

Meeting of the Advisory Board to the Comptroller

May 31, 2023



OFFICE OF THE COMPTROLLER
COMMONWEALTH OF MASSACHUSETTS



Advisory Board to the Comptroller

Statutory Members

- ★ **Matthew Gorzkowicz**, Secretary of Administration and Finance (Chair)
- ★ **Diana DiZoglio**, State Auditor
- ★ **Deborah B. Goldberg**, Treasurer and Receiver General
- ★ **Andrea Joy Campbell**, Attorney General
- ★ **Thomas G. Ambrosino**, Court Administrator of Massachusetts Trial Court

Appointed Members

- ★ **Michael Esmond**, Chief Financial Officer of Massachusetts Convention Center Authority
- ★ **Natalie Monroe**, First Assistant Inspector General

Agenda

- I. Call to order; authorization for remote meeting**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance
- II. Review and approval of the prior Advisory Board Meeting Minutes**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance
- III. Remarks from the Chair of the Advisory Board**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance
- IV. Comptroller's Report to the Advisory Board**
William McNamara, Comptroller of the Commonwealth
- V. Review of the Annual Comprehensive Financial Report**
Pauline Lieu, Chief Financial Reporting Officer, Office of the Comptroller
Howard Merkowitz, Senior Advisor
- VI. CLA Report to the Board**
Chris Rogers, Managing Principal of Industry, CLA
- VII. Items not reasonably anticipated by the Chair**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance
- VIII. Next meeting**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance

Meeting Information

On March 29, 2023, Governor Healey signed into law a supplemental budget bill which, among other things, extends certain temporary provisions pertaining to the Open Meeting Law until March 31, 2025. Specifically, this further extension allows public bodies to continue holding meetings remotely without a quorum of the public body physically present at a meeting location, and to provide "adequate, alternative" access to remote meetings.

In accordance with that law, all members of the Advisory Board and members of the public are participating remotely in today's meeting.

Because members of the Board are participating remotely, all votes today will be taken by roll call.

Date and Time: May 31, 2023 at 12:00pm

Location: Zoom

Meeting ID: 826 2426 8370

Passcode: 159711

Link: <https://macomptroller.zoom.us/j/82624268370?pwd=NHFTeG1qMVlveVRHUTFFdDd1cGVLQT09>

Dial-in: 929-206-6099 (alternative to online)

Agenda Item I
Call to order and
Authorization for remote meeting

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item II

Review and approval of minutes

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item III
Remarks from the Advisory Board Chair

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item IV
Comptroller's Report to the Advisory Board

William McNamara
Comptroller

Three major reporting requirements

SBFR	ACFR	Single Audit
Statutory Basis Financial Report	Annual Comprehensive Financial Report	A step in a series of federal requirements
<ul style="list-style-type: none"> • Required under state law (M.G.L. c. 7A, § 12) • Most other states have similar reports • Present the results of the prior fiscal year activity in the Commonwealth’s funds primarily on a cash, non-GAAP basis • Compute and certify the annual budget balance and end of fiscal year transfer to the Stabilization Fund • Disclose and report certain aspects of financial performance as directed by statute or judged relevant by the Comptroller 	<ul style="list-style-type: none"> • 50-state requirement (plus other local government entities) • Financial statements of a state, municipal or other governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB), which sets Generally Accepting Accounting Principles (GAAP) for those governments and entities 	<ul style="list-style-type: none"> • Uniform Guidance: authoritative set of administrative and financial requirements for recipients of federal grants & funds • SEFA: Schedule of Expenditure of Federal Awards; details the use of federal funds across the state • Single Audit: Organization-wide financial statement and federal awards’ audit of entities that expend \$750,000 or more in federal funds. Focused on internal controls and compliance with program requirements.
<ul style="list-style-type: none"> • Reviewed by the independent CPA firm 	<ul style="list-style-type: none"> • Audited by the independent CPA firm 	<ul style="list-style-type: none"> • Conducted by the independent CPA firm

Timing of the Fiscal Year 2022 ACFR: How the report is built

1) State entities that are fully integrated on MMARS:

- More than 150 departments.
- Financial processes and accounting are conducted in the **MMARS** system, managed by the Comptroller. (Payroll is executed in the HR/CMS system.)
- All vendor payments and payroll transactions **generate full accounting records**.
- Some agencies have sophisticated front-end systems for case management and program eligibility, which generate transaction files to be executed in MMARS.
- Office of the Comptroller Statewide General Accounting & Financial Reporting Teams work to close the books, integrate supplementary information required for the ACFR, and build the report.
- The Office of the Comptroller owns and executes the accounting and financial reporting from MMARS.

Timing of the Fiscal Year 2022 ACFR: How the report is built (continued)

2) “Off-MMARS” entities reflected in the ACFR. Examples:

- **Blended component units:** legally separate, but so closely related that their net results and financial position are presented as part of the Commonwealth’s Operations.
Examples: MA School Building Authority; Pension Reserves Investment Trust.
- **Discretely presented component units that are separately audited.** *Example: MBTA.*
- **Fiduciary Component Units:** *Examples: State Employee Retirement System; Massachusetts Teachers’ Retirement System; State Retiree Benefits Trust.*
- **Departments audited separately but not legally separate.** *Examples: Lottery Commission; University of Massachusetts System; State University & Community College System.*
- **Departments with delegated financial systems.** Not legally separate; authorized to conduct financial operations “off MMARS.” *Examples: Unemployment Insurance, PFML.*
- Each entity is responsible for individual accounting and reporting. Office of the Comptroller is responsible for integrating into an accurate, timely ACFR.

ACFR timing significantly impacted in two areas:

★ **Massachusetts State College Building Authority (MSCBA)**

- Independently-audited blended unit. In the ACFR, MSCBA is integrated into Higher Ed activity.
- MSCBA finances, plans, and builds residence and student-activity facilities at State Universities and Community Colleges.
- Fiscal Year 2022 reporting was significantly delayed. Financial staffing issues, new GASB lease reporting requirements, and the ongoing impact of COVID have been identified as drivers.

★ **Department of Unemployment Assistance / Unemployment Insurance (UI)**

- UI operates a delegated financial system. MMARS reflects summary entries only.
- Weaknesses in financial controls were identified in the Fiscal 2021 Single Audit.
- Intensive efforts to improve were made throughout the Fiscal 2022 cycle.
- Final FY2022 results were produced in May.
- Immediate fixes (for FY2023-FY2024) and structural fixes (FY2024+) are required and in process.

★ **The Comptroller is responsible for accurate, timely financial reporting statewide.**

Agenda Item V
Review of the Annual Comprehensive Financial Report

Pauline Lieu, Assistant Comptroller & Chief Financial Reporting Officer
Howard Merkowitz, Senior Advisor

Fiscal Year 2022 Annual Comprehensive Financial Report

- ★ The Statutory Basis Financial Report (SBFR) was issued on December 23, 2022 and was reviewed, not audited, by CliftonLarsonAllen (CLA).
- ★ 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 insurance 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) including Regional Transit Authorities, and the Massachusetts Development Finance Agency (MassDevelopment)
- ★ The SBFR determines whether the budget is balanced according to state finance law (“statutory basis”) and includes the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund, if any
- ★ On a statutory basis, FY2022 ended with a budgetary fund balance of \$18.200 billion and a budget surplus (“consolidated net surplus”) of \$4.812 billion; per legislation enacted at the end of FY2022, that surplus was deposited into the Transitional Escrow Fund, to be appropriated in FY2023. During the fiscal year, the balance of the Commonwealth Stabilization (“Rainy Day”) Fund increased by \$2.311 billion, to \$6.938 billion.

Fiscal Year 2022 Annual Comprehensive Financial Report

- ★ We expect the FY2022 Annual Comprehensive Financial Report to be issued within the next few days 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 FY2021 Annual Comprehensive Financial Report represented the 32nd consecutive year that the Annual Comprehensive 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 Year 2022 Annual Comprehensive Financial Report

- ★ Uses a “modified accrual” basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP), and takes into account short-term accruals. No long-term accruals for debt or capital assets, depreciation, or adjustment for pension or OPEB liabilities

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, Massachusetts Bay Transportation Authority, Health Insurance Connector, and the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth

Fiscal Year 2022 Annual Comprehensive Financial Report

- ★ GASB Statement Nos. 68 and 75, implemented in FY2015 and FY2018, 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 FY2022, these liabilities are measured as of June 30, 2021.
- ★ For FY2022, the Commonwealth's net pension liability on a government-wide basis (including business-type activities) was approximately \$37.598 billion (net of deferrals) and the net OPEB liability was approximately \$18.822 billion (net of deferrals)

Fiscal Year 2022

Annual Comprehensive Financial Report

Balance Sheet
 Governmental Funds
 June 30, 2022
 (Amounts in millions)

	General	Lotteries	Massachusetts School Building Authority	Federal COVID-19 Response	Other Governmental Funds	Total
Total assets	\$ 23,580	\$ 670	\$ 1,963	\$ 3,496	\$ 6,148	\$ 35,857
Total Liabilities & Deferred Inflows	9,648	53	51	3,496	4,475	17,724
Fund balances:						
Nonspendable	—	616	—	—	—	616
Restricted	—	—	834	—	452	1,286
Committed	6,938	—	—	—	3,404	10,341
Assigned	2,542	1	1,079	—	175	3,796
Unassigned (deficits)	4,452	—	—	—	(2,358)	2,094
Fund balances	\$ 13,932	\$ 616	\$ 1,913	\$ —	\$ 1,672	\$ 18,133

Fiscal Year 2022 Annual Comprehensive Financial Report

Governmental Funds (Fund Perspective – Modified Accrual Basis)

Fiscal Year Ended June 30, 2022

(in millions of dollars)

	General	Lotteries	Mass School Building Authority	Federal COVID-19 Response	Other Govern- mental Funds	Total	FY2021
Total revenues	\$ 55,384	\$ 5,864	\$ 1,163	\$ 15	\$ 18,767	\$ 81,193	\$ 71,381
Total other financing sources	2,240	0	343	0	8,065	10,648	13,339
Total revenues & other financing sources	57,624	5,864	1,506	15	26,832	91,841	84,720
Total expenditures	48,686	4,790	1,030	15	23,260	77,782	70,260
Total other financing uses	4,748	1,214	347	—	3,434	9,743	10,555
Total expenditures & other financing uses	53,434	6,004	1,377	15	26,694	87,525	80,815
Net change in fund balances	4,190	(140)	129	—	138	4,316	3,905
Fund balances at beginning of year	9,742	757	1,784	—	1,535	13,817	9,912
Fund balances at end of year	\$ 13,932	\$ 617	\$ 1,913	\$ —	\$ 1,673	\$ 18,133	\$ 13,817

Fiscal Year 2022 Annual Comprehensive Financial Report

*Net Position as of June 30, 2022 and 2021
(in millions of dollars)*

	Governmental Activities		Business-Type Activities		Total Primary Govt	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021*	June 30, 2022	June 30, 2021*
Current assets	\$ 31,533	\$ 25,032	\$ 7,919	\$ 6,791	\$ 39,453	\$ 31,823
Non-capital non-current assets	2,701	2,513	3,267	3,051	5,968	5,564
Capital assets	6,091	5,054	9,253	9,208	15,344	14,262
Total assets	40,325	32,599	20,440	19,050	60,765	51,649
Deferred outflows of resources	9,819	11,908	600	812	10,419	12,720
Total assets and deferred outflows	50,144	44,507	21,040	19,861	71,184	64,368
Current liabilities	18,114	15,946	3,301	4,647	21,415	20,593
Long term liabilities	88,651	103,646	9,876	10,030	98,526	113,675
Total liabilities	106,765	119,592	13,177	14,677	119,941	134,269
Deferred inflows of resources	16,137	3,971	2,529	1,926	18,667	5,897
Total liabilities and deferred inflows	122,902	123,563	15,706	16,603	138,608	140,166
Net Position:						
Net investment in capital assets	(1,783)	(1,658)	3,762	3,778	1,979	2,120
Restricted	1,286	1,321	2,175	1,908	3,461	3,229
Unrestricted	(72,260)	(78,718)	(603)	(2,428)	(72,864)	(81,147)
Total Net Position, as restated	\$ (72,758)	\$ (79,056)	\$ 5,334	\$ 3,258	\$ (67,424)	\$ (75,797)

- As restated, see 1T business-type activities

Fiscal Year 2022 Annual Comprehensive Financial Report

(Government-Wide) Changes in Net Position during the Fiscal Years Ended June 30, 2022 and 2021
(in millions of dollars)

	Total Primary Government			
	June 30, 2022	June 30, 2021	\$ Change, FY21-22	% Change, FY21-22
Revenues				
Program Revenues:				
Charges for services	\$ 18,389	\$ 16,955	\$ 1,434	8.5 %
Operating grants and contributions	32,134	39,205	(7,071)	(18.0)%
Capital grants and contributions	310	252	58	23.0 %
General Revenues				
Taxes	39,804	34,947	4,857	13.9 %
Other	1,095	1,064	31	2.9 %
Total Revenues	91,732	92,423	(691)	(0.7)%
Expenses				
Medicaid	22,065	20,208	1,857	9.2 %
Direct local aid	6,759	6,499	260	4.0 %
Health and human services	13,786	11,658	2,128	18.3 %
Lottery	4,651	4,618	33	0.7 %
Higher education	5,773	5,399	374	6.9 %
Early elementary and secondary education	6,962	7,688	(726)	(9.4)%
Unemployment compensation	3,904	19,439	(15,535)	(79.9)%
Family and employment security trust	686	236	450	190.7 %
Other	18,772	19,465	(693)	(3.6)%
Total Expenses	83,358	95,210	(11,852)	(12.4)%
Excess/(Deficiency)				
Change in net position (deficits)	8,374	(2,787)	11,161	(400.5)%
Net position/(deficit) - beginning (as restated)	(75,797)	(73,010)	(2,787)	3.8 %
Net position/(deficit) - ending (as restated)	\$ (67,424)	\$ (75,797)	8,373	(11.0)%

Fiscal Year 2022

Annual Comprehensive Financial Report

Assets Owned by MassDOT and Higher Education But Largely Financed by the Commonwealth

Statement of Net Position, June 30, 2022

(Amounts in millions of dollars)

	<i>Primary Government</i>			
	Governmental Activities	Business-Type Activities	Government- Wide Total	Component Units
Net investment in capital assets	\$ (1,783)	\$ 3,762	\$ 1,979	\$ 36,186
Restricted for Family and Employment Security, Debt, Capital and Higher Education	1,285	2,175	3,461	5,123
Unrestricted (deficits)	(72,260)	(603)	(72,864)	(3,703)
Total net position (deficits)	\$ (72,758)	\$ 5,334	\$ (67,424)	\$ 37,606

Fiscal Year 2022 Annual Comprehensive Financial Report

Major Reasons for Government-Wide Net Position Deficit in FY2022 Annual Comprehensive Financial Report (\$67.424 billion)

- ★ Unfunded pension liability \$37.598 billion, net of deferrals, or amounts to be recognized in future years
- ★ Underfunded retiree health benefits (OPEB) of \$18.822 billion, net of deferrals)
- ★ School Building Authority debt and grants payable of \$6.439 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)

Fiscal Year 2022 Annual Comprehensive Financial Report

The GASB has issued the following Standards which have been or will be implemented in the following fiscal years:

- ★ Statement No. 87, Leases. This is effective for FY2022 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.
- ★ Statement No. 93, Replacement of Interbank Offered Rates – Effective FY2021, with no significant impact on the financial statements.
- ★ 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. The Office of the Comptroller is in the process of gathering the information to implement this standard, which is similar to the GASB 87 Lease Accounting Standard.
- ★ 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, with no impact on financial statements

Fiscal Year 2022 Annual Comprehensive Financial Report

Thank you!
Questions?

Pauline Lieu
Assistant Comptroller / Chief Financial Reporting Officer
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Agenda Item VI
CLA Report to the Advisory Board

Chris Rogers, Managing Principal of Industry
CliftonLarsonAllen

Agenda Item VII
Items not reasonably anticipated by the Chair

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item VIII
Next meeting

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance