

Minutes of the Advisory Board to the Comptroller

Meeting Date: Monday, January 26, 2026
Time: 9:30 a.m.
Location: Virtually via ZOOM, consistent with Chapter 2 of the Acts of 2025.

ADVISORY BOARD MEMBERS PRESENT

Members Present

Matthew Gorzkowicz (Chair), Secretary for Administration and Finance
Meredith Barrieau (Designee), First Deputy State Auditor, Office of the State Auditor
Kathleen McNamara (Designee), Director of Internal Audit, Office of the State Treasurer
Paula McManus (Designee), Chief Operating Officer, Office of the Attorney General
Thomas G. Ambrosino, Court Administrator of Massachusetts Trial Court
Natalie Monroe (Gubernatorial Appointment)
Michael Esmond (Gubernatorial Appointment), Director of Municipal Finance, Town of Braintree

ADVISORY BOARD MEMBERS ABSENT

None

OFFICE OF THE COMPTROLLER PARTICIPANTS

William McNamara, Comptroller
Pauline Lieu, Assistant Comptroller / Chief Financial Reporting Officer
Howard Merkwitz, Senior Advisor

CLIFTONLARSONALLEN (CLA) PARTICIPANTS

Mathew Goulet, CPA, Audit Manager
Chris Rogers, CPA, Managing Principal of Industry

AGENDA

1. ADMINISTRATIVE MATTERS

(a) Call to Order

The Chair called the meeting to order.

(b) Statement on Remote Participation

The Chair announced that this meeting was being held remotely in accordance with the Open Meeting Law. All members of the Advisory Board and members of the public participated remotely in the meeting. Because members of the Board participated remotely, votes were taken by roll call.

(c) Notice of Recording

The Chair announced that, pursuant to the Commonwealth's Open Meeting Law, Massachusetts General Laws, Chapter 30A, Section 20, any person may make a video or audio recording of this open meeting.

The Chair noted that the Office of the Comptroller ("CTR") was recording for the purpose of keeping the minutes and asked anyone else making a recording to please identify themselves. No one identified themselves.

2. REVIEW AND APPROVAL OF SEPTEMBER 18, 2025, ADVISORY BOARD MEETING MINUTES

On a motion by Mr. Esmond, seconded by Ms. McManus, the Board approved by roll call vote the September 18, 2025, Advisory Board meeting minutes.

- Secretary Gorzkowicz – Yes
- Meredith Barrieau – Yes
- Kathleen McNamara – Yes
- Paula McManus – Yes
- Thomas Ambrosino – Yes
- Natalie Monroe – Yes

- Michael Esmond - Yes

3. REMARKS FROM THE CHAIR OF THE ADVISORY BOARD

The Chair welcomed participants and observers to the meeting. He stated that the purpose of this meeting was to review the FY25 Statutory Basis Financial Report (SBFR). He provided an update regarding the financial health of the Commonwealth. He said that the SBFR is used for budgeting and updating balance sheets. He said that the SBFR shows that the Commonwealth is still in solid financial condition. He said that it has been a challenging few fiscal years, with the past few years coming in essentially coming in at benchmark each year, with little wiggle room. So far, FY26 has been about the same as previous years, with the budget coming in slightly above benchmark but close to even. He said the Healey administration will be releasing their FY27 budget this week. The Chair thanked the Comptroller and CTR for their work on the SBFR. The Chair turned the meeting over to the Comptroller.

4. REVIEW OF STATUTORY BASIS FINANCIAL REPORT (SBFR) FOR FISCAL YEAR 2025

The Comptroller thanked participants and observers for their attendance. He said that this is the earliest the SBFR has been published in several years.

At this point, a member of the public began displaying inappropriate content on their screen and the meeting was briefly recessed so the Chair could regain control. The meeting resumed after a break of several minutes. The Comptroller apologized for the interruption and said that new security settings were instituted and that they will be in place again in future meetings of the Advisory Board, to ensure future interruptions do not occur, while still complying with Open Meeting Law requirements.

The Comptroller briefly reviewed the three major annual reporting requirements: the Statutory Basis Financial Report, which is the subject of this meeting, the Annual Comprehensive Financial Report, and the Single Audit. The Commonwealth works with the independent CPA firm CliftonLarsonAllen (CLA) for all three reports. The SBFR contains core functions of state government that are recorded on the Commonwealth's general ledger system. The SBFR is reviewed by CLA. The ACFR contains the ~~same~~ information from ~~as~~ the SBFR but

adds General Accepted Accounting Principles (GAAP) modified accrual basis of accounting along with business-type activities and component units. The ACFR is audited by CLA. The Single Audit is a federal requirement structured around federal programs and is conducted by CLA. The Comptroller turned the presentation over to Assistant Comptroller and Chief Financial Reporting Officer Pauline Lieu, and Senior Advisor Howard Merkowitz.

Mr. Merkowitz first provided an overview of the SBFR. The SBFR is presented on a budgetary or statutory basis. This means that it includes cash receipts and expenditures, including the two-month accounts payable and receivable period. It excludes trust funds, most business-type activities such as unemployment and institutions of higher education, and component units such as MassDOT and the MBTA. The SBFR determines whether the budget is balanced according to state finance law. It also determines the calculation of the consolidated net surplus and the end of year transfer to the Stabilization Fund.

Mr. Merkowitz next provided a summary of balances at FY25 year end. FY25 ended with a balanced budget, with a consolidated net surplus of \$0 in the budgeted funds, after allocating \$297 million in capital gains revenue to the General Fund per a provision in the FY25 final supplemental budget. FY25 had an operating loss of \$984 million in the budgeted funds, compared to \$334 million in FY24. This includes a \$409 million reduction in the amount reserved for prior appropriations continued (PACs) and debt service and \$413 million in the amount reserved for the Stabilization Fund. This loss represents an excess of yearly expenditure over revenue received, which results in a lower year-end balance in the budgeted funds. It does not represent deficit spending or an increase in debt. There was a budgeted fund ending balance of \$14.020 billion: \$8.111 billion in the Stabilization Fund; \$921 million in the General Fund, all designated for FY25 appropriations continued into FY26; \$966 million in the Transitional Escrow Fund, \$496 million reserved for PACs; and \$2.993 billion in the three education and transportation funds financed by the 4% fair share surtax, including \$1.781 billion undesignated and \$1.212 billion reserved for PACs.

Mr. Merkowitz next reviewed FY25 total budgeted revenues and income tax revenues. Total budgeted fund revenue totaled \$67.102 billion, an increase of \$5.367 billion (8.7%) from FY24. Budgeted fund tax revenue (not including sales tax revenue allocated to the MBTA and

MSBA) totaled \$41.011 billion, up \$2.872 billion (7.5%) from FY24, with most of the increase due to growth in personal income tax withholding collections and the fair share surtax. Total personal income tax collections were \$26.712 billion, personal income tax withholding was \$19.056 billion, and non-withheld personal income tax was \$7.656 billion. Sales and use tax totaled \$6.859 billion and corporate and business taxes totaled \$4.670 billion. Other notable changes included an increase of \$166 million (28.9%) in the estate and inheritance tax and an increase in the deeds excise tax of \$30 million (10%). Budgeted fund federal reimbursements totaled \$16.210 billion, an increase of \$1.606 billion (11%) due primarily to an increase in the state's Medicaid federal reimbursements, which totaled \$14.486 billion. Budgeted fund departmental revenue totaled \$7.187 billion, an increase of \$758 million (11.8%), mainly due to tobacco settlement revenues. This growth was partially offset by a decline in interest earnings, which dropped to \$787 million because of lower interest rates and average balances in the General Fund. Lottery profits totaled \$1.059 billion, a decrease of \$92 million (8%).

Ms. Lieu then reviewed FY25 expenditures and transfers. Budgeted fund expenditures and other uses totaled \$68.086 billion, an increase of \$6.017 billion (9.7%). Medicaid (MassHealth) expenditures totaled \$22.129 billion, an increase of \$2.059 billion (10.3%), due to growth in Medicaid caseloads and the general increase in healthcare costs, particularly for nursing home care covered by Medicaid. Spending on other Executive Office of Human Services programs totaled \$10.282 billion, and increase of \$868 million (9.2%), primarily due to increased spending at the Department of Developmental Services and on adult mental health spending and behavioral health spending. Direct local aid spending was \$8.248 billion, up \$300 million (3.8%). Transfers to the state pension fund were \$4.498 billion, an increase of \$394 million (9.6%), with additional pension contributions of \$29 million from capital gains taxes. Budgeted fund debt service totaled \$2.600 billion, up \$175 million (7.2%).

Ms. Lieu reviewed interfund transfers and surtax spending. Interfund transfers from budgeted to non-budgeted funds totaled \$2.901 billion, an increase of \$1.381 billion (90.9%). The net increase was due primarily to transfers of \$827 million of FY24 and FY25 interest earnings from the Stabilization Fund to the Commonwealth Federal Matching and Reduction Fund, and \$640 million from the General Fund to the Medical Assistance Trust Fund. There was \$1.510 billion in education and transportation spending from surtax personal income revenues,

an increase of \$607 million (40.2%), including: \$737 million for elementary and secondary education; \$264 million for higher education; and \$507 million for transportation. Ms. Lieu noted that more details about fair share surtax revenues may be found on page 185 of the SBFR, which is publicly available at <https://www.macomptroller.org/sbfr/>.

Mr. Merkowitz then reviewed Stabilization Fund activity. The total balance at the end of FY25 was \$8.110 billion, down slightly from the starting balance of \$8.524 billion. As stated previously, this decrease was due to transfers of the FY24 and FY25 Stabilization Fund interest to the Commonwealth Federal Matching and Reduction Fund. The Stabilization Fund balance as a percentage of the General Fund own source expenditures was 16.6%, well above the national average of 13.1%.

Next, Ms. Lieu reviewed non-budgeted special revenue fund revenues and expenditures. FY25 revenues and other financing sources totaled \$23.426 billion, up \$1.487 billion (6.8%). This includes: \$6.974 billion in federal revenues, down \$152 million (2.1%); an increase of \$390 million (23.4%) in assessment revenue; a decrease of \$321 million (4.0%) of departmental and other miscellaneous revenue; and transfers of \$3.111 billion, up \$1.432 billion (85.3%). The most significant transfers included \$827 million in FY24 and FY25 Stabilization Fund interest to the Commonwealth Federal Matching and Debt Reduction Fund and \$1.220 billion in transfers to the Massachusetts Transportation Trust Fund.

FY25 expenditures and other uses totaled \$22.837 billion, up \$836 million (3.8%). Notable spending includes: \$1.709 billion in spending from the Hospital Investment and Performance Trust Fund, an increase in \$586 million; \$444 million in spending from the Commonwealth Care Trust Fund, an increase in \$242 million; \$212 million in spending from the Commonwealth Federal Matching and Debt Reduction Fund; and \$188 million in spending from the Managed Care Organization Services Reinvestment Fund.

Ms. Lieu reviewed FY25 capital projects spending and revenue. FY25 spending on capital projects totaled \$4.674 billion, up \$733 million (18.6%). Significant categories of capital spending included: \$2.457 billion (more than half of all capital spending) on transportation-related projects; \$661 million on non-transportation state infrastructure; \$458 million on housing; \$276 million on environmental projects; \$315 million on education; and \$280 million

on information technology. Ms. Lieu noted that a list of individual capital projects starts on page 19 of the SBFR.

She then noted that, to fund the FY25 capital budget and FY24 capital expenditures that had not been bonded as of June 30, 2024, the Commonwealth borrowed by issuing general and special obligation bonds with proceeds of \$3.612 billion, and issued refunding bonds with proceeds of \$676 million. The Commonwealth received \$971 million in federal reimbursements for capital spending. At the end of FY25, the capital projects funds had a \$1.722 billion negative balance, as the Commonwealth had not yet reimbursed itself for capital spending that it typically funds in arrears through subsequent bond issues. The capital projects funds normally have a negative balance at the close of the fiscal year.

Ms. Lieu then turned the presentation over to the Comptroller. The Comptroller thanked Ms. Lieu and Mr. Merkowitz for their overview of the SBFR. The Comptroller then introduced and turned the presentation over to Chris Rogers, Managing Principal of Industry at CLA, and Mathew Goulet, Audit Manager at CLA.

5. CLIFTONLARSONALLEN (CLA) REPORT TO THE BOARD

Mr. Rogers introduced his colleagues and turned the presentation over to Mr. Goulet. Mr. Goulet thanked the Comptroller, Ms. Lieu and others at CTR for their hard work and partnership with the SBFR. He stated that the objective of CLA's SBFR review is to obtain limited assurance as a basis for reporting whether material modifications should be made to the financial statements for the SBFR to comply with statutory requirements. The review is substantially less in scope than an audit. The scope of CLA's review includes:

- Budgeted funds (General Fund, Commonwealth Transportation Fund, Stabilization Fund, Transitional Escrow Fund, Federal COVID-19 Response Fund, and 22 other "nonmajor" budgeted funds).
- Non-budgeted special revenue funds. These are revenue sources that support specific governmental activities (such as federal grants, Lottery, gaming, etc.)
- Capital projects funds, which include acquisition and construction of major capital assets financed primarily through the issuance of bonds.

Mr. Goulet stated that the Commonwealth and CLA each have different responsibilities regarding review of the SBFR. The Commonwealth is responsible for preparation and fair presentation of the SBFR in accordance with the Commonwealth statutory basis of accounting. They must design, implement, and maintain internal controls relevant to preparation and fair presentation of a SBFR that is free from material misstatement (whether by fraud or error). They must provide unrestricted access to information and personnel requested, and a representation letter at the conclusion of the review. CLA is responsible for concluding whether or not material modifications should be made to the combined financial statements, the combined individual fund statements, and supplemental information. They conduct engagement in accordance with statements on standards for accounting and review services, published by the American Institute of Certified Public Accountants (“AICPA”). They must comply with the AICPA’s Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

Mr. Goulet said that CLA performs analytical procedures and inquiries of management during their review. CLA looks at balances reported in the SBFR to identify any odd or unusual relationships that are contrary to expectations. If identified, such relationships require further inquiry, to determine if it makes sense due to factors affecting the Commonwealth during the fiscal year.

Mr. Goulet said that CLA anticipates issuing an unmodified report. Review of the draft SBFR is ongoing, but no material modifications have been identified. Mr. Goulet summarized communications related to the SBFR:

- The SBFR is being issued after the October 31 deadline due to timing of the final supplemental budget.
- There were no new budgeted funds in FY25.
- There were no difficulties or disagreements with CTR management.
- There were no uncorrected misstatements.

Mr. Goulet asked if there were any questions from Board members? None were raised. He then turned the presentation over to the Comptroller.

The Comptroller thanked CLA for their strong professional relationship with CTR and their work on the SBFR. He then asked if the Board members have any questions generally regarding the SBFR? None were raised. The Comptroller turned the meeting over to the Chair. Ms. Monroe thanked the teams for their comprehensive work. Mr. Esmond asked if the Stabilization Fund growth remained flat after adjusting for the FY24 and FY25 interest transfer? The Chair said there was a slight increase, but it was essentially flat. Mr. Esmond commented that this sounds like a great result considering it was a challenging fiscal year. Mr. Merkowitz commented that there would have been a \$7 million increase without the timing discrepancy.

6. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

The Chair asked if there were any other items not reasonably anticipated by the Board to be discussed? None were raised.

7. TIMING OUTLOOK FOR NEXT MEETING

The Comptroller said that the next meeting will focus on the ACFR, and he anticipates reaching out to the Board in mid-February with tentative meeting dates. It should take place sometime in late February or March.

8. MEETING ADJOURNMENT

The Chair adjourned the meeting.