
Office of the State Comptroller
FY20 Comprehensive Annual Financial Report

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Fiscal 2020 Statutory Basis Financial Report (SBFR)

- The SBFR was issued on December 18, 2020 and was reviewed, not audited, by KPMG.
 - The SBFR is presented on a budgetary or statutory basis – cash receipts and expenditures, including two months accounts payable and receivable period; excludes trust funds and most activity of so-called business-type activities such as unemployment and the Institutions of Higher Education
 - The SBFR excludes “component units” such as the Massachusetts School Building Authority (MSBA), some of the Massachusetts Department of Transportation (MassDOT) such as the MBTA and RTA’s, and the Massachusetts Development Finance Agency (MassDevelopment)
 - The SBFR determines whether the budget is balanced according to state finance law. Includes the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund

Fiscal 2020 Comprehensive Annual Financial Report

- The FY20 Comprehensive Annual Financial Report will be issued tomorrow (March 25, 2021) with an unmodified (clean) audit opinion and will be submitted to the Government Finance Officers' Association (GFOA) for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. The FY19 Comprehensive Annual Financial Report represented the 30th consecutive year that the Comprehensive Annual Financial Report was awarded the certificate.
- The basic financial statements are presented on two bases of accounting; 1) fund perspective and 2) government-wide perspective
- ***Fund Perspective***
 - Similar focus to the SBFR in terms of fund coverage, but also includes trust funds not covered in the SBFR, and the MSBA is incorporated into the statements as a blended component unit.
 - Purpose is to measure a government's ability to meet obligations from "currently available" resources (i.e., revenues including those to be received soon after the close of the fiscal year)

Fiscal 2020 Comprehensive Annual Financial Report

- Uses a “modified accrual” basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP), and takes into account short-term accruals (due within one year). No long-term accruals for debt or capital assets, depreciation, or adjustment for pension or OPEB liabilities
- ***Comprehensive Annual Financial Report Government-Wide Perspective***
 - Treats government according to accounting rules similar to private business
 - Includes business-type activities such as Unemployment Insurance, the Paid Family and Medical Leave (PFML) and the Institutions of Higher Education within the Commonwealth’s net position (formerly net assets)
 - Full accrual accounting for long-term assets and liabilities, including long-term debt, pensions, OPEB, capital assets, and compensated absences
 - Includes, by discrete presentation, so-called “component units” such as MassDOT, Health Insurance Connector, and the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth

Net Pension and Other Post-Employment Benefits (OPEB) liability

- GASB Statement Nos. 68 and 75, implemented in FY15 and FY18, respectively, changed the requirements for reporting pension and OPEB liabilities for governmental entities. These Statements, No. 68 for pension and No. 75 for OPEB, require the presentation of the net pension and net OPEB liability on the government-wide Statement of Net Position.
- For reporting purposes GASB allows for these liabilities to be presented using a measurement date that is a year prior to the fiscal year end date. For FY20, these liabilities are measured as of June 30, 2019.
 - For FY20, the Commonwealth's net pension liability on a government-wide basis (including business-type activities) was approximately \$35.747 billion (net of deferrals) and the net OPEB liability was approximately \$18.865 billion (net of deferrals)

Fiscal 2020 Comprehensive Annual Financial Report (“Fund Perspective”)

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Fund Perspective – Modified Accrual Basis)
Fiscal Year Ended June 30, 2020
(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Coronavirus Relief	Other Governmental Funds	Total	FY2020
Total revenues	43,151,305	5,394,939	1,138,815	760,953	11,109,682	61,555,694	60,335,457
Total other financing sources	1,984,428	-	1,068,221	-	7,898,652	10,951,301	9,940,393
Total expenditures	41,249,138	4,305,369	1,296,832	676,531	15,366,712	62,894,582	59,793,532
Total other financing uses	3,826,716	1,089,484	798,890	84,422	3,921,272	9,720,784	7,709,427
Net change in fund balances/(deficits)	59,879	86	111,314	-	(279,650)	(108,371)	2,272,891
Fund balances at beginning of year	5,870,210	1,458	1,606,011	-	1,688,208	9,165,887	6,838,444
Fund balances at end of year	5,930,089	1,544	1,717,325	-	1,408,558	9,057,516	9,111,335

Fiscal 2020 Comprehensive Annual Financial Report (“Government Wide”)

Changes in Net Position during the Fiscal Years Ended June 30, 2020 and 2019 (in thousands of dollars)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>\$ Change, FY19-20</u>
Revenues			
<u>Program Revenues:</u>			
Charges for services	16,462,247	16,041,421	420,826
Operating grants and contributions	27,912,554	17,230,011	10,682,543
Capital grants and contributions	223,610	178,118	45,492
<u>General Revenues:</u>			
Taxes	30,482,040	30,609,957	(127,917)
Other	1,503,024	1,659,338	(156,314)
Total Revenues	76,583,475	65,718,845	10,864,630
Expenses			
Medicaid	19,206,749	18,093,807	1,112,942
Direct local aid	6,390,233	6,089,548	300,685
Health and human services	9,645,198	8,662,012	983,186
Lottery	4,306,512	4,445,654	(139,142)
Higher education	5,484,490	5,345,669	138,821
Early elementary and secondary education	6,618,282	5,607,240	1,011,042
Unemployment compensation	11,948,319	1,483,901	10,464,418
Family and employment security trust	5,434	-	5,434
Other	16,997,557	15,317,352	1,680,205
Total Expenses	80,602,774	65,045,183	15,557,591
Excess/(Deficiency)			
Change in net position (deficits)	(4,019,299)	673,662	(4,692,961)
Net position/(deficit) - beginning, as restated	(68,980,915)	(69,104,536)	123,621
Net position/(deficit) - ending	(73,000,214)	(68,430,874)	(4,569,340)

Fiscal 2020 Comprehensive Annual Financial Report

Assets Owned by MassDOT and Higher Education But Largely Financed by the Commonwealth Offset Commonwealth's Net Deficit

Statement of Net Position, June 30, 2020 (Amounts in thousands)

	----- Primary Government -----			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Government Wide Total</u>	<u>Component Units</u>
Net investment in capital assets.....	\$(1,705,745)	\$3,938,922	\$2,233,177	\$36,603,554
Restricted for Unemployment Insurance, Debt, Capital, and Higher Education.....	1,543,264	1,319,929	2,863,193	4,341,875
Unrestricted (deficits).....	<u>(77,514,884)</u>	<u>(581,700)</u>	<u>(78,096,584)</u>	<u>(7,864,271)</u>
Total net position/(deficit).....	<u>\$(77,677,365)</u>	<u>\$4,677,151</u>	<u>\$(73,000,214)</u>	<u>\$33,081,158</u>

Major Reasons for Government-Wide Net Deficit in FY20 Comprehensive Annual Financial Report (\$73.000 Billion)

- Unfunded pension liability \$35.747 billion, net of deferrals, or amounts to be recognized in future years
- Underfunded retiree health benefits (OPEB) (\$18.865 billion, net of deferrals)
- School Building Authority debt and grants payable (\$6.806 billion)
- Most of remainder is Commonwealth debt for road and bridge assets owned by MassDOT and for capital grants and expenditures for state authorities (e.g., Life Sciences Center) and cities and towns (e.g., Chapter 90 road and bridge grants, local housing authorities)

Significant Future GASB Standards

- The GASB has issued the following Standards which have been or will be implemented in the following fiscal years:
 - Statement No. 84, *Fiduciary Activities*. This is effective for FY21 (but is being implemented in FY20) and requires the analysis of all Commonwealth funds and trust subfunds to determine proper financial reporting classification. This also requires, for the first time, the presentation of a Statement of Changes in Net Position for Custodial Funds (formerly Agency Funds) in the Comprehensive Annual Financial Report. The Comptroller's Office early implemented this Standard in FY20. See Footnote 1T of the Comprehensive Annual Financial Report for the impact this Standard had on the basic financial statements.
 - Statement No. 87, *Leases*. This is effective for FY22 and changes accounting and financial reporting requirements for leases. The Statement eliminates the concept of operating leases and instead accounts for all leases as capital financing arrangements. The Comptroller's Office is in the beginning stages of implementing this Standard.

Significant Future GASB Standards – cont'd

- Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Standard delayed the effective dates of certain GASB Statements as a response to the COVID-19 pandemic.
- Statement No. 93, *Replacement of Interbank Offered Rates* – Effective FY2021
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – Effective FY2023
- Statement No. 96, *Subscription-Based Information Technology Arrangements* – effective FY2023
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32 – Effective FY2021