Edward Gorey at home  
Photo courtesy of ©Steve Marsel*



*Courtesy of the Edward Gorey House*

### Edward Gorey House (1925-2000)

A truly prodigious and original artist, Edward St. John Gorey, gave to the world over one hundred works, including *The Gashlycrumb Tinies*, *The Doubtful Guest* and *The Wuggly Ump*; prize-winning set and costume designs for innumerable theater productions from Cape Cod to Broadway; a remarkable number of illustrations in publications such as *The New Yorker* and *The New York Times*, and in books by a wide array of authors from Charles Dickens to Edward Lear, Samuel Beckett, John Updike, Virginia Woolf, H.G. Wells, Florence Heide

and many others. His well known animated credits for the PBS *Mystery* series have introduced him to millions of television viewers.

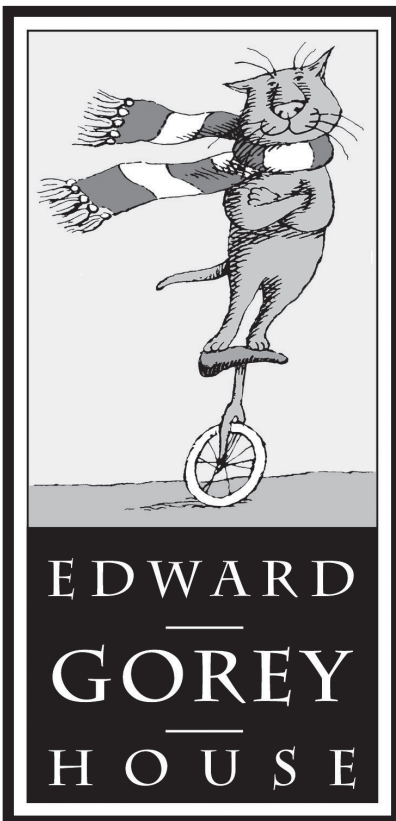
The Edward Gorey House celebrates and preserves the life and works of Edward Gorey. In honor of his legacy, the house, owned and lived in by Gorey himself, displays his diverse and extraordinary talents and reflects his distinct personality. As reflected through his works and his generosity to

various animal welfare organizations, Edward Gorey was a great advocate of animals, large and small, all over the world. Some of the organizations Gorey expressed a fondness for in his lifetime included the Tufts Veterinary School, the Bat Conservation International Foundation and the Xerces Society.

*Text excerpts courtesy of [www.edwardgoreyhouse.org](http://www.edwardgoreyhouse.org)*

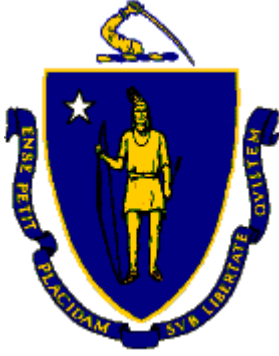


*Doubtful Guest  
Courtesy of the Edward Gorey House*



*Doubtful Guest  
Courtesy of the Edward Gorey House*





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

***December 23, 2009***

***To the Citizens of the Commonwealth of Massachusetts,  
Governor Deval L. Patrick, Lieutenant Governor Timothy P.  
Murray, and Honorable Members of the General Court***

I am pleased to transmit the Commonwealth's fiscal year 2009 (FY09) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. 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 of operating on that basis from FY09 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). 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 46 to 49 present the governmental operations on a modified accrual basis of accounting. 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 as they come due. 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 capital 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.

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 auditors’ report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial and public utilities sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. “The Great and General Court,” elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting, the statutory basis presented in separately issued financial statement this past October, the fund basis, and entity wide basis statements, included in this report.

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

**Governmental Funds - Statutory Basis, June 30, 2009:**

Budgeted Fund Balance.....	\$ 1,016.6
Non Budgeted Special Revenue Fund Balance.....	1,418.1
Capital Projects Fund Balance.....	<u>34.2</u>

**Governmental Fund Balance - Statutory Basis, June 30, 2009.....** **\$ 2,469.0**

Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	353.6
CA/T Owner Controlled Insurance Program Net Assets.....	52.2
Trust fund reclassified as Permanent trust fund.....	<u>5.0</u>

**Adjusted Statutory Governmental Fund Balance.....** **2,879.8**

Short term accruals, net of allowances and deferrals for increases /(decreases):

Taxes, net of refunds and abatements.....	\$ 1,475.8
Tobacco Settlement Agreement receivable.....	146.3
Medicaid.....	(308.8)

Other short term accruals:

Assessments and other receivables.....	178.2
Amounts due to authorities and municipalities, net.....	(352.0)
Claims, judgments and other risks.....	(20.0)
Amounts due to health care providers and insurers.....	(120.8)
Workers' compensation and group insurance.....	(107.5)
Other accruals, net.....	<u>(105.2)</u>

**Net increase to governmental fund balances.....** **786.0**

**Massachusetts School Building Authority fund balance.....** **1,395.5**

**Total changes to governmental funds.....** **2,181.5**

**Governmental fund balance (fund perspective).....** **\$ 5,061.3**

Plus: Capital assets including infrastructure, net of accumulated depreciation.....	18,993.7
Deferred inflows of resources, net of other eliminations.....	746.4

Long term accruals:

Pension Benefits cumulative over / (under) funding.....	(565.0)
Post employment benefits other than pensions cumulative over / (under) funding.....	(1,149.0)
Environmental remediation liability.....	(173.8)
Massachusetts School Building Authority long - term debt and school construction grants.....	(7,337.3)
Assets to be transferred related to the Central Artery / Tunnel project.....	(7,052.5)
Long term debt, unamortized premiums and deferred losses on debt refundings.....	(19,437.0)
Compensated absences.....	(481.2)
Capital leases.....	(109.8)
Accrued interest on bonds.....	(299.1)
Other Long term liabilities.....	<u>(350.5)</u>

**Total governmental net assets (entity wide perspective).....** **\$ (12,153.7)**

The significant deficit of \$12.2 billion in the government wide net assets can be attributed to the Commonwealth policy decision to finance the construction of assets owed by other government entities. The Commonwealth has or will transfer assets in excess of \$14 billion related to Central Artery – Third Harbor Tunnel project to the Massachusetts Turnpike Authority while retaining large amounts of debt sold to finance this project. In addition, the Commonwealth held \$7.3 billion in debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns.

The FY09 entity wide deficit has increased by over \$3 billion since the close of FY08. This increase in the deficit is primarily attributable to 3 factors:

- The decline in the Commonwealth's statutory balances, primarily the Stabilization Fund, used to offset the unprecedented decline in tax revenues;
- The decline in assets reserved to finance the Commonwealth's pension liability and the resulting increase in the required contribution to fund that liability; and,
- The recognition of the Commonwealth's OPEB liability on an unfunded basis and the consequential use of a lower discount rate.

## REPORTING ENTITY

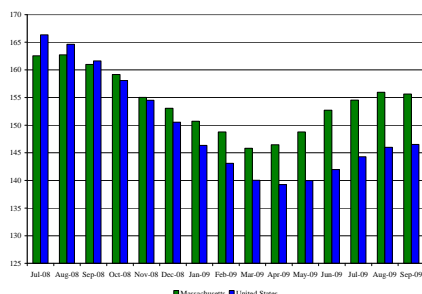
The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 39 independent public authorities. These entities, along with the State Employees' and Teachers' Retirement systems are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The Massachusetts School Building Authority is blended into the Commonwealth's operations. The Clean Energy Center began operations this year and is included as a discretely presented component unit. A major change to the financial statements will occur in FY10 when the Massachusetts Turnpike Authority merges with the Highway Department, Aeronautics Commission, Registry of Motor Vehicles, portions of the Department of Conservation and Recreation and the operations of the Tobin Memorial Bridge in Boston to form the new Massachusetts Department of Transportation.

## ECONOMIC CONDITION

Problems in the subprime mortgage and other credit markets deepened in 2009 as a recession continued. However, signs of recovery are showing. As portrayed on the left, national and Massachusetts home values appeared to have bottomed in the spring of 2009. The Commonwealth's per capita net income continues to exceed the nation,

*Massachusetts and National Home Values – July 2008 – August 2009*  
*Case – Schiller Index*  
*January 2000 = 100*





ending the 2008 calendar year at 27% above the national average, rising 4% during the year.

Unfortunately, unemployment levels rose to their highest levels since the early 1990's in the Commonwealth, yet remained less than the nation as a whole for the year. The Commonwealth continues to contain a large employment base of education, as well as health and human service positions that somewhat stabilize the economy. However, even those institutions are not immune to a deep recession. Nationally, between the third and fourth quarters of 2008 and the first two quarters of 2009, the federal bureau of economic analysis reported that the gross domestic product fell by 2.7%. For the Commonwealth, annual figures show that between 2007 and 2008, which partially includes this recession, the gross state product grew by 3.6%. Further economic data on the Commonwealth in comparison to the rest of the nation is found in the statistical section of this report.

By most accounts, fiscal pressures will continue in the Commonwealth for some time. In October 2009, the Governor announced a \$600 million budget gap exists for FY10. In response, the budget for FY10 has been cut by nearly \$269 million across all secretariats. This represents about 1% of the FY10 General Appropriation Act. A managerial furlough plan has been extended. Programs and services across the Commonwealth will be affected by these budgetary constraints not only in FY10, but into FY11 until tax revenues recover.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, KPMG LLP with assistance from the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2009. OSA also plays a significant role in the audit of the Schedule of Expenditures of Federal Awards of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditors' 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 annual report available on their web site: <http://www.mass.gov/sao>.

The Office of the Comptroller prepares these financial statements and is responsible 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, 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.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set, meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth

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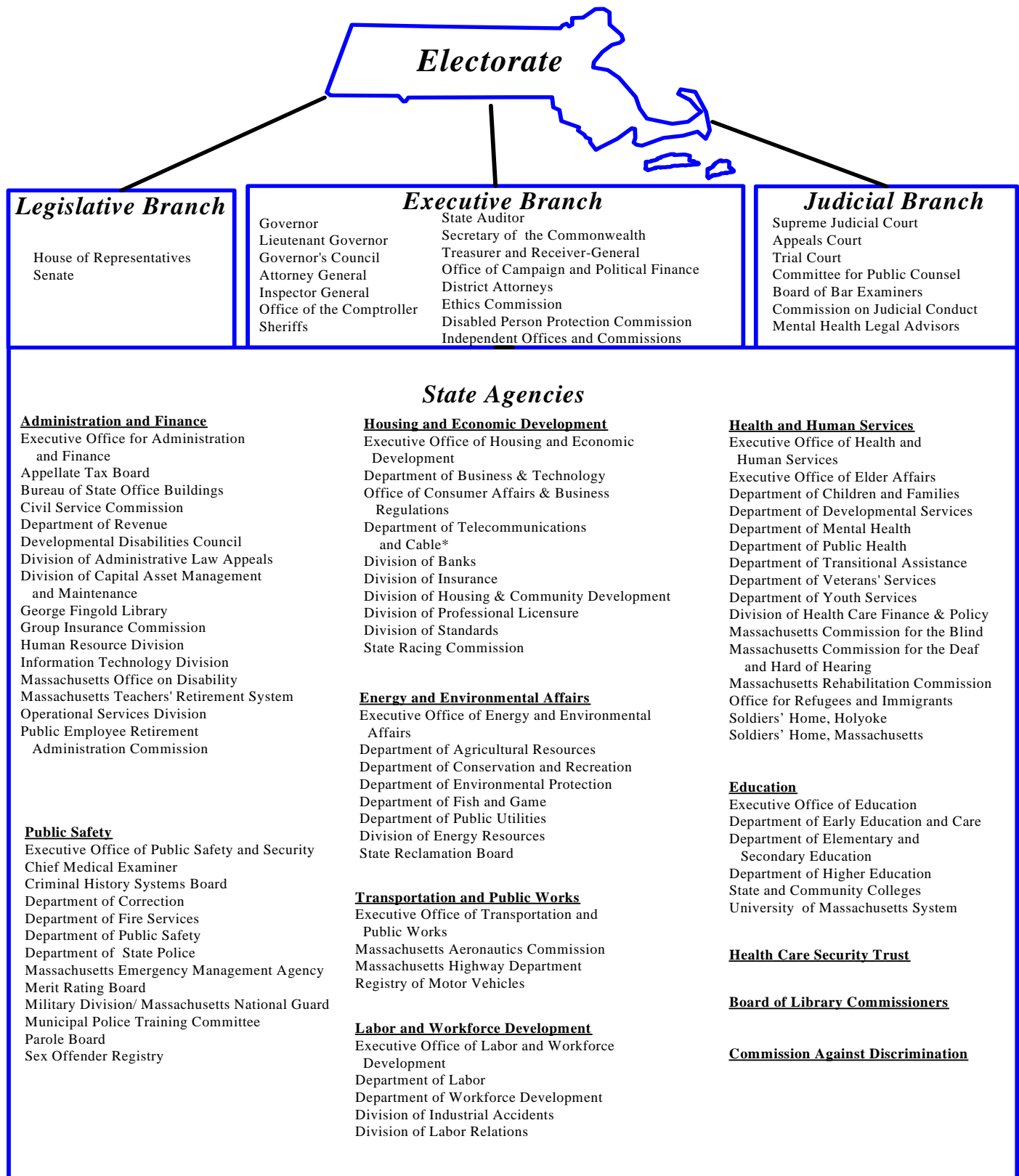
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As of June 30, 2009



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*Lieutenant Governor*

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*Secretary of State*

Martha Coakley  
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*Auditor*

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Phillip Rapoza  
*Chief Justice, Appeals Court*

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

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A. Joseph DeNucci  
*Auditor*

Timothy P. Cahill  
*Treasurer and Receiver-General*

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

Martha Coakley  
*Attorney General*

Diana Salemy  
*Gubernatorial Appointee*



*Portrait of Mrs. John Stevens (Judith Sargent, later Mrs. John Murray)  
By John Singleton Copley  
Courtesy of the Terra Foundation for American Art, Chicago, Illinois*

### **Judith Sargent Murray (1751-1820)**

Gloucester native Judith Sargent Murray is considered the most important female essayist of the New Republic. An early Universalist who was involved with her husband, the Universalist preacher John Murray, in establishing a Universalist Society in Salem, she championed female equality, education, economic independence, civic and political participation. Her landmark essay "On the Equality of the Sexes" was published in the prestigious Massachusetts Magazine in 1790; it is considered the first public claim of female equality in America.

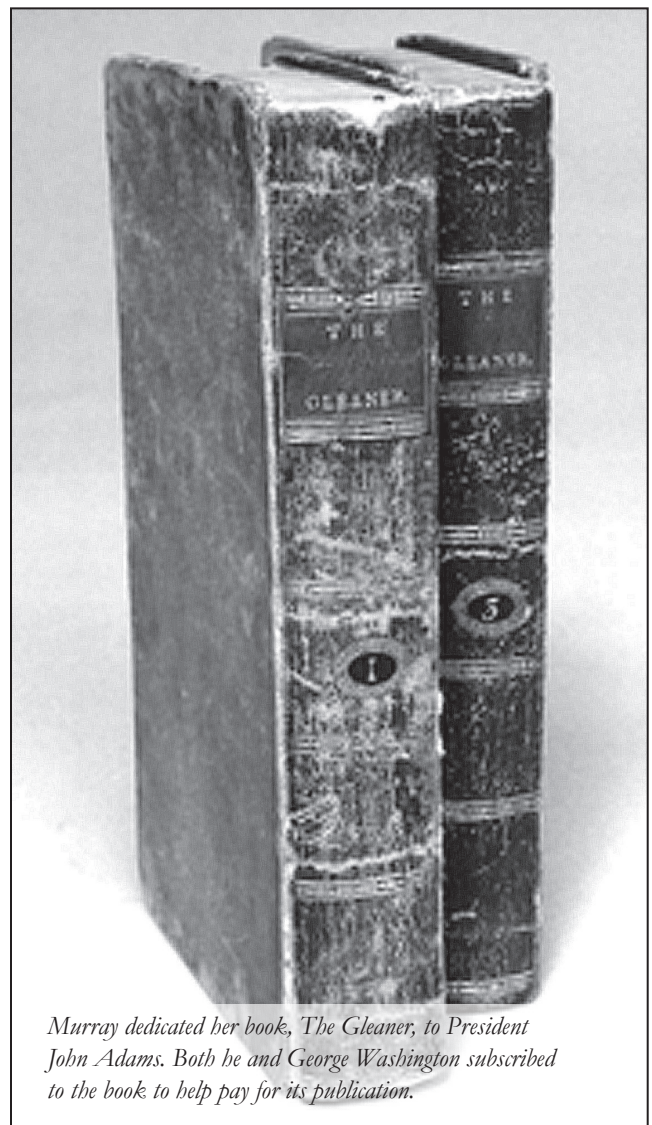


*Judith Sargent Murray Museum  
Courtesy of Bonnie Hurd Smith*

In 1798, Judith Sargent Murray became the first woman in America to self-publish a book. *The Gleaner* — a compilation of her political essays and two plays — became a minor classic.

Throughout her adult life, Judith Sargent Murray also kept letter books in which she made copies of letters she wrote between 1765 and 1818 to family, friends, and political figures. Only recently discovered, these letter books offer a new eyewitness account of life primarily on the North Shore and in Boston; they are considered the only such document kept systematically by a woman during this period of time.

*Text excerpts courtesy of Bonnie Hurd Smith  
Judith Sargent Murray Society*



*Murray dedicated her book, *The Gleaner*, to President John Adams. Both he and George Washington subscribed to the book to help pay for its publication.*

*Judith Sargent Murray's book  
Courtesy of Bonnie Hurd Smith  
Photo by Jeffrey Dykes*





*Stanley Kunitz  
Courtesy of Worcester County  
Poets Association*

## **Stanley Kunitz (1905-2006)**

Stanley Kunitz was born in Worcester and his early years are the subject of several poems.

In 1985, the poet sought out his childhood home and was welcomed by Carol and Gregory Stockmal who had bought the home in 1979. A long friendship began. Kunitz dedicated his poem

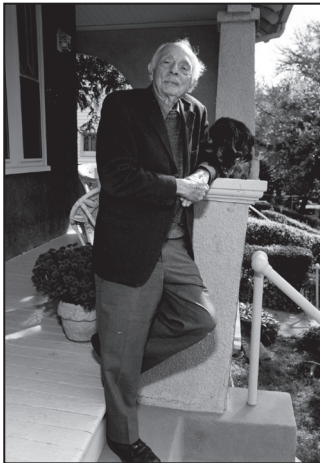
1974 to 1976, he served as poetry consultant to the Library of Congress and again named U.S. Poet Laureate (as the position is now designated) in July 2000, a few days after his 95th birthday.

At the age of 100, he published his last book, *The Wild Braid: A Poet Reflects on a Century in the Garden*. Written in collaboration with his literary assistant Genine Lentine and accompanied by photographs by Marnie Crawford Samuelson of the writer in his beloved Provincetown garden.

*Text courtesy of Worcester County Poetry Association [www.wcpa.org](http://www.wcpa.org)*

"My Mother's Pears" to the Stockmalls, who for years sent him pears from the tree he and his mother planted on the property.

Kunitz established himself as an extremely influential writer in this country. He won the Pulitzer for Selected Poems 1928-1958; other awards include the Guggenheim Fellowship and the Fellowship Award of the Academy of American Poets, the Bollingen Prize and the Lenoire Marshall Prize, the Brandeis Medal of Achievement, the Walt Whitman Citation of Merit, the National Book Award, and in 1993 President Clinton awarded him the National Medal of Art. He was a Professor of Poetry at Columbia, a translator of the works of several Russian writers, including Voznesensky, Akhmatova, and Mandelstam, an editor of the Yale Series of Younger Poets, and was named the first official New York State Poet. From



*©2009 Marnie Crawford Samuelson*

*Poet Stanley Kunitz in his garden, Provincetown, MA. from the book, *The Wild Braid*, published by W. W. Norton & Company, by Stanley Kunitz, Genine Lentine and Marnie Crawford Samuelson. This photo was taken on the first year anniversary of 9/11.*

*Marnie Crawford Samuelson is a documentary photographer and videographer at Boston Picture Group in Jamaica Plain, MA.*

*Contact info: email [marnie@bostonpicturegroup.com](mailto:marnie@bostonpicturegroup.com) or call 617 921 0725.*

*To see more of her photos, please go to [www.bostonpicturegroup.com](http://www.bostonpicturegroup.com)*



*Stanley Kunitz's Childhood home  
Photo courtesy of Alan Carey*



# 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, 2008

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



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# Financial Section

*Independent Auditors' Report*

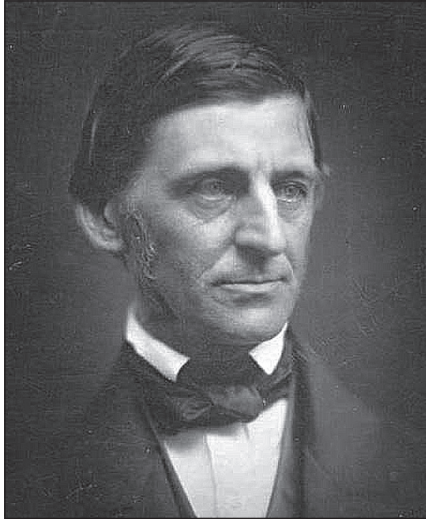
*Management's Discussion and Analysis*

*Basic Financial Statements*

*Notes to the Basic Financial Statements*

*Required Supplementary Information Other Than Management's Discussion and Analysis*

*Other Supplementary Information*



*Portrait of Ralph Waldo Emerson*

## **Ralph Waldo Emerson (1803-1882)**

Ralph Waldo Emerson, perhaps America's best known thinker, led a renaissance in American ideas in the 19th Century: a search to realize the high potential of the individual person, to understand the proper role of the individual in society, and to discover and celebrate the interrelation and sacredness of all life. He was both a pragmatist and an idealist, a prolific writer and a poet.



*Emerson's study, containing the circular table he designed.*

*Courtesy of the Concord Museum*



*Courtesy of The Ralph Waldo Emerson, Concord, MA*

Emerson lived most of his adult life at his home in Concord, MA. From there he wrote his well known essays, such as *Self-Reliance* and *The American Scholar*; cultivated friendships with Bronson Alcott, Henry Thoreau, Margaret Fuller and others; and traveled throughout the United States and Europe to give lectures on moral character, spiritual insight, education, political power and reform, the arts and sciences, and the social order. In his later years, he advocated passionately for the abolition of slavery.

*Text courtesy of [www.rwe.org/emersonhouse](http://www.rwe.org/emersonhouse)*



*The family on the East Doorstep, Emerson House, c. 1879*

*Courtesy of [www.rwe.org/emersonhouse](http://www.rwe.org/emersonhouse)*



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## **INDEPENDENT AUDITORS' REPORT**

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts  
Boston, 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 (the Commonwealth), as of and for the year ended June 30, 2009, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying 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 the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 79% of the total assets of the business-type activities. We did not audit 50% of the total assets of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 10% of the total assets of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 11% of the total assets of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of certain nonmajor component units identified in Note 13 were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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 of Massachusetts as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 of Massachusetts' basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 23, 2009



*Louisa May Alcott*  
*Courtesy [www.louisamayalcott.org](http://www.louisamayalcott.org)*

### **Louisa May Alcott (1832-1888)**

Louisa May Alcott was born on November 29, 1832. She and her three sisters, Anna, Elizabeth and May were educated by their father, philosopher/teacher, Bronson Alcott and raised on the practical Christianity of their mother, Abigail May.

Louisa spent her childhood in Boston and Concord, Massachusetts, where her days were enlightened by visits to Ralph Waldo Emerson's library, excursions into nature with Henry David Thoreau and theatricals in the barn at Hillside (now Hawthorne's "Wayside").

For Louisa, writing was an early passion. Confronting a society that offered little opportunity to women seeking employment, Louisa determined "...I will make a battering-ram of my head and make my way through this rough and tumble world." Whether as a teacher, seamstress, governess, or household servant, for many years Louisa did any work she could find.

In 1854, when she was 22, her first book "Flower Fables" was published. A milestone along her literary path was Hospital Sketches (1863) based on the letters she had written home from her post as a nurse in Washington, DC, during the Civil War.

After moving twenty-two times in nearly thirty years, the Alcotts finally found their most permanent home they called Orchard House, where they lived from 1858 to 1877. The grounds also contained an orchard of forty apple trees, which greatly appealed to Mr. Alcott, who considered apples the most perfect food.



*Louisa May Alcott's Orchard House*  
*Courtesy [www.louisamayalcott.org](http://www.louisamayalcott.org)*

The house is most noted for being where Louisa May Alcott wrote and set her beloved classic, *Little Women*, in 1868 at a "shelf desk" her father built especially for her. The novel is based on Louisa and her sisters' coming of age and is set in Civil War New England. Jo March was the first American juvenile heroine to act from her own individuality; a living, breathing person rather than the idealized stereotype then prevalent in children's fiction.

In all, Louisa published over 30 books and collections of stories. She died on March 6, 1888, only two days after her father, and is buried in Sleepy Hollow Cemetery in Concord.

*Text courtesy of [www.louisamayalcott.org](http://www.louisamayalcott.org)*



*Bronson Alcott's School of Philosophy*  
*Photo by Andrew Dillon Bustin*



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## Management's Discussion and Analysis

*(Unaudited)*

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, 2009 (FY09). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, 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 in and excluded from this analysis.

### Financial Highlights – Primary Commonwealth Government

#### *Government-Wide Highlights*

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY09 by over \$8.2 billion, which was a drop of more than \$3.5 billion during the fiscal year. Of the \$8.2 billion deficit amount, “unrestricted net assets” is negative by more than \$12.3 billion, offset by \$2.2 billion in “restricted net assets” and nearly \$1.9 billion in the Commonwealth's investment in capital assets, net of related debt. There are two primary reasons for negative unrestricted net assets. Legislation mandates that the Highway Department transfer the Central Artery / Third Harbor Tunnel (CA/T) to the Massachusetts Turnpike Authority and the Massachusetts Port Authority upon completion. In FY10, the Commonwealth will transfer these assets to the newly created Massachusetts Department of Transportation, which combines the Highway Department, the Aeronautics Commission, the Registry of Motor Vehicles, the Executive Office of Transportation and Construction, the operation of the Tobin Memorial Bridge and the Massachusetts Turnpike Authority into a singular transportation structure. As part of this combination, the capital assets will transfer to the new authority and offsetting liability will be reduced. The Commonwealth, however, paid for the construction of these assets and retains a large amount of related debt, which will now be unrelated to any capital asset. The Commonwealth also has a liability of \$3.3 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). MSBA continued to approve grants in FY09. This overall liability of \$3.3 billion decreased by approximately \$457 million during FY09 due to grant payments made to municipalities during the year in excess of projects added to the MSBA's waiting list and new programs. During the fiscal year, approximately \$1.0 billion in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$573 million was restricted for debt retirement.
- ◆ **Increased spending results in Increased Unrestricted Net Deficit** – Overall, revenues of the Commonwealth increased by 2.5% in FY09 from FY08. Tax revenues declined by 12.6% reflecting the profound recession that the nation is facing, but charges for services increased by 3.8%. As expenses increased by 12.2%, reflecting the need for increased programs and services such as the ‘safety nets’ of Medicaid and unemployment

compensation, the Commonwealth's net deficit widened to \$8.2 billion. Medicaid expenses increased by nearly \$1.1 billion as did Health and Human Services costs of approximately \$291 million. Net assets of the business – type activities showed a decrease of over \$684 million almost entirely in Unemployment Compensation.

To alleviate some of the strain on programs and services, the Commonwealth enacted a number of measures this year:

- Four budgetary provisions were passed to draw nearly \$1.3 billion from the Commonwealth's stabilization fund (a non-major fund) to fund current operations.
  - Commonwealth financial support for local governments (local aid) was cut by \$412 million, but eventually funded by funds from the American Recovery and Reinvestment Act of 2009 (ARRA).
  - Because of ARRA, the Commonwealth received approximately \$870 million in Federal Medicaid Assistance Percentage Funds, representing a temporary increase in federal matching funds.
  - The Commonwealth reduced allowable spending in all budgeted functions of government by nearly \$631 million.
  - The Commonwealth lengthened its pension funding schedule. The approved schedule now reflects a full funding of pensions by 2025, instead of 2023. An additional three years of amortization are afforded under generally accepted accounting principles for governments allowing for additional flexibility in the future.
  - Component units contributed funds or reduced or returned subsidy transfers of approximately \$95 million.
- ♦ **Lottery Deficit** – In FY09, the State Lottery transferred approximately \$844 million in the aggregate to municipalities as mandated by the general appropriation act, regardless of the actual amount available in the State Lottery Fund. Lottery revenues for FY09 declined 5.4% to approximately \$4.7 billion. Prizes were approximately \$3.7 billion and operating expenses and the mandated transfers were over \$1 billion. Subsequent to year end, legislation was passed that transferred \$43.7 million from the General Fund into the Lottery to cure the current year deficit. To help ensure that the State Lottery Fund remains stable, the FY10 budget contains a fixed amount of \$936 million from the State Lottery Fund with any deficit paid from the General Fund.

Overall, the Commonwealth's financial operations resulted in net asset decreases by over \$3.5 billion in FY09 before accounting changes. Net assets of governmental activities decreased by about \$2.8 billion. The decrease in net assets is primarily attributable to three issues; the economic recession necessitating more services of about \$1.8 billion, a large drop in pension net assets of about \$667 million, adding to net pension obligations and approximately \$993 million related to underfunding of retiree health care.



## *Fund Highlights*

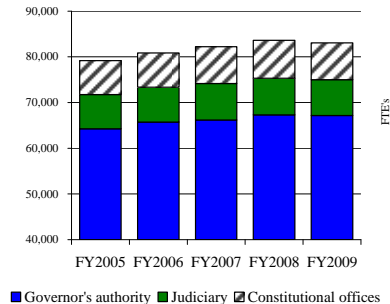
**Governmental Funds – Fund Balances** – At June 30, 2009, the Commonwealth's governmental funds reported a combined ending fund balance of nearly \$5.1 billion. Of the \$5.1 billion:

- Nearly \$4.4 billion represents unreserved and undesignated fund balance. Fund balances decreased by over \$2.0 billion due to the downturn in the economy. Fund deficits of major governmental funds were again eliminated this year due to year end supplemental budgets or deficit elimination activities already in statute. Similar to last year, approximately \$146 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY10.
- The MSBA's fund balance of approximately \$1.4 billion is blended into the Commonwealth. Within this fund balance are over \$1.9 billion in cash and investment contracts which were funded by bond proceeds in previous fiscal years, and other assets less approximately \$522 million in current liabilities. Nearly \$700 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals.
- Governmental reserved fund balances total nearly \$626 million. The vast majority of this is over \$573 million reserved for retirement of indebtedness, which is held in escrows related to refunding bonds and to pay grant anticipation notes. Of the remaining portion, \$52 million is reserved for the Central Artery / Tunnel owner controlled insurance program for workers' compensation and general liability.

Other highlights of FY09 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$315 million, all of which were used to support current operations. This was a rise from FY08 due to additional non-participating manufacturers settling under the master settlement agreement. The master settlement agreement with the tobacco manufacturers (MSA) estimates Commonwealth revenues for the first 25 years of the settlement to be approximately \$7.6 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 95.5% of the estimated amounts shown in the MSA were received in FY09. The Commonwealth continued to receive Strategic Contribution Fund payments under the terms of the MSA in FY09. These payments are projected to be received through FY17.

**Full Time Equivalent Workforce  
Including Higher Education  
June 2005 – June 2009**



**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-wide Financial Statements**

- The Commonwealth enacted over \$15 billion in bond authorizations, more than doubling the amount of authorized but unissued debt from FY08. These acts included amounts for affordable housing, transportation funding, life sciences, higher education infrastructure, Commonwealth-wide broadband internet services, land preservation, parks and clean energy, information technology, bridge restoration and parkways. Additionally, dormant authorizations were de-authorized. The amounts will be reflected in capital spending and bonding in the coming years.
- Full time equivalent employee counts declined by approximately 1% this year. The graphic to the left details the changes over the last five years. The Governor has announced managerial furloughs and potential staff reductions in FY10 to meet the challenges of the continuing recession.

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.

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 presents 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. The statements report the Commonwealth's net asset position and changes to those net assets. It can be inferred that an increase or decrease in the Commonwealth's net assets is one way to measure financial health as well as the trend of increases or decreases over time. But non-financial measures such as capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

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*. Governmental activities are where the Commonwealth's basic services are reported. Business-type activities are where fees are charged for a particular service. These are mainly the institutions of higher education. The component units are separate legal entities that are included with this report due to the nature of their governance and financial relationship with the Commonwealth.

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. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures. Only the most significant funds are included discretely in the fund financial statements, with the remaining funds included in the aggregate.

Fund 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. Most operate similar to private-sector businesses.

Even though the MSBA is a component unit, the MSBA’s operations have been judged by management in a similar fashion to a Commonwealth agency due to MSBA’s service to the Commonwealth. Therefore, its operations are reported as part of the governmental funds.

**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 and Highway Funds, along with a reconciliation comparing the original general appropriation act, and supplemental appropriations compared with actual budgetary spending. Variance columns are also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is provided. A schedule of pension funding progress is also included in this section.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

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

School construction grants payable.....	\$ 3,314,850
Massachusetts School Building Authority debt..	4,047,913
Outstanding bonds issued to fund the MBTA .....	231,000
Central Artery / Tunnel Project to be transferred to the Department of Transportation.....	<u>7,052,466</u>
Change in unrestricted net assets due to items unique to the Commonwealth.....	<u>\$ 14,646,229</u>

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of over \$8.2 billion at the end of FY09. The *unrestricted net assets* are negative by over \$12.3 billion. A substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth. The most significant example is the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the newly created Massachusetts Department of Transportation (MDOT) and to the Massachusetts Port Authority (Massport) during FY10. Portions that have not been transferred are shown as long-term payables on the Statement of Net Assets. While the assets will be owned by MDOT and Massport, a large portion of the liabilities will remain with the Commonwealth. To date, nearly \$15 billion of the related assets have entered into service and \$6.9 billion of in use assets have been transferred. The non-right of way portion of these assets will depreciate until November 1, 2009 and transfer to MDOT net of accumulated depreciation. In FY10, MDOT will report these capital assets on their financial statements, which will then be incorporated into the Commonwealth's financial statements similarly to other component units.

Another example of this type of arrangement is the MSBA. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax administered by the MSBA. In FY09, the amount of MSBA's grants payable dropped by approximately \$457 million due to grant payments made to municipalities in excess of additional waiting list projects and new programs. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39, the authority's operations are reported within a governmental fund in this report and on the government-wide financial statements.

There are two other instances related to authorities, where the Commonwealth incurs debt, but has no related assets. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the Massachusetts Bay Transportation Authority (MBTA) a change enacted in FY00. As of June 30, 2009, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately \$231 million, inclusive of unamortized bond premiums.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments decreased by over \$2.1 billion between July 1, 2008 and June 30, 2009. To finance its cash flow, commercial paper borrowing continued in FY09 along with revenue anticipation notes due to the timing of current year receipts and current year major expenses such as the payment of local aid. Over \$2.2 billion in short term commercial paper and revenue anticipation notes were sold and redeemed during the fiscal year.

Noncurrent assets decreased by over \$452 million. The decrease is attributable to a nearly \$173 million decline in restricted cash at institutions of higher education, a \$231 million decline of long-term investments, the aforementioned decline in pension assets and an over \$700 million decline in the unemployment compensation trust fund, offset by increases in depreciable capital assets and long term receivables.

Nearly \$22.3 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 requires the reporting 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. As part of the creation of the new MDOT, the majority of the Commonwealth's capital asset structure related to horizontal infrastructure will transfer from the Commonwealth's books to MDOT, along with an equal reduction in investment in capital assets, net of related debt, which is an offset to net assets.

The bulk of the Commonwealth's net assets are comprised of 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 \$10.2 billion, while its current liabilities were over \$8.1 billion. Restricted net assets represent resources that are subject to external constraints. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business – type activities.

**Net Assets as of June 30, 2009 and 2008**  
(in millions of dollars)

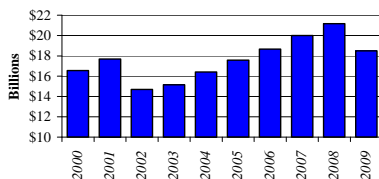
	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Current assets.....	\$ 8,938	\$ 10,250	\$ 1,310	\$ 1,371	\$ 10,248	\$ 11,621
Non-capital non-current assets.....	3,203	3,634	2,420	3,096	5,623	6,730
Capital assets.....	18,994	18,621	3,288	3,006	22,282	21,627
<b>Total Assets.....</b>	<b>31,135</b>	<b>32,505</b>	<b>7,018</b>	<b>7,473</b>	<b>38,153</b>	<b>39,978</b>
Current liabilities.....	7,170	7,118	944	718	8,114	7,836
Long term liabilities.....	36,119	34,549	2,144	2,158	38,263	36,707
<b>Total Liabilities.....</b>	<b>43,289</b>	<b>41,667</b>	<b>3,088</b>	<b>2,876</b>	<b>46,377</b>	<b>44,543</b>
Net assets:						
Invested in capital assets, net of related debt.....	190	447	1,699	1,562	1,889	2,009
Restricted.....	609	979	1,609	2,390	2,218	3,369
Unrestricted.....	(12,953)	(10,588)	622	645	(12,331)	(9,943)
<b>Total Net Assets (deficits) ....</b>	<b>\$ (12,154)</b>	<b>\$ (9,162)</b>	<b>\$ 3,930</b>	<b>\$ 4,597</b>	<b>\$ (8,224)</b>	<b>\$ (4,565)</b>



The Commonwealth restated beginning net assets in FY09 due to the implementation of new accounting standards as of July 1, 2008 and the addition of a change to a component unit at the University of Massachusetts and minor restatements at the other institutions of higher education. The new accounting standards required the Commonwealth to value its liability related to environmental remediation costs. This liability decreased beginning net assets by approximately \$171 million and is included as part of ending liabilities in the amount of approximately \$174 million.

## Changes in Net Assets

### *Revenue from Taxation – GAAP Basis 2000-2009*



### *American Recovery and Reinvestment Act Funds Drawn in FY09 (amounts in thousands)*

Governmental Activities Programs:	
Early elementary and secondary education.....	\$ 416,196
Labor and workforce development.....	6,644
Public safety and homeland security.....	12,589
Medicaid.....	876,236
Transportation and public works.....	148
Subtotal - Governmental Activities.....	1,311,813
Business - Type Activities Programs:	
Unemployment compensation.....	100,449
Total ARRA Program Activity.....	<u>\$ 1,412,262</u>

The Commonwealth's net assets declined by over \$3.5 billion between FY08 and FY09. This is not including the aforementioned restatement of beginning balance due to new accounting standards. Revenues in general increased slightly, but tax revenue decreased by nearly \$2.7 billion. The tax revenue decrease is attributable in large part to decreases of \$2.2 billion in income tax payments and a \$244 million decrease in sales and use tax collections and a \$650 million drop in other forms of taxes offset by a \$417 million increase in corporate taxation. The Department of Revenue has also implemented sophisticated "data mining" software, which seeks out non-filer data from a multitude of sources. This has increased the amount that has been declared as receivable on the Statement of Net Assets, but also has increased an offsetting allowance for doubtful accounts, as many of these non-filers may be cash-based businesses or are already in financial difficulty.

Because of ARRA and other federal grants and participation, operating and capital grant contributions increased \$4.1 billion in FY09, offsetting the drop in other operating revenues. As of June 30<sup>th</sup>, ARRA funds received by the Commonwealth were in excess of \$1.4 billion, of which \$1.3 billion were from either Medicaid or State Fiscal Stabilization Fund (SFSF) grants. Federal Medicaid Assistance Program (FMAP) receipts from ARRA were in excess of \$870 million and \$412 million was in the form of SFSF funds used for local educational aid for municipalities. Additional ARRA amounts received were for labor and workforce development and transportation and public works. However, these increases in funding also triggered required increases in spending. Medicaid spending rose by nearly \$1.1 billion while unemployment compensation also rose by over \$1.9 billion.

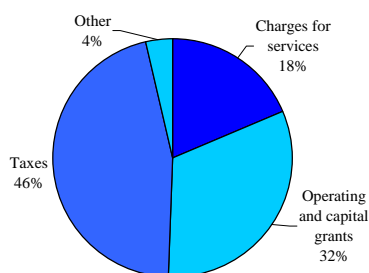
Total charges for services increased by more than \$409 million due to an a \$259 million increase in charges at the University of Massachusetts, an increase of over \$58 million at the state and community colleges and an increase in Health and Human Services charges of over \$117 million related to health care reform. However there was a nearly \$262 million decrease in Lottery revenues. Increases in charges for services also occurred in Public Safety and Homeland Security (up \$21 million) and Energy and Environmental Affairs (up \$64 million.) Group health insurance charges for services rose by approximately \$21 million. Approximately 40% 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. Restricted net assets decreased by over \$1.2 billion from FY08 due to a sharp drop in the balance of unemployment compensation restricted net assets by nearly \$739 million and a drop in restricted net assets for

indebtedness due to the retirement of over \$352 million in crossover refunded bonds.

**Changes in Net Assets during the Fiscal Years Ended June 30, 2009 and 2008**  
(in millions of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	09 to '08
							Distribution	Distribution	% Change
<b>Revenues</b>									
Program Revenues:									
Charges for services.....	\$ 7,461	\$ 7,453	\$ 3,754	\$ 3,353	\$ 11,215	\$ 10,806	24%	24%	4%
Operating grants and contributions.....	12,059	9,272	1,721	711	13,780	9,983	30%	22%	38%
Capital grants and contributions.....	853	484	-	-	853	484	2%	1%	76%
General Revenues:									
Taxes.....	18,499	21,174	-	-	18,499	21,174	40%	47%	-13%
Other.....	1,489	2,057	140	270	1,629	2,327	4%	5%	-30%
<b>Total Revenues.....</b>	<b>40,361</b>	<b>40,440</b>	<b>5,615</b>	<b>4,334</b>	<b>45,976</b>	<b>44,774</b>	<b>100%</b>	<b>100%</b>	<b>3%</b>
<b>Expenses</b>									
Medicaid.....	10,843	9,770	-	-	10,843	9,770	22%	22%	11%
Direct local aid.....	5,210	5,119	-	-	5,210	5,119	11%	12%	2%
Health and human services.....	7,452	6,378	-	-	7,452	6,378	15%	14%	17%
Lottery.....	3,693	3,910	-	-	3,693	3,910	7%	9%	-6%
Higher education.....	-	-	3,884	3,693	3,884	3,693	8%	8%	5%
Early elementary and secondary education....	3,210	2,917	-	-	3,210	2,917	6%	7%	10%
Unemployment compensation.....	-	-	3,475	1,555	3,475	1,555	7%	4%	123%
Other.....	11,703	10,733	-	-	11,703	10,733	25%	24%	9%
<b>Total Expenses.....</b>	<b>42,111</b>	<b>38,827</b>	<b>7,359</b>	<b>5,248</b>	<b>49,470</b>	<b>44,075</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>
<b>Excess / (Deficiency)</b>									
<b>before transfers.....</b>	<b>(1,750)</b>	<b>1,613</b>	<b>(1,744)</b>	<b>(914)</b>	<b>(3,494)</b>	<b>699</b>			
Loss on sale of capital assets.....	-	-	(12)	-	(12)	-			
Transfers.....	(1,071)	(1,178)	1,071	1,178	-	-			
Change in Net assets (deficits).....	(2,821)	435	(685)	264	(3,506)	699			
Net assets - beginning, as restated .....	(9,162)	(9,597)	4,597	4,333	(4,565)	(5,264)			
Restatement - change in accounting principle .....	(171)	-	18	-	(153)	-			
Net assets - ending.....									
<b>Total Net Assets (deficits) .....</b>	<b>\$ (12,154)</b>	<b>\$ (9,162)</b>	<b>\$ 3,930</b>	<b>\$ 4,597</b>	<b>\$ (8,224)</b>	<b>\$ (4,565)</b>			

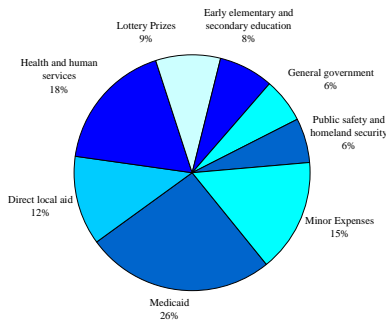
**Revenue—Governmental Activities**  
Fiscal Year Ending June 30, 2009



The largest category of tax revenue is income taxes. Of the nearly \$18.5 billion in tax revenue within governmental activities, \$10.5 billion was from income taxation, \$3.9 billion from sales, \$1.9 billion from corporations, \$654 million from motor fuels and over \$1.6 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. Other operating grants increased this year due to ARRA. The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues encompass approximately 62% of the Commonwealth's governmental charges for services. Lottery revenues decreased this year by approximately \$262 million. The decrease in sales is mostly attributed to a decrease in instant game sales by nearly \$273 million from FY08.

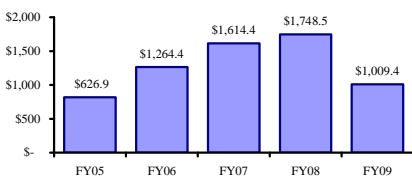
Medicaid represents 26% of all the Commonwealth's governmental expenses, exclusive of business – type activities. However, it must be noted that because of ARRA, more than half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted herein in the “operating grants and contributions” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

### Major Expenses—Governmental Activities Fiscal Year Ending June 30, 2009



### Business-Type Activities

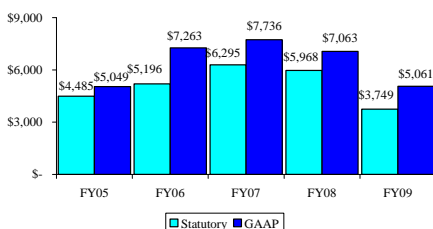
#### Unemployment Compensation Fund Net Assets Fiscal Years 2005 - 2009 (Amounts in Millions)



## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

### Governmental Funds

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



Other than noted above, large expenditures for governmental activities include payments of pensions, education and higher education funding from the General Fund, public safety and other health and human service costs. Pre-K through higher education costs funded not directly from the institutions totaled approximately \$3.2 billion, post-employment benefit costs were \$2.3 billion, public safety and homeland security was approximately \$1.9 billion and other health and human services costs was approximately \$7.5 billion. In FY10, transportation and public works costs for most of the year will not be part of general government costs. Rather, they will be part of the new MDOT.

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 over \$684 million. This includes an approximate \$739 million decrease in the Commonwealth's Unemployment Compensation Fund net assets. Despite operating revenue increases of approximately \$1.1 billion, unemployment claims more than doubled due to the economy, increasing by over \$1.9 billion this fiscal year. The net asset balance is below that of FY06 in the fund. Net assets of the schools of higher education, increased by nearly \$55 million largely due to increases in net tuition and fee revenue (by nearly 7.8%.) Miscellaneous revenues, largely ancillary higher education sales and services and federal grants grew by nearly 37%. Overall, revenues of business type activities grew by nearly 35%.

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

Governmental funds account for the near term inflows, outflows and balances of expendable 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. In FY09, because of the nature of the significant relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY09 added \$747 million in revenues. MSBA's fund balance however subtracted approximately \$179 million to the Commonwealth's governmental fund balance at the end of the year. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and information warehouse are combined with reports from each of the Commonwealth departments to record governmental fund perspective,

departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level.

The 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, judgments and tax revenue accruals.

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

	FY09	FY08	FY07	FY06	FY05
Beginning fund balances .....	\$7,062.7	\$7,735.9	\$7,263.2	\$5,048.6	\$4,424.4
Reclassifications.....	-	-	5.0	-	-
Revenues and other financing sources.....	49,788.0	50,136.8	49,402.2	47,189.9	43,532.6
Expenditures and other financing uses.....	51,789.4	50,810.0	48,934.5	44,975.3	42,908.4
Excess / (deficiency).....	(2,001.4)	(673.2)	472.7	2,214.6	624.2
Ending fund balances .....	<u>\$5,061.3</u>	<u>\$7,062.7</u>	<u>\$7,735.9</u>	<u>\$7,263.2</u>	<u>\$5,048.6</u>

The decrease in revenues and expenditures in FY09 from FY08 is attributable to a decrease of nearly \$2.8 billion in governmental tax revenues due to the economy, offset by an increase of nearly \$3.2 billion in federal reimbursements, mostly due to ARRA and other draws for various health and human services. Assessments grew by over \$71 million, but other departmental revenues decreased by over \$46 million. Because of the increased federal reimbursement activity more than offsetting the decrease in tax revenues, overall total revenues only declined by \$112 million from FY08. Coupled with other financing sources, largely from bonds and transfers, the decrease was nearly \$349 million approximately 1%.

Due to the need for governmental services, governmental fund expenditures grew at a much larger pace (about 6%) led by an approximate \$1.1 billion increase in Medicaid. Debt service declined slightly from FY08. In addition to the MSBA and the General Fund, balances decreased this year – the General Fund dropping largely due to another fund deficit elimination action by the Legislature. This action transferred funds primarily to the Highway Fund, which will close in FY10 due to the MDOT legislation. Lottery revenues and expenditures continued their decline that started in FY07. Within the Lottery, revenues slightly outpaced spending by about \$34 million. The other minor governmental funds also decreased in fund balance, largely due to the increased need for programs and services. Universal Health Care spending exceeded revenues by more than \$238 million for the year, due to the continuing rise of health care costs. The Grant Anticipation Note Trust Fund spending also increased due to the payment of crossover refunding bonds. Most other minor funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY09, the Commonwealth's governmental funds reported combined ending fund balances of nearly \$5.1 billion, a decrease of over \$2.0 billion from the previous year. However, of the approximate \$5.1 billion, the following amounts are reserved or committed:

### Governmental Funds - Reserves of Fund Balances

(Amounts in millions)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage Change</u>
Reserved:				
Retirement of indebtedness .....	\$ 573.3	\$ 925.6	\$ (352.3)	-38%
Central Artery				
Workers Compensation and				
General liability insurance reserve.....	52.2	77.1	(24.9)	-32%
<b>Total reserved balances .....</b>	<b>625.5</b>	<b>1,002.7</b>	<b>(377.2)</b>	<b>-38%</b>
<b>Total unreserved balances .....</b>	<b>4,435.8</b>	<b>6,060.1</b>	<b>(1,624.3)</b>	<b>-27%</b>
<b>Total fund balances .....</b>	<b>\$ 5,061.3</b>	<b>\$ 7,062.8</b>	<b>\$ (2,001.5)</b>	<b>-28%</b>

Unreserved and designated balances declined by over \$1.6 billion, with lower balances in nearly every fund type. Unreserved balances of General and Special revenue funds declined mainly due to spending outpacing revenues. Capital project fund balances showed an increase entirely due to the timing of bond sales. In FY10, a large amount of capital project fund activity will transfer to the new MDOT. However, that spending will be financed through Commonwealth debt necessitating expenditures to MDOT of bond proceeds.

The amounts reserved for retirement of indebtedness entirely represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY10. 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 are expected to rise during the windup of the project.

During FY09 the general and highway 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 \$1.7 billion. Of this amount, nearly \$842 million represents the Commonwealth's Stabilization Fund. Over \$57 million was also for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund, which is lower than FY08's continuing appropriations amount of \$136 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY09, the MSBA received approximately \$700 million of dedicated sales tax revenues.



## **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 \$684 million.

## **BUDGETARY HIGHLIGHTS**

The General Appropriation Act (GAA) authorized approximately \$26.7 billion in spending, exclusive of approximately \$1.9 billion in FY08 spending authorized to be continued into FY09 as part of a final FY08 supplemental budget. However, due to revenue shortfalls, in excess of \$600 million was also reduced from budgetary line items during the fiscal year.

Supplemental budgets during the year authorized \$324.0 million in appropriations. Subsequent to year end, one additional supplemental budget was enacted totaling approximately \$66.3 million. The year’s supplemental appropriation and transfer activity included:

- \$9 million for additional compensation of private counsel for their work as public defenders.
- \$76 million for additional health insurance costs for members of the Group Insurance Commission.
- \$6 million for federal disaster related costs for December 2008 and January 2009’s severe winter ice storms and flooding.
- \$103 million in additional snow and ice removal costs.
- \$32 million for correctional facilities.
- \$64 million for health care services provided to medical assistance recipients under the Commonwealth’s indemnity / third party liability plans and those who are not covered under managed care or senior care plans.
- Approximately \$5 million for costs related to the special statewide primary election occurring in FY10 to fill the United States Senate seat held formerly by the late Senator Edward M. Kennedy.
- Approximately \$11 million for workforce training
- And finally, approximately \$4 million for protective gear for public safety officers.

A total of 34 budgetary appropriations were supplemented during the year.

The original budget was passed on July 3, 2008, just after the start of FY09. The Commonwealth has provisions for interim budgets to facilitate operations after the start of a fiscal year, before a fiscal year budget is passed. Transfers of revenues and expenditures largely related to health care reform, stabilization activity, fund deficit elimination, debt service and taxation resulted in approximately \$3.8 billion, net. The required supplementary information that follows the notes to the basic financial statements contains a schedule of revenues, expenditures and changes in fund balances – statutory basis – budget and actual. The statement shows an unfavorable variance of approximately \$892 million of budgetary spending over projected revenues, mainly due to approximately \$3.2 billion unfavorable projection in tax revenues.

Other financing sources exceeded expectations as the general appropriation act does not budget for fringe benefit cost recoveries.

Expenditures were \$943 million less than expectations due to in-year budgetary reductions. The largest amount was \$412 million reduced from direct local aid, but later replaced by ARRA funds. Approximately \$151 million was reduced from pensions due to the extension of the pension funding schedule from 2023 to 2025. \$78 million was cut from transportation and public works, \$61 million from health and human services, \$58 million from subsidies to authorities. Other financing uses exceeded budget due to transfers that are typically not part of the budget process, but are statutorily required. Overall, the various budgetary acts projected nearly a \$497 million shortfall for FY09. But because of the drop in tax revenues, the Commonwealth ended the year with a nearly \$1.4 billion structural deficit, defined as an excess of spending and other uses over revenues and other sources.

## **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, 2009, amounts to approximately \$35 billion, net of accumulated depreciation of approximately \$13 billion, leaving a net book value of over \$22 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, approximately \$8.1 billion of this amount includes assets that will transfer to MDOT as of November 1, 2009 and to the Massachusetts Port Authority that are related to the Central Artery / Tunnel project that are in use and depreciating or are right of way. The majority of the remaining infrastructure assets will also transfer to MDOT in FY10 as well. MDOT will also receive the Tobin Memorial Bridge as an asset on January 1, 2010 from the Massachusetts Port Authority.

During FY09, the Commonwealth embarked on a large effort to investigate all capital assets. That investigation resulted in the recording of additional capital assets previously not included in our systems. The majority of these assets were fully depreciated, but were required to be recorded to have a complete inventory of assets that are to be transferred to MDOT.

The total increase in the Commonwealth's investment in capital assets, net of disposals and changes in accumulated depreciation from 2008 to 2009 was approximately \$675 million, largely in infrastructure and buildings shifting partially from construction in process. 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. Similar to previous charts, FY08 amounts for business-type activities include amounts for the foundations established on behalf of the schools of higher education.

**Capital Assets at Year - End**  
(net of depreciation)  
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land, including Central Artery .....	\$ 1,179,385	\$ 1,134,678	\$ 83,480	\$ 82,143	\$ 1,262,865	\$ 1,216,821
Historical treasures .....	-	-	863	854	863	854
Construction in process .....	2,174,559	2,519,509	399,657	489,127	2,574,216	3,008,636
Construction in process - Central Artery / Tunnel Project .....	-	14,065	-	-	-	14,065
Buildings .....	2,124,394	1,942,065	2,398,736	2,021,911	4,523,130	3,963,976
Machinery and equipment .....	312,450	245,391	301,127	305,393	613,577	550,784
Infrastructure, including Central Artery ....	13,202,952	12,764,862	-	-	13,202,952	12,764,862
Library collections .....	-	-	104,180	106,466	104,180	106,466
<b>Total .....</b>	<b>\$ 18,993,740</b>	<b>\$ 18,620,570</b>	<b>\$ 3,288,043</b>	<b>\$ 3,005,894</b>	<b>\$ 22,281,783</b>	<b>\$ 21,626,464</b>

**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.

Exclusive of MSBA, the Commonwealth issued approximately \$2.5 billion in new debt this year. 21% of the Commonwealth's general obligation debt has been issued as variable rate bonds as of June 30, 2009. Included in this variable rate debt were approximately \$402 million in auction rate securities (about 2% of all general obligation debt) as of June 30, 2009. Because of failed auctions that began in February 2008, meaning there were not enough bids from investors to purchase securities being offered for sale by existing holders, the Commonwealth issued general obligation debt that are ostensibly refunding bonds, but have a purpose of refunding leases in two instances. In late November 2008, the Commonwealth issued approximately \$294 million in bonds to retire a capital lease to the Route 3 North Transportation Improvement Association (a discretely presented component unit) that the Association funded by auction rate securities. A few weeks later, the Commonwealth issued approximately \$68 million in general obligation debt to retire a conduit lease through MassDevelopment (also a discretely presented component unit) to the City of Chelsea that was used to finance a Commonwealth data center.

Approximately \$1.1 billion in bond sales were either for general government purposes or unallocated as of year end and assumed to be for general purposes including for construction and equipment purchases. The remaining new issues were for highway and other infrastructure construction (approximately \$1 billion) or for strictly municipal purposes (approximately \$36 million.) Included in bond sales are issuances of taxable debt of approximately \$72 million to finance activities that could not be financed through tax exempt means.

Following is a table which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

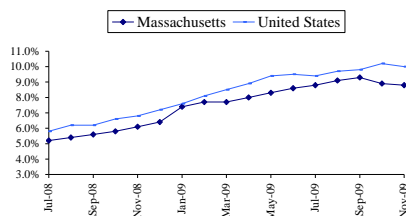
### Long - Term Debt Obligations at Year - End

(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)  
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds .....	\$ 17,042,204	\$ 16,086,470	\$ -	\$ -	\$ 17,042,204	\$ 16,086,470
Special obligation bonds (excluding GANs)	1,088,150	1,112,590	-	-	1,088,150	1,112,590
Revenue obligation bonds .....	-	-	2,103,675	2,017,330	2,103,675	2,017,330
Grant anticipation notes .....	1,134,215	1,535,380	-	-	1,134,215	1,535,380
<b>Subtotal .....</b>	<b>19,264,569</b>	<b>18,734,440</b>	<b>2,103,675</b>	<b>2,017,330</b>	<b>21,368,244</b>	<b>20,751,770</b>
Massachusetts School Building Authority..	3,830,250	3,899,605	-	-	3,830,250	3,899,605
<b>Total .....</b>	<b>\$ 23,094,819</b>	<b>\$ 22,634,045</b>	<b>\$ 2,103,675</b>	<b>\$ 2,017,330</b>	<b>\$ 25,198,494</b>	<b>\$ 24,651,375</b>

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

*Monthly Unemployment Rate  
July 2008 – November 2009*



In December 2007, the nation entered into a recession caused by the downturn in the housing markets and was broadened due to the global capital market restructuring that occurred during FY09. Rates of economic decline have been sharp as the nation's gross domestic product has fallen and unemployment has hit the highest levels in decades. However, some indicators have seemingly bottomed. The Dow Jones Industrial Average, which some say is an indicator of future economic expectations, has risen from a low of 6,547 in March of 2009 to over 10,000. The increase has a way to go to hit the historical high of two years ago of nearly 14,200. Housing values also appear to have started to rise again after hitting lows also in March 2009. Some of those rises may be attributable to tax credits available in ARRA as well as other stimulus measures as some economists have a view that unemployment will remain a problem for the foreseeable future.

Massachusetts' economy outperformed the nation's economy as a whole. Per capita net income rose by over 4% for the calendar year of 2008. As of October 2009, unemployment continued less than the national average but still rising. The rate for the Commonwealth rose from 5.2% in July of 2008 and has risen steadily throughout the year to 9.3% as of September 2009, but dipping slightly to 8.9% in October. Nationwide, the rate has almost continuously risen in the same time span from 5.8% in July 2008 to 10.2% in October 2009, a rate that has not been seen since 1983. The Commonwealth is doing better than other states but there are many uncertain signs. The population of the Commonwealth continues to only slightly grow, showing only seven tenths of a percent increase, despite being the home to many world-renowned institutions of higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Population growth nationwide averages approximately 1% per year.

Even so, 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. The Commonwealth is home to 19 S&P 500 companies, among them seven Fortune 500 headquarters.

Massachusetts also ranks highly in the knowledge - based economy. According to the United States Patent Office, The Commonwealth is fifth in the nation in patents per capita, only slightly behind California and Washington. 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 the 2008 American Community Survey, estimated that 38.1% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 27.7% for the United States as a whole. In the same survey, over 88.7% of residents over age 25 at least have a high school diploma or general education equivalent. In primary education, the National Assessment of Education Progress continues to rank Massachusetts first in 4th and 8th grade mathematics and reading, third in writing and fourth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts school children are consistently among the best educated in the nation.

Because of the recession, inflation was held in check through the past year. The Boston metropolitan statistical area consumer price index (which includes portions of Connecticut, Maine and New Hampshire as well as the Commonwealth,) fell 3.4% from July 2008 to July 2009, largely on a 34% decline in fuel costs. This was after a 37% rise in fuel costs between 2007 and 2008. During the period of July 2008 to July 2009, food prices rose 1.3%, shelter dropped 1% (faring far better than many other metropolitan areas,) transportation dropped 13.8% reflecting large discounts on vehicles. Items that rose faster than inflation include medical care at 5.7%, recreational costs at 3.5% and education communication costs at 4.3%. Absent energy and food costs, the index rose by slightly less than 1%.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth's finances and accountability 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 via email to [comptroller.info@state.ma.us](mailto:comptroller.info@state.ma.us) or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.





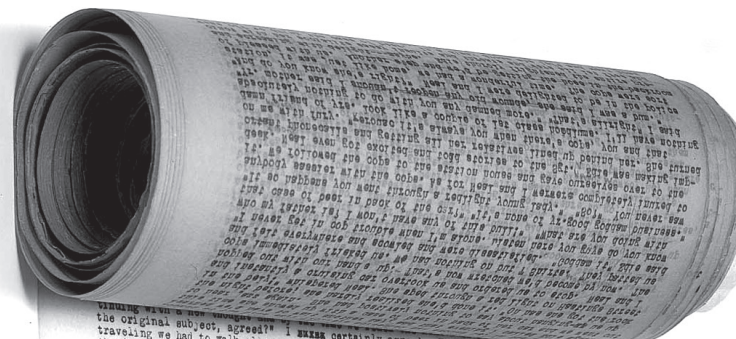
## Jack Kerouac (1922-1969)

Jack Kerouac wrote a spontaneous, sometimes raw prose that captured the immediacy of experience. Born of French-Canadian parents in the Centralville area of Lowell, Jean-Louis Kerouac grew up immersed in the city's ethnic, working-class culture. He is best known for his "road" books, such as *Visions of Cody*, *Dharma Bums*, and especially *On the Road*, which chronicle his restless travels. Through them he became spokesman for what he called the "Beat Generation."

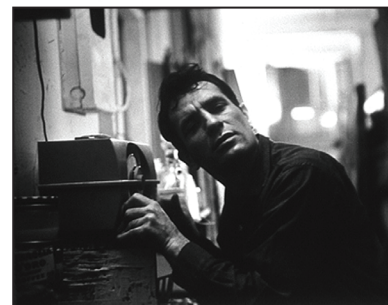
Drawing on his notes and journals from his cross-country travels from 1947-50, Jack Kerouac wrote his first draft of *On the Road* over a three week period in April of 1951. Kerouac taped sheets of teletype paper together so they would run through his manual typewriter, enabling him to keep his flow of writing uninterrupted. The result was a 120-foot continuous “scroll” manuscript. Colts’ owner Jim Irsay purchased the widely-acknowledged icon of the Beat Generation at a Christie’s auction in New York, less than a mile from where it was created.

Kerouac's original *On the Road* scroll manuscript was on display at the Boott Cotton Mills Museum of the Lowell National Historical Park in, 2007. The exhibit coincided with the 50th anniversary of the publication of *On the Road*, recognized as one of the classic novels of modern American literature. The scroll has been on tour for the last four years.

*Text courtesy of the  
Lowell National Park Service.*



*The Kerouac film Lowell Blues  
by Henry Ferrini and  
narrated by Johnny Depp  
is offered daily in the park  
Visitor Center at 4:00 p.m.*



*The original manuscript scroll of Jack Kerouac's seminal novel, On the Road*  
*Photograph of scroll courtesy of Christie's, New York,*  
*and [www.ontheroad.org](http://www.ontheroad.org)*

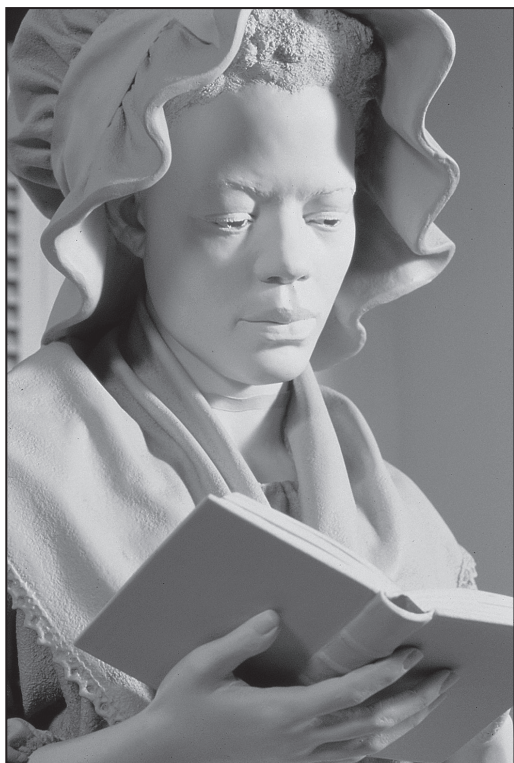


# *Basic Financial Statements*

## *Government-wide Financial Statements*

### *Statement of Net Assets*

### *Statement of Activities*



*Phillis Wheatley Statue at Old South Meeting House  
Courtesy of Susan Wilson*

### **Old South Meeting House**

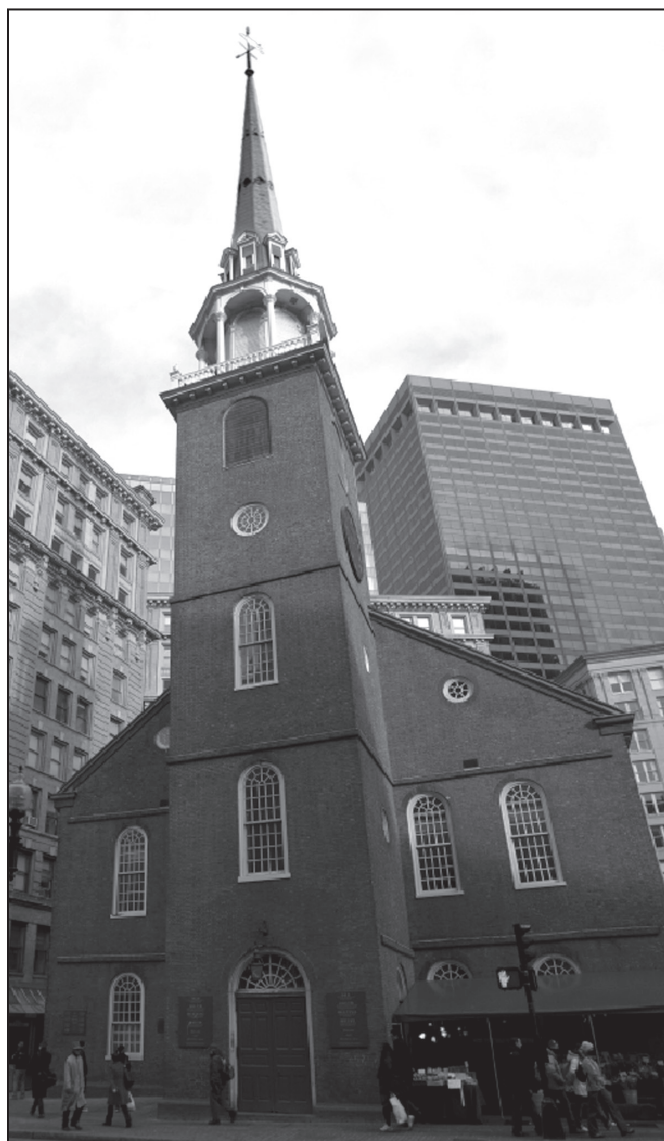
The Old South Meeting House was Colonial Boston's largest building. In New England, meeting houses were often used for public gatherings as well as for worship. In Boston, meetings too large for Boston's town hall, Faneuil Hall, were often held at the Old South Meeting House because of its great size and central location. The steeple of Old South Meeting House also served a community purpose, housing an enormous clock, installed by the town in 1770, which is still in place today.

Members of Old South's congregation have included African-American slave and poet Phillis Wheatley, patriot leader Samuel Adams and Benjamin Franklin.

Phillis Wheatley (c.1753 – 1784) was born in Africa, kidnapped and brought to America on a slave ship at the age of 7. She was purchased by the Wheatley family, who recognized her exceptional intelligence and educated her. She worshipped at the Old South Meeting House and it became

her spiritual home. In 1773, she became the first African American to publish a book, *Poems on Various Subjects, Religious and Moral*. Benjamin Franklin (1706 – 1790) was born in Boston and baptized at the Old South Meeting House, where his family worshipped. Printer, publisher, author, inventor, scientist and diplomat Franklin was one of the most influential people in the 18th century. Samuel Adams (1722 – 1803) was a leader of the Sons of Liberty, who helped start the American Revolution.

*Text courtesy of the Old South Meeting House  
[www.oldsouthmeetinghouse.org](http://www.oldsouthmeetinghouse.org)*



*Old South Meeting House ©Kieltyka Brown Photography*

# Statement of Net Assets

June 30, 2009

(Amounts in thousands)

	Primary Government				
	Governmental	Business	Government		Component
	Activities	Type	Wide		Units
		Activities	Total		
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 3,530,091	\$ 323,706	\$ 3,853,797	\$ 502,052	
Cash with fiscal agent.....	666,118	-	666,118	-	
Short-term investments.....	-	260,333	260,333	963,718	
Assets held in trust.....	-	-	-	13,743	
Receivables, net of allowance for uncollectibles:					
Taxes.....	2,359,178	-	2,359,178	-	
Federal grants and reimbursements receivable.....	1,996,649	82,015	2,078,664	228,571	
Loans.....	4,377	40,815	45,192	279,840	
Other receivables.....	277,502	540,424	817,926	155,340	
Due from cities and towns.....	57,105	-	57,105	41,981	
Due from component units .....	18,606	-	18,606	-	
Due from primary government.....	-	-	-	234,333	
Due from affiliates.....	-	16,352	16,352	-	
Inventory.....	-	-	-	68,424	
Other current assets.....	28,079	46,642	74,721	28,565	
Total current assets .....	8,937,705	1,310,287	10,247,992	2,516,566	
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	510,290	510,290	326,853	
Long - term investments.....	-	1,037,740	1,037,740	1,771,386	
Investments, restricted investments and annuity contracts.....	2,376,466	-	2,376,466	609,362	
Accounts receivable, net.....	746,392	38,970	785,362	8,671	
Loans receivable, net.....	71,907	13,732	85,639	3,743,113	
Due from primary government.....	-	-	-	9,712	
Non-depreciable capital assets.....	3,353,944	484,000	3,837,944	1,231,002	
Depreciable capital assets, net.....	15,639,797	2,804,043	18,443,840	14,766,858	
State retirement system net pension asset.....	8,589	-	8,589	-	
Other noncurrent assets.....	-	40,476	40,476	-	
Other noncurrent assets - restricted.....	-	778,283	778,283	236,345	
Total noncurrent assets .....	22,197,095	5,707,534	27,904,629	22,703,301	
Total assets .....	31,134,800	7,017,821	38,152,621	25,219,867	
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities.....	3,005,274	402,664	3,407,938	373,634	
Accrued payroll.....	118,169	124,948	243,117	15,330	
Compensated absences.....	304,922	122,140	427,062	25,516	
Accrued interest payable.....	299,050	12,518	311,568	274,987	
Tax refunds and abatements payable.....	842,347	11,565	853,912	-	
Due to component units.....	234,333	-	234,333	-	
Due to primary government.....	-	-	-	18,606	
Due to federal government.....	18,975	-	18,975	499	
Claims and judgments.....	30,000	-	30,000	-	
Deferred inflow of resources.....	-	22,858	22,858	173,115	
Deposits and unearned revenue.....	-	73,445	73,445	-	
Due to affiliates.....	-	4,025	4,025	-	
School construction grants payable.....	530,925	-	530,925	-	
Capital leases.....	24,205	16,542	40,747	9,347	
Massachusetts School Building Authority notes payable.....	455,000	-	455,000	-	
Massachusetts School Building Authority bonds.....	82,057	-	82,057	-	
Bonds payable and unamortized premiums.....	1,214,251	153,414	1,367,665	938,459	
Environmental remediation liability.....	10,422	-	10,422	-	
Total current liabilities .....	7,169,930	944,119	8,114,049	1,829,493	

# Statement of Net Assets

June 30, 2009

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	176,312	55,133	231,445	11,390
Accrued interest payable.....	-	-	-	87,792
Due to component units.....	9,712	-	9,712	-
Due to federal government - grants.....	-	7,099	7,099	-
Claims and judgments.....	61,600	-	61,600	-
Deferred inflow of resources.....	-	33,388	33,388	249,520
Prizes payable.....	1,522,440	-	1,522,440	-
Capital leases.....	85,560	42,343	127,903	286,692
Bonds payable and unamortized premiums.....	18,267,208	1,950,261	20,217,469	11,044,886
Unamortized deferred loss on refunding.....	(44,495)	-	(44,495)	-
Massachusetts School Building Authority bonds.....	3,965,856	-	3,965,856	-
Due to component units - Central Artery / Tunnel Project.....	7,052,466	-	7,052,466	-
School construction grants payable.....	2,783,925	-	2,783,925	-
Contract assistance payable.....	45,446	-	45,446	-
Teachers' retirement system net pension obligation.....	573,604	-	573,604	-
Net post - employment benefits obligations.....	1,149,000	-	1,149,000	215,534
Environmental remediation liability.....	163,408	-	163,408	-
Other noncurrent liabilities.....	306,483	55,556	362,039	205,876
<b>Total noncurrent liabilities.....</b>	<b>36,118,525</b>	<b>2,143,780</b>	<b>38,262,305</b>	<b>12,101,690</b>
<b>Total liabilities.....</b>	<b>43,288,455</b>	<b>3,087,899</b>	<b>46,376,354</b>	<b>13,931,183</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	189,913	1,698,825	1,888,738	8,970,401
Restricted for:				
Capital projects.....	-	-	-	159
Unemployment benefits.....	-	1,009,381	1,009,381	-
Retirement of indebtedness.....	573,302	-	573,302	-
Central Artery workers' compensation and general liability.....	30,636	-	30,636	-
Other purposes.....	-	599,764	599,764	2,414,111
Funds held as Permanent Investments:				
Nonexpendable purpose.....	5,000	-	5,000	-
Unrestricted (deficits).....	(12,952,506)	621,952	(12,330,554)	(95,987)
<b>Total net assets (deficits).....</b>	<b>\$ (12,153,655)</b>	<b>\$ 3,929,922</b>	<b>\$ (8,223,733)</b>	<b>\$ 11,288,684</b>

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

(concluded)

**Statement of Activities**  
Fiscal Year Ended June 30, 2009  
(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.....	\$ 2,630,554	\$ 436,344	\$ 532,188	\$ -	\$ (1,662,023)	\$ -	\$ (1,662,023)	\$ -
Judiciary.....	1,138,179	123,819	691	-	(1,013,668)	-	(1,013,668)	-
Direct local aid.....	5,210,451	-	-	-	(5,210,451)	-	(5,210,451)	-
Medicaid.....	10,842,549	180,380	7,537,048	8,462	(3,116,660)	-	(3,116,660)	-
Group health insurance.....	977,565	230,456	-	-	(747,109)	-	(747,109)	-
Interest (unallocated).....	1,116,278	-	-	-	(1,116,278)	-	(1,116,278)	-
Energy and environmental affairs.....	426,808	226,754	78,530	-	(121,524)	-	(121,524)	-
Housing and economic development.....	1,042,084	178,011	530,549	-	(333,524)	-	(333,524)	-
Health and human services.....	7,452,418	718,628	1,984,678	14,856	(4,734,256)	-	(4,734,256)	-
Transportation and public works.....	1,336,257	494,733	10,544	829,903	(1,077)	-	(1,077)	-
Early elementary and secondary education.....	3,210,200	15,728	1,078,720	-	(2,115,752)	-	(2,115,752)	-
Public safety and homeland security.....	2,561,607	175,069	129,867	-	(2,256,670)	-	(2,256,670)	-
Labor and workforce development.....	474,438	37,728	176,204	-	(260,506)	-	(260,506)	-
Lottery.....	3,693,318	4,643,592	-	-	950,274	-	950,274	-
Total governmental activities.....	42,112,705	7,461,243	12,059,019	853,221	(21,739,222)	-	(21,739,222)	-
Business-Type Activities:								
Unemployment Compensation.....	3,475,027	1,671,098	1,010,665	-		(793,264)	(793,264)	-
Higher Education:								
University of Massachusetts.....	2,474,797	1,419,932	507,763	-		(547,102)	(547,102)	-
State Colleges.....	736,972	442,685	42,637	-		(251,650)	(251,650)	-
Community Colleges.....	671,923	219,986	160,134	-		(291,803)	(291,803)	-
Total business-type activities.....	7,358,719	3,753,701	1,721,199	-	-	(1,883,819)	(1,883,819)	-
Total primary government.....	\$ 49,471,424	\$ 11,214,944	\$ 13,780,218	\$ 853,221	(21,739,222)	(1,883,819)	(23,623,041)	-
Component Units:								
Massachusetts Bay Transportation Authority.....	\$ 1,839,273	\$ 506,615	\$ 913,543	\$ 255,982				(163,133)
Massachusetts Turnpike Authority.....	496,483	329,603	27,000	-				(139,880)
Massachusetts Water Pollution Abatement Trust.....	192,139	1,722	-	103,748				(86,669)
Other nonmajor component units.....	1,497,384	1,494,423	218,713	(179,504)				36,249
Total component units.....	\$ 4,025,279	\$ 2,332,363	\$ 1,159,256	\$ 180,226	-	-	-	(353,433)

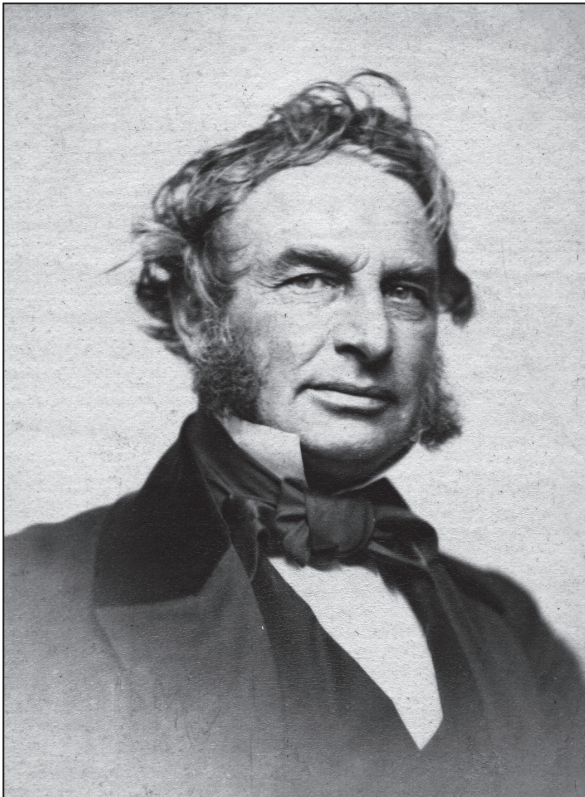
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	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income .....	10,451,006	-	10,451,006	-
Sales taxes .....	3,850,485	-	3,850,485	-
Corporate taxes .....	1,940,484	-	1,940,484	-
Motor and special fuel taxes .....	653,542	-	653,542	-
Other taxes .....	1,603,756	-	1,603,756	-
Miscellaneous:				
Investment earnings .....	125,268	(23,085)	102,183	245,825
Tobacco settlement .....	315,153	-	315,153	-
Contribution from municipalities .....	49,780	-	49,780	-
Other revenue .....	998,818	163,312	1,162,129	(100,072)
Loss on sale of capital assets .....	-	(11,530)	(11,530)	(51)
Transfers .....	(1,070,652)	1,070,652	-	-
<b>Total general revenues and transfers .....</b>	<b>18,917,639</b>	<b>1,199,349</b>	<b>20,116,988</b>	<b>145,702</b>
<b>Change in net assets .....</b>	<b>(2,821,583)</b>	<b>(684,470)</b>	<b>(3,506,053)</b>	<b>(207,731)</b>
Net assets (deficits) - beginning .....	(9,161,450)	4,596,571	(4,564,879)	11,496,416
Restatement - change in accounting principle .....	(170,621)	17,821	(152,800)	-
<b>Net assets (deficits) - ending .....</b>	<b>\$ (12,153,655)</b>	<b>\$ 3,929,922</b>	<b>\$ (8,223,733)</b>	<b>\$ 11,288,684</b>

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

(concluded)



*Courtesy of National Park Service  
Longfellow National Historic Site*

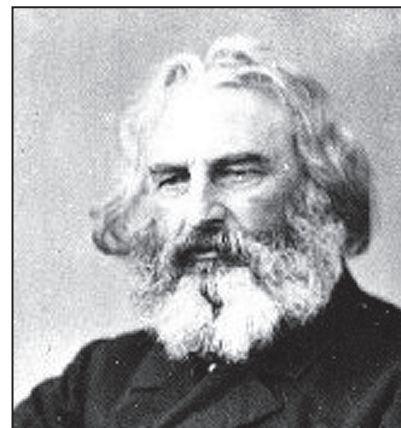
### **Henry Wadsworth Longfellow (1807-1882)**

Henry Wadsworth Longfellow is one of the monumental cultural figures of 19th century America, the nation's preeminent poet in his era, whose verse is notable for its lyric beauty, its gentle moralizing, and its immense popularity. A New Englander through and through, who traveled widely in Europe and knew a dozen languages, a Harvard professor, and the country's first professional poet, Longfellow heralded a new spirit in American letters. His fame grew until it took on a life of its own, and he was revered and beloved to a degree few poets have been before or since.

When Longfellow began his literary career in the 1820s, poetry often seemed a needless luxury to the practical-minded citizens of the still-young American republic. Along with such other genteel poets as William Cullen Bryant, Oliver Wendell Holmes, and James Russell Lowell, Longfellow played an important role not just in helping make poetry respectable, but more broadly in refining and cultivating middle-class readers. A peculiarly American mixture, Longfellow was both a patrician and a populist, an artist of elite social background whose writing reverberated with the masses.



As a wedding present his wife's father, Nathan Appleton, bought the couple the historic Craigie House on Brattle Street, a short walk from Harvard Square. Henry and Fanny raised five children in Craigie House, and lived among friends and family in great comfort, happiness, and privilege.



By the time he died, in March 1882 at 75, at his home in Cambridge, he had become a national elder, a white-bearded eminence whose Jove-like image was widely circulated in lithographs and photographs.

*Photos and text excerpts courtesy of the National Park Service  
([www.nps.gov](http://www.nps.gov))*

*The Longfellow National Historic Site  
also served as headquarters for General George Washington  
during the Siege of Boston, July 1775 - April 1776*

# Governmental Fund Financial Statements



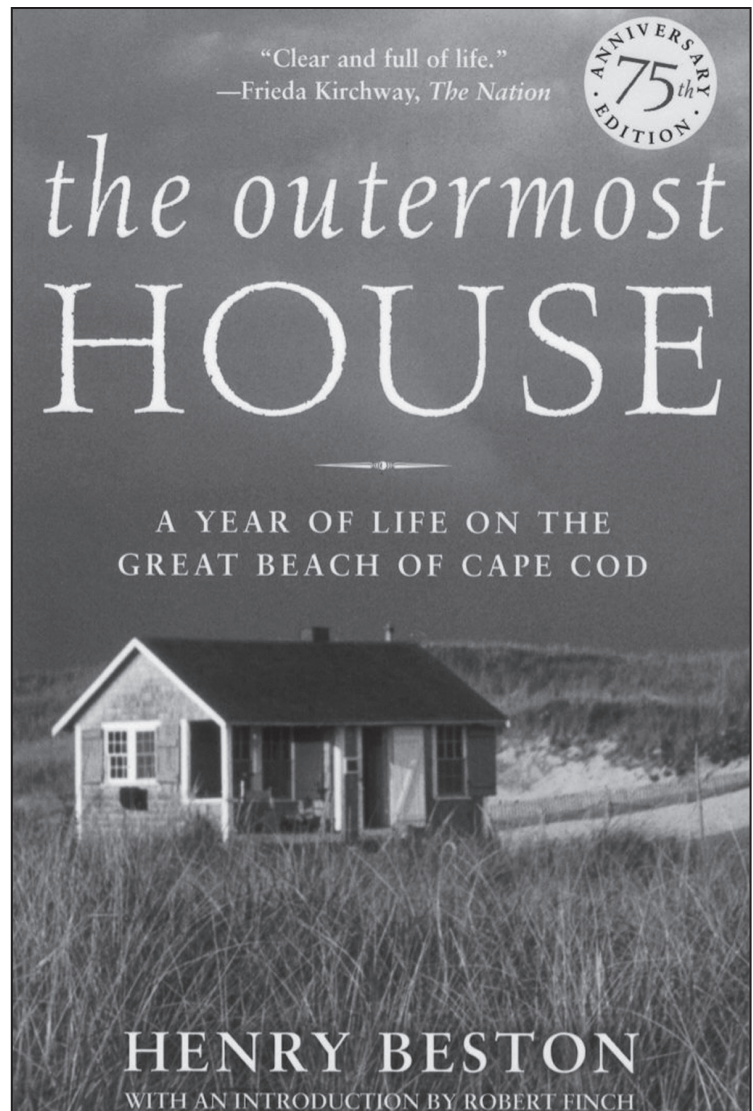
Photo courtesy of  
[www.henrybeston.com](http://www.henrybeston.com)

## Outer most House/Henry Beston (1888-1968)

Henry Beston born in 1888, was the son of an Irish-American physician and his Franco-American wife. He was educated at Harvard and served with the volunteer ambulance corps in the First World War. Later he was an itinerant teacher in France; the author of a war memoir, a journalistic account of naval life, and several books of fairy tales and heroic stories for children; and the editor of *The Living Age*.

At the little house on the Great Beach of Cape Cod, Henry Beston discovered his true calling as a writer. Here, alone with his thoughts and the vast panoramic sweep of life along the shore, Beston determined, in his journal, to become a "writer-naturalist." Beston considered himself a poet of the landscape, bearing witness to the cycles and recurrences, great and small, of nature; and *The Outermost House* can be read as a single, sustained song, a lyrical meditation on the cycling pageant of the seasons.

Prior to spending his year on the beach, Beston had fallen in love with Elizabeth Coatsworth, an accomplished poet and novelist. Leaving the Great Beach in 1927, Henry had a raft of journals, but not yet a book manuscript. When he proposed marriage to Elizabeth, she replied, "No book, no marriage." Henry spent the next year sculpting his musings and observations into *The Outermost House*; it was published in the fall of 1928, and the Bestons were married the following June. The book got good reviews, and began to develop a small but devoted list of admirers; its reputation persisted and grew through



*the outermost House book*

*Courtesy of Massachusetts Center for the Book*

subsequent printings, until today it is universally recognized as a classic of American nature writing.

Henry died in 1968, shortly after *The Outermost House* had been designated a national literary landmark.

*Text excerpts courtesy of [www.henrybeston.com](http://www.henrybeston.com)*

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**  
(Amounts in thousands)

	General	Highway	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and short-term investments.....	\$ 239,999	\$ 17,835	\$ 54,684	\$ 1,287,662	\$ 1,929,911	\$ 3,530,091
Cash with fiscal agent.....	-	-	-	-	666,118	666,118
Investments and restricted investments.....	348,482	-	-	505,544	-	854,026
Receivables, net of allowance for uncollectibles:						
Taxes.....	2,830,061	52,700	-	41,380	78,761	3,002,902
Due from federal government.....	1,220,997	-	-	-	830,999	2,051,996
Loan receivable.....	-	-	-	75,370	914	76,284
Other receivables.....	103,015	1,854	5,088	8,009	206,857	324,823
Due from cities and towns.....	10,305	-	-	-	46,800	57,105
Due from other funds.....	665,125	-	-	-	97,925	763,050
Due from component units.....	13,529	77	-	-	5,000	18,606
<b>Total assets.....</b>	<b>\$ 5,431,513</b>	<b>\$ 72,466</b>	<b>\$ 59,772</b>	<b>\$ 1,917,965</b>	<b>\$ 3,863,285</b>	<b>\$ 11,345,001</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable.....	\$ 1,903,417	\$ 9,921	\$ 49,929	\$ 41,564	\$ 934,667	\$ 2,939,498
Accrued payroll.....	96,939	7,914	-	-	13,316	118,169
Tax refunds and abatements payable.....	841,540	-	-	382	425	842,347
Due to other funds.....	-	-	-	-	752,620	752,620
Due to component units.....	97,193	12,838	-	-	124,302	234,333
Due to federal government.....	18,975	-	-	-	-	18,975
Deferred inflow of resources.....	718,627	-	5,958	-	21,807	746,392
Claims and judgments.....	20,000	-	-	-	10,000	30,000
Bonds, notes payable and certificates of participation.....	-	-	-	455,000	-	455,000
School construction grants payable.....	-	-	-	25,485	-	25,485
Other accrued liabilities.....	-	-	-	-	120,840	120,840
<b>Total liabilities.....</b>	<b>3,696,691</b>	<b>30,673</b>	<b>55,887</b>	<b>522,431</b>	<b>1,977,977</b>	<b>6,283,659</b>
Fund balances (deficits):						
Reserved for:						
Retirement of indebtedness.....	-	-	-	-	573,302	573,302
Central artery workers'						
Compensation and general liability.....	-	-	-	-	52,236	52,236
Undesignated:						
General.....	1,734,822	-	-	-	-	1,734,822
Special revenue.....	-	41,793	3,885	1,395,534	1,379,908	2,821,120
Capital projects.....	-	-	-	-	(125,138)	(125,138)
Permanent trust funds.....	-	-	-	-	5,000	5,000
<b>Fund balances (deficits).....</b>	<b>1,734,822</b>	<b>41,793</b>	<b>3,885</b>	<b>1,395,534</b>	<b>1,885,308</b>	<b>5,061,342</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 5,431,513</b>	<b>\$ 72,466</b>	<b>\$ 59,772</b>	<b>\$ 1,917,965</b>	<b>\$ 3,863,285</b>	<b>\$ 11,345,001</b>

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

## Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2009  
(Amounts in thousands)

<b>Total fund balances - governmental funds .....</b>	<b>\$</b>	<b>5,061,342</b>
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:		
Capital assets not being depreciated.....	\$	3,353,944
Capital assets being depreciated, net.....		<u>15,639,797</u>
Capital assets, net of accumulated depreciation.....		18,993,741
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different basis of accounting.....		
Massachusetts School Building Authority assets.....		746,392
		28,079
Lottery annuity contracts.....		1,522,440
Elimination of due from / due to activity between state departments within primary government and business-type activities.....		(10,430)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (underfunding) State Retirement Systems net pension obligation.....	(565,015)	
Net post - employment benefits obligations.....	(1,149,000)	
Commonwealth bonded debt.....	(19,264,569)	
Accrued interest on bonds.....	(299,050)	
Unamortized bond premiums, deferred losses and bond issuance costs.....	(216,890)	
Unamortized loss on refunding.....	44,495	
Massachusetts School Building Authority bonded debt.....	(4,047,913)	
Massachusetts School Building Authority grants to municipalities.....	(3,289,365)	
Lottery prizes payable.....	(1,522,440)	
Contract assistance payable.....	(45,446)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project.....	(7,052,466)	
Capital leases.....	(109,765)	
Environmental remediation liability.....	(173,830)	
Claims and judgments.....	(61,600)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(742,365)</u>	
Long - term liabilities (including current portions).....		<u>(38,495,219)</u>
<b>Total net assets (deficits) - governmental activities .....</b>	<b>\$</b>	<b>(12,153,655)</b>

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



**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2009**  
**(Amounts in thousands)**

	General	Highway	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>REVENUES</b>						
Taxes.....	\$ 15,937,478	\$ 628,072	\$ 917	\$ 699,998	\$ 1,087,475	\$ 18,353,940
Assessments.....	341,750	13,513	-	-	573,870	929,133
Federal grants and reimbursements.....	8,472,729	1,024	-	-	4,428,200	12,901,953
Departmental.....	1,474,420	414,562	4,642,872	-	340,086	6,871,940
Miscellaneous.....	268,528	969	6,934	46,821	1,042,845	1,366,097
<b>Total revenues.....</b>	<b>26,494,905</b>	<b>1,058,140</b>	<b>4,650,723</b>	<b>746,819</b>	<b>7,472,476</b>	<b>40,423,063</b>
<b>EXPENDITURES</b>						
Current:						
Legislature.....	60,199	-	-	-	-	60,199
Judiciary.....	794,514	-	-	-	2,444	796,958
Inspector General.....	3,002	-	-	-	175	3,177
Governor and Lieutenant Governor.....	8,377	-	-	-	-	8,377
Secretary of the Commonwealth.....	46,986	-	-	-	3,844	50,830
Treasurer and Receiver-General.....	125,166	1,087	3,689,830	4,298	1,277,070	5,097,451
Auditor of the Commonwealth.....	18,792	-	-	-	123	18,915
Attorney General.....	37,200	481	-	-	14,868	52,549
Ethics Commission.....	1,678	-	-	-	-	1,678
District Attorney.....	96,410	4,379	-	-	10,747	111,536
Office of Campaign and Political Finance.....	1,129	-	-	-	-	1,129
Sheriff's Departments.....	292,656	424	-	-	2,901	295,981
Disabled Persons Protection Commission.....	2,267	-	-	-	236	2,503
Board of Library Commissioners.....	33,652	-	-	-	2,875	36,527
Comptroller.....	11,678	1	-	-	2,499	14,178
Administration and finance.....	1,610,128	5,642	-	-	92,756	1,708,526
Energy and environmental affairs.....	206,843	-	-	-	144,940	351,783
Health and human services.....	4,909,469	-	-	-	1,774,494	6,683,963
Transportation and public works.....	171,520	86,427	-	-	131,394	389,341
Executive office of education.....	2,059,067	-	-	-	860,607	2,919,674
Massachusetts school building assistance.....	-	-	-	656,618	-	656,618
Public safety and homeland security.....	1,000,137	236,987	-	-	178,918	1,416,042
Housing and economic development.....	197,498	64	-	-	595,162	792,724
Labor and workforce development.....	43,020	-	-	-	354,541	397,561
Medicaid.....	8,846,064	-	-	-	1,996,485	10,842,549
Post employment benefits contribution.....	646,809	-	-	-	-	646,809
Direct local aid.....	4,790,620	-	-	-	417,165	5,207,785
Capital outlay:						
Local aid.....	-	-	-	-	2,666	2,666
Capital acquisition and construction.....	-	-	-	-	2,513,970	2,513,970
Debt service.....	-	-	-	264,857	2,144,733	2,409,590
<b>Total expenditures.....</b>	<b>26,014,881</b>	<b>335,492</b>	<b>3,689,830</b>	<b>925,773</b>	<b>12,525,611</b>	<b>43,491,586</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>480,024</b>	<b>722,649</b>	<b>960,893</b>	<b>(178,954)</b>	<b>(5,053,136)</b>	<b>(3,068,523)</b>
<b>OTHER FINANCING SOURCES</b>						
Bonds premium.....	-	-	-	-	98,850	98,850
Issuance of general obligation bonds.....	-	-	-	-	2,041,843	2,041,843
Issuance of refunding bonds.....	-	-	-	-	389,555	389,555
Proceeds of capital leases.....	17,915	-	-	-	-	17,915
Transfers in for debt service.....	-	-	-	-	2,137,653	2,137,653
Transfers in.....	1,909,449	221,299	76,112	-	2,472,224	4,679,084
<b>Total other financing sources.....</b>	<b>1,927,364</b>	<b>221,299</b>	<b>76,112</b>	<b>-</b>	<b>7,140,125</b>	<b>9,364,900</b>
<b>OTHER FINANCING USES</b>						
Payments to refunded bond escrow agent.....	-	-	-	-	410,308	410,308
Transfers out.....	1,729,388	83,650	1,002,724	-	1,754,597	4,570,359
Transfers of appropriations.....	1,089,951	-	-	-	1,728	1,091,679
Transfers of bond proceeds.....	-	-	-	-	87,698	87,698
Transfers out for debt service.....	1,024,505	866,881	-	-	246,267	2,137,653
<b>Total other financing uses.....</b>	<b>3,843,844</b>	<b>950,531</b>	<b>1,002,724</b>	<b>-</b>	<b>2,500,599</b>	<b>8,297,698</b>
<b>Total other financing sources and uses.....</b>	<b>(1,916,480)</b>	<b>(729,232)</b>	<b>(926,612)</b>	<b>-</b>	<b>4,639,527</b>	<b>1,067,202</b>
<b>Net change in fund balances.....</b>	<b>(1,436,456)</b>	<b>(6,583)</b>	<b>34,281</b>	<b>(178,954)</b>	<b>(413,609)</b>	<b>(2,001,321)</b>
Fund balances (deficits) at beginning of year.....	3,171,278	48,376	(30,396)	1,574,487	2,298,917	7,062,663
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 1,734,822</b>	<b>\$ 41,793</b>	<b>\$ 3,885</b>	<b>\$ 1,395,534</b>	<b>\$ 1,885,308</b>	<b>\$ 5,061,342</b>

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

**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, 2009  
(Amounts in thousands)

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<b>Net change in fund balances - total governmental funds .....</b>	<b>\$ (2,001,321)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

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 amount represents capital outlays including increases to construction in process, but excluding

reductions and dispositions.....	1,960,521
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Current year depreciation expense.....	(1,408,360)
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Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting.....

106,144

Elimination of due from / due to activity between state departments within government and business-type activities.....

1,473

The issuance of long - term debt 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.....

(530,129)

Decrease in capital leases.....	260,009
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Massachusetts School Building Authority.....	525,990
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Net underfunding of post employment benefit obligations.....	(1,661,173)
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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.....

(74,737)

<b>Change in net assets of governmental activities.....</b>	<b><u>\$ (2,821,583)</u></b>
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The notes to the financial statements are an integral part of this statement.

## National Yiddish Book Center

The National Yiddish Book Center located in Amherst is a vibrant, non-profit organization working to rescue Yiddish and other modern Jewish books and celebrate the culture they contain. Supported by 30,000 members, it is now the largest and fastest-growing Jewish cultural organization in America.

The National Yiddish Book Center was founded in 1980 by MacArthur Fellow Aaron Lansky. When he was a 23-year-old graduate student, Lansky stumbled upon an alarming fact: throughout North America, thousands of priceless Yiddish books – books that had survived Hitler and Stalin – were being discarded and destroyed. As an older generation passed on, more often than not their



precious Jewish volumes were literally thrown in the trash by children and grandchildren unable to read the language. An entire literature was on the verge of extinction. Lansky realized something had to be done – and done fast – before it was too late. So he took what he thought would be a two-year leave of absence from graduate school and, operating out of an unheated factory loft, issued a public appeal for unwanted and discarded Yiddish books. Jews from all over America rallied to the call.

When the Center began, scholars estimated there were 70,000 Yiddish books still extant and recoverable. The Center recovered that number in six months and has gone on to recover 1.5 million volumes, with hundreds of additional books continuing to arrive each week. Because many of the books are physically deteriorating, in 1998 the Center launched the Steven Spielberg Digital Yiddish Library: a pioneering program to digitize the titles in the collection and make high-quality reprints available on demand. The online catalog means that Yiddish, once the most endangered of literatures, is now the safest and most accessible.

*Text and photography courtesy of [yiddishbookcenter.org](http://yiddishbookcenter.org)*



# *Proprietary Fund*

## *Financial Statements*



*Henry David Thoreau*

### **Henry David Thoreau (1817–1862)**

Thoreau was born in 1817. Under the influence of his brother John, an amateur ornithologist, he developed an early interest in nature and spent much of his youth exploring the town's ponds and woods.

After graduating from Harvard in 1837, Thoreau returned to Concord, where he taught school, improved and expanded his family's pencil-making business and engaged in carpentry, stonemasonry and gardening.

Thoreau admired Ralph Waldo Emerson's 1836 essay, *Nature*, which advanced the idea, characteristic

of American Romanticism that each individual should seek a spiritually fulfilling relationship with the natural world. Thoreau and Emerson became friends and he moved into the Emerson household. Thoreau wanted to live in the woods and embark on a career as a writer and when Emerson offered him the use of a newly purchased woodlot at Walden Pond, Thoreau gladly accepted.

He stayed for two years, keeping a journal of his thoughts and his encounters with nature and society. Over the next few years, Thoreau wrote and rewrote (seven drafts in all) *Walden*; or *Life in the Woods*, one of the most famous works in American literature. Published in 1854, this classic has never been out of print and is still read by people all over the world. Until his death in 1862, Thoreau



*Bust of Henry David Thoreau outside  
replica of this cabin at Walden Pond  
Photo by Andrew Dillon Bustin*



*A replica of Thoreau's one-room house at Walden Pond*

combined surveying, lecturing, and writing; in 1849, at the height of the anti-slavery struggle, he published *On the Duty of Civil Disobedience*, (a lecture originally entitled *Resistance to Civil Government*).

In November of 1945, the centennial of Thoreau's move to Walden, Roland Wells Robbins, an amateur historian and Thoreau enthusiast, discovered and excavated the foundation of Thoreau's chimney. In 1965, the National Park Service designated Walden Pond as a Registered National Historic Landmark.

*Photos and text excerpts from the Massachusetts  
Department of Recreation and Conservation.*

# Statement of Net Assets

## Proprietary Funds

June 30, 2009

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 47,177	\$ 200,998	\$ 75,531	\$ 323,706
Short-term investments .....	-	160,820	58,474	41,039	260,333
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	79,452	478	2,085	82,015
Loans.....	-	39,414	1,395	6	40,815
Other receivables.....	402,307	80,688	14,632	28,743	526,370
Contribution receivables, net.....	-	9,594	4,200	260	14,054
Due from affiliates.....	-	16,352	-	-	16,352
Other current assets.....	-	35,643	7,008	3,991	46,642
<b>Total current assets.....</b>	<b>402,307</b>	<b>469,140</b>	<b>287,185</b>	<b>151,655</b>	<b>1,310,287</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	487,168	16,355	6,767	510,290
Long-term investments.....	-	764,161	217,680	55,899	1,037,740
Accounts receivable, net.....	-	35,329	2,721	920	38,970
Loans receivable, net.....	-	-	12,776	956	13,732
Non-depreciable capital assets.....	-	276,127	152,681	55,192	484,000
Depreciable capital assets, net.....	-	1,793,308	736,428	274,307	2,804,043
Other noncurrent assets.....	-	18,401	20,850	1,225	40,476
Other noncurrent assets - restricted.....	778,283	-	-	-	778,283
<b>Total noncurrent assets.....</b>	<b>778,283</b>	<b>3,374,494</b>	<b>1,159,491</b>	<b>395,266</b>	<b>5,707,534</b>
<b>Total assets.....</b>	<b>1,180,590</b>	<b>3,843,634</b>	<b>1,446,676</b>	<b>546,921</b>	<b>7,017,821</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and other liabilities.....	159,644	174,805	40,025	28,190	402,664
Accrued payroll.....	-	70,752	28,921	25,275	124,948
Compensated absences.....	-	69,443	24,639	28,058	122,140
Accrued interest payable.....	-	12,146	88	284	12,518
Tax refunds and abateements payable.....	11,565	-	-	-	11,565
Deferred inflow of resources.....	-	6,243	15,855	760	22,858
Student deposits and unearned revenues .....	-	48,325	9,066	16,054	73,445
Due to affiliates.....	-	4,178	(153)	-	4,025
Capital leases.....	-	11,457	2,301	2,784	16,542
Bonds, notes payable and other obligations.....	-	123,790	27,513	2,111	153,414
<b>Total current liabilities.....</b>	<b>171,209</b>	<b>521,139</b>	<b>148,255</b>	<b>103,516</b>	<b>944,119</b>
Noncurrent liabilities:					
Compensated absences.....	-	23,593	14,729	16,811	55,133
Due to federal government - grants.....	-	-	6,563	536	7,099
Deferred inflow of resources.....	-	23,668	9,428	292	33,388
Capital leases.....	-	22,870	14,261	5,212	42,343
Bonds, notes payable and other obligations.....	-	1,210,220	699,893	40,148	1,950,261
Other noncurrent liabilities.....	-	44,068	7,691	3,797	55,556
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>1,324,419</b>	<b>752,565</b>	<b>66,796</b>	<b>2,143,780</b>
<b>Total liabilities.....</b>	<b>171,209</b>	<b>1,845,558</b>	<b>900,820</b>	<b>170,312</b>	<b>3,087,899</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	-	1,095,256	323,884	279,685	1,698,825
Restricted for:					
Unemployment benefits.....	1,009,381	-	-	-	1,009,381
Other purposes.....	-	439,930	109,908	49,926	599,764
Unrestricted.....	-	462,890	112,064	46,998	621,952
<b>Total net assets.....</b>	<b>\$ 1,009,381</b>	<b>\$ 1,998,076</b>	<b>\$ 545,856</b>	<b>\$ 376,609</b>	<b>\$ 3,929,922</b>

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

# Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,549,407	\$ -	\$ -	\$ -	\$ 1,549,407
Net tuition and fees.....	-	490,374	250,548	174,029	914,951
Federal grants and reimbursements.....	1,010,665	507,763	42,637	160,134	1,721,199
Auxiliary enterprises.....	-	239,669	82,400	15,032	337,101
Sales & services.....	-	622,969	94,625	6,400	723,994
Miscellaneous.....	121,691	66,920	15,112	24,525	228,248
<b>Total operating revenues.....</b>	<b>2,681,763</b>	<b>1,927,695</b>	<b>485,322</b>	<b>380,120</b>	<b>5,474,900</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	3,475,027	-	-	-	3,475,027
Instruction.....	-	540,479	230,745	250,680	1,021,904
Research.....	-	358,659	99	122	358,880
Academic support.....	-	125,604	60,524	78,549	264,677
Student services.....	-	87,207	69,513	90,362	247,082
Scholarships and fellowships.....	-	30,389	15,011	48,500	93,900
Public service.....	-	81,432	5,404	8,782	95,618
Operation and maintenance of plant.....	-	191,761	78,648	65,472	335,881
Institutional support.....	-	163,659	85,062	82,672	331,393
Other operating expenses.....	-	513,299	4,216	5,392	522,907
Depreciation.....	-	138,744	45,067	24,955	208,766
Auxiliary operations.....	-	188,312	115,934	14,932	319,178
<b>Total operating expenses.....</b>	<b>3,475,027</b>	<b>2,419,545</b>	<b>710,223</b>	<b>670,418</b>	<b>7,275,213</b>
<b>Operating income (loss).....</b>	<b>(793,264)</b>	<b>(491,850)</b>	<b>(224,901)</b>	<b>(290,298)</b>	<b>(1,800,313)</b>
<b>Nonoperating revenues (expenses):</b>					
Other revenues.....	-	119,882	27,047	16,383	163,312
Other expenses.....	-	(63,821)	(29,710)	(1,505)	(95,036)
Investment income (loss).....	54,118	(59,608)	(8,077)	(9,518)	(23,085)
<b>Total nonoperating revenues (expenses).....</b>	<b>54,118</b>	<b>(3,547)</b>	<b>(10,740)</b>	<b>5,360</b>	<b>45,191</b>
<b>Income (loss) before contributions and transfers.....</b>	<b>(739,146)</b>	<b>(495,397)</b>	<b>(235,641)</b>	<b>(284,938)</b>	<b>(1,755,122)</b>
Transfers in.....	-	524,497	261,401	284,754	1,070,652
<b>Change in net assets.....</b>	<b>(739,146)</b>	<b>29,100</b>	<b>25,760</b>	<b>(184)</b>	<b>(684,470)</b>
Total net assets - beginning, as restated.....	1,748,527	1,968,976	520,096	376,793	4,614,392
<b>Total net assets - ending .....</b>	<b>\$ 1,009,381</b>	<b>\$ 1,998,076</b>	<b>\$ 545,856</b>	<b>\$ 376,609</b>	<b>\$ 3,929,922</b>

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



# Statement of Cash Flows

## Proprietary Funds

June 30, 2009

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Collection of unemployment contributions.....	\$ 3,178,960	\$ -	\$ -	\$ -	\$ 3,178,960
Tuition, residence, dining and other student fees.....	-	516,757	255,847	176,767	949,371
Research grants and contracts.....	-	490,169	90,889	160,167	741,225
Payments to suppliers.....	-	(996,152)	(180,223)	(137,723)	(1,314,098)
Payments to employees.....	-	(1,105,868)	(357,854)	(375,738)	(1,839,460)
Payments to students.....	-	(29,845)	(11,936)	(59,289)	(101,070)
Payments for unemployment benefits.....	(3,354,769)	-	-	-	(3,354,769)
Collection of loans to students and employees.....	-	3,744	1,283	623	5,650
Income from contract services.....	-	719,255	1,726	711	721,692
Maintenance costs.....	-	-	(540)	651	111
Auxilliary enterprise charges.....	-	261,869	38,316	74	300,259
Other receipts.....	121,691	(221,971)	18,012	27,719	(54,549)
<b>Net cash used by operating activities.....</b>	<b>(54,118)</b>	<b>(362,042)</b>	<b>(144,480)</b>	<b>(206,038)</b>	<b>(766,678)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	-	597,202	210,254	223,779	1,031,235
Grants and contracts.....	-	-	(1,741)	1,493	(248)
Student organizations agency transactions.....	-	49	32	(100)	(19)
Other receipts (payments).....	-	(19,576)	634	850	(18,092)
<b>Net cash provided by non-capital financing activities.....</b>	<b>-</b>	<b>577,675</b>	<b>209,179</b>	<b>226,022</b>	<b>1,012,876</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	-	27,166	18,209	11,002	56,377
Purchases of capital assets.....	-	(120,653)	(128,149)	(32,005)	(280,807)
Proceeds from revenue obligation debt issuance.....	-	19,177	127,670	400	147,247
Other capital asset activity.....	-	5,182	7,218	3,269	15,669
Investments held by bond trustee, net.....	-	(178,115)	-	48	(178,067)
Contract revenue.....	-	-	(12)	-	(12)
Principal paid on capital debt and leases.....	-	(76,429)	(16,402)	(5,324)	(98,155)
Interest paid on capital debt and leases.....	-	(58,375)	(29,567)	(2,257)	(90,199)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>(382,047)</b>	<b>(21,033)</b>	<b>(24,867)</b>	<b>(427,947)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	-	1,297,493	167,990	62,123	1,527,606
Purchases of investments.....	-	(1,341,046)	(274,151)	(57,368)	(1,672,565)
Investment earnings.....	54,118	41,659	7,125	(2,894)	100,008
<b>Net cash provided by (used by) investing activities.....</b>	<b>54,118</b>	<b>(1,894)</b>	<b>(99,036)</b>	<b>1,861</b>	<b>(44,951)</b>
<b>Net decrease in cash and cash equivalents.....</b>	<b>-</b>	<b>(168,308)</b>	<b>(55,370)</b>	<b>(3,022)</b>	<b>(226,700)</b>
Cash and cash equivalents at the beginning of the fiscal year, as restated.....	-	702,653	272,723	85,320	1,060,696
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ -</b>	<b>\$ 534,345</b>	<b>\$ 217,353</b>	<b>\$ 82,298</b>	<b>\$ 833,996</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (793,264)</b>	<b>\$ (491,850)</b>	<b>\$ (224,901)</b>	<b>\$ (290,298)</b>	<b>\$ (1,800,313)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	-	138,744	45,067	24,955	208,766
Fringe benefits paid by the Commonwealth.....	-	-	46,097	57,792	103,889
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	(15,541)	(15,926)	(418)	(4,892)	(36,777)
Accounts payable, accrued liabilities and benefits.....	120,258	19,476	(12,173)	1,272	128,833
Student deposits and other unearned and deferred revenues.....	-	(5,262)	1,995	4,522	1,255
Other noncurrent assets - restricted and liabilities.....	634,429	(7,224)	(147)	611	627,669
<b>Net cash used by operating activities.....</b>	<b>\$ (54,118)</b>	<b>\$ (362,042)</b>	<b>\$ (144,480)</b>	<b>\$ (206,038)</b>	<b>\$ (766,678)</b>

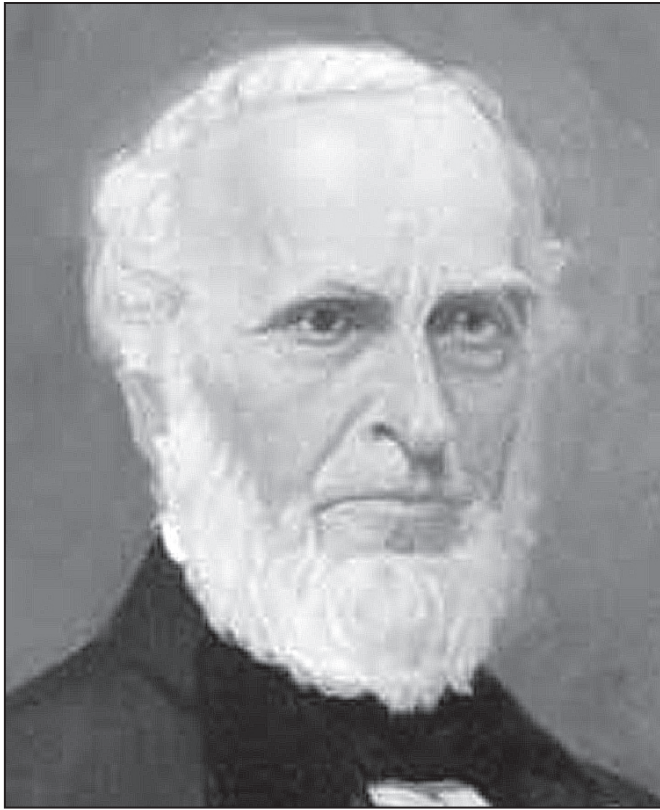
### Non-cash investing, capital and financing activities:

The University System had (\$21,541) of non-cash activities, mostly due to unrealized loss on investments, and the State and Community Colleges had \$131,256 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

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

# *Fiduciary Fund*

## *Financial Statements*



*Portrait of John Greenleaf Whittier*  
[www.whittierhome.org/about\\_jgw.php](http://www.whittierhome.org/about_jgw.php)

### **John Greenleaf Whittier (1807-1892)**

In 1688, in a small pleasant valley under the shoulder of Job's Hill, Thomas Whittier, the pioneer, built the house which was to be the Whittier family homestead. The family lived there for five generations and it was the Birthplace of the Quaker Poet and Abolitionist John Greenleaf Whittier. He grew up on the farm in a household with his parents, a brother and two sisters, aunt and uncle, and a constant flow of visitors and hired hands for the farm.

Whittier's first poem to be seen in print appeared in 1826 in the Newburyport Free Press, where the abolitionist William Lloyd Garrison was editor. Under Garrison's encouragement Whittier actively joined the abolitionist cause and edited newspapers in Boston and Hartford. He was associated with the Atlantic Monthly Magazine from 1857 until his death.

In 1831, he brought out a book of prose works, "Legends of New England," and the next year returned to his native town to run the farm after his father's death, and later moved to Amesbury. Until the Civil War, he became increasingly involved in the abolitionist cause, serving in numerous capacities on the local, state and national levels. He was also involved in the formation of the Republican Party.

With the publication of *Snow-Bound* in 1866, Whittier finally enjoyed a relatively comfortable life from the profits of his published works. It is *Snow-Bound* for which he will always be best remembered as a poet. Nearly every volume of his verses published thereafter was truly a best seller. Whittier died on September 7, 1892 at a friend's home in Hampton Falls, NH, and was buried with the rest of his family in Amesbury.

The Whittier Homestead is an outstanding example of the old New England farm, located on its original site, and is substantially the same as when the Poet lived there in 1807 until 1836. The homestead is the setting of his most famous and beloved poem, *Snow-Bound*. Many settings from his poems are recognizable to those who have read them.

*Text excerpts courtesy of [www.johngreenleafwhittier.com](http://www.johngreenleafwhittier.com)*



*John Greenleaf Whittier Home in Amesbury, Massachusetts*  
[www.whittierhome.org](http://www.whittierhome.org)

## Statement of Net Assets

Fiduciary Funds

June 30, 2009

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
<b>ASSETS</b>				
Cash and short-term investments.....	\$ -	\$ -	\$ 834	\$ 430,496
Assets held in trust for post - employment benefits:				
Cash and short-term investments.....	45,290	908,749	-	-
Investments at fair value.....	32,865,318	4,205,445	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	5,250,962	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,522,440
Assets held in trust.....	-	-	-	830,479
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,021
Other receivables.....	80,291	863,283	-	106,699
<b>Total assets.....</b>	<b>32,990,899</b>	<b>11,228,439</b>	<b>834</b>	<b>2,892,135</b>
<b>LIABILITIES</b>				
Accounts payable.....	18,977	1,313,965	-	45,470
Due to cities and towns.....	-	-	-	83,850
Lottery prizes payable.....	-	-	-	1,522,440
Agency liabilities.....	-	-	-	1,240,375
Other accrued liabilities.....	-	1,349	-	-
<b>Total liabilities.....</b>	<b>18,977</b>	<b>1,315,314</b>	<b>-</b>	<b>2,892,135</b>
<b>NET ASSETS</b>				
Restricted for employees' post - employment benefits.....	32,971,922	-	-	-
Restricted for external investment trust fund participants.....	-	9,913,125	-	-
Restricted for private purposes.....	-	-	834	-
<b>Total net assets.....</b>	<b>\$ 32,971,922</b>	<b>\$ 9,913,125</b>	<b>\$ 834</b>	<b>\$ -</b>

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

# Statement of Changes in Net Assets

## Fiduciary Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 1,666,964	\$ -	\$ -
Employee contributions.....	1,061,881	-	-
Proceeds from sale of units.....	-	23,885,364	-
<b>Total contributions.....</b>	<b>2,728,845</b>	<b>23,885,364</b>	<b>-</b>
Net investment loss:			
Net Investment loss, net of management fees .....	(10,901,458)	(809,624)	-
<b>Net investment loss .....</b>	<b>(10,901,458)</b>	<b>(809,624)</b>	<b>-</b>
<b>Total additions.....</b>	<b>(8,172,613)</b>	<b>23,075,740</b>	<b>-</b>
<b>DEDUCTIONS</b>			
Administration.....	26,908	-	-
Retirement benefits and refunds.....	3,711,961	-	-
Cost of units redeemed.....	-	23,360,825	-
Distribution to unit holders.....	-	108,762	-
<b>Total deductions.....</b>	<b>3,738,869</b>	<b>23,469,587</b>	<b>-</b>
<b>Net increase (decrease) .....</b>	<b>(11,911,482)</b>	<b>(393,847)</b>	<b>-</b>
Net assets - beginning .....	44,883,404	10,306,972	834
<b>Net assets - ending.....</b>	<b>\$ 32,971,922</b>	<b>\$ 9,913,125</b>	<b>\$ 834</b>

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



## Thornton Waldo Burgess (1874-1965)

Thornton Waldo Burgess, naturalist and conservationist, loved the beauty of nature and its living creatures so much that he wrote about them for 50 years. By the time he retired, he had written more than 170 books and 15,000 stories for daily columns in newspapers.



*Peter, Mrs Perter Rabbit  
Illustration by Harrison Cady*



*Thornton W. Burgess*



*Thornton Burgess Museum*

For fifty years, Burgess steadily wrote books that were published around the world in many languages. Collaborating with him was his illustrator and friend, Harrison Cady of New York and Rockport, Massachusetts. Cady gave us the familiar form of Peter Rabbit and other animal characters that we recognize today.

Burgess was brought up by his mother in Sandwich after his father died in the year of his birth. They both lived in humble circumstances with relatives or paying rent. As a youth he worked year round in order to earn money. Some of his jobs included tending cows, picking arbutus or berries, shipping water lilies from local ponds, selling candy and trapping muskrats. Many of his childhood experiences and the people he knew influenced his interest and concern for wildlife.

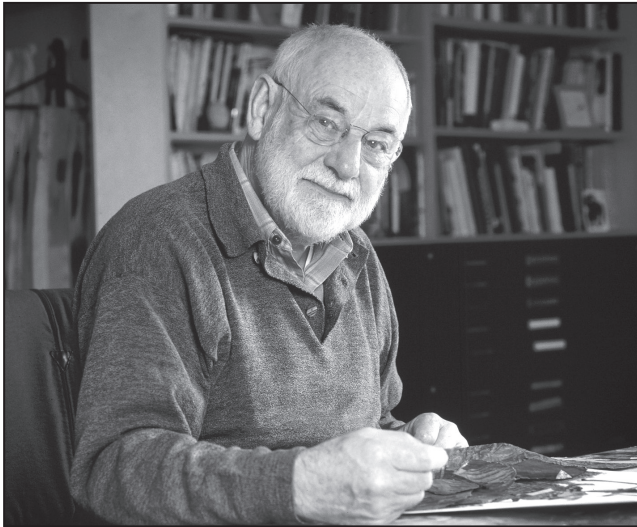
The Thornton W. Burgess Society was incorporated in 1976 "to inspire reverence for wildlife and a concern for the natural environment." It is a continuation of the influence Burgess had with youth through his delightful stories. The Burgess home became the Burgess Museum and later on, the Green Briar Jam Kitchen was purchased and has become a Nature Center. Today the Jam Kitchen is a "living museum" where visitors may view the cooking process first-hand. Green Briar's sun-cooked preserves are cooked slowly and gently in the oldest commercial solar-cooking operation in the country.



*Green Brian Jam Kitchen  
[www.thorntonburgessmuseum.org/JamMailOrder.htm](http://www.thorntonburgessmuseum.org/JamMailOrder.htm)*

*Text and Photography courtesy of Thornton Burgess Museum  
[www.thorntonburgessmuseum.org](http://www.thorntonburgessmuseum.org)*

# Discretely Presented Component Unit Financial Statements

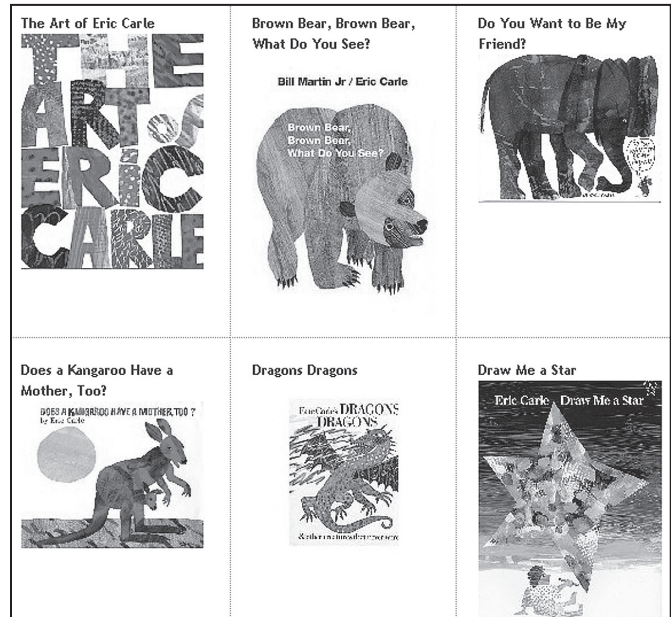


*Photo of Eric Carle by Paul Shoul  
Courtesy of Eric Carle Museum of Picture Book Art*

## Eric Carle (1929)

Eric Carle is acclaimed and beloved as the creator of brilliantly illustrated and innovatively designed picture books for very young children. His best-known work, *The Very Hungry Caterpillar*, has eaten its way into the hearts of literally millions of children all over the world and has been translated into more than 47 languages and sold over 29 million copies. Since the *Caterpillar* was published in 1969, Eric Carle has illustrated more than seventy books, many best sellers, most of which he also wrote, and more than 88 million copies of his books have sold around the world. His art work is created in collage technique, using hand-painted papers, which he cuts and layers to form bright and cheerful images.

Together with his wife Barbara, he founded The Eric Carle Museum of Picture Book Art as the first full-scale museum in this country devoted to national and international picture book art, conceived and built with the aim of celebrating the art we know first. Through the exploration of images that are familiar and beloved, it is the Museum's goal to foster connections between visual and verbal literacy and to provide



*Courtesy of Eric Carle Museum of Picture Book Art  
[www.carlemuseum.org/Shop/Books/Eric\\_Carle](http://www.carlemuseum.org/Shop/Books/Eric_Carle)*

visitors of all ages and backgrounds with the opportunity to explore their own creativity and the confidence to appreciate and enjoy art of every kind.

[www.carlemuseum.org](http://www.carlemuseum.org)



*Photo of Eric Carle by Paul Shoul*



# Statement of Net Assets

Component Units

June 30, 2009

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents.....	\$ 22,206	\$ 48,585	\$ 219,442	\$ 211,819	\$ -	\$ 502,052
Short-term investments.....	135,302	496,224	32,003	300,189	-	963,718
Assets held in trust.....	-	-	-	13,743	-	13,743
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable.....	10,420	-	192,603	25,548	-	228,571
Loans.....	-	-	240,907	38,933	-	279,840
Other receivables.....	15,604	15,825	80,702	43,209	-	155,340
Due from cities and towns.....	-	-	-	41,981	-	41,981
Due from primary government.....	124,302	7,547	3,813	98,671	-	234,333
Inventory.....	67,522	-	-	902	-	68,424
Other current assets.....	9,560	7,005	-	12,000	-	28,565
<b>Total current assets.....</b>	<b>384,916</b>	<b>575,186</b>	<b>769,470</b>	<b>786,994</b>	<b>-</b>	<b>2,516,566</b>
Noncurrent assets:						
Cash and cash equivalents - restricted.....	-	-	-	326,853	-	326,853
Long - term investments.....	-	102,266	1,615,670	53,450	-	1,771,386
Restricted investments and annuity contracts.....	609,362	-	-	-	-	609,362
Accounts receivables, net.....	-	-	-	8,671	-	8,671
Loans receivables, net.....	-	-	3,327,254	415,859	-	3,743,113
Due from primary government.....	-	-	-	9,712	-	9,712
Non-depreciable capital assets.....	777,420	316,346	-	137,236	-	1,231,002
Depreciable capital assets, net.....	7,338,614	6,227,180	-	1,201,064	-	14,766,858
Other noncurrent assets.....	214,426	11,864	5,690	4,365	-	236,345
<b>Total noncurrent assets.....</b>	<b>8,939,822</b>	<b>6,657,656</b>	<b>4,948,614</b>	<b>2,157,209</b>	<b>-</b>	<b>22,703,301</b>
<b>Total assets.....</b>	<b>9,324,738</b>	<b>7,232,842</b>	<b>5,718,084</b>	<b>2,944,203</b>	<b>-</b>	<b>25,219,867</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities.....	172,066	49,952	20,782	130,834	-	373,634
Accrued payroll.....	9,737	3,142	-	2,451	-	15,330
Compensated absences.....	17,356	4,797	-	3,363	-	25,516
Accrued interest payable.....	123,044	74,068	69,483	8,392	-	274,987
Due to primary government.....	-	-	-	18,606	-	18,606
Due to federal government.....	-	-	-	499	-	499
Deferred inflow of resources.....	-	-	149,377	23,738	-	173,115
Capital leases.....	9,347	-	-	-	-	9,347
Bonds, notes payable and other obligations.....	574,340	49,860	175,090	139,169	-	938,459
<b>Total current liabilities.....</b>	<b>905,890</b>	<b>181,819</b>	<b>414,732</b>	<b>327,052</b>	<b>-</b>	<b>1,829,493</b>
Noncurrent liabilities:						
Compensated absences.....	-	10,891	-	499	-	11,390
Accrued interest payable.....	-	84,794	2,998	-	-	87,792
Deferred inflow of resources.....	41,774	164,771	-	42,975	-	249,520
Capital leases.....	286,692	-	-	-	-	286,692
Bonds, notes payable and other obligations.....	4,818,742	2,213,857	3,422,771	589,516	-	11,044,886
Net post - employment benefits obligation.....	203,573	6,242	-	5,719	-	215,534
Other noncurrent liabilities.....	109,640	-	70,470	25,766	-	205,876
<b>Total noncurrent liabilities.....</b>	<b>5,460,421</b>	<b>2,480,555</b>	<b>3,496,239</b>	<b>664,475</b>	<b>-</b>	<b>12,101,690</b>
<b>Total liabilities.....</b>	<b>6,366,311</b>	<b>2,662,374</b>	<b>3,910,971</b>	<b>991,527</b>	<b>-</b>	<b>13,931,183</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt.....	3,211,313	4,603,971	-	1,155,117	-	8,970,401
Restricted for:						
Capital projects.....	-	-	-	159	-	159
Other purposes.....	19,160	170,485	1,724,513	499,953	-	2,414,111
Unrestricted.....	(272,046)	(203,988)	82,600	297,447	-	(95,987)
<b>Total net assets.....</b>	<b>\$ 2,958,427</b>	<b>\$ 4,570,468</b>	<b>\$ 1,807,113</b>	<b>\$ 1,952,676</b>	<b>\$ -</b>	<b>\$ 11,288,684</b>

# Statement of Revenues, Expenses and Changes in Net Assets

## Component Units

Fiscal Year Ending June 30, 2009

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
<b>Operating revenues:</b>						
Charges for services.....	\$ 448,752	\$ 297,262	\$ 1,722	\$ 1,421,946	\$ -	\$ 2,169,682
Other.....	57,863	32,341	-	72,478	-	162,682
<b>Total operating revenues.....</b>	<b>506,615</b>	<b>329,603</b>	<b>1,722</b>	<b>1,494,424</b>	<b>-</b>	<b>2,332,364</b>
<b>Operating expenses:</b>						
Cost of services .....	559,859	202,205	8,711	1,283,517	574,061	2,628,354
Administration costs.....	672,233	18,715	6,211	119,696	-	816,855
Depreciation.....	341,070	164,651	-	74,349	-	580,070
<b>Total operating expenses.....</b>	<b>1,573,162</b>	<b>385,571</b>	<b>14,922</b>	<b>1,477,562</b>	<b>574,061</b>	<b>4,025,279</b>
<b>Operating income (loss).....</b>	<b>(1,066,547)</b>	<b>(55,968)</b>	<b>(13,200)</b>	<b>16,861</b>	<b>(574,061)</b>	<b>(1,692,915)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating grants.....	913,543	27,000	-	218,713	-	1,159,256
Interest income.....	26,696	18,717	192,637	7,775	-	245,825
Interest expense.....	(266,111)	(110,912)	(177,217)	(19,821)	574,061	-
Other nonoperating revenues (expenses).....	15,936	(94,214)	-	(21,794)	-	(100,072)
<b>Nonoperating revenues (expenses), net.....</b>	<b>690,064</b>	<b>(159,409)</b>	<b>15,420</b>	<b>184,872</b>	<b>574,061</b>	<b>1,305,009</b>
<b>Income (loss) before contributions and transfers.....</b>	<b>(376,483)</b>	<b>(215,377)</b>	<b>2,220</b>	<b>201,733</b>	<b>-</b>	<b>(387,907)</b>
Capital contributions.....	255,982	-	103,748	(179,504)	-	180,226
Loss on sale of capital assets.....	-	-	-	(51)	-	(51)
<b>Change in net assets.....</b>	<b>(120,501)</b>	<b>(215,377)</b>	<b>105,968</b>	<b>22,179</b>	<b>-</b>	<b>(207,731)</b>
Net assets - beginning (as restated).....	3,078,928	4,785,845	1,701,145	1,930,498	-	11,496,416
<b>Net assets - ending.....</b>	<b>\$ 2,958,427</b>	<b>\$ 4,570,468</b>	<b>\$ 1,807,113</b>	<b>\$ 1,952,676</b>	<b>\$ -</b>	<b>\$ 11,288,684</b>



**Edith Wharton  
(1862-1937)**

Edith Wharton was born into a tightly controlled society known as "Old New York" at a time when women were discouraged from achieving anything beyond a proper marriage.

Wharton broke through these strictures to become one of America's greatest writers. Author of *The Age of Innocence*, *Ethan Frome*, and *The House of Mirth*, she wrote over 40 books in 40 years, including authoritative works on architecture, gardens, interior design, and travel. Essentially self-educated, she was the first woman awarded:

- The Pulitzer Prize for Fiction
- An honorary Doctorate of Letters from Yale University
- Full membership in the American Academy of Arts and Letters

Edith Wharton designed and built her "first real home," *The Mount*, in 1902. *The Mount* was Wharton's design laboratory where she implemented the principles articulated in her first



*Edith Wharton*

major book, *The Decoration of Houses* (1897). Wharton believed that the design of a house should be treated architecturally and should honor the principles of proportion, harmony, simplicity, and suitability.



*The Mount*

*Text and photography courtesy of  
The Mount @ [www.edithwharton.org](http://www.edithwharton.org)*

## Table of Contents

### Notes to the Basic Financial Statements

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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.

### A. *Financial Reporting Entity – Basis of Presentation*

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 57 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 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, 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 34 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Further descriptions of component units are found in note 13 to the basic financial statements.

*Blended Component Units* – 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 Massachusetts School Building Authority (MSBA), the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) are presented as a major governmental fund in the case of MSBA and as external investment trusts within the fiduciary type in the case of PRIT and MMDT.

*Entities Audited Separately from the Commonwealth but are not legally separate from the Commonwealth* – these entities include Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Receiver – General, the Investment Accounts Managed by the Health Care Security Trust Board (the Board) – which includes a non-major governmental fund (the Health Care Security Trust Fund) and a fiduciary fund (the State Retiree Benefits Trust Fund.) Hereafter, HST refers to investments by the Board. Also separately audited is the Commonwealth of Massachusetts Owner Controlled Workers' Compensation and General Liability Insurance Program (OCIP), which is reported as part of the Commonwealth's other governmental fund activity.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business-type activities. These include the University of Massachusetts System (including component units) and the State and Community College System of 9 state and 15 community colleges as well as the Massachusetts State College Building Authority, which is a blended component unit of the state college system. The various community and state colleges also have foundations and ancillary entities that are discretely presented component units of those entities.

*Other Discretely Presented Component Units that are Separately Audited* - Three major component units, the Massachusetts Bay Transportation Authority – (MBTA), the Massachusetts Turnpike Authority (MTA) and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. Eleven non-major non-transportation related component units and 15 regional transit authorities (inclusive of the Metrowest Regional Transit Authority) are also presented as non-major component units.

#### *The Massachusetts Department of Transportation*

On June 25, 2009, the Commonwealth passed legislation creating the Massachusetts Department of Transportation (MDOT,) effective November 1, 2009 (part of fiscal year 2010 – (FY10.) MDOT will merge the following Commonwealth agencies: the Massachusetts Highway Department, the Massachusetts Aeronautics Commission, the Registry of Motor Vehicles and the Executive Office of Transportation and Construction and certain programs of the Department of Conservation and Recreation with the MTA and the Tobin Memorial Bridge from the Massachusetts Port Authority. In addition, the regional transit authorities and the MBTA discussed above will fall under the MDOT organizational structure, but remain separate component units. As part of the creation of MDOT, the Highway Fund will cease operations in FY10 in favor of a new Commonwealth Transportation Fund.

Details on these component units are presented in Note 13 to the Basic Financial Statements.

#### *Related Organizations*

The following are “related organizations” under GASB Statement No. 14, *The Financial Reporting Entity* as amended by Statement 39: 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. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

#### *Availability of Financial Statements*

The separately audited financial statements of the Commonwealth's component units and funds may be obtained by directly contacting the various entities. Contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

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

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government 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 and 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.

Restricted net assets are used prior to unrestricted net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment is 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 and offset or supplant the net operating deficit or surplus from governmental or business – type operations.

#### *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.

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

#### **C. Measurement Focus and Basis of Accounting**

**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 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 and 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 are recognized in the year for which they are received or subject to accrual, grants expended or services provided. The measurement period for accrual for taxes generally is one year for income, corporate and other taxes and within thirty days for sales and use taxes, for taxes earned. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred previous to year end. 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. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

**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. Post-employment benefits and refunds are recognized when due and payable.

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 general laws to support specific governmental activities.

**Debt Service Fund** accounts for the accumulation of resources for and the payment of debt.

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

**Permanent Funds** account for resources that are legally restricted to the extent that earnings, not principal may be used for the Commonwealth's programs. These are different than private – purpose funds below as those benefit individuals, private organizations and other governments directly. The only permanent fund the Commonwealth has is the Massachusetts School Fund, established in 1834 as 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.

**Proprietary Fund Types:**

**Business - Type Activities** account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Colleges and Community Colleges.

**Fiduciary Fund Types:**

**Post Employment Benefit Trust Funds** report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post employment benefit trust funds may be found in note 9 to the basic financial statements.

**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.

**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 the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

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

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

**The Massachusetts School Building Authority** is presented as a governmental fund. This comprises the activity of the blended component unit, Massachusetts



School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

The proprietary funds include the following:

***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 Colleges' activity.

#### *Fund Balances and Reserves of Fund Balances*

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those that are authorized are discussed in note 8 to the basic financial statements, "Individual Fund Deficits." Reserves noted in balance sheets are amounts that are not available for further expenditure other than for the specific reserve purpose.

#### *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.

#### *Program Revenue*

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.

#### *Operating and non-operating revenues and expenses*

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 the cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Fund and a Short Term Bond Fund. Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or James McDonald, Assistant Treasurer, Cash Management Department, at 617-367-9333.

Statutes authorize investment 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 that any of these obligations secure. The Cash Fund investments are carried at cost, which approximates fair value.

Portions of the post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees' and Teachers' Public Employee Retirement Systems (PERS) are required to invest in the PRIT Fund and comprise approximately 40.8% and 45.9% of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities; primarily domestic and international equities and fixed income securities as well as non-marketable securities; primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities, including the Short Term Bond Fund component of MMDT, are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 30.8%, 30.8% and 44.3% of the net assets/fund balance of the State Employees' PERS, Teachers' PERS and the HST.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

MMDT's 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.

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.      *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, based upon collection experience. If revenue is not received by year – end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as “Federal grants and reimbursements” or “Due from federal government” in the statement of net assets.

“Other Receivables” represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY09 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 “Tobacco Settlement Recognition and Financial Reporting Entity Issues”, a receivable has been declared for \$146.3 million, representing 50% of the amounts estimated to be received in FY10, adjusted for historical trends and included as part of other nonmajor governmental fund activity.

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

“Due from Cities and Towns” represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

On July 9, 2004, the Governor signed Chapter 169 of the Acts of 2004, related to the financial ability of the City of Springfield, (the City). Section 2 of the Act provides for \$52,000,000 in zero interest loans to be drawn from time to time by a finance control board established by the Act. Repayment activity for FY09 was recorded in the General Fund. As of June 30, 2009, the outstanding balance of \$46,800,000 is reflected as “due from Cities and Towns.” Subsequent to year end, the loan balance of \$46,800,000 was repaid to the Commonwealth and deposited into an expendable trust for the purpose of providing scholarships for post-secondary education for graduates of Springfield public schools.

The MSBA has entered into various loan agreements with municipalities at a 2% interest rate to be received in equal installments through 2033. This program is designed to assist school districts with unanticipated inflationary construction costs over the district’s original amount budgeted for a project. The loans outstanding as of June 30, 2009 were \$75,400,000, of which \$3,500,000 is due in FY10. During FY09, the MSBA executed \$9.1 million of new loans and collected \$1.4 million of scheduled principal payments.

**H.      *Capital 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. 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. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

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

*Central Artery / Tunnel Project Depreciation*

In FY09 certain Central Artery / Tunnel Project segments were open to traffic, but not yet transferred as of June 30, 2009 to the MTA or Massport, as required by Massachusetts general law. The Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as “Due to Component Units – Central Artery / Tunnel Project” and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth’s statement of activities. Subsequent to year end, all of these assets will transfer to the MDOT.

*Construction in Process*

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is

placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or Massport, its engineers and respective boards. The chief engineer of the Highway Department, or their designees, jointly determine and certify to the MTA or Massport 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 2009, approximately \$6.8 billion of project costs has been transferred to the various authorities. Separately, approximately \$277 million of pre-project costs was transferred to the MTA and approximately \$21 million of costs was transferred outside of the current agreements to the Massport and to the Boston Redevelopment Authority.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

**I. *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.

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

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. 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.

**K. *School Construction Grants, Contract Assistance and other Payables***

The Commonwealth, through the MSBA, was reimbursing cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program, the Commonwealth is reimbursing municipalities and regional school districts for 728 previously approved projects noted by MSBA as prior grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings. In addition, the MSBA fund projects on a waiting list either via a lump sum or through progress payments. Each funding method has different eligibility requirements. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects not recognized are noted as



commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. The amount of commitments outstanding for the waiting list projects is \$463.6 million and is anticipated to be funded under the progress payment method. New programs have been established by the MSBA as well in a similar fashion to waiting list projects. A liability has been recognized for \$27.3 million for project reimbursements and an additional \$78.3 million has been committed for projects anticipated to be funded in those programs.

The Commonwealth recognizes contract assistance due to MWPAT as a long-term liability on the statement of net assets. This assistance is applied as a subsidy to repayments from MWPAT loan borrowers. The expectation is that the assistance will be available for the life of the MWPAT financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance received and the amounts needed for loan subsidies, that amount is invested by MWPAT in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the MWPAT borrower is obligated for any shortfall, however the Commonwealth regards this as a general obligation. Other forms of assistance include a payable declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30<sup>th</sup> but paid for after year-end.

**L.      *Compensated  
Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2009 but paid after the fiscal year end is also reported in the funds.

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.

**M.      *Dedicated Revenues  
and Pledges***

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. These other authority's debts are not included in the SBFR, but are included in the CAFR.

Approximately \$2.6 billion in revenues from federal grants passed through the Federal Grants Fund represents the greatest source of dedicated revenues. A portion of these grants are dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001 and refunding notes in fiscal 2003. Total principal remaining to be paid on these federal grant anticipation notes is approximately \$1.1 billion. Maturities are from FY10 through FY15. Principal paid during FY09 was approximately \$137.2 million.

During FY09, the Governor approved legislation authorizing the issuance of an additional \$1.1 billion of grant anticipation notes secured by future federal

funds. The Commonwealth intends to begin to amortize the principal of any such notes beginning in fiscal 2016, after the original federal grant anticipation notes have been paid in full.

Commonwealth gas taxes are partially pledged to fund highway construction. As of June 30, 2009, 6.86 cents of the total 21 cent per gallon gasoline tax are pledged to fund approximately \$447 million of principal and approximately \$166 million in interest on the outstanding debt as of June 30, 2009. These bonds mature from FY10 to FY23 and were sold in various series issued previous to FY09. Annual principal and interest on the bonds are expected to require less than approximately 30% of net current year revenues. Principal and interest paid during FY09 amounted to approximately \$34.0 million and \$25.0 million, respectively. During FY09, the Governor approved legislation that authorizes the issuance of an additional \$1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA) amounting up to 1% of applicable sales, respectively, for the authorities. Total dedicated sales tax revenue that was directed to the MBTA in FY09 was approximately \$767 million. Dedicated revenues to the MBTA rise by either 3%, or the greater of the rise in the consumer price index in Boston, or annual sales taxes, with a floor of 0% annually.

The MSBA also receives a pledge of sales tax that will increase to 1% of applicable sales in the Commonwealth by FY11. In FY09, approximately \$700 million or 90% of the dedicated sales tax revenue stream was directed to the MSBA. This amount rises to 95% of the dedicated sales tax revenue stream in FY10 with no floor or ceiling.

The Commonwealth has also pledged surcharges from areas contiguous to convention centers, and the Worcester DCU Arena and Convention Center to support such centers' operations. Sales taxes within the Convention Center districts support approximately \$644 million of outstanding principal and related premiums approximately \$595 million of interest on debts related to these Convention Centers. Taxes collected in FY09 were approximately \$73.9 million, while debt service on the bonds was approximately \$36.3 million.

Finally, as part of the Transportation Modernization Act of 2009, as amended, a further pledge of sales taxation was made. Beginning in FY11, 0.385% of applicable sales and uses on a total tangible property tax rate of 6.25% will be dedicated to funding the operations of the Massachusetts Department of Transportation (MDOT). The Act has a floor amount of \$275 million, with a final transfer occurring on or before September 1st of the following fiscal year. Of the floor amount, \$160 million will be dedicated to funding the operations of the MBTA while an additional \$15 million will be dedicated to funding the operations of the regional transit authorities. These amounts will be transferred through the Commonwealth Transportation Fund.

**N. Lottery Revenue and Prizes**

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments,

the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net assets. 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.

**O. Risk Financing**

The Commonwealth self insures 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.

**P. Net Assets**

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation.*" Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances that can only be used for capital projects under federal tax laws.

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"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. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

"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. Various trust and insurance agreements require mutual consent of the Commonwealth and the companies involved to remove restrictions. Any program assets remaining after all losses and other obligations of the Central Artery / Tunnel Project are paid will revert to the Commonwealth.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. In Pension Trust Fund and External Investment Trust Fund net assets have been restricted for employee's pension benefits which identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans and for external investment trust fund participants which 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.

“Restricted for Nonexpendable purposes” – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2009, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Restricted for:			
Unemployment benefits.....	\$ -	\$ 1,009,381	\$ 1,009,381
Retirement of indebtedness.....	573,302	-	573,302
Central artery workers' compensation and general liability.....	30,636	-	30,636
Permanent trust.....	5,000	-	5,000
Restricted for other purposes including:			
Higher education endowment funds.....	-	291,509	291,509
Higher education academic support and programs.....	-	11,710	11,710
Higher education scholarships and fellowships:			
Nonexpendable.....	-	8,100	8,100
Expendable.....	-	10,558	10,558
Other nonexpendable purposes.....	-	25,588	25,588
Other expendable purposes.....	-	252,299	252,299
Total restricted net assets.....	<u>\$ 608,938</u>	<u>\$ 1,609,145</u>	<u>\$ 2,218,083</u>

**Q.      *Reclassifications***

Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said Component Units. Due to the provisions of GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments*, major governmental and proprietary funds presented in a previous year may not be presented as a major fund in the current year. These changes were done because of internal changes in accounting policies.

**R.      *Total Columns and Estimates***

Total and subtotal columns are presented primarily to facilitate financial analysis. The Management’s Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth’s financial statements for the year ended June 30, 2009 from which the summarized information was derived.

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**S.      *Adoption of New Accounting Standards and Restatements***

In FY09, the Commonwealth has implemented Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 49 established accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site

assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. The effects of this standard are further discussed in Note 12 to the basic financial statements – Contingencies.

The provisions of Statement No. 49 require the measurement of pollution remediation liabilities at July 1, 2008; therefore the Commonwealth's beginning net assets have been restated. The following is a reconciliation of net assets as previously reported as of June 30, 2008 to the beginning net assets balance (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Net assets at June 30, 2008.....	\$ (9,161,450)	\$ 4,596,571	\$ (4,564,879)
Adoption of GASB Statement No. 49.....	(170,621)	-	(170,621)
Other restatements.....	-	17,821	17,821
Net assets at July 1, 2008.....	<u>\$ (9,332,071)</u>	<u>\$ 4,614,392</u>	<u>\$ (4,717,679)</u>

The Commonwealth's component units also implemented Statement No. 49 and restated beginning net assets as required by the standard. Details on the effect, if any to the net assets of those component units by implementing these standards are disclosed in the component units separately audited financial statements.

Other restatements include a change in a component unit of the University of Massachusetts and certain changes in the beginning balances of various state and community colleges for miscellaneous operations and purposes.

GASB 52, *Land and Other Real Estate Held as Investments by Endowments* establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments and applicable mainly to Institutions of Higher Education. Endowments include permanent and term endowments, and permanent funds. GASB 52 does not apply to lands granted by the Federal government in connection with a state being admitted to the United States. It also does not apply to quasi-endowments. The provisions of GASB 52 require the measurement of land held for investment at fair market value instead of historical cost.

The Commonwealth also implemented GASB 55, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*. The statement incorporates the hierarchy of GAAP for state and local governments into the GASB's authoritative literature and has no financial statement impact. The Commonwealth also adopted GASB 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The statement incorporates accounting and financial reporting guidance from the American Institute of Certified Public Accountants (AICPA) literature into the GASB literature for state and local governments. The Statement addresses three issues from the AICPA's literature:

- related party transactions
- going concern considerations
- subsequent events



Wherever applicable, the Commonwealth has incorporated the provisions of GASB 56 into the notes to the basic financial statements.

In FY10, the Commonwealth will be implementing Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Portions of Statement No. 53 convert Technical Bulletin No. 2003-1 *Disclosure Requirements for Derivatives Not Reported At Fair Value* on the Statement of Net Assets, to a Statement form. Current disclosures are presented as part of note 7 to the basic financial statements. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing these statements.

In FY11, the Commonwealth will be implementing Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Within the governmental funds only, fund balance will be reorganized to include identifications of amounts that are considered nonspendable, such as fund balance associated with inventories and permanent funds. Additional classifications of *restricted*, *committed*, *assigned* and *unassigned* amounts will be used based on the relative strength of the constraints that control how specific amounts can be spent. *Restricted* fund balances are those that can only be spent on specific purposes stipulated by constitution, external resource providers or through enabling statute. *Committed* balances are those that can be used only for actions authorized by the Commonwealth's highest level of decision – making authority. *Assigned* balances are to be used for specific purposes, but are not restricted or committed. *Unassigned* fund balances will only be shown in the General Fund and will be those that are not restricted, committed or assigned. The effect of implementing this statement will be a reorganization of the fund balance section of the balance sheet for the governmental funds only and additional disclosure in the notes to the basic financial statements.

## 2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

### *Primary Government -*

The Commonwealth maintains cash in the MMDT Cash Fund that is available for use by all funds. Each fund type's net equity in the Cash Fund is displayed in the basic financial statements as "Cash and cash equivalents", and "short-term investments."

Pooled cash and short-term investments include the following (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Cash and cash equivalents.....	\$ 3,530,091	\$ 323,706	\$ 3,853,797
Short-term investments.....	-	260,333	260,333
Cash with fiscal agent.....	666,118	-	666,118
Total.....	<u>\$ 4,196,209</u>	<u>\$ 584,039</u>	<u>\$ 4,780,248</u>

### *Lottery Annuity Contracts*

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, purchases annuity contracts from insurance companies and United States treasury strips to fund the

Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two rating issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. At June 30, 2009, the Commonwealth held these investments with a face value of approximately \$2.6 billion and with a carrying value of approximately \$1.5 billion. Over 81% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 5% of the overall portfolio.

As of June 30, 2009, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$ 1,118,599
Cash and cash equivalents held in pooled cash.....	169,063
Restricted investments.....	<u>505,544</u>
Total.....	<u>\$ 1,793,206</u>

#### *MSBA Deposits and Investments*

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

#### *Custodial Credit Risk – Pooled Cash*

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) must be collateralized with a perfected pledge of eligible collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver – General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver – General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF.

*Custodial Credit Risk – HST*

HST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HST's custodian. As of June 30, 2009, HST held less than one hundred thousand in cash that was exposed to this risk.

*Custodial Credit Risk – OCIP*

In addition, the OCIP had less than ten thousand dollars exposed to Custodial Credit Risk. All of the investments held at the OCIP trust are insured or registered, or are securities held by the OCIP trustee in the name of the OCIP trust.

*Custodial Credit Risk – Business - Type Activities*

The Institutions of Higher Education and their blended component units have investment policies that may vary by Institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC as well as uninsured deposits. As of June 30, 2009, the bank balances of uninsured deposits total approximately \$107.8 million.

*Custodial Credit Risk - MSBA*

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as uninsured deposits. As of June 30, 2009, all MSBA bank balance was fully protected against loss.

*Interest Rate Risk – Non – Post Employment Benefit Trust Funds*

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 90 days and holding all of the portfolio's total market value in securities with a maturity of six months or less.

As of June 30, 2009 the MMDT Cash Fund is considered a cash equivalent by the Commonwealth. During the fiscal year the fund's weighted average maturity fluctuated from 34 to 80 days.

The Massachusetts General Laws authorize investments in the MMDT Cash Fund to include money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with the same Section.

Investments in the MMDT are classified as cash and short term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights. General Laws Chapter 29, Section 49

enumerates the Commonwealth's policy of investments included in the MMDT cash fund and other escrows.

The HST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HST's domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. HST compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. The HST had debt investments totaling approximately \$87 million at fair value with a range of effective weighted average duration from 0.07 to 7.48 years at June 30, 2009.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 3.1 to 3.6 years. Investments in the MMDT Short Term Bond Fund have a fair value of \$369.8 million have investment maturities ranging from less than one year to more than ten years and with approximately 6% of the investment's fair values maturing in less than 1 year, approximately 76% from one to five years, approximately 2% from six to ten years and approximately 16% more than ten years.

#### *Interest Rate Risk – OCIP*

As of June 30, 2009, the OCIP had approximately \$79,359,000 of investments at fair value, all of which mature within one year, all of which was invested in commercial paper rated A-1.

#### *Interest Rate Risk – Business - Type Activities*

The Institutions of Higher Education and their blended component units have debt investments stated at fair value of approximately \$724 million and have investment maturities ranging from less than one year to more than ten years and with approximately 53% of the investment's fair values maturing in less than 1 year, approximately 22% from one to five years, approximately 16% from six to ten years and approximately 9% more than ten years.

#### *Interest Rate Risk - MSBA*

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2009, the MSBA had approximately \$227 million invested in guaranteed investment contracts and approximately \$133 million invested in a U.S. Treasury Bond. These investments are recorded at fair value. These contracts mature at different times ranging from FY31 to FY36.

*Credit Risk –Primary Government*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 10% of the total investment portfolio into any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions in the amount that can be invested in public entity securities; however, the portfolio may be invested in U.S. Treasury obligations and repurchase agreements.

The Treasury requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking as rated by nationally recognized statistical ratings organizations as defined by the investment act of 1940. The Treasury does not have any additional policies regarding credit ratings of investments. Credit ratings associated with the Commonwealth's investment in MMDT for the cash fund ranged from A1 / P1 to unrated, with approximately 98% rated A1 / P1, approximately 2% rated A2 / P2 at fair value.

For the Short Term Bond Fund, investments were approximately 9% at AAA, approximately 15% from A to AA, approximately 12% BBB or below or unrated and approximately 64% held in US Government or Government Agency Obligations.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately \$289 million at AAA, approximately \$167 million from A to AA, and approximately \$268 million either unrated or BBB or less.

*Credit Risk - MSBA*

The MSBA's investments as of June 30, 2009 were not rated, however the issuer was rated AA or equivalent.

*Credit Risk - HST*

For the HST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2009. For the fixed income securities as of June 30, 2009 for the HST, approximately \$30 million was rated AAA, \$13 million rated AA to A, \$14 million rated BBB to B and \$22 million either unrated or CCC or less.

*Foreign Currency Risk – HST*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and / or country holdings must be within a certain percentage of predefined benchmarks. HST's investments in foreign currencies as of June 30, 2009 were approximately \$0.5 million in cash and investments, \$36 million in equities, \$7 million in fixed income investments and \$7 million in alternative investments.

*Interest Rate Risk – PRIT Funds*

As pension trust funds have a different investment horizon, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had debt investments totaling approximately \$9.6 billion at fair value with an effective weighted average duration range from .025 to 8.58 years at June 30, 2009.

*Credit Risk – PRIT Funds*

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2009.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$4.9 billion, BBB to B- investments with a fair value of approximately \$2.3 billion and the remaining \$1.1 billion rated CCC to C-, unrated or are investments that are explicitly backed by the U. S. Government.

*Foreign Currency Risk – PRIT Funds*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by holding a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through



forward foreign currency contracts. The PRIT Fund's investments in foreign currencies as of June 30, 2009 were approximately \$111 million in cash and investments, \$9.1 billion in equities, \$1.7 billion in fixed income investments and \$619 million in alternative investments.

*Concentration of Credit Risk –HST and PRIT*

The PRIM Board manages HST's and PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

MMDT, HST and PRIT have no investments at fair value, that exceed 5% of HST or PRIT's net assets held in trust for pool participants as of June 30, 2009.

**A. Derivative Instruments**

HST and PRIT may invest in derivative transactions. These investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. Descriptions of such derivatives are as follows:

*Forward Currency Contracts*

The HST and PRIT enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by HST and PRIT.

When a contract is closed, PRIT records 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.

As of June 30, 2009, HST had open foreign exchange contracts with combined net unrealized losses of approximately \$18,800,000 with various delivery dates from July to September. As of June 30, 2009, PRIT had open foreign exchange contracts with combined net unrealized losses of \$2,242,000 with various delivery dates to November 2009.

*Futures Contracts*

The HST and PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may correspond to the change in value of the hedged instruments. In addition, there is a risk that HST and PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may arise from the potential inability of 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 HST and PRIT may also invest in financial futures contracts for non-hedging purposes.

The HST held 69 financial futures contracts (and an additional three short contracts) at June 30, 2009, with various expirations during FY10 and FY11. These contracts were mainly for Eurodollars, US Treasury securities and in the S&P 500 E-Mini Index. The total notional amount of these contracts as of June 30, 2009 was approximately \$10,720,000, with an aggregated fair value as of that date of approximately \$10,744,000, yielding an unrealized net appreciation of approximately \$24,000.

PRIT held 22,321 contracts outstanding at June 30, 2009 with various expirations from FY10 to FY11. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2009 was approximately \$3,272,000 with a fair value of \$3,283,000, yielding an unrealized net appreciation of approximately \$11,000,000.

Payments are made or received by the PRIT 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 HST and Pension Trust Funds recognize a realized gain or loss.

#### *Swaps – PRIT*

PRIT has entered into interest rate swap contracts for the purpose of hedging the floating-rate interest exposure of its financed real estate investments. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT 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. Variable rate interest received is the Federal Funds Effective Rate with fixed rates paid ranging from 0.08% to 8.95%. Changes in fair value are included as part of investment income.

As of June 30, 2009, PRIT had contracts in effect with an aggregated notional amount of approximately \$3.9 million to various investment banks that had maturity dates from FY10 to FY28. The contracts have an aggregate fair value of \$4,100,000. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT has various other swap contracts outstanding as of June 30, 2009 but have similar purposes and valuation techniques to those previously disclosed. Counterparty exposure was with various major investment companies with ratings ranging from A to A+ and various other banks with other ratings. Open swap contracts as of June 30, 2009 were as follows (amounts expressed in thousands):

		2009					
Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Total Return Swaps	
		Gross		Gross		Gross	
		Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Goldman Sachs International	A	\$ 98,951	\$ 155	\$ 32,417	\$ 954	\$ 932,916	\$ 26,122
Credit Suisse	A	167,300	(3,400)	5,000	99	685,106	32,179
J.P. Morgan Securities Inc.	A+	25,897	291	13,350	498	549,803	43,117
Deutsche Bank Securities Inc.	A+	211,802	2,298	69,137	1,592	-	-
Royal Bank of Scotland PLC	A	271,736	5,356	8,000	507	-	-
Barclays Global Investors	A+	216,669	697	43,477	368	-	-
UBS Financial Services Inc	A+	-	-	1,500	(22)	249,998	36,419
Merrill Lynch Capital	A	19,069	717	8,882	501	125,000	6,416
Morgan Stanley Capital	A	25,600	(990)	77,843	3,675	-	-
All others	Various	22,236	(80)	41,973	(973)	-	-
		<u>\$ 1,059,260</u>	<u>\$ 5,044</u>	<u>\$ 301,579</u>	<u>\$ 7,199</u>	<u>\$ 2,542,823</u>	<u>\$ 144,253</u>

**B. Discretely Presented  
Component Unit  
Investments**

Component units invest in derivative transactions. Some component unit derivative transactions have potential terminations due to the global credit crisis. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

The Governor approved legislation on August 11, 2008 authorizing the Secretary of Administration and Finance, with the approval of the Governor, to provide certain types of credit support for payment obligations of the MTA on certain bonds and interest rate swap agreements of the MTA.

### 3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables .....	\$ 4,441,401	\$ 2,087,128	\$ 76,284	\$ 1,736,059	\$ 8,340,872
Business-type activity receivables.....	-	89,579	58,852	800,689	949,120
Less: allowance for uncollectibles.....	(1,438,499)	(42,696)	(4,305)	(1,616,179)	(3,101,679)
Receivables, net of allowance for uncollectibles .....	3,002,902	2,134,011	130,831	920,569	6,188,313
Less: current portion:					
Governmental activities .....	(2,359,178)	(1,996,649)	(4,377)	(277,502)	(4,637,706)
Business-type activities .....	-	(82,015)	(40,815)	(556,776)	(679,606)
Noncurrent receivables .....	<u>\$ 643,724</u>	<u>\$ 55,347</u>	<u>\$ 85,639</u>	<u>\$ 86,291</u>	<u>\$ 871,001</u>

### 4. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by Legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various

highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations, largely for institutions of higher education. Activity between funds reflected as due to / from primary government in the various statements is summarized as follows (amounts in thousands):

	<u>General</u>	<u>Highway</u>	<u>Lotteries</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Governmental funds:</b>					
<u>Transfers In:</u>					
Debt Service.....	\$ -	\$ -	\$ -	\$ 2,137,653	\$ 2,137,653
Transfers in.....	<u>1,909,449</u>	<u>221,299</u>	<u>76,112</u>	<u>2,472,224</u>	<u>4,679,084</u>
Subtotal.....	1,909,449	221,299	76,112	4,609,877	6,816,737
<u>Transfers Out:</u>					
Appropriations.....	(1,089,951)	-	-	(1,728)	(1,091,679)
Transfer of bond proceeds.....	-	-	-	(87,698)	(87,698)
Debt Service.....	(1,024,505)	(866,881)	-	(246,267)	(2,137,653)
Transfers out.....	<u>(1,729,388)</u>	<u>(83,650)</u>	<u>(1,002,724)</u>	<u>(1,754,597)</u>	<u>(4,570,359)</u>
Subtotal.....	<u>(3,843,844)</u>	<u>(950,531)</u>	<u>(1,002,724)</u>	<u>(2,090,290)</u>	<u>(7,887,389)</u>
<b>Total governmental funds.....</b>	<b>(1,934,395)</b>	<b>(729,232)</b>	<b>(926,612)</b>	<b>2,519,587</b>	<b>(1,070,652)</b>
<b>Proprietary Funds:</b>					
	<u>University of Massachusetts</u>	<u>State Colleges</u>	<u>Community Colleges</u>		<u>Total</u>
<u>Transfers In:</u>					
Transfers in from the General Fund and Other governmental funds.....	\$ 593,721	\$ 281,721	\$ 303,935		\$ 1,179,377
<u>Transfers Out:</u>					
Transfers out to the General Fund.....	<u>(69,224)</u>	<u>(20,320)</u>	<u>(19,181)</u>		<u>(108,725)</u>
<b>Total proprietary funds.....</b>	<b><u>524,497</u></b>	<b><u>261,401</u></b>	<b><u>284,754</u></b>		<b><u>1,070,652</u></b>
<b>Net transfers in / (out) between funds.....</b>	<b><u>\$ (1,409,898)</u></b>	<b><u>\$ (467,831)</u></b>	<b><u>\$ (641,858)</u></b>	<b><u>\$ 2,519,587</u></b>	<b><u>\$ -</u></b>

Remaining receivables and payables between funds as of June 30, 2009 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2009. The amount due to the general fund largely represents deficits funded by the general fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2009:

<u>Receivable Fund</u>	<u>Pavable Fund</u>	<u>Amount</u>
<b>Governmental Funds:</b>		
General	Nonmajor Governmental Funds.....	\$ 654,695
Nonmajor Governmental Funds	Nonmajor Governmental Fund.....	97,925
<b>Total Governmental Funds.....</b>		<b>\$ 752,620</b>
<b>Governmental Funds:                      Proprietary Funds:</b>		
General	University of Massachusetts.....	10,430
<b>Total amounts due.....</b>		<b>\$ 763,050</b>

### *Central Artery / Tunnel Project*

The Commonwealth has substantially completed the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project depressed the Central Artery (Interstate 93) through downtown Boston and connected 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. Per existing roadway transfer agreements, the assets of the project will be transferred to these entities for operations and maintenance pursuant to the provisions of Chapter 81A of Massachusetts General Laws.

The Commonwealth has recorded as assets 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 amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" in the Statement of Net Assets 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 MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

During FY09, the final transfers were made to Massport. During FY10, the remainder of this activity and balances will transfer to the MDOT, a component unit and will be reflected as such.

The following summarizes the asset and liability position related to the CA/T for FY09; excluding the separate Central Artery North Area project spending that was constructed by the Commonwealth in the 1980's and transferred to the MTA in FY03.

**Determination of Amounts Payable:**

Cumulative authorized project invoices as of June 30, 2009 .....	\$ 14,981,671
Less: Amounts transferred to MTA and recognized as assets by MTA.....	(6,732,491)
Less: Amounts transferred to other entities.....	<u>(127,448)</u>
Subtotal - Due to Component Units - Central Artery / Tunnel project as of June 30, 2009.....	8,121,732
Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred.....	<u>(1,069,266)</u>
<b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2009 .....</b>	<b><u>\$ 7,052,466</u></b>

**Reconciliation of Central Artery / Tunnel Capital Assets to Assets to Due to Component Units -  
Central Artery / Tunnel Project as of June 30, 2009:  
Determination of Assets in Use:**

Infrastructure - Central Artery / Tunnel Project.....	\$ 7,781,199
Less: Accumulated depreciation of infrastructure assets in use to be transferred.....	<u>(1,069,267)</u>
Net book value of Infrastructure - Central Artery / Tunnel Project.....	6,711,932
Land - Central Artery / Tunnel Project.....	<u>340,534</u>
<b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2009 .....</b>	<b><u>\$ 7,052,466</u></b>



## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2009 are as follows:

<i>Primary Government Governmental Activities</i>	July 1, 2008 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2009 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 794,614	\$ 45,391	\$ 1,154	\$ 838,851
Land Central Artery / Tunnel Project .....	340,064	512	42	340,534
Construction in process - non - Central Artery / Tunnel Project .....	2,519,509	615,824	960,774	2,174,559
Construction in process - Central Artery / Tunnel Project .....	14,065	-	14,065	-
Total capital assets not being depreciated .....	3,668,252	661,727	976,035	3,353,944
Capital assets being depreciated:				
Buildings .....	4,002,899	807,847	-	4,810,746
Machinery and equipment .....	892,717	162,426	128,782	926,361
Infrastructure non - Central Artery / Tunnel Project.....	11,227,521	1,086,155	82,375	12,231,301
Infrastructure - Central Artery / Tunnel Project.....	7,762,239	38,895	19,935	7,781,199
Total capital assets being depreciated .....	23,885,376	2,095,323	231,092	25,749,607
Less, accumulated depreciation:				
Buildings .....	(2,060,834)	(645,958)	20,440	(2,686,352)
Machinery and equipment .....	(647,326)	(96,144)	129,559	(613,911)
Infrastructure non - Central Artery / Tunnel Project.....	(5,339,986)	(481,596)	81,301	(5,740,281)
Infrastructure - Central Artery / Tunnel Project.....	(884,912)	(184,662)	307	(1,069,267)
Total accumulated depreciation .....	(8,933,058)	(1,408,360)	231,607	(10,109,811)
Total capital assets being depreciated, net .....	14,952,318	686,963	(515)	15,639,796
Governmental activity capital assets, net .....	\$ 18,620,570	\$ 1,348,690	\$ 975,520	\$ 18,993,740
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land .....	\$ 82,143	\$ 1,562	\$ 225	\$ 83,480
Construction in process .....	489,127	419,547	509,017	399,657
Historical treasures .....	854	9	-	863
Total capital assets not being depreciated .....	572,124	421,118	509,242	484,000
Capital assets being depreciated:				
Buildings .....	3,874,052	514,097	5,544	4,382,605
Machinery and equipment .....	871,830	72,296	30,948	913,178
Library collections, not including historical treasures .....	128,966	6,725	9,881	125,810
Total capital assets being depreciated .....	4,874,848	593,118	46,373	5,421,593
Less, accumulated depreciation:				
Buildings .....	(1,852,141)	(136,305)	4,577	(1,983,869)
Machinery and Equipment .....	(566,437)	(72,203)	26,589	(612,051)
Library collections, not including historical treasures .....	(22,500)	(258)	1,128	(21,630)
Total accumulated depreciation .....	(2,441,078)	(208,766)	32,294	(2,617,550)
Total capital assets being depreciated, net .....	2,433,770	384,352	14,079	2,804,043
Business - type activity capital assets, net .....	\$ 3,005,894	\$ 805,470	\$ 523,321	\$ 3,288,043
<b>Total Primary Government capital assets, net .....</b>	<b>\$ 21,626,464</b>	<b>\$ 2,154,160</b>	<b>\$ 1,498,841</b>	<b>\$ 22,281,783</b>

Depreciation expense was charged to the various functions of governmental activities as follows:

<u>Function:</u>	<u>Amount</u>
General government.....	\$ 58,714
Judiciary.....	20,511
Energy and Environmental .....	768,464
Health and human services.....	43,779
Transportation and public works.....	461,031
Early Elementary and Secondary Education.....	66
Public safety and homeland security.....	55,589
Housing and Economic development.....	115
Labor and workforce development.....	91
Total depreciation .....	1,408,360
Less: Amount recorded as an offset to depreciation to equalize the payable to component units and non - component units related to the Central Artery / Tunnel Project.....	(184,662)
Depreciation recorded to governmental activities.....	<u>\$ 1,223,698</u>

Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction of the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is presented as an adjustment to depreciation expense so that the value of the untransferred assets and the amount due to the Turnpike Authority and to Massport always equal.

## **6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS**

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term borrowing does not meet long-term financing criteria, it is classified as a fund liability. Short-term borrowing may be issued as fixed rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth.

### **A. General Fund**

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY09, the Commonwealth borrowed \$750 million by selling fixed-rate RANs and borrowed up to \$1 billion by selling commercial paper at various points during the fiscal year.

### **B. Capital Projects Funds**

The Commonwealth may borrow by selling bond anticipation notes (BANs) to temporarily finance its capital improvements budget. BANs may be issued either as fixed-rate notes or through the Commonwealth's commercial paper program. In FY09, the Commonwealth sold \$350 million in BANs in December 2008; these fixed-rate notes were redeemed with long-term bonds sold in February 2009.

#### *MSBA*

During FY09, the MSBA had outstanding commercial paper notes of \$455 million to fund school construction projects. These notes are secured by a \$544.4 million irrevocable letter of credit which expires in FY11. The letter of credit carries a fee of .01% on the total amount. The maximum aggregate

principal amount of commercial paper which may be outstanding at one time is \$500 million. At June 30, 2009, the amount outstanding was \$455 million. The weighted average interest rate on commercial paper outstanding was 0.41%.

### C. Credit Facilities

During FY09, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$1 billion. The Commonwealth has a total of five credit facilities to provide such liquidity support, each in the amount of \$200,000,000. These facilities expire in periods at various times through 2015. In addition, the Commonwealth maintains standby bond purchase agreements for various bond issuances sold from FY97 through FY06. As of June 30, 2009, these agreements total \$2.180 billion, with fees ranging from 0.9% to 1.00% of related debt.

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

	Beginning Balance July 1, 2008	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2009	Credit Limit June 30, 2009
General Fund:					
Revenue anticipation notes.....	\$ -	\$ 750,000	\$ (750,000)	\$ -	\$ -
Credit Facility agreements.....	-	1,000,000	(1,000,000)	-	1,000,000
Lines of Credit.....	-	-	-	-	2,180,475
Subtotal - General Fund activity.....	-	1,750,000	(1,750,000)	-	3,180,475
Capital Projects Funds:					
Bond anticipation notes.....	-	350,000	(350,000)	-	-
Subtotal - Capital Projects Funds activity.....	-	350,000	(350,000)	-	-
Total short-term financing and credit agreement activity.....	-	2,100,000	(2,100,000)	-	3,180,475
MSBA					
Commercial paper.....	455,000	455,000	(455,000)	455,000	500,000
Total primary government.....	\$ 455,000	\$ 2,555,000	\$ (2,555,000)	\$ 455,000	\$ 3,680,475

## 7. LONG-TERM OBLIGATIONS

Under the Massachusetts Constitution, 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 to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to 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 hereto. 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, 2009, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of the Commonwealth's indebtedness, are backed by the full faith and credit of the Commonwealth. Special obligation bonds are bonds secured by all or a portion of a specific revenue source and are not general obligations of the Commonwealth. The following is a summary of the Commonwealth's outstanding debt, (excluding unamortized discounts and premiums,) exclusive of capital leases, (amounts in thousands):

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General Obligation Bonds.....	\$ 17,245,964
Special Obligation Bonds, including GANs.....	2,235,495
Outstanding Bonds.....	\$ 19,481,459
Less: Unamortized Premiums and bond issuance costs, net.....	(216,890)
Outstanding Principal, Commonwealth.....	19,264,569
MSBA debt.....	4,047,913
Less: Unamortized Premiums on MSBA debt.....	(217,663)
MSBA Outstanding Principal.....	3,830,250
Governmental Outstanding Debt.....	\$ 23,094,819

General obligation bonds include not only such bonds, but college opportunity bonds and debt assumed from former counties. Special obligation bonds include all notes and bonds secured by federal transportation reimbursements, a portion of the Commonwealth's motor fuel excise tax and bonds secured by certain taxes and fees levied.

The following is a table of the structure of general obligation bonds, (net of unamortized premiums and bond issuance cost of \$203,760 that are outstanding as of June 30, 2009):

<u>General Obligation Bonds</u>	<u>Amount Outstanding</u>	<u>Percent of Total GO</u>
Fixed Rate Bonds.....	\$ 13,416,979	79%
Variable Rate Bonds.....	3,625,225	21%

The following is a table of the different types of variable rate general obligation bonds:

<u>Variable Rate GO Bonds</u>	<u>Amount Outstanding</u>	<u>Percent of Total GO</u>
Variable Rate Demand Bonds.....	\$ 2,180,475	13%
Auction Rate Securities.....	401,500	2%
CPI-Index Bonds.....	197,455	1%
LIBOR and Other Index Bonds.....	845,795	5%

The following is a table of the different type of special obligation bonds currently outstanding:

<u>Special Obligation Bonds</u>	<u>Amount Outstanding</u>
Special Obligation Dedicated Tax Revenue Bonds	
Fixed Rate Convention Center Bonds.....	\$ 557,125
CPI Variable Rate Convention Center Bonds.....	86,590
Total Convention Center Bonds.....	\$ 643,715
Special Obligation Revenue Bonds	
Fixed Rate Gas Tax Bonds.....	360,493
CPI Variable Rate Gas Tax Bonds.....	96,490
Total Gas Tax Bonds.....	\$ 456,983
Special Obligation Federal Highway Grant	
Anticipation Notes (GANS).....	\$ 1,134,797
Total Special Obligation Bonds.....	\$ 2,235,495
Less: Unamortized Premiums and bond issuance costs, net.....	(13,130)
Outstanding Special Obligation Principal.....	<u>\$ 2,222,365</u>

#### **A. General Obligation Bonds**

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth capital projects and Commonwealth supported local government improvements. The Commonwealth borrows by selling general obligation bonds and notes pursuant to Chapter 29 of the General Laws. The responsibility to borrow is delegated to the Office of the State Treasurer and Receiver-General, pursuant to Chapter 29. General obligation bonds are backed by the full faith and credit of the Commonwealth and are paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to bond authorizations and capital spending in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In addition, certain bonds are issued for specific programs approved by the Legislature. These bonds are known as College Opportunity Bonds. As of June 30, 2009, the Commonwealth had outstanding approximately \$150.5 million in variable "U. Plan" bonds (at accreted value), sold in conjunction with a college savings program administered by the Massachusetts Educational Facility Authority (MEFA). These bonds bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of general obligation bonds have been sold as fixed rate obligations. As of June 30, 2009, approximately 79% of the Commonwealth's outstanding GO debt was fixed-rate bonds. The remaining 21% of outstanding GO debt was variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several variable rate structures. Most are variable rate demand bonds or VRDBs. These are long-term bonds whose interest rates re-set daily or weekly. Because these bonds offer bondholders a “put” or tender feature, they are supported by standby liquidity facilities provided by commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. As of June 30, 2009, the Commonwealth had \$2.180 billion in outstanding VRDBs. This accounts for approximately 13% of total general obligation debt and approximately 60% of total general obligation variable-rate debt. All of these bonds are uninsured. During the fiscal year, one series of VRDBs experienced remarketing failure due to the downgrade of the bank providing the standby liquidity facility. Those bonds were refunded and redeemed with fixed-rate bonds in November 2008. As of June 30, 2009, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and “put” back to the banks; consequently, there have not been any draws on a liquidity facility.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a put feature and therefore do not require a supporting credit facility. The Commonwealth's auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic “Dutch auction” process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers.

#### *Auction Rate Failures During FY09*

Beginning in February, 2008, and continuing through fiscal year 2009, several auctions of the Commonwealth's outstanding auction rate securities experienced auction failure, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401 million in total outstanding debt obligations, including Commonwealth of Massachusetts General Obligation Bonds, Series 2000 D, 2000 E, 2000 F, and 2000 G), the failure rate is based on a multiple of the non-financial commercial rate, with a maximum failure rate of 12%. The failed auctions have resulted in interest costs that were consistently below budgeted debt service levels of 5%. For example, during Fiscal 2009, the average rate on these securities was approximately 1%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2009, the Commonwealth had approximately \$197 million of bonds that pay interest based on the consumer price index (CPI), as well as approximately \$846 million of bonds that pay interest based on the three-month London interbank offered rate (LIBOR). These bonds make up approximately 1% and 5% of total outstanding general obligation indebtedness, respectively. All of the CPI and LIBOR bonds are hedged with interest rate swaps pursuant to which the Commonwealth receives from the swap counterparty the precise variable-rate interest due on the bonds.



*ii MSBA Debt*

As of June 30, 2009, the MSBA had outstanding approximately \$3.8 billion of Dedicated Sales Tax bonds, plus approximately \$217 million of unamortized premiums for the purpose of funding school construction and renovation projects. Interest on the bonds ranges from 4% to 5% and is payable semiannually each August 15, and February 15, until maturity in FY38.

*B. Special Obligation Bonds*

*Highway Fund.* Section 20 of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues, which are currently accounted for in the Highway Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed \$1.125 billion. As of June 30, 2009, the Commonwealth had outstanding approximately \$457 million of such special obligation bonds inclusive of unamortized premiums secured by a pledge of 10¢ of the 21¢ Commonwealth motor fuels excise tax. Of the total amount outstanding, approximately \$96 million was issued as variable rate debt with interest rates tied to the consumer price index (CPI). These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

*Convention Center Fund.* Chapter 152 of the Acts of 1997, as amended, authorizes \$694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$66 million) and the Worcester convention center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued \$686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, approximately \$644 million inclusive of unamortized premiums of which remained outstanding as of June 30, 2009. Of this amount, approximately \$87 million was issued as variable rate debt with interest rates tied to the CPI. These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

*Federal Grant Anticipation Notes.* The Commonwealth has issued three series of federal grant anticipation notes (not including a refunding) yielding aggregate net proceeds of \$1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of

the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide coverage with respect to the notes falls below 120%, then the legislation further pledges an additional 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed \$216 million unless the rating agencies rating the notes confirm that exceeding \$216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

On July 16, 2003, the Commonwealth issued \$408 million of special obligation refunding notes for the purpose of refunding approximately \$418 million of outstanding federal grant anticipation notes that have a final maturity in December 2010. The escrows funded by crossover refunding notes and related premiums are used only to secure the principal related to the crossover refunding portion. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of either federal grants or appropriations. Interest on a portion of the newly issued refunding notes is paid from the proceeds of the escrow until the aforementioned prior notes are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a traditional refunding, but does not meet the accounting definition of legal defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed from the debt of the Commonwealth. Accordingly, both the refunded debt and the refunding debt are reported as part of the outstanding debt of the Commonwealth until such time as principal amounts are repaid. Similarly, the refunding escrows established with the proceeds from the refunding notes are also recorded on the financial statements until such proceeds are expended for debt service. Pursuant to the crossover refunding method employed, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the redemption of \$154 million of outstanding federal grant anticipation notes on the crossover dates in 2010, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

As of June 30, 2009, approximately \$1.135 billion of such notes, inclusive of the special obligation crossover refunding notes and unamortized premiums remained outstanding. All of these notes are fixed-rate obligations.

**C. Interest Rate Swap  
Agreements – Objectives  
and Risks**

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds generally result in lower interest costs. For example, of the Commonwealth's variable-rate debt outstanding of approximately \$3.8 billion (or approximately 22% of total general obligation debt), approximately \$3.5 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of approximately \$323 million, or approximately 2% of the total outstanding general obligation debt, is un-hedged and, accordingly, floats with interest rates reset on a daily or weekly basis. The basic financial statements contain the net interest expenditures resulting from these agreements.

Under the terms of these floating-to-fixed rate hedge agreements, the counterparties to the swaps are obligated to pay the Commonwealth an amount equal to the variable-rate payment on the related bonds or a payment based on a market index of tax-exempt variable rate bonds, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. The floating rate received by the Commonwealth from swap counterparties is used to offset the variable rate paid to bondholders. Only the net difference in interest payments is actually exchanged with the counterparty. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders. The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's interest rate risk. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using less costly floating rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of June 30, 2009, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed qualified hedges.

The table on the following page details this activity.

#### *Objective of the Interest Rate Swap Agreements*

In connection with the issuance of variable rate GO refunding bonds in 1997, 1998, 2001, 2003, 2005, and 2007, the Commonwealth entered into interest rate swap agreements with certain counterparties to hedge against the volatility of interest rates. Additional swap agreements were entered into to hedge interest rate risk on certain special obligation bonds, including the Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth's previously unhedged variable rate bonds that were outstanding.

The purpose of all these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve synthetic interest rates that are 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 2037. The swaps' total notional value of approximately \$3.5 billion 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 3.15% to 5.25% and receives variable rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

*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 would have the option 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 herein.

The chart on the following page details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Market Value as of 6/30 (thousands)	Final Termination Date	Counterparty	Counterparty Credit Rating
<i>General Obligation Bonds:</i>								
Series 1997B	\$ 162,768	8/12/1997	4.659%	Cost of Funds	\$ (16,218)	August 1, 2015	Goldman Sachs Mit Mar Der Prod	Aa1 / AAA
Series 1997B	108,512	8/12/1997	4.659%	Cost of Funds	(10,714)	August 1, 2015	Ambac Fin Svcs	Ba3 / BBB
Series 1998A	197,324	9/17/1998	4.174%	Cost of Funds	(15,532)	September 1, 2016	Citi Swapco, Inc	Aaa / AAA
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	295,986	11/17/2008	4.174%	LIBOR + 25 basis points	(27,535)	September 1, 2016	Deutsche Bank AG	Aa1 / A+
Series 2000A	109,125	8/16/2007	3.942%	SIFMA - 3 basis points	(8,028)	August 1, 2018	Merrill Lynch Cap Svcs	A2 / A
Series 2000A	54,525	8/16/2007	3.942%	SIFMA - 3 basis points	(3,841)	August 1, 2018	Bear Stearns Fin Prod / JP Morgan	Aa1 / AA-
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(44,120)	January 1, 2021	Morgan Stanley Der Prod	Aaa / AAA
Series 2003B	87,455	3/12/2003	4.500%	Cost of Funds/CPI	(3,290)	December 1, 2014	Goldman Sachs Mit Mar Der Prod	Aaa / AAA
Series 2003B	10,000	10/8/2008	4.500%	Cost of Funds/CPI	(282)	December 1, 2013	Deutsche Bank AG	Aa1 / A+
Series 2005A	540,725	3/15/2005	3.15% - 4.004%	SIFMA	(30,964)	February 1, 2028	Citibank N.A.	A1 / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	LIBOR	(66,340)	June 15, 2033	Barclays Bank PLC	Aa3 / AA-
Series 2006C	100,000	1/1/2007	3.73% - 3.85%	Cost of Funds/CPI	(5,250)	November 1, 2020	Citibank N.A.	A1 / A+
Series 2007A	400,000	10/8/2008	4.420%	Cost of Funds / LIBOR	(32,430)	May 1, 2037	Barclays Bank PLC	Aa3 / AA-
Series 2007A (refunding)	414,130	10/8/2008	3.963% - 4.083%	Cost of Funds / LIBOR	(42,252)	November 2, 2025	Bank of NY Mellon	Aaa / AA
Series 2007A (refunding)	<u>31,665</u>	10/8/2008	3.963% - 4.083%	Cost of Funds / LIBOR	<u>(2,925)</u>	November 1, 2020	Deutsche Bank AG	Aa1 / A+
Subtotal	<u>3,302,440</u>				<u>(309,721)</u>			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>								
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(3,201)	January 1, 2018	Goldman Sachs Cap Markets	Aa3 / A
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(3,069)	January 1, 2018	JPMorgan Chase Bank	Aa1 / AA-
Series 2004	28,864	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(3,069)	January 1, 2018	Bear Stearns / JP Morgan	Aa1 / AA-
Series 2005A	<u>96,490</u>	1/12/2005	4.771% - 5.06%	Cost of Funds/CPI	<u>(6,633)</u>	June 1, 2022	Merrill Lynch Cap Serv	A2 / A
Subtotal	<u>183,080</u>				<u>(15,972)</u>			
Total	<u>\$ 3,485,520</u>				<u>\$ (325,693)</u>			

During September and October 2008, certain swaps were replaced due to the bankruptcy of Lehman Brothers Special Financing, Lehman Brothers Derivative Products, Inc., and related parties. These swaps were part of the 1998 A and B transaction, the 2003B transaction and the 2007A transaction. The current counterparties are noted above. The acquisition of Bear Stearns Company by JP Morgan Chase and Co., during FY09 did not have an effect on the Commonwealth's swaps. Swaps were also reassigned due to the refunding of Series 2007D during FY09. In addition, as part of a transaction in FY09 that refunded Route 3 North Transportation Improvement Association Bonds, a swap was novated to the Commonwealth with a notional value of \$294 million and assigned to general obligation debt.

*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, 2009) 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 (\$325,693,000) as of June 30, 2009 and no replacement agreements were entered in to. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2009 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 amount estimated if certain termination events occurred, as described below. Based on the terms and provisions of the swap agreements, an involuntary termination of the swaps due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

*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 SIFMA 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 the 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. However, to avoid a termination payment and to maintain the interest rate hedge, the Commonwealth would likely seek to replace counterparties to the swap agreement.

On September 15, 2008, Lehman Brothers Holdings Inc. ("LBHI"), the corporate parent of Lehman Brothers Derivatives Products Inc ("LBDP") and Lehman Brothers Special Financing Inc. ("LBSF"), filed for bankruptcy. As a result of LBHI's bankruptcy filing, the Commonwealth's swap agreements were subject to termination at the option of the Commonwealth. In October 2008, LBSF was replaced on the 2003 and 2007 swaps at no cost to the Commonwealth through a competitive process called market quotation. These swaps have been assigned to new counterparties. Likewise, the Commonwealth terminated its 1998 swap agreement with Lehman Brothers and replaced with new counterparties through a competitive process in November 2008 at no cost to the Commonwealth.

In April 2009 following certain downgrades by the counterparty, the Commonwealth also terminated its swap agreement with Citibank Financial Products, Inc. (CFPI), the counterparty to the swap originally associated with the Route 3 North Transportation Improvements Association contract assistance lease revenue bonds (the swap agreement was transferred from the Route 3 North Transportation Improvements Association to the Commonwealth in November 2008). Like the process used to replace Lehman Brothers as counterparty to three Commonwealth swaps, the Commonwealth replaced CFPI with another counterparty via a competitive process resulting in no cost to the Commonwealth.

#### *Security for Interest Rate Swap Agreements*

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

#### **D. Outstanding Swapped Debt**

Future debt service is calculated using rates applicable to the scheduled payment nearest to June 30, 2009 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment per the swap agreement from the projected future synthetic fixed rate payment per the swap agreement. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes

in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indicies. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting. (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2010	\$ 34,898	\$ 126,800	\$ 18,548	\$ 180,245
2011	25,313	125,814	18,452	169,579
2012	119,448	121,773	18,105	259,325
2013	195,640	114,845	17,573	328,058
2014	152,428	108,335	17,118	277,881
2015-2019	1,163,130	404,926	76,129	1,644,185
2020-2024	1,000,875	208,378	54,160	1,263,413
2025-2029	497,535	77,206	23,075	597,815
2030-2034	212,605	29,210	10,422	252,238
2035-2039	83,648	4,043	1,610	89,301
Total	<u>\$ 3,485,520</u>	<u>\$ 1,321,330</u>	<u>\$ 255,192</u>	<u>\$ 5,062,039</u>

#### *Business - Type Activities – Swapped Debt*

During FY07, Bunker Hill Community College entered into a swap agreement with the issuance of \$8 million of variable rate bonds that mature in FY36. The swap effectively fixed the rate of its bonds to FY35 at 4.18%. At June 30, 2009, the swap had a fair value liability of approximately \$693,000 in comparison to USD-BMA Municipal Swap Index. The University system also has various swaps through bonds issued by the University of Massachusetts Building Authority. The Building Authority's financial statements have complete details on the University's swap activity.

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

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.

#### ***E. Outstanding Long Term Debt and Changes in Long Term Debt***

Long-term debt outstanding (including unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2009 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 1,134,215	2010-2015	\$ -
Capital Projects:			
General.....	6,789,189	2010-2038	11,470,799
Highway.....	8,871,725	2010-2038	8,005,992
Local Aid.....	1,830,740	2010-2031	13,147
Other.....	638,700	2010-2029	27,334
	<u>18,130,354</u>		<u>19,517,272</u>
Subtotal - Governmental activities debt (exclusive of MSBA).....	\$ 19,264,569		\$ 19,517,272
MSBA Debt.....	<u>4,047,913</u>		
Governmental activities debt.....	<u>\$ 23,312,482</u>		



Interest rates on the Commonwealth's debt outstanding at the end of FY09 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (including discount and premium) and bonds authorized - unissued for the year ended June 30, 2009 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary		Funds	Authorized
	Government	MSBA	Bonded Debt	Unissued
Balance July 1, 2008.....	\$ 18,734,440	\$ 4,126,709	\$ 22,861,149	\$ 7,043,445
Plus: Increases in Bonds Authorized .....				14,226,118
Less: Authorizations deauthorized .....				(1,752,291)
General and special obligation bonds:				
Proceeds, as defined as Principal, Premium less				
discount and issuance costs .....	2,530,248	-	2,530,248	(2,530,248)
Less: Net premium .....	(98,850)	-	(98,850)	-
Less: Principal on refunding bonds.....	(674,240)	-	(674,240)	-
Less: Bonds retired.....	(1,227,029)	(78,796)	(1,305,825)	-
Outstanding Debt June 30, 2009*.....	<u>\$ 19,264,569</u>	<u>\$ 4,047,913</u>	<u>\$ 23,312,482</u>	<u>\$ 16,987,024</u>

\* Includes unallocated proceeds of approximately \$298.8 million.

#### *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 \$200,000,000. 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, 2009, debt service requirements to maturity for principal (including unamortized 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	<u>Governmental Activities</u>				<u>Business - Type Activities</u>	
	<u>Excluding MSBA Debt</u>		<u>MSBA Debt</u>		<u>Revenue Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010.....	\$ 1,207,150	\$ 910,495	\$ 72,615	\$ 185,125	\$ 141,141	\$ 94,842
2011.....	1,260,162	858,911	73,145	181,995	65,822	90,418
2012.....	1,175,394	794,110	76,505	178,636	64,087	87,216
2013.....	1,286,672	734,133	80,110	175,032	68,381	85,980
2014.....	1,216,262	671,274	84,865	171,136	72,712	82,783
2015 - 2019.....	4,810,189	2,593,483	489,200	788,581	405,707	354,104
2020 - 2024.....	4,246,352	1,515,259	623,960	651,360	440,447	278,015
2025 - 2029.....	2,353,533	697,749	799,545	475,784	395,160	191,676
2030 - 2034.....	1,187,605	257,288	914,970	237,605	238,652	86,626
2035 - 2039.....	521,250	57,250	615,335	71,988	153,180	34,320
2040 - 2044.....	-	-	-	-	44,670	9,610
2045 - 2049.....	-	-	-	-	11,755	2,058
Total long - term debt .....	19,264,569	9,089,952	3,830,250	3,117,242	2,101,714	1,397,648
Less: Current Portion .....	(1,207,150)	(910,495)	(72,615)	(185,125)	(141,141)	(94,842)
Long - term debt .....	<u>\$ 18,057,419</u>	<u>\$ 8,179,457</u>	<u>\$ 3,757,635</u>	<u>\$ 2,932,117</u>	<u>\$ 1,960,573</u>	<u>\$ 1,302,806</u>

**F. 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. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2009, approximately \$7,624,834,000 of bonds outstanding from activities in prior fiscal years is considered defeased.

**G. 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 FY09 was approximately \$16,365,011,000. Outstanding debt subject to the limit at June 30, 2009 was approximately \$14,691,332,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Statutory debt June 30, 2009.....	\$ 19,264,569
Less amounts excluded:	
Premium and issuance cost.....	216,890
Special Obligation principal.....	(1,100,698)
GANs principal.....	(1,134,797)
County Debt Assumed.....	(300)
MBTA Forward Funding.....	(231,000)
SMART bonds.....	(921,751)
Central Artery / Tunnel.....	(1,401,581)
Outstanding direct debt.....	<u>\$ 14,691,332</u>

#### ***H. Administration Debt Limit***

During fiscal year 2009, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and the debt service as a percentage of budgeted revenues.

#### **Bond Cap ( in millions except for percentages)**

	<u>Fiscal 2009</u>
Bond Cap as approved by the Governor.....	\$ 1,575
Total Debt Service Obligations	1,980
Budgeted Revenue	31,181
Debt Service as % of Budgeted Revenues	6.35%

**I. Changes in Long-Term Liabilities**

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

<i>Changes in Long Term Liabilities - Governmental Activities:</i> Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax refunds and abatements payable.....	\$ 776,694	\$ 842,347	\$ 776,694	\$ 842,347	\$ 842,347
Accrued liabilities:					
Compensated absences.....	\$ 468,945	481,234	468,945	\$ 481,234	304,922
Claims and judgments.....	68,200	91,600	68,200	91,600	30,000
Prizes payable.....	1,462,407	1,522,440	1,462,407	1,522,440	-
Deferred loss on refunding.....	(93,573)	(44,495)	(93,573)	(44,495)	-
Due to component units - Central Artery / Tunnel Project.....	6,866,456	404,407	218,397	7,052,466	-
Due to non -component units - Central Artery / Tunnel Project.....	365,000	-	365,000	-	-
School construction grants payable.....	3,771,421	72,828	529,399	3,314,850	530,925
Contract assistance payable.....	70,426	45,446	70,426	45,446	-
Teachers' retirement system pension obligation.....	203,848	573,604	203,848	573,604	-
Other post employment benefit obligations.....	155,705	1,149,000	155,705	1,149,000	-
Environmental remediation liability.....	170,621	9,716	6,507	173,830	10,422
Other liabilities.....	3,727,059	43,540,019	43,275,081	3,991,997	3,685,514
Total Accrued Liabilities.....	\$ 17,236,515	\$ 47,845,799	\$ 46,730,342	\$ 18,351,972	\$ 4,561,783
Bonded Debt:					
Bonds and notes payable - non MSBA.....	\$ 18,734,440	\$ 2,431,398	\$ 1,901,269	\$ 19,264,569	\$ 1,218,169
MSBA Bonds and notes payable including premium.....	4,581,709	-	78,797	4,502,912	537,057
Deferred inflows of resources:					
Unamortized bond and note premiums - non MSBA.....	123,335	98,902	5,347	216,890	-
Other financing arrangements:					
Capital leases.....	383,856	109,765	383,856	109,765	24,205
Total Bonded Debt and Other financing arrangements.....	\$ 23,823,340	\$ 2,640,065	\$ 2,369,269	\$ 24,094,136	\$ 1,779,431
<b>Long-term liabilities, Governmental activities.....</b>	<b>\$ 41,836,549</b>	<b>\$ 51,328,211</b>	<b>\$ 49,876,305</b>	<b>\$ 43,288,455</b>	<b>\$ 7,183,561</b>

<i>Changes in Major Long Term Liabilities - Business - Type Activities:*</i> Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued liabilities:					
Compensated absences.....	\$ 169,120	\$ 24,919	\$ 16,766	\$ 177,273	\$ 122,140
Total Accrued Liabilities.....	\$ 169,120	\$ 24,919	\$ 16,766	\$ 177,273	\$ 122,140
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA.....	\$ 2,026,541	\$ 152,074	\$ 74,940	\$ 2,103,675	\$ 153,414
Bonds and notes payable.....	2,026,541	152,074	74,940	2,103,675	153,414
Other financing arrangements:					
Capital leases.....	67,631	5,851	14,597	58,885	16,542
Total Bonded Debt and Other financing arrangements.....	\$ 2,094,172	\$ 157,925	\$ 89,537	\$ 2,162,560	\$ 169,956
<b>Long-term liabilities, Business - type activities.....</b>	<b>\$ 2,263,292</b>	<b>\$ 182,844</b>	<b>\$ 106,303</b>	<b>\$ 2,339,833</b>	<b>\$ 292,096</b>

\* Excludes amounts due to the federal government for approximately \$9.1 million, deferred inflows of resources, (mainly contributions receivable) of approximately \$100 million and other non-current liabilities in the amount of approximately \$60.8 million.

**Discretely Presented Component Units** – Bonds and notes outstanding at June 30, 2009, net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately \$125,027,000, are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2008 Beginning Balance	Increases	Decreases	June 30, 2009 Ending Balance	Due Within One Year	Long Term
Major component units:								
MBTA .....	0.00 - 7.00%	2010-2039	\$ 5,060,691	\$ 577,761	\$ 245,370	\$ 5,393,082	\$ 574,340	\$ 4,818,742
MTA .....	3.90 - 5.65%	2010-2039	2,309,522	-	45,805	\$ 2,263,717	49,860	2,213,857
MWPAT .....	2.00 - 6.375%	2010-2037	3,323,503	430,445	156,087	3,597,861	175,090	3,422,771
Nonmajor component units .....	1.00 - 9.01%	2010-2034	<u>1,040,796</u>	<u>174,521</u>	<u>486,632</u>	<u>728,685</u>	<u>139,169</u>	<u>589,516</u>
Total bonds and notes payable .....			11,734,512	1,182,727	933,894	11,983,345	938,459	11,044,886
Compensated absences, net .....			<u>31,580</u>	<u>23,880</u>	<u>18,554</u>	<u>36,906</u>	<u>25,516</u>	<u>11,390</u>
Total long term liabilities .....			<u>\$ 11,766,092</u>	<u>\$ 1,206,607</u>	<u>\$ 952,448</u>	<u>\$ 12,020,251</u>	<u>\$ 963,975</u>	<u>\$ 11,056,276</u>

Further information on debt is found in the notes to the basic financial statements for the various component units.

#### ***J. Subsequent Bond Issuances***

In December 2009, the Commonwealth sold \$956,450,000 of General Obligation Bonds, Series 2009E. These bonds are federally taxable as they are part of the Build America Bonds (BABs) program that is part of the American Recovery and Reinvestment Act of 2009. As part of the program, the Commonwealth will receive a cash subsidy for interest from the federal government instead of tax credits accruing to purchasers of bonds. The Commonwealth will be entitled to 35% of all interest payable on the bonds, based on required filings to the United States Treasury from the Commonwealth. The Commonwealth is obligated for all debt service of these bonds, regardless of whether subsidy payments are received or not.

Also in December 2009, the MSBA sold approximately \$600 million of dedicated sales tax bonds in two series, \$450 million of which are BABs. The Dedicated Sales Tax bonds that are not BABs have a final maturity in FY19. The BABs mature in FY40.

## **8. INDIVIDUAL FUND DEFICITS**

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2009. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Other governmental funds:	
Community Preservation Trust Fund.....	\$ (376)
Government Land Bank Fund.....	(35,097)
Motor Vehicle Safety Inspection Trust Fund.....	(6,337)
Capital Improvement and Investment Trust Fund.....	(54)
Highway Capital Projects Fund.....	(346,495)
Local Aid Capital Projects Fund.....	(619)
Government Land Bank Capital Projects Fund.....	(1,308)

Some of the funds above are consolidated within supplementary information. The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

## 9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

### *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 reimbursed to the City of Boston by the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

#### **A. Plan Descriptions**

The Massachusetts *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 Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand alone financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS 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. Benefits are recorded when due and payable.

*Membership* – Membership in SERS and MTRS as of January 1, 2008, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits.....	50,873	52,107
Terminated employees entitled to		
benefits but not yet receiving them.....	3,663	N/A
Subtotal.....	<u>54,536</u>	<u>52,107</u>
Current members.....	<u>86,529</u>	<u>89,788</u>
Total.....	<u>141,065</u>	<u>141,895</u>

#### **B. Benefit Provisions**

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation 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 rests 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.

**C. *Funding and  
Contributions Policy***

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 and TRS 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.

**D. *Other Financing  
Situations***

The Commonwealth was financially responsible for the COLA granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. 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 their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2009 was \$325,000,000.

The policy for post-retirement benefit increases for all retirees of the SERS, TRS, for those participants who serve in the City of Boston's School Department in a teaching capacity (BTRS) and COLAs of local governments is subject to legislative approval.

The Commonwealth's responsibility to the BTRS is only for those costs based on annual certifications provided by the State – Boston Retirement System (SBRS) to the TRS. Those costs are funded in arrears. The cost of pension benefits of the other participants is the responsibility of the City of Boston. The SBRS is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at 617-635-4305.

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

A table of Pension Funding Progress is presented as supplemental information on page 138 of this report.



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 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 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

*Schedule of Annual Required Contributions and Calculation Methodology*

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined 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 adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of \$1,465,000,000 were made during the fiscal year ended June 30, 2009. Of this amount \$71,000,000 represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$122,216,000 represents payments to the City of Boston to reimburse in arrears amounts for the BTRS.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they are not less than:

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

The Commonwealth contributed approximately 100% of its annual required contribution in FY09.

The following table presents the FY09 annual pension cost components and changes thereon, exclusive of cost of living adjustments (amounts in thousands):

	<u>SERS</u>	<u>MTRS</u>	<u>Total</u>
<u>2009</u>			
Annual required contribution.....	\$ 697,340	\$ 1,149,629	\$ 1,846,969
Interest on net pension obligation.....	(25,304)	16,817	(8,487)
Adjustment to annual required contribution.....	<u>23,568</u>	<u>(15,664)</u>	<u>7,904</u>
Annual pension cost.....	695,604	1,150,782	1,846,386
Less: Contributions made, excluding COLAs.....	<u>397,482</u>	<u>781,026</u>	<u>1,178,508</u>
Increase (decrease) in net pension obligation.....	298,122	369,756	667,878
Net pension obligation / (asset) - beginning of year.....	<u>(306,711)</u>	<u>203,848</u>	<u>(102,863)</u>
Net pension obligation / (asset) - end of year.....	<u>\$ (8,589)</u>	<u>\$ 573,604</u>	<u>\$ 565,015</u>
<u>2008</u>			
Annual pension cost.....	\$ 360,904	\$ 730,418	\$ 1,091,322
Percentage of annual pension cost contributed	128%	111%	108%
Net pension obligation / (asset) - end of year.....	\$ (306,711)	\$ 203,848	\$ (102,863)
<u>2007</u>			
Annual pension cost.....	\$ 431,074	\$ 765,293	\$ 1,196,367
Percentage of annual pension cost contributed.....	101%	98%	99%
Net pension obligation / (asset) - end of year.....	\$ (206,827)	\$ 282,430	\$ 75,603

#### E. *Funded Status and Funding Process*

The funded status of SERS and MTRS as of January 1, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
<b>State Employees Retirement System</b>						
Actuarial Valuation as of January 1, 2009.....	\$ 16,992,214	\$ 23,723,240	\$ 6,731,026	71.6%	\$ 4,712,655	142.8%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2009.....	\$ 18,927,731	\$ 32,543,782	\$ 13,616,051	58.2%	\$ 5,389,895	252.6%

\* The covered payroll amount approximate the employer payroll

The following displays the Schedule of Net Assets and the Schedule of Changes in Net Assets for the SERS, the MTRS and the SRBTF as of June 30, 2009, (amounts in thousands):

	Pension Trust Funds			Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 32,788	\$ 12,502	\$ -	\$ 45,290
Investments at fair value:				
Absolute Return.....	875,509	981,902	58,220	1,915,631
Alternative Investments.....	1,474,541	1,653,730	46,630	3,174,901
Domestic Equity.....	3,747,791	4,203,231	40,917	7,991,939
Emerging Markets.....	767,990	861,318	-	1,629,308
Fixed Income.....	1,996,774	2,239,426	82,498	4,318,699
High Yield Debt.....	1,182,705	1,326,429	-	2,509,134
International Equity.....	2,918,362	3,273,008	35,675	6,227,045
Real Estate.....	1,674,218	1,877,673	15,222	3,567,113
Timber and Other Natural Resources.....	721,909	809,639	-	1,531,548
Total Investments at Fair Value.....	15,359,799	17,226,357	279,162	32,865,318
Other receivables.....	-	72,471	7,820	80,291
<b>Total assets.....</b>	<b>15,392,587</b>	<b>17,311,330</b>	<b>286,982</b>	<b>32,990,899</b>
<b>LIABILITIES</b>				
Accounts payable.....	1,895	1,103	15,979	18,977
<b>Total liabilities.....</b>	<b>1,895</b>	<b>1,103</b>	<b>15,979</b>	<b>18,977</b>
<b>Net assets available for post - employment benefits.....</b>	<b>\$ 15,390,692</b>	<b>\$ 17,310,227</b>	<b>\$ 271,003</b>	<b>\$ 32,971,922</b>
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 423,023	\$ 891,941	\$ 352,000	\$ 1,666,964
Employee contributions.....	462,471	599,410	-	1,061,881
<b>Total contributions.....</b>	<b>885,494</b>	<b>1,491,351</b>	<b>352,000</b>	<b>2,728,845</b>
Net investment loss:				
Net Investment loss, net of management fees .....	(5,144,297)	(5,699,408)	(57,753)	(10,901,458)
<b>Total investment loss.....</b>	<b>(5,144,297)</b>	<b>(5,699,408)</b>	<b>(57,753)</b>	<b>(10,901,458)</b>
<b>Total additions and investment loss.....</b>	<b>(4,258,803)</b>	<b>(4,208,057)</b>	<b>294,247</b>	<b>(8,172,613)</b>
<b>DEDUCTIONS</b>				
Administration.....	8,190	17,864	\$ 854	26,908
Retirement benefits and refunds.....	1,343,439	2,017,174	351,348	3,711,961
<b>Total deductions.....</b>	<b>1,351,629</b>	<b>2,035,038</b>	<b>352,202</b>	<b>3,738,869</b>
<b>Net decrease.....</b>	<b>(5,610,432)</b>	<b>(6,243,095)</b>	<b>(57,955)</b>	<b>(11,911,482)</b>
Net assets available for post - employment benefits at beginning of year.....	21,001,124	23,553,322	328,958	44,883,404
<b>Net assets available for post - employment benefits at end of year.....</b>	<b>\$ 15,390,692</b>	<b>\$ 17,310,227</b>	<b>\$ 271,003</b>	<b>\$ 32,971,922</b>

**F. *Additional Actuarial Information***

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows:

- The annual required contribution for 2009 was determined as part of the January 1, 2009 actuarial valuation using the entry age normal cost method.
- The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.5% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.5% to 10% depending on group and length of service.
- The assumptions do not include postretirement benefit increases, which are taken into account when granted under amendments to General Laws.

The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased – in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years ago etc, so that 100% of gains and losses occurring five years ago are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.

- The remaining amortization period for the unfunded pension liability at January 1, 2009 was 16 years.

On October 30, 2008, in order to implement voluntary budget reductions and address the remainder of budgetary deficiencies, the Commonwealth enacted supplemental budget legislation including an extension of the Commonwealth's pension funding schedule from 2023 to 2025.

**G. *Commonwealth Post Employment Obligations Other than Pensions (OPEB)***

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 are 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 Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates.

The GIC has representation on the Trustees of the State Retiree Benefits Trust Fund (SRBTF).

The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The FY09 General Appropriation Act transferred approximately \$352 million to the Trust for the purpose of benefits payments. No further contributions were made.

#### *Funding Policy*

Employer and employee contribution rates are set in General Laws. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, (and as of January 1, 2009 the valuation date,) Commonwealth participants contribute 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY10 General Appropriation Act, all active employees will pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY09 totaled approximately \$352 million. There are approximately 142,635 participants eligible to receive benefits at June 30, 2009.

#### *Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress*

The Commonwealth and the MSBA are not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2009, the Commonwealth and MSBA's annual OPEB contribution of approximately \$352 million for retiree benefits was less the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBTF and the net OPEB obligation for the Commonwealth for fiscal year 2009 is as follows from the valuation calculated as of January 1, 2006 (amounts in millions except percentages):

<u>2009</u>	<u>SRBTF</u>
Annual required contribution.....	\$ 1,222
Interest on net OPEB obligation.....	116
Adjustment to annual required contribution.....	<u>7</u>
Annual OPEB cost.....	1,345
Less: Contributions made.....	<u>(352)</u>
Increase in net OPEB obligation.....	993
Net OPEB obligation as reported at beginning of year.....	<u>156</u>
Net OPEB obligation - end of year.....	<u>\$ 1,149</u>
 <u>2008</u>	
Annual OPEB cost.....	\$ 1,345
Percentage of annual OPEB cost contributed.....	26%
Net OPEB obligation - end of year.....	\$ 993

The MSBA's ARC for FY09 was approximately \$3 million. Including the adjustment to the annual required contribution, the net annual OPEB cost for the MSBA was approximately \$1.2 million. The MSBA's net OPEB obligation at June 30, 2009 approximated the ARC. MSBA made no contributions during FY09. Based on an actuarial valuation as of January 1, 2008, the MSBA had an unfunded actuarial accrued liability of approximately \$2.5 million and had no plan assets. This amount is included as part of other governmental activities liabilities in the Statement of Net Assets. Therefore the entire amount is unfunded. Covered payroll of active plan members was approximately \$2,633,000, yielding an unfunded actuarial accrued liability as a percentage of covered payroll of 93.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBTF and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the Commonwealth's January 1, 2006 actuarial valuation, which was used to determine the ARC for 2008 the projected unit credit cost method was used. The actuarial assumptions included a 6.4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after twelve years. For the January 1, 2009 valuation, Commonwealth management decided to reduce the investment rate of return to 4.5% reflecting lower than expected contributions in the future. The effect on the actuarial accrued liability of this change in assumptions is as follows (amounts in millions):

Actuarial accrued liability at January 1, 2008.....	\$ 11,649
Service costs.....	453
Interest costs.....	746
Expected benefit payments .....	(448)
Demographic (gain) / loss .....	(115)
Per capita (gain) / loss .....	(853)
Adjustment of discount rate - change in assumptions...	<u>3,873</u>
Actuarial accrued liability - June 30, 2009.....	<u>\$ 15,305</u>

Administrative expenses are expected to rise 5 percent per annum. The actuarial value of the SRBTF assets was determined using the actual balance in this first year of full operations, but it is expected that techniques that spread the effects of short-term volatility in the market value of investments over a five-year period will be used in the future. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5 percent per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as RSI on page 139.

## 10. 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. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY09, these additions are approximately \$109,765,000. 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.

Within the governmental activities capital leases includes a lease transaction with the Route 3 North Transportation Improvements Association, a discretely presented component unit. The lease is included within the capital leases due to the nature of the lease between the Commonwealth and the component unit.



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, 2009 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities				
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total	
	Principal	Interest				Principal	Interest			
2010.....	\$ 24,205	\$ 4,185	\$ 159,474	\$ 687	\$ 188,551	\$ 16,542	\$ 2,052	\$ 18,529	\$ 37,123	
2011.....	21,926	3,802	121,509	705	147,942	9,997	1,527	15,937	27,461	
2012.....	15,616	3,062	97,523	722	116,923	7,858	1,211	13,602	22,671	
2013.....	9,071	2,343	74,694	740	86,848	6,996	905	12,071	19,972	
2014.....	4,725	1,086	55,003	758	61,572	5,565	677	10,441	16,683	
2015 - 2019.....	16,965	4,378	160,734	448	182,525	6,484	1,935	32,323	40,742	
2020 - 2024.....	13,426	3,852	52,972	-	70,250	3,333	1,063	1,101	5,497	
2025 - 2029.....	3,831	1,100	46,770	-	51,701	2,110	157	1,211	3,478	
2030 - 2034.....	-	-	36,759	-	36,759	-	-	-	-	
Total lease obligations.....	109,765	23,808	805,438	4,060	943,071	58,885	9,527	105,215	173,627	
Less: current portion: .....	(24,205)	(4,185)	(159,474)	(687)	(188,551)	(16,542)	(2,052)	(18,529)	(37,123)	
Long - term lease obligations .....	\$ 85,560	\$ 19,623	\$ 645,964	\$ 3,373	\$ 754,520	\$ 42,343	\$ 7,475	\$ 86,686	\$ 136,504	

## 11. COMMITMENTS

### A. Primary Government

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2009, totaling approximately \$856 million.

The MBTA's Forward Funding legislation of 1999 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. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2009, the University of Massachusetts Building Authority has committed debt of approximately \$955.0 million, of which approximately \$150.6 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$670 million of outstanding debt, of which approximately \$31 million is guaranteed by the Commonwealth.

### B. Saltonstall Building

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (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 leased 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. The Commonwealth is 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.

**C. *Other Construction Commitments***

At June 30, 2009, the Commonwealth had commitments of approximately \$1.4 billion related to ongoing construction projects.

**D. *Contractual Assistance to Authorities***

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Turnpike Authority (to be received by MDOT in FY10) and the MDFA that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (to be succeeded by MDOT) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

By the virtue of the bankruptcy filing by Lehman Brothers Holdings Inc ("LBHI"), the interest rate swaps with Lehman Brothers Special Financing ("LBSF") are subject to termination at the option of the Turnpike Authority. The Turnpike Authority would owe a termination payment on each of these swaptions if there were to be terminated at this time. The Turnpike Authority is

evaluating its options and has made no decision at this time regarding the Lehman swaptions. This action could trigger the contingent guarantee discussed above.

**E. *Route 3 North Transportation Improvements Association, Commonwealth Lease Revenue Bonds, and Other***

*Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds.* During FY00, the Route 3 North Transportation Improvements Association issued approximately \$394 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. During FY02, the Route 3 North Transportation Improvements Association issued approximately \$313 million of additional lease revenue bonds, \$306 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. During FY07, the Commonwealth sold general obligation bonds to refund approximately \$53 million of the lease revenue bonds. As of June 30, 2008, the Route 3 North Transportation Improvements Association had approximately \$377 million of such lease revenue bonds outstanding, of which approximately \$83 million are fixed-rate bonds and \$294 million are variable-rate bonds with an associated interest rate swap agreement. During FY09, the Commonwealth issued general obligation bonds to refund the \$294 million of variable-rate bonds that had been issued by the Route 3 North Transportation Improvements Association in FY02 and to replace them with fixed-rate Commonwealth bonds.

*City of Chelsea Commonwealth Lease Revenue Bonds.* During FY09, the Commonwealth also refunded securities sold by the City of Chelsea in 1993. The original bonds were used to build a data center for the Commonwealth of which the Commonwealth leased the property from the City to secure the debt. Because of this sale, the remaining City of Chelsea revenue bonds were cash defeased as part of the proceeds. The Commonwealth is in the process of finalizing the purchase of the building.

**F. *MSBA***

The MSBA has estimated the amount of outstanding Waiting List and other program commitments at June 30 to be approximately \$542 million.

## **12. CONTINGENCIES**

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$20,000,000 as of June 30, 2009.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2009 is estimated to be \$307,100,000, of which approximately \$40,230,000 is expected to be paid during FY10.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent 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.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY09 totaled approximately \$89,499,000. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

**A. Tobacco Settlement**

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments. In FY09, the Commonwealth received approximately \$315,153,000 or 96% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund. Amounts received in FY09 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.05%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is nearly \$7.6 billion, subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in FY06 and FY07. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2009, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

**B. Workers' Compensation and Group Insurance Liabilities**

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. 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. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30, 2009, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$307 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY09 and FY08 were (amounts in millions):

	FY09	FY08
Claim liability, beginning of year.....	\$ 273.5	\$ 312.6
Increase in liability estimate.....	81.7	10.7
Payments and decreases in liability estimate.....	(48.1)	(49.8)
Claims liability, end of year.....	<u>\$ 307.1</u>	<u>\$ 273.5</u>

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of \$82.5 million, net of the employees' reserve of \$31.2 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY09 and FY08 were (amounts in millions):

	FY09	FY08
Claim liability, beginning of year.....	\$ 107.0	\$ 62.5
Increase in liability estimate.....	976.9	894.0
Payments and decreases in liability estimate.....	(970.2)	(849.5)
Claims liability, end of year.....	<u>\$ 113.7</u>	<u>\$ 107.0</u>

### C. *Owner Controlled Insurance Program*

#### *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, (Project) by establishing an OCIP. 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. The insurance coverage provided by the Commonwealth ended on October 31, 2007, except for general liability coverage, which continues to apply to occurrences through November 1, 2010. The Project's OCIP activity is reported as a minor governmental (capital

project) fund. The “Claims and Judgments” liability 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. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2009, the OCIP has accumulated approximately \$92,816,000 in assets that consist of approximately \$79,368,000 in cash and investments in funds held by the trustee of the program and approximately \$13,448,000 in amounts due from insurance providers. Net assets at year-end of approximately \$30,635,000 which was 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 contractor, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts. At the request of the Commonwealth on March 10, 2008, the OCIP’s insurance company committed to transfer project surplus funds that are not required to meet unpaid liabilities based on the June 30, 2007 actuarial projection. The insurance company’s commitment anticipates that a total of \$43,600,000 will be withdrawn from the OCIP in installments through April 1, 2010. In FY09, the Commonwealth received \$16,100,000 and in FY10, the remaining \$14,200,000 will be withdrawn. Management of the OCIP expects that the balance remaining in the OCIP after the withdrawals are completed will be sufficient to fund unpaid liabilities.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2009 is approximately \$31,600,000. Current claims payable approximates \$10,000,000, which is presented in a governmental fund, while the remaining non-current claims payable of approximately \$21,600,000 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, 2009.

This program will become part of MDOT in FY10 and the final release of \$14,200,000 will be paid to the Commonwealth from MDOT.

**D. Other Claims & Judgments**

The following amounts were recognized for claims and judgments as of June 30, 2009 (amounts in thousands):

	2009	2008
Unpaid claims, beginning of year.....	\$ 68.2	\$ 186.5
Incurred claims.....	61.1	18.7
Claim payments and reductions.....	37.7	137.0
Unpaid claims end of year.....	<u>\$ 91.6</u>	<u>\$ 68.2</u>

**E. Environmental Remediation**

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the

potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action.
- The Commonwealth is found in violation of a pollution related permit or license.
- The Commonwealth is named, or has evidence that it will be named as a responsible party by a regulator.
- The Commonwealth is named, or has evidence that it will be named in a lawsuit to enforce a cleanup. Or,
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continuous monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to GASB 49 (amounts in thousands):



	Governmental Activities	Business-Type Activities	Government - Wide Total
Environmental remediation liability, beginning of year.....	\$ 170,621	\$ -	\$ 170,621
Expected additional future outlays, increasing liability estimates.....	9,716	3,710	13,426
FY09 outlays for environmental remediation .....	(6,507)	(560)	(7,067)
Reductions in liability estimates.....	-	-	-
Estimated recoveries from third parties.....	-	-	-
Environmental remediation liability, end of year.....	<u>\$ 173,830</u>	<u>\$ 3,150</u>	<u>\$ 176,980</u>

*The Boston Harbor Clean – Up.* The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. The Massachusetts Water Resources Authority (MWRA) which is not a component unit and not a related organization of the Commonwealth, has primary responsibility for developing and implementing a court-approved plan for the construction of treatment facilities necessary to achieve compliance with the federal requirements. The cost of initial construction of water treatment facilities required under the federal district court's order has now amounted to approximately \$4.4 billion so far. Going forward, MWRA anticipates spending an additional \$279 million on initial construction and for remaining work on Combined Sewer Overflow projects. This figure does not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system upgrades, retrofits, and replacements.

*Massachusetts Military Reservation.* The Commonwealth through various departments has been engaged with various sectors of the federal government including the federal Department of Defense regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal trustees and others claim that the Commonwealth and others may be liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

*Closed State Facilities.* The Commonwealth has 17 facilities which contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds and storage tanks that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for any sort of cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

### 13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED

#### *Component Units and Details of Departments and Entities that are separately audited*

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 31 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2009 fiscal year end) (entities marked with an \* are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

#### **Entities Audited by KPMG LLP:**

The Massachusetts School Building Authority (MSBA)  
 The Pension Reserves Investment Trust Fund (PRIT)  
 \*The Massachusetts State Lottery Commission  
 \*The Accounts Managed by the Health Care Security Trust Board (HST)  
 The Massachusetts Bay Transportation Authority (MBTA)  
 The Massachusetts Turnpike Authority (MTA)  
 The Massachusetts Water Pollution Abatement Trust (MWPAT)  
 Commonwealth Health Insurance Connector Authority  
 Brockton Area Transit Authority

#### \*Community Colleges:

Bunker Hill Community College  
 Greenfield Community College  
 Holyoke Community College  
 Middlesex Community College  
 Springfield Technical Community College

#### **Entities Audited by Other Auditors:**

\*The Massachusetts Municipal Depository Trust (MMDT)  
 \*The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP)  
 \*The University of Massachusetts System

\*Community Colleges (in addition to the five Community Colleges audited by KPMG LLP, above):

Berkshire Community College

Bristol Community College  
Cape Cod Community College  
Massasoit Community College  
Massachusetts Bay Community College  
Mount Wachusett Community College  
Northern Essex Community College  
North Shore Community College  
Quinsigamond Community College  
Roxbury Community College

Community College component units:

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

\*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

State college component units:

Bridgewater State College Component Units:  
    The Bridgewater State College Foundation  
    The Bridgewater Alumni Association of Bridgewater State College  
Fitchburg State College Foundation, Inc.  
Framingham State College Foundation, Inc.  
Massachusetts College of Art Foundation, Inc.  
Massachusetts College of Liberal Arts Foundation, Inc.  
The Massachusetts Maritime Academy Foundation, Inc.  
Salem State College Component Units:  
    The Salem State College Foundation, Inc.  
    Salem State College Assistance Corporation  
Westfield State College Foundation, Inc.

Worcester State Foundation

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

**Economic Development Entities (8 separate entities) including:**

Massachusetts Clean Energy Center (CEC)

Massachusetts Community Development Finance Corporation (MCDFC)

Commonwealth Corporation

§Community Economic Development Assistance Corporation (CEDAC)

Massachusetts Life Sciences Center

§Massachusetts Housing Partnership (MHP)

Route 3 North Transportation Improvement Association (R3N)

§Commonwealth Zoological Corporation (Zoo)

**Regional Transit Authorities (14 separate entities in addition to the Brockton Area Regional Transit Authority above that is audited by KPMG LLP) including:**

Berkshire Regional Transit Authority

Cape Ann Transit Authority

Cape Cod Regional Transit Authority

Franklin Regional Transit Authority

Greater Attleboro / Taunton Regional Authority

Lowell Regional Transit Authority

Martha's Vineyard Transit Authority

Merrimack Valley Regional Transit Authority

Metrowest Regional Transit Authority (new for FY08)

Montachusett Regional Transit Authority

Nantucket Regional Transit Authority

Pioneer Valley Regional Transit Authority

Southeastern Regional Transit Authority

Worcester Regional Transit Authority

*Descriptions of Major and Blended Component Units and Entities that are not Legally Separate from the Commonwealth:*

*Blended Component Units* – 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 Massachusetts School Building Authority (MSBA)** is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue is born by the Commonwealth up to a minimum floor that is adjusted annually by Commonwealth statute until FY11. Expenditures by the MSBA are made on behalf of the Commonwealth as

a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

**The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension 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 of PRIT's net assets totaling approximately \$5.7 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

**The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net assets is approximately \$4.6 billion at June 30, 2008, and is reported as an external investment trust within the fiduciary fund type.

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

**The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth's lottery. The net assets of the Commission and results thereon are presented as a major governmental fund.

**The Accounts Managed by the Health Care Security Trust Board (HST)** is the long - term investment account of the Health Care Security Trust, a nonmajor governmental fund and the State Retiree Benefits Trust Fund, a fiduciary fund. The HST is the recipient of tobacco settlement remittances to the Commonwealth. The HST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HST. The HST utilizes certain resources and staff of PRIM.

**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 (CA/T). The OCIP is managed by the Massachusetts Highway Department. The net assets of the program and results of operations are presented as part of the Commonwealth's other governmental fund activity.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and 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 the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc and the University of Massachusetts Foundation, Inc.

**The State and Community College System** including the 9 state and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit of the state college system).

***Other 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 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.

*Massachusetts Department of Transportation*

In FY10, MDOT will incorporate the MTA and will have jurisdiction over the MBTA and the RTAs. The Massachusetts Port Authority will become a related organization to MDOT. It is anticipated that the MBTA and RTAs will be component units of MDOT and MDOT will be a major component unit of the Commonwealth.

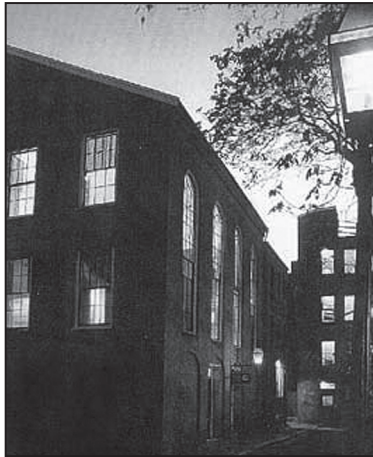
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#### **14. SUBSEQUENT EVENT**

In December 2009, the Commonwealth exercised the provisions of Section 1201 of the federal Social Security Act (42 U.S.C. 1321,) and applied for repayable advances from the federal government for the Unemployment Compensation Fund. The Commonwealth anticipates advances from the federal government in the amount of \$785,000,000 for January through March 2010.

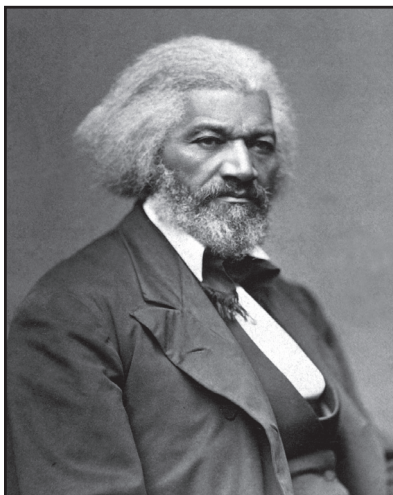
## African Meeting

The African Meeting House on Beacon Hill was built in 1806 in what once was the heart of Boston's 19th century African American community. The Meeting House was the host to giants in the Abolitionist Movement who were responsible for monumental historical events including:



*The African Meeting House, Boston*

- The founding of the New England Anti-Slavery Society by William Lloyd Garrison in 1832.
- The 1833 farewell address of Maria Stewart, a black woman and the first American born woman to speak publicly before a gender-mixed audience.
- An 1860 anti-slavery speech by Frederick Douglass given after being run out of Tremont Temple.
- The 1863 recruitment to the MA 54th Regiment led by Colonel Robert Gould Shaw.



*Frederick Douglass*

*Courtesy of the National Park Service*

The African Meeting House is the oldest black church edifice still standing in the United States.

The African Meeting House on Nantucket is the island's most vivid reminder of a thriving 19th century African American community. Erected in the 1820s by the African Baptist Society, it is the only public building still in existence that was constructed and occupied by the island's African Americans during the 19th century.

In 1933, Mrs. Florence Higginbotham, an African American who owned the house next door, purchased the meeting house and its two outbuildings. The meeting house continued to be used as a social center, but after World War II it was rented out as a garage, and then a storage shed and bicycle repair shop.

Mrs. Higginbotham died in 1972, leaving as her sole heir her son, Wilhelm, who honored her request to retain the meeting house property. The businessman who had stored his bicycles there began research that led to its inclusion in the National Register of Historic Places. Her heirs sold these historic sites to the Museum of African American History in 1989.



*Florence Higginbotham*

*Text and photos courtesy of the African Meeting House*



*The African Meeting House, Nantucket*



*The Seneca Boston-Florence Higginbotham House*



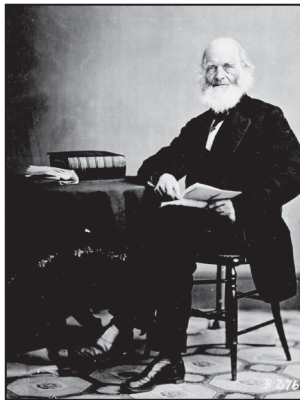
# *Required Supplementary Information Other than Management Discussion and Analysis*

*Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary Funds on a Budgetary Basis and GAAP Basis*

*Notes to Required Supplementary Information – Budgetary Reporting*

*Schedule of Pension Funding Progress – Last Ten Fiscal Years*

*Schedule of Post Employment Benefit Funding Progress – State Retiree Benefits Trust Fund*



*William Cullen Bryant*

*Photos courtesy of [www.wikipedia.org](http://www.wikipedia.org)*

## **William Cullen Bryant (1794-1878)**

William Cullen Bryant's verse celebrates this quintessential American landscape, and helped inspire the 19th-century land conservation movement that involved Frederic Law Olmsted and Charles Eliot, founder of The Trustees of Reservations.

Bryant served as editor and publisher of The New York Evening Post for 50 years. A passionate conservationist and

horticulturalist, he used his editorials to rally support for Frederick Law Olmsted's Central Park.

From 1865 until his death in 1878, Bryant summered at his boyhood home, today a National Historic Landmark. He converted the two-story farmhouse into a rambling three-story Victorian cottage and expanded the sprawling red barn to store apples and pears from his orchards. Inside the house are colonial and Victorian pieces from the poet's family, as well as exotic memorabilia from his extensive European and Asian travels. It is owned by The Trustees of Reservations ([www.thetrustees.org](http://www.thetrustees.org)) who's mission is to preserve, for public use and enjoyment, properties of exceptional scenic, historic, and ecological value in Massachusetts.



*Courtesy of the Trustees of the Reservations  
William Cullen Bryant's Homestead*



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

## Budgeted Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance over/(under)
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 19,955,200	\$ 19,955,200	\$ 16,790,021	\$ (3,165,179)
Assessments.....	-	-	348,654	348,654
Federal grants and reimbursements.....	7,070,600	7,070,600	8,250,900	1,180,300
Departmental.....	2,386,100	2,386,100	1,944,508	(441,592)
Miscellaneous.....	91,000	91,000	260,626	169,626
<b>Total revenues.....</b>	<b>29,502,900</b>	<b>29,502,900</b>	<b>27,594,709</b>	<b>(1,908,191)</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	-	-	262,034	262,034
Lottery reimbursements.....	-	95,770	105,656	9,886
Lottery distributions.....	-	811,875	890,489	78,614
Tobacco settlement transfer.....	-	288,500	315,153	26,653
Operating transfers in.....	2,273,461	676,316	339,462	(336,854)
Stabilization transfer.....	-	401,000	1,453,747	1,052,747
Other fund deficit support.....	-	-	219,947	219,947
<b>Total other financing sources.....</b>	<b>2,273,461</b>	<b>2,273,461</b>	<b>3,586,488</b>	<b>1,313,027</b>
<b>Total revenues and other financing sources.....</b>	<b>31,776,361</b>	<b>31,776,361</b>	<b>31,181,197</b>	<b>(595,164)</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	91,365	79,003	60,199	18,804
Judiciary.....	825,864	803,698	794,938	8,760
Inspector General.....	3,216	3,071	3,002	69
Governor and Lieutenant Governor.....	11,095	9,176	8,377	799
Secretary of the Commonwealth.....	49,520	52,937	46,986	5,951
Treasurer and Receiver-General.....	210,892	136,555	128,696	7,859
Auditor of the Commonwealth.....	19,757	18,690	18,688	2
Attorney General.....	43,577	44,962	44,266	696
Ethics Commission.....	1,782	1,782	1,678	104
District Attorney.....	102,926	100,946	100,789	157
Office of Campaign & Political Finance.....	1,285	1,285	1,129	156
Sheriff's Departments.....	286,370	293,370	290,513	2,857
Disabled Persons Protection Commission.....	2,328	2,314	2,267	47
Board of Library Commissioners.....	34,087	33,659	33,652	7
Comptroller.....	12,456	12,045	11,679	366
Administration and finance.....	1,717,417	1,811,184	1,752,879	58,305
Energy and environmental affairs.....	243,175	226,569	216,177	10,392
Health and human services.....	5,044,067	4,970,340	4,908,938	61,402
Transportation and public works.....	252,559	361,295	283,313	77,982
Executive Office of Education.....	2,300,469	2,111,799	2,091,716	20,083
Public safety and homeland security.....	1,256,873	1,259,140	1,236,874	22,266
Housing and economic development.....	264,303	237,336	220,189	17,147
Labor and workforce Development	95,623	77,323	65,105	12,218
Direct local aid.....	5,263,620	5,135,620	4,723,620	412,000
Medicaid.....	8,592,505	8,687,776	8,679,213	8,563
Pension.....	-	1,465,000	1,314,396	150,604
<b>Debt service:</b>				
Principal retirement.....	1,071,705	1,107,616	1,087,370	20,246
Interest and fiscal charges.....	865,530	829,606	804,016	25,590
<b>Total expenditures.....</b>	<b>28,664,366</b>	<b>29,874,097</b>	<b>28,930,665</b>	<b>943,432</b>
<b>Other financing uses:</b>				
Fringe benefit cost assessment.....	-	84,400	57,415	26,985
Lottery deficit support.....	-	-	76,112	(76,112)
Operating transfers out.....	-	78,164	118,535	(40,371)
Commonwealth care transfer.....	-	1,117,561	987,959	129,602
Medical assistance transfer.....	-	346,000	374,001	(28,001)
State retiree benefits.....	-	372,000	352,000	20,000
Stabilization transfer.....	-	401,000	1,453,747	(1,052,747)
Other fund deficit support.....	-	-	219,947	(219,947)
<b>Total other financing uses.....</b>	<b>-</b>	<b>2,399,125</b>	<b>3,639,716</b>	<b>(1,240,591)</b>
<b>Total expenditures and other financing uses.....</b>	<b>28,664,366</b>	<b>32,273,222</b>	<b>32,570,381</b>	<b>(297,159)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>3,111,995</b>	<b>(496,861)</b>	<b>(1,389,184)</b>	<b>(892,323)</b>
Fund balances (deficit) at beginning of year.....	2,405,820	2,405,820	2,405,820	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 5,517,815</b>	<b>\$ 1,908,959</b>	<b>\$ 1,016,636</b>	<b>\$ (892,323)</b>

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

	<u>General</u>	<u>Highway</u>
<b>REVENUES</b>		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 26,189,041	\$ 1,049,873
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue .....	(171,766)	7,545
Federal reimbursements and other receivables.....	266,465	722
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting.....	(69,294)	-
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting.....	280,459	-
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	26,494,905	1,058,140
Non-Budgeted Activity.....	-	-
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 26,494,905</b>	<b>\$ 1,058,140</b>
<b>EXPENDITURES</b>		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 27,433,958	\$ 1,203,726
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments.....	252,100	-
Compensated absences and other accrued liabilities.....	(71,980)	(1,353)
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	232,553	-
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.....	(1,024,505)	(866,881)
Higher education expenditures are reclassified for GAAP reporting.....	(1,159,245)	-
Employee retirement benefits contribution reclassification.....	352,000	-
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	26,014,881	335,492
Non-Budgeted Activity.....	-	-
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 26,014,881</b>	<b>\$ 335,492</b>
<b>OTHER FINANCING SOURCES</b>		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 3,300,312	\$ 221,299
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	64,747	-
Adjustments:		
Consolidation of transfers between funds.....	(1,455,610)	-
Inflows from component units and other miscellaneous financing sources.....	17,915	-
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	1,927,364	221,299
Non-Budgeted Activity.....	-	-
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 1,927,364</b>	<b>\$ 221,299</b>
<b>OTHER FINANCING USES</b>		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,146,135	\$ 83,650
Adjustments and Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	1,390,863	-
Consolidation of transfers between funds.....	(1,455,610)	-
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,089,951	-
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.....	1,024,505	866,881
Employee retirement benefits contribution reclassification.....	(352,000)	-
Outflows from component units and other miscellaneous financing sources.....	-	-
Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	3,843,844	950,531
Non-Budgeted Activity.....	-	-
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 3,843,844</b>	<b>\$ 950,531</b>

**Note to Required Supplementary Information – Budgetary Reporting**

The Commonwealth passes a combined budget for all budgeted operations. 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 appropriation 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, pension costs, and certain 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 difference to separately published budget documents, which eliminate some interfund activity. 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. An example of this is the lack of a budget for pension costs.

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.

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 in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY09 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 182 of the Acts of 2008:		
Direct appropriations.....	\$ 30,374,067	\$ 26,767,219
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2008 .....	<u>1,402,294</u>	<u>1,897,147</u>
Total original budget.....	31,776,361	28,664,366
Supplemental Acts of 2008:		
Chapter 302.....	-	7,421
Chapter 367.....	-	15,000
Chapter 461.....	-	500
Supplemental Acts of 2009:		
Chapter 5.....	-	108,759
Chapter 14.....	-	62,000
Chapter 16.....	-	78,812
Chapter 26.....	-	51,481
Planned Savings.....	<u>-</u>	<u>(631,374)</u>
Total as of June 30, 2009 .....	31,776,361	28,356,965
Supplemental Acts of 2009, passed after June 30:		
Chapter 120 .....	<u>-</u>	<u>66,296</u>
Total budgeted revenues and expenditures per Legislative action.....	31,776,361	28,423,261
Plus: Transfers of revenues and expenditures (including rounding).....	<u>-</u>	<u>3,849,961</u>
Budgeted revenues and expenditures as reported.....	<u>\$ 31,776,361</u>	<u>\$ 32,273,222</u>

In addition, the Legislature overrode late in its session approximately \$24,209,000 of Gubernatorial vetoes that are not reflected in the information for Chapter 120 above. These overrides will be reflected in FY2010.

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

**Schedule of Pension Funding Progress  
Last Six Fiscal Years**

(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of January 1, 2009....	\$ 16,992,214	\$ 23,723,240	\$ 6,731,026	71.6%	\$ 4,712,655	142.8%
Actuarial Valuation as of January 1, 2008....	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
Actuarial Valuation as of January 1, 2007....	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Actuarial Valuation as of January 1, 2006....	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
Actuarial Valuation as of January 1, 2005....	16,211,000	19,575,000	3,364,000	82.8%	3,967,000	84.8%
Actuarial Valuation as of January 1, 2004....	15,931,000	18,966,000	3,065,000	84.0%	3,842,000	79.8%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2009....	\$ 18,927,731	\$ 32,543,782	\$ 13,616,051	58.2%	\$ 5,389,895	252.6%
Actuarial Valuation as of January 1, 2008....	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
Actuarial Valuation as of January 1, 2007....	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
Actuarial Valuation as of January 1, 2006....	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%
Actuarial Valuation as of January 1, 2005....	17,683,000	26,167,000	8,483,000	67.6%	4,643,000	182.7%
Actuarial Valuation as of January 1, 2004....	17,075,000	24,519,000	8,444,000	69.6%	4,556,000	163.4%

See Statement of Fiduciary Net Assets for the Net Assets of Pensions and Other Post Employment Benefits

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2009commonwealth.pdf>. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

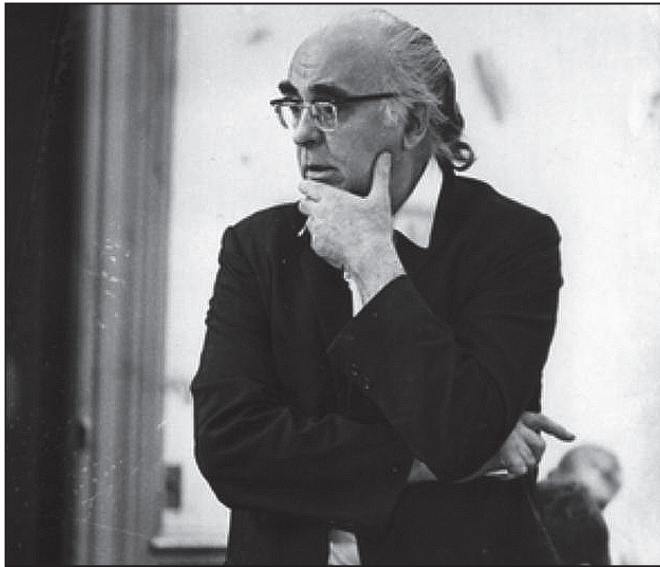
## Schedule of Post Employment Benefit Funding Progress - State Retiree Benefits Trust Fund

(Amounts in millions except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Retiree Benefits Trust Fund</b>						
Actuarial Valuation as of January 1, 2009....	\$ 277	\$ 15,305	\$ 15,028	1.8%	\$ 3,687	407.6%
Actuarial Valuation as of January 1, 2008....	329	11,649	11,320	2.8%	3,958	286.0%
Actuarial Valuation as of January 1, 2006....	-	9,812	9,812	0.0%	3,589	273.4%

See Statement of Fiduciary Net Assets for the Net Assets of Pensions and Other Post Employment Benefits

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.



*Photo courtesy of Cape Ann Museum*

### **Charles Olson (1910–1970)**

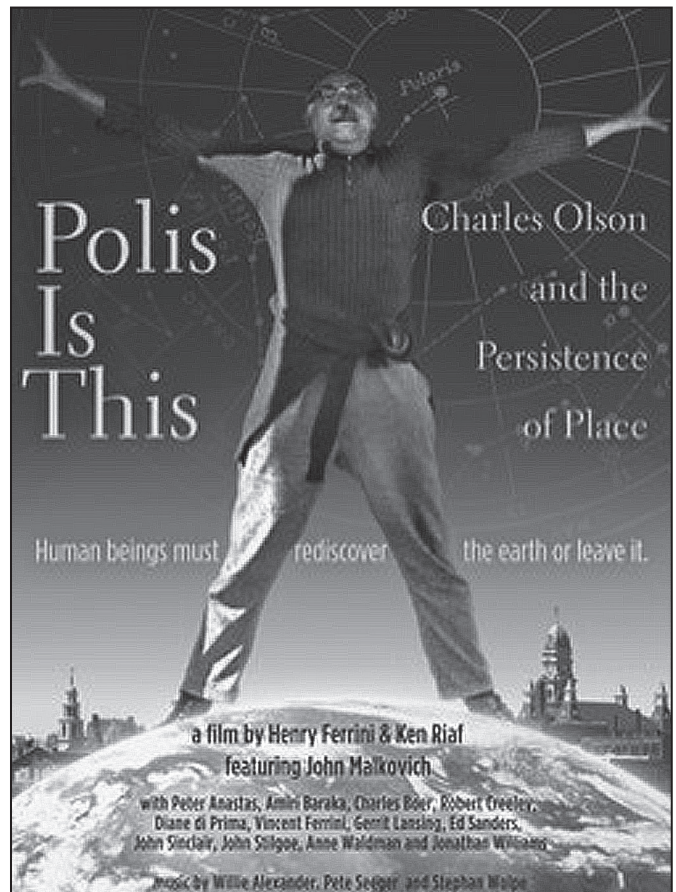
Charles Olson was born in Worcester, December 27, 1910, the son of working-class parents; a Swedish immigrant father and an Irish Catholic mother. Throughout his youth and into his years at Classical High School, Olson struggled to overcome his consciousness of his size and height. He went to Wesleyan College in 1928.

Olson has strong association with two places other than Worcester: Black Mountain College, North Carolina, where in the 1950s Olson was a teacher, rector, advancing alternative ways of thought and verse; and Gloucester, Massachusetts, a north shore fishing community where he spent his childhood summers and a place that would provide the major background for his epic work, *The Maximus Poems*, which are rich in myth, full of geography, history, architecture, and personal reflections.

During WWII, Olson worked in the Office of War Information, then in Roosevelt's 1944 re-election campaign. Finding no place for an artist in such pursuits, Olson left politics and began writing poetry seriously in the period during which he served as informal secretary to Ezra Pound at St. Elizabeth's Hospital in Washington, DC. In 1950 he stepped out of the footsteps of Pound and began the development of post-modern free-verse with Robert Creeley.

In 1957, Olson retreated to Gloucester to concentrate on his own poetry, emerging occasionally as the leader of a new poetic counterculture. Charles Olson was an extremely influential poet. His stature did not lie merely in his physical size but in the mythic dimension of his work.

*Text excerpts courtesy of Wikipedia*



*Courtesy of Henry Ferrini and Ken Riaf*

*Polis Is This: Charles Olson and the Persistence of Place has been shown on over seventy PBS stations throughout the country this year.*  
[www.ferriniproductions.com](http://www.ferriniproductions.com)



*Photo courtesy of the Vision Appraisal*  
[www.visionappraisal.com](http://www.visionappraisal.com)



# Other Supplementary Information

*Combined Balance Sheet – Nonmajor Governmental Funds*

*Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds*

*Combining Statement of Net Assets Available for Pension Benefits*

*Combining Statement of Changes in Net Assets Available for Pension Benefits*

*Combining Statement of Net Assets Held in Trust for Pool Participants*

*Combining Statement of Changes in Net Assets Held in Trust for Pool Participants*

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

*Combining Statement of Net Assets – Nonmajor Component Units*

*Combining Statement of Revenues, Expenses and Changes in Net Assets – Nonmajor Component Units*



*Harvard Lampoon Castle*

## **Harvard Lampoon Castle**

The Harvard Lampoon was originally modeled on the former British satirical periodical *Punch* and has outlived it to become the world's longest-running English-language humor magazine. The organization also produces occasional humor books (the best known being the 1969 J.R.R. Tolkien parody *Bored of the Rings*).

The success of this book and the attention it brought its authors led directly to the creation of the *National Lampoon* magazine, which spun off a live show *Lemmings*, and then a radio show in the early 1970s, *The National Lampoon Radio Hour* introducing such performers as Christopher Guest, Harry Shearer and Chevy Chase. Lampoon writers from these shows were subsequently hired to help create *Saturday Night Live*, and that show's impact and alumni still supply some of America's comedy today.

Many celebrities have visited the Lampoon Castle as honorary members including, among others, Winston Churchill, Kurt Vonnegut, Robin Williams, Billy Crystal, Chevy Chase, David Foster Wallace, John Cleese, Bill Cosby, Jon Stewart, John Irving, John Wayne, James Brown, The Strokes, and Aerosmith. Also, it is a yearly tradition for the current cast of *SNL* to visit the castle.

In 1933, members of the Harvard Lampoon stole the Sacred Cod of Massachusetts from the State House, in an event known as the "Cod-napping."

*Photo and text courtesy of Wikipedia*

**Combined Balance Sheet**  
**Other Governmental Funds**  
**June 30, 2009**  
**(Amounts in thousands)**

	Special Revenue							
	Federal Grants	Universal Health Care	Environmental	Health Care Security Trust Fund	Convention and Exhibition Center Fund	Grant Anticipation Note Trust Fund	Expendable Trust Fund	Other
<b>ASSETS</b>								
Cash and short-term investments.....	\$ -	\$ 291,555	\$ 14,557	\$ -	\$ 88,413	\$ 14,629	\$ 387,252	\$ 706,348
Cash with fiscal agent.....	-	-	-	-	59,556	354,388	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	-	15,644	73	-	8,995	-	-	54,049
Due from federal government.....	730,082	-	-	-	-	98,073	1,236	409
Loans receivable.....	-	-	-	-	-	-	914	-
Other receivables.....	-	25,914	1	146,343	-	-	23,076	11,514
Due from cities and towns.....	-	-	-	-	-	-	46,800	-
Due from other funds.....	-	-	-	-	-	-	-	-
Due from component units.....	-	5,000	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 730,082</b>	<b>\$ 338,113</b>	<b>\$ 14,631</b>	<b>\$ 146,343</b>	<b>\$ 156,964</b>	<b>\$ 467,090</b>	<b>\$ 459,278</b>	<b>\$ 772,320</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable.....	\$ 260,356	\$ 114,042	\$ 508	\$ -	\$ 1,000	\$ -	\$ 36,111	\$ 80,342
Accrued payroll.....	6,203	81	177	-	-	-	1,190	1,145
Tax refunds and abatements payable.....	-	-	-	-	-	-	-	425
Due to other funds.....	424,515	-	-	-	-	97,925	-	-
Due to component units.....	-	-	-	-	-	-	-	124,302
Deferred inflows of resources.....	-	12,098	-	-	-	-	9,709	-
Claims and judgments.....	-	-	-	-	-	-	-	-
Other accrued liabilities.....	-	120,840	-	-	-	-	-	-
<b>Total liabilities.....</b>	<b>691,074</b>	<b>247,061</b>	<b>685</b>	<b>-</b>	<b>1,000</b>	<b>97,925</b>	<b>47,010</b>	<b>206,214</b>
Fund balances (deficits):								
Reserved for retirement of indebtedness.....	-	-	-	-	59,556	354,388	-	-
Reserved for central artery workers' compensation and general liability.....	-	-	-	-	-	-	-	-
Undesignated:								
Special revenue.....	39,008	91,052	13,946	146,343	96,408	14,777	412,268	566,106
Capital projects.....	-	-	-	-	-	-	-	-
Permanent trust funds.....	-	-	-	-	-	-	-	-
<b>Fund balances (deficits).....</b>	<b>39,008</b>	<b>91,052</b>	<b>13,946</b>	<b>146,343</b>	<b>155,964</b>	<b>369,165</b>	<b>412,268</b>	<b>566,106</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 730,082</b>	<b>\$ 338,113</b>	<b>\$ 14,631</b>	<b>\$ 146,343</b>	<b>\$ 156,964</b>	<b>\$ 467,090</b>	<b>\$ 459,278</b>	<b>\$ 772,320</b>

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Capital Projects								
Debt Service	General Capital Projects Funds	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other	Permanent Trust	Total
\$ -	\$ 294,820	\$ 102,551	\$ 11,893	\$ 1,171	\$ -	\$ 11,722	\$ 5,000	\$ 1,929,911
159,358	-	-	-	-	-	92,816	-	666,118
-	-	-	-	-	-	-	-	78,761
-	1,199	-	-	-	-	-	-	830,999
-	-	-	-	-	-	-	-	914
-	-	-	-	-	-	9	-	206,857
-	-	-	-	-	-	-	-	46,800
-	-	-	-	-	-	97,925	-	97,925
-	-	-	-	-	-	-	-	5,000
<b>\$ 159,358</b>	<b>\$ 296,019</b>	<b>\$ 102,551</b>	<b>\$ 11,893</b>	<b>\$ 1,171</b>	<b>\$ -</b>	<b>\$ 202,472</b>	<b>\$ 5,000</b>	<b>\$ 3,863,285</b>
\$ -	\$ 191,105	\$ 3,118	\$ -	\$ -	\$ 113,894	\$ 134,191	\$ -	\$ 934,667
-	1,281	-	-	-	2,461	778	-	13,316
-	-	-	-	-	-	-	-	425
-	-	-	-	-	230,140	40	-	752,620
-	-	-	-	-	-	-	-	124,302
-	-	-	-	-	-	-	-	21,807
-	-	-	-	-	-	10,000	-	10,000
-	-	-	-	-	-	-	-	120,840
-	<b>192,386</b>	<b>3,118</b>	-	-	<b>346,495</b>	<b>145,009</b>	-	<b>1,977,977</b>
159,358	-	-	-	-	-	-	-	573,302
-	-	-	-	-	-	52,236	-	52,236
-	-	-	-	-	-	-	-	1,379,908
-	103,633	99,433	11,893	1,171	(346,495)	5,227	-	(125,138)
-	-	-	-	-	-	-	5,000	5,000
<b>159,358</b>	<b>103,633</b>	<b>99,433</b>	<b>11,893</b>	<b>1,171</b>	<b>(346,495)</b>	<b>57,463</b>	<b>5,000</b>	<b>1,885,308</b>
<b>\$ 159,358</b>	<b>\$ 296,019</b>	<b>\$ 102,551</b>	<b>\$ 11,893</b>	<b>\$ 1,171</b>	<b>\$ -</b>	<b>\$ 202,472</b>	<b>\$ 5,000</b>	<b>\$ 3,863,285</b>

# Combined Statement of Revenues, Expenditures and Changes in Fund Balances

## Other Governmental Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Special Revenue							
	Federal Grants	Universal Health Care	Environmental	Health Care Security Trust Fund	Convention and Exhibition Center Fund	Grant Anticipation Note Trust Fund	Expendable Trust Fund	Other
<b>REVENUES</b>								
Taxes.....	\$ -	\$ 161,493	\$ 868	\$ -	\$ 72,681	\$ -	\$ -	\$ 852,433
Assessments.....	-	364,555	-	-	-	-	28,935	180,380
Federal grants and reimbursements.....	3,510,068	-	7,715	-	-	828,956	22,337	34,859
Departmental.....	-	59,107	7,326	-	768	-	51,566	187,447
Miscellaneous.....	70	292,610	37	317,399	6,455	16,824	337,684	44,519
<b>Total revenues.....</b>	<b>3,510,137</b>	<b>877,765</b>	<b>15,946</b>	<b>317,399</b>	<b>79,904</b>	<b>845,780</b>	<b>440,523</b>	<b>1,299,638</b>
<b>OTHER FINANCING SOURCES</b>								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	561	1,588,712	130	-	-	45,664	12,169	87,863
<b>Total other financing sources.....</b>	<b>561</b>	<b>1,588,712</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>45,664</b>	<b>12,169</b>	<b>87,863</b>
<b>Total revenues and other financing sources.....</b>	<b>3,510,698</b>	<b>2,466,477</b>	<b>16,076</b>	<b>317,399</b>	<b>79,904</b>	<b>891,444</b>	<b>452,692</b>	<b>1,387,501</b>
<b>EXPENDITURES</b>								
Current:								
Judiciary.....	589	-	-	-	-	-	155	1,700
Inspector General.....	-	175	-	-	-	-	-	-
Secretary of the Commonwealth.....	741	-	-	-	-	-	-	3,103
Treasurer and Receiver-General.....	1,253	-	-	-	-	266,574	68,301	940,942
Auditor of the Commonwealth.....	-	-	-	-	-	-	123	-
Attorney General.....	8,929	-	-	-	-	-	5,580	359
District Attorney.....	3,492	-	-	-	-	-	7,073	182
Sheriff's Departments.....	2,119	-	-	-	-	-	422	360
Disabled Persons Protection Commission.....	236	-	-	-	-	-	-	-
Board of Library Commissioners.....	2,873	-	-	-	-	-	2	-
Comptroller.....	-	-	-	-	-	-	84	2,415
Administration and finance.....	2,034	-	-	-	27,560	-	14,608	48,554
Energy and environmental affairs.....	63,854	-	10,780	-	-	-	37,812	32,494
Health and human services.....	1,267,324	431,824	-	-	-	-	60,955	14,391
Transportation and public works.....	11,849	-	-	-	-	-	747	92,794
Executive office of education.....	844,056	-	-	-	-	-	13,449	3,102
Public safety and homeland security.....	108,426	-	-	-	-	-	2,926	67,566
Housing and economic development.....	528,947	-	-	-	-	-	24,577	41,638
Labor and workforce development.....	161,645	78,508	-	-	-	-	78,193	36,195
Medicaid.....	-	1,983,968	-	-	-	-	-	12,517
Direct local aid.....	412,000	-	-	-	-	-	-	5,165
Capital outlay:	-	-	-	-	-	-	-	-
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>3,420,367</b>	<b>2,494,475</b>	<b>10,780</b>	<b>-</b>	<b>27,560</b>	<b>266,574</b>	<b>315,007</b>	<b>1,303,477</b>
<b>OTHER FINANCING USES</b>								
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	-	-
Transfers out.....	88,669	210,033	1,524	355,696	65,000	685,963	187,038	70,617
Transfers of appropriations.....	-	-	-	-	-	-	1,702	26
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	36,293	204,788	-	5,186
<b>Total other financing uses.....</b>	<b>88,669</b>	<b>210,033</b>	<b>1,524</b>	<b>355,696</b>	<b>101,293</b>	<b>890,751</b>	<b>188,740</b>	<b>75,829</b>
<b>Total expenditures and other financing uses.....</b>	<b>3,509,036</b>	<b>2,704,508</b>	<b>12,304</b>	<b>355,696</b>	<b>128,853</b>	<b>1,157,325</b>	<b>503,747</b>	<b>1,379,306</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>1,663</b>	<b>(238,031)</b>	<b>3,772</b>	<b>(38,297)</b>	<b>(48,949)</b>	<b>(265,881)</b>	<b>(51,055)</b>	<b>8,196</b>
Fund balances (deficits) at beginning of year.....	37,345	329,083	10,174	184,640	204,913	635,046	463,323	557,910
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 39,008</b>	<b>\$ 91,052</b>	<b>\$ 13,946</b>	<b>\$ 146,343</b>	<b>\$ 155,964</b>	<b>\$ 369,165</b>	<b>\$ 412,268</b>	<b>\$ 566,106</b>

See Independent Auditor's Report

Capital Projects								
Debt Service	General Capital Projects Funds	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other	Permanent Trust	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,087,475
-	-	-	-	-	-	-	-	573,870
-	23,319	-	-	-	-	946	-	4,428,200
-	-	33,125	-	-	-	746	-	340,086
12,800	-	870	-	12,400	-	1,177	-	1,042,845
<b>12,800</b>	<b>23,319</b>	<b>33,995</b>	<b>-</b>	<b>12,400</b>	<b>-</b>	<b>2,869</b>	<b>-</b>	<b>7,472,476</b>
20,753	50,489	-	-	-	25,848	1,760	-	98,850
-	1,006,926	-	-	-	1,000,568	34,349	-	2,041,843
389,555	-	-	-	-	-	-	-	389,555
2,137,653	-	-	-	-	-	-	-	2,137,653
-	-	25,330	-	-	25,832	685,963	-	2,472,224
<b>2,547,961</b>	<b>1,057,415</b>	<b>25,330</b>	<b>-</b>	<b>-</b>	<b>1,052,248</b>	<b>722,072</b>	<b>-</b>	<b>7,140,125</b>
<b>2,560,761</b>	<b>1,080,734</b>	<b>59,325</b>	<b>-</b>	<b>12,400</b>	<b>1,052,248</b>	<b>724,941</b>	<b>-</b>	<b>14,612,601</b>
-	-	-	-	-	-	-	-	2,444
-	-	-	-	-	-	-	-	175
-	-	-	-	-	-	-	-	3,844
-	-	-	-	-	-	-	-	1,277,070
-	-	-	-	-	-	-	-	123
-	-	-	-	-	-	-	-	14,868
-	-	-	-	-	-	-	-	10,747
-	-	-	-	-	-	-	-	2,901
-	-	-	-	-	-	-	-	236
-	-	-	-	-	-	-	-	2,875
-	-	-	-	-	-	-	-	2,499
-	-	-	-	-	-	-	-	92,756
-	-	-	-	-	-	-	-	144,940
-	-	-	-	-	-	-	-	1,774,494
-	-	-	-	-	-	26,004	-	131,394
-	-	-	-	-	-	-	-	860,607
-	-	-	-	-	-	-	-	178,918
-	-	-	-	-	-	-	-	595,162
-	-	-	-	-	-	-	-	354,541
-	-	-	-	-	-	-	-	1,996,485
-	-	-	-	-	-	-	-	417,165
-	-	-	-	-	-	-	-	-
-	882,541	17,259	-	1,984	939,518	2,666	-	2,666
2,144,733	-	-	-	-	-	672,668	-	2,513,970
<b>2,144,733</b>	<b>882,541</b>	<b>17,259</b>	<b>-</b>	<b>1,984</b>	<b>939,518</b>	<b>701,338</b>	<b>-</b>	<b>12,525,611</b>
410,308	-	-	-	-	-	-	-	410,308
1,352	9,064	26,154	-	-	21,013	32,474	-	1,754,597
-	-	-	-	-	-	-	-	1,728
-	87,698	-	-	-	-	-	-	87,698
-	-	-	-	-	-	-	-	246,267
<b>411,660</b>	<b>96,762</b>	<b>26,154</b>	<b>-</b>	<b>-</b>	<b>21,013</b>	<b>32,474</b>	<b>-</b>	<b>2,500,599</b>
<b>2,556,393</b>	<b>979,303</b>	<b>43,413</b>	<b>-</b>	<b>1,984</b>	<b>960,531</b>	<b>733,812</b>	<b>-</b>	<b>15,026,210</b>
<b>4,368</b>	<b>101,431</b>	<b>15,912</b>	<b>-</b>	<b>10,416</b>	<b>91,717</b>	<b>(8,871)</b>	<b>-</b>	<b>(413,609)</b>
154,990	2,202	83,521	11,893	(9,245)	(438,212)	66,334	5,000	2,298,917
<b>\$ 159,358</b>	<b>\$ 103,633</b>	<b>\$ 99,433</b>	<b>\$ 11,893</b>	<b>\$ 1,171</b>	<b>\$ (346,495)</b>	<b>\$ 57,463</b>	<b>\$ 5,000</b>	<b>\$ 1,885,308</b>

**Combining Statement of Net Assets Available for Post - Employment Benefits**  
Pension Trust Funds  
June 30, 2009  
(Amounts in thousands)

	Pension Trust Funds		State Retiree Benefits
	State Employees' PERS	Teachers' PERS	
<b>ASSETS</b>			
Cash and short-term investments.....	\$ 32,788	\$ 12,502	\$ -
Investments at fair value.....	15,359,799	17,226,357	279,162
Other receivables.....	-	72,471	7,820
<b>Total assets.....</b>	<b>15,392,587</b>	<b>17,311,330</b>	<b>286,982</b>
<b>LIABILITIES</b>			
Accounts payable.....	1,895	1,103	15,979
<b>Total liabilities.....</b>	<b>1,895</b>	<b>1,103</b>	<b>15,979</b>
<b>Net assets available for post - employment benefits.....</b>	<b>\$ 15,390,692</b>	<b>\$ 17,310,227</b>	<b>\$ 271,003</b>
See Independent Auditor's Report			

# Combining Statement of Changes in Net Assets Available for Post -Employment Benefits

Pension Trust Funds  
Fiscal Year Ended June 30, 2009  
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	State Retiree Benefits
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 423,023	\$ 891,941	\$ 352,000
Employee contributions.....	462,471	599,410	-
<b>Total contributions.....</b>	<b>885,494</b>	<b>1,491,351</b>	<b>352,000</b>
Net investment loss:			
Net Investment loss, net of management fees .....	(5,144,297)	(5,699,408)	(57,753)
<b>Net investment loss.....</b>	<b>(5,144,297)</b>	<b>(5,699,408)</b>	<b>(57,753)</b>
<b>Total additions.....</b>	<b>(4,258,803)</b>	<b>(4,208,057)</b>	<b>294,247</b>
<b>DEDUCTIONS</b>			
Administration.....	8,190	17,864	\$ 854
Retirement benefits and refunds.....	1,343,439	2,017,174	351,348
<b>Total deductions.....</b>	<b>1,351,629</b>	<b>2,035,038</b>	<b>352,202</b>
<b>Net increase(decrease).....</b>	<b>(5,610,432)</b>	<b>(6,243,095)</b>	<b>(57,955)</b>
Net assets available for post - employment benefits at beginning of year.....	21,001,124	23,553,322	328,958
<b>Net assets available for post - employment benefits at end of year.....</b>	<b>\$ 15,390,692</b>	<b>\$ 17,310,227</b>	<b>\$ 271,003</b>



## Combining Statement of Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

June 30, 2009

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
<b>ASSETS</b>		
Assets held in trust for pension benefits:		
Cash and short-term investments.....	\$ -	\$ 908,749
Investments at fair value.....	-	4,205,445
Assets held in trust for pool participants:		
Cash and short-term investments.....	5,250,962	-
Other receivables.....	20,625	842,658
<b>Total assets.....</b>	<b>5,271,587</b>	<b>5,956,852</b>
<b>LIABILITIES</b>		
Liabilities:		
Accounts payable.....	74,440	1,239,525
Other accrued liabilities.....	1,349	-
<b>Total liabilities.....</b>	<b>75,789</b>	<b>1,239,525</b>
<b>Net assets held in trust for pool / pension participants.....</b>	<b>\$ 5,195,798</b>	<b>\$ 4,717,327</b>

See Independent Auditor's Report

## Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
<b>ADDITIONS</b>		
Contribution:		
Proceeds from sale of units.....	\$ 23,300,540	\$ 584,824
<b>Total contributions.....</b>	<b>23,300,540</b>	<b>584,824</b>
Net investment loss:		
Investment loss, net of management fees .....	781,112	(1,590,736)
<b>Net investment loss.....</b>	<b>781,112</b>	<b>(1,590,736)</b>
<b>Total additions.....</b>	<b>24,081,652</b>	<b>(1,005,912)</b>
<b>DEDUCTIONS</b>		
Cost of units redeemed.....	23,360,825	-
Distributions to unit holders from net interest income.....	108,762	-
<b>Total deductions.....</b>	<b>23,469,587</b>	<b>-</b>
<b>Net increase (decrease).....</b>	<b>612,065</b>	<b>(1,005,912)</b>
Net assets held in trust for pool / pensions participants at beginning of year.....	4,583,733	5,723,239
<b>Net assets held in trust for pool / pensions participants at end of year.....</b>	<b>\$ 5,195,798</b>	<b>\$ 4,717,327</b>

# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 317,448	\$ 8,699,794	\$ 8,681,858	\$ 335,384
Investments, restricted investments and annuity contracts....	1,462,407	60,033	-	1,522,440
Taxes receivable.....	1,947	2,021	1,947	2,021
Other receivables.....	-	84	-	84
<b>Total assets.....</b>	<b>\$ 1,781,802</b>	<b>\$ 8,761,932</b>	<b>\$ 8,683,805</b>	<b>\$ 1,859,929</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 44,509	\$ 3,307,273	\$ 3,306,468	\$ 45,314
Due to cities and towns.....	70,330	452,238	438,718	83,850
Due to federal government.....	-	64	64	-
Lottery prizes payable.....	1,462,407	60,033	-	1,522,440
Agency liabilities.....	204,556	3,753,501	3,749,732	208,325
<b>Total liabilities.....</b>	<b>\$ 1,781,802</b>	<b>\$ 7,573,109</b>	<b>\$ 7,494,982</b>	<b>\$ 1,859,929</b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 91,373	\$ 1,217,229	\$ 1,213,576	\$ 95,026
Assets held in trust.....	52,927	53,738	52,927	53,738
Other receivables.....	109,676	106,615	109,676	106,615
<b>Total assets.....</b>	<b>\$ 253,976</b>	<b>\$ 1,377,582</b>	<b>\$ 1,376,179</b>	<b>\$ 255,379</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 184	\$ 1,151,137	\$ 1,151,165	\$ 156
Agency liabilities.....	253,792	2,331,670	2,330,239	255,223
<b>Total liabilities.....</b>	<b>\$ 253,976</b>	<b>\$ 3,482,807</b>	<b>\$ 3,481,404</b>	<b>\$ 255,379</b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	778,156	323,875	325,290	776,741
<b>Total assets.....</b>	<b>\$ 778,242</b>	<b>\$ 323,875</b>	<b>\$ 325,290</b>	<b>\$ 776,827</b>
<b>LIABILITIES</b>				
Agency liabilities.....	\$ 778,242	\$ 323,875	\$ 325,290	\$ 776,827
<b>Total liabilities.....</b>	<b>\$ 778,242</b>	<b>\$ 323,875</b>	<b>\$ 325,290</b>	<b>\$ 776,827</b>

See Independent Auditor's Report

# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 408,907	\$ 9,917,023	\$ 9,895,434	\$ 430,496
Investments, restricted investments and annuity contracts.....	1,462,407	60,033	-	1,522,440
Assets held in trust.....	831,083	377,613	378,217	830,479
Taxes receivable.....	1,947	2,021	1,947	2,021
Other receivables.....	109,676	106,699	109,676	106,699
<b>Total assets.....</b>	<b>\$ 2,814,020</b>	<b>\$ 10,463,389</b>	<b>\$ 10,385,274</b>	<b>\$ 2,892,135</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 44,693	\$ 4,458,410	\$ 4,457,633	\$ 45,470
Due to cities and towns.....	70,330	452,238	438,718	83,850
Due to federal government.....	-	64	64	-
Lottery prizes payable.....	1,462,407	60,033	-	1,522,440
Agency liabilities.....	1,236,590	6,409,046	6,405,261	1,240,375
<b>Total liabilities.....</b>	<b>\$ 2,814,020</b>	<b>\$ 11,379,791</b>	<b>\$ 11,301,676</b>	<b>\$ 2,892,135</b>

# Combining Statement of Net Assets

## Nonmajor Component Units

June 30, 2009

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents.....	\$ 31,049	\$ 26,524	\$ 16,603	\$ 33,792	\$ 24,918	\$ 78,932	\$ 211,819
Short-term investments.....	-	183,161	4,399	8,837	10,341	93,450	300,189
Assets held in trust.....	-	-	-	-	-	13,743	13,743
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable.....	-	-	25,548	-	-	-	25,548
Loans.....	-	11,472	-	-	-	27,461	38,933
Other receivables.....	2,532	12,819	16,285	3,913	1,610	6,050	43,209
Due from cities and towns.....	-	-	41,981	-	-	-	41,981
Due from primary government.....	21,569	1,497	64,191	-	-	11,414	98,671
Inventory.....	-	139	692	-	-	71	902
Other current assets.....	1,071	5,478	4,928	-	131	392	12,000
<b>Total current assets.....</b>	<b>56,221</b>	<b>241,090</b>	<b>174,628</b>	<b>46,542</b>	<b>37,000</b>	<b>231,513</b>	<b>786,994</b>
Noncurrent assets:							
Cash and cash equivalents - restricted.....	-	59,963	2,952	213,409	-	50,529	326,853
Long - term investments.....	-	49,092	-	-	-	4,358	53,450
Accounts receivables, net.....	-	5,593	2,006	-	-	1,072	8,671
Loans receivables, net.....	-	73,163	-	8,019	-	334,677	415,859
Due from primary government.....	-	-	9,712	-	-	-	9,712
Non-depreciable capital assets.....	69,447	32,652	34,992	-	-	145	137,236
Depreciable capital assets, net.....	730,354	213,042	231,293	11,817	254	14,305	1,201,064
Other noncurrent assets.....	-	-	3,826	-	-	539	4,365
<b>Total noncurrent assets.....</b>	<b>799,801</b>	<b>433,505</b>	<b>284,781</b>	<b>233,245</b>	<b>254</b>	<b>405,624</b>	<b>2,157,209</b>
<b>Total assets.....</b>	<b>856,022</b>	<b>674,595</b>	<b>459,409</b>	<b>279,787</b>	<b>37,254</b>	<b>637,137</b>	<b>2,944,203</b>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities.....	16,003	17,640	38,740	27,797	13,390	17,265	130,834
Accrued payroll.....	-	612	623	-	452	764	2,451
Compensated absences.....	1,524	866	178	-	-	795	3,363
Accrued interest payable.....	-	4,780	2,372	-	-	1,240	8,392
Due to primary government.....	13,222	-	384	-	5,000	-	18,606
Due to federal government.....	-	499	-	-	-	-	499
Deferred inflow of resources.....	10,086	-	725	-	38	12,889	23,738
Bonds, notes payable and other obligations.....	-	2,020	113,014	-	-	24,135	139,169
<b>Total current liabilities.....</b>	<b>40,834</b>	<b>26,417</b>	<b>156,036</b>	<b>27,797</b>	<b>18,880</b>	<b>57,088</b>	<b>327,052</b>
Noncurrent liabilities:							
Compensated absences.....	-	-	408	-	-	91	499
Deferred inflow of resources.....	-	954	321	-	-	41,700	42,975
Bonds, notes payable and other obligations.....	-	191,792	34,714	-	-	363,010	589,516
Net post - employment obligations.....	904	-	4,270	-	545	-	5,719
Other noncurrent liabilities.....	2,950	-	8,321	-	-	14,495	25,766
<b>Total noncurrent liabilities.....</b>	<b>3,854</b>	<b>192,746</b>	<b>48,034</b>	<b>-</b>	<b>545</b>	<b>419,296</b>	<b>664,475</b>
<b>Total liabilities.....</b>	<b>44,688</b>	<b>219,163</b>	<b>204,069</b>	<b>27,797</b>	<b>19,425</b>	<b>476,384</b>	<b>991,527</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt.....	786,579	77,094	264,924	11,817	254	14,450	1,155,117
Restricted for:							
Capital projects.....	-	-	-	-	-	159	159
Other purposes.....	-	203,857	4,091	231,855	-	60,150	499,953
Unrestricted.....	24,755	174,481	(13,675)	8,318	17,575	85,994	297,447
<b>Total net assets.....</b>	<b>\$ 811,333</b>	<b>\$ 455,432</b>	<b>\$ 255,340</b>	<b>\$ 251,990</b>	<b>\$ 17,829</b>	<b>\$ 160,753</b>	<b>\$ 1,952,677</b>

See Independent Auditor's Report

# Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units

Fiscal Year Ended June 30, 2009

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
<b>Operating revenues:</b>							
Charges for services.....	\$ 43,869	\$ 50,404	\$ 135,184	\$ 1,604	\$ 844,177	\$ 346,708	\$ 1,421,946
Other.....	639	22,837	4,031	3	65	44,903	72,478
<b>Total operating revenues.....</b>	<b>44,508</b>	<b>73,241</b>	<b>139,215</b>	<b>1,607</b>	<b>844,242</b>	<b>391,611</b>	<b>1,494,424</b>
<b>Operating expenses:</b>							
Cost of services .....	52,464	3,482	245,908	60,627	837,251	83,785	1,283,517
Administration costs.....	21,278	60,916	17,630	700	588	18,584	119,696
Depreciation.....	38,626	9,812	24,349	388	86	1,088	74,349
<b>Total operating expenses.....</b>	<b>112,368</b>	<b>74,210</b>	<b>287,887</b>	<b>61,715</b>	<b>837,925</b>	<b>103,457</b>	<b>1,477,562</b>
<b>Operating income (loss).....</b>	<b>(67,860)</b>	<b>(969)</b>	<b>(148,672)</b>	<b>(60,108)</b>	<b>6,317</b>	<b>288,154</b>	<b>16,861</b>
<b>Nonoperating revenues (expenses):</b>							
Operating grants.....	35,378	472	122,110	53,333	-	7,420	218,713
Interest income.....	824	4,740	509	219	510	973	7,775
Interest expense.....	(800)	(11,025)	(3,759)	(95)	-	(4,142)	(19,821)
Other nonoperating revenue (expense).....	-	(1,886)	(9,443)	-	(5,000)	(5,465)	(21,794)
<b>Nonoperating revenues (expenses), net.....</b>	<b>35,402</b>	<b>(7,699)</b>	<b>109,416</b>	<b>53,457</b>	<b>(4,490)</b>	<b>(1,214)</b>	<b>184,872</b>
<b>Income (loss) before contributions and transfers.....</b>	<b>(32,459)</b>	<b>(8,668)</b>	<b>(39,256)</b>	<b>(6,651)</b>	<b>1,827</b>	<b>286,940</b>	<b>201,733</b>
Capital contributions.....	12,750	28,192	34,832	-	-	(255,278)	(179,504)
Loss on sale of capital assets.....	-	-	(51)	-	-	-	(51)
<b>Change in net assets.....</b>	<b>(19,709)</b>	<b>19,524</b>	<b>(4,474)</b>	<b>(6,651)</b>	<b>1,827</b>	<b>31,662</b>	<b>22,179</b>
Net assets - beginning (as restated).....	831,042	435,908	259,814	258,641	16,002	129,091	1,930,498
<b>Net assets - ending.....</b>	<b>\$ 811,333</b>	<b>\$ 455,432</b>	<b>\$ 255,340</b>	<b>\$ 251,990</b>	<b>\$ 17,829</b>	<b>\$ 160,753</b>	<b>\$ 1,952,677</b>



*Emily Dickinson's daguerreotype, circa 1846  
Courtesy of Amherst College Archives and Special Collections*

### **Emily Dickinson (1830-1886)**

Emily Dickinson was born in Amherst at the Homestead on December 10, 1830. Dickinson's formal schooling was exceptional for girls in the early nineteenth century, though not unusual for girls in Amherst. After a short time at an Amherst district school, she attended Amherst Academy for about seven years before entering Mount Holyoke Female Seminary (now Mount Holyoke College) in 1847. She stayed at the Seminary for one year, the longest time she spent away from home.



In her youth Dickinson exhibited a social flair that retreated as she grew older: "I am growing handsome very fast indeed! I expect I shall be the belle of Amherst when I reach my 17th year." Although Emily Dickinson's calling as a poet began in her teen years, she came into her own as an artist during a short but intense period of creativity that resulted in her composing, revising, and saving hundreds of poems.



*Emily Dickinson's Conservatory and Garden*

By the time Dickinson turned 35, she had composed more than 1,100 concise, powerful lyrics that astutely examine pain, grief, joy, love, nature, and art. She recorded about 800 of these poems in small handmade booklets (now called "fascicles"), very private "publications" that she shared with no one. In late 1855, Dickinson moved, somewhat reluctantly, with her family back to the Homestead, her birthplace. Edward Dickinson added a conservatory where Emily could raise climate-sensitive plants. Now she could engage in her beloved hobby of gardening year-round. And Dickinson had her own bedroom, the southwest corner room on the second floor, a space essential to her writing.

By the mid-1860s, the poet settled into a quiet, reclusive existence with her parents and sister. With a few exceptions, her poetry remained virtually unpublished. After her death, her poems and life story were brought to the attention of the wider world through the competing efforts of family members and intimates.

*Photo and text excerpts courtesy of [emilydickinsonmuseum.org](http://emilydickinsonmuseum.org)*



# Statistical Section

*Schedule of Net Assets by Component – Last Eight Fiscal Years*

*Changes in Net Assets – Last Eight Fiscal Years*

*Fund Balances, Governmental Funds – Last Eight Fiscal Years*

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(Enrollment), Last Ten Years (Degrees)*

*Calculation of Transfers - Stabilization Fund*

*Calculation of Transfer – Tax Reduction Fund*

*Massachusetts General Information*



## Mary Baker Eddy (1821-1910)

Mary Baker Eddy, founder of the Church of Christ, lived in Lynn's "Diamond District" from 1875 to 1881, in what she would call the "Christian Scientists' Home." Eddy lived and wrote in the attic and rented the other rooms to her followers. This period of time saw the

development of her theories on health and Christianity evolve into the formal religion of Christian Science that she formulated after recovering from a life-threatening accident. In 1995, Eddy was elected to the National Women's Hall of Fame as the only American woman to found a worldwide religion.



Mary Baker Eddy and Mary Baker Eddy House  
© The Mary Baker Eddy Collection

*Text excerpts from Places Where Women Made History,  
a National Register of Historic Places travel itinerary  
developed by the National Park Service.  
[www.nps.gov/history/nr/travel/pnwmb/intro1.htm](http://www.nps.gov/history/nr/travel/pnwmb/intro1.htm)*



## ***Statistical Section Narrative and Table of Contents***

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

### **Contents**

#### **Financial Trends**

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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<sup>1</sup> Tax Year 2007 is the last "closed" tax year

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**Schedule Of Net Assets by Component  
Last Eight Fiscal Years**

(Amounts in thousands)

	2009	2008	2007*	2006	2005	2004	2003	2002
<b>Governmental activities</b>								
Invested in capital assets, net of related debt.....	\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765	\$ 2,032,958	\$ 3,901,007	\$ 5,611,252
Restricted*.....	608,938	979,475	993,520	1,758,291	1,289,174	519,746	311,837	793,991
Unrestricted*.....	(12,952,506)	(10,587,591)	(11,079,729)	(12,157,187)	(13,030,031)	(8,894,155)	(12,318,385)	(13,820,768)
<b>Total governmental activities net assets.....</b>	<b>\$ (12,153,655)</b>	<b>\$ (9,161,450)</b>	<b>\$ (9,596,777)</b>	<b>\$ (10,297,385)</b>	<b>\$ (11,544,092)</b>	<b>\$ (6,341,451)</b>	<b>\$ (8,105,541)</b>	<b>\$ (7,415,525)</b>
<b>Business-type activities</b>								
Invested in capital assets, net of related debt.....	\$ 1,698,825	\$ 1,562,002	\$ 1,392,363	\$ 1,283,570	\$ 1,149,352	\$ 1,132,637	\$ 1,073,152	\$ 1,032,022
Restricted.....	1,609,145	2,390,206	2,295,507	1,816,066	1,331,053	915,583	946,704	1,784,322
Unrestricted.....	621,952	644,363	645,211	548,774	562,777	434,007	321,523	243,605
<b>Total business-type activities net assets.....</b>	<b>\$ 3,929,922</b>	<b>\$ 4,596,571</b>	<b>\$ 4,333,081</b>	<b>\$ 3,648,410</b>	<b>\$ 3,043,182</b>	<b>\$ 2,482,227</b>	<b>\$ 2,341,379</b>	<b>\$ 3,059,949</b>
<b>Commonwealth net assets</b>								
Invested in capital assets, net of related debt.....	\$ 1,888,738	\$ 2,008,668	\$ 1,881,795	\$ 1,385,080	\$ 1,346,117	\$ 3,165,595	\$ 4,974,159	\$ 6,643,274
Restricted*.....	2,218,083	3,369,681	3,289,027	3,574,357	4,750,395	1,435,329	1,258,541	2,578,313
Unrestricted*.....	(12,330,554)	(9,943,228)	(10,434,518)	(11,608,413)	(14,597,422)	(8,460,148)	(11,996,862)	(13,577,163)
<b>Total Commonwealth net assets.....</b>	<b>\$ (8,223,733)</b>	<b>\$ (4,564,879)</b>	<b>\$ (5,263,696)</b>	<b>\$ (6,648,975)</b>	<b>\$ (8,500,910)</b>	<b>\$ (3,859,224)</b>	<b>\$ (5,764,162)</b>	<b>\$ (4,355,576)</b>

\*Restated

**Changes in Net Assets  
Last Eight Fiscal Years**

(Amounts in thousands)

	2009	2008	2007	2006	2005	2004	2003	2002
<b>EXPENSES</b>								
<b>Governmental Activities:</b>								
General government.....	\$ 2,630,554	\$ 2,321,251	\$ 2,198,999	\$ 2,030,792	\$ 1,861,827	\$ 2,084,482	\$ 1,870,365	\$ 1,385,454
Judiciary.....	1,138,179	993,424	852,124	731,931	694,245	570,228	641,227	540,248
Direct local aid.....	5,210,451	5,118,858	5,081,359	4,682,027	4,525,847	4,877,089	5,118,711	5,252,805
Medicaid.....	10,842,549	9,769,893	9,044,420	8,150,576	7,705,717	6,909,412	6,177,280	5,978,811
Group health insurance.....	977,565	828,297	1,033,796	970,150	872,970	778,072	732,252	770,832
Interest (unallocated).....	1,116,278	1,152,162	1,079,551	985,474	861,265	788,908	739,463	687,817
Energy and environmental.....	426,808	537,691	488,883	438,731	419,329	379,710	395,713	469,591
Housing and economic development*.....	1,042,084	899,474	519,399	670,518	609,409	593,000	590,246	554,712
Health and human services*.....	7,452,418	6,726,961	6,414,249	6,585,029	6,441,959	5,940,586	5,778,186	5,626,813
Transportation and public works.....	1,336,257	1,199,103	1,271,608	1,286,857	1,566,773	1,569,678	2,053,939	1,764,257
Early elementary and secondary education*.....	3,210,200	2,932,143	1,870,250	(1,935,643)	8,226,508	1,251,618	1,427,482	1,896,971
Public safety and homeland security.....	2,561,607	2,097,076	1,763,191	1,768,924	1,638,434	1,477,469	1,384,537	1,023,141
Labor and workforce development*.....	474,438	340,668	641,134	387,132	358,839	387,590	430,982	391,358
Lottery.....	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
<b>Total governmental activities.....</b>	<b>42,112,705</b>	<b>38,827,362</b>	<b>35,948,184</b>	<b>34,358,196</b>	<b>39,488,186</b>	<b>31,214,448</b>	<b>30,810,430</b>	<b>29,859,108</b>
<b>Business-type Activities:</b>								
Unemployment compensation.....	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
<b>Higher Education:</b>								
University of Massachusetts.....	2,474,797	2,274,312	2,233,634	2,116,226	1,977,546	1,597,676	1,531,381	1,437,518
State colleges.....	736,972	733,842	624,470	568,592	514,122	456,022	425,154	418,593
Community colleges.....	671,923	685,235	627,400	592,310	548,017	525,179	523,403	508,895
<b>Total business-type activities.....</b>	<b>7,358,719</b>	<b>5,248,274</b>	<b>4,915,634</b>	<b>4,614,693</b>	<b>4,702,640</b>	<b>5,040,170</b>	<b>5,069,045</b>	<b>4,548,107</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 49,471,424</b>	<b>\$ 44,075,636</b>	<b>\$ 40,863,818</b>	<b>\$ 38,972,889</b>	<b>\$ 44,190,826</b>	<b>\$ 36,254,618</b>	<b>\$ 35,879,475</b>	<b>\$ 34,407,214</b>
<b>REVENUES</b>								
<b>Program Revenues:</b>								
<b>Governmental Activities:</b>								
<b>Charges for services:</b>								
General government.....	\$ 436,344	\$ 414,614	\$ 564,347	\$ 451,753	\$ 492,750	\$ 463,132	\$ 233,135	\$ 158,825
Judiciary.....	123,819	124,542	118,652	115,443	105,072	101,994	74,412	62,982
Medicaid.....	180,380	176,471	172,136	702,104	937,422	687,535	26,772	90,081
Group health insurance.....	230,456	209,008	151,604	131,611	111,342	98,598	93,529	81,089
Energy and environmental.....	226,754	162,639	168,789	156,074	138,854	152,632	132,531	124,317
Housing and economic development*.....	178,011	185,019	1,892	6,245	3,515	1,446	1,373	1,282
Health and human services*.....	718,628	601,483	538,543	613,780	756,469	861,899	966,813	909,777
Transportation and public works.....	494,733	477,420	461,217	448,349	478,154	13,687	7,813	6,995
Early elementary and secondary education*.....	15,728	10,766	8,042	6,346	5,583	11,644	5,073	3,909
Public safety and homeland security.....	175,069	153,641	126,962	135,846	112,350	564,023	520,496	451,101
Labor and workforce development*.....	37,728	31,758	187,256	213,078	199,817	179,794	168,471	160,577
Lottery.....	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935	4,603,204	4,421,621	4,423,052
<b>Total Charges for services.....</b>	<b>7,461,243</b>	<b>7,452,873</b>	<b>7,155,550</b>	<b>7,706,968</b>	<b>8,040,263</b>	<b>7,739,588</b>	<b>6,652,039</b>	<b>6,473,987</b>
Operating grants and contributions.....	12,059,019	9,271,936	8,849,046	8,347,822	7,961,904	8,017,469	7,129,712	7,078,110
Capital grants and contributions.....	853,221	484,172	487,365	481,780	461,371	602,449	508,235	338
<b>Total governmental activities.....</b>	<b>20,373,482</b>	<b>17,208,980</b>	<b>16,491,961</b>	<b>16,536,570</b>	<b>16,463,538</b>	<b>16,359,506</b>	<b>14,289,986</b>	<b>13,552,435</b>
<b>Business-type Activities:</b>								
<b>Charges for services:</b>								
Unemployment Compensation.....	1,671,098	1,587,543	1,698,249	1,741,101	242,769	1,481,803	940,475	25,183
<b>Higher Education:</b>								
University of Massachusetts.....	1,419,932	1,160,513	1,194,393	1,076,875	424,184	822,668	678,812	584,633
State Colleges.....	442,685	400,369	287,195	272,918	64,872	222,740	182,428	147,902
Community Colleges.....	219,986	204,190	190,808	175,418	122,828	165,257	141,480	119,671
Operating grants and contributions.....	1,721,199	710,974	746,385	684,108	854,653	1,376,666	1,249,768	869,848
Capital grants and contributions.....	-	-	-	-	-	-	-	77,161
<b>Total business-type activities.....</b>	<b>5,474,900</b>	<b>4,063,589</b>	<b>4,117,030</b>	<b>3,950,420</b>	<b>4,108,237</b>	<b>4,069,134</b>	<b>3,192,962</b>	<b>1,824,398</b>
<b>Total Commonwealth Program Revenues.....</b>	<b>\$ 25,848,382</b>	<b>\$ 21,272,569</b>	<b>\$ 20,608,991</b>	<b>\$ 20,486,988</b>	<b>\$ 20,571,775</b>	<b>\$ 20,428,640</b>	<b>\$ 17,482,948</b>	<b>\$ 15,376,834</b>
<b>General Revenues and Other Changes in Net Assets (all types consolidated):</b>								
<b>Governmental Activities:</b>								
Taxes (all types).....	\$ 18,499,273	\$ 21,174,430	\$ 20,001,189	\$ 18,668,322	\$ 17,580,271	\$ 16,406,781	\$ 15,161,687	\$ 14,688,596
Investment earnings and miscellaneous.....	1,489,018	2,057,309	1,318,008	1,396,033	1,168,540	1,042,704	1,179,686	(367,695)
Gain on sale of capital assets.....	-	-	-	26,300	-	-	-	-
Transfers.....	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
<b>Total governmental activities.....</b>	<b>18,917,639</b>	<b>22,053,709</b>	<b>20,151,830</b>	<b>19,068,335</b>	<b>17,822,096</b>	<b>16,619,033</b>	<b>15,391,157</b>	<b>13,302,298</b>
<b>Business-type Activities:</b>								
Investment earnings and miscellaneous.....	\$ 140,227	\$ 270,145	\$ 315,908	247,181	228,643	181,719	207,296	965,901
Loss on sale of capital assets.....	(11,530)	-	-	-	-	-	-	-
Transfers.....	1,070,652	1,178,030	1,167,367	1,022,320	926,715	830,453	950,217	1,018,603
<b>Total business-type activities.....</b>	<b>1,199,349</b>	<b>1,448,175</b>	<b>1,483,275</b>	<b>1,269,501</b>	<b>1,155,358</b>	<b>1,012,172</b>	<b>1,157,513</b>	<b>1,984,504</b>
<b>Total Commonwealth General Revenues.....</b>	<b>\$ 20,116,988</b>	<b>\$ 23,501,884</b>	<b>\$ 21,635,105</b>	<b>\$ 20,337,836</b>	<b>\$ 18,977,454</b>	<b>\$ 17,631,205</b>	<b>\$ 16,548,670</b>	<b>\$ 15,286,802</b>
<b>CHANGES IN NET ASSETS</b>								
<b>Governmental activities.....</b>	<b>\$ (2,821,583)</b>	<b>\$ 435,327</b>	<b>\$ 695,608</b>	<b>\$ 1,246,707</b>	<b>\$ (5,202,551)</b>	<b>\$ 1,764,090</b>	<b>\$ (1,129,287)</b>	<b>\$ (3,004,374)</b>
<b>Business-type activities.....</b>	<b>(684,470)</b>	<b>263,490</b>	<b>684,671</b>	<b>605,228</b>	<b>560,955</b>	<b>41,136</b>	<b>(718,570)</b>	<b>(739,205)</b>
<b>Current year restatements.....</b>	<b>(152,800)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total changes in net assets including restatements.....</b>	<b>\$ (3,658,854)</b>	<b>\$ 698,817</b>	<b>\$ 1,380,279</b>	<b>\$ 1,851,935</b>	<b>\$ (4,641,596)</b>	<b>\$ 1,805,226</b>	<b>\$ (1,847,857)</b>	<b>\$ (3,743,578)</b>

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.



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**Fund Balances, Governmental Funds**  
**Last Eight Fiscal Years**

*(Modified accrual basis of accounting)*

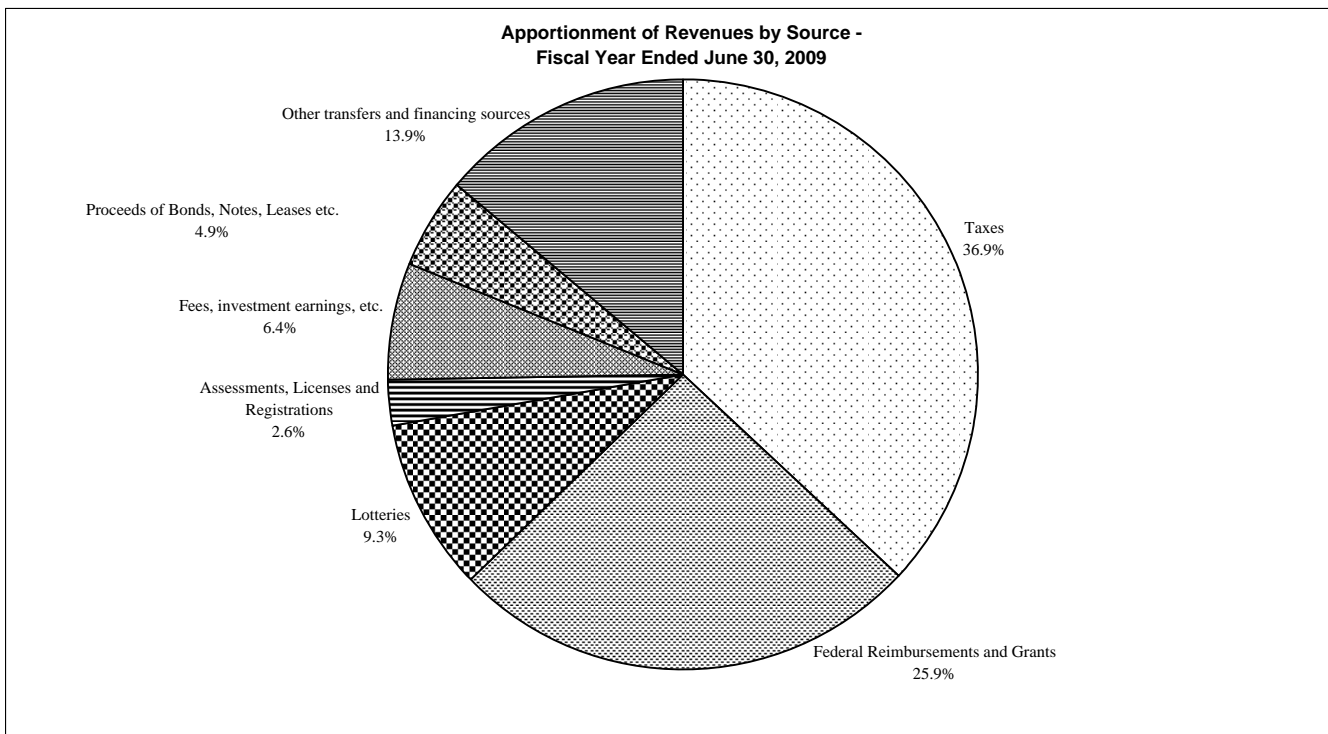
(Amounts in thousands)

	2009	2008	2007	2006	2005	2004	2003	2002
<b>Total Unreserved general fund.....</b>	<b>\$ 1,734,822</b>	<b>\$ 3,171,278</b>	<b>\$ 4,899,154</b>	<b>\$ 4,922,074</b>	<b>\$ 4,067,885</b>	<b>\$ 2,497,447</b>	<b>\$ 1,309,917</b>	<b>\$ 2,375,393</b>
<b>All Other Governmental Funds</b>								
Reserved.....	625,538	1,002,675	1,092,343	1,109,898	1,154,807	1,947,897	1,474,983	1,726,590
Unreserved:								
Special Revenue Funds.....	2,821,120	3,244,280	1,991,347	1,728,522	329,315	587,008	440,032	(419,077)
Capital Projects Funds.....	(125,138)	(360,570)	(251,985)	(497,300)	(503,441)	(607,946)	(1,203,914)	(1,286,550)
Permanent Trust Funds.....	5,000	5,000	5,000	-	-	-	-	71,497
Total Unreserved.....	2,700,982	2,888,710	1,744,362	1,231,222	(174,126)	(20,938)	(763,882)	(1,634,130)
<b>Total all other governmental funds.....</b>	<b>3,326,520</b>	<b>3,891,385</b>	<b>2,836,705</b>	<b>2,341,120</b>	<b>980,681</b>	<b>1,926,959</b>	<b>711,101</b>	<b>92,460</b>
<b>Total governmental fund balances.....</b>	<b>\$ 5,061,342</b>	<b>\$ 7,062,663</b>	<b>\$ 7,735,859</b>	<b>\$ 7,263,195</b>	<b>\$ 5,048,566</b>	<b>\$ 4,424,406</b>	<b>\$ 2,021,018</b>	<b>\$ 2,467,853</b>

**Ten-Year Schedule Of Revenues And Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2009	% Total	2008	% Total	2007	% Total	2006	% Total
Taxes.....	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7
Federal reimbursements.....	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5
Federal grants.....	3,510	7.0	2,681	5.3	2,489	5.0	2,479	5.3
Lotteries.....	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0
Assessments.....	929	1.9	858	1.7	860	1.7	850	1.8
Motor vehicle licenses and registrations.....	383	0.8	376	0.7	380	0.8	361	0.8
Fees, investment earnings, etc.....	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0
Proceeds of general obligation bonds.....	2,042	4.1	1,281	2.6	3,181	6.4	4,492	9.5
Proceeds of refunding bonds.....	390	0.8	-	-	1,428	2.9	633	1.3
Proceeds of capital lease.....	18	-	17	-	21	-	30	0.1
Transfers.....	6,916	13.9	8,305	16.6	6,666	13.5	5,232	11.1
Other financing sources.....	-	-	-	-	-	-	-	-
Total revenues and other financing sources.....	<u>\$ 49,788</u>	<u>100.0</u>	<u>\$ 50,136</u>	<u>100.0</u>	<u>\$ 49,402</u>	<u>100.0</u>	<u>\$ 47,190</u>	<u>100.0</u>



2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total	2000	% Total
\$ 17,671	40.6	\$ 16,133	36.4	\$ 15,091	35.3	\$ 14,428	39.6	\$ 16,803	42.8	\$ 15,695	41.1
6,053	13.9	6,284	14.2	5,522	12.9	5,267	14.4	4,716	12.0	4,496	11.8
2,369	5.4	2,336	5.3	2,112	4.9	1,812	5.0	1,644	4.2	1,565	4.1
4,705	10.8	4,605	10.4	4,423	10.3	4,425	12.1	4,136	10.5	3,914	10.3
831	1.9	773	1.7	645	1.5	572	1.6	590	1.5	462	1.2
401	0.9	376	0.8	383	0.9	326	0.9	311	0.8	285	0.7
3,213	7.5	3,028	6.8	2,331	5.4	2,178	6.0	1,885	4.8	1,776	4.7
1,354	3.1	1,993	4.5	1,911	4.5	1,489	4.1	1,769	4.5	1,762	4.6
1,385	3.2	3,302	7.4	3,398	7.9	1,501	4.1	999	2.5	-	-
58	0.1	11	-	-	-	10	-	31	0.1	9	0.0
5,493	12.6	5,531	12.5	6,981	16.3	4,454	12.2	5,566	14.2	7,502	19.7
-	-	-	-	-	-	3	-	206	0.5	106	0.3
<u>\$ 43,533</u>	<u>100.0</u>	<u>\$ 44,372</u>	<u>100.0</u>	<u>\$ 42,796</u>	<u>100.0</u>	<u>\$ 36,477</u>	<u>100.0</u>	<u>\$ 39,256</u>	<u>100.0</u>	<u>\$ 38,174</u>	<u>100.0</u>

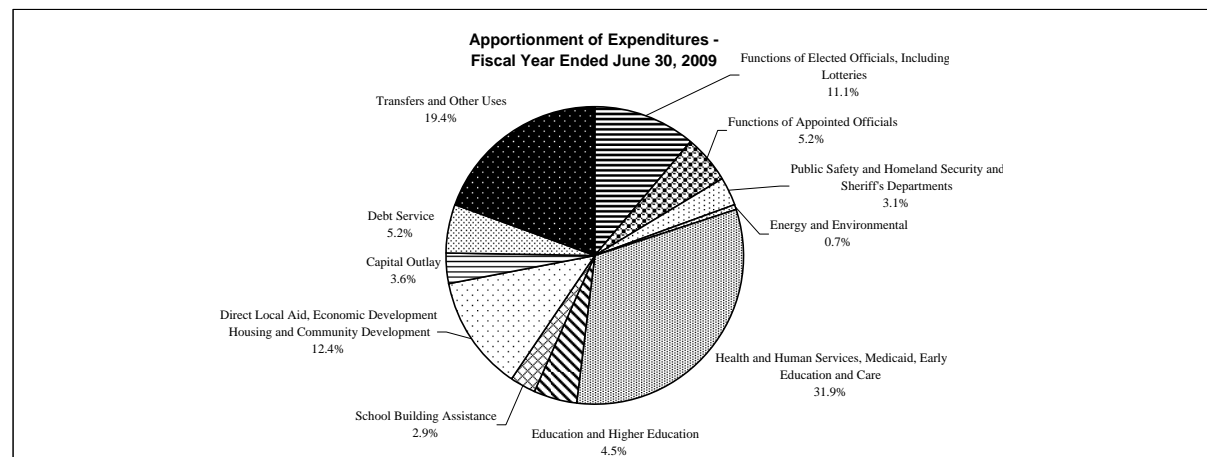


**Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
Legislature.....	\$ 60	0.12	\$ 58	0.11	\$ 59	0.12	\$ 55	0.12	\$ 50	0.1
Judiciary.....	797	1.54	796	1.57	799	1.63	660	1.47	580	1.4
Inspector General.....	3	0.01	3	0.01	3	0.01	3	0.01	3	-
Governor and Lieutenant Governor.....	8	0.02	9	0.02	5	0.01	5	0.01	5	-
Secretary of the Commonwealth.....	51	0.10	51	0.10	52	0.11	44	0.10	46	0.1
Treasurer and Receiver-General.....	5,097	9.84	5,089	10.02	4,712	9.63	4,803	10.68	4,706	11.0
Auditor of the Commonwealth.....	19	0.04	19	0.04	18	0.04	18	0.04	16	-
Attorney General.....	53	0.10	45	0.09	62	0.13	52	0.12	70	0.2
Ethics Commission.....	2	-	2	-	2	-	1	-	1	-
District Attorney.....	112	0.22	111	0.22	102	0.21	94	0.21	84	0.2
Office of Campaign and Political Finance.....	1	-	1	-	2	-	1	-	1	-
Sheriff's Department.....	296	0.57	295	0.58	272	0.56	247	0.55	216	0.5
Disabled Persons Protection Commission.....	3	-	2	-	2	-	2	-	2	-
Board of Library Commissioners.....	37	0.07	36	0.07	10	0.02	8	0.02	7	-
Comptroller.....	14	0.03	14	0.03	14	0.03	14	0.03	12	-
Administration and finance.....	1,709	3.30	1,528	3.01	1,849	3.78	1,651	3.67	1,536	3.6
Energy and environmental.....	352	0.68	312	0.61	318	0.65	282	0.63	238	0.6
Housing and communities development.....	-	-	-	-	402	0.82	536	1.19	483	1.1
Early education and care.....	-	-	560	1.10	518	1.06	482	1.07	-	-
Health and human services.....	6,684	12.91	6,423	12.64	5,907	12.07	5,865	13.04	6,208	14.5
Transportation and public works.....	389	0.75	347	0.68	350	0.72	282	0.63	316	0.7
Executive office of education*.....	2,920	5.64	2,205	4.34	2,048	4.19	1,978	4.40	2,990	7.0
Massachusetts school building assistance.....	657	1.27	765	1.51	1,411	2.88	2,330	5.18	-	-
Higher education.....	-	-	131	0.26	126	0.26	106	0.24	114	0.3
Public safety and homeland security.....	1,416	2.73	1,407	2.77	1,238	2.53	1,165	2.59	1,053	2.5
Housing and economic development*.....	793	1.53	710	1.40	512	1.05	384	0.85	346	0.8
Labor and workforce development*.....	398	0.77	308	0.61	81	0.17	-	-	-	-
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	10,843	20.94	9,770	19.23	9,044	18.48	8,151	18.12	7,706	18.0
Pension.....	647	1.25	368	0.72	373	0.76	346	0.77	439	1.0
Direct local aid.....	5,208	10.06	5,108	10.05	5,072	10.36	4,674	10.39	4,515	10.5
Capital outlay:										
Local aid.....	3	0.01	10	0.02	9	0.02	8	0.02	11	-
Capital acquisition and construction.....	2,514	4.85	1,698	3.34	1,724	3.52	1,754	3.90	1,863	4.3
Debt service.....	2,410	4.65	2,486	4.89	2,538	5.19	2,088	4.64	1,719	4.0
Other financing uses:										
Payments to refunded bond escrow agent.....	410	0.79	-	-	1,520	3.11	633	1.41	1,153	2.7
Transfers.....	7,887	15.23	10,141	19.96	7,781	15.90	6,253	13.90	6,419	15.0
<b>Total expenditures and other financing uses.....</b>	<b>\$ 51,789</b>	<b>100.0</b>	<b>\$ 50,810</b>	<b>100.0</b>	<b>\$ 48,935</b>	<b>100.0</b>	<b>\$ 44,975</b>	<b>100.0</b>	<b>\$ 42,908</b>	<b>99.9</b>
<b>Change in Governmental Fund Balance.....</b>	<b>\$ (2,001)</b>		<b>\$ (674)</b>		<b>\$ 467</b>		<b>\$ 2,215</b>		<b>\$ 624</b>	

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.



		%		%		%		%		%
2004	Total		2003	Total	2002	Total	2001	Total	2000	Total
\$ 51	0.1		\$ 53	0.1	\$ 60	0.2	\$ 57	0.2	\$ 51	0.1
577	1.4		568	1.3	593	1.5	597	1.6	544	1.4
2	-		2	-	2	-	2	-	2	-
5	-		5	-	6	-	6	-	6	-
43	0.1		39	0.1	36	0.1	45	0.1	42	0.1
4,535	10.8		4,446	10.3	3,558	9.2	3,335	8.8	3,483	9.2
16	-		16	-	16	-	15	-	15	-
52	0.1		55	0.1	62	0.2	36	0.1	34	0.1
1	-		1	-	1	-	2	-	1	-
86	0.2		85	0.2	89	0.2	86	0.2	77	0.2
1	-		1	0.0	5	-	1	-	1	-
218	0.5		215	0.5	216	0.6	201	0.5	178	0.5
2	-		2	0.0	2	-	2	-	2	-
6	-		6	-	10	-	11	-	10	-
8	-		8	-	8	-	8	-	8	-
1,508	3.7		1,202	2.8	1,361	3.5	1,202	3.3	1,192	3.1
225	0.5		236	0.5	268	0.7	253	0.7	241	0.6
470	1.1		476	1.1	449	1.2	442	1.2	405	1.1
-	-		-	-	-	-	-	-	-	-
5,868	14.0		5,327	12.3	5,386	13.9	5,622	15.0	5,324	14.0
189	0.5		218	0.5	139	0.4	162	0.4	228	0.6
1,587	3.8		1,546	3.6	1,506	3.9	1,492	3.9	1,353	3.6
-	-		-	-	-	-	-	-	-	-
99	0.2		111	0.3	119	0.3	136	0.4	111	0.3
1,039	2.5		991	2.3	999	2.6	955	2.5	879	2.3
376	0.9		29	0.1	32	0.1	51	0.1	38	0.1
-	-		-	-	-	-	-	-	-	-
-	-		315	0.7	304	0.8	241	0.6	217	0.6
-	-		55	0.1	63	0.2	71	0.2	70	0.2
-	-		330	0.8	284	0.7	172	0.5	188	0.5
6,909	16.5		6,177	14.3	5,979	15.4	4,761	12.6	4,381	11.5
212	0.5		290	0.7	238	0.6	318	0.8	398	1.0
4,861	11.6		5,103	11.8	5,231	13.5	5,012	13.2	4,717	12.4
16	-		15	-	21	0.1	34	0.1	47	0.1
2,120	5.1		2,526	5.8	2,562	6.6	2,566	6.8	2,469	6.5
1,605	3.8		1,467	3.4	1,382	3.6	1,408	3.7	1,237	3.3
2,833	6.8		3,398	7.9	1,277	3.3	999	2.6	-	-
6,448	15.4		7,931	18.3	6,551	16.9	7,526	19.9	10,073	26.5
\$ 41,968	100.0		\$ 43,245	100.0	\$ 38,815	100.0	\$ 37,827	100.0	\$ 38,022	100.0
\$ 2,403			\$ (447)		\$ (1,788)		\$ 1,429		\$ 153	

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2008	2007	2006	2005
<b>Total personal income.....</b>	<b>\$ 333,046</b>	<b>\$ 322,652</b>	<b>\$ 304,970</b>	<b>\$ 282,447</b>
Unearned Income.....	75,633	71,463	65,500	55,290
Farm earnings.....	179	138	131	126
Nonfarm earnings.....	257,234	251,050	239,339	227,030
<b>Private earnings.....</b>	<b>227,483</b>	<b>222,515</b>	<b>211,900</b>	<b>200,639</b>
Agricultural services, forestry, fishing.....	402	402	396	400
Mining.....	289	272	363	310
Construction.....	13,924	15,065	15,193	14,459
<b>Manufacturing.....</b>	<b>25,266</b>	<b>26,056</b>	<b>24,697</b>	<b>24,485</b>
Durable goods.....	18,123	18,583	17,638	17,538
Nondurable goods.....	7,143	7,472	7,059	6,946
Transportation and utilities.....	6,102	5,964	5,706	5,456
Wholesale trade.....	13,367	13,018	12,538	11,478
Retail trade.....	13,016	12,987	12,952	13,188
Services.....	155,116	148,752	140,056	130,863
<b>Government.....</b>	<b>29,752</b>	<b>28,535</b>	<b>27,439</b>	<b>26,391</b>
Federal, civilian.....	5,161	5,046	4,873	4,699
Military.....	1,081	1,025	1,005	1,009
State and local.....	23,509	22,465	21,561	20,683
Personal income tax revenue (statutory basis).....	\$ 12,484	\$ 11,400	\$ 10,483	\$ 9,690
Total personal income.....	\$ 333,046	\$ 322,652	\$ 304,970	\$ 282,447
Average Effective Rate.....	3.7%	3.5%	3.4%	3.4%
Highest Income Tax Rate.....	5.3%	5.3%	5.3%	5.3%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

Note: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008. Prior years restated.

2004	2003	2002	2001	2000	1999
\$ 271,160	\$ 258,696	\$ 254,183	\$ 253,085	\$ 243,132	\$ 216,221
52,040	52,322	51,204	49,908	46,105	41,094
146	132	131	110	131	106
218,974	206,242	202,848	203,068	196,896	175,021
<b>193,995</b>	<b>182,312</b>	<b>179,478</b>	<b>180,697</b>	<b>175,464</b>	<b>154,549</b>
371	314	298	278	226	871
296	318	283	306	422	136
13,976	13,223	13,301	12,878	11,234	8,886
<b>24,356</b>	<b>24,159</b>	<b>24,560</b>	<b>26,170</b>	<b>27,664</b>	<b>27,798</b>
17,547	17,175	17,772	19,203	20,503	18,777
6,809	6,984	6,787	6,967	7,162	9,021
5,388	5,226	5,141	5,327	5,032	8,542
11,529	10,887	10,372	10,789	10,904	12,378
12,900	12,472	11,919	11,624	11,098	14,231
125,180	115,712	113,604	113,325	108,885	81,706
<b>24,978</b>	<b>23,930</b>	<b>23,370</b>	<b>22,370</b>	<b>21,432</b>	<b>20,472</b>
4,626	4,319	4,215	4,028	3,895	3,766
934	897	732	583	557	534
19,418	18,714	18,423	17,759	16,979	16,172
\$ 8,830	\$ 8,026	\$ 7,913	\$ 9,903	\$ 9,042	\$ 8,037
\$ 271,160	\$ 258,696	\$ 254,183	\$ 253,085	\$ 243,132	\$ 216,221
3.3%	3.1%	3.1%	3.9%	3.7%	3.7%
5.3%	5.3%	5.3%	5.6%	5.85%	5.95%

**Commonwealth of Massachusetts**  
**Personal Income Tax Filers and Liability by Income Level**  
**Calendar (Tax) Years 2007 and 1998**

(Amounts, except income level are in thousands)

<b><u>Calendar Year 2007 (or Fiscal Year 2008)</u></b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	572,995	16%	\$ 7,883,712	68%
\$75,001 - \$100,000	288,128	8%	1,083,489	9%
\$50,001 - \$75,000	463,299	13%	1,188,427	10%
\$25,001 - \$50,000	790,297	23%	1,072,455	9%
\$10,001 - \$25,000	650,239	19%	285,008	2%
\$10,000 and lower	720,647	<u>21%</u>	<u>34,335</u>	<u>0%</u>
Total	<u>3,485,605</u>	<u>100%</u>	<u>\$ 11,547,426</u>	<u>100%</u>

<b><u>Calendar Year 1998 (or Fiscal Year 1999)</u></b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	280,076	9%	\$ 3,697,969	51%
\$75,001 - \$100,000	215,752	7%	907,427	12%
\$50,001 - \$75,000	421,761	13%	1,194,357	16%
\$25,001 - \$50,000	815,006	26%	1,236,669	17%
\$10,001 - \$25,000	737,494	23%	357,888	5%
\$10,000 and lower	699,198	<u>22%</u>	<u>31,484</u>	<u>0%</u>
Total	<u>3,169,287</u>	<u>100%</u>	<u>\$ 7,425,794</u>	<u>100%</u>

Source: Massachusetts Department of Revenue - data is from last closed tax years.

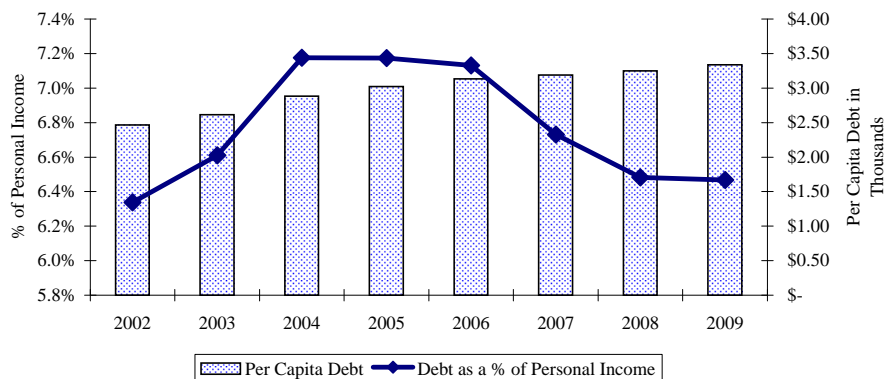
## Eight -Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population <sup>(1)</sup>	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt <sup>(2)</sup>	Capital Leases <sup>(2)</sup>	Bonded Debt <sup>(2)</sup>	Capital Leases <sup>(2)</sup>					
2009	\$ 19,264,569	\$ 109,765	\$ 2,103,675	\$ 58,885	\$ 21,536,894	\$ 333,046,494	6,450	6.5%	\$ 3.34
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,652,087	6,434	6.5%	3.25
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,970,367	6,434	6.7%	3.19
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,446,783	6,429	7.1%	3.13
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,160,236	6,434	7.2%	3.02
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,695,757	6,439	7.2%	2.88
2003	15,962,506	75,754	673,398	91,934	16,803,592	254,183,196	6,432	6.6%	2.61
2002	14,955,135	91,146	670,432	79,880	15,796,593	249,243,450	6,408	6.3%	2.47

(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.) (2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit. Business - Type Activities includes notes payable of Institutions of Higher Education.

### Eight - Year Per Capita Debt and Capital Leases



## Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

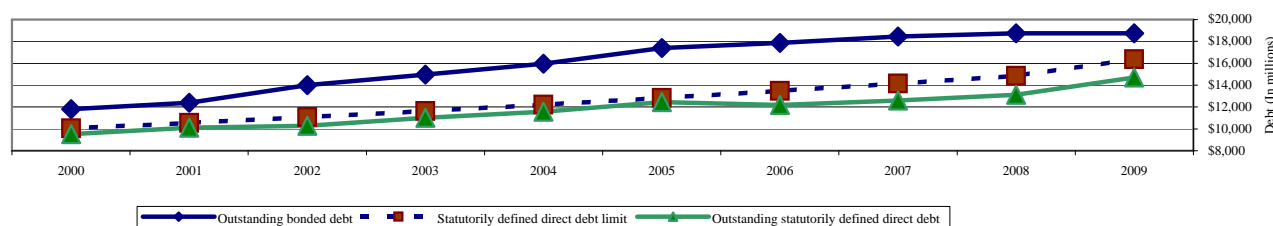
(Amounts in thousands)

	2009	2008	2007	2006
Outstanding debt for Statutory Purposes as of June 30 <b>(2)</b> .....	\$ 19,264,569	\$ 18,734,440	\$ 18,736,961	\$ 18,461,406
Less amounts excluded by statute:				
Central artery project bonds principal.....	(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)
Chapter 5 of the Acts of 1992 bonds principal.....	-	-	-	-
County debt assumed.....	(300)	(375)	(450)	(525)
Premium / (Discount) and issuance costs.....	216,890	123,335	102,048	112,673
Grant anticipation notes (GANs) principal <b>(1)</b> .....	(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)
School Modernization and Reconstruction Trust bonds.....	(921,751)	(946,285)	(946,285)	(1,000,002)
Convention Center bonds principal.....	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds principal.....	(231,000)	(309,203)	(368,873)	(416,830)
Special obligation bonds principal <b>(1)</b> .....	(456,984)	(482,953)	(617,226)	(647,551)
Outstanding statutorily defined direct debt.....	<u>\$ 14,691,332</u>	<u>\$ 13,504,384</u>	<u>\$ 13,132,900</u>	<u>\$ 12,599,293</u>
Statutorily defined direct debt limit.....	<u>\$ 16,365,011</u>	<u>\$ 15,585,725</u>	<u>\$ 14,843,547</u>	<u>\$ 14,136,712</u>
Debt margin (Debt limit less direct debt).....	<u>\$ 1,673,679</u>	<u>\$ 2,081,341</u>	<u>\$ 1,710,647</u>	<u>\$ 1,537,418</u>
Debt margin as a percentage of direct debt limit.....	<u>10.23%</u>	<u>13.35%</u>	<u>11.52%</u>	<u>10.88%</u>

**(1) Inclusive of Crossover Refunding Amounts.**

**(2) Exclusive of the Massachusetts School Building Authority debt.**

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2000 - 2009**



2005	2004	2003	2002	2001	2000
\$ 17,856,799	\$ 17,382,172	\$ 15,962,506	\$ 14,955,135	\$ 13,999,454	\$ 12,383,101
(1,336,741)	(1,066,638)	(1,386,869)	(838,193)	(999,995)	-
-	-	(10,600)	(22,043)	(71,054)	(114,761)
(600)	(675)	(855)	(1,115)	(1,375)	(2,105)
70,937	1,120	(68,718)	(181,910)	(282,829)	(358,938)
(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)	(1,500,000)	(899,991)
(500,000)	-	-	-	-	-
(693,400)	-	-	-	-	-
(511,546)	(601,027)	(680,869)	(625,000)	(325,000)	(325,000)
(792,148)	(1,347,882)	(748,124)	(772,812)	(539,242)	(561,335)
<u>\$ 12,185,286</u>	<u>\$ 12,459,055</u>	<u>\$ 11,566,472</u>	<u>\$ 11,014,062</u>	<u>\$ 10,279,959</u>	<u>\$ 10,120,971</u>
<u>\$ 13,463,535</u>	<u>\$ 12,822,414</u>	<u>\$ 12,211,823</u>	<u>\$ 11,630,307</u>	<u>\$ 11,076,483</u>	<u>\$ 10,549,032</u>
<u>\$ 1,278,249</u>	<u>\$ 363,359</u>	<u>\$ 645,352</u>	<u>\$ 616,245</u>	<u>\$ 796,524</u>	<u>\$ 428,061</u>
<u>9.49%</u>	<u>2.83%</u>	<u>5.28%</u>	<u>5.30%</u>	<u>7.19%</u>	<u>4.06%</u>



## Ten Year Schedule of Pledged Revenue Coverage

### Special Obligation Highway Bonds (Gasoline Taxation), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a federal fiscal year and Except for Ratios)

	2009	2008	2007	2006
<b>Highway Bonds</b>				
These bonds are secured by a pledge of 6.86¢ to the 21¢ state motor fuels excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax.				
Tax Receipts.....	\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469
Operating Expenses.....	-	-	-	6,913
Net Available Revenues.....	\$ 189,246	\$ 194,785	\$ 148,047	\$ 232,556
Annual Debt Service.....	\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545
Debt Service Coverage Ratio.....	3.21	3.45	2.51	4.11
Ratings History of Bonds*.....	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
<b>Convention Center Bonds</b>				
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts those cities.				
Receipts.....	\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052
Operating Expenses.....	27,560	21,483	33,645	16,613
Net Available Revenues.....	\$ 46,358	\$ 57,501	\$ 32,702	\$ 38,439
Annual Debt Service.....	\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964
Debt Service Coverage Ratio.....	1.28	1.62	0.95	1.13
Ratings History of Bonds*.....	A2, A	A2, A	A2, A	A2, A
<b>Grant Anticipation Notes</b>				
These notes are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation.				
Receipts.....	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
Operating Expenses.....	-	-	-	-
Net Available Revenues.....	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
Annual Debt Service.....	\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712
Debt Service Coverage Ratio.....	4.05	2.19	2.18	2.13
Ratings History of Bonds*.....	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1) .....	\$ 40,023	\$ 38,184	\$ 34,373	\$ 33,975

(1) Source: The Federal Budget for Fiscal 2009, Historical Tables, Table 9.6

<http://www.gpoaccess.gov/USbudget/fy09/sheets/hist09z6.xls>. 2008 and 2009 are estimates. \*Uninsured rating, if available.

2005	2004	2003	2002	2001	2000
\$ 196,210 10,052	\$ 196,380 6,172	\$ 194,232 7,007	\$ 191,559 -	\$ 188,763 -	\$ 187,208 -
\$ 186,158	\$ 190,208	\$ 187,225	\$ 191,559	\$ 188,763	\$ 187,208
\$ 48,378	\$ 124,751	\$ 52,123	\$ 52,123	\$ 52,120	\$ 52,122
3.85	1.52	3.59	3.68	3.62	3.59
AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-	AA-	AA-
\$ 50,561 19,843	\$ 35,103 81,644				
\$ 30,718	\$ (46,541)				
\$ 18,350	\$ -				
1.67	NMF				
A2, A	A2, A				
\$ 449,331 -	\$ 599,040 29,208	\$ 507,716 23,546	\$ 497,453 8,993	\$ 460,376 -	\$ 486,618 -
\$ 449,331	\$ 569,832	\$ 484,170	\$ 488,460	\$ 460,376	\$ 486,618
\$ 95,223	\$ 93,466	\$ 74,822	\$ 74,821	\$ 61,384	\$ 42,570
4.72	6.10	6.47	6.53	7.50	11.43
Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
\$ 31,433	\$ 30,188	\$ 30,379	\$ 30,115	\$ 27,206	\$ 24,909

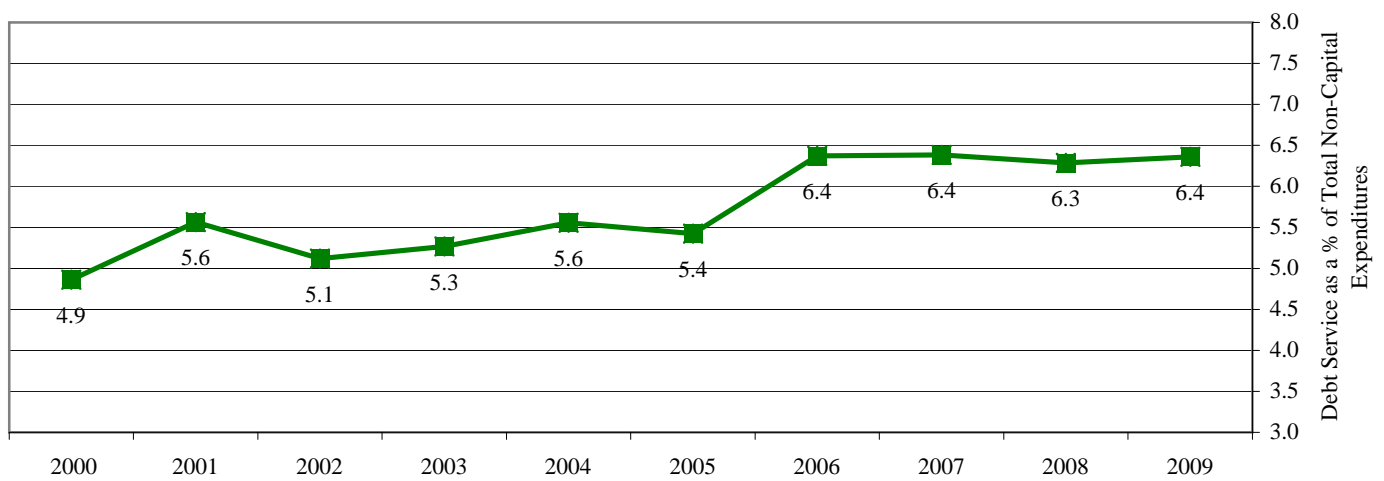
**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures  
For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

(Amounts in millions)

<u>Fiscal year ended June 30</u>	<u>Debt service</u>	<u>Total Non-capital expenditures</u>	<u>Ratio</u>
2009	\$ 2,410	\$ 37,878	6.4
2008	2,239	35,609	6.3
2007	2,166	33,918	6.4
2006	2,028	31,831	6.4
2005	1,719	31,700	5.4
2004	1,605	28,888	5.6
2003	1,467	27,858	5.3
2002	1,382	26,998	5.1
2001	1,408	25,295	5.6
2000	1,237	25,433	4.9

*Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.*

**Debt Service to Non-Capital Expenditures Ratio 2000- 2009**



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

(Amounts in thousands)

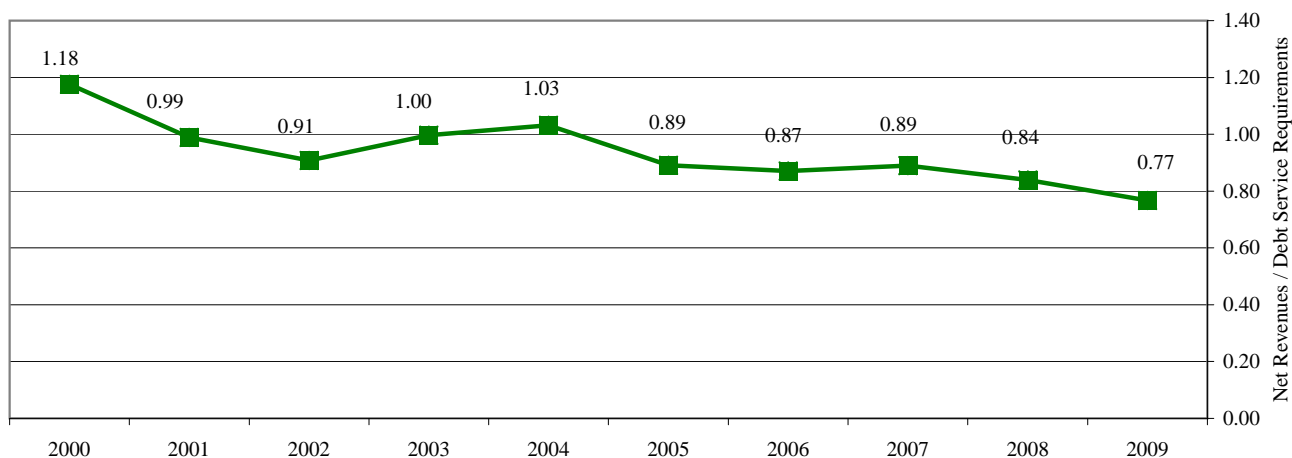
Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio
2009	\$ 805,316	\$ 1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18

(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 2000 - 2009



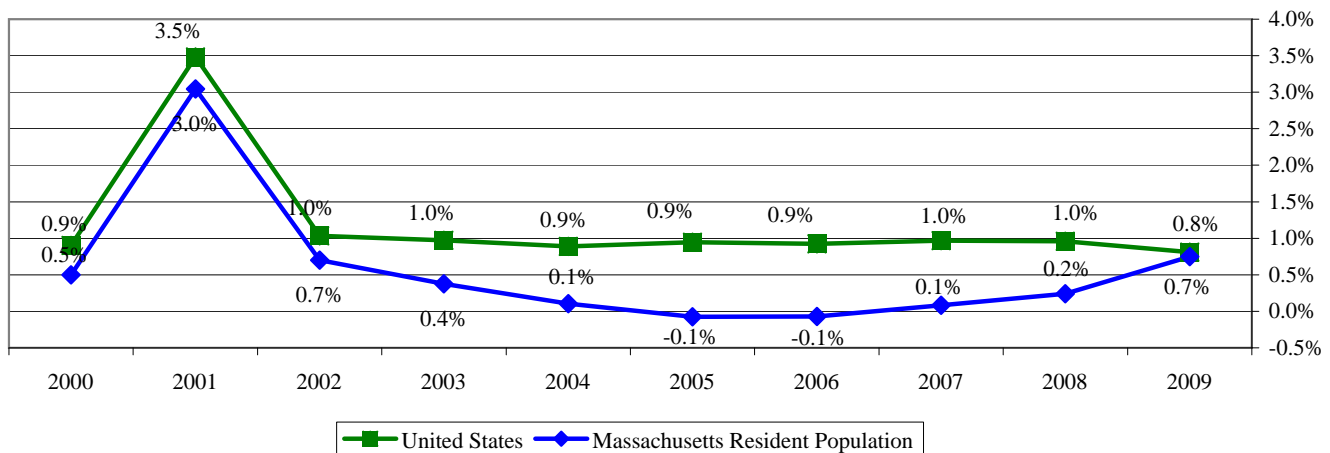
## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2009	304,060	0.8%	6,498	0.7%	2.1%
2008	301,621	1.0%	6,450	0.2%	2.1%
2007	298,755	1.0%	6,434	0.1%	2.2%
2006	295,896	0.9%	6,429	-0.1%	2.2%
2005	293,192	0.9%	6,434	-0.1%	2.2%
2004	290,448	0.9%	6,439	0.1%	2.2%
2003	287,888	1.0%	6,432	0.4%	2.2%
2002	285,112	1.0%	6,408	0.7%	2.2%
2001	282,194	3.5%	6,363	3.0%	2.3%
2000	272,691	0.9%	6,175	0.5%	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 2000 - 2009

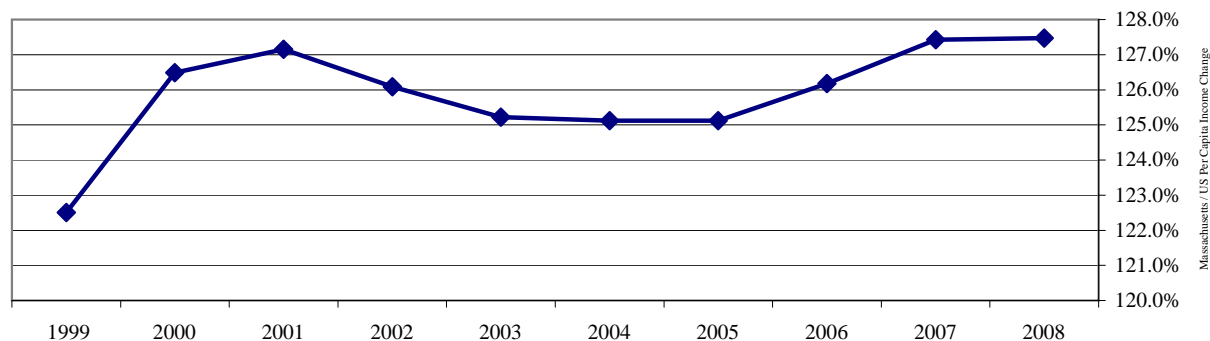


## Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2008	40,208	4.3%	51,254	4.3%	127.5%
2007	38,564	5.0%	49,142	6.0%	127.4%
2006	36,744	6.0%	46,363	6.9%	126.2%
2005	34,650	4.6%	43,355	4.6%	125.1%
2004	33,123	5.1%	41,444	5.1%	125.1%
2003	31,504	2.2%	39,449	1.5%	125.2%
2002	30,821	0.8%	38,862	0.0%	126.1%
2001	30,574	2.4%	38,875	3.0%	127.2%
2000	29,845	6.8%	37,750	10.3%	126.5%
1999	27,939	3.9%	34,227	5.2%	122.5%

*Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 2005-2007 were released September 18, 2008. These estimates incorporate newly available state-level source data. Per capita personal income and per capita disposable personal income were computed using midyear population estimates of the Census Bureau, released December 2008. The next state annual personal income release is scheduled for March 2010.*

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change  
Calendar Years 1999 - 2008**



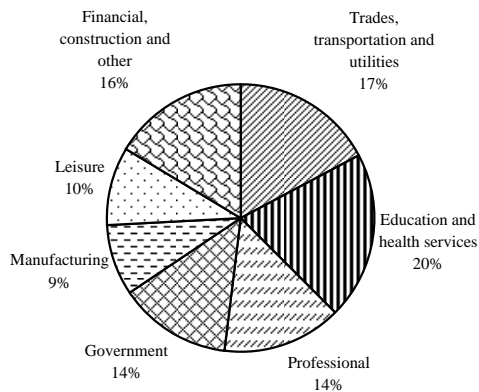
## Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2009

(Amounts in thousands)

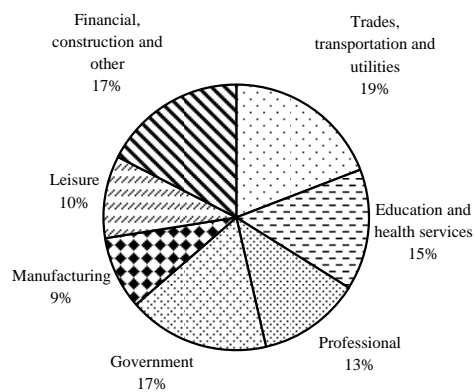
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	271	8.5%	11,877	9.0%	94.4%
Non-manufacturing:					
Construction	112	3.5%	6,231	4.7%	74.2%
Trade, Transportation and Utilities Employment	546	17.1%	25,258	19.2%	89.4%
Education and health services	652	20.5%	19,248	14.6%	140.1%
Financial activities	209	6.5%	7,751	5.9%	111.2%
Information activities	85	2.7%	2,845	2.2%	123.9%
Leisure and hospitality services	304	9.5%	13,176	10.0%	95.3%
Professional and business services	458	14.4%	16,655	12.6%	113.6%
Natural Resources, Mining and Other	118	3.7%	6,141	4.7%	79.4%
Federal, state and local government	432	13.6%	22,533	17.1%	79.2%
<b>Total Non-manufacturing</b>	<b>2,916</b>	<b>91.5%</b>	<b>119,838</b>	<b>91.0%</b>	<b>100.6%</b>
<b>Total</b>	<b>3,187</b>	<b>100.0%</b>	<b>131,715</b>	<b>100.0%</b>	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, June 2009, seasonally adjusted.

**Massachusetts Employment by Industry  
June 2009**



**United States Employment by Industry  
June 2009**



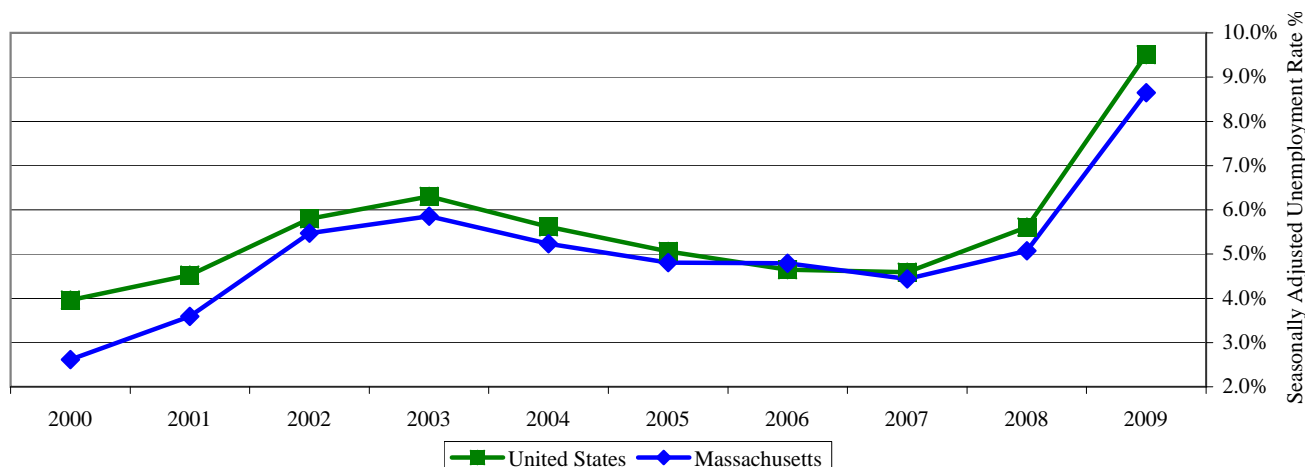
## Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2009	3,420	296	8.6%	154,926	14,729	9.5%	90.9%
2008	3,424	174	5.1%	154,400	8,662	5.6%	90.5%
2007	3,416	152	4.4%	153,085	7,028	4.6%	96.6%
2006	3,409	163	4.8%	151,398	7,039	4.6%	103.0%
2005	3,373	162	4.8%	149,262	7,551	5.1%	95.0%
2004	3,381	177	5.2%	147,460	8,286	5.6%	93.2%
2003	3,408	200	5.9%	147,056	9,266	6.3%	93.0%
2002	3,468	190	5.5%	144,808	8,393	5.8%	94.4%
2001	3,399	122	3.6%	143,357	6,484	4.5%	79.3%
2000	3,364	88	2.6%	142,591	5,651	4.0%	66.1%

*Source: - Federal Bureau of Labor Statistics, October, 2009. Amounts and rates previous from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.*

**Massachusetts and United States Unemployment Rates  
Seasonally Adjusted June 2000 - June 2009**





**Largest Private Sector Massachusetts Employers 2009 and 2000**  
(Alphabetical Order)

<u>2009</u>			<u>2000</u>		
<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Brigham and Women's Hospital, Inc.	Boston	Hospital
Brigham and Women's Hospital, Inc.	Boston	Hospital	Caritas Christi Inc	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	CGU Corp	Boston	Insurance
EMC Corporation	Hopkinton	Computer Storage & Peripherals	Children's Hospital Corp	Boston	Hospital
General Hospital Corporation	Boston	Hospital	Dennison Manufacturing	Framingham	Office Products
Harvard University	Cambridge	University	FMR Co. (Fidelity)	Boston	Investments
Massachusetts Institute of Technology	Cambridge	University	John Hancock Life Insurance Company	Boston	Insurance
Raytheon Company	Lexington	Electronics / Defense	Lahey Clinic	Burlington	Hospital
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	Liberty Mutual Insurance Company, Inc. (and Subsidiaries)	Boston	Insurance
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Massachusetts General Hospital	Boston	Hospital
Southcoast Hospitals Group	New Bedford	Hospital	Massachusetts Mutual Life Insurance Co	Springfield	Insurance
State Street Bank and Trust Company	Boston	Banking	New England Medical Center Hospitals	Boston	Hospital
The Children's Hospital Corporation	Boston	Hospital	Putnam Investments	Boston	Investments
Tufts University	Boston	University	Raytheon Company	Lexington	Electronics / Defense
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	State Street Bank and Trust Company	Boston	Banking
			Tufts Associated Health Maintenance Organization	Waltham	HMO

*Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2009 survey. In addition, Bank of America NA., Home Depot USA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, 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. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who registereach store, facility or franchisee as a separate employer.*

## Standard and Poors 500 Companies Headquartered in Massachusetts

<u>Company</u>	<u>Stock Symbol</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Worldwide Employees</u>	<u>Latest Audited Revenues (\$millions)</u>	<u>Fortune 500 Rank</u>	
						<u>2009</u>	<u>2008</u>
Raytheon Company (New)	RTN	Lexington	Aerospace & Defense	73,000	\$ 23,174	108	112
Staples Inc.	SPLS	Framingham	Specialty Stores	91,000	23,084	109	128
TJX Companies Inc.	TJX	Framingham	Apparel Retail	125,000	19,148	131	132
EMC Corporation	EMC	Hopkinton	Computer Storage & Peripherals	42,100	14,876	172	201
State Street Corp.	STT	Boston	Diversified Financial Services	28,700	12,922	206	225
Thermo Fisher Scientific	TMO	Waltham	Semiconductors	34,000	10,498	258	269
Boston Scientific	BSX	Natick	Health Care Equipment	28,600	3,345	320	310
Genzyme Corp	GENZ	Cambridge	Health Care	10,788	4,605	-	-
Biogen IDEC Inc.	BIIB	Cambridge	Electronic Equipment & Instruments	4,300	4,098	-	-
Iron Mountain Incorporated	IRM	Boston	Industrials	21,000	3,055	-	-
Analog Devices	ADI	Waltham	Electronic Equipment & Instruments	8,500	2,699	-	-
PerkinElmer, Inc.	PKI	Wellesley	Biotechnology	9,500	2,023	-	-
Millipore Corp.	MIL	Billerica	Electronic Equipment & Instruments	5,800	1,532	-	-
Boston Properties	BXP	Boston	Financials	700	1,503	-	-
Waters Corporation	WAT	Milford	Electronic Equipment & Instruments	5,000	1,473	-	-
American Tower Corp.	AMT	Boston	Telecommunication Services	1,124	1,457	-	-
Teradyne, Inc.	TER	North Reading	Semiconductor Equipment	3,600	1,170	-	-
Novell Inc.	NOVL	Waltham	Information Technology	4,100	945	-	-
Akamai Technologies Inc	AKAM	Cambridge	Information Technology	1,578	791	-	-

Sources: - Standard and Poors (from [Standardandpoors.com](http://Standardandpoors.com)) , the Boston Globe (May 2009) and Fortune Magazine (from [fortune.com](http://fortune.com)). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club, Global Partners and Perini are part of the Fortune 500, but are not part of the Standard & Poors 500.

**Full Time Equivalent Employees  
By Function / Program  
Last Ten Years**

Functions / Programs	2009	2008	2007	2006	2005
General Government.....	6,277	6,368	6,204	6,177	5,750
Judiciary.....	7,821	8,021	7,993	7,635	7,467
Energy and Environmental affairs.....	2,955	2,928	2,847	2,686	2,744
Health and human services.....	22,605	23,322	22,972	22,935	22,855
Transportation and construction.....	3,043	2,892	1,903	2,708	2,759
Education.....	844	615	617	651	587
Public safety and homeland security.....	13,951	14,242	14,550	13,517	13,152
Housing and economic development.....	2,314	2,302	2,339	2,264	2,299
Higher Education:					
University of Massachusetts.....	13,814	13,651	13,602	13,360	12,807
State colleges.....	4,650	4,519	4,495	4,301	4,224
Community colleges.....	4,781	4,775	4,689	4,603	4,523
<b>Totals.....</b>	<b>83,055</b>	<b>83,636</b>	<b>82,211</b>	<b>80,837</b>	<b>79,167</b>
<b>Percentage Change .....</b>	<b>-1%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>

Source: Office of the State Comptroller, FY 2000 to FY 2007, University of Massachusetts reported by the University.

"Education" includes the Board of Higher Education and in 2009 Early Education and Care (formerly Health and Human Services). For FY2005, Transportation and Construction includes the Registry of Motor Vehicles (formerly Public Safety.) Measurement date is the closest pay period end to June 30. FTE's are rounded. Higher education FTE's exclude part time contractors paid from campus - based systems. Prior years not restated for changes.

2004	2003	2002	2001	2000	Change - 2009 from 2000
5,449	5,644	5,724	6,261	6,286	6%
7,099	7,198	7,393	8,159	8,054	2%
2,612	2,814	2,949	3,161	3,147	-6%
22,229	23,087	23,269	25,143	25,215	-6%
1,794	1,843	1,820	2,094	2,171	30%
569	579	545	530	516	25%
13,578	13,964	14,446	14,752	14,430	4%
2,300	2,322	2,382	2,468	2,504	-8%
12,356	12,513	11,821	12,572	12,010	9%
3,914	3,957	3,812	4,026	3,981	15%
4,219	4,408	4,340	4,720	4,580	7%
<b>76,120</b>	<b>78,328</b>	<b>78,501</b>	<b>83,886</b>	<b>82,894</b>	2%
<b>-3%</b>	<b>0%</b>	<b>-6%</b>	<b>1%</b>	<b>2%</b>	

**Massachusetts Road Inventory  
Calendar Year End, Lane Miles by Type  
Last Ten Calendar Years**

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2008	3,212	14,976	9,591	43,893	71,672	0.41%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%
1999	3,182	13,509	10,935	42,207	69,833	0.20%	68.7%	31.3%

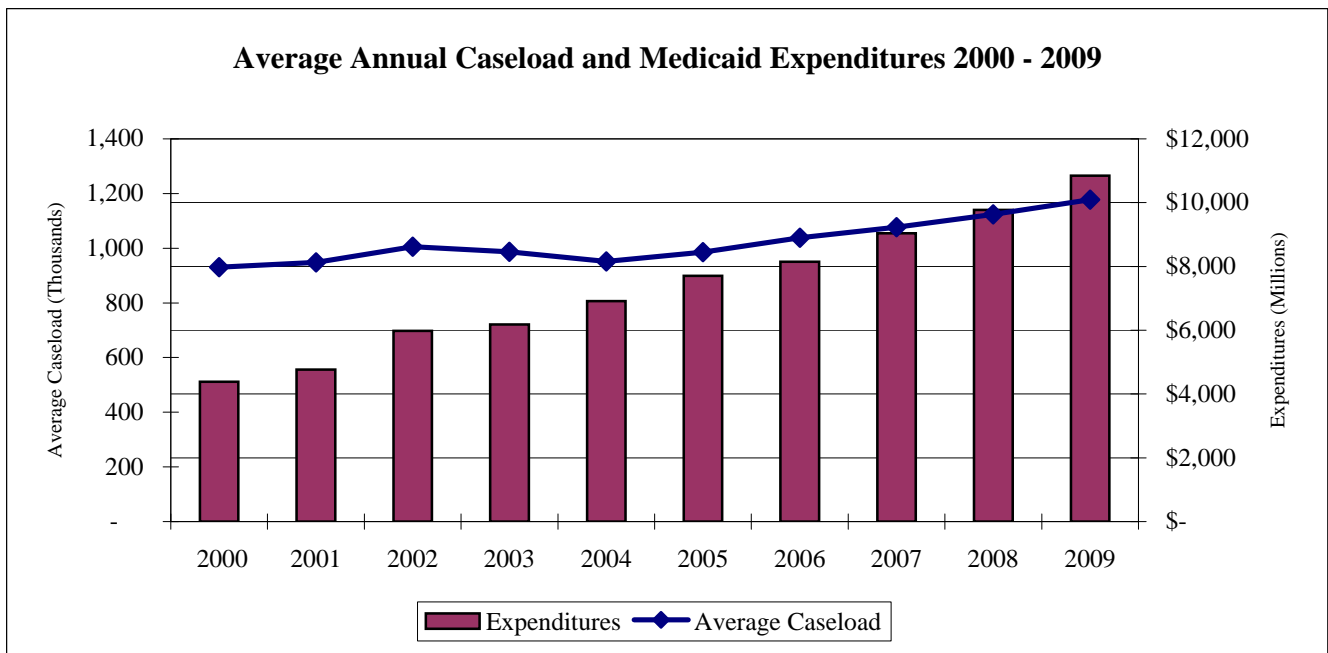
*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development  
Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.*

# **Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years**

(Caseload amounts in thousands, Expenditure amounts in Millions)

<u>Fiscal year ended June 30</u>	<u>Average Annual Caseload</u>	<u>Medicaid expenditures</u>	<u>Average Expenditures per Case</u>
2009	1,178	\$ 10,843	\$ 9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,257
2003	987	6,177	6,258
2002	1,005	5,979	5,949
2001	948	4,761	5,022
2000	931	4,381	4,706

*Source: Executive Office for Health and Human Services.*



**Massachusetts Real Property Owned and Leased  
Annual Inventory, Acreage, Improvements and Square Footage  
Last Ten Years**

Functions / Programs	Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005
<b>General Government:</b>					
Total Acreage	2,495	1,858	1,681	2,050	2,772
Number of Improvements	240	163	84	232	300
Gross square footage	6,660,792	5,736,028	4,767,751	6,745,962	8,429,827
<b>Judiciary:</b>					
Total Acreage	141	145	135	118	117
Number of Improvements	69	71	71	68	68
Gross square footage	4,826,836	5,080,836	4,889,645	4,351,128	4,884,206
<b>Energy and environmental affairs</b>					
Total Acreage	606,662	591,511	586,173	569,282	558,347
Number of Improvements	2,170	2,162	2,156	2,159	2,168
Gross square footage	7,246,280	7,242,870	7,185,678	7,057,840	7,039,038
<b>Housing and economic development:</b>					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	6
Gross square footage	77,642	77,642	77,642	77,642	76,812
<b>Health and human services:</b>					
Total Acreage	7,166	7,259	7,604	7,615	7,311
Number of Improvements	902	980	1,059	1,001	992
Gross square footage	11,214,034	12,270,433	13,371,858	12,333,804	12,251,382
<b>Transportation and public works:</b>					
Total Acreage	7,050	6,930	6,933	7,217	7,175
Number of Improvements	915	915	914	910	908
Gross square footage	4,876,936	4,876,936	4,856,942	4,845,365	4,812,965
<b>Education:</b>					
Total Acreage	233	233	233	233	233
Number of Improvements	43	43	43	43	43
Gross square footage	272,352	272,352	272,352	272,352	272,352
<b>Public safety and homeland security:</b>					
Total Acreage	18,331	18,324	18,319	17,530	17,515
Number of Improvements	1,028	1,023	1,031	1,026	1,038
Gross square footage	12,632,897	12,631,497	12,768,250	12,885,742	13,137,177
<b>Higher Education:</b>					
Total Acreage	7,151	7,149	7,133	7,089	7,138
Number of Improvements	937	940	932	933	941
Gross square footage	31,101,329	31,197,929	30,947,996	30,870,743	30,997,427
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
Total Acreage	649,231	633,412	628,212	611,136	600,609
Number of Improvements	6,310	6,303	6,296	6,378	6,464
Gross square footage	78,909,098	79,386,523	79,138,114	79,440,578	81,901,186
<b>Percentage Change for Commonwealth:</b>					
Acreage	2.5%	0.8%	2.8%	1.8%	0.9%
Improvements	0.1%	0.1%	-1.3%	-1.3%	3.9%
Gross square footage	-0.6%	0.3%	-0.4%	-3.0%	0.6%

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorption of county properties. See [http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets\\_report\\_2009.pdf](http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets_report_2009.pdf).

Survey Year 2004	Survey Year 2003	Survey Year 2002	Survey Year 2001	Survey Year 2000
2,486	3,137	3,750	4,142	3,476
306	263	352	469	395
8,315,791	8,428,905	10,124,543	12,346,526	8,802,821
114	113	113	113	109
68	68	68	62	57
4,884,206	4,952,821	4,887,321	4,582,299	4,082,355
552,857	539,437	511,732	494,093	482,854
1,916	1,903	2,042	1,727	1,713
6,677,076	6,601,985	6,965,507	7,101,935	6,933,956
2	2	2	2	1
6	6	6	5	6
76,812	76,812	76,812	47,500	57,500
7,284	7,561	7,784	7,779	8,028
997	1,068	1,110	854	877
12,493,551	13,339,508	13,669,358	12,446,222	12,839,042
7,513	7,736	7,484	7,562	7,603
909	909	965	1,019	1,026
4,821,599	4,823,279	4,954,627	4,989,788	5,149,089
234	233	-	-	-
44	43	-	-	-
272,352	272,352	-	-	-
17,454	17,485	17,391	17,366	17,371
1,037	1,069	1,113	584	598
13,131,414	13,563,676	13,630,934	7,876,300	11,165,654
7,163	7,169	7,353	6,929	6,920
939	935	990	721	759
30,728,820	30,267,370	30,975,993	26,420,404	28,923,271
<b>595,107</b>	<b>582,873</b>	<b>555,609</b>	<b>537,985</b>	<b>526,363</b>
<b>6,222</b>	<b>6,264</b>	<b>6,646</b>	<b>5,441</b>	<b>5,431</b>
<b>81,401,621</b>	<b>82,326,708</b>	<b>85,285,095</b>	<b>75,810,974</b>	<b>77,953,688</b>
2.1%	4.9%	3.3%	2.2%	2.1%
-0.7%	-5.7%	22.1%	0.2%	0.4%
-1.1%	-3.5%	12.5%	-2.7%	5.6%



**Massachusetts Public Higher Education  
Enrollment and Degrees Conferred  
Last Ten Academic Years**

Academic Year	Fall 2008	Fall 2007	Fall 2006	Fall 2005	Fall 2004
<b><u>ENROLLMENT, TUITION AND FEES</u></b>					
<b><u>University System</u></b>					
Undergraduate (FTE).....	42,768	40,806	39,283	38,286	37,598
Graduate (FTE).....	9,460	9,328	8,906	8,549	8,494
<b>System Enrollment.....</b>	<b>52,228</b>	<b>50,134</b>	<b>48,189</b>	<b>46,835</b>	<b>46,093</b>
<b>Tuition and Fees (per student)</b>					
<b>Resident (undergraduate).....</b>	<b>\$ 9,585</b>	<b>\$ 9,305</b>	<b>\$ 9,000</b>	<b>\$ 8,697</b>	<b>\$ 8,437</b>
<b><u>State College System</u></b>					
Undergraduate (FTE).....	33,040	32,106	31,384	30,464	29,051
Graduate (FTE).....	4,495	4,428	4,352	4,258	8,658
<b>System Enrollment.....</b>	<b>37,535</b>	<b>36,535</b>	<b>35,736</b>	<b>34,722</b>	<b>37,709</b>
<b>Tuition and Fees (per student)</b>					
<b>Resident (undergraduate).....</b>	<b>\$ 6,399</b>	<b>\$ 6,123</b>	<b>\$ 5,855</b>	<b>\$ 5,448</b>	<b>\$ 5,100</b>
<b><u>Community College System</u></b>					
Undergraduate (FTE).....	54,228	51,257	49,347	48,555	50,972
<b>Tuition and Fees (per student).....</b>					
<b>Resident.....</b>	<b>\$ 3,851</b>	<b>\$ 3,654</b>	<b>\$ 3,526</b>	<b>\$ 3,477</b>	<b>\$ 3,380</b>
	2009	2008	2007	2006	2005
<b><u>DEGREES CONFERRED</u></b>					
<b><u>University System</u></b>					
Certificates (MD's).....	280	270	268	260	167
Associate's.....	103	96	117	99	95
Bachelors.....	8,763	8,437	8,191	8,089	8,205
Masters.....	2,882	2,808	2,503	2,484	2,588
Doctoral.....	381	390	443	371	389
<b>Total Degrees.....</b>	<b>12,409</b>	<b>12,001</b>	<b>11,522</b>	<b>11,303</b>	<b>11,444</b>
<b><u>State College System</u></b>					
Certificates.....	605	597	615	556	540
Bachelors.....	6,621	6,328	6,207	5,885	5,549
Masters.....	2,343	2,318	2,201	2,190	2,048
<b>Total Degrees.....</b>	<b>9,569</b>	<b>9,243</b>	<b>9,023</b>	<b>8,631</b>	<b>8,137</b>
<b><u>Community College System</u></b>					
Certificates.....	2,587	2,495	2,297	2,422	2,278
Associates.....	8,549	8,247	7,942	8,024	7,993
<b>Total Degrees.....</b>	<b>11,136</b>	<b>10,742</b>	<b>10,239</b>	<b>10,446</b>	<b>10,271</b>
<b>Total All Systems - Degrees.....</b>	<b>33,114</b>	<b>31,986</b>	<b>30,784</b>	<b>30,380</b>	<b>29,852</b>

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2003	Fall 2002	Fall 2001	Fall 2000	Fall 1999	Change - 2008 from 1999
37,904	37,762	37,961	37,101	37,093	15.3%
8,494	8,334	8,223	8,139	8,405	12.5%
<b>46,398</b>	<b>46,097</b>	<b>46,184</b>	<b>45,240</b>	<b>45,498</b>	<b>14.8%</b>
<b>\$ 6,801</b>	<b>\$ 5,798</b>	<b>\$ 4,693</b>	<b>\$ 4,697</b>	<b>\$ 4,706</b>	<b>103.7%</b>
29,238	26,489	623	26,791	27,058	22.1%
8,360	7,296	7,138	3,860	3,415	31.6%
<b>37,598</b>	<b>33,785</b>	<b>7,761</b>	<b>30,651</b>	<b>30,473</b>	<b>23.2%</b>
<b>\$ 4,590</b>	<b>\$ 3,743</b>	<b>\$ 2,954</b>	<b>\$ 2,962</b>	<b>\$ 2,984</b>	<b>114.4%</b>
51,067	49,483	46,756	44,098	43,094	25.8%
<b>\$ 3,265</b>	<b>\$ 2,833</b>	<b>\$ 2,273</b>	<b>\$ 2,153</b>	<b>\$ 2,182</b>	<b>76.5%</b>
2004	2003	2002	2001	2000	Change - 2009 from 2000
150	146	196	151	220	27.3%
119	106	111	110	124	-16.9%
7,764	7,645	7,525	7,489	7,371	18.9%
2,467	2,311	2,165	2,332	2,368	21.7%
407	322	358	337	349	9.2%
<b>10,907</b>	<b>10,530</b>	<b>10,355</b>	<b>10,419</b>	<b>10,432</b>	<b>19.0%</b>
490	535	313	251	356	69.9%
5,525	5,545	5,096	5,166	5,374	23.2%
2,157	2,053	1,881	1,659	1,593	47.1%
<b>8,172</b>	<b>8,133</b>	<b>7,290</b>	<b>7,076</b>	<b>7,323</b>	<b>30.7%</b>
2,281	1,947	1,930	1,941	1,764	46.7%
7,670	7,184	6,939	6,958	6,914	23.6%
<b>9,951</b>	<b>9,131</b>	<b>8,869</b>	<b>8,899</b>	<b>8,678</b>	<b>28.3%</b>
<b>29,030</b>	<b>27,794</b>	<b>26,514</b>	<b>26,394</b>	<b>26,433</b>	<b>25.3%</b>

## Calculation of Transfers: Stabilization Fund

June 30, 2009  
(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 56 of the Acts of 2009, which superceded certain parts of the Section 5c. 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.

### Undesignated Budgeted Fund Balances before calculation of transfers:

General Fund .....	\$ 370,391
Highway Fund .....	(219,947)
Workforce Training Fund .....	5,879
Massachusetts Tourism Fund .....	10,988
International Educational and Foreign Language Grant Program Fund .....	-
<b>Net surplus / (deficit).....</b>	<b>\$ 167,311</b>
Less: Amount to be carried forward per Chapter 29, Section 5c(a) per Schedule A .....	92,564
<b>Net consolidated net surplus as defined in Chapter 29, Section 5c, as amended to be deposited into the Stabilization Fund.....</b>	<b>\$ 74,747</b>

### Chapter 56 of the Acts of 2009, Section 1 Transfers:

The comptroller shall transfer \$10,000,000 from the General Fund to the Massachusetts Life Sciences Investment Fund.....	\$ 10,000
Remaining Amount transfered from General Fund to the Stablization Fund .....	\$ 64,747

### General Law Section 5c of Chapter 29, Fund Balance Deficit Elimination transfers :

General Fund .....	\$ (203,080)
Highway Fund.....	219,947
Workforce Training Fund .....	(5,879)
Massachusetts Tourism Fund .....	(10,988)
International Educational and Foreign Language Grant Program Fund .....	-
<b>Net.....</b>	<b>\$ -</b>

### Fund Balance after Deficit Elimination

General Fund .....	\$ 92,564
Highway Fund.....	-
Workforce Training Fund .....	-
Massachusetts Tourism Fund .....	-
International Educational and Foreign Language Grant Program Fund .....	-
<b>Net.....</b>	<b>\$ 92,564</b>

### Stabilization Balance Reconciliation:

Balance as of July 1, 2008 .....	\$ 2,119,194
Investment income, certain tax revenues and other recoveries.....	46,403
Less: Transfers from Stabilization Fund	
Investment Income.....	(43,967)
Principal transfers.....	(1,345,033)
Transfers from Stabilization during the FY 2009 .....	(1,389,000)
Transfer per Chapter 56 of the Acts of 2009, per the calculation above.....	64,747
<b>Stabilization Fund Balance .....</b>	<b>\$ 841,344</b>

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2009  
(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 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 841,344
Allowable Stabilization Fund balance (per Schedule B).....	<u>4,382,607</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 841,344
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 841,344</u>

Part 3: Status of Tax Reduction Fund after transfers:

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

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2009  
(Amounts in thousands)

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Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 841,344
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 841,344</u>

Part 3: Status of Tax Reduction Fund after transfers:

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

# MASSACHUSETTS GENERAL INFORMATION

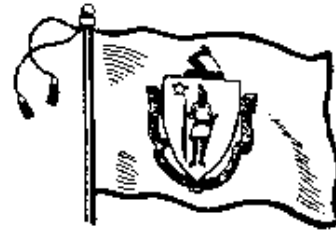
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,497,967

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

**The State Seal**



**The State Flag**



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

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

**The State Flower**



**The Mayflower**

**The State Fish**



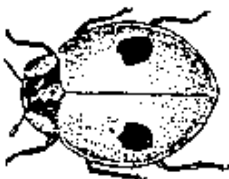
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**The State Bird**



**The Black Capped Chickadee**

**The State Insect**



**The Lady Bug**

**The State Tree**



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

**The State Dog**



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

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

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

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



## Herman Melville (1819-1891)

The grandson of two Revolutionary War heroes, Melville was born in New York City in 1819. Melville's father, Allan Melvill, was also from a prominent family, this time from Boston. Allan was the son of Thomas Melvill, the son of a Scottish immigrant who achieved wealth as a merchant. Thomas Melvill, too, had a revolutionary pedigree,

*Herman Melville, by Rodney Dewey  
Courtesy of the Berkshire Athenaeum,  
Pittsfield, Massachusetts*

having been a participant at the Boston Tea Party and a major in General Washington's army. Washington later appointed Melvill Commissioner of Boston and Charlestown Harbor, an appointment reaffirmed by Presidents Adams, Jefferson, and Madison.

When Herman was only 11, however, Herman's father went bankrupt, forcing the family, which now included eight children, to flee the creditors and move to Albany. Just two years later, Allan Melvill died, leaving his widow with eight children under the age of 17 (after Allan's death, Maria added an "e" to the family name). Herman and his older brother were pulled out of school in order to help support the family.



In 1841, Melville signed on the whaler *Acushnet* but jumped ship in the Marquesas Islands, motivated to leave by an unpleasant captain, and spent four weeks among the natives before boarding other ships for a trip to the Sandwich Islands, now known as Hawaii. After settling back with his family, Herman began to write down his stories at the urging of his sisters. The result was five books all drawing on his experiences at sea.



*Arrowhead Collection  
Arrowhead courtesy of the Berkshire Historical Society*

*When Herman Melville was 22 years old he signed on the *Acushnet* and sailed out of New Bedford for a 3-year voyage to the South Seas. His adventures on this voyage set the scenes for his early books. In 1850, Herman Melville moved his family from New York to Pittsfield, seeking reprieve from city life and a quiet place in which to write. He purchased an 18th century farmhouse which he named *Arrowhead* and completed his most famous novel, *Moby Dick*. Here in Pittsfield he also penned great works such as *Pierre*, "*The Confidence Man*" and "*The Piazza Tales*."*

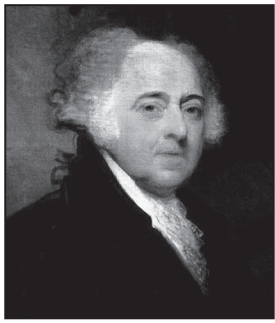
In 1850, Herman spent the summer in Pittsfield at the Melvill farm. While there Herman was invited to go on a picnic along with two other literary notables: Oliver Wendell Holmes and Nathaniel Hawthorne. Melville and Hawthorne met for the first time and struck up an instantaneous close friendship. The impulsive Melville made the decision to follow Hawthorne's example and move permanently to the Berkshires to find a quiet solitude in which to write, and within a week had purchased the neighboring farm. He named the farm "Arrowhead" after the native relics he discovered as he was plowing the fields.



*Arrowhead in the 1860's  
Arrowhead courtesy of the Berkshire Historical Society*

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## Adams National Historical Park

The Park maintains 3 homes belonging to Adams Family. The John Adams and John Quincy Adams Birthplaces are the oldest presidential birthplaces in the United States and home of two American presidents.

*John Adams (1735-1826)*  
*Photo courtesy of [www.wikipedia.org](http://www.wikipedia.org)*

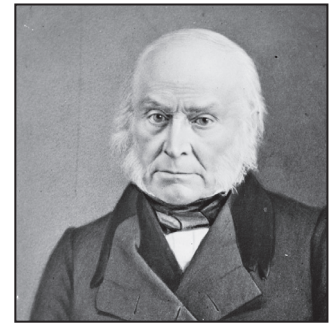
In 1735, John Adams was born in the “salt box” house located only 75 feet away from the birthplace of his son, John Quincy Adams. In the John Quincy Adams Birthplace, young John and his bride Abigail started their family and the future President launched his career in politics and law. His law office was in the house and it was here that he, Samuel Adams and James Bowdoin wrote the Massachusetts Constitution.

In 1788, upon their return from Europe, John and Abigail purchased a larger grander home. In 1796, John Adams wrote in his diary, “I think to christen my place by the name of Peace field in commemoration of the Peace

which I assisted in making in 1783 ... and of the constant Peace and Tranquility which I have enjoyed in this Residence.” In time, it was referred to the “Old House.”

It was home to Presidents John Adams and John Quincy Adams; First Ladies Abigail and Louisa Catherine Adams; Civil War Minister to Great Britain Charles Francis Adams; and literary historians Henry and Brooks Adams.

Adjacent to the Old House is The Stone Library, home to over 14,000 volumes. John Quincy Adams had requested in his will that a fireproof structure be constructed separate from the house for his books and papers.



*John Quincy Adams (1767-1848)*  
*Photo courtesy of [www.wikipedia.org](http://www.wikipedia.org)*

*Photography of The Stone Library*  
*Courtesy of Adams National Historical Park*

