



COMMONWEALTH OF MASSACHUSETTS

OMB Circular A-133 Report

June 30, 2010

COMMONWEALTH OF MASSACHUSETTS

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June 30, 2010

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Report on Supplementary Schedule of Expenditures of Federal Awards

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

We have audited the 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, 2010, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated January 18, 2011. Our report was modified to include a reference to other auditors and included an explanatory paragraph regarding the Commonwealth adopting the provisions of Governmental Accounting Standards Board (GASB) Statements No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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 89% of the total assets of the business-type activities. We did not audit 48% 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 represents 9% of the total assets of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain non-major component units, which represent 6% 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 non-major component units identified in note 13 to the Commonwealth's basic financial statements 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements.

KPMG LLP

January 18, 2011

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Agriculture:		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 9,679,040
10.156	Federal-State Marketing Improvement Program	278,705
10.199	Federal Operating Reimb-EGG Grading	2,896
10.307	Organic Agriculture Research and Extension Initiative	50,250
10.479	Food Safety Cooperative Agreements	6,536
	<i>SNAP Cluster:</i>	
10.551	Supplemental Nutrition Assistance Program (SNAP)	1,127,190,731
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	43,679,111
10.561	ARRA – State Administrative Matching Grants for Supplemental Nutrition Assistance Program	<u>6,465,962</u>
	<i>Total SNAP Cluster</i>	<u>1,177,335,804</u>
	<i>Child Nutrition Cluster:</i>	
10.555	National School Lunch Program	183,609,727
10.559	Summer Food Service Program for Children	<u>6,366,816</u>
	<i>Total Child Nutrition Cluster</i>	<u>189,976,543</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	110,677,831
10.558	Child and Adult Care Food Program	53,875,623
10.560	State Administrative Expenses for Child Nutrition	3,164,323
10.568	Emergency Food Assistance Program Administrative Costs	1,379,886
10.568	ARRA – Emergency Food Assistance Program Administrative Costs	643,543
10.572	WIC Farmers' Market Nutrition Program (FMNP)	425,272
10.574	Team Nutrition Grants	2,907
10.576	Senior Farmers Market Nutrition Program	546,220
10.578	ARRA – WIC Grants To States (WGS)	1,035
10.579	ARRA – Child Nutrition Discretionary Grants Limited Availability	1,374,476
10.582	Fresh Fruit and Vegetable Program	1,508,100
10.664	Cooperative Forestry Assistance	3,442,276
10.675	Urban and Community Forestry Program	354,891
10.688	ARRA – Recovery Act of 2009: Wildland Fire Management	846,488
10.769	Rural Business Enterprise Grants	45,080
10.913	Farm and Ranch Lands Protection Program	6,591,401
10.914	Wildlife Habitat Incentive Program	<u>17,349</u>
		<u>1,562,226,475</u>
U.S. Department of Commerce:		
11.405	Anadromous Fish Conservation Act Program	23,771
11.407	Interjurisdictional Fisheries Act of 1986	105,267
11.419	Coastal Zone Management Administration Awards	4,816,429
11.420	Coastal Zone Management Estuarine Research Reserves	601,435
11.452	Unallied Industry Projects	1,309,371
11.454	Unallied Management Projects	585,415
11.463	Habitat Conservation	861,554
11.472	Unallied Science Program	57,295
11.474	Atlantic Coastal Fisheries Cooperative Management Act	251,940
11.499	Right Whale Conservation Program	40,200
11.555	Public Safety Interoperable Communications Grant Program	<u>797,616</u>
		<u>9,450,293</u>
U.S. Department of Defense:		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,010,763
12.400	Military Construction, National Guard	9,722,459
12.401	National Guard Military Operations and Maintenance (O&M) Projects	21,875,624
12.401	ARRA – National Guard Military Operations and Maintenance (O&M) Projects	<u>8,885,353</u>
		<u>41,494,199</u>

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Housing and Urban Development:		
14.181	Supportive Housing for Persons with Disabilities	\$ 640,231
<i>Section 8 Project-Based Cluster:</i>		
14.182	Section 8 New Construction Program	6,329,806
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	18,281,078
	<i>Total Section 8 Project-Based Cluster</i>	<u>24,610,884</u>
<i>CDBG – State – Administered Small Cities Program Cluster:</i>		
14.228	Community Development Block Grants/State's Program	44,284,036
14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	2,093,022
	<i>Total CDBG – State – Administered Small Cities Program Cluster</i>	<u>46,377,058</u>
14.231	Emergency Shelter Grants Program	2,317,082
14.235	Supportive Housing Program	7,726,325
14.238	Shelter Plus Care	537,315
14.239	HOME Investment Partnerships Program	18,660,288
14.241	Housing Opportunities for Persons with AIDS	146,000
14.257	ARRA – Homelessness Prevention and Rapid Re-Housing Program	3,877,698
14.258	ARRA – Tax Credit Assistance Program	23,131,323
14.401	Fair Housing Assistance Program State and Local	657,743
14.855	Section 8 Rental Voucher Program	3,181,702
14.871	Section 8 Housing Choice Vouchers	839,399
14.881	Moving to Work Demonstration Program	221,364,309
14.907	ARRA – Lead-Based Paint Hazard Control in Privately Owned Housing	641,378
14.VSH-1	Veterans Affairs Supporting Housing (VASH)	717,130
		<u>355,425,865</u>
U.S. Department of the Interior:		
<i>Fish and Wildlife Cluster:</i>		
15.605	Sport Fish Restoration	4,816,519
15.611	Wildlife Restoration	1,320,995
	<i>Total Fish and Wildlife Cluster</i>	<u>6,137,514</u>
15.608	Fish and Wildlife Management Assistance	90,133
15.614	Coastal Wetlands Planning, Protection and Restoration Act	742,371
15.622	Sportfishing and Boating Safety Act	939,552
15.630	Coastal Program	43,925
15.631	Partners for Fish and Wildlife	13,037
15.633	Landowner Incentive	463,259
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	359
15.904	Historic Preservation Fund Grants-In-Aid	719,950
15.916	Outdoor Recreation Acquisition, Development and Planning	1,096,801
15.926	American Battlefield Protection	6,714
15.929	Save America's Treasures	50,000
		<u>10,303,615</u>
U.S. Department of Justice:		
16.202	Offender Reentry Program	54,010
16.393	Residential Substance Abuse Treatment For State Prisoners	230,007
16.451	Part E – Developing, Testing and Demonstrating Promising New Programs	56,849
16.523	Juvenile Accountability Incentive Block Grants	912,100
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	1,122,803
16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	214,734
16.543	Missing Children's Assistance	483,624
16.550	State Justice Statistics Program for Statistical Analysis Centers	66,570
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	156,622
16.575	Crime Victim Assistance	6,510,170
16.576	Crime Victim Compensation	1,146,501
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	780,027
16.582	Crime Victim Assistance/Discretionary Grants	263,855
16.588	Violence Against Women Formula Grants	2,684,425

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CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Justice (Continued):		
16.588	ARRA – Violence Against Women Formula Grants	\$ 1,374,471
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	323,083
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	333,215
16.595	Community Capacity Development Office	425,780
16.606	State Criminal Alien Assistance Program	6,891,270
16.609	Community Prosecution and Project Safe Neighborhoods	320,600
16.610	Regional Information Sharing Systems	4,160,288
16.710	Public Safety Partnership and Community Policing Grants	1,463,729
16.726	Juvenile Mentoring Program	117,100
16.727	Enforcing Underage Drinking Laws Program	214,581
16.738	Edward Byrne Memorial Justice Assistance Grant Program	3,559,366
16.741	Forensic DNA Capacity Enhancement Program	283,412
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	285,665
16.743	Forensic Casework DNA Backlog Reduction Program	256,916
16.744	Anti-Gang Initiative	162,221
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	32,773
16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program (In-House Analysis and Data Review)	148,270
16.753	Congressionally Recommended Awards	366,783
16.800	ARRA – Internet Crimes Against Children Task Force Program (ICAC)	230,395
16.801	ARRA – State Victim Assistance Formula Grant Program	140,451
16.802	ARRA – State Victim Compensation Formula Grant Program	304,057
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	4,839,097
16.804	ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	408,964
16.999	Department of Justice – Miscellaneous	45,146
16.XXX	Housing Federal Prisoners	16,495,077
		<hr/> 57,865,007
U.S. Department of Labor:		
17.002	Labor Force Statistics	2,178,864
17.005	Compensation and Working Conditions	251,657
	<i>Employment Service Cluster:</i>	
17.207	Employment Service	15,952,130
17.207	ARRA – Employment Service	5,332,718
17.801	Disabled Veterans’ Outreach Program (DVOP)	1,185,182
17.804	Local Veterans’ Employment representative Program	1,781,233
	<i>Total Employment Service Cluster</i>	<hr/> 24,251,263
17.225	Unemployment Insurance	5,063,381,830
17.225	ARRA – Unemployment Insurance	433,673,075
17.235	Senior Community Service Employment Program	2,262,903
17.235	ARRA – Senior Community Service Employment Program	511,330
17.245	Trade Adjustment Assistance Workers	12,455,508
	<i>WIA Cluster:</i>	
17.258	WIA Adult Program	17,965,648
17.258	ARRA – WIA Adult Program	5,766,735
17.259	WIA Youth Activities	19,510,123
17.259	ARRA – WIA Youth Activities	14,309,434
17.260	WIA Dislocated Workers	21,652,276
17.260	ARRA – WIA Dislocated Workers	12,981,626
	<i>Total WIA Cluster</i>	<hr/> 92,185,842
17.266	Work Incentives Grant	540,689
17.267	WIA Incentive Grants Section 503 Grants to States	44,020
17.269	Community Based Job Training Grants	182,855
17.275	ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	138,745

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CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Labor (Continued):		
17.504	Consultation Agreements	\$ 1,357,605
17.505	OSHA Data Initiative	87,022
17.600	Mine Health and Safety Grants	72,326
17.802	Veterans' Employment Program	539,179
17.805	Homeless Veterans Reintegration Project	477,138
		<hr/> 5,634,591,851
U.S. Department of Transportation:		
<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	569,412,194
20.205	ARRA – Highway Planning and Construction	72,124,157
20.219	Recreational Trails Program	567,088
	<i>Total Highway Planning and Construction Cluster</i>	<hr/> 642,103,439
20.218	National Motor Carrier Safety	3,244,399
20.231	Performance and Registration Information Systems Management	134,564
20.232	Commercial Driver License State Programs	159,647
20.234	Safety Data Improvement Program	43,625
20.238	Commercial Drivers License Information System	67,329
20.505	Federal Transit Metropolitan Planning Grants	1,693,188
20.509	Formula Grants for Other Than Urbanized Areas	2,677,494
20.509	ARRA – Formula Grants for Other Than Urbanized Areas	2,297,917
<i>Transit Services Programs Cluster:</i>		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	6,559,799
20.516	Job Access Reverse Commute	417,568
20.521	New Freedom Program	157,473
	<i>Total Transit Services Programs Cluster</i>	<hr/> 7,134,840
20.106	Airport improvement Program	339,672
20.600	State and Community Highway Safety	18,734,323
20.614	Safety Incentive Grants for Use of Seatbelts	353,905
20.700	Pipeline Safety	900,032
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	141,443
		<hr/> 680,025,817
Equal Employment Opportunity Commission:		
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	1,109,550
National Endowment for the Arts:		
45.024	Promotion of the Arts Grants to Organizations and Individuals	32,500
45.024	ARRA – Promotion of the Arts Grants to Organizations and Individuals	25,000
45.025	Promotion of the Arts Partnership Agreements	922,200
45.025	ARRA – Promotion of the Arts Partnership Agreements	314,341
45.028	Promotion of the Arts: Partnership Agreements	400
45.163	Promotion of the Humanities Professional Development	701
45.164	Promotion of the Humanities Public Programs	2,459
		<hr/> 1,297,601
Institute of Museum and Library Services:		
45.310	State Library Program	3,194,895
45.312	National Leadership Grants	24,788
		<hr/> 3,219,683

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Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
National Science Foundation:		
47.050	Geosciences	\$ 18,156
47.070	Computer and Information Science and Engineering	32,420
47.074	Biological Sciences	266,879
47.076	Education and Human Resources	12,596
47.082	ARRA – Trans-NSF Recovery Act Research Support	79,833
		<hr/> 409,884
U.S. Department of Veterans Affairs:		
64.014	Veterans State Domiciliary Care	3,929,126
64.015	Veterans State Nursing Home Care	14,877,797
		<hr/> 18,806,923
Environmental Protection Agency:		
66.032	State Indoor Radon Grants	150,667
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	635,256
66.036	Clean School Bus USA	112,296
66.039	ARRA – National Clean Diesel Emissions Reduction Program	169,284
66.040	State Clean Diesel Grant Program	260
66.040	ARRA – State Clean Diesel Grant Program	280,907
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements – Section 104(b)(3) of the Clean Water Act	(221)
66.439	Targeted Watershed Grants	23,100
66.454	Water Quality Management Planning	108,213
66.454	ARRA – Water Quality Management Planning	803,404
66.456	National Estuary Program	1,132,624
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	5,936,534
66.461	Regional Wetland Program Development Grants	29,242
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Fund	2,379,815
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	150,562
66.472	Beach Monitoring and Notification Program Implementation Grants	307,427
66.474	Water Protection Grants to the States	55,421
66.605	Performance Partnership Grants	14,350,908
66.606	Surveys, Studies, Investigations and Special Purpose Grants	44,860
66.608	Environmental Information Exchange Network Grant Program	450,521
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	448,539
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	180,592
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	289,861
66.708	Pollution Prevention Grants Program	8,247
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	1,070,597
66.804	State and Tribal Underground Storage Tanks Program	700,225
66.805	Leaking Underground Storage Tank Trust Fund Program	1,111,342
66.805	ARRA – Leaking Underground Storage Tank Trust Fund Program	861,201
66.808	Solid Waste Management Assistance Grants	14,945
66.817	State and Tribal Response Program Grants	1,456,654
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	117,790
66.999	Environmental Protection Agency – Miscellaneous	8,492,938
		<hr/> 41,874,011
U.S. Department of Energy:		
81.041	State Energy Program	606,536
81.041	ARRA – State Energy Program	13,375,701
81.042	Weatherization Assistance for Low-Income Persons	7,212,294
81.042	ARRA – Weatherization Assistance for Low-Income Persons	43,152,227
81.049	Office of Science Financial Assistance Program	130,321
81.087	Renewable Energy Research and Development	180,417
81.090	State Heating Oil and Propane Programs	3,775
81.113	Defense Nuclear Nonproliferation Research	1,096

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Energy (Continued):		
81.117	ARRA – Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	\$ 400,569
81.119	State Energy Program Special Projects	181,388
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	210,772
81.127	ARRA – Energy Efficient Appliance Rebate Program (EEARP)	6,210,926
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	5,842,850
		<hr/> 77,508,872
U.S. Department of Education:		
84.002	Adult Education State Grant Program	9,660,951
	<i>Title I, Part A Cluster:</i>	
84.010	Title I Grants to Local Educational Agencies	228,608,036
84.389	ARRA – Title I Grants to Local Educational Agencies, Recovery Act	72,641,037
	<i>Total Title I, Part A Cluster</i>	<hr/> 301,249,073
84.011	Migrant Education State Grant Program	1,674,307
84.013	Title I Program for Neglected and Delinquent Children	1,941,075
	<i>Special Education Cluster:</i>	
84.027	Special Education Grants to States	271,572,956
84.173	Special Education Preschool Grants	9,573,572
84.391	ARRA – Special Education Grants to States, Recovery Act	122,065,169
84.392	ARRA – Special Education – Preschool Grants	4,537,311
	<i>Total Special Education Cluster</i>	<hr/> 407,749,008
84.031	Higher Education Institutional Aid	678,147
	<i>TRIO Cluster:</i>	
84.042	TRIO Student Support Services	2,569,474
84.044	TRIO Talent Search	786,845
84.047	TRIO Upward Bound	1,845,094
84.066	TRIO Educational Opportunity Centers	374,928
	<i>Total TRIO Cluster</i>	<hr/> 5,576,341
84.048	Vocational Education Basic Grants to States	19,708,823
84.116	Fund for the Improvement of Postsecondary Education	160,937
	<i>Vocational Rehabilitation Cluster:</i>	
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	44,362,394
84.390	ARRA – Rehabilitation Services-Vocational Rehabilitation Grants to States	2,551,717
	<i>Total Vocational Rehabilitation Cluster</i>	<hr/> 46,914,111
84.128	Rehabilitation Services Service Projects	60
84.144	Migrant Education Coordination Program	32,202
84.161	Rehabilitation Services Client Assistance Program	190,344
	<i>Independent Living State Grants Cluster:</i>	
84.169	Independent Living State Grants	1,620,759
84.398	ARRA – Independent Living State Grants, Recovery Act	70,279
	<i>Total Independent Living State Grants Cluster</i>	<hr/> 1,691,038
84.176	Paul Douglas Teacher Scholarship	200,516
	<i>Independent Living Services for Older Individuals Who are Blind Cluster</i>	
84.177	Independent Living Services for Older Individuals Who are Blind	679,504
84.399	ARRA – Independent Living Services for Older Individuals Who are Blind, Recovery Act	308,102
	<i>Total Independent Living Services for Older Individuals Who are Blind Cluster</i>	<hr/> 987,606
	<i>Early Intervention Services Cluster:</i>	
84.181	Special Education Grants for Infants and Families with Disabilities	6,554,556
84.393	ARRA – Special Education – Grants for Infants and Families, Recover Act	5,303,375
	<i>Total Early Intervention Services Cluster</i>	<hr/> 11,857,931
84.185	Byrd Honors Scholarships	742,500

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Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Education (Continued):		
84.186	Safe and Drug-Free Schools and Communities State Grants	\$ 5,497,037
84.187	Supported Employment Services for Individuals with Severe Disabilities	527,636
	<i>Education for Homeless Children and Youth Cluster:</i>	
84.196	Education for Homeless Children and Youth	953,050
84.387	ARRA – Education for Homeless Children and Youth	554,124
	<i>Total Education for Homeless Children and Youth Cluster</i>	<u>1,507,174</u>
84.206	Javits Gifted and Talented Students Education Grant Program	479
84.213	Even Start State Educational Agencies	1,095,978
84.215	Fund for the Improvement of Education	22,559
84.224	Assistive Technology	517,832
84.235	Rehabilitation Services Demonstration and Training Programs	472,643
84.243	Tech-Prep Education	1,775,687
84.265	Rehabilitation Training State Vocational Rehabilitation Unit in-service Training	79,563
84.282	Charter Schools	1,809,655
84.287	Twenty-First Century Community Learning Centers	17,994,895
84.298	State Grants for Innovative Programs	45,148
84.305	Education Research, Development and Dissemination	711,050
	<i>Education Technology State Grants Cluster:</i>	
84.318	Education Technology State Grants	4,262,127
84.386	ARRA – Education Technology State Grants,	4,147,552
	<i>Total Education Technology State Grants Cluster</i>	<u>8,409,679</u>
84.323	Special Education – State Personnel Development	932,847
84.325	Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	223,302
84.327	Special Education – Technology and Media Services for Individuals with Disabilities	73,943
84.330	Advanced Placement Program	444,829
84.331	Grants to States for Incarcerated Youth Offenders	123,208
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,329,768
84.350	Transition to Teaching	92,068
84.357	Reading First State Grants	1,679,573
84.358	Rural Education	46,983
84.365	English Language Acquisition Grants	11,670,785
84.366	Mathematics and Science Partnerships	2,246,373
84.367	Improving Teacher Quality State Grants	50,468,821
84.369	Grants for State Assessments and Related Activities	7,097,177
84.372	Statewide Data Systems	1,684,618
	<i>School Improvement Grants Cluster:</i>	
84.377	School Improvement Grants	7,361,686
84.388	ARRA – School Improvement Grants, Recovery Act	2,829
	<i>Total School Improvement Grants Cluster</i>	<u>7,364,515</u>
84.378	College Access Challenge Grant Program	1,781,930
84.400	ARRA – Centers for Independent Living, Recovery Act.	87,571
	<i>State Fiscal Stabilization Fund Cluster:</i>	
84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	383,448,665
84.397	ARRA – State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	11,270,557
	<i>Total State Fiscal Stabilization Cluster</i>	<u>394,719,222</u>
84.999	Department of Education – Miscellaneous	625,215
		<u>1,336,174,733</u>
U.S. Election Assistance Commission:		
90.401	Help America Vote Act Requirements Payments	2,613
		<u>2,613</u>

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Health and Human Services:		
93.003	Public Health and Social Services Emergency Fund	\$ 32,450
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	77,562
93.041	Special Programs for the Aging-Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	95,860
93.043	Special Programs for the Aging-Title III, Part D Disease Prevention and Health Promotion Services	447,394
<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	9,518,143
93.045	Special Programs for the Aging Title III, Part Nutrition Services	13,810,886
93.053	Nutrition Services Incentive Program	3,291,291
93.705	ARRA – Aging Home-Delivered Nutrition Services for States	688,312
93.707	ARRA – Aging Congregate Nutrition Services for States	1,397,344
<i>Total Aging Cluster</i>		<u>28,705,976</u>
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	1,031,409
93.051	Alzheimer’s Disease Demonstration Grants to States	134,023
93.052	National Family Caregiver Support	3,283,154
93.069	Public Health Emergency Preparedness	68,025,284
93.070	Environmental Public Health and Emergency Response	290,406
93.071	Medicare Enrollment Assistance Program	70,990
93.087	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	560,109
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	500
93.103	Food and Drug Administration Research	771,891
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,569,674
93.110	Maternal and Child Health Federal Consolidated Programs	746,591
93.913	Grants to States for Operation of Offices of Rural Health	177,033
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	1,614,845
93.121	Oral Diseases and Disorders Research	300,739
93.127	Emergency Medical Services for Children	104,647
93.134	Grants to Increase Organ Donations	339,546
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	707,343
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,322,873
93.137	Community Programs to Improve Minority Health Grant Program	41,151
93.150	Project s for Assistance in Transition from Homelessness (PATH)	1,317,558
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	850,187
93.165	Grants To States for Loan Repayment Program	240,000
93.184	Disabilities Prevention	233,773
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,067,979
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	156,363
93.226	Research on Healthcare Costs, Quality and Outcomes	383,348
93.234	Traumatic Brain Injury State Demonstration Grant Program	198,390
93.235	Abstinence Education Program	3,193
93.236	Grants for Dental Public Health Residency Training	216,523
93.240	State Capacity Building	384,488
93.241	State Rural Hospital Flexibility Program	282,212
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	6,615,470
93.251	Universal Newborn Hearing Screening	233,322
93.262	Occupational Safety and Health Program	767,651
<i>Immunization Cluster:</i>		
93.268	Immunization Grants	65,710,422
93.712	ARRA – Immunization	134,102
<i>Total Immunization Cluster</i>		<u>65,844,524</u>

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Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Health and Human Services (Continued):		
93.276	Drug-Free Communities Support Program Grants	\$ 97,518
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	13,027,070
93.358	Advanced Education Nursing Traineeships	33,000
93.402	ARRA – State Loan Repayment Program	100,000
93.407	ARRA – Scholarships for Disadvantaged Students	50,703
93.414	ARRA – State Primary Care Offices	7,100
93.551	Abandoned Infants	746,913
93.556	Promoting Safe and Stable Families	5,270,727
<i>TANF Cluster:</i>		
93.558	Temporary Assistance for Needy Families	370,001,250
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	96,087,169
<i>Total TANF Cluster</i>		<u>466,088,419</u>
93.563	Child Support enforcement	54,043,250
93.563	ARRA – Child Support enforcement	6,883,598
93.564	Child Support Enforcement research	41,692
93.566	Refugee and Entrant Assistance-State Administered Programs	7,131,843
93.568	Low-Income Home Energy Assistance	196,763,912
<i>CSBG Cluster:</i>		
93.569	Community Services Block Grant	18,408,359
93.710	ARRA – Community Services Block Grant	19,258,415
<i>Total CSBG Cluster</i>		<u>37,666,774</u>
<i>CCDF Cluster:</i>		
93.575	Child Care and Development Block Grant	124,608,245
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	79,310,095
93.713	ARRA – Child Care and Development Block Grant	2,571,357
<i>Total CCDF Cluster</i>		<u>206,489,697</u>
93.576	Refugee and Entrant Assistance Discretionary Grants	931,793
93.583	Refugee and Entrant Assistance Wilson/Fish Program	4,968,932
93.584	Refugee and Entrant Assistance – Targeted Assistance Grants	901,074
93.586	State Court improvement Program	477,326
93.590	Child Abuse Prevention Activities	503,013
93.597	Grants to States for Access and Visitation Programs	106,776
93.599	Chafee Education and Training Vouchers Program (ETV)	835,387
93.600	Head Start	213,608
93.617	Voting Access for Individuals with Disabilities Grants to States	11,386
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,310,498
93.631	Developmental Disabilities Projects of National Significance	55,000
93.643	Children’s Justice Grants to States	292,794
93.645	Child Welfare Services State Grants	2,748,314
93.658	Foster Care Title IV-E	54,865,137
93.658	ARRA – Foster Care Title IV-E	2,965,816
93.659	Adoption Assistance	34,689,450
93.659	ARRA – Adoption Assistance	2,982,148
93.667	Social Services Block Grant	82,070,346
93.669	Child Abuse and Neglect State Grants	487,430
93.671	Family Violence Prevention and Services/Grants for Battered Women’s Shelters Grants to States and Indian Tribes	1,892,321
93.674	Chafee Foster Care Independence Program	3,022,273
93.701	ARRA – Trans-NIH Recovery Act Research Support	221,638
93.717	ARRA – Preventing Healthcare-Associated Infections	364,951
93.720	ARRA – Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	6,531
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands	68,111
93.725	ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	1,510
93.767	State Children’s Insurance Program	292,439,982

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Health and Human Services (Continued):		
93.773	Medicare Hospital Insurance	\$ 12,206,322
	<i>Medicaid Cluster:</i>	
93.775	State Medicaid Fraud Control Units	5,353,068
93.777	State Survey and Certification of Health Care Providers and Suppliers	7,784,387
93.778	Medical Assistance Program	5,944,595,732
93.778	ARRA – Medical Assistance Program	<u>1,318,669,982</u>
	<i>Total Medicaid Cluster</i>	<u>7,276,403,169</u>
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,567,494
93.790	Alternate Non-Emergency Service Providers or Networks	1,804,833
93.793	Medicaid Transformation Grants	101,993
93.822	Health Careers Opportunity Program	90,031
93.837	Cardiovascular Diseases Research	42,664
93.889	National Bioterrorism Hospital Preparedness Program	12,337,912
93.917	HIV Care Formula Grants	23,213,949
93.926	Healthy Start initiative	5,766,239
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of Hiv and Other Important Health Problems	1,017,863
93.940	HIV Prevention Activities Health Department Based	9,952,921
93.941	HIV Demonstration, Research, Public and Professional Education Projects	1,015,839
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	85,559
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	176,649
93.958	Block Grants for Community Mental Health Services	7,940,271
93.959	Block Grants for Prevention and Treatment of Substance Abuse	31,349,872
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,390,170
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	393,567
93.991	Preventive Health and Health Services Block Grant	2,514,600
93.994	Maternal and Child Health Services Block Grant to the States	10,338,529
93.999	Department of Health and Human Services – Miscellaneous	<u>771,624</u>
		<u>9,073,604,262</u>
Corporation for National and Community Services:		
94.004	Learn and Serve America School and Community Based Programs	<u>660,934</u>
		<u>660,934</u>
Social Security Administration:		
96.001	Social Security Disability Insurance	41,815,596
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	<u>297,334</u>
		42,112,930
U.S. Department of Homeland Security:		
97.007	Homeland Security Preparedness Technical Assistance Program	241,016
97.012	Boating Safety Financial Assistance	1,324,711
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	164,664
97.029	Flood Mitigation Assistance	431,876
97.036	Public Assistance Grants	17,376,638
97.039	Hazard Mitigation Grant	639,038
97.041	National Dam Safety Program	63,067
97.043	State Fire Training Systems Grants	27,519
97.045	Cooperating Technical Partners	60,338
97.047	Pre-Disaster Mitigation	247,649
97.055	Interoperable Communications Equipment	1,672
97.056	Port Security Grant Program	1,637,355
97.067	Homeland Security Grant Program	33,352,787

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Federal agency/program or cluster title	Expenditures
U.S. Department of Homeland Security (Continued):		
97.070	Map Modernization Management Support	\$ 42,304
97.075	Rail and Transit Security Grant Program	7,531,316
97.078	Buffer Zone Protection Plan (BZPP)	911,946
97.091	Homeland Security Biowatch Program	676,690
97.110	Severe Loss Repetitive Program	248,072
97.111	Regional Catastrophic Preparedness Grant Program (RCPGP)	163,911
97.113	Rail and Transit Security Grant Program (ARRA)	98,856
97.116	ARRA – Port Security Grant Program (ARRA)	669,539
		<u>65,910,964</u>
99.999	Federal Reimbursement – Miscellaneous	<u>1,394,000</u>
	<i>Student Financial Assistance Cluster:</i>	
	U.S. Department of Education:	
84.007	Federal Supplemental Educational Opportunity Grants	3,526,608
84.033	Federal Work-Study Program	5,076,455
84.033	ARRA – Federal Work-Study Program	513,825
84.063	Federal Pell Grant Program	157,861,260
84.375	Academic Competitiveness Grants	1,840,611
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants	409,216
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	30,262
	Total U.S. Department of Education	<u>169,258,237</u>
	U.S. Department of Health and Human Services:	
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	127,770
93.364	Nursing Student Loans	<u>1,043,809</u>
	Total U.S. Department of Health and Human Services	<u>1,171,579</u>
	<i>Total Student Financial and Cluster</i>	<u>170,429,816</u>
	Total Federal Expenditures	<u>\$ 19,185,899,898</u>

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented on the Commonwealth of Massachusetts's (the Commonwealth) statutory basis of accounting except for the Unemployment Insurance Program which is presented on the cash basis of accounting. Statutory basis federal expenditures are recorded when the related cash disbursement occurs. In addition, payroll is accrued and federal payables are recognized for goods or services received by June 30, to the extent payments are approved. The SEFA is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system.

In addition to amounts drawn from MMARS, the Schedule of Expenditures of Federal Awards includes certain federal programs administered by the Commonwealth's public institutions of higher education, except for the University of Massachusetts which issues its own OMB Circular A-133 Report. The higher education institutions and responsible administrative departments maintain the detail of such program activity.

The Commonwealth receives payments from the federal government on behalf of Medicare eligible patients for whom it has provided medical services at its state-operated medical facilities. Since these payments represent insurance coverage provided directly to individuals under the Medicare entitlement program, they are not included as federal financial assistance.

(2) Single Audit Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Commonwealth's reporting entity is defined in note 1 to its June 30, 2010 basic financial statements; except that the Massachusetts School Building Authority, the Pension Reserves Investment Trust Fund, the Massachusetts Municipal Depository Trust, the Massachusetts State Lottery Commission, the Investment Accounts Managed by the Health Care Security Trust Board, the University of Massachusetts and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the federal award programs administered by the Commonwealth, as defined above, for the year ended June 30, 2010.

(3) Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule except for the Commonwealth's share of Unemployment Insurance.

(4) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the bases explained in note 1.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(5) Social Security Disability Insurance Program

The Massachusetts Rehabilitation Commission operates the Social Security – Disability Insurance Program (CFDA 96.001) and the Supplemental Security Income Disability Program (CFDA 96.006) under a single state appropriation and departmental program account. On an operating basis, expenditures are allocated between the programs based on medical expenses incurred; personnel and overhead costs are determined by the Social Security Central Office. For the fiscal year ended June 30, 2010 expenditures of \$19,588,398 were attributed to the Supplemental Security Income Disability Program.

(6) Noncash Awards

The Commonwealth is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the Commonwealth are included in the Schedule of Expenditures of Federal Awards as follows:

CFDA number	Program title	Noncash awards
10.555	National School Lunch Program	\$ 16,895,992
10.558	Child and Adult Care Food Program	223,219
10.559	Summer Food Service Program for Children	51,512
10.551	Supplemental Nutrition Assistance Program	1,126,985,402
93.268	Immunization Grants	59,709,279
93.069	Public Health Emergency Preparedness	29,882,980
	Total	<u>\$ 1,233,748,384</u>

Commodity inventories for the Food Donation Program at June 30, 2010 totaled \$3,305,785.

(7) Federal Family Education (FFEL) and Federal Direct Student Loans (FDL)

The Schedule of Expenditures of Federal Awards does not include FFEL (CFDA 84.032) nor FDL (CFDA 84.268) which are made directly to individual students. For Massachusetts residents, FFEL loans are guaranteed by the American Student Assistance Corporation, which is not part of the reporting entity of the Commonwealth. FDL loans are made directly by the U.S. Department of Education. FFEL loans made to students enrolled in the Commonwealth’s public institutions of higher education during fiscal year 2010 totaled \$135,118,633 and FDL Loans totaled \$102,887,536.

(8) Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA 84.038) is administered by the Commonwealth’s public institutions of higher education. Fiscal year 2010 activity, excluding the University of Massachusetts included, loan repayments of \$1,615,661 and loan funds disbursed of \$1,324,737. Loans outstanding at June 30, 2010 totaled \$14,933,548.

(9) Unemployment Insurance Program (UI) CFDA 17.225

The U.S. Department of Labor, in consultation with the Office of Management and Budget, has determined that for the purpose of audits and reporting under OMB Circular A-133, Commonwealth UI funds as well

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

as federal funds should be considered federal awards for determining Type A programs. The Commonwealth receives federal funds for administrative purposes. Commonwealth unemployment taxes must be deposited to a Commonwealth account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved Commonwealth law. Commonwealth UI funds as well as federal funds are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Number 17.225:

Commonwealth UI Funds – Benefits	\$ 2,286,835,723
Federal UI Funds – Benefits	2,701,579,121
Federal UI Funds – ARRA	433,673,075
Federal UI Funds – Administration	<u>74,966,986</u>
Total expenditures	<u>\$ 5,497,054,905</u>

(10) ARRA Expenditures under the Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under Section 101 of the American Recovery and Reinvestment Act of 2009. The mechanism used by USDA to make these funds available to States does not enable a State to validly disaggregate the regular and Recovery Act components of this figure. At the national aggregate level, however, Recovery Act funds account for approximately 16% of USDA’s total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(11) Subrecipients

In OMB Circular A-133 § __.105 subrecipients are defined as nonfederal entities that expend federal awards received from a pass through entity to carry out a federal program, but do not benefit from that program. Negative amounts represent refunds of prior year expenditures or refunds of unspent federal awards. In fiscal year 2010, the Commonwealth passed through the following amounts to subrecipients:

CFDA number	Program title	Expenditures
10.025	Plant and Animal Disease, Pest Control and Animal Care	\$ 100,504
10.156	Federal-State Marketing Improvement Program	193,417
10.307	Organic Agriculture Research and Extension Initiative	50,250
10.551	Supplemental Nutrition Assistance Program	204,612
10.555	National School Lunch Program	166,713,746
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	77,474,479
10.558	Child and Adult Care Food Program	52,956,893
10.559	Summer Food Service Program for Children	6,124,688
10.561	State Administrative Matching Grants for Food Stamp Program	981,121
10.568	Emergency Food Assistance Program Administrative Costs	1,906,347
10.579	Child Nutrition Discretionary Grants Limited Availability	1,356,589
10.582	Fresh Fruit and Vegetable Program	1,508,100
10.664	Cooperative Forestry Assistance	404,718
10.688	Recovery Act of 2009: Wildland Fire Management	192,742
10.913	Farm and Ranch Lands Protection Program	1,966,506
11.419	Coastal Zone Management Administration Awards	2,160,740
11.420	Coastal Zone Management Estuarine Research Reserves	61,482
11.452	Unallied Industry Projects	1,140,272
11.454	Unallied Management Projects	560,150
11.472	Unallied Science Program	26,769
11.499	Right Whale Conservation Program	40,200
11.555	Public Safety Interoperable Communications Grant Program	308,973
14.182	Section 8 New Construction Program	4,171,716
14.228	Community Development Block Grants/State's Program	42,551,790
14.231	Emergency Shelter Grants Program	2,316,725
14.235	Supportive Housing Program	7,603,066
14.238	Shelter Plus Care	537,188
14.239	HOME Investment Partnerships Program	17,257,498
14.255	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	2,082,655
14.257	Homelessness Prevention and Rapid Re-Housing Program	3,828,998
14.258	Tax Credit Assistance Program	23,131,323

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	\$ 17,352,837
14.871	Section 8 Housing Choice Vouchers	223,051,683
14.907	Lead-Based Paint Hazard Control in Privately Owned Housing	622,509
15.614	Coastal Wetlands Planning, Protection and Restoration Act	742,371
15.622	Sport Fishing and Boating Safety Act	813,111
15.904	Historic Preservation Fund Grants-In-Aid	76,000
15.916	Outdoor Recreation Acquisition, Development and Planning	1,096,801
15.926	American Battlefield Protection	6,020
16.393	Residential Substance Abuse Treatment For State Prisoners	137,456
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	657,676
16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	165,102
16.575	Crime Victim Assistance	5,754,030
16.588	Violence Against Women Formula Grants	2,859,726
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	205,795
16.595	Community Capacity Development Office	74,742
16.609	Community Prosecution and Project Safe Neighborhoods	120,195
16.610	Regional Information Sharing Systems	4,160,288
16.726	Juvenile Mentoring Program	114,466
16.727	Enforcing Underage Drinking Laws Program	75,963
16.738	Edward Byrne Memorial Justice Assistance Grant Program	2,059,341
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	62,042
16.744	Anti-Gang Initiative	80,000
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	32,096
16.801	State Victim Assistance Formula Grant Program	82,601
16.803	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	4,033,938
16.804	Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	399,008
17.207	Employment Service	7,292,855
17.225	Unemployment Insurance	663,623
17.235	Senior Community Service Employment Program	2,712,604
17.245	Trade Adjustment Assistance Workers	280,669
17.258	WIA Adult Program	15,045,503
17.259	WIA Youth Activities	37,108,192
17.260	WIA Dislocated Workers	29,609,624

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
17.266	Work Incentives Grant	\$ 241,620
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	116,060
17.801	Disabled Veterans' Outreach Program (DVOP)	109,634
17.802	Veterans' Employment Program	452,000
17.804	Local Veterans' Employment representative Program	122,217
17.805	Homeless Veterans Reintegration Project	445,000
20.205	Highway Planning and Construction	19,187,940
20.219	Recreational Trails Program	475,110
20.505	Federal Transit Metropolitan Planning Grants	123,140
20.509	Formula Grants for Other Than Urbanized Areas	311,281
20.516	Job Access Reverse Commute	2,057
20.600	State and Community Highway Safety	2,667,386
20.614	Safety Incentive Grants for Use of Seatbelts	180,000
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	87,249
45.025	Promotion of the Arts Partnership Agreements	1,202,200
45.310	State Library Program	975,339
47.082	Trans-NSF Recovery Act Research Support	28,279
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	67,825
66.040	State Clean Diesel Grant Program	180,537
66.439	Targeted Watershed Grants	13,823
66.454	Water Quality Management Planning	471,061
66.456	National Estuary Program	106,406
66.605	Performance Partnership Grants	2,690,484
66.608	Environmental Information Exchange Network Grant Program	23,349
66.808	Solid Waste Management Assistance Grants	2,871
66.817	State and Tribal Response Program Grants	130,959
81.041	State Energy Program	10,587,500
81.042	Weatherization Assistance for Low-Income Persons	49,218,160
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	400,000
81.119	State Energy Program Special Projects	160,349
81.127	Energy Efficient Appliance Rebate Program (EEARP)	6,203,825
81.128	Energy Efficiency and Conservation Block Grant Program	5,269,192
84.002	Adult education State Grant Program	7,542,411
84.010	Title I Grants to Local Educational Agencies	216,533,214
84.011	Migrant Education State Grant Program	1,660,050

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
84.013	Title I Program for Neglected and Delinquent Children	\$ 1,210,789
84.027	Special Education Grants to States	249,239,896
84.048	Vocational Education Basic Grants to States	17,977,977
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	2,934,060
84.144	Migrant Education – Coordination Program	32,202
84.169	Independent Living State Grants	1,456,464
84.173	Special Education Preschool Grants	8,311,011
84.176	Paul Douglas Teacher Scholarship	200,516
84.177	Independent Living Services for Older Individuals Who are Blind	26,936
84.181	Special Education Grants for Infants and Families with Disabilities	3,566,504
84.185	Byrd Honors Scholarships	742,500
84.186	Safe and Drug-Free Schools and Communities State Grants	5,091,338
84.187	Supported Employment Services for Individuals with Severe Disabilities	210,075
84.196	Education for Homeless Children and Youth	709,640
84.213	Even Start State Educational Agencies	993,376
84.224	Assistive Technology	324,088
84.235	Rehabilitation Services Demonstration and Training Programs	75,000
84.243	Tech-Prep Education	1,505,610
84.282	Charter Schools	1,696,809
84.287	Twenty-First Century Community Learning Centers	17,210,383
84.298	State Grants for Innovative Programs	(2,097)
84.318	Education Technology State Grants	3,822,669
84.330	Advanced Placement Program	404,606
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,514,585
84.350	Transition to Teaching	(6,200)
84.357	Reading First State Grants	348,696
84.358	Rural Education	46,983
84.365	English Language Acquisition Grants	10,924,631
84.366	Mathematics and Science Partnerships	1,952,686
84.367	Improving Teacher Quality State Grants	46,726,165
84.372	Statewide Data Systems	302,933
84.377	School Improvement Grants	5,876,877
84.386	Education Technology State Grants,	4,127,174
84.387	Education for Homeless Children and Youth	551,866
84.389	Title I Grants to Local Educational Agencies, Recovery Act	70,804,905
84.390	Rehabilitation Services-Vocational Rehabilitation Grants to States	14,940

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
84.391	Special Education Grants to States, Recovery Act	\$ 119,948,640
84.392	Special Education – Preschool Grants	4,537,311
84.393	Special Education – Grants for Infants and Families, Recover Act	5,297,318
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	173,385,880
84.397	State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	7,409,108
84.399	Independent Living Services for Older Individuals Who are Blind, Recovery Act	8,584
84.400	Centers for Independent Living, Recovery Act	85,506
93.041	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	47,286
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	447,394
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	8,155,264
93.045	Special Programs for the Aging Title III, Part Nutrition Services	13,810,886
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	781,220
93.051	Alzheimer’s Disease Demonstration Grants to States	133,267
93.052	National Family Caregiver Support	3,197,769
93.053	Nutrition Services Incentive Program	2,471,721
93.069	Public Health Emergency Preparedness	16,845,847
93.070	Environmental Public Health and Emergency Response	43,214
93.071	Medicare Enrollment Assistance Program	70,990
93.087	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	491,516
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,359,458
93.110	Maternal and Child Health Federal Consolidated Programs	83,788
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	284,025
93.136	Injury Prevention and Control Research and State and Community Based Programs	501,672
93.137	Community Programs to Improve Minority Health Grant Program	12,000
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,316,964
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	552,502
93.165	Grants T o States for Loan Repayment Program	240,000

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	\$ 280,000
93.234	Traumatic Brain Injury State Demonstration Grant Program	55,341
93.236	Grants for Dental Public Health Residency Training	79,051
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	2,724,141
93.268	Immunization Grants	105,000
93.276	Drug-Free Communities Support Program Grants	10,705
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	1,068,696
93.402	State Loan Repayment Program	100,000
93.551	Abandoned Infants	413,464
93.556	Promoting Safe and Stable Families	3,701,872
93.566	Refugee and Entrant Assistance State Administered Programs	5,585,652
93.568	Low-Income Home Energy Assistance	194,883,767
93.569	Community Services Block Grant	17,620,538
93.576	Refugee and Entrant Assistance Discretionary Grants	1,692,014
93.590	Child Abuse Prevention Activities	481,489
93.630	Developmental Disabilities Basic Support and Advocacy Grants	380,917
93.631	Developmental Disabilities Projects of National Significance	55,000
93.643	Children's Justice Grants to States	76,613
93.669	Child Abuse and Neglect State Grants	119,972
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,449,089
93.674	Chafee Foster Care Independence Program	63,038
93.701	Trans-NIH Recovery Act Research Support	203,991
93.705	Aging Home-Delivered Nutrition Services for States	687,525
93.707	Aging Congregate Nutrition Services for States	1,395,745
93.710	Community Services Block Grant	19,150,320
93.712	Immunization	51,005
93.713	Child Care and Development Block Grant	2,304,755
93.779	Centers for Medicare and Medicaid Services (CMS) Research's Demonstrations and Evaluation	1,214,838

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

CFDA number	Program title	Expenditures
93.790	Alternate Non-Emergency Service Providers or Networks	\$ 1,770,930
93.837	Cardiovascular Diseases Research	70
93.889	National Bioterrorism Hospital Preparedness Program	7,426,315
93.917	HIV Care Formula Grants	5,345,941
93.938	Cooperative Agreements to Support Comprehensive Programs to Prevent the Spread of HIV and Other Important Health Problems	(7,452)
93.940	HIV Prevention Activities Health Department Based	5,072,833
93.958	Block Grants for Community Mental Health Services	7,734,098
93.959	Block Grants for Prevention and Treatment of Substance Abuse	17,173,868
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	19,750
93.991	Preventive Health and Health Services Block Grant	526,523
93.994	Maternal and Child Health Services Block Grant to the States	1,273,091
94.004	Learn and Serve America School and Community Based Programs	535,184
97.029	Flood Mitigation Assistance	421,143
97.036	Public Assistance Grants	17,350,388
97.039	Hazard Mitigation Grant	638,730
97.047	Pre-Disaster Mitigation	227,692
97.055	Interoperable Communications Equipment	1,672
97.056	Port Security Grant Program	1,595,673
97.067	Homeland Security Grant Program	24,109,225
97.075	Rail and Transit Security Grant Program	7,208,781
97.078	Buffer Zone Protection Plan (BZPP)	665,040
97.110	Severe Loss Repetitive Program	248,071
97.111	Regional Catastrophic Preparedness Grant Program	144,073



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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

We have audited the 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, 2010, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated January 18, 2011. Our report was modified to include a reference to other auditors and included an explanatory paragraph regarding the Commonwealth adopting the provisions of Governmental Accounting Standards Board (GASB) Statements No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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. Other auditors audited the financial statements of the entities described in note 13 to the Commonwealth's basic financial statements. The financial statement of certain non-major component units identified in note 13 to the Commonwealth's basic financial statements were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include those entities separately audited by us as more fully described in note 13 to the Commonwealth's basic financial statements. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable



possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described as 2010 – 01 through 2010 – 08 in the accompanying schedule of findings and questioned costs. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also noted certain additional matters that we reported to management of the Commonwealth in a separate letter dated January 18, 2011.

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commonwealth's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Comptroller's Advisory Committee, management of the Commonwealth of Massachusetts, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 18, 2011



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**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

Compliance

We have audited the Commonwealth of Massachusetts' (the Commonwealth) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each the Commonwealth's major federal programs for the year ended June 30, 2010. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

As discussed in note (2) to the schedule of expenditures of federal awards, the Commonwealth's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of the entities identified in note (2) as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

As described in findings 2010 – 19, 2010 – 22, 2010 – 27, and 2010 –29 in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with the requirement regarding student status changes and reporting that are applicable to its Federal Family Education Loans, Federal Direct Student Loans, and Vocational Rehabilitation Cluster programs. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to that program.



In our opinion, except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010 – 09, 2010 – 12, 2010 – 13, 2010 – 15, 2010 – 16, 2010 – 17, 2010 – 18, 2010 – 20, 2010 – 21, 2010 – 23, 2010 – 25, 2010 – 28, 2010 – 30, 2010 – 31, 2010 – 32, 2010 – 33, 2010 – 34, 2010 – 38, 2010 – 39, 2010 – 40, 2010 – 41, 2010 – 42, 2010 – 43, 2010 – 44, 2010 – 45, and 2010 – 47.

Internal Control over Compliance

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010 – 19, 2010 – 22, 2010 – 27, and 2010 – 29 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with the type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010 – 09, 2010 – 10, 2010 – 11, 2010 – 12, 2010 – 13, 2010 – 14, 2010 – 15, 2010 – 16, 2010 – 17, 2010 – 18, 2010 – 20, 2010 – 21, 2010 – 23, 2010 – 24, 2010 – 25, 2010 – 26, 2010 – 28, 2010 – 30, 2010 – 31, 2010 – 32, 2010 – 33, 2010 – 34, 2010 – 35, 2010 – 36, 2010 – 37, 2010 – 38, 2010 – 39, 2010 – 40, 2010 – 41, 2010 – 42, 2010 – 43, 2010 – 44, 2010 – 45, 2010 – 46, and 2010 – 47 to be significant deficiencies.



The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commonwealth's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Comptroller's Advisory Committee, management of the Commonwealth of Massachusetts, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 28, 2011

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

Basic Financial Statements

- a) Unqualified opinions were issued on the basic financial statements of the Commonwealth of Massachusetts (Commonwealth) as of and for the year ended June 30, 2010.
- b) The audit reported significant deficiencies in internal control in connection with the basic financial statements of the Commonwealth as of and for the year ended June 30, 2010. The significant deficiencies were not considered material weaknesses.
- c) The audit disclosed no instances of noncompliance that would be material to the basic financial statements of the Commonwealth as of and for the year ended June 30, 2010.

Single Audit

- d) The audit disclosed significant deficiencies in connection with the major federal programs of the Commonwealth for the year ended June 30, 2010. Certain significant deficiencies were considered to be material weaknesses.
- e) An unqualified opinion was issued on the Commonwealth's compliance with its major federal programs for the year ended June 30, 2010 except for the Federal Family Education Loans, Federal Direct Student Loans, and the Vocational Rehabilitation Cluster programs for which the opinion was qualified.
- f) There were audit findings required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2010.
- g) The dollar threshold to determine Type A programs was \$30 million. The major federal programs of the Commonwealth for the year ended June 30, 2010 are as follows:

U.S. Department of Agriculture

- SNAP Cluster (10.551 and 10.561)
- Child Nutrition Cluster (10.555 and 10.559)
- Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
- Child and Adult Care Food Program (10.558)

U.S. Department of Defense

- National Guard Military Operations and Maintenance (O & M) Projects (12.401)

U.S. Department of Housing and Urban Development

- CDBG – State – Administered Small Cities Program Cluster (14.228 and 14.255)
- Moving to Work Demonstration Program (14.881)

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

U.S. Department of Labor

- Unemployment Insurance (17.225)
- WIA Cluster (17.258, 17.259 and 17.260)

U.S. Department of Transportation

- Highway Planning and Construction Cluster (20.205 and 20.219)

U.S. Department of Energy

- Weatherization for Low-Income Persons (81.042)

U.S. Department of Education

- Title I, Part A Cluster (84.010 and 84.389)
- Special Education Cluster (84.027, 84.173, 84.391 and 84.392)
- Vocational Rehabilitation Cluster (84.126 and 84.390)
- Improving Teacher Quality State Grants (84.367)
- State Fiscal Stabilization Fund (SFSF) Cluster (84.394 and 84.397)
- Student Financial Assistance Cluster (84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 84.379, 93.364 and 93.925)

U.S. Department of Health and Human Services

- Public Health Emergency Preparedness (93.069)
- Immunization Cluster (93.268 and 93.712)
- TANF Cluster (93.558 and 93.714)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance (93.568)
- Community Services Block Grant Cluster (93.569 and 93.710)
- Child Care Development Fund Cluster (93.575, 93.596, and 93.713)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- State Children’s Insurance Program (93.767)
- Medicaid Cluster (93.775, 93.777 and 93.778)
- Block Grants for Preventive and Treatment of Substance Abuse (93.959)

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Social Security Administration

- Social Security – Disability Insurance (96.001)

U.S. Department of Homeland Security

- Homeland Security Grant Program (97.067)

h) The Commonwealth did not qualify as a low-risk auditee for the year ended June 30, 2010.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

See accompanying pages 32 through 41.

(3) Findings and Questioned Costs Relating to Federal Awards

See accompanying pages 42 through 123.

**FINDINGS RELATING TO THE FINANCIAL
STATEMENTS REPORTED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Office of the State Comptroller

Fixed Asset Additions and Disposals

Finding Reference: 2010-01

Observation

The Commonwealth capitalizes items that meet its capital asset threshold (generally items greater than \$50,000). In prior year audits, we noted that the Commonwealth did not capitalize certain capital assets in the proper fiscal year and in response has undertaken several inventory processes to identify and properly classify capital assets. During fiscal 2010 the Commonwealth identified approximately \$145.2 million in previously unrecognized assets. This adjustment highlights the need for continued monitoring and training on the identification of capital assets at the Commonwealth. We recognize the inventory process as an improvement in financial reporting and data collection; however, in order to maintain an appropriate inventory of capital assets it is essential that ongoing training and controls are designed and operating effectively to identify those assets in the appropriate fiscal year.

Similar to the identification of capital additions, individual departments are responsible for the proper identification of asset transfers and disposals. The Comptroller has issued policies to assist departments in the proper identification of eligible expenditures and in the proper classification of assets for financial reporting purposes. Periodically, capital assets may be transferred between departments. These transfers do not give rise to a new capital asset but rather the property records should be updated to reflect the current location and condition of the asset. In connection with our audit, we noted that one item in our sample of 12 was incorrectly recorded as an asset disposal rather than as a transfer between DMR and DCAM. This transfer was subsequently corrected.

Recommendation

We recommend that the Commonwealth consider the need for more comprehensive training at the departmental level and a more comprehensive management review process in the Office of the Comptroller to ensure that items which are charged to capital expenditure accounts during a given fiscal year have been considered for capitalization under the Commonwealth's policies and procedures and that items recognized as additions meet the definitions set forth by the Comptroller.

Views of Responsible Officials and Corrective Actions

To address FY2009 finding related to Fixed Assets reporting the Commonwealth has implemented a semi-annual inventory process for all Commonwealth Departments. During FY2009 the major cleanup effort was performed by all departments and the Department of Conservation and Recreation (DCR) was one of the major contributors for FY2009 clean up. Because of the time consuming process DCR had to undergo to reveal all assets not recorded in MMARS, the clean up process for this particular department spilled over to the FY2010. Thus, the FY2010 cleanup of capital assets was limited and was essentially narrowed to one department: DCR.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

To ensure accurate posting of assets in the future, the Office of the Comptroller continues to update its procedures to ensure the correct and timely recording of capital assets and will continue to review those procedures going forward. In addition to the semi-annual process already implemented and described above, this updating of procedures includes: the planned issuance of new capital spending and fixed asset reports to agencies to assist them in reconciling capital spending and fixed asset additions on a regular basis; additional training of agencies in the correct procedures for posting capital assets; and planned additional review (including supporting documentation) of fixed asset-related transactions above a certain threshold.

Responsible Official: BJ Trivedi, Financial Reporting and Analysis Bureau Director, Office of the Comptroller

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Accounts Payable and Accrued Liabilities – Unemployment Compensation Trust Fund

Finding Reference: 2010-02

Observation

As part of the normal closing process, the Commonwealth accrues payments made after June 30 related to activity and transactions occurring prior to June 30. These accruals are properly shown as expenditures in the year in which the transaction occurred (e.g. fiscal 2010). We noted that the Department of Workforce Development (DWD) failed to properly capture unemployment compensation payments made subsequent to year end related to benefits earned in June. Specifically, benefits paid on July 1, 2010 and July 2, 2010 which related to benefit weeks prior to June 30, 2010 were excluded from certain reports required to prepare complete and accurate financial statements. These amounts were subsequently adjusted by DWD.

Recommendation

We recommend that the DWD evaluate its policies, procedures and controls in place to gather and review the information required to prepare the financial statements for the Unemployment Compensation Trust Fund. Attention should be paid to ensure reports are complete and accurate and that all required information is included.

Views of Responsible Officials and Corrective Actions

DWD has requested that the query be modified to provide a detailed register of payments to ensure that the summary report is complete and accurate.

Explanation

As part of the Massachusetts Department of Workforce Development's (DWD) usual year-end closing process, the Finance Service requests a query to be run for all UI benefit payments made subsequent to the fiscal year end for claims relating to week-ending dates June 30 or previous. The report provided to Finance is a summary of the payments made. It does not contain the date range used for the query.

Relative to the finding, the programmer assigned to run the query inadvertently used 7/3/2010 (the week-ending date for the first week of the new fiscal year) instead of 7/1/2010 (the first day of the new fiscal year).

The error was discovered during KPMG's field audit. The Finance Service requested the query be corrected and re-run. An adjustment was made to the year-end Accrued UI Liability entry.

Responsible Official: Barbara McDonough, CFO, Department of Workforce Development

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Reconciliation of Cash Accounts

Finding Reference: 2010-03

Observation

The Department of Workforce Development (the Department or DWD) manages the Unemployment Compensation Trust Fund (the Trust) which is reported as an Enterprise Fund in the Comprehensive Annual Financial Report. The Trust provides benefits to eligible workers in the Commonwealth who become unemployed through no fault of their own.

Funding of the Trust comes from unemployment compensation taxes and fees paid by the Commonwealth's employers, as well as combined wage claims from the federal government and other states. The taxes are collected by DWD and held in an account at the United States Treasury. When needed, funds are then transferred into Commonwealth bank accounts for the payment of benefits to the unemployed.

DWD maintains an independent IT system for the facilitation of program operations and administration. Activity from the non-integrated DWD system is aggregated and input into the MMARS accounting system on a summary basis. In prior year audits it was noted by KPMG that several DWD cash accounts and corresponding accounting transactions were not properly captured on MMARS. In fiscal 2009 new accounts were set up on MMARS to accommodate these transactions; however, upon review of the entries recorded in fiscal 2010 we found that reconciliations between the MMARS system and the underlying details at DWD were not performed on a timely basis and as a result differences were not identified until the year-end audit was conducted.

Recommendation

We recommend that the Comptroller and DWD evaluate the recording of transactions in MMARS regarding unemployment compensation benefits. Every effort should be made to perform complete and accurate reconciliations between the Department's activities and the MMARS accounting system. All cash belonging to the Commonwealth should be reflected in the general ledger and ultimately in the financial statements. Proper cut-off should be followed by the Department.

Views of Responsible Officials and Corrective Actions

In December 2009, DWD implemented the revenue portion of the Quality Unemployment System Transformation, (hereafter identified as QUEST) Project which systemically performs daily reconciliations between DWD's bank account(s) and QUEST. Further, DWD personnel within both the Finance Service and Revenue Dept. perform daily reconciliations in regard to the transactions (MMARS accounts) referenced above.

Responsible Official: Barbara McDonough, DWD Chief Fiscal Officer

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Accounts Receivable – Review of the Allowance for Uncollectible Items

Finding Reference: 2010-04

Observation

The Department of Workforce Development reserves all accounts receivable over 22 months as uncollectible, and ultimately writes-off receivables after 6 years past due. The 22 month period set is based on the Commonwealth's Statutory Law and does not follow Generally Accepted Accounting Principles (GAAP).

Recommendation

We recommend that the Comptroller and DWD review unemployment insurance accounts receivable and establish an allowance for uncollectible items based on collection experience and other analyses including aging reports.

Views of Responsible Officials and Corrective Actions

DWD will work with the Comptroller's Office in formulating a generally accepted procedure for calculating the reserve amount using data available as of December 7, 2009.

Responsible Official: Barbara McDonough, DWD Chief Fiscal Officer

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Group Insurance Commission

Post Employment Benefits Accrual

Finding Reference: 2010-05

Observation

The Commonwealth provides a variety of life and health insurance plans for its employees and retirees. These plans are administered by the Group Insurance Commission (GIC), a quasi-independent agency of the Commonwealth. By statute, all housing and redevelopment authorities, as well as certain municipalities participate in some or all of the GIC plans. These other participants benefit from being part of a larger risk pool, yet remain individually responsible for the premiums associated with their own members.

Under current accounting rules for governments, the Commonwealth is required to record a liability for the future benefits owed to employees and retirees (Other Post-Employment Benefits, or OPEB). For financial reporting purposes, the Commonwealth needs information in order to apportion the liability between the Commonwealth and non-Commonwealth participating employers on an individual claim basis. This information was not available for the preparation of the 2010 financial statements.

The Commonwealth should also ensure that all authorities participating in the pool reimburse the Commonwealth for their share of the cost. There is a risk that authorities could avoid their share of the costs thus burdening other participants in the pool.

Recommendation

We recommend that the Comptroller and GIC develop policies, procedures and controls to properly reflect the Commonwealth's OPEB liability and to provide participating employers with sufficient information to prepare their own financial reports. We also recommend that the Commonwealth perform a comprehensive review of the participating entities to ensure premium reimbursements are complete and accurate.

Views of Responsible Officials and Corrective Actions

Recommendation Part 1

The GIC will work with the Comptroller to resolve Part 1 of the above recommendation.

Recommendation Part 2

The GIC currently performs a monthly reconciliation of the estimated premiums that participating entities owe the GIC. A final reconciliation of the premiums owed the GIC by these agencies is performed quarterly. This is current and long-standing procedure at the GIC.

Responsible Official: Robert Johnson, Deputy Director, Group Insurance Commission

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Executive Office of Health and Human Services

Logical Access Controls – MMIS

Finding Reference: 2010-06

Observation

The EOHHS Security Request Process requires an annual access review of all applications containing Personally Identifiable Information or of additional applications as specified by Management.

We were informed that a review of NewMMIS users was not performed in FY 2010.

The lack of formal user access reviews for applications increases the risk that active user accounts belonging to terminated employees may not be disabled for a prolonged period of time. In addition, inappropriate employee access privileges may not be detected and modified in a timely manner.

Recommendation

EOHHS should perform a periodic review of end user NewMMIS application access privileges on to ensure that only authorized personnel have system access based on their job responsibility. IT Administrators should perform follow-up procedures to perform corrective action for identified deviations.

Views of Responsible Officials and Corrective Actions

A Draft Access Control Policy is being developed by ITD and the Enterprise Security Board. To date, Security Operations has created a database which combines our users' access to the Network, email, NewMMIS, MA-21 SEVS Systems, has identified who the users' Directors are and created a report for each Director to review. Implementation is pending approval of the policy notification by management.

Responsible Official: Walter Johnson, Director, IT Operations, EOHHS

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Information Technology Division

Change Management – Commonwealth Information Warehouse

Finding Reference: 2010-07

Observation

The Commonwealth Information Warehouse (CIW) comprises of two applications: Informatica and Netezza. We noted that developers had access to Netezza to perform changes. Further, we were informed that the current version of Netezza does not have sufficient auditing ability to generate an activity report that will allow ITD to implement a monitoring control.

Developers with access to the production environments may circumvent change management controls such as testing and approval. As a result, developer access to the production environments increases the risk that unauthorized changes are performed to programs, parameters and data.

Recommendation

- Due to limited IT resources, consider granting developer access on as-needed basis, i.e. only give production access when required and when supported by documented approvals. Apply monitoring controls when temporary access is granted.
- Proactively monitor developer activities in the production environment. This should include monitoring activities performed at all levels of access (server, applications, consoles, databases, etc). The logs should be reviewed and signed-off by management on a periodic basis. The review should be documented and retained. Monitoring controls are only effective if they are pro-actively reviewed to mitigate the specific risk posed by this access. Care needs to be taken to ensure those being monitored cannot modify the transactions/activities being tracked and monitored.

Views of Responsible Officials and Corrective Actions

Sufficient systemic auditing is not available in our current release of Netezza (4.5). Although provided in release 4.6.5, we're unable to upgrade due to compatibility issues with our ETL software. To minimize the risk while we work with Netezza and Informatica to address this, we've initiated the following compensating controls:

- Only three senior developers (one primary, one secondary and one restricted to CIW front-end security tables only) will have named accounts with the necessary rights to modify Netezza production data.
- None may modify Netezza data without meeting the following four criteria:
 1. The data modification cannot be handled via the source system and uploaded to the Netezza appliance.
 2. There is a written request from the respective data owner that specifies what needs to be done, why it cannot be addressed via the source system and the request is supported by documented, senior-level approval.

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Schedule of Findings and Questioned Costs

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3. A supporting Service Request ticket is created and tracked via ITD's enterprise-wide Service Management application (ComiT).
 4. There is written approval from CIW management to initiate the change.
- Management will continue to monitor the Informatica audit reports.

Responsible Official: Maureen Chew, Chief Application Officer, ITD
Lou Angeloni, Chief Financial Officer, ITD

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Year ended June 30, 2010

Information Technology Division

Developer Access – HR/CMS

Finding Reference: 2010-08

Observation

HR/CMS developers have access to the Oracle database that supports the application.

Developers with access to the production environments may circumvent change management controls such as testing and approval. As a result, developer access to the production environments increases the risk that unauthorized changes are performed to programs, parameters and data.

Recommendation

- Due to limited IT resources, consider granting developer access on as-needed basis, i.e. only give production access when required and when supported by documented approvals. Apply monitoring controls when temporary access is granted.
- Proactively monitor developer activities in the production environment. This should include monitoring activities performed at all levels of access (server, applications, consoles, databases, etc). The logs should be reviewed and signed-off by management on a periodic basis. The review should be documented and retained. Monitoring controls are only effective if they are pro-actively reviewed to mitigate the specific risk posed by this access. Care needs to be taken to ensure those being monitored cannot modify the transactions/activities being tracked and monitored.

Views of Responsible Officials and Corrective Actions

HRCMS completed upgrading to Oracle/PeopleSoft 9.0 application software with an Oracle database release of 11G in March, 2010. The database upgrade to Oracle 11G provides auditing capabilities that can capture all database changes at a detailed level that can support the database auditing that has been recommended. We are currently in the process of analyzing these capabilities and anticipate having this designed, developed, and implemented in FY11.

Update:

The HRCMS team implemented the solution on September 13, 2010 by creating an audit report (msecur08.sqr) which runs on a weekly basis and captures activities from sources other than normal day to day processing. This audit report will list the Operating system ID, Database ID, and the SQL statements consisting of UPDATE, DELETE, Or INSERT statements. This report will be monitored on a weekly basis by the Application Support Manager to ensure that these statements are legitimate and that they can be tracked back to an incident that was logged by an end user.

Responsible Official: Maureen Chew, Chief Application Officer, ITD
Lou Angeloni, Chief Financial Officer, ITD

**FINDINGS AND QUESTIONED COSTS RELATING TO
FEDERAL AWARDS**

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

We recommend that SMD follow policies and procedures implemented in December 2009 to draw down Federal funds on a reimbursement basis. We further recommend that SMD continue to follow up with the Department of Defense on the proposed settlement of interest due.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Cost

Cannot be determined

Views of Responsible Officials and Corrective Action

SMD tendered a payment for \$535,107.53 as the full and final settlement on the federal demand of \$1,669,743.81. United States Property and Fiscal Officer (USPFO) of Massachusetts, representative of federal funds, has made inquiries to National Guard Bureau (NGB) on the status of the check. NGB has informed the USPFO that Department of Defense Judge Advocates (DODJA) (lawyers) are still looking into this matter but have no official response. Department of Justice is the only one with the authority to waive claim over 100,000 dollars.

Effective December 2009, SMD is drawing down Federal funds on a reimbursement basis.

Contact: Jeanne Spadorcia

Implementation Date: Reimbursement basis – December 2009, Settlement of Interest – unknown

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

State Military Department

National Guard Military Operations and Maintenance (O&M) Projects (12.401)

Federal Award Number: W912SV-10-2-1000 **Award Year:** 2009-2010

U.S. Department of Defense

Finding Reference: 2010-10

Requirement

The Grantee must maintain effective internal controls and accountability over all CA funding (National Guard Regulation 5-1 Chapter 11 -2 Standards of Financial Administration).

Finding

The State Military Division has a process to review invoices to ensure that they are appropriate costs before they are paid. The review is document by the reviewer's signature on the invoice.

We selected 50 invoices for review and noted that 1 invoice did not contain a signature indicating that the invoice was reviewed before payment.

Recommendation

We recommend that SMD examine its existing policies and procedures to ensure that invoices are reviewed and approved before payments are made.

Views of Responsible Officials and Corrective Action

We concur that one invoice did not have proper authorization and will ensure proper supporting documentation for processing in the future.

Contact: Jeanne Spadorcia

Implementation Date: Immediately

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Housing and Community Development

Low-Income Home Energy Assistance (93.568)

Federal Award Number: G-09BIMALIEA Federal Award Year: 2008-2010

U.S. Department of Health and Human Services

Reference: 2010-11

Requirement

Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant (45 CFR 96.30 (a)).

Finding

The Commonwealth's Low Income Home Energy Assistance Program (LIHEAP) expended approximately \$197 million dollars for the Commonwealth's fiscal year ended June 30, 2010. The LIHEAP program utilizes the Commonwealth's Automated Central Draw (ACD) process to comply with the Cash Management Improvement Act (CMIA). The process is integrated into the Commonwealth accounting system (MMARS) whereby LIHEAP grant payments entered into MMARS automatically generate a drawdown of federal funds. The drawdown is accomplished through an electronic transfer of funds from the U.S. Treasury to the Office of the State Treasurer (OST). The LIHEAP federal grant account in MMARS is charged with the payment and the revenue when received is credited to a revenue account and to the appropriation account to offset the payment. The Office of the State Comptroller (OSC) generates MMARS accounting reports to account for federal fund draw downs from the federal treasury and deposits with OST. These reports identify the program, appropriation number, letter of credit, fund accounts and payment document information such as voucher number, amount and department. Additionally, system generated screens (referred to as budget documents screens) reflect additional transaction summary information to assist the departments in the management of their accounts.

According to OSC policies and procedures, departments are required to monitor grant activity on a weekly basis to ensure that weekly requests are properly drawn down. Upon completion of the weekly ACD cycle departments should commence their reconciliation process. The weekly reconciliation process included the review of the CMIA Selection Report (This report allows departments to account for expenditures to cash deposits. The details of Payment Vouchers should equal the cash draw down file by department and appropriation), review of the CMIA Weekly Draw Status Report (MMARS NCA495 reports), identifying rejected draw downs and develop a corrective action plan and ensuring revenue is accurately posted to the MMARS BQ82, BQ88 and BQ89 budget screens.

Additionally, OSC requires agencies to perform this reconciliation process because Massachusetts General Law requires that all appropriations, including federal fund accounts, "shall not exceed the appropriations and require the weekly reconciliation to ensure that sufficient revenue has been received to fund federal grant expenditures."

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Our review of the Department of Housing and Community Development's (DHCD) grant management practices disclosed that balances of available LIHEAP funds are not reconciled in the Office of the Comptroller's (CTR) Massachusetts Management Accounting and Reporting System (MMARS). Accordingly, DHCD needs to confirm on a regular basis that the correct amount of federal funds have been drawdown to offset payments to Local Administration Agencies (LAA's).

Even though FCU procedures are in place, DHCD stated that it relied on CTR to notify them of negative balances and takes appropriate action when notified. By not requiring the weekly monitoring of the MMARS NCA495 reports, federal accounts could reflect negative balances, requiring DHCD's immediate attention to reallocate funds.

A similar finding was reported in the prior year single audit report as finding number 2009-13

Recommendation

DHCD should follow OSC policies and procedures in reconciling weekly automated cash draw downs.

Views of Responsible Officials and Corrective Actions

DHCD's Accounting Unit within the Department's Office of Administration and Finance (OAF) works in conjunction with each division within DHCD to reconcile all federal grants. The Department's Chief Accountant implemented the following weekly federal grant reconciliation procedure for LIHEAP and all other federal grants that are on OSC's automated central draw.

In the beginning of each week, OAF's Accounting Unit generates and provides the NCA495W Report and the CMIA Weekly Draw Status Report to each division including DHCD's LIHEAP Financial Compliance Unit.

Each Division reviews the reports and provides to OAF a spreadsheet by Wednesday of that week listing the payment doc information for the specific draw. The spreadsheet is signed and dated by the Division to confirm the detailed backup payment documentation. Each division keeps a central binder for weekly draw reports. In addition, OAF archives the reports and division payment documentation for all DHCD federal grants on automatic central draw.

If after reviewing the CMIA Weekly Draw Status Report a rejected draw is identified, then the NCA495W report will be compared to the Division's payment spreadsheet and the Accounting unit in conjunction with the Division will develop the necessary corrective action plan.

This procedure ensures that weekly requests are properly drawn down, revenue is accurately posted to the MMARS BQ82, BQ88 and BQ89 budget screens, and that DHCD is compliant with all CTR guidelines to monitor grant activity on a weekly basis.

Contact: Jennifer Maddox

Implementation Date: Implemented

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Unemployment Insurance (17.225)

Federal Award Number:	18026-09-55-A-25	Federal Award Year:	2009
	FAC Agreement		2009
	19588-10-55-A-25		2010

U.S. Department of Labor

Reference: 2010-12

Requirement

A Treasury-State agreement documents the accepted funding techniques and a method for calculating interest agreed upon by the US Treasury and a State, and identifies the federal assistance programs governed by subpart A of this regulation. If anything in a Treasury-State agreement is inconsistent with subpart A, that part of the Treasury-State agreement will not have any effect and subpart A will govern.(31 CFR 205.6(a)).

Finding

In accordance with the Cash Management Improvement Act (CMIA) of 1990, the Comptroller of the Commonwealth, on behalf of the Commonwealth of Massachusetts, enters in to Treasury-State Agreement (TSA), with the United State Department of the Treasury. This agreement, used to improve the transfer of federal funds between the Federal government and the Commonwealth, specifies the applicable federal programs, entities covered, and the funding techniques to be used for the drawdown of federal funds. The Department of Labor and Workforce Development (Department) enters into an annual sub-agreement with the Office of the State Comptroller (OSC) acknowledging and agreeing to the federal funding techniques in the TSA.

The Department receives federal funds for the Unemployment Insurance Program (17.225) on a reimbursement basis, which is included in the TSA. This federal program is not a part of the Commonwealth's Automated Central Draw process. For this program, the Commonwealth has implemented a non-central draw process where the Department notifies the Office of the State Treasurer of the amounts drawn down for reimbursement.

The Department makes all Unemployment benefit payments, regardless of the type, from a local payment account. The accepted funding technique for requesting reimbursement of Federal Employee Compensation (FECA) and Extended Unemployment Compensation (EUCA) benefits paid from the Federal (funded) Benefit Account at the U.S. Treasury is on a weekly reimbursement basis. The agreed upon technique for drawing from the State (funded) Benefit Account at the U.S. Treasury for other benefits paid is based on the same day those disbursements clear the Department's local payment account. All funds drawn from the US Treasury for Unemployment benefits are deposited in the local payment account.

During fiscal year 2010, the Department drew FECA and EUCA benefits on a daily basis rather than weekly, while other benefits were only drawn when the local payment account had insufficient funds to pay all benefits clearing on a particular day. This was inconsistent with the Commonwealth's Treasury State Agreement.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

The Commonwealth should strengthen existing policies and procedures to ensure that the Treasury-State agreement drawdown techniques agree with the actual methods used to draw Federal funds.

Related Noncompliance

Based on the above, the Commonwealth is not in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Commonwealth's account in the Unemployment Trust Fund (UTF), which includes the Federal Employees Compensation Account (FECA) and the Extended Unemployment Compensation Account (EUCA) is governed by 31 CFR section 205 which states that funding techniques should be efficient and minimize the exchange of interest between States and Federal agencies (interest neutral). The method used to draw down EUCA, FECA and FAUC benefit payment reimbursements is consistent with the interest neutral method of drawing down funds three days after The Division of Unemployment Assistance (DUA) issues the benefit payments.

In FY 2010, DUA disbursed more than \$3.0 billion in daily payment for Federal Extensions related Unemployment Insurance benefits. If the Commonwealth drew down funds to cover those payments weekly, as listed in the CMIA, DUA would have been required to use funds from the Commonwealth's account in the UTF, if available; or borrow money from the Federal government through Title XII loans. Neither of those options is permissible. Section 3304(a)(4) of the Federal Unemployment Tax Act (FUTA) states that all money withdrawn from the unemployment fund of the State shall be used solely in the payment of state unemployment compensation (UC).

We recommend that the CMIA be modified to reflect the current and preferred drawdown method. As such, the Agency has been in contact with the Office of the Comptroller to facilitate this change.

Contact: Barbara Mc Donough

Implementation Date: September 30, 2011

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Unemployment Insurance (17.225)

Federal Award Number:	1675-08-55-A25	Federal Award Year:	2009
	18026-09-55-A-25		2009
	19588-10-55-A-25		2010

U.S. Department of Labor

Reference: 2010-13

Requirement

Fiscal control and accounting procedures of the State must be sufficient to permit the preparation of reports required by this part and the statutes authorizing the grant. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant (29 CFR 97.20).

All financial and programmatic records, supporting documents, statistical records, and other records of grantees which are (i) required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) otherwise reasonably considered as pertinent to program regulations or the grant agreement must be retained for three years from the starting date specified in paragraph (c) of this section. According to paragraph (c), when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee submits to the awarding agency its single or last expenditure report for that period.(29 CFR 97.42).

Finally, as stated under the instructions for Form 227, Overpayment and Detection and Recovery Activities in Employment and Training Administration (ETA) UI Reports Handbook 401, that report is due the first day after the month following the quarter to which it relates.

Finding

During our testwork on the 9130, ETA Financial Report, the ETA 581 Contribution Operations Report and the Form 227, Overpayment and Detection and Recovery Activities which were filed with the Department of Labor during fiscal year 2010 we noted the following:

- The 9130 ETA Financial Report filed for the quarter ending December 31, 2009, for grant UI167520855A25/UI167521GO, showed cumulative administrative expenditures as \$58,510,112. Due to an additional zero being incorrectly added to the correct number, this resulted in an overstatement of \$52,660,000 in the expenditures reported. This clerical error did not result in an administrative expense overcharge to the program.
- Information to support the ETA 581, Contributions Operations report for the quarter ending December 31, 2009 could not be provided. Staff noted that because the Department had begun using its new on-line QUEST employer contribution system on December 7, 2009, they found it necessary to run several versions of data to file the 581 report. Because of this, they did not feel comfortable with providing a particular version as support.

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- The Form 227, Overpayment and Detection and Recovery Activities report was filed 23 days late. The report is due the first day after the month following the quarter to which it relates.

Recommendation

The Department should strengthen existing policies and procedures to ensure reports are accurate, supported by documentation that is retained, and submitted in a timely manner.

Related Noncompliance

Based on the above, the Department is not in compliance with the stated requirements.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

- This clerical error was discovered after the quarter closed. USDOL was notified via e-mail. DWD was not able to effect a correction per telephone conversation with Marisol Lopez of USDOL/ETA. The electronic reporting system had closed for that period.

A new procedure has been established to minimize the risk of transmission errors. Two reviews will occur prior to transmission.

- The 581 Contributions and Operations report in question was supported by data which originated from the agency's Legacy mainframe system however, that same data had migrated to different software and hardware platforms (QUEST). Further, it is to be noted that the quarter chosen for the review by KPMG (ending December 31, 2009) was the same month as the go-live date (December 7, 2009) for the QUEST System.

During the conversion process, several anomalies occurred which the agency addressed. The 581 report in question was filed and accepted by the Department of Labor. Prior to the implementation of the QUEST system, this report was filed timely and the supporting data was readily available and accurate. Subsequent to the initial implementation of QUEST, the agency's 581 report has been compiled accurately and that the supporting data is available and accurate. We expect that this anomaly will not occur in the future.

- Relative to the late filing of the Form 227, Overpayment and Detection and Recovery Activities Report, the report was late due to staffing issues. The report has since been filed timely and accurately. The agency advises that future Form 227 Reports will be filed on the deadline.

Contact: Barbara Mc Donough

Implementation Date: June 30, 2011

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Workforce Development

Unemployment Insurance (17.225)

WIA – Adult Program (17.258)

WIA – Dislocated Worker Program (17.259)

WIA – Youth (17.260)

Federal Award Number:	UI-15126-06-55	Federal Award Year:	2006
	AA-14681-05-55		2006

U.S. Department of Labor

Reference: 2010-14

Requirement

Funds allotted to a State for any program year are available for expenditure by the State during that program year and the two succeeding programs years. (19 USC 2317 and 29 USC 2939(g)(2))

Finding

The Department of Workforce Development (Department) has a policy to remove phase codes, which represent grants, from MMARS in order to ensure that costs cannot be charged to a grant after it is closed. During a review of the phase codes open in 2010, it was noted that numerous phase codes were still active for 2006 grants, which were closed in fiscal year 2009. Staff responsible for this process noted difficulty in obtaining agreement from all individuals involved that obligated expenditures had been fully liquidated.

Recommendation

The Department should strengthen its control procedures to ensure that costs cannot be charged to a grant once it is closed.

Views of Responsible Officials and Corrective Actions

The Department has implemented a new reporting procedure that focuses on the Grant award and mimics the weekly cash draw report data. This new report will be reviewed and analyzed to determine that grants are expended properly and timely. This report will also be reviewed and discussed by the Department's internal program staff to determine any issues with any forthcoming grant close out.

Contact: Barbara Mc Donough

Implementation Date: June 30, 2011

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Department of Workforce Development

Workforce Investment Act – Adult Program (17.258)

Workforce Investment Act – Dislocated Worker Program (17.259)

Federal Award Number: AA-18646-09-55-A-25 Federal Award Year: 2010

U.S. Department of Labor

Reference: 2010-15

Requirement

Office of Management and Budget Circular, A-87, *Cost Principles for State, Local and Indian Tribal Governments*, as adopted by the U.S. Department of Labor at 29 CFR 97.22, establishes certain Basic Guidelines a cost must meet to be allowable under Federal Awards. Attachment A paragraph C.1 (b)(3) of the Circular states that to be allowable a cost must be authorized and not prohibited under State or local laws or regulations.(2 CFR 225 Appendix A).

Finding

During the test of payments to subrecipients, it was noted that in two of the 25 items selected, costs incurred before a contract amendment's effective date were invoiced and paid by the Department. Both payments were made under the same amendment for one subrecipient. The amendment added new funds that were not previously granted and increased the amount of existing funds under another award to the subrecipient.

The subrecipient indicated on the contract amendment, that it had not incurred any obligations prior to the effective date of September 8, 2009. However, two invoices subsequently submitted for reimbursement were for costs beginning on July 1, 2009.

It could not be readily determined how much of the \$591,884 (\$75,000 for 17.258 and \$516,884 for 17.259) invoiced by the subrecipient were for expenses incurred between July 1 and September 8, 2009. As such questioned costs could not be determined.

Recommendation

The Department should strengthen its review of subrecipient invoices to ensure that costs billed for reimbursement are within the contract period.

Related Noncompliance

Based on the above, the Department is not in compliance with the stated requirement.

Questioned Costs

Cannot be determined

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials and Corrective Actions

DWD views this potential finding as an administrative error not a potential questioned cost.

The funds in question were granted to the Commonwealth by USDOL for the period beginning July 1, 2009.

The current process is to amend the existing contract with the pre-determined subrecipients as soon as the accounts are enacted at the Comptroller's office. The period of performance for the funds begins July 1, 2009.

Due to the nature of these annually recurring funds it is expected that all subrecipients will begin using these funds on July 1 of each year. The mechanism to permit this use for contracts executed after July 1 is the Commonwealth of Massachusetts Settlement Agreement. In the future, the Agency will ensure that the Settlement Agreement is implemented as necessary.

Contact: Barbara Mc Donough

Implementation Date: July 31, 2011

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Massachusetts College of Art and Design

Federal Direct Loan Program (84.268)

Federal Award Number: P268K090205 **Award Year:** 2009-2010

U.S. Department of Education

Reference: 2010-16

Requirement

Before an institution disburses title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each title IV, HEA program, and how and when those funds will be disbursed. Except in the case of a post-withdrawal disbursement made in accordance with Sec. 668.22(a) (5), if an institution credits a student's account at the institution, with Direct Loan, FFEL, Federal Perkins Loan or TEACH Grant Program funds, the institution must notify the student or parent of— (i) the anticipated date and amount of disbursement (ii) the student's right or parent's right to cancel all or part of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan (3)(ii) no earlier than 30 days before and seven days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student under paragraph (a)(6)(i) of this section. (34 CFR Section 668.165 (a))

Finding

Our audit disclosed that Federal Family Education Loan (FFEL) and Direct Loan program funds disbursement notification letters were not sent by Massachusetts College of Art and Design (MCA&D or the College) to students in compliance with federal notification requirements. The letter must contain the disbursement dates and the proper time frame for cancelling all or part of the FFEL/Direct Loans.

Once the Financial Aid Office has determined a student's award, an award letter should be sent by MCA&D to the student. The award letter should contain information on factors the award was based on, such as residency classification, enrollment status and living situation. The letter requests the student to review the information and indicate an acceptance or declination of each award and then sign the award letter for submittal to the Financial Aid Office by the date indicated.

Our audit determined that Disbursement Notification Letters were not sent to 20 students in our sample of 25 students receiving FFEL/Direct Loans program funds. MCA&D must notify students of the amount of funds the student and his or her parent can expect to receive from Federal Student Aid (FSA) and how and when those funds will be disbursed.

MCA&D did not have any written policies and procedures regarding the distribution of the Disbursement Notification Letters.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

We recommend MCA&D develop written policies and procedures documenting the process for issuing notification letters to students and parents to ensure that students are notified as required under Federal regulations.

Related Noncompliance

Based on the above MCA&D was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The College contends that it is acting compliant with the federal regulations and provides proper, accurate and timely information to the student and his or her family. As a Direct Loan school much of the disclosure and borrower rights information is provided directly by the federal government. The College places a very high emphasis on assisting a student and his or her family in the financing of their education.

The following procedures are included in the financial aid processing at MassArt:

1. The students and their families who apply for financial aid are sent an award letter from the College based on and including the following information; residency classification, enrollment status and living situation. The letter requests the student to review the information and indicate an acceptance or declination of each award and then sign the award letter and return it to the MassArt Office of Student Financial Assistance. (Paragraph 2 of audit finding)
2. If a student accepts a Direct Loan which has been the primary student loan mechanism for the College, he or she is required to accept the College award letter plus complete the Direct Loan application. Disclosure information is then sent to the student/family by the federal government. This notification includes the disbursement dates and the proper time frame for cancelling all or part of the Direct Loans. (Paragraphs 1&3 of audit finding)

The practices contained within the above procedures are sufficient by themselves to address the audit concern. The following other services also exist in College practices to provide assistance and information to its students;

3. Once the Student Account has been credited with the Direct Loans funds and if there is an excess beyond College charges, then a College Student Refund Check is processed. The student/family is notified of the Student Refund Check and the check has a printout of the Student Account attached. The majority of students with Direct Loans at MassArt will have a Student Refund check processed.
4. The Direct Loan service system of the federal government processes a notice of disbursement made letter to the student/family with the specific loan information.
5. In addition, the College has always been open to assisting a student/family within the semester if they desire to cancel or change the amount of a Direct Loan.

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6. Should a student not wish to use the Direct Loan process and acquire a loan from another source; the College has historically allowed this request and assisted in the loan processing.

Contact: Director of Student Financial Assistance
College Computer Users Group

Implementation Date: The College as a whole is working to provide its students with online information and electronic communications.

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Massachusetts College of Art and Design

Federal Supplemental Educational Opportunity Grants (84.007)

Federal Direct Loan Program (84.268)

Federal Pell Grant Program (84.063)

Federal Award Number:	P007A091893	Award Year:	2009-2010
	P0063P090205		2009-2010
	P268K090205		2009-2010

U.S. Department of Education

Reference: 2010-17

Requirement

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1) through (a)(3)).

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to Department of Education (ED) or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (34 CFR section 668.173(b)).

Finding

When a student receiving Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV funds earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount disbursed to the student as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement.

- MCA&D did not calculate seven refunds of Title IV program funds for seven students who unofficially withdrew during a semester. These refunds should have been calculated when MCA&D determined that the students, in fact, stopped attending. On July 19, 2010, MCA&D identified the seven students that

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unofficially withdrew who accepted \$67,300 in federal student Financial Aid Funds. As of September 30, 2010, MCA&D still had not performed calculations of Title IV refunds, as required. We determined that MCA&D should have returned \$33,844.88 of Title IV funds for the seven students (\$25,357 for 84.268 and \$8,487 for 84.063).

- MCA&D did not return Title IV program funds to the ED in a timely manner. Specifically, we noted that for two refunds processed by MCA&D, refunds were calculated properly but were returned after the 45-day limit had expired.

An institution must return the amount of Title IV funds for which it is responsible as soon as possible. Return of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to the ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. We determined that the MCA&D processed returns by electronic funds transfers and that one of the students return was processed in 225 days and the other students return was processed in 106 days. MCA&D does not address the return of Title IV funds within 45 days in its SFA policies and procedures. Consequently, the MCA&D did not comply with federal regulations regarding the processing of two Title IV refunds in a timely manner.

Questioned costs were determining by summing the amounts questioned above by the respective Title IV program.

Recommendation

We recommend that MCA&D establish and/or strengthen existing policies and procedures to ensure that Title IV refunds are calculated correctly and returned to ED in time frames in accordance with Federal regulations.

Related Noncompliance

Based on the above MCA&D was not in compliance with the requirement above.

Questioned Costs

\$8,487 (84.063)

\$25,357 (84.268)

Views of Responsible Officials and Corrective Actions

The College is in agreement that funds need to be returned in a timelier manner when it is determined that students may not have fully earned their federal financial aid.

Student academic records are reviewed when the financial aid is applied to the student account.

The College will work on reviewing student withdrawals forms in a more expeditious manner if an adjustment for financial aid is applicable.

For walkaway and unofficial withdrawals, the offices are working on processes to evaluate the student academic records upon completion of the semester to determine if students may not have fully earned the financial aid processed to them.

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The College is currently reviewing the audit listing of 8 students;

Student number 8 – completed the fall semester – 2 courses, 2 passing grades. It appears there was confusion recording the official withdrawal form; filed in the fall but for the upcoming spring – where no registration exists. This student has fully earned the fall financial aid applied to her account.

Student number 2 has a completed course with a passing grade. This student has fully earned the financial aid applied to his account.

In regards to the other 6 students on the audit listing; a review of attendance has been requested to determine if they are entitled to more than the audit determination of 50%.

Contact: Director of Student Financial Assistance

Implementation Date: Funds returned on 6 students – January, 2011
Stronger administration review for return of funds – Spring Semester 2011

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Year ended June 30, 2010

Massachusetts College of Art and Design

Federal Work Study Program (84.033)

Federal Award Number: P033A091893 **Award Year:** 2009 to 2010

U.S. Department of Education

Reference: 2010-18

Requirement

In administering its FWS program, an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34 CFR 675.19 (a)).

The institution must also establish and maintain program and fiscal records that; (i) Include a certification by the student’s supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution’s share of the student’s earnings in the form of services and equipment (see Sec. 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Finding

During our audit of the Massachusetts College of Art and Design (MCA&D or the College) Federal Work Study Program we reviewed students in the program during the Fall 2009 and Spring 2010 semester and reviewed student timesheets for both on-campus and off-campus employment, actual payroll reports compiled by Human Resources, and work study contracts and agreements with outside employers for compliance with Federal MCA&D regulations.

Our audit included a review of 40 timesheets from four students, with total payments of \$3,420. Our audit indicated conditions of noncompliance within MCA&D’s established student financial aid policies and procedures and federal regulations for three of the student as follows:

The first student started work study employment on October 1, 2009, and the following instances of noncompliance with Federal regulations were noted:

- The student’s Employment Eligibility Verification Form I-9 was completed and signed by the student on November 17, 2009, after her employment date and the Employee Review and Verification section was not completed or signed by the employer. The Form I-9, Employment Eligibility Verification must be completed no later than the time of hire, which is the beginning of employment and Section 2, requires that “Employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.”

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The student's MCA&D federal work study contract was not submitted until December 2, 2009 even though the student commenced employment on October 1, 2009. The contract states that, "If you begin working before the contract is complete and approved by our office, the work you do will be considered volunteer work". Also, the student submitted three timesheets to payroll on January 13, 2010 for employment completed on October 14, 2009, October 28, 2009 and November 11, 2009 (Fall Semester) which is contrary to the MCA&D annual federal work study contract requiring students to submit timesheets no later than 30 days after the work week. The contract states that, "late timesheets must be submitted less than 30 days after the work week, or they will not be honored." Therefore, because the student started work before the contract was complete and did not adhere to the contract, we question the payroll costs of \$356.

- The student also submitted four timesheets to payroll on March 25, 2010 for employment completed for the weeks of January 27, 2010; February 3, 2010; February 10, 2010; and February 17, 2010 (Spring Semester), which is contrary to the MCA&D annual federal work study contract requirement. Therefore, because the student did not adhere to the MCA&D contract, we question the payroll costs of \$160.
- Timesheets processed by the MCA&D for this student contained a number of work-study hours that conflicted with the student's class schedule. We found 5 instances of work hours recorded on the student's timesheets where the Registrar's records indicated the student was scheduled for classes. No notations were found on timesheets to indicate released time or class cancellations.

The second student started work study employment on September 16, 2009, and the following instance of noncompliance with Federal regulations were noted:

- The student submitted one timesheet on January 28, 2010 for employment completed on November 11, 2009, which is contrary to the MCA&D annual federal work study contract requiring students to submit timesheets no later than 30 days after the work week. Therefore, because the student did not adhere to the MCA&D contract, we question the payroll costs of \$20.

The third student started work study employment on September 9, 2009, and the following instances of noncompliance with Federal regulations were noted:

- The student submitted one timesheet on December 16, 2009 for employment completed on November 4, 2009, which is contrary to the MCA&D annual federal work study contract requiring students to submit timesheets no later than 30 days after the work week. Therefore, because the student did not adhere to the MCA&D contract, we question the payroll cost of \$64.
- The student also submitted three timesheets on April 7, 2010 for pay periods ended February 3, 2010, February 17, 2010, March 3, 2010, which is contrary to the MCA&D annual federal work study contract requiring students to submit timesheets no later than 30 days after the work week. Therefore, because the student did not adhere to the MCA&D contract, we question the payroll costs of \$192.
- Timesheets processed by MCA&D for this student contained a number of work hours that conflicted with the student's class schedule. We found 2 instances of work hours recorded on the student's timesheets where the Registrar's records indicated the student was scheduled for classes. No notations were found on timesheets to indicate released time or class cancellations.

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- MCA&D did not have a federal work study contract for one of the 2 work study jobs assigned to this student.

Our audit further disclosed that MCA&D does not address the work study payroll procedures within its SFA policies and procedures.

The total questioned costs were determined by adding the questioned costs identified above for a total of \$792.

Recommendation

We recommend that MCA&D establish written policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with.

Related Noncompliance

Based on the above MCA&D was not in compliance with the requirement above.

Questioned Costs

\$792

Views of Responsible Officials and Corrective Actions

The College has a centralized administration of the College Work Study Program. We also have a decentralized hiring and supervision of Work Study students to allow the funds to assist many areas across the College. The College will work with the area supervisors to assist with better management and oversight of the program along with processing items in a timelier manner. The Office of Student Financial Assistance will follow up in a stronger capacity during the year when departments submit late documents. Information to students will be strengthened as well.

The students questioned in this finding were eligible for College Work Study funds. The time was worked and duties were performed by the three students in the situations listed. They are entitled to the payments received. The late processing of paper work is an issue of administrative oversight and controls, not eligibility. The College does overmatch its share of funds to the College Work Study program.

Contact: Director of Student Financial Assistance

Implementation Date: Follow-up on FY2010 – February 2011
Stronger administration of CWS program – Authorization of FY2012 funds to departments – Fall Semester 2011

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Massachusetts College of Art and Design

Federal Direct Loan Program (84.268)

Federal Award Number: P268K090205 **Award Year:** 2009-2010

U.S. Department of Education

Reference: 2010-19

Requirement

A school shall (1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (i) Enrolled at that school but has ceased to be enrolled on at least a half-time basis; (ii) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (iii) Has changed his or her permanent address. (3) The Secretary provides student status confirmation reports to a school at least semi-annually. (4) The Secretary may provide the student status confirmation report in either paper or electronic format (34 CFR 685.309 (b)).

Finding

The Massachusetts College of Art and Design's (MCA&D or the College) policy is to report student enrollment to a contracted third party, the National Student Clearinghouse (NSC). MCA&D utilized the NSC to facilitate its responsibility to notify the National Student Loan Data System (NSLDS) of changes in the enrollment status of students. However, MCA&D is ultimately responsible to ensure that NSLDS is properly and timely notified of all student enrollment status changes. MCA&D reports changes in enrollment status to NSC a total of 10 times, three times each during the fall and spring semesters and summer session, then once at graduation.

Our audit disclosed that MCA&D does not have written policies and procedures identifying the process that MCA&D utilizes to ensure that student enrollment changes are reported to NSLDS in the required timeframe. From our sample of 25 students, nineteen students' enrollment status changes were reported to NSLDS from 57 to 182 days beyond the 30 or 60-day requirement. The students officially or unofficially withdrew, were on leave of absence, or were dismissed.

Additionally, a withdrawn student's status has not been reported to NSLDS. In another instance a student requested a leave of absence for the spring semester which was not reported to NSC or NSLDS; instead the student was reported as enrolled less than half-time. The student returned from leave as scheduled. Under Federal regulations a student would enter repayment status if she/he did not return from leave as scheduled. As a result of the late or incorrect reporting, there is no assurance that these students' deferments, grace periods, or repayment schedules were appropriately determined.

Although MCA&D has no written procedures explaining the NSC reporting process and the federal reporting requirement, we identified that MCA&D's Registrar is responsible for filing enrollment status updates with NSC and submits the updates according to a predetermined transmission schedule. The process in place is to ensure he

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prepares and coordinates the reporting of enrollment status with the academic calendar such as the end of the add/drop period, semester mid-point, last day to withdraw from classes, and graduation. The Registrar understood his responsibilities to report the enrollment changes to NSC on a regular basis, but was unfamiliar with NSLDS. A follow-up and monitoring with NSLDS was not performed by MCA&D.

Timely reporting of enrollment data for federal student loan borrowers is critical because student enrollment status determines the date a federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges.

Recommendation

We recommend that MCA&D implement written policies and procedures to ensure the timely reporting of enrollment data to NSLDS in accordance with federal regulations requirements.

Related Noncompliance

Based on the above MCA&D was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The College believes it is reporting student enrollment information to the federal government (via the National Student Clearinghouse) in a timely and proper manner. We will review the process to see how some information is not being submitted on a timely basis. In addition we will strengthen the process in regards to students who have withdrawn from the College.

Contact: College Registrar
Director of Student Financial Assistance

Implementation Date: Review and monitoring of reporting – to begin Spring Semester 2011

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Views of Responsible Officials and Corrective Actions

The College is very aware of this important requirement. The College apologizes for its oversight in this matter as it mistakenly thought that separate exit counseling for Perkins Loan were being done. We will work on a process that provides exit counseling for Perkins Loans in the 2010-2011 year.

The Perkins program provides a value loan for students; however the availability of funds is extremely limited. In FY2010, Perkins Loans accounted for less the 3/10ths of 1% of the loan activity processed by MassArt.

Contact: Director of Student Financial Assistance & Office Staff

Implementation Date: Graduation class, May 2011

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Greenfield Community College

Federal Direct Loan Program (84.268)

Federal Award Number: P268K101594 **Award Year:** 2009-2010

U.S. Department of Education

Reference: 2010-21

Requirement

Before an institution disburses title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each title IV, HEA program, and how and when those funds will be disbursed. Except in the case of a post-withdrawal disbursement made in accordance with Sec. 668.22(a) (5), if an institution credits a student's account at the institution, with Direct Loan, FFEL, Federal Perkins Loan or TEACH Grant Program funds, the institution must notify the student or parent of- (i) the anticipated date and amount of disbursement (ii) the student's right or parent's right to cancel all or part of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan (3)(ii) no earlier than 30 days before and seven days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student under paragraph (a)(6)(i) of this section. (34 CFR Section 668.165 (a))

Finding

Our audit disclosed that Direct Loan program funds disbursement notification letters sent to students were not sent by Greenfield Community College (GCC) in compliance with federal requirements regarding the content of these notification letters. The letter must contain the disbursement dates and the proper time frame for cancelling all or part of the Direct Loans. Specifically, we found the disbursement notification letters did not contain disbursement dates or the proper time frame for cancelling all or part of their Direct Loans, as follows:

- Disbursement notification letters sent to 8 of 15 students in our sample receiving Title IV funds under the Direct Loan program were not properly notified of Spring Semester disbursements as required by federal regulations governing student financial assistance. Our review of disbursement notification letters showed that the 8 students receiving Direct loan disbursements for both fall and spring semesters were notified only once in the fall that disbursements would be made for both semesters.

According to Student Financial Aid officials, they were not aware that letters were also required to be sent out with spring disbursements. GCC's disbursement notification letter sent to the students in each fall semester notifying the students of their loans for the entire year was felt sufficient to meet the disbursement notification requirement. However, this fall letter does not meet the requirement of no earlier than 30 days before, and no later than seven days after, crediting the student account at the institution for loans disbursed in the spring semester.

- Disbursement notification letters sent to our sample of 15 students receiving Federal Title IV funds under the Direct Loan program did not contain the proper Direct Loan cancellation notice as required by federal regulations. Specifically, institutions that do not implement an affirmative confirmation process must

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notify a student no earlier than 30 days before, but no later than seven days after, crediting a student's account and must give the student 30 days to cancel all or part of the loan.

Our review of the disbursement notification letters sent by the Department of Education to Direct Loan recipients disclosed that they do not require affirmative confirmation. The letters state in part: "Within 14 days after the date your school notifies you that it has credited loan money to your account at the school, or by the first day of your school's payment period, whichever is later, you may tell your school that you want to cancel all or part of the loan money that was credited to your account...". During our discussions with GCC, it was noted that the Department of Education sends out the Direct Loan disbursement notification letters and GCC is not aware that they do not obtain affirmative confirmation. As GCC does not use affirmative confirmation to notify students receiving Direct loans, it is required under to notify Direct Loan recipients that they have 30 days to cancel all or part of their loan.

Recommendation

We recommend that GCC modify its notification process to ensure that students are notified as required under Federal regulations.

Related Noncompliance

Based on the above GCC was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

GCC notifies every loan recipient of his Direct Loan disbursement via student email. These email correspondence are automatically generated to each loan recipient on the day the disbursement action takes place within Banner. (The email notification is attached). GCC's disbursement notification does not explicitly state the loan disbursement amount or type but it does direct the student to access his personal account information on the GCC student information portal My GCC. My GCC is a secure portal to which only the student has access to view his personal information. Once on MY GCC, the student sees both the loan type, disbursement date, and exact amount disbursed. We do not release confidential student information via GCC student email, rather the student is directed to view this information through the secure portal, My GCC.

GCC does not create a loan origination for any student without first obtaining confirmation from the student indicating the types and amounts of FSA program loans that he/she wants for an award year. All initial Direct Loan awards are made in offered status only. The status changes from "Offered" to "Certified" upon the student's action, by award acceptance, via My GCC. The electronic certification and acceptance remains in My GCC but paper copies of the Award Certification and Acceptance Form are also kept in the student's financial aid file. Because GCC obtains affirmative confirmation from the student, our notification states the 14-day requirement for cancellation of all or part of their federal loans as allowed by federal regulations. GCC is an affirmative confirmation school, we never create a Direct Loan record with COD without the student's award acceptance and confirmation.

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GCC will include the disbursement date, type of loan and the amount in the email notification of disbursement to students, and will develop methods for confirmation that the notification has been received.

Contact: Linda Desjardins, Director of Financial Aid

Implementation Date: Spring semester, 2011

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Greenfield Community College

Federal Direct Loan Program (84.268)

Federal Award Number: P268K101594 Award Year: 2009-2010

U.S. Department of Education

Reference: 2010-22

Requirement

A school shall (1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (i) Enrolled at that school but has ceased to be enrolled on at least a half-time basis; (ii) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (iii) Has changed his or her permanent address. (3) The Secretary provides student status confirmation reports to a school at least semi-annually. (4) The Secretary may provide the student status confirmation report in either paper or electronic format (34 CFR 685.309 (b)).

Finding

Greenfield Community College's (GCC) policy is to report student enrollment to a contracted third party, the National Student Clearinghouse (NSC). GCC did not have a policy as to the frequency or timing of reporting student enrollment to NSC. GCC utilized the NSC to facilitate its responsibility to notify the National Student Loan Data System (NSLDS) of changes in the enrollment status of students. However, GCC is ultimately responsible to ensure that NSLDS is properly and timely notified of all student enrollment status changes.

In our sample of 25 students who received Federal Direct Loans NSLDS showed six students who officially withdrew in November 2009 and one who withdrew in April 2010 right after GCC's scheduled transmissions to NSLDS for those months. Our review of the GCC transmissions disclosed that there were no transmissions scheduled for December 2009 and May 2010. Due to not having scheduled transmission for these months, GCC had not reported the enrollment status changes of the seven students who withdrew to the NSLDS within the 60-day time limit, as required under federal regulations. Delayed reporting for these students ranged between 5 to 9 days beyond the 60-day limit to report.

Timely reporting of enrollment data for federal student loan borrowers is critical because student enrollment status determines the date a federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges.

Recommendation

We recommend that GCC improve existing procedures to ensure the timely reporting of enrollment data to NSLDS in accordance with federal regulations requirements.

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Related Noncompliance

Based on the above GCC was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

GCC is in the process of reviewing our internal controls for the reporting of student status changes to NSC. We are considering changes to our current record transmission schedule to increase the frequency of student status changes throughout the award year in order to ensure that the changes are reported to NSLDS within the required timeframe.

Contact: Heather Hoyt, Registrar & Shane Hammond, Dean of Enrollment

Implementation Date: Spring semester, 2011

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Greenfield Community College

Federal Work Study Program (84.033)

Federal Supplemental Educational Opportunity Grant (84.007)

Federal Pell Grant Program (84.063)

Federal Direct Loan Program (84.268)

Federal Award Number:	P033A091872	Award Year:	2009-2010
	P007A091872		2009-2010
	P063P091594		2009-2010
	P268K101594		2009-2010

U.S. Department of Education

Reference: 2010-23

Requirement

If an eligible institution enters into a written arrangement with another eligible institution, or with a consortium of eligible institutions, under which the other eligible institution or consortium provides all or part of the educational program of students enrolled in the former institution, the Secretary considers that educational program to be an eligible program if it otherwise satisfies the requirements of Sec. 668.8. (34 CFR Sec. 668.5 (a)).

Finding

During our audit, we found that Greenfield Community College (GCC) had entered into individual consortium agreements for students taking part of their educational program at other institutions. Of the 19 students that we reviewed, we determined that four students did not have individual consortium agreements on file and two students had individual consortium agreements on file but were not signed by the host institution. In addition, both unsigned agreements did not document the student's enrollment status and tuition and fees at the host school.

Our review also disclosed that GCC does not address institutional agreements within its Student Financial Aid policies and procedures.

Recommendation

We recommend that GCC implement policies and procedures to ensure that written agreements between schools are in compliance with federal requirements regarding Institutional Agreements.

Related Noncompliance

Based on the above GCC was not in compliance with the requirement above.

Questioned Costs

None

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Views of Responsible Officials and Corrective Actions

The staff person primarily responsible for this process retired in May, 2010 and subsequently, we were unable to confirm if consortium agreements existed for the four students in question or if signed agreements were not placed into the file for the two students who had agreements, but were not signed appropriately by the receiving institution.

The Office of Financial Aid at GCC is currently developing an internal policy and procedure for Consortium agreements in compliance with SFA regulations. Our current consortium agreement form does relate the policy to both the student and the host institution, but there is no formal written documentation of the policy within the financial aid office. The form was update for the 2010-2011 award year and the changes will be addressed in the stated policy. Office procedures will be noted, including the development of reports and keeping records on file.

Contact: Linda Desjardins, Director of Financial Aid

Implementation Date: Spring semester, 2011

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Greenfield Community College

Federal Work Study Program (84.033)

Federal Award Number: P033A091872 **Award Year:** 2009 to 2010

U.S. Department of Education

Reference: 2010-24

Requirement

In administering its FWS program, an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34CFR 675.19 (a)).

The institution must also establish and maintain program and fiscal records that; (i) Include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec. 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Finding

Greenfield Community College's (GCC) has established policies and procedures for maintaining, monitoring and controlling GCC's student Federal Work Study (FWS) payroll records and files in accordance with both federal and state regulations.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications and campus polices. In our sample of 51 students, which involved a review of 104 timesheets taken from payrolls in the fall 2009 and the spring 2010 semesters, we noted seven students worked numerous hours during scheduled classroom hours.

GCC has not established policies and procedures that govern the practice of working during class time. The Financial Aid Director stated that that in this regard students are told that working during scheduled class time is prohibited and to note on their time sheet if class has been canceled. However, FWS supervisors do not ask for class schedules and the Student Financial Aid and payroll department have not established monitoring procedures for FWS student timesheets and class schedules.

Recommendation

We recommend that GCC establish policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with.

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Views of Responsible Officials and Corrective Actions

The Office of Financial Assistance is enhancing its FWS programming for both the student worker and the federal work study supervisor to include information about when the student is and is not allowed to perform work study hours. FWS supervisors are now required to know the student worker's class schedule and student worker will be required to provide their signature indicating that they are aware that they cannot work during scheduled class time. We are in the process of including this information on our website, in a section specifically designated to the FWS student and supervisor, as well as during all programming for the FWS.

GCC is in the process of designing on-line class cancelation functionality on the GCC website for faculty. Once in place, this process will provide added checks and balances to ensure students are not working during regularly scheduled class time unless the class has been canceled in advance of the hours worked.

GCC is in the process of modifying their FWS timecards to include a disclaimer to students that they cannot work during regularly scheduled class time. If a class is canceled, the student will have an area on the time card to indicate such and a place for the supervisor to acknowledge.

Contact: Linda Desjardins, Director of Financial Aid and Karen Phillips, Comptroller

Implementation Date: Spring semester, 2011

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Related Noncompliance

Based on the above CCCC was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

During the 2009-10 academic year, the Business Office automated the disbursement notification letters. During the implementation, text was inadvertently dropped from the standard letter. After identifying the problem, the correction was made. All 2010-11 disbursement notification letters include specific information indicating the student has 14 days to cancel the loan and to contact the Financial Aid Office.

The Financial Aid Office's policy and procedures do include references to disbursement notices and cancellation policies in the Stafford Loan section under Disbursement of Loans.

Contact: Sherry Anderson, Director of Financial Aid

Implementation Date: Completed

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Year ended June 30, 2010

Cape Code Community College

Federal Work Study Program (84.033)

Federal Award Number: P033A091893 **Award Year:** 2009-2010

U.S. Department of Education

Reference: 2010-26

Requirement

In administering its FWS program, an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34CFR 675.19 (a)).

The institution must also establish and maintain program and fiscal records that; (i) Include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec. 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Finding

Cape Cod Community College's (CCCC) has established policies and procedures for maintaining, monitoring and controlling CCCC's student Federal Work Study (FWS) payroll records and files in accordance with both federal and state regulations.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications and campus polices. In our sample of 4 students, which involved a review of 15 timesheets taken from payrolls in the fall 2009 and the spring 2010 semesters, we noted two students worked numerous hours during scheduled classroom hours.

CCCC has established policies and procedures that govern the practice of working during class time. FWS supervisors in addition to signing time sheets are to be provided class schedules. The Student Financial Aid and payroll departments have not established monitoring procedures for FWS student timesheets and class schedules.

Recommendation

We recommend that CCCC establish policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with.

Views of Responsible Officials and Corrective Actions

While there is no specific federal regulation mandating that students cannot work during scheduled class hours or that the institution must monitor hours worked against the class schedule, it would be inappropriate for

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Year ended June 30, 2010

supervisors to require students work at the same time as class. In all cases, the student's coursework takes precedence over work-study. To further support the verbal information the Financial Aid Office provides supervisors, the Work Study Handbook which will be updated in Spring 2011 to address the issue. It is the supervisor's responsibility to know the student's class schedule to avoid conflicts.

In many cases, the reason a student works during scheduled class time is due to cancellation, early release, etc. When this occurs, the supervisor should document why the student is working rather than attending class. If this type of activity is occurring frequently, the supervisor should contact the teacher for verification.

Since scheduling and verifying hours is the supervisor's responsibility, the Time Sheet is being updated to include a statement reminding both parties that working during class time is prohibited. For the exceptions when a student does work, the student/supervisor must add a note of explanation. This revision will be in place as soon as possible.

Contact: Sherry Anderson, Director of Financial Aid

Implementation Date: In process

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Year ended June 30, 2010

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The College uses the National Student Clearinghouse (NSC) to complete the federally required Student Status Confirmation Reports (SSCR) for the National Student Loan Database System (NSLDS). The Jenzabar student information system has built in reporting mechanisms to identify and prepare data for the Clearinghouse. The Registrar supervises this activity three times per semester, plus any follow up needed between reporting periods.

The Registrar's Office will ensure there is a written policy and procedure for the Clearinghouse activities. It will include explanations of how the College identifies withdrawals, graduations, etc., and when they are first able to be aware if a student is re-enrolling in a subsequent term. The procedures will be created with input from Registration, Financial Aid, and Information Technology. Written procedures will be created during summer 2011.

For 2011-2012, the Registrar and Financial Aid Director will monitor a sample of students from each Clearinghouse submission to verify the data reaches NSLDS within the required timeframe. The College will monitor submissions to NSLDS and will follow up with the Clearinghouse if discrepancies or timing issues arise.

Contact: Sherry Anderson, Director of Financial Aid

Implementation Date: Summer 2011

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Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (84.390)

Federal Award Number:	H126A080028D	Federal Award Year:	2009
	H126A090028A		2010
	H390A090028A		2010
	H126A100028B		2011

U.S. Department of Education

Finding Reference: 2010-28

Requirement

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes (34CFR 80.20 (a)).

The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (34CFR 80.20 (b)).

Finding

In our review of the quarterly Financial Status Report (SF-269) or the Federal Financial Report (SF-425), for the quarters ending September 30, 2009 and March 31, 2010, we noted that the Massachusetts Rehabilitation Commission (MRC) did have controls in place to ensure the accuracy and completeness of these reports but did not have documentation of management review. Our audit disclosed the following reporting deficiencies:

- Federal unliquidated obligations totaling \$101,311 were undervalued on the March 2010 (ARRA) SF-269. This error was later corrected on the June 2010 report.
- State unliquidated obligations totaling \$9,316,194 were not reported on the September 2009 SF-269 report. This error was later corrected on the March 2010 report.

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Year ended June 30, 2010

Recommendation

We recommend that MRC review the current policies and procedures in place and make the necessary adjustments to ensure that reports submitted to the Federal government are complete and accurate.

Related Noncompliance

Based on the above MRC was not in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

MRC concurs with the recommendation that the Department review the current policies and procedures in place. MRC will make the necessary adjustments to ensure that reports submitted to the Federal government are complete and accurate.

Contact: Ruth Paulson

Implementation Date: On-going with a scheduled completion date of 12-31-11

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (84.390)

Federal Award Number:	H126A080028D	Federal Award Year:	2009
	H126A090028A		2010
	H390A090028A		2010
	H126A100028B		2011

U.S. Department of Education

Reference: 2010-29

Requirement

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes (34 CFR 80.20 (a)).

The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (34 CFR 80.20 (b)).

Finding

Each State Vocational Rehabilitation (VR) Agency that has expended funds in providing VR services to individuals with disabilities under the Section 110 and Title VI-B programs of the Rehabilitation Act of 1973 is required to prepare RSA-2 report for each federal fiscal year (October 1 – September 30). The report must be submitted to the United States Department of Education Rehabilitation Services Administration (RSA) by December 31 following the close of the federal fiscal year (FFY) and reflect all expenditures made during the FFY from federal, state and other rehabilitation funds in providing Vocational Rehabilitation (VR) services. In addition, the report requires information on the number of individuals with disabilities receiving services and on the funds expended on their behalf by the VR agency for each type of VR service. Also, the report requires information on the actual time (person/ years) that vocational rehabilitation jobs were filled during the period covered by the report.

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Our review disclosed that the Massachusetts Rehabilitation Commission (MRC) did not have a reporting system that provided supporting documentation to substantiate the data reported in the RSA-2 for the period ended September 30, 2009. Specifically we noted:

- MRC did not submit its report until April 8, 2010; over three months after the December 31st deadline.
- MRC did not maintain documentation to support management's review and approval of their report and continues to complete the RSA-2 without written policies and procedures in place detailing its process.
- Federal unliquidated obligations totaling \$9,503,793 – of which \$188,626 represents American Recovery and Reinvestment Act (ARRA) obligations – were not included in the reporting period ending September 30, 2009. Moreover, not reporting unliquidated obligations as expenditures in the proper reporting period results in the overstatement of funds carried over to and expenditures reported in the next fiscal year (period ending September 30, 2010).
- Program income expenditures paid for with funds carried over from the previous fiscal year were overstated by \$378,462.
- Vocational Rehabilitation (VR) expenditures paid for with funds carried over from the previous fiscal year were understated by \$3,004,218.
- Client related services totaling \$6,549,862 purchased from private vendors not properly supported by an audit trail.

Further, person-years, in full year increments, must be reported for all state agency personnel whose salaries are charged in whole or in part to Section 110 funds, Title VI-B or other rehabilitation funds. Person-years mean the actual time that vocational rehabilitation jobs were filled during the period covered by the report. For example, if a job is filled throughout a fiscal year, it is counted as one person-year; two jobs each filled half a year would also count as one person-year. MRC reported the number of full-time employees (person-years) by counting the number of agency staff as of March 19, 2009, rather than, the actual time vocational rehabilitation jobs were filled.

A similar finding was reported in the prior year single audit report as finding number 2009-30.

Recommendation

MRC should implement documented policies and procedures to ensure that the RSA-2 report is submitted timely, completely and accurately.

Related Noncompliance

Based on the above, MRC was not in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

MRC concurs with the recommendation and continues to document and implement policies and procedures to ensure that the RSA-2 report is submitted completely and accurately. It is noteworthy that some figures included

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in the RSA-2 flow from the SF269 and that MRC prepares the SF269 on a cash basis vs. an accrual basis both of which may be used as the basis of accounting. (See Policy Directive RSA-PD-10-03.) Reporting on a cash basis vs. an accrual basis impacts on how unliquidated obligations are reported. Therefore, reporting unliquidated obligations as expenditures is not considered best practices in cash reporting.

Contact: Ruth Paulson

Implementation Date: On-going with a scheduled completion date of December 31, 2011.

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Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (84.390)

Social Security Disability Insurance (96.001)

Federal Award Number:	H126A1000028B	Federal Award Year:	2010
	H390A090028A		2010
	04-1004MAD100		2010

U.S. Department of Education

Social Security Administration

Reference: 2010-30

Requirement

Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities; (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and (3) Is determined and supported as provided in subsection h (OMB Circular A-87 Attachment B Section 8 (a)).

These standards regarding time distribution are in addition to the standards for payroll documentation. (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit (OMB Circular A-87 Attachment B Section 8 (h)).

Finding

The Commonwealth of Massachusetts Human Resources Division's Time and Attendance Policy (Revised May 27, 2010), requires that time sheets be approved by an employee's supervisor. Further an Executive Office of Health and Human Services (EOHHS) Time and Attendance Reporting Training Job Aid (issued February 2007) directs EOHHS supervisors to sign and keep on file transmittal spreadsheets that are used to document payroll items such as sick days and hours work by hourly employees. The Massachusetts Rehabilitation Commission (MRC) also issued an administrative bulletin related to payroll on March 22, 2010 that directed Unit Supervisors or managers to review and approve time and attendance for their respective Units.

For the Rehabilitation Services – Vocational Rehabilitation Grants to States Program, we examined 60 weekly timesheets covering five pay periods for payroll costs charged to the federal VR grant; at least one pay period was selected for each of the 25 Area Offices, as well as 1 Regional Office. We also reviewed 40 weekly timesheets covering four pay periods for payroll costs charged to the VR American Recovery and Reinvestment Act (ARRA) grant. These timesheets represented 17 Area Offices and 1 Central Office department. For the above

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sampled items all payroll support documentation was received from agency personnel including proof of supervisory approval.

As an alternative test, site visits to five VR Area Offices were conducted. The review of 50 weekly timesheets covering five pay periods disclosed that 8 of the 50 weekly timesheets—six from the Boston Area Office and two from the Somerville Area Office—were missing evidence of a supervisory approval signature. As a result, questionable costs for the timesheets involved amounted to \$121,085.

With respect to Social Security Disability Insurance Program (DDS), we inspected 82 weekly timesheets covering five pay periods from 25 departments that were charged to the Federal DDS grant. For the above examination all payroll support documentation was received from agency personnel including proof of a supervisory approval signature for all 182 weekly timesheets reviewed.

The absence of a payroll supervisor's signature does not provide for adequate assurance that payroll expenditures are accurate and valid and the program is being charged only for the actual time an employee has worked on a program.

Our review also disclosed the following deviations related to EOHHS or MRC policy:

Electronic Transmittals (EOHHS)

- Although our own comparison did not detect any discrepancies between authorized employee timesheets and payroll exceptions reported on EOHHS electronic transmittals, 8 of the 50 EOHHS timesheets inspected during our site visits to Area Offices (payroll costs charged to the VR federal grant) did not have evidence of a supervisory approval signature. Four of the 8 incidences occurred after the MRC Administrative Bulletin revision was effective.
- 4 out of 40 EOHHS Transmittals (payroll costs charged to the VR ARRA federal grant) did not have evidence of a supervisory approval signature. All four occurrences transpired after the MRC Administrative Bulletin revision and took place at the Boston Area Office.
- 4 out of 82 EOHHS timesheets (payroll costs charged to the DDS federal grant) did not have evidence of a supervisory approval signature. All four occurrences transpired before MRC's revised Administrative Bulletin. Additionally, we noted that DDS management did not implement the MRC agency-wide Administrative Bulletin until May 24, 2010; roughly two months after the Administrative Bulletin effective date.

Bi-Weekly Payroll Reports

- 21 out of 55 MRC bi-weekly payroll reports (payroll costs charged to the VR federal grant) did not have evidence of a supervisory approval signature. Fourteen of the twenty-one were identified during our site visits to Area Offices, with 5 taking place after the MRC Administrative Bulletin revision.
- 2 out of 20 MRC bi-weekly payroll reports (payroll costs charged to the VR ARRA federal grant) did not have evidence of a supervisory approval signature. Both occurrences transpired after the MRC Administrative Bulletin revision and took place at the Boston Area Office.

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- 33 out of 41 MRC bi-weekly payroll reports (payroll costs charged to the DDS federal grant) did not have evidence of a supervisory approval signature. Seven of the thirty-three occurrences took place after the MRC Administrative Bulletin revision.

A similar finding was reported in the prior year single audit report as finding number 2009-31.

Recommendation

MRC should provide training and dedicate adequate resources to ensure that existing policies and procedures are implemented.

Related Noncompliance

Based on the above, MRC is not in compliance with the stated requirement.

Questioned Costs

\$121,085 (84.126)

Views of Responsible Officials and Corrective Actions

MRC has developed an Agency-wide Payroll Policy to ensure that employee timesheets are reviewed by program supervisors. This payroll policy was issued in March 2010. MRC will continue to provide additional training to ensure that existing policies and procedures are followed and monitored. MRC submits that the time sheets in question did not have the proper approvals. MRC's internal control process uses reports provided on Document Direct to ensure that payroll is accurate and consistent. MRC's internal controls minimize the risk of reportable questioned costs.

Contact: Ruth Paulson

Implementation Date: MRC will continue on an on-going basis to provide additional training to ensure that existing policies and procedures are followed and monitored.

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Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Federal Award Number:	H126A080028D	Award Year:	2008 – 2009
	H126A090028A		2009 – 2010
	H126A100028B		2010 – 2011

U.S. Department of Education

Finding Reference: 2010-31

Requirement

To be allowable under Federal awards, costs must meet the following general criteria: 1) Be allocable to Federal awards under the provisions of this Circular. 2) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. (OMB) Circular A-87, Attachment A, Section C (1) Factors affecting allowability of costs.

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal award, or for other reasons. OMB Circular A-87, Attachment A, Section C (3) Allocable Costs.

Finding

The Office of the Comptroller (CTR) and the Executive Office of Health and Human Services (EOHHS) entered into Cost Allocation Agreements with the federal Department of Health and Human Services as required under the provisions of the Federal OMB Circular A-87. The Cost Allocation Agreements allow for central supportive service costs (chargebacks) to be allocated to state agencies that receive federal grants to administer federal programs. Allocations identified for the Massachusetts Rehabilitation Commission (MRC) were further allocated based on a spreadsheet developed by MRC to various federal programs administered by MRC. We reviewed the allocations of central support service costs (chargebacks) for secretarial central services and information technology data processing services from July 1, 2009 to June 30, 2010.

Our review of MRC's claiming of chargebacks disclosed the following:

- The Rehabilitation Services – Vocational Rehabilitation Grants to States program (VR Program) was overcharged \$9,516 for secretarial central services chargeback costs. The overcharge represents EOHHS human resource, facilities, and information technology supportive services that should have been allocated to other federal programs in accordance with the central support services allocation spreadsheet developed by MRC.

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Year ended June 30, 2010

- The VR program was overcharged \$6,654 for Information Technology chargeback costs. The overcharge represents Information Technology Department and CTR data processing costs that should have been allocated to other federal programs according to the central support services allocation spreadsheet developed by the MRC.

As a result of our audit, MRC processed a Massachusetts Management reporting and Accounting System (MMARS) expenditure correction (EX) transaction that reassigned \$6,869 of the \$9,516 in secretarial central service costs from the federal VR program to the VR program income appropriation. The VR program income represent reimbursements received from the Social Security Administration (SSA) for Social Security beneficiaries and recipients for costs of services associated with achieving employment outcomes. Similarly, an additional \$6,654 in information technology data processing services was also reallocated to the VR program income appropriation from the federal VR program. This action, however, only reassigned \$13,523 of the \$16,170 in questioned costs. Accordingly, \$2,647 in secretarial central support service costs—services that benefit other federally funded programs—continue to be incorrectly charged to the federal VR program.

As noted above, MRC in an effort to realign central support service chargebacks reassigned costs totaling \$13,523 to its VR Program Income appropriation. MRC advised us that these costs could be charged to the program income appropriation and provided us with documentation to support their interpretation of the regulations regarding the use of program income to fund these other federally funded programs which included the Informed Members Planning and Assessing Choice Together (IMPACT); Supported Employment Program; Innovation Strategies for Transition Youth with Disabilities; Traumatic Brain Injury (TBI) Implementations Grant; and Assistive Technology Act.

MRC officials explained that the incorrect central support service charges made to the VR program were not allocated to the proper federal programs because in their view the amounts were not material and, therefore, did not justify the added administrative recordkeeping. Further, although MRC pointed out that it had inadvertently used the wrong secretarial central support service amount in its MMARS expenditure correction, MRC used \$6,867 rather than \$9,516, MRC noted that no further adjustments would be made.

Additionally, we noted MRC did not have specific written policies and procedures in place to instruct staff on the proper procedures for allocating central support service chargebacks and to make certain that federally funded programs received an appropriate allocation in accordance with the relative benefits received.

Recommendation

We recommend that MRC develop written policies and procedures to ensure that central support service chargebacks are appropriately allocated to benefiting programs.

Related Noncompliance

Based on the above MRC was not in compliance with the requirement above.

Questioned Costs

\$16,170

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials and Corrective Actions

MRC's allocation plan for EOHHS chargebacks is based upon information at the beginning of the federal fiscal year; however, MRC concurs that \$2,647 was incorrectly overcharged to the VR program as the questioned cost. This overcharge was the result of MRC receiving its final chargeback amount from EOHHS in the closing period of the fiscal year. MRC continues to monitor chargeback allocations throughout the fiscal year and where needed makes the necessary adjustments as authorized by The Comptroller of the Commonwealth.

MRC did not overcharge the VR program for IT chargeback costs in FY10. The amount in question was identified during the fiscal year by the State Audit Team prior to MRC reconciling the final allocations for all chargebacks. MRC made the necessary adjustment during the reconciliation process that takes place during the fiscal year closing period.

MRC concurs that we further develop written policies and procedures as presented in OSC's Fiscal Year Closing Instructions and MMARS policy on Expenditure Corrections to ensure that central support service chargebacks are allocated in accordance with State and Federal guidelines.

Contact: Ruth Paulson

Implementation Date: By June 30, 2011

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Schedule of Findings and Questioned Costs

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Department of Elementary and Secondary Education

Improving Teacher Quality (Title II) (84.367)

Federal Award Number:	S367A0600020	Award Year:	2007
	S367A0600020A		2007
	S367A0700020		2008
	S367A0700020A		2008
	S367A0800020		2009
	S367A0800020A		2009
	S367A0900020		2010
	S367A0900020A		2010

U.S. Department of Education

Reference: 2010-32

Requirement

A local educational agency (LEA) (except a local educational agency identified for improvement under Section 6316 (c) of this title or subject to corrective action under Section 6316 (c)(9) of this title) may transfer not more than 50% of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year to one or more of its allocations for such fiscal year under any other provision listed in paragraph (2). A local educational agency identified for improvement under Section 6316 (c) of this title may transfer not more than 30% of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year – (i) to its allocation for school improvement for such fiscal year under Section 6303 of this title ; or (ii) to any other allocation for such fiscal year if such transferred funds are used only for local educational agency improvement activities consistent with Section 61316 (c) of this title (20 USC 7305b).

Finding

In order to be compliant with the above requirements, LEA’s identified for improvement may only transfer up to 30% of their base and LEA’s requiring corrective action may not transfer any funds to other eligible programs.

During our testwork of the Department of Elementary and Secondary Education’s (Department) monitoring over the program we tested a sample of LEAs that transferred funds from Title II to other eligible programs and noted that one LEA was in corrective action status and had transferred program funds in noncompliance of the requirement above. The LEA transferred \$164,632 in federal fiscal year 2009 program funds.

This finding was the result of the Title I unit within the Department changing the list of LEA’s in corrective action without notifying the other units in the Department.

A similar finding was reported in the prior year single audit report as finding number 2009-32.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

The Department should improve their monitoring policies and procedures as well as communications between units within the Department to ensure LEAs are transferring funds in accordance with Federal regulations.

Related Noncompliance

Based on the above, the Department is not in compliance with the stated requirement.

Questioned Costs

\$164,632

Views of Responsible Officials and Corrective Actions

When changes to school and district accountability status occur, we will plan to update our school & district status lists – highlighting any changes – and send those lists to the other federal Title staff (currently II-A, II-D, III, IV), special education staff, and all associate commissioners. We'll ask the associate commissioners to disseminate the info further, as they deem necessary.

Our next planned update will be in late November/early December, after we receive final MCAS data from our contractor.

Contact: Matt Pakos, Title I

Implementation Date: December 15, 2010

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Views of Responsible Officials and Corrective Action

The Department agrees with this finding. The Department notes that, as a result of the computer “crash” described in the finding, the Department was unable to provide the cover letter electronic mail correspondence that accompanied the support documentation. The Department did provide the underlying support documentation to the auditors. Notwithstanding this clarification, on or about July 9, 2010, the Department’s Management Information Systems unit redirected the Program Coordinator Supervisor’s electronic mail to a network server which eliminates the possibility of the circumstances that produced the finding from recurring. Moreover, as a further improvement to the Department’s Internal Controls, the Department’s Deputy Commissioner for Program, Policy and Field Operations will complete periodic certifications for the list of employees until such time as the Department employs an Assistant Commissioner for Field Operations who will, then, assume this responsibility.

Contact: Birgitta Damon, Deputy Commissioner for Program, Policy and Field Operations
Mark S. Miller, Assistant Commissioner for Program Integrity

Implementation Date: Initial corrective action completed on or about July 9, 2010.
Additional corrective action to commence on March 1, 2011.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number: G0904MA4004 **Federal Award Year:** 2009
G1004MA4004 2010

U.S. Department of Health and Human Services

Reference: 2010-34

Requirement

For all cases referred to the IV-D agency or for those being applied for under Section 302.33 of this chapter, the IV-D agency must open all cases by establishing case records and determine necessary action by assessing : (1) Solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information, if appropriate; and (2) If there is inadequate location to proceed with the case, request additional information or refer the case for further location attempts, as specified in Section 303.3. (CFR 303.2 (B)) For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).

Finding

During our testwork we noted that the Department of Revenue (Department) did not adhere to the respective time frames prescribed above for six of the forty cases selected for testwork as follows.

- Two cases exceeded the 90 day requirement to obtain a support order.
- Four case files were not established within the 20 day required time frame and did not have quarterly attempts (after the initial attempt) to determine the location as required by Federal regulation.

Similar findings were reported in the prior year single audit report as finding 2009-36 and 2009-37.

Recommendation

We recommend that the Department strengthen existing policies and procedures in order to comply with required time frames for establishing a case records and obtaining support orders.

Related Noncompliance

Based on the above the Department was not fully in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

We recognize that this finding is a repeat finding, however, we want to note that our compliance with federal case processing time standards has improved. Of the 4 cases cited as errors due to CSE's failure to open and

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assess new cases within 20 days, we missed the deadline by 2 days in two of the cases and by 5 days in another case. While the 20-day timeframe was not met, the margin by which we missed the mandated timeframe was less than in past years.

CSE continues with major systems improvements to that will increase compliance with case processing time standards and improve services to our customers. CSE developed and released a comprehensive Request for Response (RFR) for the development of a new computer system. Bids are due December 10, 2010 and CSE anticipates that having a vendor in place for this 5-year project by the first half of SFY2012.

CSE's imaging system has helped the Division improve compliance with case processing time standards.

While that project was a major initiative to modernize the handling of cases and provide an on-line application for caseworkers take appropriate action, we have not yet programmed the management reports also cited in last year's Corrective Action Plan. These reports are now in development. On September 17, 2010, the Associate Deputy Commissioner sent a memo to key managers and supervisors reminding them of the case processing time standards and of the responsibility the managers and supervisors have in monitoring compliance.

Finally, until CSE is in a position to be adequately staffed, we will continue to struggle to meet these particular case processing time standards as the work involved requires manual effort.

Contact: Paul Cronin, Associate Deputy Commissioner

Implementation Date: Immediate

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Year ended June 30, 2010

Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number:	G0904MA4004	Award Year:	2009
	G1004MA4004		2010

U.S. Department of Health and Human Services

Reference: 2010-36

Requirement

Consistent with the approved title IV-D plan, allowable activities are dictated by 45 CFR sections 304.20 through 304.22. The IV-D agency should design and implement controls to ensure that expenditures are for allowable activities as dictated by 45 CFR sections 304.20 and 304.22.

Finding

One of the key controls designed by the Department of Revenue (Department) to ensure that expenditures charged to federal grants are allowable and appropriate is a review and approval of invoices by authorized contract managers.

During our test work we noted that for one out of twenty five cases tested there was no evidence that the invoice was reviewed by the contract manager.

Recommendation

We recommend that the Department strengthen existing controls in order to ensure that invoices are reviewed and approved before payment.

Views of Responsible Officials and Corrective Actions

The Department of Revenue's telecommunication group reviews all telephone invoices and verifies the amount to be paid. However, the invoices lacked the signature of the telecommunication's reviewer. A procedure has since been implemented to have all telephone invoices signed or initialed by the telecommunication's reviewer.

Contact: Paul Naves, Chief Financial Officer

Implementation Date: Immediate

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Year ended June 30, 2010

Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number:	G0904MA4004	Award Year:	2009
	G1004MA4004		2010

U.S. Department of Health and Human Services

Reference: 2010-37

Requirement

Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (45 CFR 92.20 (b)(1)).

Finding

The Department of Revenue (Department) is responsible for submitting *Financial Status Reports (OCSE 396-A)* and *Federal Cash Transactions Reports (SF-272)*. Information regarding award disbursements is gathered by the individual responsible for the Financial Status Report and is communicated to the individual responsible for preparing the Federal Cash Transaction Report.

During our test work we noted that the award disbursement information on the quarterly Federal Cash Transaction Report tested did not agree to the disbursement information reported on the Financial Status Report and other accounting records. It was noted that the information in the Federal Cash Transaction Report did not match due to a revision on the Financial Status Report which was not included on the Federal Cash Transaction Report.

Recommendation

We recommend that the Department strengthen communication between individuals responsible for the various reporting requirements.

Views of Responsible Officials and Corrective Actions

CSE Finance is responsible for the data compiling, report, and submission of the 396-A Child Support Enforcement Program Expenditure Report. Financial Service Bureau is responsible for the data collection, report and submission of the SF-272 Federal Cash Transaction Report. Both units collaborate effectively at the end of each quarter comparing data collection and reporting results.

During the period in questions (QE 12-31-2009) the 396-A and SF-272 were submitted on time, with both reflected collaborated data. Following this submission, and at the request of the OCSE regional office, \$54,275.00 of "CEN" costs were to be reclassified as "ADM" costs. This revision to the final 396-A following the actual submission resulted in the submitted SF-272 reflecting an over disbursing \$858.66 in 0904MA4002 grant money and the under disbursement of \$35,821.50 in 0904MA4004 grant money for the quarter. Corrections made in preceding quarter correct the above-mentioned disbursement discrepancies.

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Schedule of Findings and Questioned Costs

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In the Future, CSE Finance and the Financial Service Bureau will continue to work closely improving its collaboration efforts in accurately reporting all cost and disbursements reported on the related reports.

Contact: Frank Reardon

Implementation Date: Immediate

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Children and Families

Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

Federal Award Number:	G-1001MA1401	Award Year:	2010
	G-1001MA1407		2010

U.S. Department of Health and Human Services

Finding Reference: 2010-38

Requirement

A State must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan. However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option claim FFP based on the proposed plan or plan amendment, unless otherwise advised by the Division of Cost Allocation (DCA). However, where a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA. The State may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment (45 CFR 95.517 (a)).

Finding

The Department of Children and Families (the Department) made FFP claims based on allocations that were not in accordance with the approved Public Assistance Cost Allocation Plan. Two instances of non-compliance with the PACAP were noted. In the first instance, there was a formula error in the calculation of one of the statistics. In the second instance, one plan department (i.e. Cost Center) was allocated using a different allocation statistic than the allocation statistic in the approved PACAP. This plan department was allocated based on the Number of Title IV-E and Non-Title IV-E Foster Care and Adoption Placements; however, the approved statistic was FTE Count Supported in Domestic Violence Coordinators and in Domestic Violence Specialists.

In the first instance, the cause was human error in calculating the percentage used to allocate the consultants contract costs to different programs. The calculation is supposed to result in a percentage representing the amount of resources dedicated to Title IV-E programs versus non-Title IV-E programs.

In the second instance, the PACAP was amended at the beginning of the third quarter, changing the allocation statistic for the plan department. However, the State did not update the allocation statistic in the PACAP system.

The effect was that the State claimed costs that were not charged in accordance with the approved Public Assistance Cost Allocation Plan. Both instances resulted in the State claiming more costs than if the approved PACAP had been followed.

Questioned costs were calculated for Foster Care (93.568) by netting the second quarter under claim of 7,194 by the third quarter over claim of \$41,433 for a net amount of \$34,239. The above items had a impact on the Adoption Assistance program of \$3,380.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

We recommend that the Department implement a review process over the manually calculated statistics and develop procedures to ensure that changes to the Public Assistance Cost Allocation Plan are reflected in its system.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Cost

\$34,239 (93.658)

\$3,380 (93.659)

Views of Responsible Officials and Corrective Action

MA DCF acknowledges the miscalculation of billing percentages for quarters 2 and 3, and the application of incorrect allocation statistics for one plan department in quarter 3.

Revenue operations have been improved to address both non-compliance issues related to the cost allocation plan.

Additional checks have been incorporated into the quarterly quality assurance review to verify billing percentages calculated from the raw data; and a review that the calculated amounts are then correctly entered into the CAP data base.

The quarterly quality assurance review has also been modified to include a comparison of approved allocation basis for each plan department to the current quarter's CAP data.

Contact: Janice Axelrod, EHS

Implementation Date: January 1, 2011

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Department of Children and Families

Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

Federal Award Number:	G-1001MA1401	Award Year:	2010
	G-1001MA1407		2010

U.S. Department of Health and Human Services

Finding Reference: 2010-39

Requirement

Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. (2 CFR 225 Appendix B 8 (h) (1)).

Finding

In reviewing payroll charged to the Foster Care and Adoption Assistance programs, the Department of Children and Families (Department) was unable to provide a timesheet for one out of 80 individuals tested. Additionally, the Department requires its managers to review a weekly time log and create an exception report prior to paying individuals. As an internal control over the accuracy of the leave records, either the weekly time log or exception report must be approved by a manager. For two of the 80 individuals tested, an exception report was not approved by a manager. As such, costs related to the three employees were not supported or approved and therefore the inclusion in the Cost Allocation Plan is questioned.

Questioned costs could not be readily determined as the individuals were part of the Random Moment Time Study and the salary costs were allocated to various programs including Foster Care and Adoption Assistance.

Recommendation

The Department should develop procedures to ensure that timesheets are properly retained to support the individuals' time worked. Further, the importance of documenting the approval of leave records should be stressed to the responsible managers.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Cost

Cannot be determined

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Views of Responsible Officials and Corrective Action

MA DCF acknowledges its inability to produce one timesheet out of the 80 records tested. In addition, 2 exemption reports were produced to support relevant time/attendance but were not signed-off by an appropriate manager. While the result of the FY10 Single State Audit represents a significant improvement from the previous years' review of payroll and time/attendance, DCF will continue to provide guidance and stress the importance of documenting time/attendance.

The Department will notify all Supervisory and Managerial staff that:

1. Timesheets must be reviewed and signed by appropriate manager and retained on site for review.
2. Completed weekly attendance (exception) reports must be signed by an authorized office manager with a hard copy kept in a secure location with unit timesheets attached.

Contact: Barry Kroening

Implementation Date: January 24, 2011

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Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

EEC will continue to develop procedures that ensure that amounts due to the Department are properly credited to benefiting programs. EEC is in the process of reconciling the recovered funds with the claims for federal reimbursement. If necessary, EEC will then make appropriate adjustments to claims so that the recovered funds can be re-obligated.

Contact: Constantia Papanikolaou, Chief Counsel

William Concannon, Deputy Commissioner for Administration and Finance

Implementation Date: May 2011

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Executive Office of Health and Human Services

**State's Children Health Insurance Program (SCHIP) (93.767)
Medical Assistance Payments (93.778)**

Federal Award Number:	0905MA5021	Federal Award Year:	2009
	1005MA5MAP		2010
	1005MA5021		2010

U.S. Department of Health and Human Services

Reference: **2010-41**

Requirement

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (6) Source documentation. Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc (45 CFR 92.20 (1), (2), (3), and (6).

A State Plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accordance with applicable Federal requirements (42 CFR 433.32 (a)).

Finding

The Executive Office is responsible for the quarterly preparation of the CMS-64 and CMS-21 reports (the reports). The Executive Office prepared the quarterly reports from information primarily retained in the Medicaid Management Information System (MMIS) as well as from the Commonwealth's accounting system, MMARS, and information received in spreadsheets and memorandum from other agencies which is derived from MMARS. The Executive Office prepares quarterly spreadsheets to compile all the information for each line presented in the reports. Upon the completion of these spreadsheets, the Executive Office submits the reports

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Schedule of Findings and Questioned Costs

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electronically and certifies the submissions on-line. We noted that the compilation of the quarterly reports is a very complex process that involved multiple data sources.

We noted that during our testing of the CMS-64 and CMS-21 reports for quarter ending December 31, 2009 and quarter ending June 30, 2010, there were instances where expenditures were presented in the incorrect line items which resulted in misstatements in the CMS-21 and CMS 64 reports. In all cases the grand total presented on the reports was correct.

Specifically in the December 31, 2009 CMS-21 report, lines 2 and 5 were over and understated by \$2,484,207 respectively and lines 7 and 8 were over and understated by \$321,522, respectively. In the June 30, 2010 CMS-21 report lines 9 and 10 were over and understated by \$1,125 respectively and lines 13 and 14 were over and understated by \$129,944 respectively.

Specifically in the December 31, 2009 CMS-64 report, lines 6A and 7 were over and understated by \$243,500 respectively. In the June 30, 2010 CMS-64 report lines 24A and 25 were over and understated by \$296,306 respectively and lines 26 and 27 were over and understated by \$207,346 respectively.

Recommendation

We recommend that the Executive Office enhance existing policies and procedures to ensure that amounts are properly reported in Federal reports.

Related Noncompliance

Based on the above the Executive Office was not fully in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

To complete the quarterly CMS 64 report, EOHHS prepares excel spreadsheets and then transfers data from the spreadsheets to the CMS MBES electronic report submittal system. Several hundred pages and several thousand lines of data are included on the CMS 64. EOHHS has several verification systems to check the figures that are transferred for each page and for the grand total of the CMS 64. KPMG has mentioned that no problems were found with the grand total of information submitted.

KPMG has found some instances in which data was submitted on the wrong federal type of service line (FTOS), although the page totals and grant totals of the reports were correct. As the CMS MBES system does not supply a total for the report by FTOS, there is no way to reconcile the EOHHS backup worksheets with the final CMS 64 submittal by FTOS.

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EOHHS performs spot checking to confirm that numbers are transmitted correctly to each FTOS, however a manual detail check of FTOs line by line done by staff would be the only option for EOHHS to ensure the accuracy of each FTO line. The effort may result in issues submitting reports in a timely manner. EOHHS is going to investigate whether it is possible to devise a way to convert the MBES system to excel and link the pages to result in a grand total by FTOS for the CMS 64. EOHHS will also work with CMS to see if CMS is aware of a way to generate grant totals for FTOS through the MBES system.

Contact: Janice Axelrod, Director, Federal Revenue Claiming

Implementation Date: June 1, 2011

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Schedule of Findings and Questioned Costs

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Executive Office of Health and Human Services

Medical Assistance Payments (93.778)

Federal Award Number: 1005MA5MAP Federal Award Year: 2010

U.S. Department of Health and Human Services

Reference: 2010-42

Requirement

A State plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accordance with applicable Federal requirements (42 CFR 433.32 (a)).

Finding

The Executive Office is responsible of the quarterly preparation of the CMS-64 report. During our testwork over the CMS-64 report we noted that the Executive Office did not report expenditures on Line 27 – Emergency Services Undocumented Aliens for any of the quarterly reports submitted during the audit period. Further, we noted during our testwork that the Commonwealth’s Medicaid Program does incur costs related to emergency services for undocumented aliens which are reported in the line items corresponding to the type of service provided.

The Executive Office is unable to report expenditures for emergency services for undocumented aliens as the claims payment system cannot separate these payments from payments made for emergency services for documented immigrants who are eligible for federal funding of emergency services. Expenditures for emergency services for undocumented and documented aliens for fiscal years 2008, 2009, 2010 were \$45,527,459, \$45,746,028, and approximately \$41,000,000, respectively.

A similar finding was reported in the prior year single audit report as finding 2009-44.

Recommendation

We recommend that the Executive Office revise existing policies and procedures to ensure that costs incurred for emergency services for undocumented aliens are reported on the correct line of the CMS-64 report.

Related Noncompliance

Based on the above the Executive Office was not fully in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

KPMG is correct in stating that EOHHS is unable to separately report expenditures for emergency services for undocumented aliens as the claims payment system does not distinguish payments based on immigration status.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Separating these expenditures has been delayed because of other priorities in the development of the NewMMIS system. EOHHS is confident that the line 27 data will be available by June 1, 2011.

Contact: Janice Axelrod, Director, Federal Revenue Claiming

Implementation Date: June 1, 2011

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Year ended June 30, 2010

Executive Office of Health and Human Services

Medical Assistance Payments (93.778)

Federal Award Number: 1005MA5MAP Federal Award Year: 2010

U.S. Department of Health and Human Services

Reference: 2010-43

Requirement

In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR sections 431.107 and 447.10; and section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR part 455, subpart B (sections 455.100 through 455.106)).

Before the Medicaid agency enters into or renews a provider agreement, or at any time upon written request by the Medicaid agency, the provider must disclose to the Medicaid agency the identity of any person who: (1) Has ownership or control interest in the provider, or is an agent or managing employee of the provider; and (2) Has been convicted of a criminal offense related to that person's involvement in any program under Medicare, Medicaid, or the Title XX services program since the inception of those programs (42 CFR 455.106 paragraph (a)).

The Medicaid agency may refuse to enter into or may terminate a provider agreement if it determines that the provider did not fully and accurately make any disclosure required under paragraph (a) of this section (42 CFR 455.106 paragraph (c)).

Finding

The Executive Office has established the Provider Enrollment and Credentialing Department (PEC), whose mission is to ensure that providers meet the required applicable criteria to be an eligible Medicaid provider including reviewing and approving applications, verifying provider licensing and managing the disclosure requirements.

PEC has developed written policies and procedures regarding the processing of new enrollment applications and ongoing provider file maintenance and integrity. Each provider is required to complete a comprehensive application and disclosure process, prior to participation. Applications are reviewed and verified against standards for provider type by the Customer Service Team (CST) contractor. While providers are required to report changes in status within 14 days, the CST and PEC are connected to various information sources to determine material changes in status. PEC also updated all applicable provider information in a three year re-credential cycle at which time PEC obtains the required updated disclosures. However, we noted that for fiscal year 2010 PEC has stopped their re-credentialing process as they are in the process of implementing new procedures to be integrated with new MMIS. As of the completion of our audit fieldwork, the new procedures have been implemented and therefore, no re-credentialing of providers was performed.

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KPMG performed further procedures over new providers admitted into the program during fiscal year 2010 and noted that out of the 25 new providers selected, proper credentials were obtained at the time of application.

A similar finding was reported in the prior year single audit report as finding 2009-45.

Recommendation

We recommend that the Executive Office continue with their plans to develop new procedures for re-credentialing existing providers.

Related Noncompliance

The Executive Office was not in compliance with the requirement stated above.

Questioned Costs

Could not be determined

Views of Responsible Officials and Corrective Actions

The Executive Office of Health and Human Services (EOHHS) would first like to clarify certain facts stated in this finding. It is true that during 2009 the CST policy and procedures manual made reference to a PEC three-year re-credentialing cycle. However, in the 2010 response, that provision was removed from the policy and procedures manual, and updated to reflect NewMMIS current procedures. A CD was provided to the audit team to reflect these new policies and procedures.

As soon as the finding was issued related to provider disclosure in February of 2010 EOHHS initiated a corrective action plan designed to enhance the controls specific to CFR 455 sections 100-106 (periodic disclosure from providers around ownership and interest, OIG exclusions, and other factors which might affect the provider's eligibility to participate in MassHealth). Specifically, EOHHS initiated a pilot outreach campaign to 792 group practice providers. This provider type was targeted because of the continual flow of servicing providers enrolling or dis-enrolling within a group practice, and the potential changes within the corporate structure itself. For these providers, EOHHS requested several documents to be completed and returned, including:

- Party and interest appendix;
- Attestation (updated agreement);
- Trading Partner Agreement (TPA) if needed, and
- Updated list of practitioners participating in the group with an attestation from the group that all individual practitioners have been credentialed by the group.

Although an outreach and communications strategy was initiated and executed during FY10, for several reasons, the agency was not able to receive packets from providers and update the files in the new MMIS until the first few months of FY11 (July September 2010). However, the results were very positive: of the 792 providers that were targeted for this pilot, 650 providers responded with the necessary documentation, and their files were appropriately updated in the NewMMIS. Another 76 providers were suspended due to either non-response (60), or lacking certain information in their return packets (16). Finally, another 39 practices voluntarily dis-enrolled,

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the vast majority of these being groups that have had little or no claims submitted to MassHealth within the last 18 months. For additional detail please refer to the attached final disclosure project status report.

EOHHS intends to expand on the success of these early FY11 efforts by continuing the disclosure process. At this time, the intention is to continue with more group practice providers, and expand to other provider types pending time and resources.

In addition, the agency will continue efforts to implement other aspects of the 2009 corrective action plan. This includes enhancements to the provider online service center (POSC) (adding reminders concerning disclosure requirements whenever a claim is submitted through direct data entry or batch transaction, as well as adding an “I agree” button to claims transactions compelling providers to attest to understanding what their responsibilities are with regards to periodic disclosure). It also includes continued work with program staff to enhance disclosure language used during their annual contract renewal process in order to obtain our future periodic review data. This will reduce duplicate efforts and allow us to obtain information in a timely manner. Finally, all of these activities, in addition to all relevant policies, procedures, and efforts within EOHHS, will be carefully and strategically coordinated with new compliance measures set forth in the Affordable Care Act.

Contact: Joshua Ruminski, Deputy Director, MassHealth Operations
Janice Wadsworth, Director, Provider Operations
Elizabeth Abbott-Graves, Director, Vendor Operations, MassHealth

Implementation Date: June 2011

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Executive Office of Health and Human Services

Medical Assistance Payments (93.778)

Federal Award Number: 1005MA5MAP Federal Award Year: 2010

U.S. Department of Health and Human Services

Reference: 2010-44

Requirement

There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall re-determine the eligibility of Medicaid recipients with respect to circumstances that may change (e.g., income eligibility), at least every 12 months. The agency may consider blindness and disability as continuing until the review physician or review team determines that the recipient's blindness or disability no longer meets the definition contained in the plan. There must be procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The State must promptly re-determine eligibility when it receives information about changes in a recipient's circumstances that may affect his or her eligibility (42 CFR Section 435.916).

Finding

During our testwork, we selected 40 program participants receiving benefits from the Medical Assistance program that used the MA-21 and/or PACES eligibility system. In order to continue eligibility, the Executive Office is required to re-determine the eligibility of program recipients with respect to circumstances that may change at least every 12 months. In our selection of 40 program participants with total gross claims of \$1,566,910, we noted that the re-determination for three participants was not performed after 12 months of program participation. The three participants in question had total claims of \$76,409 in fiscal year 2010. Subsequently, re-determinations were performed and the participants were found to be eligible.

Recommendation

We recommend that the Executive Office adhere to their existing policies and procedures to ensure that Federal requirements are complied with.

Related Noncompliance

Based on the above the Executive Office was not in compliance with the requirement above.

Questioned Costs

None

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Views of Responsible Officials and Corrective Actions

The state accepts the recommendation and will continue to make an effort to be fully compliant with 42 CFR Section 435.916.

Contact: Amy Andrade, Director MassHealth Eligibility Processing & Member Policy Implementation

Implementation Date: December 1, 2010

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Executive Office of Health and Human Services

Medical Assistance Payments (93.778)

Federal Award Number: 1005MA5MAP Federal Award Year: 2010

U.S. Department of Health and Human Services

Reference: 2010-45

Requirement

If a check remains uncashed beyond a period of 180 days from the date it was issued, i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received Federal Financial Participation (FFP) for the amount of the uncashed check, it must refund the amount of FFP received. At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State Agency must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter. If an uncashed check is cashed after the refund is made, the State may file a claim. The claim will be considered to be an adjustment to the costs for the quarter in which the check was originally claimed. This claim will be paid if otherwise allowed by the Act and the regulations issued pursuant to the Act. If the State does not refund the appropriate amount as specified in this section, the amount will be disallowed. If the State has claimed and received FFP for the amount of a canceled (voided) check, it must refund the amount of FFP received. At the end of each calendar quarter, the State Agency must identify those checks which were canceled (voided). The State must refund all FFP that is received for canceled (voided) checks by adjusting the Quarterly Statement of Expenditures for that quarter. If the State does not refund the appropriate amount as specified in this section, the amount will be disallowed (42 CFR 433.40 (c) and (d)).

Finding

The Executive Office relied on the Office of the State Treasurer to provide the value of uncashed and purged checks on a quarterly basis to be included on the CMS-64 report. During our testwork we reviewed three quarterly CMS-64 reports noting the following:

- For the quarter ended December 31, 2009, the dates of the outstanding checks ranged from September 12, 2008 to December 29, 2009 and had a value of \$110,857.
- For the quarter ended March 31, 2010, the dates of the outstanding checks ranged from January 2, 2009 to March 25, 2009 and had a value of \$120,558.
- For the quarter ended June 30, 2010, the dates of the outstanding checks ranged from April 1, 2009 to November 30, 2009 and had a value of 361,575.

Based on our review, it does not appear that the Federal Financial Participation of uncashed checks with issuance dates greater than 180 days are refunded in accordance with Federal regulations.

A similar finding was reported in the prior year single audit report as finding 2009-47.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation

We recommend that the Executive Office continue their efforts with the Office of the State Treasurer to implement new policies and procedures to ensure that the Executive Office receives the appropriate information to ensure checks that remain uncashed beyond a period of 180 days are refunded as required by Federal requirements.

Related Noncompliance

Based on the above the Executive Office is not in compliance with above requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

In May 2010, the Office of the State Treasurer sent a request to the bank to purge MassHealth checks at 180 days. This change went into effect for the June 2010 purge.

An email is sent out by the Federal Revenue Claiming Unit at the end of each quarter indicating the deadline necessary to be able to include claims or adjustments in that quarter's CMS-64. For the quarter ending 06/30/10 the cut off was 07/15/10. The purged check report that included checks dated 12/01/10 through 12/31/10 was not received from the Office of the State Treasurer until 08/09/10. Although the information was received prior to the submission of the CMS 64, including the information would have delayed the submission. The reason is that when the purged checks information is received, each check is reviewed to remove checks related to state funded programs. In addition, the purged checks information requires time-consuming adjustments to the CMS 64 because many schedules are affected such as collections, CMS 21, Title XIX Expansion, and Drug Rebate. The Federal Revenue Claiming Unit did not receive the report in time to be able to include that data in the CMS-64 for quarter ending 06/30/10 and maintain the timeliness of the submission as required by CMS as well as the Commonwealth.

Federal Revenue will continue to reiterate the due date required for claims to our contact at the Treasurer's Office.

Contact: Janice Axelrod, Director, Federal Revenue Claiming

Implementation Date: June 1, 2011

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Executive Office of Health and Human Services

State's Children Health Insurance Program (SCHIP) (93.767)

Federal Award Number: 1005MA5MAP Federal Award Year: 2010

U.S. Department of Health and Human Services

Reference: 2010-46

Requirement

States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. The Commonwealth's Title XXI State Plan Section 4 outlines the eligibility standards and methodology, including income determination. MassHealth has a family income limit of 300% FPL for children who are not eligible for Medicaid under Title XIX.

Finding

During our testwork of 40 SCHIP participants, we noted that three participants' gross income was incorrectly input into the MA-21 system for eligibility determination. In all three instances, the gross income was understated in the MA-21 system. Subsequently, it was determined that these members were still eligible based on the correct gross income as stated on their member application form.

Recommendation

We recommend that the Executive Office improve existing policies and procedures to ensure that eligibility information is accurately processed when determining eligibility.

Views of Responsible Officials and Corrective Actions

The State accepts the recommendations and will continue to educate Benefits Eligibility Representatives Specialist (BERS) to avoid errors in income calculations. The State has enhanced the eligibility system with pop-up windows that request the BERS to confirm the income calculation.

Contact: Amy Andrade, Director MassHealth Eligibility Processing & Member Policy Implementation

Implementation Date: December 31, 2010

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Executive Office of Health and Human Services

Medical Assistance Payments (93.778)

Federal Award Number: 1005MA5MAP **Federal Award Year:** 2010

U.S. Department of Health and Human Services

Reference: 2010-47

Requirement

State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices (45 CFR 95.621 (f) (3)).

Finding

During our testwork regarding the requirement above, we noted that the Executive Office has not had in the past two years a review of the ADP system security for the Executive Office's Medicaid Management Information System (MMIS). The Executive Office replaced its MMIS with a new MMIS in May of 2009.

A similar finding was reported in the prior year single audit report as finding 2009-48.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Access Management Policy

EOHHS is currently developing a written policy requiring access reviews but in the interim will use the state requirement as the working policy.

EOHHS is presently working with the Commonwealth's Enterprise Security Board on developing this policy and is due out 4th quarter FY2011.

Access Management Procedures

Access management procedures are in place but do not address access reviews.

EOHHS will develop and approve a access review procedure for ADP systems by the 3rd quarter FY2011.

In the meanwhile EOHHS will execute the following steps to ensure that access rights for existing users are appropriately established and maintained:

- Produce User Access Lists – Last pulled for Active Directory, MA21 and NewMMIS as of 8/4/2010.
- Identify responsible Business User Managers – December 31, 2010

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- Business User Manager's Review – February 25, 2011
- Business Application Owner's Review – March 31, 2011
- Remediation and corrections – April 30, 2011

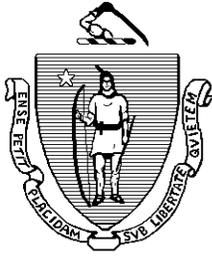
These planned activities will ensure that EOHHS is in compliance with the requirements set out in 45 CFR 94.621 (f) (3). The additional work associated with the policy development and procedures will ensure organizational awareness of the requirements, institute a recurring process and establish internal controls.

Contact: Catherine Moriarty, Chief Security Officer, EOHHS
Russell J. Murray, Jr. Director – IT Strategic Initiatives

Implementation Date: April 30, 2011

**SUMMARY OF PRIOR YEAR'S FINDINGS
AND QUESTIONED COSTS**

(Not Covered by Auditors' Reports)



Martin J. Benison
Comptroller

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**Commonwealth of Massachusetts
Summary Schedule of Prior Year Audit Findings
FY 2010**

The attached schedule lists the finding reference, CFDA #, state agency, program and description for each of the 48 findings included in the fiscal year 2009 Single Audit Report. The Schedule indicates “fully” if the corrective action plan (CAP) was fully implemented and “partially” if the CAP was not fully implemented. If not fully implemented, an updated CAP is included.

Schedule of Prior Year Finding for FY2010 Report

Finding Reference	CFDA #	Agency	Program	Description/Summary	Implementation Status	Corrective Action Plan
2009-01		OSC	State	Fixed Asset Additions	partially	The corrective action plan is a two step process. First step was: we implemented semi-annual inventory process to have each agency review their capital asset inventory as of the dates with includes additions and deletions. Second Step: is to capture all the capital expenditures incurred by departments, to be coded properly so that it will capture the capital asset addition. We have researched and up dated MMARS (accounting system) forms to capture this detail. The second step will be fully in effect in FY 2011.
2009-02		GIC	State	Post Employment Benefits Accrual	partially	The modernization project is scheduled to be completed at the end of FY2012; therefore, the GIC systems will be in place to meet the recommendation beginning with FY2013 claims.
2009-03		DWD	State	Reconciliation of Cash Accounts	partially	In December 2009, DWD implemented the Quality Unemployment System Transformation, (hereafter identified as QUEST) Project which systemically performs daily reconciliations between DWD's bank accounts and QUEST. Further, DWD personnel within both the Finance Service and Revenue Dept. perform daily reconciliations in regard to the transactions.
2009-04		DWD	State	Allowance for Uncollectible Items	partially	DWD will work with the Comptroller's Office in formulating a generally accepted procedure for calculating the reserve amount using data available as of December 7, 2009.
2009-05		TRE/OSC	State	Reconciliation of Cash Accounts	fully	
2009-06		EHS	State	Logical Access Controls - MMIS	partially	A Draft Access Control Policy is being developed by ITD and the Enterprise Security Board. To date, Security Operations has created a database which combines our users' access to the Network, email, NewMMIS, MA-21 SEVS Systems, has identified who the users' Directors are and created a report for each Director to review. Implementation is pending approval of the policy notification by management.
2009-07		EHS	State	Medicaid Accrual	partially	Management will consider amending the Medicaid accrual policies and procedures to include an estimate of claim adjustment expenses when computing its estimate of the Medicaid accrual. Management will document as part of the formal accrual calculation any decisions that determine such costs are not significant.
2009-08		DOR	State	MassTax Developer Access	fully	
2009-09		DOR	State	Abandoned Property	fully	
2009-10		ITD	State	Change Management _ CIW	partially	Sufficient systemic auditing is not available in our current release of Netezza (4.5). Although provided in release 4.6.5, we're unable to upgrade due to compatibility issues with our ETL software. To minimize the risk while we work with Netezza and Informatica to address this, we've initiated compensating controls.
2009-11		ITD	State	Developer Access - HR/CMS	partially	HRCMS completed upgrading to Oracle/PeopleSoft 9.0 application software with an Oracle database release of 11G in March, 2010. The database upgrade to Oracle 11G provides auditing capabilities that can capture all database changes at a detailed level that can support the database auditing that has been recommended. We are currently in the process of analyzing these capabilities and anticipate having this designed, developed, and implemented in FY11.
2009-12	14.871	DHCD	Section 8 Housing Choice Vouchers	Nine RAA contracts have expired, eight of which were resigned without following COM procurement policies	partially	Due to programmatic changes including an expanded role of the RAA's in certain homelessness initiatives, the original re-procurement parameters have been modified with a revised expected completion date of 12/31/12.
2009-13	93.568	DHCD	HEAP	Cash drawdown reconciliations are not being done.	partially	In the process of hiring a Chief Accountant whose responsibility will be to reconcile all federal grants.
2009-14	20.205	MHD	Highway Planning and Construction	Payroll certifications are not obtained from contractors and subcontractors prior to payment by MHD	fully	
2009-15	84.032	BCC	FFEL	BCC's notification letters do not have the required language	fully	
2009-16	84.007 84.032 84.063	BCC	SEOG, FFEL, Pell	Berkshire did not properly calculate return of Title IV program funds and return timely	fully	

Schedule of Prior Year Finding for FY2010 Report

Finding Reference	CFDA #	Agency	Program	Description/Summary	Implementation Status	Corrective Action Plan
2009-17	84.032	BCC	FFEL	College reported status to clearinghouse but clearing house did not promptly transmit from the colleges to the NSLDS	fully	
2009-18	84.033	BCC	Work Stuy	Inadequate controls over the FWS payroll process allowing students to work during scheduled classes	fully	
2009-19	84.032	Mass Bay CC	FFEL	Our sample of 30 students indicated that 23 Students' changes in status not reported (15 were graduated) and 5 students not reported in a timely manner	partially	A new registrar was recently hired and has documented the NSLDS process and created a calendar to outline when to run the NSLDS process. The calendar states the NSLDS process will be run by the Registration Office 4 times a term.
2009-20	84.032	Mass Bay CC	FFEL	Our sample of 30 students indicated that of the 16 who received FFEL loans 8 were not notified of their loan disbursements within the required timeframe (1 of the 8 letters was never sent).	fully	
2009-21	84.007 84.032 84.033 84.063	Mass Bay CC	SEOG, FFEL, Pell, FWS	781 Checks totaling \$113,148 outstanding for more than 12 months. A portion of these checks represents student refunds for federal or state financial aid or non-financial aid funds (Commingled accounts).	fully	
2009-22	84.268	Mass Maritime Academy	Federal Direct Loan Program	MMA cannot identify its pre-established Roster Reporting Dates. Although MMA says it reports 3 times each semester when it is being done hasn't not been confirmed. Registrar stated he thinks NSLDS just, "use static dates" to report to the Clearinghouse.	partially	MMA has created written internal procedures to address the accurate reporting of student enrollment with the National Student Loan Data System. Files are now submitted once per month, rather than 4 times per year as was our previous practice. The Director of Financial Aid spot checks student enrollment each month with NSLDS to ensure accurate reporting. As students withdraw during the semester, the Director of Financial Aid manually updates the student enrollment information on NSLDS to reflect the student's withdrawal.
2009-23	84.268	Mass Maritime Academy	Federal Direct Loan Program	Our review of the 30 students in our sample testing for Direct Loan disbursement notifications revealed that all the notifications in the student files were not dated nor did they include the amount to be disbursed for each letter sent for the two disbursements.	fully	
2009-24	84.033	Mass Maritime Academy	Federal Work Study (FWS)	Eleven students employed off campus for FWS did not have required written agreements.	fully	
2009-25	84.268	Massasoit CC	Federal Direct Loan Program	Did not notify of student status changes in 19 of 30 student sampled	fully	
2009-26	84.007 84.063 84.268	Massasoit CC	SEOG, Pell, Federal Direct Loan Program	MCC did not correctly calculate the return of Title IV funds for 1 of 30 students identified in our sample. Our audit also identified that for 3 of the students in our sample MCC did not process the return of Title IV funds within timeframe	partially	Massasoit Community College recognizes the importance of returning Title IV funds to the Department of Education as soon as possible within the appropriate time frame. The Financial Aid and Business Office have made several changes to the return of funds practices to ensure this happens

Schedule of Prior Year Finding for FY2010 Report

Finding Reference	CFDA #	Agency	Program	Description/Summary	Implementation Status	Corrective Action Plan
2009-27	84.007 84.033 84.063 84.268 84.375	Massasoit CC	SEOG, FWS, Pell, Federal Direct Loan Program, Academic Competitiveness Grant	MCC needs to improve its cash management procedures to comply with Federal regulations	partially	Massasoit Community College recognizes the need to monitor the policies and procedures implemented in February 2010 in response to the FY 2009 Single Audit results. These policies and procedures were consistently followed weekly and reconciliations prepared monthly. There were a few reconciling items, the variances between COD and available funds for GAPS drawdown, that the Financial Aid Office was not able to identify in a timely manner. To enhance and improve cash management procedures, The Financial Aid Office and the Business Office will meet monthly to resolve reconciling items in a timely manner to ensure effective monitoring of SFA funds cash management is taking place.
2009-28	84.007 84.063 84.268	Massasoit CC	SEOG, Pell, Federal Direct Loan Program	Two students in sample were not making satisfactory academic progress	fully	
2009-29	84.126	MRC	Vocational Rehabilitation Grants to States	Eligibility determination for Applicants were not performed in a timely manner – eligibility determination not made within the 60-day timeframe	fully	
2009-30	84.126	MRC	Vocational Rehabilitation Grants to States	Financial Reporting Needs Improvement – RSA-2-Annual Vocational Rehabilitation/cost report did not have adequate supporting documentation	partially	With technical assistance from RSA, MRC will implement documented policies and procedures to ensure that the RSA-2 report is submitted completed and accurately. This is a work-in-process with a scheduled completion date of 12-31-10.
2009-31	84.126 96.001	MRC	Vocational Rehabilitation Grants to States Social Security Disability Insurance	Internal controls over supervisory review of employee attendance records needs improvement – not all employee timesheets were reviewed and approved by the employees’ supervisor	fully	
2009-32	84.367	DOE	Improving Teacher Quality	One instance where school in corrective action transferred Title II funds	partially	This issue will be repeated in FY 2010 for one district. The contributing factor to this was that the unit responsible for updating the schedule for Adequate Yearly Progress (AYP) did not communicate that changes had occurred to the schedule. Therefore the Title II unit did not revisit the eligibility for districts and did not rescind the authority to transfer funds.
2009-33	84.394	DOE	State Fiscal Stabilization Fund - Education State Grants	Disbursed funds before all DUNS numbers were received	fully	
2009-34	93.558	DTA		Payments made to parents whose child has been absent from the house more than 120 days	fully	
2009-35	93.558 10.561 93.778	DTA	TANF SNAP Medicaid	Department charged programs health and welfare costs that were unallowable.	fully	
2009-36	93.563	DOR	Child Support Enforcement	Cases were not opened within 20 days of being received as required	partially	CSE has increased supervisory oversight on and analysis of the inventory of incoming referrals from the public assistance agency through the electronic interface to ensure that new cases are opened and assessed and location efforts initiated in accordance with federally mandated timeframes. The imaging system reporting requires enhancements to provide a level of detail in order to make the reports effective, <u>business requirements are under development.</u>
2009-37	93.563	DOR	Child Support Enforcement	Cases were not opened within 20 days of being received as required	partially	CSE has increased supervisory oversight on and analysis of the inventory of incoming referrals from the public assistance agency through the electronic interface to ensure that new cases are opened and assessed and location efforts initiated in accordance with federally mandated timeframes. The imaging system reporting requires enhancements to provide a level of detail in order to make the reports effective, <u>business requirements are under development.</u>

Schedule of Prior Year Finding for FY2010 Report

Finding Reference	CFDA #	Agency	Program	Description/Summary	Implementation Status	Corrective Action Plan
2009-38	93.566 93.658 93.659	DCF	Refugee and Entrant Assistance, Foster Care, Adoption Assistance	Missing support for direct charge payroll, support for bi-weekly payroll could not be provided and missing manager review of time logs and exception reports	fully	
2009-39	93.575 93.596	EEC	Child Care Cluster	Inadequate Internal Controls Over Accounts Receivable - EEC needs to identify federal refunds and apply them to the grant	partially	EEC followed up on the progress of the approval of the expendable trust fund. On June 1, 2010, A&F responded that due to the budget process A&F has been unable to address the request, but assigned an analyst to work with EEC. EEC has responded to the analyst's inquiries and is awaiting further response. In addition to working with A&F and the Comptroller's office, EEC has been in contact with ACF for guidance and other suggested solutions. As a result, ACF has scheduled a visit to EEC in August to assist EEC in addressing this issue.
2009-40	93.575 93.596	EEC	Child Care Cluster	Non-compliance with required competitive contract procurement	fully	
2009-41	93.575 93596	EEC	Child Care Cluster	Non-compliance with Cash Improvements Act – drawdowns not in compliance with TSA	fully	
2009-42	93.767 93.778	EOHHS	SCHP Medicaid	Missing formal documentation of CMS-64 and CMS-21 reports	fully	
2009-43	93.767 93.778	EOHHS	SCHP Medicaid	Significant variance with the reconciliation being performed between amounts claimed and MMARS	fully	
2009-44	93.778	EOHHS	Medicaid	Unable to report Line 27 Emergency Services Undocumented Aliens	partially	Due to prioritization of Data Warehouse projects necessary to implement the new payment management system, NewMMIS, this work to isolate costs for Qualified Alien Citizens has been delayed. It is anticipated that these costs will be available for inclusion on line 27 by August, 2010.
2009-45	93.778	EOHHS	Medicaid	24 of 40 providers did not provide updated disclosures	partially	In February 2010, efforts to remediate our findings began but were delayed after concurrently receiving the Center for Medicare and Medicaid Services (CMS) Program Integrity (PI) Report. CMS' recommendation that MassHealth develop policy and procedures for the appropriate collection and maintenance of disclosure information required a shift in priorities towards this effort. As a result some of the tasks have been delayed.
2009-46	93.778	EOHHS	Medicaid	Re-determination not being done on certain areas of population	partially	The MassHealth Long Term and the Department of Developmental Services Waiver caseloads have been reviewed except for approximately one hundred cases that are schedule to be sent reviews by 8/5/10 and therefore we expect to be in full compliance no later the September 30,2010.
2009-47	93.778	EOHHS	Medicaid	Uncashed checks not being returned to Federal government timely	partially	The Office of the State Treasurer has agreed to purge checks at 180 days. The Executive Office and the Office of the State Treasurer are in the process of working out the details of how the purged checks and related funds will be tracked, monitored and reported.
2009-48	93.778	EOHHS	Medicaid	Informal management reviews of end-user access and formal documentation evidencing review was not retained by EHS.	partially	User access information was pulled from the EHS Active Directory, State Email, MA21 and NewMMIS Systems and combined into a single database. This database allows Security Operations to create Access Review Reports for each EHS Unit. A draft instruction memo has been prepared to be distributed to Management along with the Access Review Reports. Unit Assignments are currently being validated and the draft instruction memo and procedures for distribution are under review with the acting MassHealth ISO and the EHS Chief Security Officer.

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

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

This document and related information are available at

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Commonwealth Museum

This year we are proud to show some of the hundreds of unique and historical documents in the collection of the Commonwealth Museum at the Massachusetts Archives.

The Commonwealth Museum is the Massachusetts state history museum administered by the Office of Secretary of the Commonwealth William F. Galvin.

The Commonwealth Museum is located in the Massachusetts Archives building on Columbia Point, Boston, next to the John F. Kennedy Library and Museum and the University of Massachusetts, Boston. Hours are Monday- Friday 9:00 – 5:00. Admission is free. The museum has an active field trip program for school children. For information or to schedule a group tour call 617-727-9268.

www.commonwealthmuseum.org



Cover: Charter of the Governor and Company of the Massachusetts Bay in New England, 1629

King Charles I granted a charter to the Massachusetts Bay Company in 1629. Governor John Winthrop, sailing on the Arbella, brought the charter to Massachusetts. The charter established a trading company, with twenty-six men named as incorporators. Once the Puritans arrived in Massachusetts, they transformed the charter to serve as a frame of government rather than as a business contract. The new colony's boundaries were set at three miles north of the Merrimack River and three miles south of the Charles River, as far as the Western Sea.

The beginnings of representative government in America can be traced to this manuscript.

*Courtesy of the Commonwealth Museum
at the Massachusetts Archives
Photography by Jennifer Fauxsmith*



Photography by Vinh Nguyen



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

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Introductory Section

Letter of Transmittal

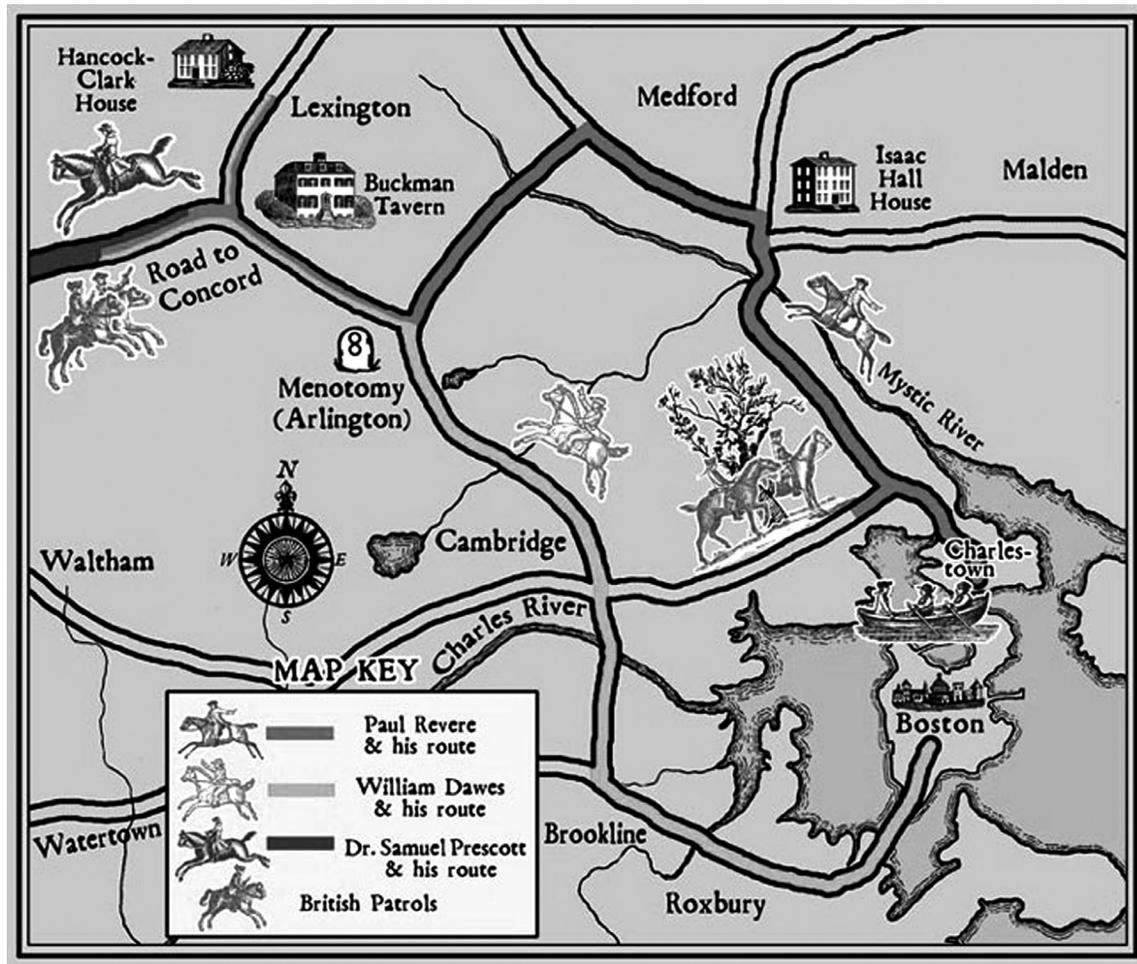
Acknowledgements

Commonwealth Organizational Structure

Constitutional Officers

Advisory Board to the Comptroller

Certificate of Achievement



Courtesy of the Paul Revere Museum

Unless otherwise noted, all documents and text courtesy of the Commonwealth Museum at the Massachusetts Archives

Special thanks to Stephen Kenney, Museum Director



Treasures Gallery

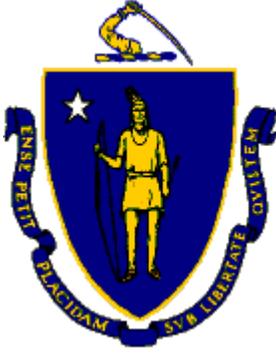
The collections of the Massachusetts Archives document the history of Massachusetts, from its colonial beginnings to the present day. Included among these collections are some of our nation's most important historical treasures, foundation documents of both the Commonwealth of Massachusetts and the new United States.

The permanent exhibition of such rare manuscripts requires advanced encasement technology that protects and preserves them, and the encasement units for the foundation documents of Massachusetts on view at the Commonwealth Museum provide a new standard for document display. Technical foundations and practical insight for these encasements was provided by the National Institute of Standards and Technology (NIST), creators and fabricators of the encasements used for the "Charters of Freedom" on display in the rotunda of the National Archives. The innovative new case design, as well as a state-of-the-art, multi-layered seal system, was created by the Department of Mechanical Engineering at MIT. MIT also provided direction and oversight of the precision fabrication, assembly, testing and monitoring of the encasement units.



"I am therefore commanded...to request, that you will cause the same to be put upon Record, that it may henceforth form a Part of the Archives of your State..."

John Hancock, 1777



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

January 18, 2011

*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 2010 (FY10) 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 clear 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 "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 that basis from FY10 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 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 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**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the 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 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, 2010:		
Budgeted fund balance.....	\$	903.1
Non budgeted special revenue fund balance.....		886.6
Capital projects fund balance.....		<u>(256.9)</u>
Governmental Fund Balance - Statutory Basis, June 30, 2010.....	\$	1,532.9
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes.....		441.0
Trust fund reclassified as Permanent trust fund.....		<u>5.0</u>
Adjusted Statutory Governmental Fund Balance.....		1,978.8
Short term accruals, net of allowances and deferrals for increases /(decreases):		
Taxes, net of refunds and abatements.....	\$	1,668.4
Tobacco settlement agreement receivable.....		132.0
Medicaid.....		(335.2)
Assessments and other receivables.....		161.4
Amounts due to authorities and municipalities, net.....		(508.2)
Claims, judgments and other risks.....		(20.0)
Amounts due to health care providers and insurers.....		(91.9)
Workers' compensation and group insurance.....		(134.1)
Other accruals, net.....		<u>199.6</u>
Net increase to governmental fund balances.....		<u>1,071.9</u>
Massachusetts School Building Authority fund balance.....		<u>1,535.0</u>
Total changes to governmental funds.....		<u>2,606.9</u>
Governmental fund balance (fund perspective).....	\$	4,585.7
Plus: Capital assets including infrastructure, net of accumulated depreciation.....		3,998.7
Deferred revenue, net of other eliminations.....		821.8
Long term accruals:		
Pension benefits cumulative over / (under) funding.....		(1,218.1)
Post employment benefits other than pensions cumulative over / (under) funding.....		(1,953.0)
Environmental remediation liability.....		(168.2)
Massachusetts School Building Authority debt and school construction payables.....		(7,378.4)
Long term debt, unamortized premiums and deferred losses on debt refundings.....		(19,903.0)
Compensated absences.....		(469.8)
Capital leases.....		(76.6)
Accrued interest on bonds.....		(303.0)
Other long term liabilities.....		<u>(309.4)</u>
Total governmental net assets (government-wide perspective).....	\$	<u>(22,373.4)</u>

The significant deficit of \$22.4 billion in the government-wide net assets can be largely attributed to the Commonwealth policy decision to finance the construction of assets owned by other government entities.

On June 25, 2009, the Commonwealth enacted legislation effective on November 1, 2009, known as the Transportation Reform Act. It reformed the transportation system of the Commonwealth of Massachusetts (Commonwealth) and created the new entity, the Massachusetts Department of Transportation (MassDOT). This is the most significant reform within the Commonwealth in recent history and has had far reaching impacts throughout the Commonwealth and throughout these financial statements. The reform was implemented merging four state agencies into MassDOT: the Highway Department; Registry of Motor Vehicles; Massachusetts Aeronautics Commission; and the Executive Office of Transportation. MassDOT also absorbed the former Massachusetts Turnpike Authority, the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. In addition, MassDOT absorbed the MBTA and 15 regional transit authorities. It now holds over \$15.5 billion in road and bridge assets net of related depreciation. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. A complete explanation of MassDOT and its effect on these statements can be found in the MD&A section of this report. In addition, the Commonwealth holds \$7.4 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 deficit in FY10 governmental activities has increased by \$10.2 billion since the close of FY09. The vast majority of this increase is the result of transferring \$8.9 billion in net equity to MassDOT. The remainder of the increase in the deficit, \$1.3 billion, is primarily attributable to three factors:

- A spending down of governmental funds balances in order to, where possible, minimize the impact of the economic downturn and the resulting decline in Commonwealth revenues;
- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$804 million in FY10; and,
- The Commonwealth funds its pension liability on an actuarial basis; however its methodology varies from GAAP in some instances. In particular, the Commonwealth updates its funding schedule triennially. For purposes of calculating GAAP accruals, the Commonwealth annually updates its actuarially required contribution; this accrual is increased by \$653 million in FY10.

These three declines are somewhat mitigated by an increase in the Commonwealth accrual of taxes receivable. The tax accrual is due to a revaluation of receivables.

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, financial statements include 16 independent public authorities. These entities 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.

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, 2010. 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 of 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.

In addition to the dramatic changes in the Commonwealth, the Office of the Comptroller operations underwent a dramatic change this past July, when after 15 years of dedicated service to the Commonwealth, Deputy Comptroller Eric Berman left to begin a new chapter in his life as a partner in a public accounting firm in southern California. In previous years Eric was the author of these financial statements. He was instrumental in leading the Commonwealth's financial reporting analysis in the Commonwealth, its institutions of higher education and its component units. Eric was seen as a mentor to many preparers and auditors throughout the Commonwealth. More importantly, he was a friend. We wish him well in his new venture.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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Deputy Comptroller

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Director

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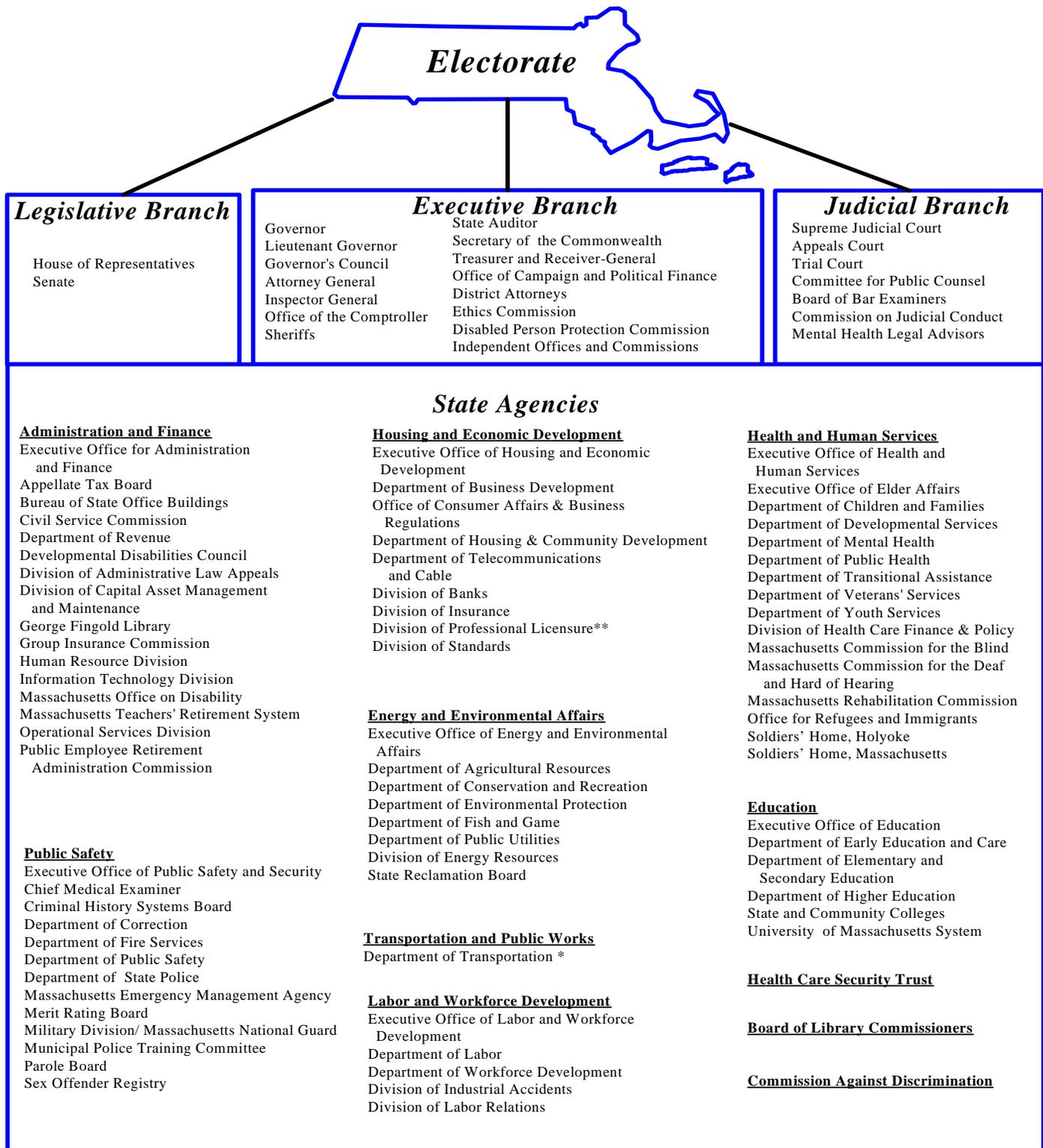
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Director Resource Management

Vinh Nguyen
Art Design



As of June 30, 2010

* Merger of 4 former state departments (Executive Office of Transportation and Public Works, Massachusetts Aeronautics Commission, Massachusetts Highway Department and Registry of Motor Vehicles) and the former Massachusetts Turnpike Authority as of 11/01/09

** State Racing Commission has been merged into Division of Professional Licensure as of 1/1/10

CONSTITUTIONAL OFFICERS

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

William F. Galvin
Secretary of State

Martha Coakley
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

Steven Grossman
*Treasurer and Receiver-General – Elect**

A. Joseph DeNucci
Auditor

Suzanne Bump
*Auditor – Elect**

LEGISLATIVE OFFICERS

Therese Murray
President of the Senate

Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

Margaret Marshall (through 12-7-10)
Chief Justice, Supreme Judicial Court

Roderick L. Ireland (effective 12-8-10)
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

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

**Officials taking office in January 2011*

ADVISORY BOARD TO THE COMPTROLLER

Jay Gonzalez (Chair)
Secretary for Administration and Finance

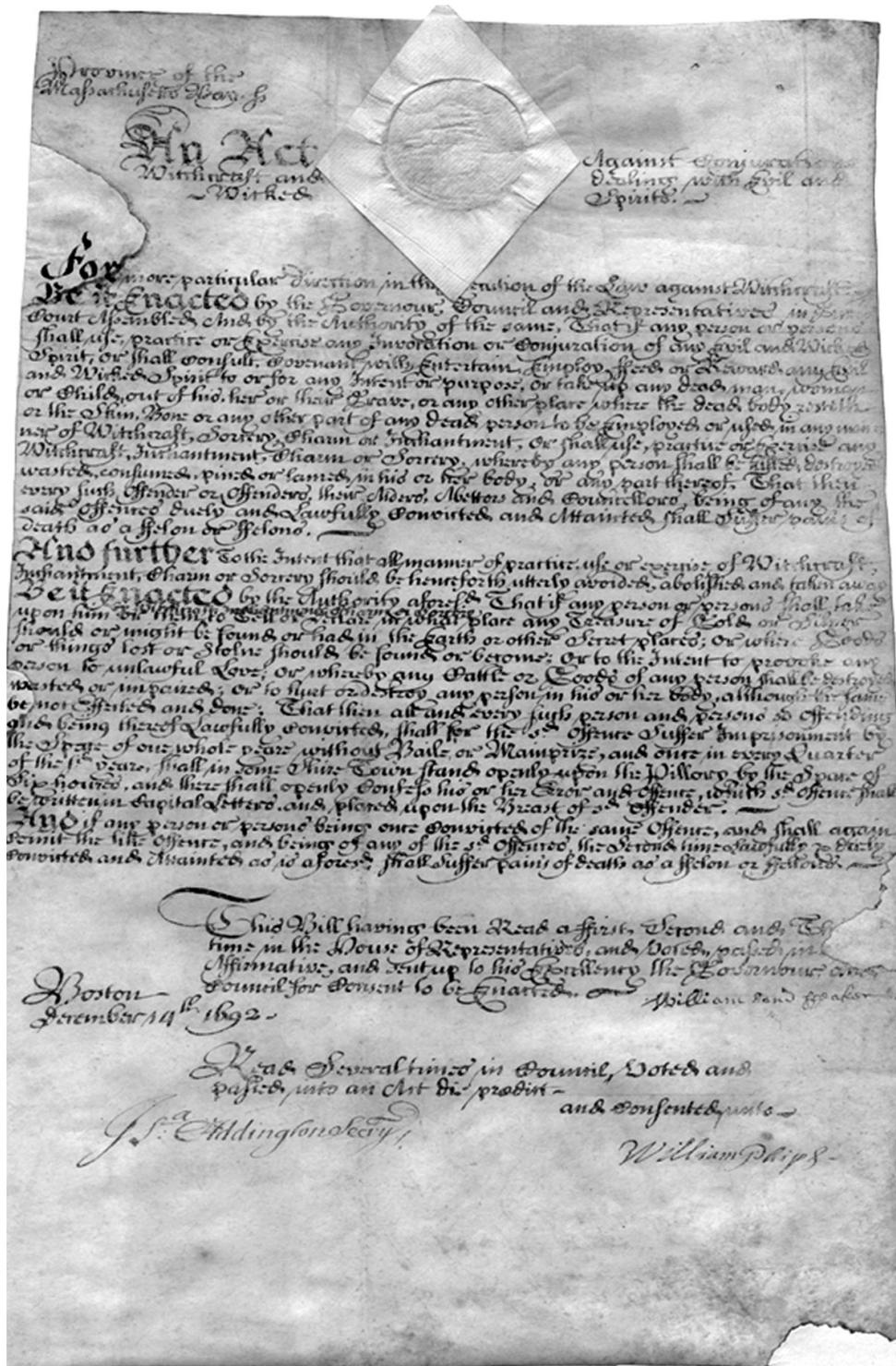
A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

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

Martha Coakley
Attorney General

Diana Salemy
Gubernatorial Appointee

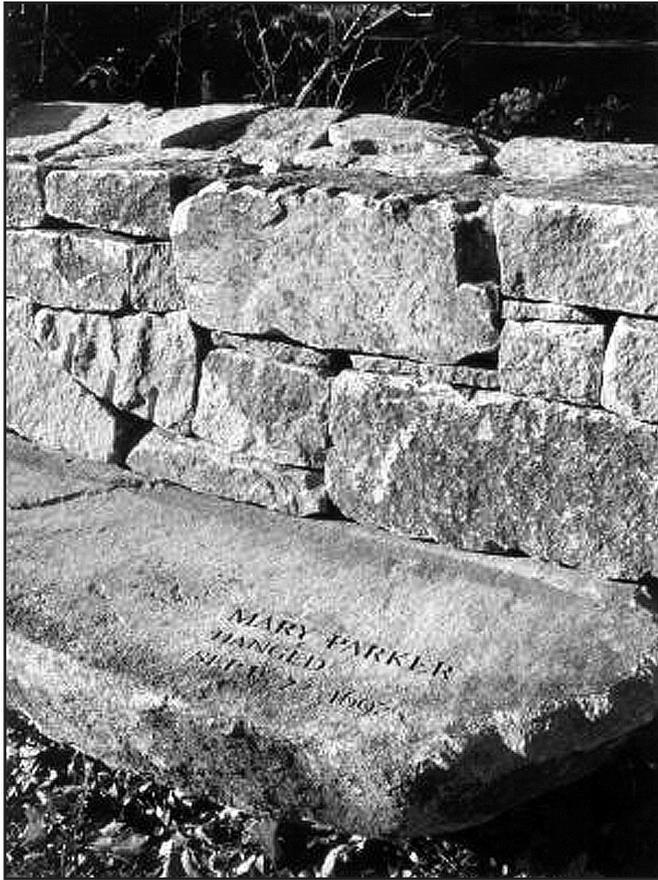


1692 Conjuraction Act

Act against Conjuraction, Witchcraft and Dealing with Evil and Wicked Spirits, 1692 (drawn up after trials). Many accusations were based on “spectral” evidence—victims claiming that they’d been haunted by a witch’s spirit in a dream or vision. Despite its alarming title this document is a step forward—banning spectral evidence.

In 1692, 14 women and 6 men were accused of being witches, were tried, convicted, and executed. Executions took place on June 10, July 19, August 19, September 19 and September 22, 1692.

Advocates of civil rights and human tolerance use the events of 1692 as a yardstick to measure the depth of civility and due process in contemporary society.



© Paul Lyden 1992

The Salem Witch Trials Memorial

The Salem Witch Trials Memorial was dedicated on August 5, 1992 to honor the memory of the victims of the Salem Witch Trials on the Tercentenary of the trials. Dedicated by Nobel Laureate Elie Wiesel, the memorial serves as an enduring tribute to the victims of the Salem Witch Trials and as a reminder that among all people and nations a spirit of tolerance and understanding should prevail.

In 1692, in Salem, then part of the Massachusetts Bay Colony, hundreds of people were accused of practicing witchcraft, defined by the court at the time as a crime. From June 10 to September 22, nineteen people were convicted and hanged for that crime and one was crushed by stone for refusing to follow court procedure. They were victims of fear, superstition and a court system that failed to protect them. Since that time, the Salem Witch Trials have continued to intrigue and inspire historians, writers and experts in fields such as law and medicine.

The Salem Award for Human Rights and Social Justice has been given each year since 1992 to keep alive the lessons of the Salem Witch Trials of 1692 and to recognize the heroic work of those who speak out and take action to alleviate discrimination and promote tolerance in contemporary society. Recent recipients have included Greg Mortenson for his work building schools in Afghanistan and Pakistan, especially for girls; and the Coalition of Immokalee Workers for its work to help end slavery in the US agricultural industry.

Designed by artist/architect team Maggie Smith and James Culter of Bainbridge Island Washington, the Salem Witch Trials Memorial is a reminder of the lessons of tolerance and understanding learned from the Salem Witch Trials. The design incorporates multiple elements of stone and planting to symbolically represent the social indifference to the persecutions that took place in Salem in 1692.

The Salem Witch Trials Memorial was funded by a grant from the National Endowment for the Arts and donations from many businesses and individuals. The design has received national critical acclaim.

www.salemaward.org



© Paul Lyden 1992

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, 2009

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

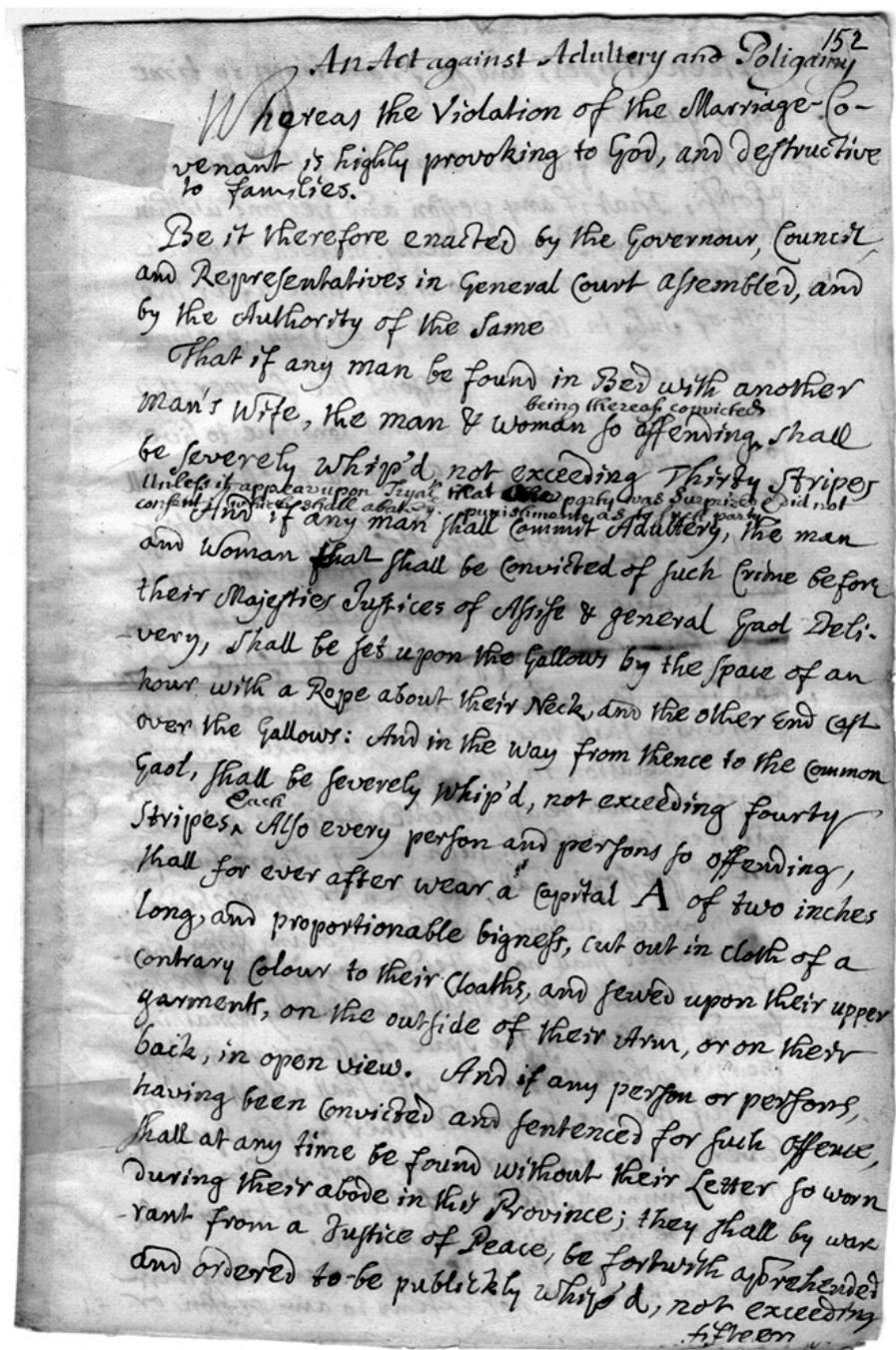
Other Supplementary Information

Puritan Law, 1694

This law – made famous by Nathaniel Hawthorne – mandates wearing the letter “A” for adultery. The text notes that the Capital A should be “of two inches Long and proportionable bigness.”

Harsh puritan punishments, such as whipping, cutting off ears, and branding reflected seventeenth-century English practices.

The Scarlet Letter was published as a novel in the spring of 1850 by Ticknor & Fields. It was an instant best-seller, although, over 14 years, it brought its author only \$1,500. The Scarlet Letter was also one of the first mass-produced books in America. Into the mid-nineteenth century, bookbinders of home-grown literature typically hand-made their books and sold them in small quantities. The first mechanized printing of The Scarlet Letter, 2,500 volumes, sold out within ten days.





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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, 2010, 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 89% of the total assets of the business-type activities. We did not audit 48% 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 9% 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 6% 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, 2010, 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.

As described in Note 1(r), in fiscal 2010, the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011, 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 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 in the audit of the basic financial statements and, in our opinion, 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 18, 2011

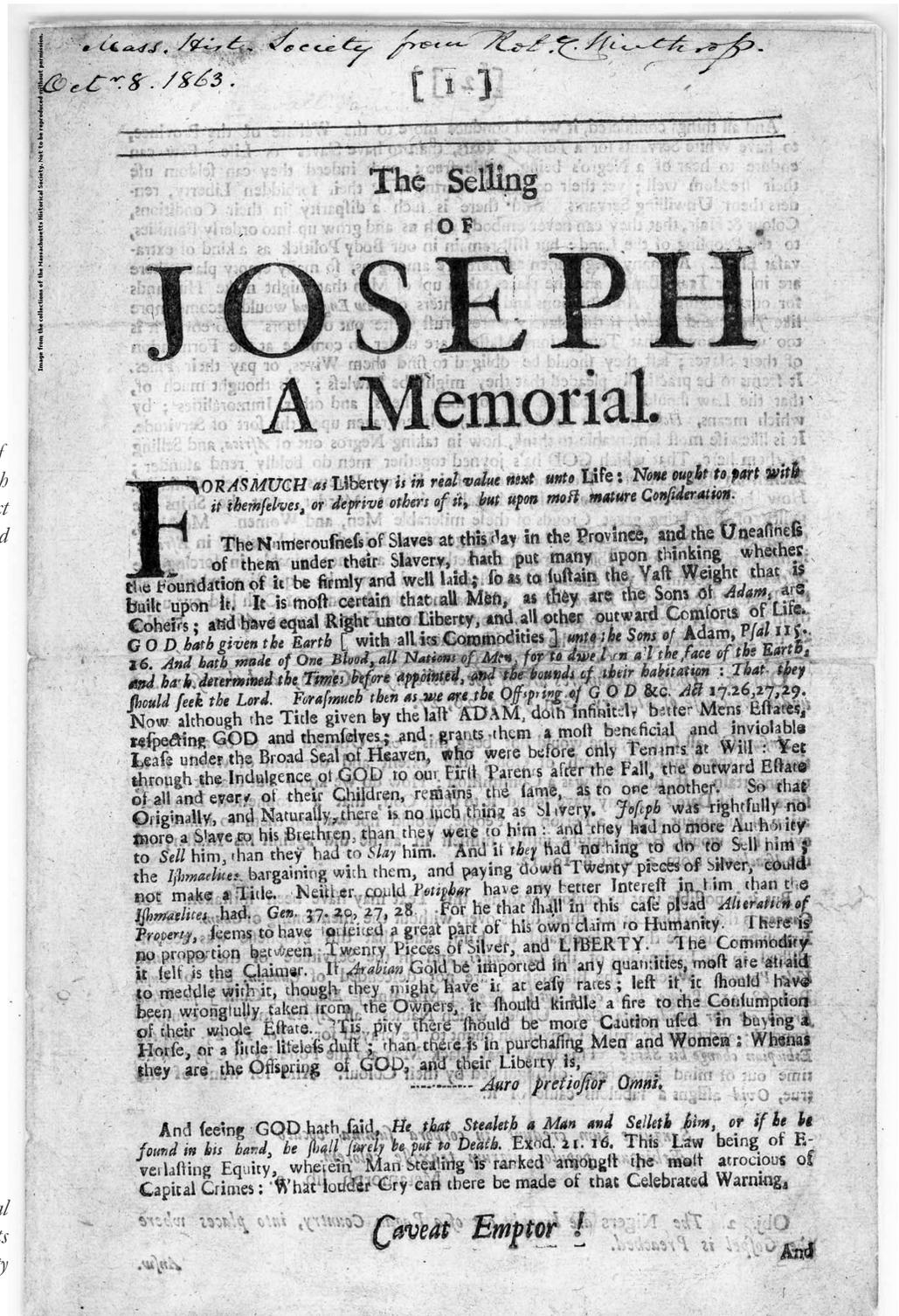


Image of Samuel Sewall
 Courtesy of the Peabody Essex Museum

Samuel Sewall

Samuel Sewall was the only judge to take personal responsibility for the injustice of the Salem Witch Trials. Later he wrote the *Selling of Joseph*, the first anti-slavery tract, and advocated Indian rights. He also wrote about the equality of women. Sewall points the way from the moralistic Puritan culture to a tradition of social reform.

This is the only surviving copy of Samuel Sewall's *The Selling of Joseph* pamphlet, the first anti-slavery tract published in New England



The Selling of Joseph: A Memorial
 Courtesy of the Massachusetts
 Historical Society



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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, 2010 (FY10). 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.

Structural changes as a result of the creation of the Massachusetts Department of Transportation

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth’s financial statements.

On June 25, 2009, the Commonwealth enacted legislation, effective on November 1, 2009, known as the Transportation Reform Act. It was designed to reform the transportation system of the Commonwealth of Massachusetts (Commonwealth) and created the new entity, the Massachusetts Department of Transportation (MassDOT), through enactment of Chapter 6C of Massachusetts General Law. MassDOT is governed by a five-member board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT’s chief executive officer. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009. A new budgeted fund, the Commonwealth Transportation Fund, assumed most of the operations of the former Highway Fund in FY10. Legislation approved by the Governor in FY10 provides that the Commonwealth Transportation Fund will also receive the sales tax receipts (.385%) dedicated to transportation purposes, with a guaranteed annual payment of \$275 million, which includes \$100 million earmarked for costs including debt service on MassDOT debt, \$160 million earmarked for the Massachusetts Bay Transit Authority (MBTA), and \$15 million earmarked for the regional transit authorities. The reform was implemented merging four state agencies into the MassDOT: the Highway Department; Registry of Motor Vehicles; Massachusetts Aeronautics Commission; and the Executive Office of Transportation.

State Agencies and Authorities merged into Mass DOT

Commonwealth Departments and Agencies	Former Major Discrete Component Units	Former Non-Major Discrete Component Units
<ul style="list-style-type: none"> • Massachusetts Highway Department • Massachusetts Aeronautics Commission • Registry of Motor Vehicles • Executive Office of Transportation and Construction 	<ul style="list-style-type: none"> • Massachusetts Turnpike Authority (MTA) • Massachusetts Bay Transportation Authority (MBTA) 	<ul style="list-style-type: none"> • Regional Transit Authorities (15 entities) • Route 3 North Transportation Improvement Association (R3N)

MassDOT also absorbed the former Massachusetts Turnpike Authority (MTA), the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics and the registry of motor vehicles that share administrative functions such as human resources, financial management, information technology and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT. The MBTA as well as the Regional Transit Authorities are now component units of MassDOT.

This entity has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law, as well as the Single State Audit. In this unique relationship all road and bridge assets of the Commonwealth and the MTA have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction, repair, improvement and replacement of these assets. Debt of the former MTA prior to consolidation into MassDOT became debt of MassDOT and is not Commonwealth debt; however, certain guarantees are in place from the Commonwealth should this former MTA debt default. The Commonwealth also retains the liability for pension and other post-employment benefit (OPEB) costs of the former Commonwealth employees transferred to this entity and has acquired these liabilities for the 1,200 employees and 730 retirees of the former MTA. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB liabilities, as well as to reimburse the Commonwealth for their employee health care costs, all of which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are appropriated by the legislature and controlled by the Executive Office of Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT. Accordingly, a truer picture of the Commonwealth will be achieved by looking at the primary government in combination with the financial activity of its discretely presented component units. The table below outlines over \$8.9 billion in net assets transferred from the Commonwealth to MassDOT at its inception.

Effect of the Creation of MassDOT on Governmental Net Assets
(amounts in thousands)

Governmental net assets June 30, 2010 - prior to MassDOT transfers	\$ (13,389,389)
Fund equity transfer	(504,739)
Central Artery/Tunnel Project assets transfer	(6,983,458)
Value of Central Artery/Tunnel Project assets payable to the MTA	6,983,458
Other capital assets net of depreciation	(8,537,983)
Workers' compensation liabilities	13,232
Compensated absences liabilities	23,935
Owner Controlled Insurance Program	<u>21,600</u>
Value of net assets transferred to MassDOT	<u>(8,983,955)</u>
Governmental Net Assets June 30, 2010 - after MassDOT transfers	<u>\$ (22,373,344)</u>

Other liability and assets transferred to the Commonwealth include MTA pension liabilities assumed by the Commonwealth of \$325 million, MTA pension assets of \$189 million and MTA OPEB liabilities assumed by the Commonwealth of \$127.8 million. MTA had established a trust to fund its OPEB liability. The trust has a current balance of \$54.9 million. The trust has not transferred these assets to the Commonwealth so no offset to the liability is reflected in these statements.

Financial Highlights – Primary Commonwealth Government

Government–Wide Highlights

Net Assets – The liabilities of the Commonwealth exceeded its assets at the end of FY10 by almost \$18.6 billion, which was a decrease of more than \$10.3 billion in net assets during the fiscal year. The vast majority of this change relates to the creation of MassDOT as explained below.

Change in Statement of Net Assets
(amounts in thousands)

	Primary Government		
	Governmental Activities	Business Type Activities	Government Wide
Total net assets:			
Fiscal Year ending 2009.....	\$ (12,153,655)	\$ 3,930,142	\$ (8,223,513)
Fiscal Year ending 2010.....	<u>(22,373,344)</u>	<u>3,773,448</u>	<u>(18,599,896)</u>
Change in net assets.....	(10,219,689)	(156,694)	(10,376,383)
Less MassDOT net asset transfers.....	(8,983,955)	-	(8,983,955)
Central Artery Assets.....	(6,983,458)	-	(6,983,458)
Assets Payable to the MTA.....	<u>6,983,458</u>	<u>-</u>	<u>6,983,458</u>
Net change.....	<u>\$ (1,235,734)</u>	<u>\$ (156,694)</u>	<u>\$ (1,392,428)</u>

The creation of MassDOT is reflected as transfer out of government activities as it occurred, November 1, mid fiscal year, but is reflected as beginning balance adjustments in the component unit column on page 45, as the transfers were part of MassDOT’s beginning balance at its creation. The table below shows how the transfers shown above affecting the government activities translates into beginning balance adjustments in the Component Unit financial statements.

The effect of MassDOT’s creation on beginning component unit net assets is as follows (amounts in thousands):

Net assets, as previously reported.....	\$ 11,288,684
Fund equity transfer.....	504,739
Central Artery and other capital asset transfers.....	15,521,441
Other.....	<u>(249,525)</u>
Net assets as stated.....	<u>\$ 27,065,339</u>

As noted above, about \$8.9 billion of this change is attributable to the MassDOT reorganization. Of the \$18.6 billion deficit amount, “unrestricted net assets” is negative by almost \$21.1 billion, and there is a nearly \$886 million deficit attributable to the Commonwealth’s investment in capital assets net of related debt. There are two primary reasons for negative unrestricted net assets: first, the Commonwealth has a liability of \$7.4 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA); second, with the creation of MassDOT, virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.5 billion, net of depreciation, were transferred to the new entity. 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.

These negative amounts are offset by \$1.7 billion in “restricted net assets”.

During the fiscal year, approximately \$447 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$589 million were restricted for debt retirement.

Unrestricted Net Deficit – Factoring out the \$8.9 billion negative impact of the MassDOT reorganization, the Commonwealth’s unrestricted net deficit increased by approximately \$1.4 billion in FY10. The \$1.4 billion decrease in net assets is primarily attributable to increased net pension obligations of approximately \$653 million and \$804 million related to underfunding of retiree health care.

Overall, revenues of the Commonwealth increased over \$3.2 billion or 7% in FY10 compared to FY09. Tax revenues increased by \$535 million, or 3%, primarily the result of sales tax increases implemented during FY10 that raised the sales tax rate from 5.0% to 6.25% and eliminated the sales tax exemption for alcoholic beverages, both of which were effective August 1, 2009. The Massachusetts Department of Revenue estimates that, on a GAAP basis, those two provisions resulted in increased sales and use tax revenues of over \$900 million in FY10; without those and other tax law changes, FY10 tax revenue would have declined as a result of the national recession.

Among non-tax revenue sources, operating grants and reimbursements increased by \$1.9 billion, or 14%, in FY10, primarily due to \$2.1 billion in increased federal funds to pay for the growth in unemployment insurance benefits during the recession. Charges for services increased by \$513 million, or 5%, primarily the result of increased charges to beneficiaries under the state’s group health insurance plan for current and retired state employees and higher tuition payments received by state colleges and the state university. Capital grants and contributions fell by \$74 million, or 9%, and other revenues increased by \$400 million, or 25%.

Total expenses increased by \$1.1 billion, or approximately 2%, from FY09 to FY10, with the largest single increase being approximately \$1.96 billion in spending growth on unemployment insurance benefits. This growth was offset by net spending reductions throughout other areas of state government. Health and Human Services spending decreased by approximately \$1.3 billion due to reductions in Universal Health Care programs and other operating budget cuts, and Medicaid expenses dropped by nearly \$165 million.

Net assets of the business-type activities showed a decrease of nearly \$157 million, almost entirely due to the \$562 million decrease in the Unemployment Compensation Trust Fund. The Trust borrowed over \$387 million from the Federal Government to continue paying unemployment benefits. The Unemployment

Trust Fund deficit was offset by a net surplus of \$406 million for Higher Education activity.

To maintain a balanced budget in the face of weak revenue growth in the first quarter of FY10 and downgraded revenue forecasts for the remainder of the fiscal year, the Governor authorized approximately \$277 million in spending reductions across most executive branch agencies in October 2009, pursuant to Section 9C of Chapter 29 of the General Laws. Some of the proposed cuts were later restored, in part, as a result of the second revision to the tax revenue estimate in January, bringing the total 9C reductions to \$228 million (by the end of the fiscal year the total reductions were reduced to \$215 million). Other solutions used to offset the reduction in the original FY10 revenue estimate included the use of an additional \$35.6 million in Stabilization Fund reserves, \$126 million in anticipated departmental and other revenues, as well as \$62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on updated guidance provided by the federal government, the Commonwealth received \$80 million in additional federal Medicaid reimbursements related to a change in the calculation of the state's Medicare "clawback" payments. The Secretary of Administration of Finance instructed the Comptroller to transfer \$50 million from the General Fund back to the Stabilization Fund and use the remaining \$30 million to support fiscal year 2010 expenditures.

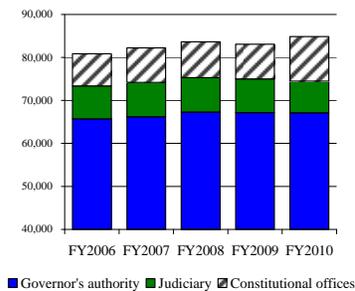
Governmental Funds – Fund Balances – At June 30, 2010, the Commonwealth's governmental funds reported a combined ending fund balance of about \$4.6 billion. Of the \$4.6 billion:

- Nearly \$4.0 billion represents an unreserved and undesignated fund balance. Governmental fund balances decreased by over \$475 million, which included an equity transfer of \$504 million to MassDOT.
- The MSBA's fund balance of approximately \$1.5 billion is blended into the Commonwealth. Within this fund balance is over \$1.4 billion in cash and restricted investments which were funded by bond proceeds in previous fiscal years, and other assets, less approximately \$84 million in liabilities. Nearly \$611 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals.
- The Governmental Funds reserved balances total over \$594 million, all but \$5.0 million of which is reserved for retirement of indebtedness, which is held in escrows related to refunding bonds and to pay grant anticipation notes.
- Lottery revenues for FY10 remained unchanged from FY09 at approximately \$4.6 billion. Prizes were approximately \$3.6 billion, operating expenses and the mandated transfers to the governmental funds were almost \$1 billion.

Other highlights of FY10 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$264 million, all of which were used to support current operations. This was a decrease of \$41 million from the prior year due to one-time additional non-participating manufacturers settling under the master settlement agreement (MSA) received in FY09. Similar to last year, approximately \$133 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY11. The MSA with the tobacco manufacturers 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 79.9% of the estimated amounts shown in the MSA were received in FY10. The Commonwealth continued to receive Strategic Contribution Fund payments under the terms of the MSA in FY10. These additional payments are paid to lead states on a suit against tobacco manufacturers. The payments began in FY08 and will continue through FY17.
- During the fiscal year, the Commonwealth passed or agreed to terms to over approximately \$85 million in bond authorizations and the de-authorizations of previously issued capital appropriations of approximately \$69 million. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five year capital plan.

**Full Time Equivalent Workforce
Including Higher Education
June 2006 – June 2010**



The Commonwealth made other structural changes to the government operations in FY10. In addition to the reorganization of transportation agencies, the seven remaining county sheriffs were transferred to state government effective January 1, 2010. The sheriff departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with combined budgets of more than \$200 million and almost 3,000 employees. Prior to January, these departments were part of county government; however, they received operating budgets as subsidies from the state. During the years 1997 through 2000, seven counties west and north of Boston were abolished, which resulted in seven sheriff departments becoming part of state government and other former county operations such as the Registries of Deeds being absorbed into active Commonwealth departments. With the exception of the former Suffolk County, the remaining six counties continue operations.

The government reorganizations discussed above affected the Commonwealth's staffing levels. The elimination of the MTA and the transfer of control of the Tobin Bridge from MassPort to MassDOT moved 1,320 employees from these entities to the state payroll system. The consolidation of seven county sheriffs into the Commonwealth transferred almost 3,000 employees from county to state government. These transfers were offset by a reduction of approximately 2,300 full time equivalent employees due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. The graphic to the left summarizes these FTE changes for FY10, as well as showing overall FTE changes for the past five fiscal years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government-wide Financial Statements

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 the statements of net assets and the statement of activities 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 and the unemployment insurance compensation system. 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 major funds are shown separately 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 of 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 the entities 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 department 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 to the financial statements 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 Commonwealth Transportation 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.

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 almost \$18.5 billion at the end of FY10. The *unrestricted net assets* are negative by over \$21.2 billion. As explained previously, 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, and in particular the result of the transfer of assets to MassDOT in FY10. In FY10, MassDOT reports these capital assets on their financial statements, which are 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 allocated to the MSBA. In FY10, the amount of MSBA’s grants payable dropped by approximately \$601 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

**GOVERNMENT-WIDE
FINANCIAL ANALYSIS**

Net Assets

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

School construction grants payable.....	\$ 2,714,133
Massachusetts School Building Authority debt.	4,699,293
Outstanding bonds issued to fund the MBTA	155,380
Debt related to MassDOT assets	<u>8,889,252</u>
Effect on unrestricted net assets of items unique to the Commonwealth.....	<u>\$ 16,458,058</u>

authority's operations are reported within a governmental fund in this report and on the government-wide financial statements.

In addition, the Commonwealth holds debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the MBTA, a change enacted in FY00. As of June 30, 2010, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately \$155 million, inclusive of unamortized bond premiums.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments decreased by over \$778 million between June 30, 2009 and June 30, 2010. To finance its cash flow and bridge the time gap between current year receipts and current year major expenses such as the payment of local aid, the Commonwealth issued commercial paper in FY10, along with revenue anticipation notes. Over \$1.5 billion in short-term commercial paper and revenue anticipation notes were sold and redeemed during the fiscal year.

Non-current assets increased by over \$277 million. The increase is due to an increase in the restricted cash and investments of the higher education entities, offset by more than \$218 million decrease in the restricted assets of the Unemployment Compensation Trust Fund. The capital assets decreased by more than \$14.6 billion. The decrease is attributable to a nearly \$15.5 billion in capital assets transferred to MassDOT.

Nearly \$7.7 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 investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The bulk of the Commonwealth's net deficit is due to long-term liabilities which financed non-Commonwealth capital assets. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. As of June 30, 2010, the Commonwealth's current assets were almost \$9.5 billion, while its current liabilities were over \$7.7 billion. Restricted net assets represent resources that are subject to external constraints.

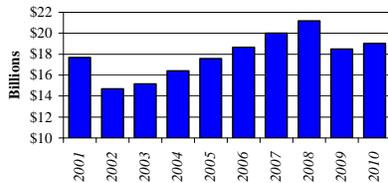
The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business-type activities.

Net Assets as of June 30, 2010 and 2009
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Current assets.....	\$ 7,949	\$ 8,938	\$ 1,521	\$ 1,310	\$ 9,470	\$ 10,248
Non-capital non-current assets.....	3,260	3,203	2,640	2,420	5,900	5,623
Capital assets.....	3,999	18,994	3,677	3,288	7,676	22,282
Deferred outflows of derivative investments	444	-	66	-	510	-
Total assets and deferred outflows.....	15,652	31,135	7,904	7,018	23,556	38,153
Current liabilities.....	6,842	7,170	880	944	7,722	8,114
Long term liabilities.....	31,184	36,119	3,252	2,144	34,436	38,263
Total liabilities.....	38,026	43,289	4,132	3,088	42,157	46,377
Net assets:						
Invested in capital assets, net of related debt.....	(886)	190	1,767	1,699	882	1,889
Restricted.....	594	609	1,149	1,609	1,743	2,218
Unrestricted.....	(22,082)	(12,953)	857	622	(21,225)	(12,331)
Total net assets (deficits)	\$ (22,374)	\$ (12,154)	\$ 3,773	\$ 3,930	\$ (18,600)	\$ (8,224)

Changes in Net Assets

**Revenue from Taxation –
2001-2010**



As noted earlier, the Commonwealth's net assets declined by over \$10.3 billion between FY09 and FY10, with \$8.9 billion of that decline due to the impact of the transfer of assets to MassDOT. Approximately 39% 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. General revenues increased by \$917 million or 4%, with tax revenue increasing by nearly \$535 million, or 3%. The tax revenue increase is attributable to growth of \$870 million in the sales tax, due entirely to an increase in the sales tax rate and elimination of the sales tax exemption for alcoholic beverages that generated over \$900 million on a GAAP basis in FY10, offset by a decrease of \$224 million in income tax payments, due primarily to a decline in taxes on capital gains and other investment income, and a \$111 million drop in other forms of taxes.

Because of the American Recovery and Reinvestment Act (ARRA) and other federal grants (primarily for unemployment insurance benefits), operating and capital grant contributions increased \$1.8 billion, or 14% in FY10, offsetting the drop in other operating revenues. As of June 30th, ARRA funds received by the Commonwealth during FY10 were almost of \$2.8 billion, of which Federal Medicaid Assistance Program (FMAP) receipts from ARRA were in excess of \$1.3 billion and \$383 million was in the form of State Fiscal Stabilization Fund (SFSF) funds used for local educational aid for municipalities and \$96 million for the Temporary Assistance for Needy Families (TANF) Program.

**American Recovery and
Reinvestment Act Funds Drawn in
FY10 – FY09
(amounts in thousands)**

Funding Category	FY2010	FY2009
Agriculture.....	\$ 9,332	\$ 249
Department of Defense.....	8,885	-
Housing and Urban Development.....	29,743	-
Justice.....	7,297	12,589
Labor.....	472,714	107,093
Transportation.....	74,422	148
US Treasury.....	40,354	-
National Institute for Arts & Humanities.....	339	-
National Science Foundation.....	66	-
EPA.....	10,431	-
Energy.....	69,193	-
Education.....	606,988	416,196
Health and Human Services.....	1,452,408	888,187
Homeland Security.....	670	-
Total by funding category.....	\$ 2,782,843	\$ 1,424,462
Total budgeted funds.....	\$ 1,420,705	\$ 886,160
Total non-budgeted special revenue funds *.....	857,430	438,065
Total capital projects funds.....	-	-
Total agency funds.....	4,207	-
Total expendable trust funds **.....	426,079	100,238
Total Massachusetts Department of Transportation.....	74,422	-
Total by fund type.....	\$ 2,782,843	\$ 1,424,462

* Resulted in expenditure reduction in the General Fund
** Not included in this report

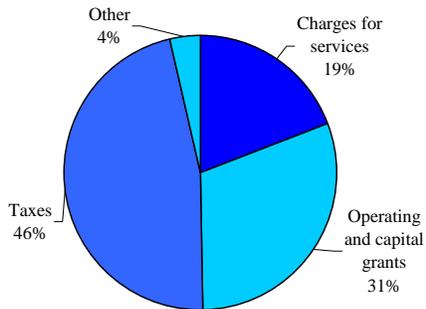
Additional ARRA amounts received were for labor and workforce development and transportation and public works. However, in some cases, these increases in funding also triggered required increases in spending, particularly in unemployment insurance compensation payments, which rose by over \$1.96 billion between FY09 and FY10.

Total charges for services increased by more than \$513 million, or 5.3%, due to a \$108 million increase in charges at the University of Massachusetts, an increase of over \$53 million at the state and community colleges and an increase in Health and Human Services charges of over \$276 million related to health care reform. Charges for services also increased by \$27 million in Public Safety and Homeland Security and group health insurance charges for services rose by approximately \$108 million. Restricted net assets decreased by over \$475 million from FY09 due to more than \$573 million drop in the balance of unemployment compensation restricted net assets, offset by an increase in restricted net assets for the higher education institutions.

**Changes in Net Assets during the Fiscal Years Ended June 30, 2010 and 2009
(in millions of dollars except percentages)**

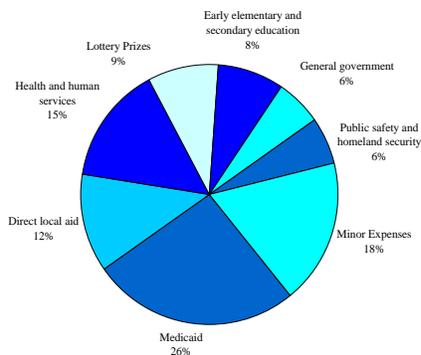
	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government			
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010 Distribution	June 30, 2009 Distribution	'10 to '09 % Change	
Revenues										
Program Revenues:										
Charges for services.....	\$ 7,756	\$ 7,461	\$ 3,972	\$ 3,754	\$ 11,728	\$ 11,215	24%	24%	5%	
Operating grants and contributions.....	11,645	12,059	4,020	1,721	15,665	13,780	32%	30%	14%	
Capital grants and contributions.....	779	853	-	-	779	853	2%	2%	-9%	
General Revenues:										
Taxes.....	19,034	18,499	-	-	19,034	18,499	39%	40%	3%	
Other.....	1,476	1,489	553	140	2,029	1,629	4%	4%	25%	
Total Revenues.....	40,690	40,361	8,545	5,615	49,235	45,976	100%	100%	7%	
Expenses										
Medicaid.....	10,678	10,843	-	-	10,678	10,843	21%	22%	-2%	
Direct local aid.....	5,030	5,210	-	-	5,030	5,210	10%	11%	-3%	
Health and human services.....	6,119	7,452	-	-	6,119	7,452	12%	15%	-18%	
Lottery.....	3,649	3,693	-	-	3,649	3,693	7%	7%	-1%	
Higher education.....	-	-	4,119	3,884	4,119	3,884	8%	8%	6%	
Early elementary and secondary education....	3,395	3,210	-	-	3,395	3,210	7%	6%	6%	
Unemployment compensation.....	-	-	5,436	3,475	5,436	3,475	11%	7%	56%	
Other.....	12,190	11,703	-	-	12,190	11,703	25%	24%	4%	
Total Expenses.....	41,061	42,111	9,555	7,359	50,616	49,470	100%	100%	2%	
Excess / (Deficiency)										
before transfers.....	(371)	(1,750)	(1,010)	(1,744)	(1,381)	(3,494)				
Loss on sale of capital assets.....	-	-	(12)	(12)	(12)	(12)				
Transfers.....	(865)	(1,071)	865	1,071	-	-				
Transfer to \ from MassDOT.....	(8,984)	-	-	-	(8,984)	-				
Change in Net assets (deficits).....	(10,220)	(2,821)	(157)	(685)	(10,376)	(3,506)				
Net assets - beginning, as restated.....	(12,154)	(9,162)	3,930	4,597	(8,224)	(4,565)				
Restatement - change in accounting principle....	-	(171)	-	18	-	(153)				
Net assets (deficits)- ending.....	\$ (22,374)	\$ (12,154)	\$ 3,773	\$ 3,930	\$ (18,600)	\$ (8,224)				

Revenue—Governmental Activities
Fiscal Year Ending June 30, 2010



The largest category of tax revenue is income taxes. Of the more than \$19.0 billion in tax revenue within governmental activities, \$10.2 billion was from income taxes, \$4.7 billion was from sales taxes, \$1.9 billion was from corporate taxes, \$658 million was from motor fuels taxes and over \$1.5 billion was 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 make up approximately 60% of the Commonwealth’s governmental charges for services. Lottery revenues decreased this year by approximately \$17 million. The decrease in lottery sales is mostly attributable to a decrease in instant game sales of over \$53 million from FY09, which was partly off set by new Powerball Game sales of over \$34 million.

Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2010



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.

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 \$3.4 billion, post-employment benefit costs were \$1.9 billion, public safety and homeland security costs were approximately \$1.9 billion and other health and human services costs were approximately \$6.1 billion.

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.

Business–Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Years 2006 - 2010
(Amounts in Millions)

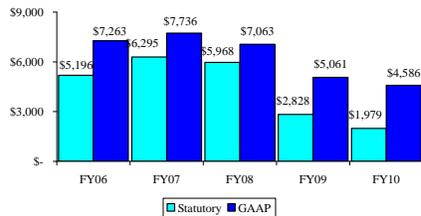


Business-type activities decreased the Commonwealth’s net assets by over \$156 million. While operating revenue increased by approximately \$2.3 billion in FY10, unemployment insurance benefit claims increased by almost \$2.0 billion, resulting in an approximately \$562 million decrease in the Commonwealth’s Unemployment Compensation Trust Fund net assets. In order to support the high level of unemployment benefit claims, the trust fund borrowed over \$387 million from the Federal government. Net assets of the schools of higher education increased by nearly \$405 million, largely due to increases in net tuition and fee revenue (by nearly 10%). Miscellaneous revenues, largely ancillary higher education sales and services and federal grants, grew by nearly 10%. Overall, revenues of business type activities grew by over 52%.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

Governmental Funds

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



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. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

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. Due to 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 FY10 added \$652 million in revenues. MSBA's fund balance added approximately \$139 million to the Commonwealth's governmental fund balance at the end of the year after including \$751 million of bond proceeds as an additional funding source.

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 are accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue.

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

	FY10	FY09	FY08	FY07	FY06
Beginning fund balances	\$ 5,061.3	\$ 7,062.7	\$ 7,735.9	\$ 7,263.2	\$ 5,048.6
Reclassifications.....	-	-	-	5.0	-
Revenues and other financing sources.....	49,853.1	49,788.0	50,136.8	49,402.2	47,189.9
Expenditures and other financing uses.....	50,328.7	51,789.4	50,810.0	48,934.5	44,975.3
Excess / (deficiency).....	(475.6)	(2,001.4)	(673.2)	472.7	2,214.6
Ending fund balances	<u>\$ 4,585.7</u>	<u>\$ 5,061.3</u>	<u>\$ 7,062.7</u>	<u>\$ 7,735.9</u>	<u>\$ 7,263.2</u>

The increase in revenues in FY10 from FY09 is attributable to an increase of nearly \$637 million in governmental tax revenues due primarily to an increase in the sales tax rate effective August 1, 2009, and an increase of nearly \$61 million in federal reimbursements, mostly due to ARRA and other draws for various health and human services programs. Fees and investment earnings combined grew by over \$161 million, but federal grants revenues decreased by over \$539 million. Coupled with other financing sources, largely from bonds and transfers, the overall revenue increase was nearly \$65 million, or approximately 0.1%.

During FY10, spending cuts were implemented to maintain a balanced budget. Governmental fund expenditures decreased by \$1.5 billion or 2.8%, led by an approximate \$1.1 billion decrease in Universal Health Care Programs, the largest of which were a \$421 million reduction in a legislatively authorized transfer from the General Fund and a \$298 million decrease due to a delay in Medical Assistance Trust Fund State and Federal waiver approvals. In addition, during FY09 the Commonwealth made a \$264 million payment for a cross-over refunding of Grant Anticipation Notes, creating a decrease in FY10 comparative expenditures. Lottery revenues and expenditures remained almost the same as FY09. Within the Lottery, revenues outpaced spending by about \$988 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 \$22 million for the year, due to the continuing rise in health care costs. The Highway Capital Projects Fund finances MassDOT expenditures related to construction and improvement of the Commonwealth's road and bridge infrastructure. The expenditures are financed by debt that is issued by the Commonwealth while the assets are owned and maintained by MassDOT. The deficit in this fund is due to a timing difference between when the Commonwealth accrues the expenses and when the Commonwealth finances the related cash outlay. The Federal Grants fund is used to manage categorical grants funded in their entirety by the federal government. This fund has seen a significant increase in activity as a result of the ARRA. It is anticipated that expenditures and related federal revenues will begin to return to historic levels in FY11. Most other minor funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY10, the Commonwealth's governmental funds reported combined ending fund balances of almost \$4.6 billion, a decrease of over \$476 million from the previous year. However, of the approximate \$4.5 billion, the following amounts are reserved or committed:

Governmental Funds - Reserves of Fund Balances
(Amounts in millions)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Reserved:			
Retirement of indebtedness	\$ 589.5	\$ 573.3	\$ 16.2
Central Artery			
Workers Compensation and			
General liability insurance reserve.....	-	52.2	(52.2)
Permanent trust funds.....	5.0 *	-	5.0
Total reserved balances	594.5	625.5	(31.0)
Total undesignated balances	3,991.2	4,435.8	(444.6)
Total fund balances	\$ 4,585.7	\$ 5,061.3	\$ (475.6)

* Reclass in FY2010 from undesignated to reserved

Undesignated and reserved balances declined by over \$475 million mainly due to spending that exceeded revenues as well as to an equity transfer of \$504 million in undesignated fund balances from the Governmental Funds to MassDOT. Also during FY10, the \$52.2 million reserve for Central Artery Workers' Compensation and General Liability was transferred to MassDOT. Capital project fund balances showed a decline entirely due to the timing of bond sales.

The amounts reserved for retirement of indebtedness represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY11.

During FY10 the General and Commonwealth Transportation funds (the latter the successor to the Highway Fund, which was eliminated as part of the Commonwealth's reform of the state transportation system) were the primary operating funds of the Commonwealth. At the end of FY10, the fund balance of the General Fund was over \$1.8 billion. Of this amount, nearly \$670 million represents the Commonwealth's Stabilization Fund. Almost \$102 million was also for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the General Fund, which is higher than FY09's continuing appropriations amount of \$53 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY10, the MSBA received approximately \$611 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 above, the business-type activities decreased the Commonwealth's net assets by approximately \$157 million.

BUDGETARY HIGHLIGHTS

The General Appropriation Act (GAA) authorized approximately \$26.5 billion in spending, exclusive of approximately \$125.5 million in FY09 spending authorized to be continued into FY10 as part of final FY09 supplemental budgets.

The budget, as enacted by the Legislature, was based on a FY10 tax revenue estimate of \$18.879 billion, which reflected the FY10 consensus tax estimate of \$17.989 billion adjusted for the impact of tax law changes enacted as part of the FY10 budget. This estimate was initially revised downward by \$600 million to \$18.279 billion on October 15, 2009, but was subsequently revised upward to \$18.460 billion on January 7, 2010, as revenues began to perform above benchmark.

To cover the projected \$600 million tax revenue shortfall reflected in the October 15th revised tax estimate, as well as the additional spending deficits that were anticipated at that time, the Governor authorized approximately \$277 million in spending reductions across most executive branch agencies in October 2009, pursuant to Section 9C of Chapter 29 of the General Laws. Some of these proposed cuts were later restored, in part, as a result of the second revision to the tax revenue estimate in January bringing the total 9C reductions to \$228 million (by the end of the fiscal year the total reductions were reduced to \$215 million). Other solutions used to offset the reduction in the consensus revenue estimate included the use of an additional \$35.6 million in Stabilization Fund reserves, \$126 million in anticipated departmental and other revenues, as well as \$62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on updated guidance provided by the federal

government, the Commonwealth received \$80 million in additional federal Medicaid reimbursements related to a change in the calculation of the state's Medicare "clawback" payments. The Secretary of Administration of Finance instructed the Comptroller to transfer \$50 million from the General Fund back to the Stabilization Fund and use the remaining \$30 million to support fiscal year 2010 expenditures.

Supplemental budgets during the year authorized approximately \$665.4 million in appropriations. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$73 million in spending related to FY10. The year's significant supplemental appropriation transfer activity included approximately:

- \$32.9 million for additional private counsel compensation;
- \$15.2 million for additional health insurance costs for members of the Group Insurance Commission;
- \$7.4 million for additional snow and ice removal costs;
- \$143.6 million to support additional costs related to the MassHealth Managed Care Program;
- \$111.7 million for additional costs related to MassHealth Fee for Service;
- \$114.1 million for additional MassHealth senior care related costs;
- \$60.1 million for additional Family Shelter Programs.

A total of 130 budgetary appropriations were supplemented during the year.

On a statutory (not GAAP) basis, budgeted expenditures and other uses, including transfers to non-budgeted funds, decreased by \$183 million from FY09. However, included in this amount is an increase in programs and services of \$279 million. The majority of the increase in program and service costs is due to the increase in Medicaid costs as measured on a statutory basis. Spending for direct local aid increased by \$114 million due to an increase in Chapter 70 education funding.

Debt service decreased by \$31 million. Post-employment benefit costs increased by \$82 million. Inter-fund transfers to non-budgeted funds decreased by \$864 million due to re-classification of state retiree benefit expenditures and a decrease in transfers to the Universal Health Care Fund.

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, 2010 amounts to approximately \$14.0 billion, with accumulated depreciation of approximately \$6.3 billion, leaving a net book value of almost \$7.6 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The investments in capital assets noted above are net of capital assets transferred to MassDOT as part of the Commonwealth's Transportation Reform. During the fiscal year, effective November 1, 2009, MassDOT received from the Commonwealth, \$22.4 billion of capital assets, with accumulated depreciation of over \$6.8 billion, leaving a net book value of over \$15.5 billion. The majority of the assets transferred included all

the roads and bridge infrastructure assets of the Commonwealth, including Central Artery/Tunnel assets.

The total increase in the Commonwealth's investment in capital assets, net of transfers to MassDOT, disposals, and changes in accumulated depreciation from 2009 to 2010 was approximately \$276 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, FY10 amounts for business-type activities include amounts for the foundations established on behalf of the institutions of higher education.

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

	<u>Governmental</u> <u>Activities</u>		<u>Business - type</u> <u>Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Land, including Central Artery	\$ 892,380	\$ 1,179,385	\$ 101,249	\$ 83,480	\$ 993,629	\$ 1,262,865
Historical treasures	-	-	863	863	863	863
Construction in process	452,988	2,174,559	462,301	399,657	915,289	2,574,216
Buildings	2,286,941	2,124,394	2,715,809	2,398,736	5,002,750	4,523,130
Machinery and equipment	301,673	312,450	286,722	301,127	588,395	613,577
Infrastructure, including Central Artery	64,677	13,202,952	-	-	64,677	13,202,952
Library collections	-	-	110,042	104,180	110,042	104,180
Total	<u>\$ 3,998,659</u>	<u>\$ 18,993,740</u>	<u>\$ 3,676,986</u>	<u>\$ 3,288,043</u>	<u>\$ 7,675,645</u>	<u>\$ 22,281,783</u>

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 \$2.2 billion in new debt in FY10. Twenty percent of the Commonwealth's \$17.8 billion in general obligation debt outstanding as of June 30, 2010 has been issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2% of all general obligation debt) as of June 30, 2010.

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 \$574 million) or for strictly municipal purposes (approximately \$5.3 million). Included in bond sales are issuances of taxable debt of approximately \$1.4 billion to finance activities that were financed under the federally-subsidized Build America Bonds (BABS) Program.

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.

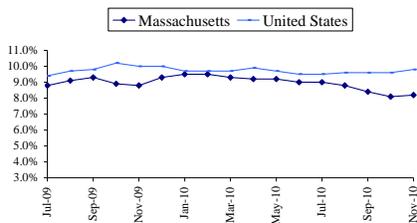
Long - Term Debt Obligations at Year - End

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

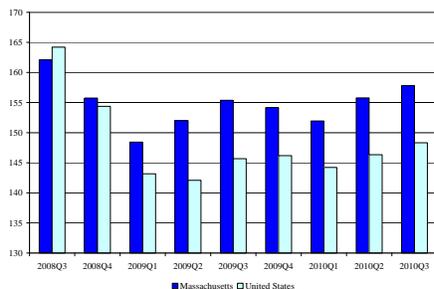
	Governmental Activities		Business - type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 17,682,517	\$ 17,042,204	\$ -	\$ -	\$ 17,682,517	\$ 17,042,204
Special obligation bonds (excluding GANs).....	1,046,523	1,088,150	-	-	1,046,523	1,088,150
Revenue obligation bonds	-	-	2,699,988	2,103,675	2,699,988	2,103,675
Grant anticipation notes	997,467	1,134,215	-	-	997,467	1,134,215
Subtotal	19,726,507	19,264,569	2,699,988	2,103,675	22,426,495	21,368,244
Massachusetts School Building Authority.....	4,488,535	3,830,250	-	-	4,488,535	3,830,250
Total	\$ 24,215,042	\$ 23,094,819	\$ 2,699,988	\$ 2,103,675	\$ 26,915,030	\$ 25,198,494

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

*Monthly Unemployment Rate
July 2009 – November 2010*



*Massachusetts and National Home Values – 2008Q3 – 2010Q3
Case – Schiller Index
January 2000 = 100*



In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital market restructuring that occurred starting in September 2009. 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 11,500 in December 2010, though this is still well below the 14,200 historical high of three years ago. Housing values also appear to have started to rise again after hitting lows in March 2009, though they stagnated towards the end of the calendar year 2010, as some of those rises may have been attributable to tax credits available in ARRA as well as other stimulus measures. Some economists believe unemployment will remain relatively high in the near future.

Massachusetts' economy has outperformed the nation's economy as a whole during and following the most recent recession. Per capita net income rose by over 4% in calendar year 2009. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2010, but since then has declined, and in November 2010 stood at 8.2%. This decline is greater than in the nation as a whole, where unemployment rose from 5.8% in July 2008 to a high of 10.1% in October 2009 (a rate that has not been seen since 1983), and has declined by only three-tenths of a percentage point to 9.8% as of November 2010. Population growth in the Commonwealth, which during the 1990s and most of the 2000s was lower than in the nation as a whole, was only slightly slower than in the U.S. in calendar years 2008 and 2009, probably due to the fact the state economy has performed better than the national economy during the most recent recession.

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 nineteen S&P 500 companies, among them seven Fortune 500 headquarters.

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 US Census Bureau's, 2009 American Community Survey, estimated that 37.8% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 27.5% for the United States as a whole. In the same survey, 88.4% of residents over age 25 at least had 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.

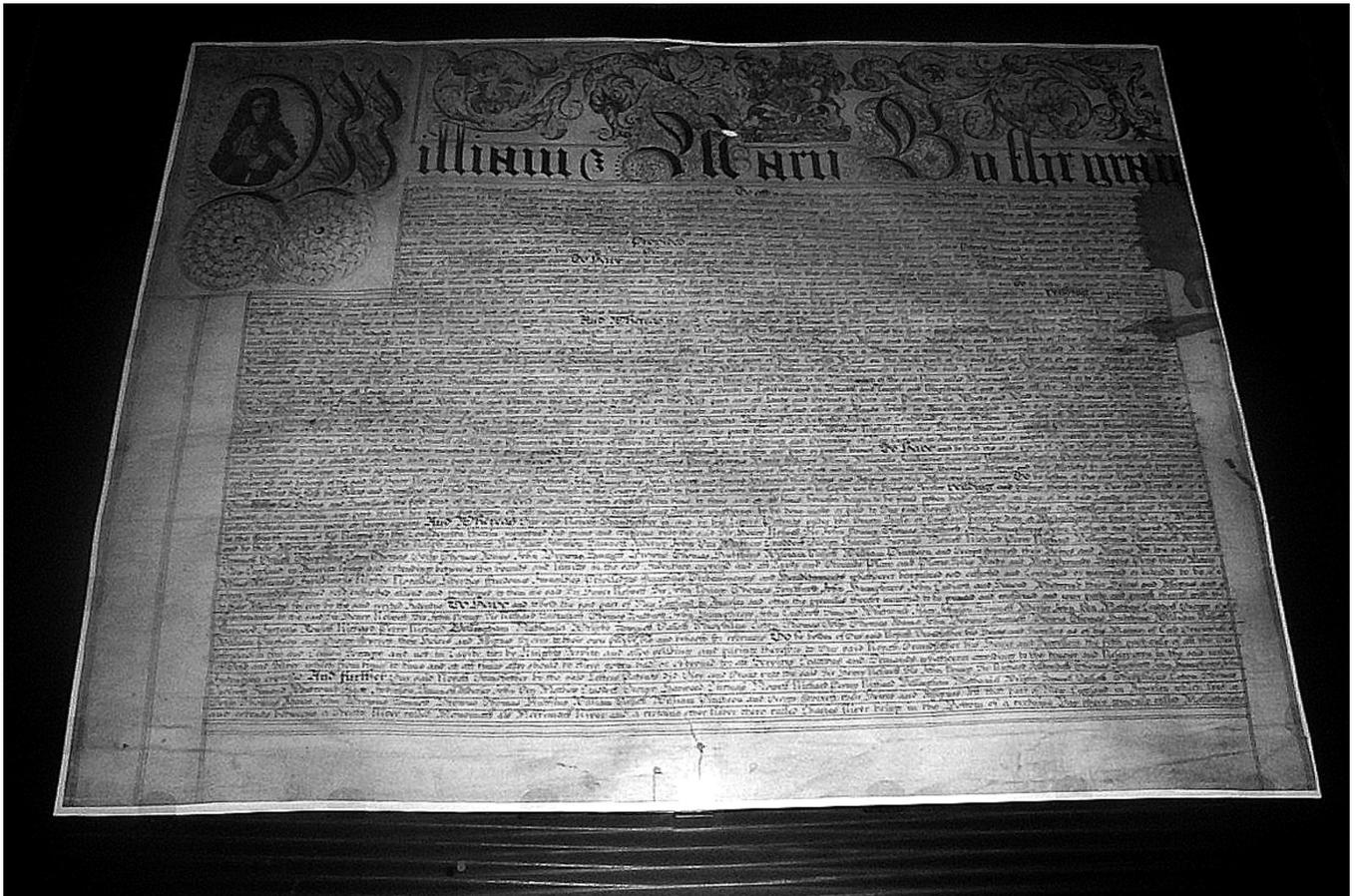
Because of the recession, inflation remained in check through FY10. The Boston metropolitan statistical area consumer price index (which includes portions of Connecticut, Maine and New Hampshire, as well as the Commonwealth) increased by 1.3% from July 2009 to July 2010, after falling by 3.4% between July 2008 and July 2009. During the period from July 2009 to July 2010, energy prices rose 6.7%, food and beverages prices rose 1.6%, housing prices dropped 1.2% and transportation prices increased by 7.3%. Medical care prices rose 4.2%, clothing costs 5.7%, recreational costs 1.2% and education costs 1.3%.

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 or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.

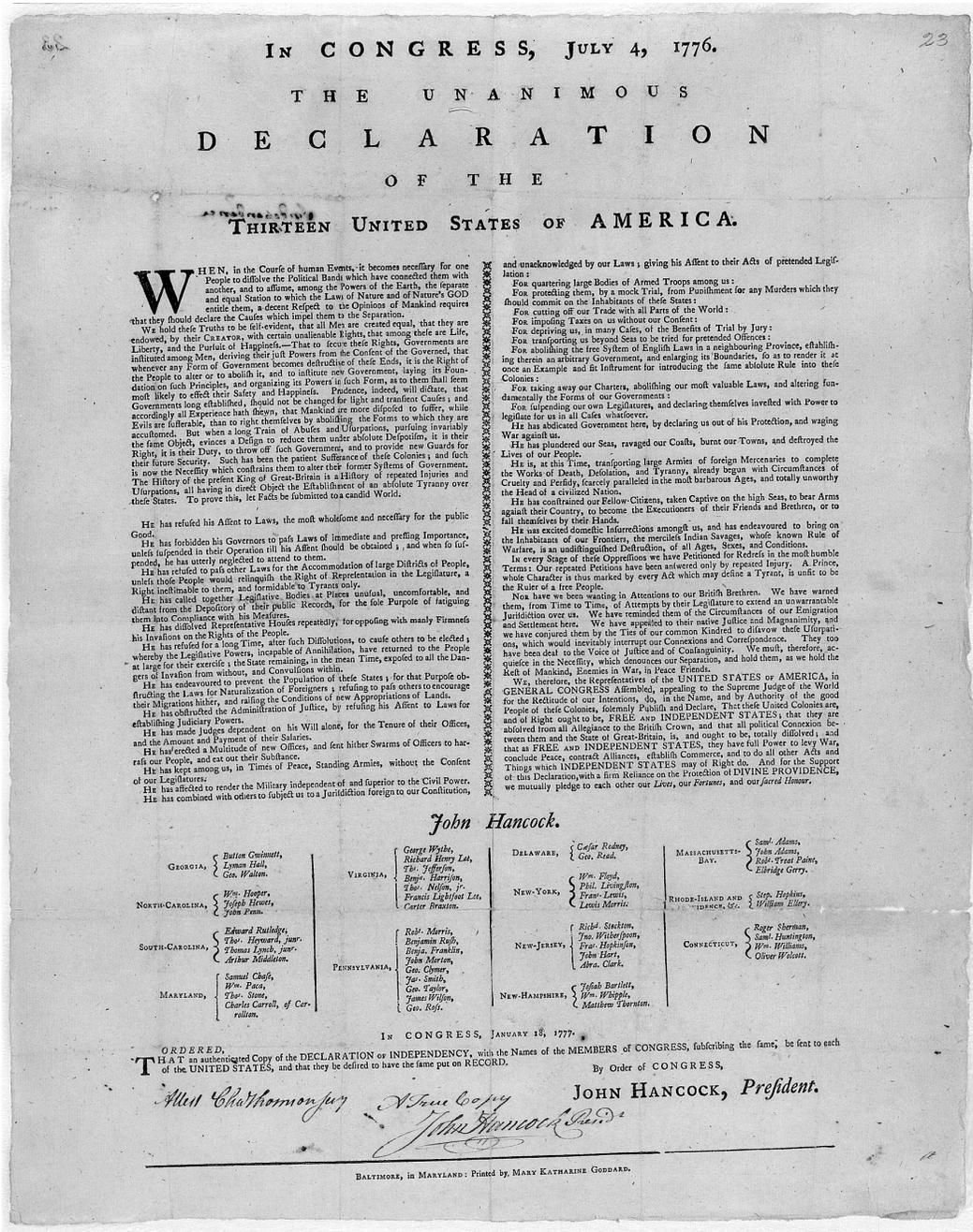
Charter of the Province of the Massachusetts Bay, 1691

King Charles II revoked the colonial charter in 1684. Nearly fifteen years later, following the Glorious Revolution in England, King William III and Queen Mary granted a new charter to Massachusetts. Increase Mather, an influential Puritan, traveled to London. There he lobbied intensively to either revive the earlier colonial charter or obtain a royal charter that would be favorable to Massachusetts. Organized as a royal province with an appointed governor, Massachusetts Bay now included the territories of the former Plymouth Colony, Maine, and the Cape Islands. Even Nova Scotia was included for a few years. The William and Mary charter remained the frame of government until 1774. After Massachusetts became an independent state in 1776, the government continued with the same basic structure as under the charter.



Basic Financial Statements

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



Declaration of Independence

The Continental Congress declared independence from Great Britain on July 4, 1776. Quickly, they had copies of their Declaration printed and sent to the newly independent states. Six months later, after George Washington's military victories at Trenton and Princeton, the Continental Congress ordered that an "authentic copy" of the Declaration of Independence be made. Mary Katherine Goddard printed the copies in Baltimore, Maryland. For the first time, an official copy of the Declaration of Independence made public the names of all of the signers. John Hancock, president of the Continental Congress, sent this copy to Massachusetts on January 31, 1777. It is one of four "Goddard" broadsides still held by a state archives.

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash and cash equivalents.....	\$ 241,938	\$ 437,292	\$ 679,230	\$ 611,485
Cash with fiscal agent.....	589,492	-	589,492	-
Short-term investments.....	2,295,328	334,710	2,630,038	297,509
Receivables, net of allowance for uncollectibles:				
Taxes.....	2,528,070	-	2,528,070	-
Federal grants and reimbursements receivable.....	1,922,569	87,963	2,010,532	166,917
Loans.....	5,267	42,152	47,419	423,957
Other receivables.....	298,307	559,124	857,431	232,060
Due from cities and towns.....	3,391	-	3,391	-
Due from component units.....	32,592	-	32,592	-
Due from primary government.....	-	-	-	506,085
Due from affiliates.....	-	16,101	16,101	-
Inventory.....	-	-	-	79
Other current assets.....	32,069	43,854	75,923	124,053
Total current assets.....	7,949,023	1,521,196	9,470,219	2,362,145
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	840,813	840,813	66,637
Long - term investments.....	-	1,140,208	1,140,208	1,508,008
Investments, restricted investments and annuity contracts.....	2,337,976	-	2,337,976	2,040,002
Accounts receivable, net.....	821,831	36,429	858,260	1,873
Loans receivable, net.....	85,180	13,064	98,244	3,552,345
Due from component units.....	15,531	-	15,531	-
Due from primary government.....	-	-	-	4,431
Non-depreciable capital assets.....	1,345,368	564,413	1,909,781	3,751,033
Depreciable capital assets, net.....	2,653,291	3,112,573	5,765,864	27,617,214
Other noncurrent assets.....	-	49,818	49,818	222,715
Other noncurrent assets - restricted.....	-	559,789	559,789	-
Total noncurrent assets.....	7,259,177	6,317,107	13,576,284	38,764,258
Deferred outflows of derivative investments.....	443,575	65,809	509,384	198,753
Total assets and deferred outflows.....	15,651,775	7,904,112	23,555,887	41,325,156
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities.....	2,759,188	327,339	3,086,527	790,897
Accrued payroll.....	128,630	132,804	261,434	1,649
Compensated absences.....	300,641	122,570	423,211	3,303
Accrued interest payable.....	303,014	17,031	320,045	210,523
Tax refunds and abatements payable.....	813,199	26,498	839,697	-
Due to component units.....	506,085	-	506,085	-
Due to primary government.....	-	-	-	32,592
Due to federal government.....	22,008	-	22,008	-
Claims and judgments.....	20,000	-	20,000	-
Deferred revenue.....	-	22,843	22,843	81,883
Deposits and unearned revenue.....	-	61,372	61,372	-
Due to affiliates.....	-	16,671	16,671	-
School construction grants payable.....	423,451	-	423,451	-
Capital leases.....	13,722	9,863	23,585	36,871
Massachusetts School Building Authority bonds and unamortized premiums.....	108,380	-	108,380	-
Unamortized deferred loss on refunding.....	(4,270)	-	(4,270)	-
Bonds payable and unamortized premiums.....	1,436,711	141,357	1,578,068	606,117
Environmental remediation liability.....	10,737	1,647	12,384	-
Total current liabilities.....	6,841,495	879,995	7,721,490	1,763,835

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	169,205	55,571	224,776	94
Accrued interest payable.....	-	-	-	95,326
Due to component units.....	4,431	-	4,431	-
Due to primary government.....	-	-	-	15,531
Due to federal government - grants.....	-	399,952	399,952	-
Claims and judgments.....	40,000	-	40,000	-
Deferred revenue.....	-	57,699	57,699	28,263
Prizes payable.....	1,484,794	-	1,484,794	-
Capital leases.....	62,886	31,061	93,947	262,159
Bonds payable and unamortized premiums.....	18,506,484	2,589,767	21,096,251	11,229,910
Unamortized deferred loss on refunding.....	(35,955)	-	(35,955)	-
Massachusetts School Building Authority bonds and unamortized premiums.....	4,590,913	-	4,590,913	-
School construction grants payable.....	2,290,682	-	2,290,682	-
Retirement system net pension obligations.....	1,218,133	-	1,218,133	42,856
Post - employment benefits obligations.....	1,953,000	-	1,953,000	293,779
Environmental remediation liability.....	157,469	1,800	159,269	-
Liability for derivative instruments.....	443,575	65,809	509,384	459,711
Other noncurrent liabilities.....	298,007	49,010	347,017	255,898
Total noncurrent liabilities.....	31,183,624	3,250,669	34,434,293	12,683,527
Total liabilities.....	38,025,119	4,130,664	42,155,783	14,447,362
NET ASSETS				
Invested in capital assets, net of related debt.....	(885,593)	1,767,434	881,841	24,153,512
Restricted for:				
Unemployment benefits.....	-	447,106	447,106	-
Retirement of indebtedness.....	589,492	-	589,492	-
Other purposes.....	5,000	701,645	706,645	3,112,189
Unrestricted (deficits).....	(22,082,243)	857,263	(21,224,980)	(387,907)
Total net assets (deficits).....	\$ (22,373,344)	\$ 3,773,448	\$ (18,599,896)	\$ 26,877,794

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

(concluded)

Statement of Activities
 Fiscal Year Ended June 30, 2010
 (Amounts in thousands)

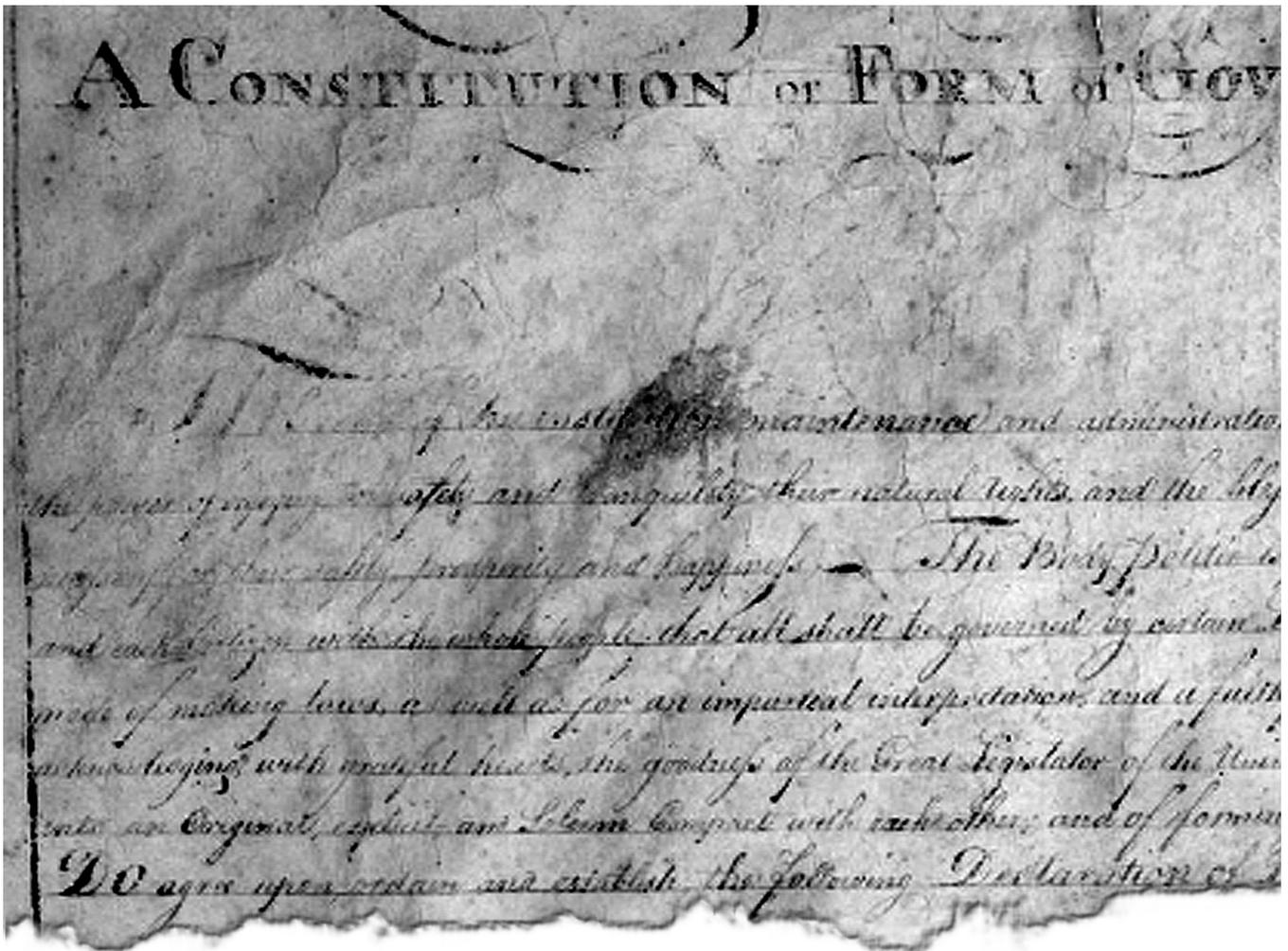
Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government.....	\$ 2,358,706	\$ 464,592	\$ 88,455	\$ 76	\$ (1,805,584)	\$ -	\$ (1,805,584)	\$ -
Judiciary.....	1,043,004	128,198	763	-	(914,043)	-	(914,043)	-
Direct local aid.....	5,030,363	-	-	-	(5,030,363)	-	(5,030,363)	-
Medicaid.....	10,677,999	185,463	7,611,556	1,576	(2,879,403)	-	(2,879,403)	-
Group health insurance.....	1,092,178	349,870	-	-	(742,308)	-	(742,308)	-
Interest (unallocated).....	1,090,471	-	-	-	(1,090,471)	-	(1,090,471)	-
Energy and environmental affairs.....	326,128	214,269	97,329	-	(14,530)	-	(14,530)	-
Housing and economic development.....	1,297,143	221,340	665,050	-	(410,753)	-	(410,753)	-
Health and human services.....	6,119,110	797,929	1,271,619	1	(4,049,560)	-	(4,049,560)	-
Transportation and public works.....	2,088,354	517,045	13,009	15,193	(1,543,108)	-	(1,543,108)	-
Early elementary and secondary education.....	3,395,360	9,661	1,472,773	762,496	(1,150,429)	-	(1,150,429)	-
Public safety and homeland security.....	2,409,557	202,427	207,880	61	(1,999,189)	-	(1,999,189)	-
Labor and workforce development.....	483,091	38,319	216,873	-	(227,899)	-	(227,899)	-
Lottery.....	3,649,396	4,626,777	-	-	977,381	-	977,381	-
Total governmental activities.....	41,060,860	7,755,891	11,645,306	779,403	(20,880,259)	-	(20,880,259)	-
Business-Type Activities:								
Unemployment Compensation.....	5,435,611	1,727,964	3,129,058	-	-	(578,589)	(578,589)	-
Higher Education:								
University of Massachusetts.....	2,640,134	1,527,880	564,438	-	-	(547,816)	(547,816)	-
State Colleges.....	762,043	479,900	82,352	-	-	(199,791)	(199,791)	-
Community Colleges.....	716,526	235,865	244,503	-	-	(236,158)	(236,158)	-
Total business-type activities.....	9,554,314	3,971,609	4,020,351	-	-	(1,562,354)	(1,562,354)	-
Total primary government.....	\$ 50,615,174	\$ 11,727,500	\$ 15,665,657	\$ 779,403	(20,880,259)	(1,562,354)	(22,442,613)	-
Component Units:								
Massachusetts Department of Transportation.....	\$ 3,859,036	\$ 915,950	\$ 2,667,176	\$ -	-	-	-	(275,910)
Commonwealth Health Insurance Connector.....	796,191	801,041	-	-	-	-	-	4,850
Massachusetts Water Pollution Abatement Trust.....	278,199	5,181	39,584	178,096	-	-	-	(55,338)
Other nonmajor component units.....	573,658	190,360	168,598	185,715	-	-	-	(28,985)
Total component units.....	\$ 5,507,084	\$ 1,912,532	\$ 2,875,358	\$ 363,811	-	-	-	(355,383)

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income.....	10,227,493	-	10,227,493	-
Sales taxes.....	4,720,057	-	4,720,057	-
Corporate taxes.....	1,857,090	-	1,857,090	-
Motor and special fuel taxes.....	658,197	-	658,197	-
Other taxes.....	1,571,390	-	1,571,390	-
Miscellaneous:				
Investment earnings.....	56,185	128,552	184,737	167,838
Tobacco settlement.....	263,678	-	263,678	-
Contribution from municipalities.....	39,160	-	39,160	-
Other revenue.....	1,115,972	424,536	1,540,508	-
Loss on sale of capital assets.....	-	(12,125)	(12,125)	-
Transfers.....	(864,697)	864,697	-	-
Transfers to \ from MassDOT.....	(8,983,955)	-	(8,983,955)	-
Total general revenues and transfers.....	10,660,570	1,405,660	12,066,230	167,838
Change in net assets.....	(10,219,689)	(156,694)	(10,376,383)	(187,545)
Net assets (deficits) - beginning, as restated.....	(12,153,655)	3,930,142	(8,223,513)	27,065,339
Net assets (deficits) - ending.....	\$ (22,373,344)	\$ 3,773,448	\$ (18,599,896)	\$ 26,877,794

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

(concluded)



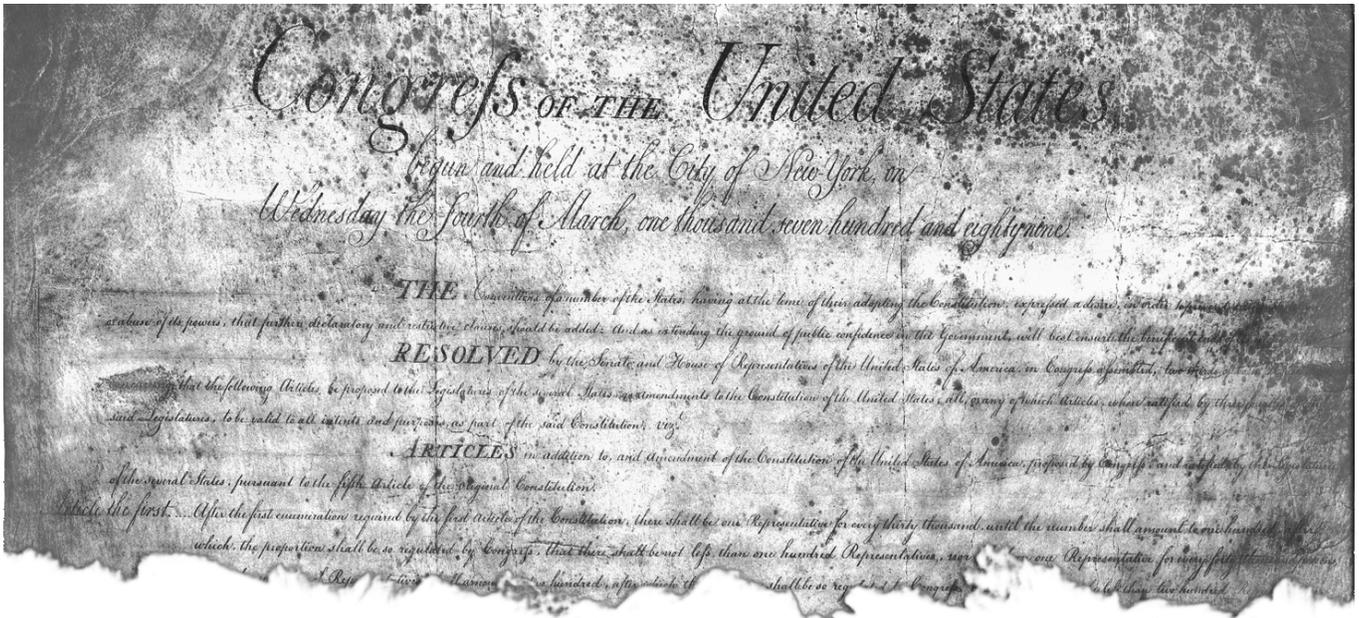
Constitution of the Commonwealth of Massachusetts, 1780

Massachusetts was the last of the thirteen original states to adopt a state constitution. In 1779, a constitutional convention requested that John Adams, a “sub-committee of one,” prepare a draft of a new constitution. The Massachusetts Constitution, which was ratified in 1780, is the oldest written document still used for governance in the world. Although amended,

it has never been replaced. Many of John Adams’ ideas expressed in the Massachusetts Constitution, including the separation of powers and a declaration of rights, were later incorporated into the United States Constitution of 1787. Faded ink and wrinkled parchment make it difficult to read some sections of the Constitution. In 1894, an exact manuscript copy of the document was created, because of concerns over its condition.



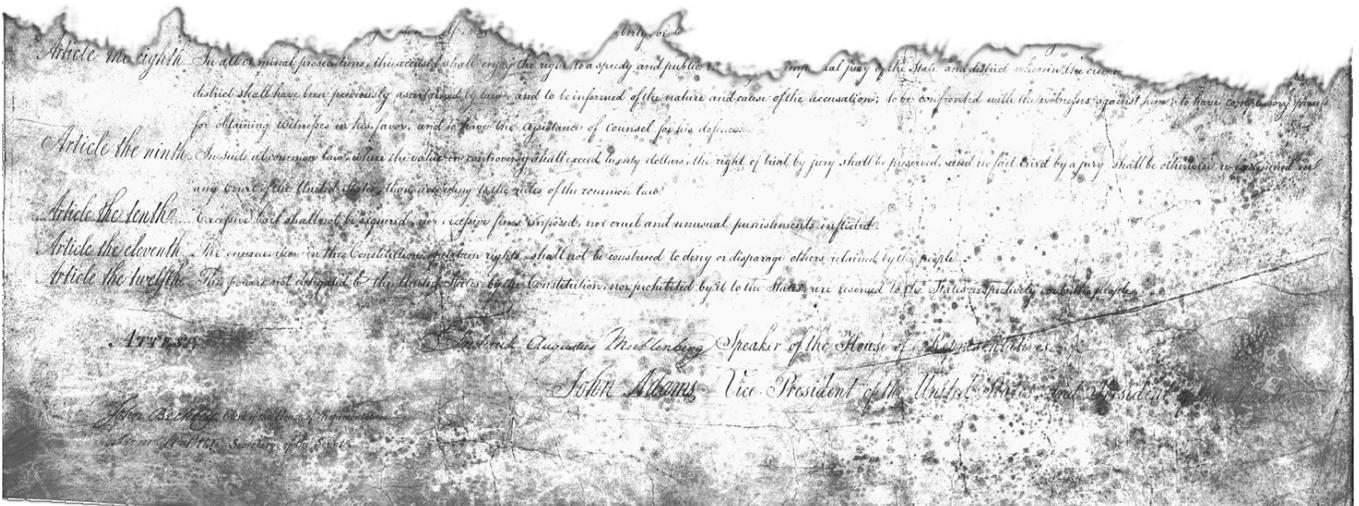
Governmental Fund Financial Statements



Federal Bill of Rights, 1789

The first ten amendments to the United States Constitution are known as the Bill of Rights. Congress originally drafted twelve amendments, ten of them relating to the rights of individuals. Fourteen parchment copies of the proposed amendments were created. Congress kept one copy, now on display at the National Archives, while President George Washington sent the other originals to the thirteen states for ratification.

In Massachusetts, debate over the Bill of Rights was contentious. Although the amendments received the strong support of Samuel Adams, the Legislature did not approve them. Ten of the proposed amendments were accepted by three-quarters of the states. They became the first amendments to the United States Constitution, even without the approval of Massachusetts, Connecticut, and Georgia.



Balance Sheet
Governmental Funds
June 30, 2010
(Amounts in thousands)

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
ASSETS								
Cash, cash equivalents and short-term investments....	\$ 13,966	\$ 12,271	\$ 44,330	\$ 875,395	\$ -	\$ -	\$ 1,591,304	\$ 2,537,266
Cash with fiscal agent.....	-	10,847	-	-	-	-	578,645	589,492
Investments and restricted investments.....	254,681	-	-	598,501	-	-	-	853,182
Receivables, net of allowance for uncollectibles:								
Taxes.....	3,032,120	56,247	-	46,824	-	-	80,305	3,215,496
Due from federal government.....	1,407,053	-	-	-	457,195	-	113,694	1,977,942
Loan receivable.....	-	-	-	89,533	-	-	914	90,447
Other receivables.....	128,583	1,011	4,732	8,615	-	-	231,022	373,963
Due from cities and towns.....	3,391	-	-	-	-	-	-	3,391
Due from other funds.....	653,973	63,239	-	-	-	-	131,469	848,681
Due from component units.....	32,592	-	-	-	-	-	-	32,592
Total assets.....	\$ 5,526,359	\$ 143,615	\$ 49,062	\$ 1,618,868	\$ 457,195	\$ -	\$ 2,727,353	\$ 10,522,452
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable.....	\$ 1,831,289	\$ 5,155	\$ 40,267	\$ 48,470	\$ 375,981	\$ 18	\$ 357,461	\$ 2,658,641
Accrued payroll.....	108,285	7,116	-	-	7,246	-	5,983	128,630
Tax refunds and abatements payable.....	812,575	-	-	304	-	-	320	813,199
Due to other funds.....	63,239	-	-	-	30,254	584,862	160,975	839,330
Due to component units.....	72,367	66,823	-	-	-	122,452	244,443	506,085
Due to federal government.....	22,008	-	-	-	-	-	-	22,008
Deferred revenue.....	761,813	-	5,802	-	-	-	54,216	821,831
Claims and judgments.....	20,000	-	-	-	-	-	-	20,000
School construction grants payable.....	-	-	-	35,065	-	-	-	35,065
Other accrued liabilities.....	-	-	-	-	-	-	91,948	91,948
Total liabilities.....	3,691,576	79,094	46,069	83,839	413,481	707,331	915,346	5,936,736
Fund balances (deficits):								
Reserved for:								
Retirement of indebtedness.....	-	10,847	-	-	-	-	578,645	589,492
Permanent trust funds.....	-	-	-	-	-	-	5,000	5,000
Undesignated:								
General.....	1,834,783	-	-	-	-	-	-	1,834,783
Special revenue.....	-	53,674	2,993	1,535,029	43,714	-	1,020,142	2,655,552
Capital projects.....	-	-	-	-	-	(707,331)	208,220	(499,111)
Fund balances (deficits).....	1,834,783	64,521	2,993	1,535,029	43,714	(707,331)	1,812,007	4,585,716
Total liabilities and fund balances.....	\$ 5,526,359	\$ 143,615	\$ 49,062	\$ 1,618,868	\$ 457,195	\$ -	\$ 2,727,353	\$ 10,522,452

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, 2010
(Amounts in thousands)

Total fund balances - governmental funds		\$ 4,585,716	
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.....	\$ 1,345,368		
Capital assets being depreciated, net.....	<u>2,653,291</u>		
Capital assets, net of accumulated depreciation.....		3,998,659	
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.....		821,831	
		35,445	
Lottery annuity contracts.....		1,484,794	
Due from Component Units.....		15,531	
Elimination of due from / due to activity between state departments within primary government and business-type activities.....		(9,351)	
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.....			
	(1,218,133)		
Net post - employment benefits obligations.....			
	(1,953,000)		
Commonwealth bonded debt.....			
	(19,726,507)		
Accrued interest on bonds.....			
	(303,014)		
Unamortized bond premiums.....			
	(216,688)		
Unamortized deferred loss on refunding.....			
	40,225		
Massachusetts School Building Authority bonded debt.....			
	(4,699,293)		
Massachusetts School Building Authority grants to municipalities.....			
	(2,679,068)		
Lottery prizes payable.....			
	(1,484,794)		
Capital leases.....			
	(76,608)		
Environmental remediation liability.....			
	(168,206)		
Claims and judgments.....			
	(40,000)		
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....			
	<u>(780,883)</u>		
Long - term liabilities (including current portions).....		<u>(33,305,969)</u>	
Total net assets (deficits) - governmental activities		<u>\$ (22,373,344)</u>	

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, 2010
(Amounts in thousands)

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
REVENUES								
Taxes.....	\$ 16,649,122	\$ 657,330	\$ 878	\$ 610,750	\$ -	\$ -	\$ 1,072,445	\$ 18,990,525
Assessments.....	395,712	14,640	-	-	-	-	554,447	964,799
Federal grants and reimbursements.....	8,599,898	-	-	-	2,970,750	-	854,033	12,424,681
Departmental.....	1,634,496	488,511	4,626,933	-	-	-	368,809	7,118,749
Miscellaneous.....	468,755	29,392	1,128	41,550	26	1	796,670	1,337,522
Total revenues.....	27,747,983	1,189,873	4,628,939	652,300	2,970,776	1	3,646,404	40,836,276
EXPENDITURES								
Current:								
Legislature.....	59,453	-	-	-	-	-	-	59,453
Judiciary.....	767,273	-	-	-	660	-	789	768,722
Inspector General.....	2,734	-	-	-	-	-	882	3,616
Governor and Lieutenant Governor.....	5,176	-	-	-	-	-	9	5,185
Secretary of the Commonwealth.....	47,764	-	-	-	693	-	3,698	52,155
Treasurer and Receiver-General.....	181,219	-	3,640,103	13,899	2,890	-	1,023,605	4,861,716
Auditor of the Commonwealth.....	16,827	-	-	-	-	-	793	17,620
Attorney General.....	40,558	-	-	-	8,589	-	2,962	52,109
Ethics Commission.....	1,574	-	-	-	-	-	-	1,574
District Attorney.....	92,792	-	-	-	2,685	-	6,873	102,350
Office of Campaign and Political Finance.....	1,175	-	-	-	-	-	-	1,175
Sheriff's Departments.....	370,706	245	-	-	2,988	-	20,171	394,110
Disabled Persons Protection Commission.....	2,150	-	-	-	251	-	-	2,401
Board of Library Commissioners.....	24,672	-	-	-	2,877	-	-	27,549
Comptroller.....	11,080	-	-	-	-	-	2,298	13,378
Administration and finance.....	1,545,652	9,618	-	-	12,499	-	118,620	1,686,389
Energy and environmental affairs.....	183,278	8,426	-	-	78,339	-	133,161	403,204
Health and human services.....	4,599,112	-	-	-	529,134	-	400,361	5,528,607
Transportation and public works.....	-	66,701	-	-	11,854	201,878	193,208	473,641
Massachusetts department of transportation.....	-	426,525	-	-	-	313,777	468,437	1,208,739
Executive office of education.....	1,900,222	-	-	-	1,050,643	-	17,189	2,968,054
Massachusetts school building assistance.....	-	-	-	973,367	-	-	-	973,367
Public safety and homeland security.....	1,072,766	3,390	-	-	147,697	-	57,728	1,281,581
Housing and economic development.....	351,875	54	-	-	668,112	-	40,380	1,060,421
Labor and workforce development.....	28,006	-	-	-	196,289	-	222,889	447,184
Medicaid.....	9,501,916	-	-	-	-	-	1,176,083	10,677,999
Post employment benefits.....	586,712	-	-	-	-	-	-	586,712
Direct local aid.....	4,892,371	-	-	-	134,371	-	3,089	5,029,831
Capital outlay:								
Local aid.....	-	-	-	-	-	-	532	532
Capital acquisition and construction.....	-	-	-	-	-	233,010	1,066,874	1,299,884
Debt service.....	-	-	-	290,763	-	-	2,116,507	2,407,270
Total expenditures.....	26,287,063	514,959	3,640,103	1,278,029	2,850,571	748,665	7,077,137	42,396,528
Excess (deficiency) of revenues over (under) expenditures.....	1,460,920	674,914	988,836	(625,729)	120,205	(748,664)	(3,430,733)	(1,560,252)
OTHER FINANCING SOURCES								
Bonds premium.....	-	-	-	14,224	-	(3,224)	5,889	16,889
Issuance of general obligation bonds.....	-	-	-	751,000	-	574,021	1,093,564	2,418,585
Issuance of refunding bonds.....	-	-	-	-	-	-	538,120	538,120
Proceeds of capital leases.....	17,223	-	-	-	-	-	-	17,223
Transfers in for debt service.....	-	-	-	-	-	-	2,109,427	2,109,427
Transfers in.....	1,788,690	275,000	-	-	9,000	-	1,843,906	3,916,596
Total other financing sources.....	1,805,913	275,000	-	765,224	9,000	570,797	5,590,906	9,016,840
OTHER FINANCING USES								
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	536,755	536,755
Transfers out.....	1,277,069	70,587	989,728	-	124,499	182,969	1,148,043	3,792,895
Transfers of appropriations.....	886,762	-	-	-	-	-	1,822	888,584
Transfers of bond proceeds.....	-	-	-	-	-	-	99,814	99,814
Transfers out for debt service.....	1,003,041	856,599	-	-	-	-	249,787	2,109,427
Transfers to \ from MassDOT.....	-	-	-	-	-	-	504,739	504,739
Total other financing uses.....	3,166,872	927,186	989,728	-	124,499	182,969	2,540,960	7,932,214
Total other financing sources and uses.....	(1,360,959)	(652,186)	(989,728)	765,224	(115,499)	387,828	3,049,945	1,084,625
Net change in fund balances.....	99,961	22,728	(892)	139,495	4,706	(360,836)	(380,788)	(475,627)
Fund balances (deficits) at beginning of year.....	1,734,822	41,793	3,885	1,395,534	39,008	(346,495)	2,192,795	5,061,343
Fund balances (deficits) at end of year.....	\$ 1,834,783	\$ 64,521	\$ 2,993	\$ 1,535,029	\$ 43,714	\$ (707,331)	\$ 1,812,007	\$ 4,585,716

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, 2010
(Amounts in thousands)

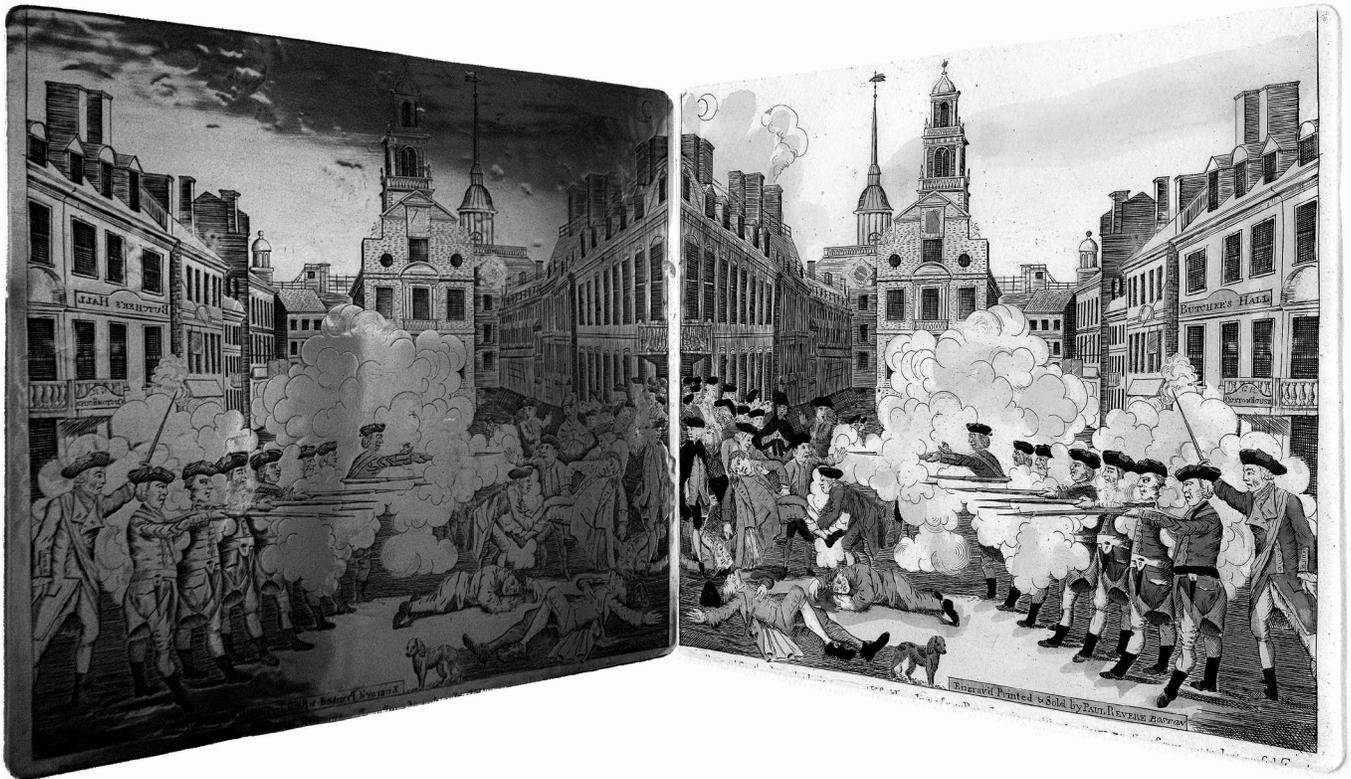
Net change in fund balances - total governmental funds..... \$ (475,627)

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.....	965,867
Current year depreciation expense.....	(370,500)
Transfers to / from MassDOT.....	(8,479,216)
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.....	75,439
Elimination of due from / due to activity between state departments within government and business-type activities.....	1,079
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.....	(461,938)
Decrease in capital leases.....	23,539
Massachusetts School Building Authority.....	(45,442)
Net underfunding of post employment benefit obligations.....	(1,457,118)
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.....	4,228

Change in net assets of governmental activities..... \$ (10,219,689)

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



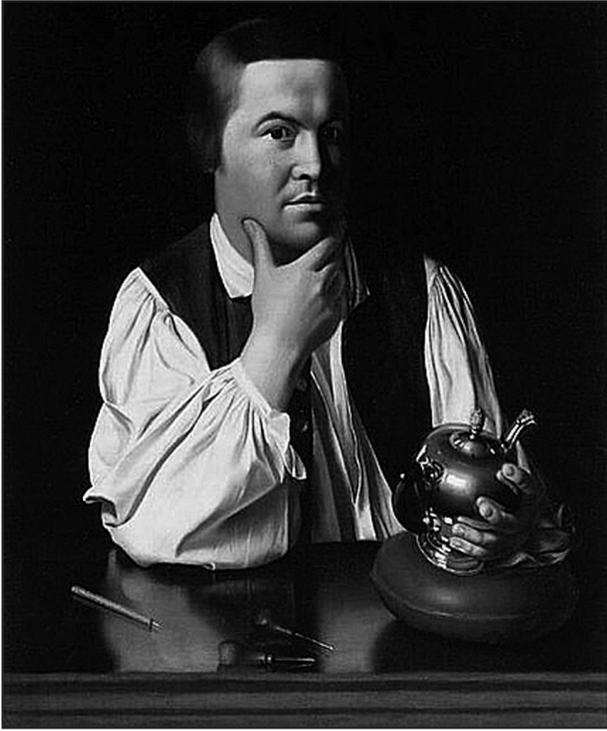
Boston Massacre Plate

In the turbulent atmosphere of pre-Revolutionary Boston, few figures galvanized public opinion as effectively as Paul Revere. His provocative images helped to ignite the firestorm that would result in the foundation, of a new nation. The impact of Revere's work remains to this day. His historic prints transport us to and connect us with the days that defined our nation's character. They are truly works that changed America.

A limited edition of three engravings hand-printed and hand-colored with watercolors in period fashion including the famous Boston Massacre, The British Troops Landing in Boston Harbor, and A Soldier's Pay, have been reproduced in a portfolio and are on sale at the Museum of Fine Arts. www.mfa.org

Funds from the portfolios support the Commonwealth Museum's renovation project.

Proprietary Fund Financial Statements



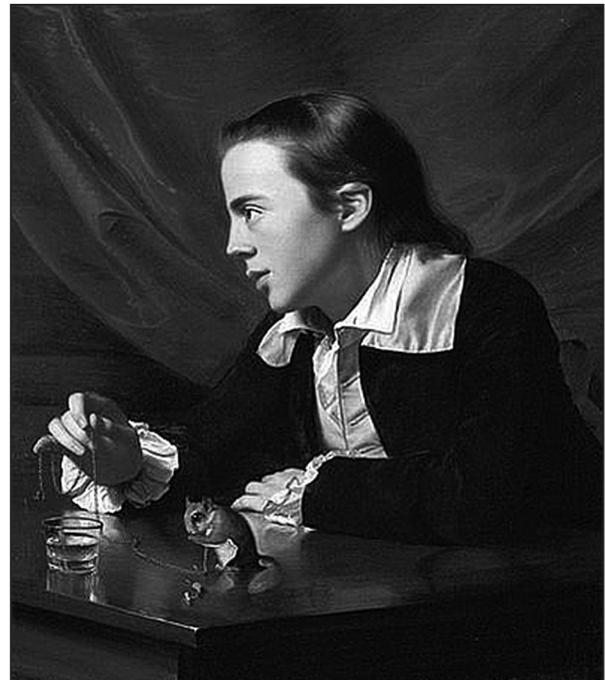
*Paul Revere c. 1768-70
John Singleton Copley
Oil on canvas
Courtesy of the Museum of Fine Arts, Boston*

Henry Pelham accused Paul Revere of having copied (or "stole") the Boston Massacre image from Pelham. Pelham had given it to Revere, not expecting him to modify it slightly and sell it as his own work. He accused Revere of robbing him "*as truly as if you had plundered me on the highway.*"

*Henry Pelham 1765
or The Boy with the Squirrel.
as painted by his half-brother John Singleton Copley
www.johnsingletoncopley.org*

Documentation has come to light over the years indicating that Revere copied engraver Henry Pelham's drawings of the Massacre, produced his own engraving, and three weeks after the occurrence was advertising his prints for sale in Boston's newspapers. By the time Pelham's prints hit the street, Revere's print had flooded the market. A third engraving was executed by Jonathan Mulliken, who also issued prints depicting the event. Except for a number of minor differences, all three prints appear alike.

Boston Massacre Historical Society



Statement of Net Assets

Proprietary Funds

June 30, 2010

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 45,662	\$ 275,877	\$ 115,753	\$ 437,292
Short-term investments	-	230,121	55,842	48,747	334,710
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	76,959	1,977	9,027	87,963
Loans.....	-	40,755	1,389	8	42,152
Other receivables.....	391,351	105,553	20,708	25,188	542,800
Contribution receivables, net.....	-	10,977	4,123	1,224	16,324
Due from affiliates.....	-	15,301	-	800	16,101
Other current assets.....	-	36,182	3,980	3,692	43,854
Total current assets.....	391,351	561,510	363,896	204,439	1,521,196
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	820,937	15,179	4,697	840,813
Long-term investments.....	-	835,193	246,266	58,749	1,140,208
Accounts receivable, net.....	-	36,429	-	-	36,429
Loans receivable, net.....	-	-	12,478	586	13,064
Non-depreciable capital assets.....	-	331,027	184,967	48,419	564,413
Depreciable capital assets, net.....	-	1,995,064	812,553	304,956	3,112,573
Other noncurrent assets.....	-	24,897	24,340	581	49,818
Other noncurrent assets - restricted.....	559,789	-	-	-	559,789
Total noncurrent assets.....	559,789	4,043,547	1,295,783	417,988	6,317,107
Deferred outflows of derivative investments.....	-	64,033	-	1,776	65,809
Total assets and deferred outflows.....	951,140	4,669,090	1,659,679	624,203	7,904,112
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities.....	79,154	180,914	43,123	24,148	327,339
Accrued payroll.....	-	74,554	30,889	27,361	132,804
Compensated absences.....	-	70,035	24,413	28,122	122,570
Accrued interest payable.....	-	16,647	113	271	17,031
Tax refunds and abatements payable.....	26,498	-	-	-	26,498
Deferred revenue.....	-	5,340	13,940	3,563	22,843
Student deposits and unearned revenues	-	36,880	9,412	15,080	61,372
Due to affiliates.....	-	14,766	537	1,368	16,671
Capital leases.....	-	5,962	1,595	2,306	9,863
Environmental remediation liability.....	-	-	1,647	-	1,647
Bonds, notes payable and other obligations.....	-	112,906	26,079	2,372	141,357
Total current liabilities.....	105,652	518,004	151,748	104,591	879,995
Noncurrent liabilities:					
Compensated absences.....	-	25,843	13,586	16,142	55,571
Due to federal government - grants.....	387,313	-	12,443	196	399,952
Deferred revenue.....	11,069	23,567	22,710	353	57,699
Capital leases.....	-	17,177	9,723	4,161	31,061
Environmental remediation liability.....	-	1,800	-	-	1,800
Bonds, notes payable and other obligations.....	-	1,714,823	834,075	40,869	2,589,767
Liability for derivative instruments.....	-	64,033	-	1,776	65,809
Other noncurrent liabilities.....	-	40,099	5,441	3,470	49,010
Total noncurrent liabilities.....	398,382	1,887,342	897,978	66,967	3,250,669
Total liabilities.....	504,034	2,405,346	1,049,726	171,558	4,130,664
NET ASSETS					
Invested in capital assets, net of related debt.....	-	1,134,963	324,909	307,562	1,767,434
Restricted for:					
Unemployment benefits.....	447,106	-	-	-	447,106
Other purposes.....	-	520,081	125,928	55,636	701,645
Unrestricted.....	-	608,700	159,116	89,447	857,263
Total net assets.....	\$ 447,106	\$ 2,263,744	\$ 609,953	\$ 452,645	\$ 3,773,448

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, 2010

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution.....	\$ 1,660,262	\$ -	\$ -	\$ -	\$ 1,660,262
Net tuition and fees.....	-	539,306	267,013	191,256	997,575
Federal grants and reimbursements.....	-	564,438	82,352	244,503	891,293
Auxiliary enterprises.....	-	252,610	91,197	16,750	360,557
Sales & services.....	-	661,733	107,154	6,563	775,450
Miscellaneous.....	67,702	74,231	14,536	21,296	177,765
Total operating revenues.....	1,727,964	2,092,318	562,252	480,368	4,862,902
Operating expenses:					
Unemployment compensation.....	5,435,611	-	-	-	5,435,611
Instruction.....	-	552,528	235,503	263,400	1,051,431
Research.....	-	404,260	106	132	404,498
Academic support.....	-	123,901	60,092	80,889	264,882
Student services.....	-	88,787	71,420	92,039	252,246
Scholarships and fellowships.....	-	35,885	18,163	67,459	121,507
Public service.....	-	76,985	5,445	8,283	90,713
Operation and maintenance of plant.....	-	192,271	76,695	63,669	332,635
Institutional support.....	-	166,070	83,947	90,426	340,443
Other operating expenses.....	-	595,344	4,674	6,543	606,561
Depreciation.....	-	154,532	49,609	26,167	230,308
Auxiliary operations.....	-	200,458	125,691	16,267	342,416
Total operating expenses.....	5,435,611	2,591,021	731,345	715,274	9,473,251
Operating income (loss).....	(3,707,647)	(498,703)	(169,093)	(234,906)	(4,610,349)
Nonoperating revenues (expenses):					
Other federal revenues.....	3,129,058	-	-	-	3,129,058
Other revenues.....	-	339,752	36,362	48,422	424,536
Other expenses.....	-	(49,113)	(30,698)	(1,252)	(81,063)
Investment income (loss).....	16,314	85,539	18,009	8,690	128,552
Total nonoperating revenues (expenses).....	3,145,372	376,178	23,673	55,860	3,601,083
Income (loss) before contributions and transfers.....	(562,275)	(122,525)	(145,420)	(179,046)	(1,009,266)
Transfers in.....	-	400,318	209,256	255,123	864,697
Loss on sale of capital assets	-	(12,125)	-	-	(12,125)
Change in net assets.....	(562,275)	265,668	63,836	76,077	(156,694)
Total net assets - beginning, as restated.....	1,009,381	1,998,076	546,117	376,568	3,930,142
Total net assets - ending	\$ 447,106	\$ 2,263,744	\$ 609,953	\$ 452,645	\$ 3,773,448

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

Statement of Cash Flows

Proprietary Funds

June 30, 2010

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions.....	\$ 1,889,712	\$ -	\$ -	\$ -	\$ 1,889,712
Tuition, residence, dining and other student fees.....	-	628,382	267,838	200,652	1,096,872
Research grants and contracts.....	-	585,697	142,633	241,119	969,449
Payments to suppliers.....	-	(1,160,070)	(179,629)	(166,723)	(1,506,422)
Payments to employees.....	-	(1,377,969)	(358,441)	(387,000)	(2,123,410)
Payments to students.....	-	(39,632)	(15,817)	(76,928)	(132,377)
Payments for unemployment benefits.....	(5,501,168)	-	-	-	(5,501,168)
Collection of loans to students and employees.....	-	4,116	1,260	399	5,775
Income from contract services.....	-	-	3,091	814	3,905
Maintenance costs.....	-	-	(531)	747	216
Auxilliary enterprise charges.....	-	262,234	41,108	(4,749)	298,593
Other receipts.....	67,702	715,798	16,754	34,369	834,623
Net cash used by operating activities.....	(3,543,754)	(381,444)	(81,734)	(157,300)	(4,164,232)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations.....	-	593,906	171,589	195,068	960,563
Grants and contracts.....	3,516,371	-	2,900	18,550	3,537,821
Student organizations agency transactions.....	-	330	-	22	352
Other receipts (payments).....	11,069	27,343	1,811	(91)	40,132
Net cash provided by non-capital financing activities.....	3,527,440	621,579	176,300	213,549	4,538,868
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations.....	-	28,245	4,911	15,528	48,684
Purchases of capital assets.....	-	(350,135)	(123,285)	(29,219)	(502,639)
Proceeds from revenue obligation debt issuance.....	-	565,457	163,382	2,891	731,730
Other capital asset activity.....	-	13,344	(5,904)	765	8,205
Investments held by bond trustee, net.....	-	-	-	158	158
Contract revenue.....	-	-	(23)	-	(23)
Principal paid on capital debt and leases.....	-	(84,549)	(21,809)	(6,558)	(112,916)
Interest paid on capital debt and leases.....	-	(52,096)	(39,757)	(1,808)	(93,661)
Net cash provided by (used in) capital financing activities.....	-	120,266	(22,485)	(18,243)	79,538
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments.....	-	625,378	188,412	82,352	896,142
Purchases of investments.....	-	(675,216)	(201,994)	(81,199)	(958,409)
Investment earnings.....	16,314	21,691	9,519	2,523	50,047
Net cash provided by (used by) investing activities.....	16,314	(28,147)	(4,063)	3,676	(12,220)
Net increase decrease) in cash and cash equivalents.....	-	332,254	68,018	41,682	441,954
Cash and cash equivalents at the beginning of the fiscal year, as restated.....	-	534,345	223,038	78,768	836,151
Cash and cash equivalents at the end of the fiscal year.....	\$ -	\$ 866,599	\$ 291,056	\$ 120,450	\$ 1,278,105
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating loss.....	\$ (3,707,647)	\$ (498,703)	\$ (169,093)	\$ (234,906)	\$ (4,610,349)
Adjustments to reconcile operating loss to net cash used by operating activities:					
Depreciation expense.....	-	154,532	49,609	26,167	230,308
Fringe benefits paid by the Commonwealth.....	-	-	41,163	50,258	91,421
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	10,956	(27,429)	(4,278)	(3,946)	(24,697)
Accounts payable, accrued liabilities and benefits.....	(65,557)	29,899	(936)	5,443	(31,151)
Student deposits and other unearned and deferred revenues.....	-	(12,241)	1,390	(1,099)	(11,950)
Other noncurrent assets - restricted and liabilities.....	218,494	(27,502)	411	783	192,186
Net cash used by operating activities.....	\$ (3,543,754)	\$ (381,444)	\$ (81,734)	\$ (157,300)	\$ (4,164,232)

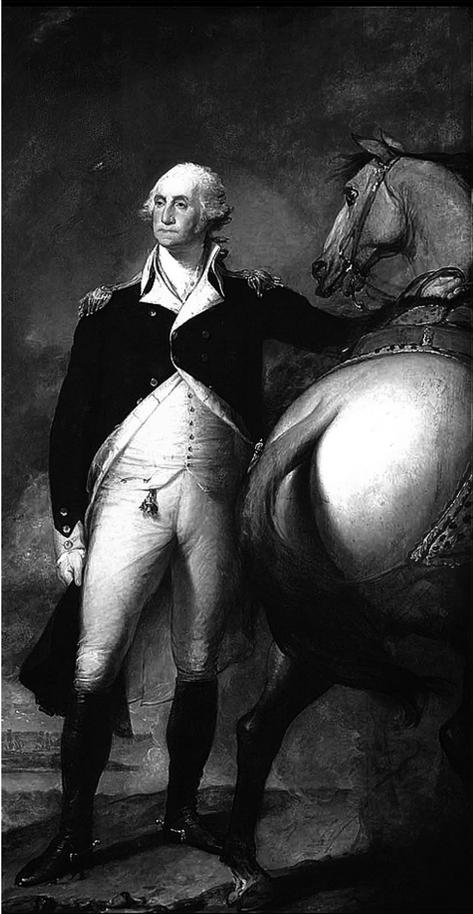
Non-cash investing, capital and financing activities:

The University System had \$58,960,000 of non-cash activities, and the State and Community Colleges had \$118,942,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

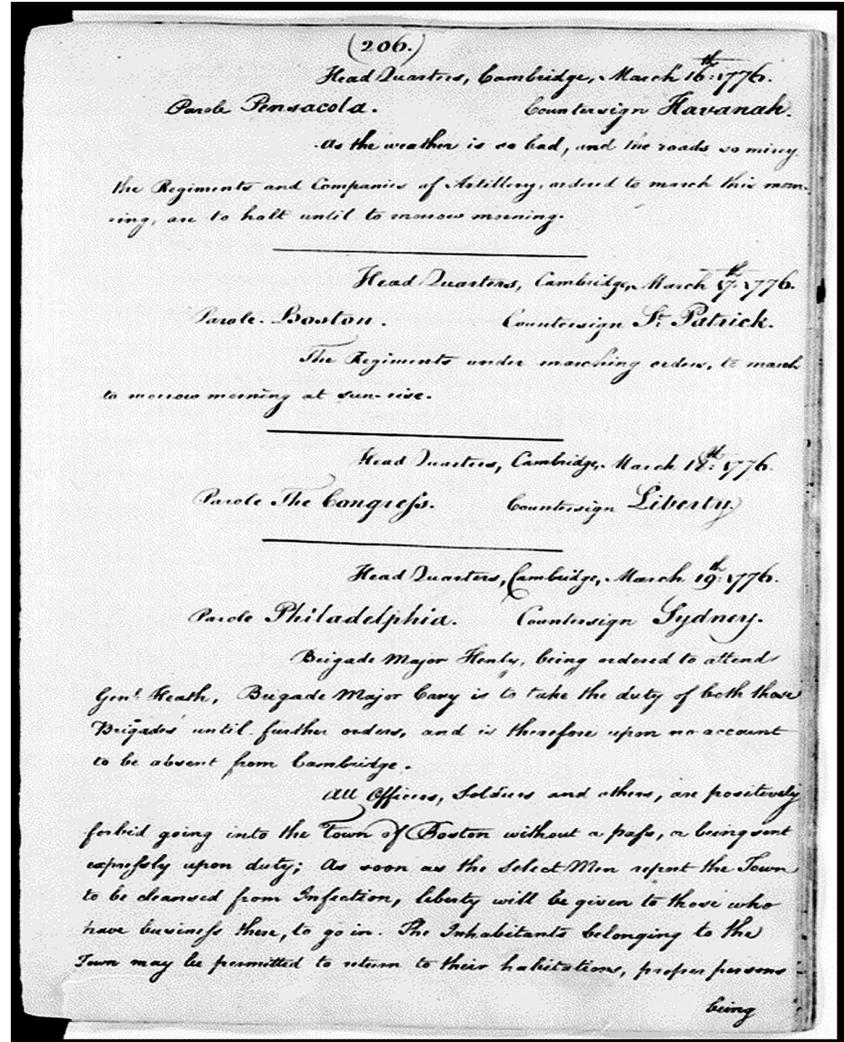
The notes to the financial statements are an integral part of this statement.

Fiduciary Fund

Financial Statements



Courtesy of the Library of Congress



St Patrick Was the Password

This document lists passwords for the American army. “St. Patrick” was the phrase used by General Washington for March 17, 1776. Today, Saint Patrick’s Day and Evacuation Day are jointly celebrated in Boston.

Statement of Net Assets

Fiduciary Funds

June 30, 2010

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
ASSETS				
Cash and short-term investments.....	\$ -	\$ -	\$ 834	\$ 383,597
Assets held in trust for post - employment benefits:				
Cash and short-term investments.....	102,806	756,988	-	-
Investments at fair value.....	35,782,777	4,721,162	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	4,405,008	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,484,794
Assets held in trust.....	-	-	-	707,107
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	1,916
Other receivables.....	82,188	45,783	-	111,758
Total assets.....	35,967,771	9,928,941	834	2,689,172
LIABILITIES				
Accounts payable.....	11,718	64,998	-	51,748
Due to cities and towns.....	-	-	-	26,833
Lottery prizes payable.....	-	-	-	1,484,794
Agency liabilities.....	-	-	-	1,125,797
Other accrued liabilities.....	-	679	-	-
Total liabilities.....	11,718	65,677	-	\$ 2,689,172
NET ASSETS				
Restricted for employees' post - employment benefits.....	35,956,053	-	-	
Restricted for external investment trust fund participants.....	-	9,863,264	-	
Restricted for private purposes.....	-	-	834	
Total net assets.....	\$ 35,956,053	\$ 9,863,264	\$ 834	

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, 2010

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
ADDITIONS			
Contribution:			
Employer contributions.....	\$ 1,748,932	\$ -	\$ -
Employee contributions.....	1,068,738	-	-
MTA retiree funds.....	176,478	-	-
Proceeds from sale of units.....	-	23,427,669	-
Total contributions.....	2,994,148	23,427,669	-
Net investment gain (loss):			
Net Investment gain (loss), net of management fees	4,092,697	615,590	-
Net investment gain (loss).....	4,092,697	615,590	-
Total additions.....	7,086,845	24,043,259	-
DEDUCTIONS			
Administration.....	25,269	-	-
Retirement benefits and refunds.....	3,950,574	-	-
Payments to State Boston Retirement System.....	126,871	-	-
Cost of units redeemed.....	-	24,068,689	-
Distribution to unit holders.....	-	24,431	-
Total deductions.....	4,102,714	24,093,120	-
Net increase (decrease)	2,984,131	(49,861)	-
Net assets - beginning	32,971,922	9,913,125	834
Net assets - ending.....	\$ 35,956,053	\$ 9,863,264	\$ 834

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

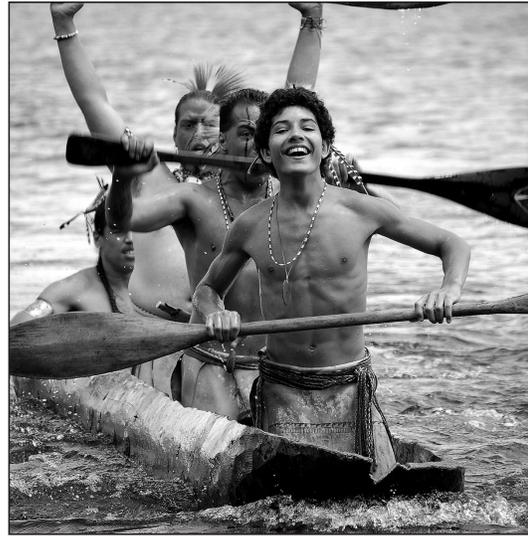
Deed for Cape Cod, 1679

Colony officials purchased Cape Cod lands from native people for "2 brass kettles, six coats, twelve howes 12 axes, 12 knives and a box," along with "five pounds and ten shillings." Signing with pictograms, Indians retained rights "to set their wigwams on the said land"...gather food and firewood and "have such whales blackfish porpusses and blubber as shall be cast on shore."

Cape Cod has been the home of the Wampanoag tribe of Native American people for many centuries. They survived off the sea and were accomplished farmers. They understood the principles of sustainable forest management, and were known to light controlled fires to keep the underbrush in check. They helped the Pilgrims, who arrived in the fall of 1620, survive at their new Plymouth Colony.

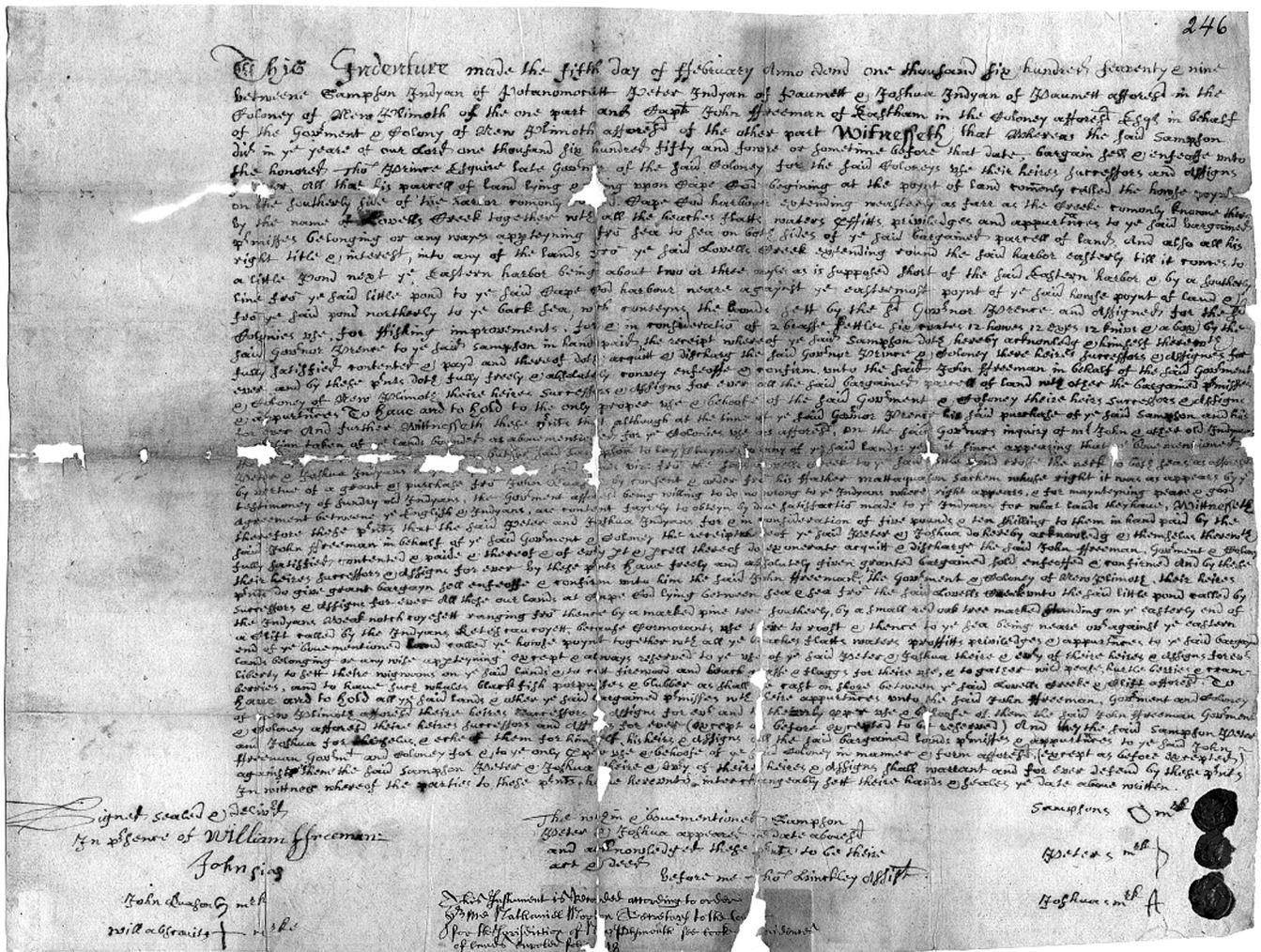
At the Wampanoag Homesite at Plimoth Plantation, one can learn about traditional Wampanoag family life as well as the arrival of the English from an Indigenous point of view.

A group of young Native men of the Wampanoag Indigenous Program at Plimoth Plantation celebrate a



Courtesy of Plimoth Plantation

victory in the annual mishoon race. Mishoon is the Wampanoag word for boat or canoe. The Mishoon used in the race are made in the Wampanoag Homesite at the museum using fire as a tool to hollow out the center of a felled tree.



Discretely Presented Component Unit Financial Statements



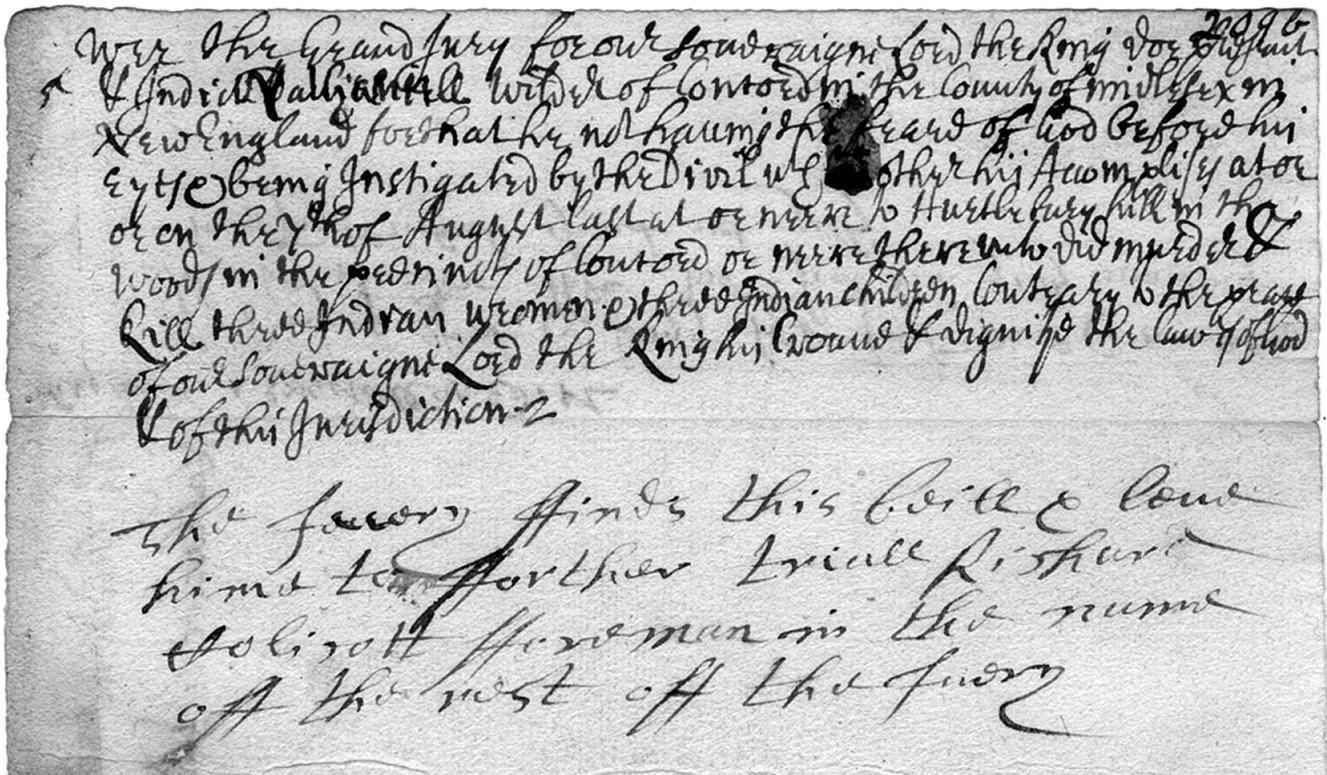
Philip, sachem of the Wampanoags. From Samuel Gardner Drake, History and Antiquities of Boston.

King Philip's War

King Philip's War, sometimes called Metacom's War or Metacom's Rebellion, was an armed conflict between Native American inhabitants of present-day southern New England and English colonists and their Native American allies in 1675–1676. The war is named after the main leader of the Native American side, Metacommet, Metacom, or Pometacom, known to the English as "King Philip". King Philip may well have been a name that he adopted, as it was common for Natives to take other names.

Indictment of Daniel Wilder, 1676

Four soldiers slaughtered Christian Indian women and children on Hurtleberry Hill near Concord. Two men were hanged for the crime. The records of the “war crimes” trial reflect Puritan fears that such conflicts could brutalize society and undermine the rule of law.



Statement of Net Assets
Component Units
June 30, 2010
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents.....	\$ 244,065	\$ 25,601	\$ 204,847	\$ 136,972	\$ 611,485
Short-term investments.....	-	-	20,966	276,543	297,509
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	40,264	-	125,598	1,055	166,917
Loans.....	-	-	379,331	44,626	423,957
Other receivables.....	132,036	1,657	65,714	32,653	232,060
Due from primary government.....	433,718	-	3,813	68,554	506,085
Inventory.....	-	-	-	79	79
Other current assets.....	117,655	134	-	6,264	124,053
Total current assets.....	967,738	27,392	800,269	566,746	2,362,145
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	9,406	-	57,231	66,637
Long - term investments.....	-	-	1,429,286	78,722	1,508,008
Restricted investments and annuity contracts.....	1,871,510	-	-	168,492	2,040,002
Accounts receivables, net.....	-	-	-	1,873	1,873
Loans receivables, net.....	-	-	3,148,462	403,883	3,552,345
Due from primary government.....	-	-	-	4,431	4,431
Non-depreciable capital assets.....	3,649,895	-	-	101,138	3,751,033
Depreciable capital assets, net.....	26,636,615	187	-	980,412	27,617,214
Other noncurrent assets.....	205,100	-	7,008	10,607	222,715
Total noncurrent assets.....	32,363,120	9,593	4,584,756	1,806,789	38,764,258
Deferred outflows from derivative instruments.....	179,278	-	1,259	18,216	198,753
Total assets and deferred outflows.....	33,510,136	36,985	5,386,284	2,391,751	41,325,156
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities.....	707,864	12,444	21,738	48,851	790,897
Accrued payroll.....	-	495	-	1,154	1,649
Compensated absences.....	-	-	-	3,303	3,303
Accrued interest payable.....	140,843	-	65,929	3,751	210,523
Due to primary government.....	-	-	-	32,592	32,592
Deferred revenue.....	47,459	190	17,216	17,018	81,883
Capital leases.....	36,871	-	-	-	36,871
Bonds, notes payable and other obligations.....	422,634	-	168,320	15,163	606,117
Total current liabilities.....	1,355,671	13,129	273,203	121,832	1,763,835
Noncurrent liabilities:					
Compensated absences.....	-	-	-	94	94
Accrued interest payable.....	91,960	-	3,366	-	95,326
Due to primary government.....	-	-	-	15,531	15,531
Deferred revenue.....	-	-	-	28,263	28,263
Capital leases.....	262,159	-	-	-	262,159
Bonds, notes payable and other obligations.....	7,468,080	-	3,225,726	536,104	11,229,910
Retirement system net pension obligations.....	42,856	-	-	-	42,856
Post - employment benefits obligations.....	290,886	1,041	-	1,852	293,779
Liability for derivative instruments.....	437,147	-	1,259	21,305	459,711
Other noncurrent liabilities.....	239,156	-	-	16,742	255,898
Total noncurrent liabilities.....	8,832,244	1,041	3,230,351	619,891	12,683,527
Total liabilities.....	10,187,915	14,170	3,503,554	741,723	14,447,362
NET ASSETS					
Invested in capital assets, net of related debt.....	23,252,665	187	-	900,660	24,153,512
Restricted for:					
Other purposes.....	964,792	-	1,662,106	485,291	3,112,189
Unrestricted.....	(895,236)	22,628	220,624	264,077	(387,907)
Total net assets.....	\$ 23,322,221	\$ 22,815	\$ 1,882,730	\$ 1,650,028	\$ 26,877,794

Statement of Revenues, Expenses and Changes in Net Assets
Component Units
Fiscal Year Ending June 30, 2010
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Operating revenues:					
Intra entity activity.....	\$ 262,331	\$ 726,807	\$ -	\$ -	\$ 989,138
Charges for services.....	593,299	74,127	5,181	151,511	824,118
Other.....	60,320	107	-	38,849	99,276
Total operating revenues.....	915,950	801,041	5,181	190,360	1,912,532
Operating expenses:					
Cost of services	2,351,292	792,454	272,473	240,827	3,657,046
Administration costs.....	708,635	3,670	5,726	97,256	815,287
Depreciation.....	786,359	67	-	52,891	839,317
Total operating expenses.....	3,846,286	796,191	278,199	390,974	5,311,650
Operating income (loss).....	(2,930,336)	4,850	(273,018)	(200,614)	(3,399,118)
Nonoperating revenues (expenses):					
Operating grants.....	2,667,176	-	39,584	168,598	2,875,358
Interest income.....	25,443	136	130,955	11,304	167,838
Other nonoperating revenues (expenses).....	(12,750)	-	-	(182,684)	(195,434)
Nonoperating revenues (expenses), net.....	2,679,869	136	170,539	(2,782)	2,847,762
Income (loss) before contributions.....	(250,467)	4,986	(102,479)	(203,396)	(551,356)
Capital contributions.....	-	-	178,096	185,715	363,811
Change in net assets.....	(250,467)	4,986	75,617	(17,681)	(187,545)
Net assets - beginning, as restated.....	23,572,688	17,829	1,807,113	1,667,709	27,065,339
Net assets - ending.....	\$ 23,322,221	\$ 22,815	\$ 1,882,730	\$ 1,650,028	\$ 26,877,794



Elizabeth "Mum Bett" Freeman.

Watercolor on ivory

by Susan Anne Livingston Ridley Sedgwick, 1811.

Courtesy of the Massachusetts Historical Society

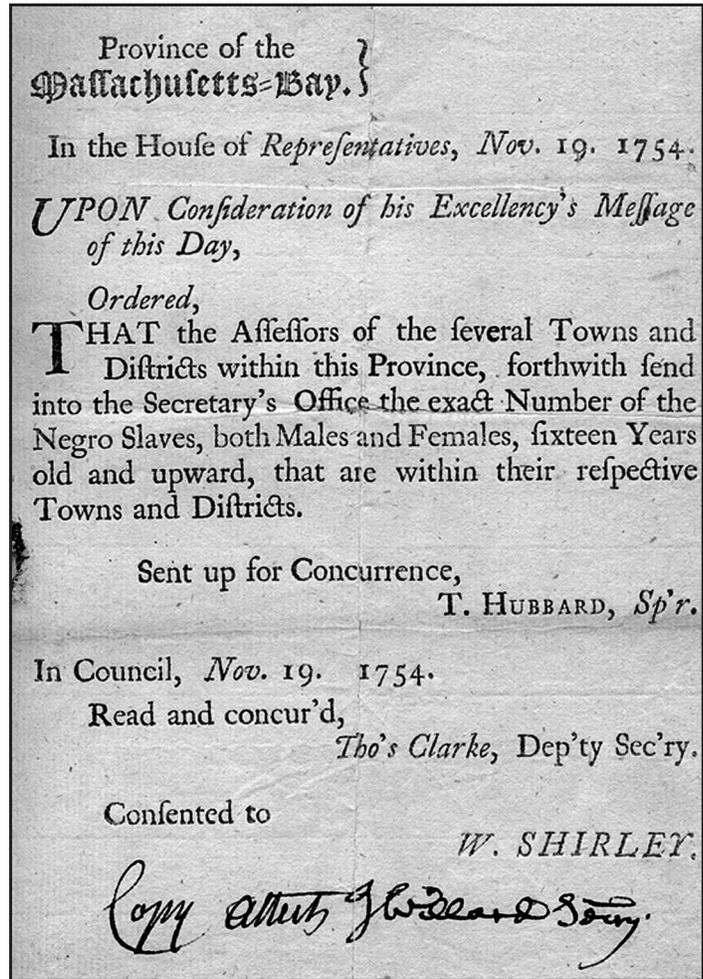
Mum Bett

Elizabeth Freeman, better known as Mum Bett, and her younger sister Lizzie were the slaves of John Ashley of Sheffield, Massachusetts. When Ashley's wife tried to strike Lizzie with a kitchen shovel, Mum Bett deflected the blow, seriously injuring her own arm. As a result of the incident, Mum Bett left the Ashley house, never to return. In 1781 she sued for her freedom and turned to a prominent attorney in Stockbridge, Theodore Sedgwick. Mum Bett may have been encouraged to pursue her suit after listening to a reading of the Declaration of Independence and hearing talk of the new Massachusetts Constitution.



John Ashley House in Sheffield where Mum Bett was Enslaved
 Courtesy of The Massachusetts Judicial Branch

The legal case of Brom and Bett v. John Ashley, Esq. (a slave named Brom joined Mum Bett's suit) is one of the most important legal actions in the history of the Massachusetts courts. In the Court of Common Pleas in Great Barrington, Sedgwick argued that slavery was inconsistent with the new Massachusetts Constitution, which held that all individuals are "free and equal." The jury agreed and Mum Bett and Brom were set free.



Province of the }
 Massachusetts-Bay. }

In the House of Representatives, Nov. 19. 1754.

UPON Consideration of his Excellency's Message of this Day,

Ordered,

THAT the Affessors of the severall Towns and Districts within this Province, forthwith send into the Secretary's Office the exact Number of the Negro Slaves, both Males and Females, sixteen Years old and upward, that are within their respective Towns and Districts.

Sent up for Concurrence,

T. HUBBARD, Sp'r.

In Council, Nov. 19. 1754.

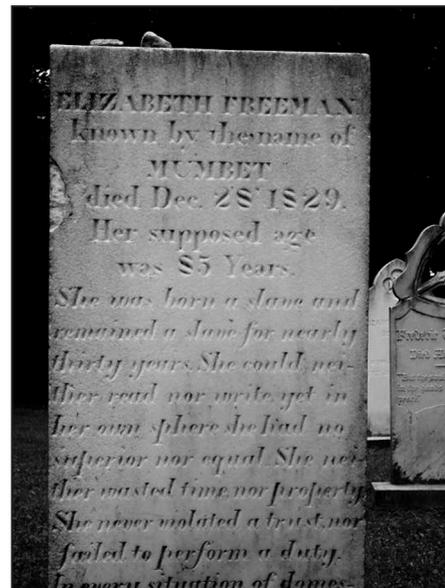
Read and concur'd,

Tho's Clarke, Dep'ty Sec'ry.

Consented to

W. SHIRLEY.

Copy attests J. Sedgwick Sec'y.



Gravestone of Mum Bett in the Sedgwick Family Plot,
 Stockbridge Massachusetts

Courtesy of The Massachusetts Judicial Branch

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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 16 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 the 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 managed by the Board.

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 Department of Transportation (MassDOT), the Commonwealth Health Insurance Connector, and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. There are eleven non-major component units.

The Massachusetts Department of Transportation

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth financial statements.

On June 25, 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT). A new budgeted fund, the Commonwealth Transportation Fund, assumed most of the operations of the Highway Fund in FY10. The reform was implemented merging four state agencies: the Highway Department, Registry of Motor Vehicles, Massachusetts Aeronautics Commission and the Executive Office of Transportation and Public Works into the MassDOT.

MassDOT also absorbed the former Massachusetts Turnpike Authority, the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. The Massachusetts Bay Transportation Authority, as well as the Regional Transit Authorities, are now component units of MassDOT. The make up of the MassDOT Board and the Massachusetts Bay Transportation Authority are now identical, with the Secretary of Transportation chairing both Boards.

State Agencies and Authorities merged into Mass DOT

<u>Commonwealth Departments and Agencies</u>	<u>Former Major Discrete Component Units</u>	<u>Former Non-major Discrete Component Units</u>
<ul style="list-style-type: none"> • Massachusetts Highway Department 	<ul style="list-style-type: none"> • Massachusetts Turnpike Authority (MTA) 	<ul style="list-style-type: none"> • Regional Transit Authorities (15 entities)
<ul style="list-style-type: none"> • Massachusetts Aeronautics Commission 	<ul style="list-style-type: none"> • Massachusetts Bay Transportation Authority (MBTA) 	<ul style="list-style-type: none"> • Route 3 North Transportation Improvement Association (R3N)
<ul style="list-style-type: none"> • Registry of Motor Vehicles • Executive Office of Transportation and Public Works 		

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the Single State Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth’s General Fund. MassDOT’s capital authorizations are authorized by the legislature and controlled by the Executive Office of Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT.

Effect of the Creation of MassDOT on Governmental Net Assets
(amounts in thousands)

Governmental Net Assets June 30, 2010 - prior to MassDOT transfers	\$ (13,389,389)
Fund perspective	
Governmental Funds	
Fund equity transfer	\$ (504,739)
Government-wide	
Central Artery Assets transfer	(6,983,458)
Long-term liability due to the MTA	6,983,458
Capital Assets net of depreciation	(8,537,983)
Workers' Compensation liabilities transferred	13,232
Compensated absences transferred	23,935
OCIP liability	<u>21,600</u>
Value of net assets transferred to MassDOT	<u>(8,983,955)</u>
Governmental Net Assets June 30, 2010 - after MassDOT transfer	<u>\$ (22,373,344)</u>

Other liability and asset transfers affecting the fiduciary fund types include: MTA net pension liabilities assumed by the Commonwealth for \$134.5 million and MTA OPEB liabilities assumed by the Commonwealth for \$127.8 million.

The effect of MassDOT’s creation on beginning component unit net assets is as follows (amounts in thousands):

Net assets, as previously reported.....	\$ 11,288,684
Fund equity transfer.....	504,739
Central Artery and other capital asset transfers.....	15,521,441
Other.....	<u>(249,525)</u>
Net assets as stated.....	<u>\$ 27,065,339</u>

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 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.

C. Measurement Focus and Basis of Accounting

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 are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue 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.

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 the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior 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, but not principal may be used for the Commonwealth’s programs. These are different than the 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 purposes 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:

Commonwealth Transportation Fund (CTF), accounts for certain revenues including motor fuels taxes as well as fees, assessments and charges collected for the MassDOT and payments for debt service and program expenses of the department.

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 is comprised of the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

Federal Grants Fund, accounts for grants and federal reimbursement programs.

Highway Capital Projects Fund is presented to account for proceeds of bonds sold to finance the construction of state highways and to fund the Commonwealth's share of federally sponsored highway construction.

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 non-operating 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 non-operating.

D. *Cash and Short-Term Investments*

The Commonwealth follows the practice of pooling 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 portfolio 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 MacDonald, Deputy Treasurer, Cash Management Department, at 617-367-9333.

Statutes authorize investment in 2A-7 eligible 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. Cash portfolio investments are carried at amortized 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 40.7% and 45.2%, respectively, 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 22.7%, 22.7% and 20.2% of the net assets/fund balance of the State Employees' PERS, Teachers' PERS and the HST, respectively.

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 cash portfolio investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's shares 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.

E. *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 FY10 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 \$132 million, representing 50% of the amounts estimated to be received in FY11, adjusted for historical trends and included as part of other non-major governmental fund activity.

F. *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.

During FY10, the outstanding balance of \$48.6 million 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, 2010 were \$89.5 million, of which \$4.4 million is due in FY11. During FY10, the MSBA executed \$17.6 million of new loans and collected \$5.3 million of scheduled principal payments.

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

Central Artery / Tunnel Project Assets

Effective November 1, 2009 all road and bridge assets including the balance of the Central Artery/Tunnel Project were transferred to MassDOT.

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.

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.

H. *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.

I. *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 benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT 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 workers’ compensation activity is accounted for in the governmental funds.

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

The Commonwealth, through the MSBA, reimbursed 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 (prior to the creation of the MSBA) the Commonwealth also continues to reimburse 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 funds 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 \$272.9 million and is anticipated to be funded under the progress payment method. New programs have been established by the MSBA under which communities submit monthly

requests for reimbursement. As of June 30, 2010, MSBA had \$639.4 million commitments outstanding for the new program projects. The Commonwealth appropriates funds to support these commitments on an annual basis.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Water Pollution Abatement Trust (MWPAT). 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.

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

K. *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, 2010 but paid after the fiscal year end are 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.

L. *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.

Federal grants that passed through the Federal Grants Fund represent the greatest source of dedicated revenues. A portion of these grants is dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001 and refunding notes issued in fiscal 2003. Total principal remaining to be paid on these federal grant anticipation notes is approximately \$991.4 million. Maturities are from FY11 through FY15. Principal paid during FY10 was approximately \$143 million.

Commonwealth gas taxes are partially pledged to fund highway construction. As of June 30, 2010, 6.86 cents of the total 21 cent per gallon gasoline tax is pledged to fund approximately \$414 million of principal and approximately \$143 million in interest on the outstanding debt as of June 30, 2010. These bonds mature from FY10 to FY23 and were sold in various series issued previous to FY10. Annual principal and interest on the bonds are expected to require less than approximately 30% of net current year pledged revenues. Principal and interest paid during FY10 amounted to approximately \$35.5 million and \$23.4 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 FY10 was approximately \$767 million. Dedicated revenues to the MBTA rise by the greater of the prior calendar year percentage increase in the consumer price index in Boston, or annual sales taxes, with a floor of 0% annually and a ceiling of 3%.

The MSBA also receives a pledge of sales tax that will increase to 1% of applicable sales in the Commonwealth by FY11. In FY10, approximately \$605.2 million or 95% of the dedicated sales tax revenue stream was directed to the MSBA. This amount rises to 100% of the dedicated sales tax revenue stream in FY11 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 \$643.7 million of outstanding principal and related premiums, approximately \$560.8 million of interest on debts related to these Convention Centers. Taxes collected in FY10 were approximately \$76.6 million, while debt service on the bonds was approximately \$34.5 million.

Finally, as part of the Transportation Reform Act of 2009, as amended, a further pledge of sales taxes 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 (MassDOT). 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.

M. 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.

N. 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 employees' 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.

O. 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 other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. In the Pension Trust Fund and the External Investment Trust Fund net assets have been restricted for employees' pension benefits. This restriction identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans. This category also includes 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, 2010, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

Restricted for:	Governmental Activities	Business Type Activities	Government Wide Total
Unemployment benefits.....	\$ -	\$ 447,106	\$ 447,106
Retirement of indebtedness.....	589,492	-	589,492
Restricted for other purposes including:			
Higher education endowment funds.....	-	308,656	308,656
Higher education academic support and programs.....	-	11,075	11,075
Higher education scholarships and fellowships:			
Nonexpendable.....	-	7,778	7,778
Expendable.....	-	12,534	12,534
Other nonexpendable purposes.....	-	27,968	27,968
Other	5,000	333,634	338,634
Total restricted net assets.....	<u>\$ 594,492</u>	<u>\$ 1,148,751</u>	<u>\$ 1,743,243</u>

P. *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 Management's 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 made because of internal changes in accounting policies.

Q. *Estimates*

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.

R. *Adoption of New Accounting Standards and Restatements*

In FY10, the Commonwealth implemented 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. As a result of the implementation, the Commonwealth has reported a long-term liability of over \$443 million offset by a deferred outflow of the same amount on the entity-wide financial statements. Also in FY10, the Commonwealth implemented Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB-51 had no significant impact on the Commonwealth's financial statements.

In FY11, the Commonwealth will implement 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 the state 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.

Restatements include changes in the beginning balances of various state and community colleges for miscellaneous operations and purposes. Other restatements include changes in component unit beginning balances as a result of MassDOT. The change is explained in Section A of this note.

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government-

The Commonwealth maintains cash in the MMDT Cash portfolio that is available for use by all funds. Each fund type's net equity in the Cash portfolio 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.....	\$ 241,938	\$ 437,292	\$ 679,230
Short-term investments.....	2,295,328	334,710	2,630,038
Cash with fiscal agent.....	589,492	-	589,492
Total.....	<u>\$ 3,126,758</u>	<u>\$ 772,002</u>	<u>\$ 3,898,760</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 ratings 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, 2010, the Commonwealth held these investments with a face value of approximately \$2.0 billion and with a carrying value of approximately \$1.5 billion. Over 84% 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.

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.

As of June 30, 2010, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	822,096
Cash and cash equivalents held in pooled cash.....		53,299
Restricted investments.....		598,501
Total.....	\$	<u>1,473,896</u>

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) to 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, 2010, HST held less than \$100,000 in cash that was exposed to this risk.

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, 2010, the bank balances of uninsured deposits totaled approximately \$148.0 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, 2010, all MSBA bank balances were 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 Cash Portfolio minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Cash Portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

As of June 30, 2010, the MMDT Cash Portfolio is considered a cash equivalent by the Commonwealth. During the fiscal year, the fund's dollar-weighted average maturity fluctuated from 30 to 69 days.

Massachusetts General Laws authorize investments in the MMDT Cash Portfolio 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 Law Chapter 29, Section 49 enumerates the Commonwealth's policy of investments included in the MMDT cash portfolio 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. As of June 30, 2010, HST had approximately \$75.5 million of debt investments at fair value, of which \$29.0 million were invested in corporate bonds and other credits, all of which had weighted durations of more than five years and the remaining investments had an effective weight duration from .47 to 9.01 years.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 3.1 to 3.6 years. As of June 30, 2010, investments in the MMDT Short Term Bond Fund had a fair value of \$287.4 million and 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 81% from one to five years, approximately 4% from six to ten years and approximately 9% more than ten years.

Interest Rate Risk – Business - Type Activities

As of June 30, 2010, the Institutions of Higher Education and their blended component units had debt investments stated at fair value of approximately \$793 million and had investment maturities ranging from less than one year to more than ten years, with approximately 61% of the investment's fair values maturing in less than 1 year, approximately 21% from one to five years,

approximately 12% from six to ten years, and approximately 6% 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, 2010, the MSBA had approximately \$226.5 million invested in guaranteed investment contracts and approximately \$204 million invested in U.S. Treasury Bonds. These investments are recorded at fair value. These contracts mature at different times ranging from FY31 to FY39.

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 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Cash Portfolio's assets will be invested only in First Tier and Second Tier Securities as defined by rule 2A-7. 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 portfolio ranged from P1 to P2, with approximately 99% rated P1 and approximately 1% rated P2 at fair value.

For the Short Term Bond Fund, investments were approximately 10% at AAA, approximately 14% from A to AA, approximately 15% BBB or below or unrated and approximately 61% held in US Government or Government Agency Obligations. Debt obligations issued or guaranteed by the U. S. Government, U. S. Government Agencies, and U. S. Government – sponsored enterprises are deemed to carry a AAA rating.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately \$346 million at AAA, approximately \$173 million from A to AA and approximately \$274 million either unrated or BBB or less.

Credit Risk - MSBA

The MSBA's investments as of June 30, 2010 were not rated; however the issuers were 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, 2010. For the fixed income securities of \$75.5 million as of June 30, 2010 for the HST,

approximately \$14.1 million was rated AAA, \$11.6 million rated AA to A-, \$15.7 million rated BBB to B- and \$23.3 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 that must be within a certain percentage of predefined benchmarks. HST's investments in foreign currencies and foreign investments as of June 30, 2010 were approximately \$0.5 million in cash and investments, \$39 million in equities, \$0.8 million in fixed income investments and \$8 million in alternative investments.

Interest Rate Risk – PRIT Funds

As pension trust funds have a longer investment horizon than many of the Commonwealth's other investments, 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 Barclays Capital 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 fixed income and short-term investments totaling approximately \$10.2 billion at fair value with an effective weighted average duration range from 0.08 to 11.6 years at June 30, 2010.

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 average quality 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, 2010.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.3 billion, BBB to B- investments with a fair value of approximately \$1.2 billion, \$3.5 billion rated CCC to C-, unrated and the remaining \$2.1 billion 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 hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2010 were approximately \$111 million in cash and investments, \$10.5 billion in equities, \$1.7 billion in fixed income investments and \$2.0 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, 2010.

A. Derivative Instruments

HST and PRIT may invest in derivative transactions. In accordance with GASB 53, HST and PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

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 contracts will fluctuate with changes in currency exchange rates. Risks may arise 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, 2010, HST had open foreign exchange contracts with combined net unrealized losses of approximately \$2.1 million with various delivery dates from July to September. As of June 30, 2010, PRIT had open foreign exchange contracts with combined net unrealized gains of \$14.1 million with various delivery dates.

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 not 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 also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The HST and PRIT may also invest in financial futures contracts for non-hedging purposes.

The HST held 50 financial futures contracts (and an additional twelve short contracts) at June 30, 2010, with various expirations during 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, 2010 was approximately \$5.9 million, with an aggregated fair value as of that date of approximately \$5.9 million, yielding an unrealized net gain of less than \$1,000.

PRIT held 15,009 contracts outstanding at June 30, 2010 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, 2010 was approximately \$1.924 billion with a fair value of \$1.849 billion, yielding an unrealized net loss of approximately \$75.1 million.

Payments are made or received by 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 several 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, 2010, PRIT had contracts in effect with an aggregated notional amount of approximately \$875.9 million to various investment banks that had maturity dates from FY10 to FY46. The contracts have an aggregate fair value loss of \$18.9 million. 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, 2010, that 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, 2010 were as follows (amounts expressed in thousands):

		2010					
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	\$ 39,119	\$ (1,725)	\$ 33,190	\$ (640)	\$ -	\$ -
Credit Suisse	A	47,000	(4,375)	3,700	49	-	-
J.P. Morgan Securities Inc.	A+	41,717	524	9,200	172	-	-
Deutsche Bank Securities Inc.	A+	243,778	3,620	33,295	418	-	-
Bank of America Corp	A	67,200	(7,505)	10,800	(577)	-	-
Barclays Global Investors	A+	22,693	651	34,138	3	-	-
Morgan Stanley Capital	A	41,149	615	71,475	2,610	-	-
All others	Various	53,092	(154)	67,628	2,187	56,783	(14,817)
		<u>\$ 555,748</u>	<u>\$ (8,349)</u>	<u>\$ 263,426</u>	<u>\$ 4,222</u>	<u>\$ 56,783</u>	<u>\$ (14,817)</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. As of November 1, 2009, MTA became part of MassDOT and its operations are reported under MassDOT activity.

C. Component Unit Swapped Debt

At June 30, 2010, the interest rate swap held by MassDOT, with aggregate fair value liability of approximately \$456.6 million. For complete details, see separately issued MassDOT financial statements.

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	\$ 4,910,333	\$ 2,012,543	\$ 90,447	\$ 1,635,486	\$ 8,648,809
Business-type activity receivables.....	-	94,990	58,626	806,093	959,709
Less: allowance for uncollectibles.....	<u>(1,690,908)</u>	<u>(41,770)</u>	<u>(3,410)</u>	<u>(1,472,474)</u>	<u>(3,208,562)</u>
Receivables, net of allowance for uncollectibles	3,219,425	2,065,763	145,663	969,105	6,399,956
Less: current portion:					
Governmental activities	(2,528,070)	(1,922,569)	(5,267)	(298,307)	(4,754,213)
Business-type activities	<u>-</u>	<u>(87,963)</u>	<u>(42,152)</u>	<u>(559,124)</u>	<u>(689,239)</u>
Noncurrent receivables	<u>\$ 691,355</u>	<u>\$ 55,231</u>	<u>\$ 98,244</u>	<u>\$ 111,674</u>	<u>\$ 956,504</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):

	General	Commonwealth Transportation	Lotteries	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
Governmental funds:							
<u>Transfers In:</u>							
Debt service.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,109,427	\$ 2,109,427
Transfers in.....	1,788,690	275,000	-	9,000	-	1,843,906	3,916,596
Subtotal.....	1,788,690	275,000	-	9,000	-	3,953,333	6,026,023
<u>Transfers Out:</u>							
Appropriations.....	(886,762)	-	-	-	-	(1,822)	(888,584)
Transfer of bond proceeds.....	-	-	-	-	-	(99,814)	(99,814)
Debt service.....	(1,003,041)	(856,599)	-	-	-	(249,787)	(2,109,427)
Transfers out.....	(1,277,069)	(70,587)	(989,728)	(124,499)	(182,969)	(1,148,043)	(3,792,895)
Subtotal.....	(3,166,872)	(927,186)	(989,728)	(124,499)	(182,969)	(1,499,466)	(6,890,720)
Total governmental funds.....	(1,378,182)	(652,186)	(989,728)	(115,499)	(182,969)	2,453,867	(864,697)
Proprietary Funds:							
	University of Massachusetts	State Colleges	Community Colleges				Total
<u>Transfers In:</u>							
Transfers in from the General Fund and Other governmental funds.....	\$ 479,699	\$ 231,662	\$ 277,037				\$ 988,398
<u>Transfers Out:</u>							
Transfers out to the General Fund.....	(79,381)	(22,406)	(21,914)				(123,701)
Total proprietary funds.....	400,318	209,256	255,123				864,697
Net transfers in / (out) between funds.....	\$ (977,864)	\$ (442,930)	\$ (734,605)	\$ (115,499)	\$ (182,969)	\$ 2,453,867	\$ -

Remaining receivables and payables between funds as of June 30, 2010 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2010. 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, 2010:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds:		
General	Federal Grants.....	\$ 30,254
	Highway Capital Projects Fund.....	584,862
	Nonmajor Governmental Funds.....	29,506
Commonwealth Transportation Fund	General Fund.....	63,239
Non-major Governmental Funds	Nonmajor Governmental Fund.....	131,469
Total Governmental Funds.....		\$ 839,330
Governmental Funds: Proprietary Funds:		
General	University of Massachusetts.....	9,351
Total amounts due.....		\$ 848,681

Central Artery/Tunnel Project

Under the Transportation Reform Act implemented during FY10, the assets of the Central Artery/Tunnel project and responsibility for operations and maintenance were transferred to MassDOT (refer to discussion in Note 1a).

The investments in capital assets noted below are net of capital assets transferred to MassDOT as part of the Commonwealth’s transportation reform. During the fiscal year, effective November 1, 2009, MassDOT received from the Commonwealth capital assets with net book value of over \$15.5 billion: \$22.4 billion of capital assets, net of accumulated depreciation of over \$6.9 billion. The majority of the assets transferred included all the roads and bridge infrastructure assets of the Commonwealth, including Central Artery/Tunnel assets. The following note shows capital assets transferred to MassDOT as decreases.

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2010 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2009 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2010 Ending Balance
Capital assets not being depreciated:				
Land	\$ 727,900	\$ 166,379	\$ (1,899)	\$ 892,380
Land transfer to MassDOT	110,951	-	(110,951)	-
Land Central Artery / Tunnel Project transfer to MassDOT.....	340,534	-	(340,534)	-
Construction in process - non - Central Artery / Tunnel Project	266,723	547,295	(361,030)	452,988
Construction in process - transfer to MassDOT	1,907,836	-	(1,907,836)	-
Total capital assets not being depreciated	3,353,944	713,674	(2,722,250)	1,345,368
Capital assets being depreciated:				
Buildings	4,744,688	309,467	(7,446)	5,046,709
Buildings transfer to MassDOT	66,058	-	(66,058)	-
Machinery and equipment	842,703	154,802	(116,020)	881,485
Machinery and equipment transfer to MassDOT.....	83,658	-	(83,658)	-
Infrastructure non - Central Artery / Tunnel Project.....	133,213	138,945	-	272,158
Infrastructure non - Central Artery / Tunnel Project transfer to MassDOT.....	12,098,088	-	(12,098,088)	-
Infrastructure - Central Artery / Tunnel Project transfer to MassDOT.....	7,781,199	-	(7,781,199)	-
Total capital assets being depreciated	25,749,607	603,214	(20,152,469)	6,200,352
Less, accumulated depreciation:				
Buildings	(2,662,222)	(105,734)	8,188	(2,759,768)
Buildings transfer to MassDOT	(24,130)	-	24,130	-
Machinery and equipment	(540,692)	(97,299)	58,179	(579,812)
Machinery and equipment transfer to MassDOT.....	(73,219)	-	73,219	-
Infrastructure non - Central Artery / Tunnel Project.....	(109,022)	(98,459)	-	(207,481)
Infrastructure non - Central Artery / Tunnel Project transfer to MassDOT.....	(5,631,259)	-	5,631,259	-
Infrastructure - Central Artery / Tunnel Project transfer to MassDOT.....	(1,069,267)	(69,008)	1,138,275	-
Total accumulated depreciation	(10,109,811)	(370,500)	6,933,250	(3,547,061)
Total capital assets being depreciated, net	15,639,796	232,714	(13,219,219)	2,653,291
Governmental activity capital assets, net	\$ 18,993,740	\$ 946,388	\$ (15,941,469)	\$ 3,998,659
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land	\$ 83,480	\$ 20,900	\$ 3,131	\$ 101,249
Construction in process	399,657	368,559	305,915	462,301
Historical treasures	863	-	-	863
Total capital assets not being depreciated	484,000	389,459	309,046	564,413
Capital assets being depreciated:				
Buildings	4,382,605	392,888	(76,223)	4,851,716
Machinery and equipment	913,178	62,313	25,224	950,267
Library collections, not including historical treasures	125,810	14,341	8,580	131,571
Total capital assets being depreciated	5,421,593	469,542	(42,419)	5,933,554
Less, accumulated depreciation:				
Buildings	(1,983,869)	(154,563)	2,525	(2,135,907)
Machinery and Equipment	(612,051)	(75,375)	23,881	(663,545)
Library collections, not including historical treasures	(21,630)	(370)	471	(21,529)
Total accumulated depreciation	(2,617,550)	(230,308)	26,877	(2,820,981)
Total capital assets being depreciated, net	2,804,043	239,234	(69,296)	3,112,573
Business - type activity capital assets, net	\$ 3,288,043	\$ 628,693	\$ 239,750	\$ 3,676,986
Total Primary Government capital assets, net	\$ 22,281,783	\$ 1,575,081	\$ (15,701,719)	\$ 7,675,645

Depreciation expense was charged to the various functions of governmental activities as follows (amounts in thousands):

<u>Function:</u>	<u>Amount</u>
General government.....	\$ 49,209
Judiciary.....	20,644
Energy and environmental	17,241
Health and human services.....	69,506
Transportation and public works.....	161,746
Early elementary and secondary education.....	110
Public safety and homeland security.....	51,512
Housing and economic development.....	115
Labor and workforce development.....	417
	<hr/>
Total depreciation	\$ 370,500
	<hr/> <hr/>

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. Credit Facilities

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 FY10, the Commonwealth borrowed by selling \$300 million in commercial paper that remained outstanding for approximately one month. The commercial paper was retired when the Commonwealth borrowed by selling \$1.2 billion in fixed-rate RANs in September 2009. All of the \$1.2 billion in RANs were retired in April, May and June 2010.

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 FY10, the Commonwealth sold \$300 million in commercial paper BANs in December 2009 that remained outstanding for approximately two weeks, with repayment funded by a portion of the bond proceeds from the Series 2010 E bond sale. In late December 2009, \$130 million of commercial paper BANs was issued and remained outstanding until April and May 2010. In March 2010, \$150 million of commercial paper BANs was issued. All of these fixed-rate notes were redeemed with long-term bonds sold in fiscal 2010.

C. Credit Facilities

During FY10, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$800 million to \$1 billion. The Commonwealth started fiscal 2010 with a total of five credit facilities to provide such liquidity support, each in the amount of \$200 million. These facilities expire in periods at various times through 2015. One such facility expired in December 2009; the Commonwealth finished fiscal 2010 with four credit facilities supporting four series of commercial paper totaling \$800 million. In addition, the Commonwealth maintains standby bond purchase agreements for various bond issuances sold from FY97 through FY06. As of June 30, 2010, these agreements total \$1.6 billion.

The following schedule details short-term financing for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2009	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2010	Credit Limit June 30, 2010
General Fund:					
Revenue anticipation notes.....	\$ -	\$ 1,200,000	\$ (1,200,000)	\$ -	\$ -
Commercial paper.....	-	300,000	(300,000)	-	-
Lines of Credit.....	-	-	-	-	1,624,000
Subtotal - General Fund activity.....	-	1,500,000	(1,500,000)	-	1,624,000
Capital Projects Funds:					
Bond anticipation notes.....	-	580,000	(580,000)	-	-
Subtotal - Capital Projects Funds activity.....	-	580,000	(580,000)	-	-
Total short-term financing and credit agreement activity.....	-	2,080,000	(2,080,000)	-	1,624,000
MSBA					
Commercial paper.....	455,000	-	(455,000)	-	-
Total primary government.....	\$ 455,000	\$ 2,080,000	\$ (2,535,000)	\$ -	\$ 1,624,000

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. The Commonwealth can not file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2010, 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.....	\$ 17,882,227
Special Obligation Bonds, including GANs.....	<u>2,060,968</u>
Outstanding Commonwealth Bonds.....	19,943,195
MSBA debt.....	<u>4,699,293</u>
Total Governmental Activity debt.....	24,642,488
Less:	
Unamortized premiums and bond issuance costs on Commonwealth debt.....	(216,688)
Unamortized premiums on MSBA debt.....	<u>(210,758)</u>
Total Governmental Activity net of unamortized premiums debt.....	\$ <u>24,215,042</u>

General obligation (GO) bonds include not only such bonds, but also includes obligations for Build America Bonds (BABs) for \$1.4 billion, and college opportunity bonds as well as 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 \$199.7 million) that are outstanding as of June 30, 2010:

<u>General Obligation Bonds</u>	<u>Amount</u>	<u>Percent of</u>
Fixed Rate Bonds.....	\$ 14,075,152	80%
Variable Rate Bonds.....	3,607,365	20%

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.....	\$ 1,624,495	9%
Auction Rate Securities.....	401,500	2%
CPI-Index Bonds.....	197,455	1%
LIBOR Index Bonds.....	845,795	5%
SIFMA Index Bonds.....	538,120	3%

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.....	323,296
CPI Variable Rate Gas Tax Bonds.....	96,490
Total Gas Tax Bonds.....	419,786
Special Obligation Federal Highway Grant	
Anticipation Notes (GANS).....	997,467
Total Special Obligation Bonds.....	2,060,968
Less: Unamortized Premiums and bond issuance costs, net.....	(16,978)
Outstanding Special Obligation Principal.....	<u>\$ 2,043,990</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 statutorily 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, 2010, the Commonwealth had outstanding approximately \$145.2 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, 2010, approximately 80% of the Commonwealth's outstanding GO debt is fixed-rate bonds. The remaining 20% of outstanding GO debt is 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 of the outstanding variable rate debt are variable rate demand bonds or VRDBs, or long-term bonds whose interest rates re-set daily or weekly through a remarketing process. 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, 2010, the Commonwealth had \$1.6 billion in outstanding VRDBs. This accounts for

approximately 9% of total general obligation debt and approximately 45% of total general obligation variable-rate debt. All of these bonds are uninsured. As of June 30, 2010, 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 FY10

Beginning in February 2008, and continuing through fiscal 2010, 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 paper 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%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2010, the Commonwealth had approximately \$197 million of bonds that pay interest based on the consumer price index (CPI), \$846 million of bonds that pay interest based on the three-month London interbank offered rate (LIBOR) and \$538 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 5% and 3% of total outstanding general obligation indebtedness, respectively.

MSBA Debt

As of June 30, 2010, the MSBA had outstanding approximately \$4.5 billion of Dedicated Sales Tax bonds, plus approximately \$200 million of unamortized premiums for the purpose of funding school construction and renovation projects. Interest on the bonds ranges from 4% to 5.7% and is payable semiannually each August 15 and February 15, until maturity in FY40.

B. Special Obligation Bonds*Commonwealth Transportation Fund (CTF) (formerly 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 credited to the Commonwealth Transportation Fund (CTF). Revenues, which are currently accounted for in the CTF, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including motor fuels excise taxes and Registry of Motor Vehicles fees. 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, 2010, the Commonwealth had outstanding approximately \$420 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, 2010. 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.

C. 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 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 to less than \$17.1 billion and debt service 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, 2010, approximately \$991 million of such notes, inclusive of the special obligation crossover refunding notes and unamortized premiums remained outstanding. All of these notes are fixed-rate obligations.

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

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. For example, of the Commonwealth's variable-rate debt outstanding of approximately \$3.6 billion (or approximately 20% of total general obligation debt), approximately \$3.3 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of

approximately \$340 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.

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 or approximately equal to the variable-rate payment on the related bonds or a payment based on a market index 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. The net payments made or received on these agreements are reported as part of interest expense in the basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders.

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 the market interest rates. Additional swap agreements were entered into to hedge this volatility 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 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 exposure to changes in interest rates on these bonds. 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 essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of June 30, 2010, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, pursuant to the implementation of GASB Statement No. 53.

The table on the following page details this activity.

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 effectively matches the par amount of the related variable rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.243% 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

As of June 30, 2010, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below 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 Value at June 30 2010	Fair Value at June 30 2009	Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating
<i>General Obligation Bonds:</i>										
Series 1997B	\$ 162,768	8/12/1997	4.659%	Cost of Funds	\$ (16,634)	\$ (16,218)	\$ (416)	August 1, 2015	Goldman Sachs Mit Mar Der Prod	Aa1 / AAA
Series 1997B	108,512	8/12/1997	4.659%	Cost of Funds	(10,813)	(10,714)	(99)	August 1, 2015	Ambac Fin Svcs	Ba3 / BBB
Series 1998A	185,122	9/17/1998	4.174%	Cost of Funds	(18,008)	(15,532)	(2,476)	September 1, 2016	Citi Swapco, Inc	Aaa / AAA
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	277,683	11/17/2008	4.174%	60% 1-Month LIBOR +25 basis points	(28,367)	(27,535)	(832)	September 1, 2016	Deutsche Bank AG	Aa1 / A+
Series 2000A	108,808	8/16/2007	3.942%	SIFMA - 3 basis points	(12,535)	(8,028)	(4,507)	August 1, 2018	Merrill Lynch Cap Svcs	A2 / A
Series 2000A	54,492	8/16/2007	3.942%	SIFMA - 3 basis points	(6,135)	(3,841)	(2,294)	August 1, 2018	Bear Stearns Fin Prod / JP Morgan	Aa1 / AA-
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(67,728)	(44,120)	(23,608)	January 1, 2021	Morgan Stanley Der Prod	Aaa / AAA
Series 2003B	87,455	3/12/2003	4.500%	CPI based formula	(3,553)	(3,290)	(263)	December 1, 2014	Goldman Sachs Mit Mar Der Prod	Aaa / AAA
Series 2003B	10,000	10/2/2008	4.500%	CPI based formula	(286)	(282)	(4)	December 1, 2013	Deutsche Bank AG	Aa1 / A+
Series 2010A	536,685	3/15/2005	3.243% - 4.004%	SIFMA	(60,398)	(30,964)	(29,434)	February 1, 2028	Citibank N.A.	A1 / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	67% 3-Month LIBOR	(82,056)	(66,340)	(15,716)	June 15, 2033	Barclays Bank PLC	Aa3 / AA-
Series 2006C	100,000	1/1/2007	3.73% - 3.85%	CPI-based formula	(5,246)	(5,250)	4	November 1, 2020	Citibank N.A.	A1 / A+
Series 2007A	400,000	5/30/2007	4.420%	67% 3-Month LIBOR + 0.57%	(47,098)	(32,430)	(14,668)	May 1, 2037	Barclays Bank PLC	Aa3 / AA-
Series 2007A (refunding)	348,380	5/30/2007	4.083%	67% 3-Month LIBOR + 0.55%	(54,284)	(36,444)	(17,840)	November 2, 2025	Bank of NY Mellon	Aaa / AA
Series 2007A (refunding)	65,750	5/30/2007	3.936%	67% 3-Month LIBOR + 0.55%	(8,528)	(5,808)	(2,720)	November 1, 2018	Bank of NY Mellon	Aaa / AA
Series 2007A (refunding)	31,665	5/30/2007	3.936%	67% 3-Month LIBOR + 0.46%	(4,390)	(2,925)	(1,465)	November 1, 2022	Deutsche Bank AG	Aa1 / A+
Subtotal	3,267,545				(426,059)	(309,721)	(116,338)			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>										
Series 2004 (Convention Center)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(2,831)	(3,201)	370	January 1, 2018	Goldman Sachs Cap Markets	Aa3 / A
Series 2004 (Convention Center)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(3,373)	(3,069)	(304)	January 1, 2018	JPMorgan Chase Bank	Aa1 / AA-
Series 2004 (Convention Center)	28,864	6/29/2004	4.45% - 5.25%	CPI-based formula	(3,373)	(3,069)	(304)	January 1, 2018	Bear Stearns / JP Morgan	Aa1 / AA-
Series 2005A (Gas Tax)	96,490	1/12/2005	4.771% - 5.05%	CPI-based formula	(7,939)	(6,633)	(1,306)	June 1, 2022	Merrill Lynch Cap Serv	A2 / A
Subtotal	183,080				(17,516)	(15,972)	(1,544)			
Total	\$ 3,450,625				\$ (443,575)	\$ (325,693)	\$ (117,882)			

Fair value of the Interest Rate Swap Agreements

The Commonwealth adopted the provisions of GASB Statement No. 53, Accounting and Reporting for Derivative Instruments (GASB 53), for the year ended June 30, 2010. GASB 53 establishes a framework for accounting and reporting related to derivative instruments, requiring the fair value of derivative to be recognized in the financial statements. The aggregate fair value balance of interest rate swaps at June 30, 2010 is \$444 million and is reflected on the statement of net assets as liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective qualified hedges, there was no impact on the Statement of Revenues, Expenditures and Changes in Fund Balances.

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower, as of June 30, 2010, 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. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2010 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 herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, 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 and Market-Access Risk of the Interest Rate Swap Agreements

Because the terms on most of the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of 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 from the basis for the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds,

which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bond being hedged by the \$294 million swap with Barclays and the 2010A bonds being hedged by the \$537 million swap with Citigroup. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swaps include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. 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 certain credit ratings under the agreements, generally 'BBB-' or above. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements 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 previously described. 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, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

E. Outstanding Swapped Debt

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.

Debt service requirements to maturity for variable rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2010 are provided in the table below.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2010 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. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2010. 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 indices. 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		
2011	\$ 27,122	\$ 25,360	\$ 122,466	\$ 174,948
2012	125,679	24,992	118,232	268,903
2013	203,681	23,933	111,514	339,128
2014	158,653	22,563	105,641	286,857
2015	251,453	20,146	98,086	369,685
2016-2020	1,198,155	73,493	370,178	1,641,826
2021-2025	947,005	30,606	197,139	1,174,750
2026-2030	332,545	10,999	75,492	419,036
2031-2035	195,640	5,038	26,616	227,294
2036-2040	56,970	461	2,084	59,515
Total	\$ 3,496,903	\$ 237,592	\$ 1,227,448	\$ 4,961,942

Business - Type Activities – Swapped Debt

The university system has various swaps. At June 30, 2010, the fair value of liability of the universities outstanding interest rate swaps was \$64 million.

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.

Component Unit-Swapped Debt

At June 30, 2010, the majority of interest rate SWAPs outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$456.6 million. For complete details, see separate MassDOT financial statements.

F. Outstanding Long Term Debt and Changes in Long Term Debt

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.

Long-term debt outstanding (excluding unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2010 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 991,370	2011-2015	\$ -
Capital Projects:			
General.....	7,561,248	2011-2039	10,621,087
Highway.....	8,889,252	2011-2040	7,508,485
Local Aid.....	1,645,937	2011-2038	8,079
Other.....	638,700	2015-2034	27,334
	<u>18,735,137</u>		<u>18,164,985</u>
Subtotal - Governmental activities debt (exclusive of MSBA).....	\$ 19,726,507		<u>\$ 18,164,985</u>
MSBA Debt.....	<u>4,488,535</u>		
Governmental activities debt.....	<u>\$ 24,215,042</u>		

The amounts in the table above include 1.4 billion in taxable Build America Bonds.

Interest rates on the Commonwealth's debt outstanding at the end of FY10 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2010 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized Unissued
Balance July 1, 2009**.....	\$ 19,264,569	\$ 3,830,250	\$ 23,094,819	\$ 19,517,272
Plus: Increases in bonds authorized	-	-	-	84,604
Less: Authorizations deauthorized	-	-	-	(68,877)
General and special obligation bonds:				
Proceeds, as defined as principal, premium less				
discount and issuance costs	2,208,436	751,000	2,959,436	(1,368,014)
Less: Net premium	(2,663)	-	(2,663)	-
Less: Principal on refunding bonds.....	(536,685)	-	(536,685)	-
Less: Bonds retired.....	(1,207,150)	(92,715)	(1,299,865)	-
Outstanding debt June 30, 2010*.....	<u>\$ 19,726,507</u>	<u>\$ 4,488,535</u>	<u>\$ 24,215,042</u>	<u>\$ 18,164,985</u>

* Includes unallocated proceeds of approximately \$602.6 million.

** Includes \$68,000 beginning balance adjustment for GANS premium

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, 2010, debt service requirements to maturity for principal and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt		Revenue Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2011.....	\$ 1,418,800	\$ 898,758	\$ 93,145	\$ 221,439	\$ 133,473	\$ 122,565
2012.....	1,343,669	832,361	94,505	217,486	75,471	119,323
2013.....	1,480,477	770,949	98,110	213,162	79,331	115,607
2014.....	1,293,047	706,732	98,865	208,546	82,643	111,992
2015.....	1,261,599	648,004	120,575	203,792	84,149	107,732
2016 - 2020.....	4,457,157	2,542,643	541,190	937,755	501,545	484,160
2021 - 2025.....	3,780,228	1,499,773	655,915	789,282	544,458	381,837
2026 - 2030.....	2,585,890	789,327	990,830	580,595	537,220	259,662
2031 - 2035.....	1,275,935	317,576	1,024,475	303,152	355,860	129,705
2036 - 2040.....	829,705	80,425	770,925	84,085	259,606	46,377
2041 - 2045.....	-	-	-	-	36,577	7,321
2046 - 2050.....	-	-	-	-	9,655	1,396
Total long - term debt	19,726,507	9,086,548	4,488,535	3,759,294	2,699,988	1,887,677
Less: Current portion	(1,418,800)	(898,758)	(93,145)	(221,439)	(133,473)	(122,565)
Long - term debt	<u>\$ 18,307,707</u>	<u>\$ 8,187,790</u>	<u>\$ 4,395,390</u>	<u>\$ 3,537,855</u>	<u>\$ 2,566,515</u>	<u>\$ 1,765,112</u>

G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. 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, 2010, approximately \$8,161,519,000 of bonds outstanding from activities in prior fiscal years is considered defeased.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY10 was approximately \$17,183,261,000. Outstanding debt subject to the limit at June 30, 2010 was approximately \$15,578,692,000. 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, 2010.....	\$ 19,726,507
Less amounts excluded:	
Premium and issuance cost.....	216,688
Special obligation principal.....	(1,063,500)
GANs principal.....	(997,467)
County debt assumed.....	(225)
MBTA forward funding.....	(165,559)
SMART bonds.....	(894,502)
Central Artery / Tunnel.....	(1,243,250)
Outstanding direct debt.....	<u>\$ 15,578,692</u>

I. 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 2010</u>
Bond Cap as approved by the Governor.....	\$ 1,650
Total Debt Service Obligations.....	1,926
Budgeted Revenue.....	31,081
Debt Service as % of Budgeted Revenues.....	6.20%

J. 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.....	\$ 842,347	\$ 813,199	\$ 842,347	\$ 813,199	\$ 813,199
Accrued liabilities:					
Compensated absences.....	457,299	469,846	457,299	469,846	300,641
Compensated absences transfer to MassDOT.....	23,935	-	23,935	-	-
Claims and judgments.....	91,600	60,000	91,600	60,000	20,000
Prizes payable.....	1,522,440	1,484,794	1,522,440	1,484,794	-
Deferred loss on refunding.....	(44,495)	4,270	-	(40,225)	(4,270)
Due to component units - Central Artery/Tunnel Project.....	7,052,466	-	7,052,466	-	-
School construction grants payable.....	3,314,850	26,515	627,232	2,714,133	423,451
Contract assistance payable.....	45,446	-	45,446	-	-
Retirement system pension obligations.....	565,015	1,754,197	1,101,079	1,218,133	-
Post employment benefit obligations.....	1,149,000	1,953,000	1,149,000	1,953,000	-
Environmental remediation liability.....	173,830	2,710	8,333	168,206	10,737
Other liabilities.....	3,991,997	44,127,227	44,097,863	4,021,361	3,718,924
Total accrued liabilities.....	18,343,383	49,882,558	56,176,693	12,049,248	4,469,483
Liability for derivative instruments.....	-	443,575	-	443,575	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	19,264,569	2,208,436	1,746,498	19,726,507	1,418,800
Unamortized bond and note premiums - non MSBA.....	216,890	8,141	8,343	216,688	17,911
MSBA Bonds and notes payable excluding premium.....	4,285,249	751,001	547,715	4,488,535	93,145
Unamortized bond and note premiums - MSBA.....	217,663	14,244	21,149	210,758	15,235
Other financing arrangements:					
Capital leases.....	109,765	17,223	50,380	76,608	13,722
Total bonded debt and other financing arrangements.....	24,094,136	2,999,045	2,374,084	24,719,097	1,558,813
Long-term liabilities, Governmental activities.....	\$ 43,279,866	\$ 54,138,377	\$ 59,393,124	\$ 38,025,119	\$ 6,841,495
 <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.....	\$ 177,273	\$ 21,049	\$ 20,181	\$ 178,141	\$ 122,570
Environmental remediation liability.....	-	6,912	3,465	3,447	1,647
Total accrued liabilities.....	177,273	27,961	23,646	181,588	124,217
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA.....	2,103,675	778,265	150,816	2,731,124	141,357
Bonds and notes payable.....	2,103,675	778,265	150,816	2,731,124	141,357
Other financing arrangements:					
Capital leases.....	58,885	3,341	21,302	40,924	9,863
Total bonded debt and other financing arrangements.....	2,162,560	781,606	172,118	2,772,048	151,220
Long-term liabilities, Business - type activities.....	\$ 2,339,833	\$ 809,567	\$ 195,764	\$ 2,953,636	\$ 275,437

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2010, net of unamortized discounts and premiums, are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2009 Beginning Balance	Increases	Decreases	June 30, 2010 Ending Balance	Due Within One Year	Long Term
Major component units:								
MassDOT (period beginning 11/01/2009).....	2.00 - 5.65%	2011-2039	\$ 7,823,672	\$ 2,402,911	\$ 2,335,869	\$ 7,890,714	\$ 422,634	\$ 7,468,080
MWPAT	2.00 - 6.375%	2011-2037	3,597,861	197,923	401,738	3,394,046	168,320	3,225,726
Nonmajor component units	1.00 - 9.01%	2011-2034	554,470	30,776	33,979	551,267	15,163	536,104
Total bonds and notes payable			11,976,003	2,631,610	2,771,586	11,836,027	606,117	11,229,910
Compensated absences, net			3,276	3,397	3,276	3,397	3,303	94
Total long term liabilities			<u>\$ 11,979,279</u>	<u>\$ 2,635,007</u>	<u>\$ 2,774,862</u>	<u>\$ 11,839,424</u>	<u>\$ 609,420</u>	<u>\$ 11,230,004</u>

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

8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2010. 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>
Highway Capital Projects Fund.....	\$ (707,331)
Federal Highway Construction Program Capital Projects Fund.....	(20,540)
Community Preservation Trust Fund.....	(109)
Government Land Bank Fund.....	(35,033)
Capital Improvement and Investment Trust Fund.....	(94)

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

A. Plan Descriptions

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). The members of the retirement systems do not participate in the Social Security System.

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. The former MTA employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to the SERS. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited 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 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 audited 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.....	52,486	53,951
Terminated employees entitled to		
benefits but not yet receiving them.....	<u>3,779</u>	<u>N/A</u>
Subtotal.....	<u>56,265</u>	<u>53,951</u>
Current members.....	<u>85,839</u>	<u>88,673</u>
Total.....	<u>142,104</u>	<u>142,624</u>

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

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.

C. *Funding and Contributions Policy*

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.

D. Other Financing Situations

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston Teachers as certified by the SBRS. Those costs were funded in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost sharing multiple employer pension system that 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. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. In June 2010, the Commonwealth made its final arrears payment to the City of Boston (\$132 million) as well as the actuarially required contribution (\$126.8 million) to SBRS.

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.

The Commonwealth is financially responsible for the cost of living adjustment (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, 2010 was \$302,000,000.

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

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 137 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 2025 on the basis of 4.50% annual growth. 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 \$1.376 billion were made during the fiscal year ended June 30, 2010. Of this amount \$76.0 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$242.8 million represents payments for Boston Teachers.

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 FY10.

The following table presents the FY10 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>2010</u>			
Annual required contribution.....	\$ 646,932	\$ 1,106,052	\$ 1,752,984
Interest on net pension obligation.....	(709)	47,322	46,613
Adjustment to annual required contribution.....	<u>690</u>	<u>(46,090)</u>	<u>(45,400)</u>
Annual pension cost.....	646,913	1,107,284	1,754,197
Less: Contributions made, excluding COLAs.....	<u>410,682</u>	<u>690,397</u>	<u>1,101,079</u>
Increase (decrease) in net pension obligation.....	236,231	416,887	653,118
Net pension obligation / (asset) - beginning of year.....	<u>(8,589)</u>	<u>573,604</u>	<u>565,015</u>
Net pension obligation / (asset) - end of year.....	<u>\$ 227,642</u>	<u>\$ 990,491</u>	<u>\$ 1,218,133</u>
<u>2009</u>			
Annual pension cost.....	\$ 695,604	\$ 1,150,782	\$ 1,846,386
Percentage of annual pension cost contributed	57%	68%	64%
Net pension obligation / (asset) - end of year.....	\$ (8,589)	\$ 573,604	\$ 565,015
<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)

E. Funded Status and Funding Process

The funded status of SERS and MTRS as of January 1, 2010, 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 *
State Employees Retirement System						
Actuarial Valuation as of January 1, 2010.....	\$ 19,019,062	\$ 24,862,421	\$ 5,843,359	76.5%	\$ 4,711,503	124.0%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2010.....	\$ 21,262,462	\$ 33,738,966	\$ 12,476,504	63.0%	\$ 5,509,698	226.4%

* 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, 2010, (amounts in thousands):

	Pension Trust Funds			Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
ASSETS				
Cash and short-term investments.....	\$ 82,485	\$ 20,321	\$ -	\$ 102,806
Investments at fair value:				
Absolute Return.....	-	-	46,801	46,801
Domestic Equity.....	7,348,525	7,965,092	-	15,313,617
Fixed Income.....	3,863,828	4,291,033	70,637	8,225,498
International Equity.....	-	-	42,241	42,241
Private Activity.....	1,841,777	2,045,413	128,564	4,015,754
Hedge fund-of-funds.....	1,593,290	1,769,453	-	3,362,743
Real Estate.....	1,534,129	1,703,750	-	3,237,879
Timber and Other Natural Resources.....	408,170	453,300	15,580	877,050
Other.....	322,265	334,086	4,843	661,194
Total investments at fair value.....	16,911,984	18,562,127	308,666	35,782,777
Other receivables.....	235	80,809	1,144	82,188
Total assets.....	16,994,704	18,663,257	309,810	35,967,771
LIABILITIES				
Accounts payable.....	2,049	3,352	6,317	11,718
Total liabilities.....	2,049	3,352	6,317	11,718
Net assets available for post - employment benefits.....	\$ 16,992,655	\$ 18,659,905	\$ 303,493	\$ 35,956,053
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions.....	\$ 443,658	\$ 933,274	\$ 372,000	\$ 1,748,932
Employee contributions.....	475,591	593,147	-	1,068,738
MTA retiree funds.....	176,478	-	-	176,478
Total contributions.....	1,095,727	1,526,421	372,000	2,994,148
Net investment gain (loss):				
Net Investment gain (loss), net of management fees.....	1,945,724	2,112,888	34,085	4,092,697
Total investment gain (loss).....	1,945,724	2,112,888	34,085	4,092,697
Total additions and investment gain (loss).....	3,041,451	3,639,309	406,085	7,086,845
DEDUCTIONS				
Administration.....	7,842	15,831	1,596	25,269
Retirement benefits and refunds.....	1,431,646	2,146,929	371,999	3,950,574
Payments to State Boston Retirement System.....	-	126,871	-	126,871
Total deductions.....	1,439,488	2,289,631	373,595	4,102,714
Net increase (decrease).....	1,601,963	1,349,678	32,490	2,984,131
Net assets available for post - employment benefits at beginning of year.....	15,390,692	17,310,227	271,003	32,971,922
Net assets available for post - employment benefits at end of year.....	\$ 16,992,655	\$ 18,659,905	\$ 303,493	\$ 35,956,053

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 actuarial accrued liability (AALs) for benefits.

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

1. The annual required contribution for 2010 was determined as part of the January 1, 2010 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.25% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year.
3. Salary increases are based on analyses of past experience but range from 4.5% to 10.0% depending on group and length of service.
4. The assumptions do not include post-retirement 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 prior, etc, so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.

5. The remaining amortization period for the unfunded pension liability at January 1, 2010 was 15 years to FY25.

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 Board of Trustees of the State Retiree Benefits Trust Fund (SRBTF).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The MTA OPEB liability for its 1,057 active members and 979 retirees was last valued in June of 2008 at \$179.5 million (1.18% of the Commonwealth liability). These liabilities are included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of \$59.4 million as of June 30, 2010. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

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 FY10 General Appropriation Act transferred approximately \$372 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 Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2010 and as of the valuation date (January 1, 2010 for the Commonwealth and June 30, 2008 for the MTA), 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 FY11 General Appropriation Act, all active employees will pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY10 totaled approximately \$372 million. There are approximately 145,971 participants eligible to receive benefits at June 30, 2010.

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 2010, the Commonwealth's annual OPEB contribution of approximately \$372 million for retiree benefits was less than 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 2010 are as follows from the valuation calculated as of January 1, 2010 (amounts in millions except percentages):

<u>2010</u>	<u>SRBTF</u>
Annual required contribution (ARC).....	\$ 1,163
Interest on net OPEB obligation.....	53
Adjustment to annual required contribution.....	<u>(40)</u>
Annual OPEB cost (AOC).....	1,176
Less: Contributions made.....	<u>(372)</u>
Increase in net OPEB obligation.....	804
Net OPEB obligation as reported at beginning of year.....	<u>1,149</u>
Net OPEB obligation - end of year.....	<u>\$ 1,953</u>
<u>2009</u>	
Annual OPEB cost.....	\$ 1,345
Percentage of annual OPEB cost contributed.....	26%
Net OPEB obligation - end of year.....	\$ 1,149

The funded status of the Commonwealth’s OPEB obligation is as follows:
(amounts in thousands except for percentages)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
Actuarial Valuation as of January 1, 2010....	\$ 309,800	\$ 15,166,300	\$ 14,856,500	2.0%	\$ 4,711,563	315.3%

The MSBA’s ARC for FY10 was approximately \$2.9 million. Including the adjustment to the annual required contribution, the net annual OPEB cost for the MSBA was approximately \$53,000. The MSBA’s net OPEB obligation at June 30, 2010 approximated the ARC. MSBA made no contributions during FY10. Based on an actuarial valuation as of January 1, 2009, the MSBA had an unfunded actuarial accrued liability of approximately \$2.9 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 \$3.0 million, yielding an unfunded actuarial accrued liability as a percentage of covered payroll of 82.7%.

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.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% after seven years.

Administrative expenses are expected to rise 5% per annum. 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% per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as RSI on page 137.

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 FY10, these additions are approximately \$17.2 million. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

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

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2010 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities				
	Capital Leases		Operating	MSBA	Governmental	Capital Leases		Operating	Business -Type	
	Principal	Interest	Leases	Operating	Activities	Principal	Interest	Leases	Activities	
			Leases	Total				Total		
2011.....	\$ 13,722	\$ 3,871	\$ 152,717	\$ 705	\$ 171,015	\$ 9,863	\$ 1,438	\$ 20,803	\$ 32,104	
2012.....	11,687	3,299	109,051	722	124,759	7,915	1,096	18,504	27,515	
2013.....	9,207	2,598	86,269	740	98,814	7,054	837	16,661	24,552	
2014.....	6,272	1,770	67,881	758	76,681	5,732	605	14,072	20,409	
2015.....	5,734	1,617	52,686	448	60,485	3,363	404	12,042	15,809	
2016 - 2020.....	15,050	4,247	153,684	-	172,981	3,473	1,299	26,785	31,557	
2021 - 2025.....	13,154	3,711	51,300	-	68,165	2,573	640	1,452	4,665	
2026 - 2030.....	1,782	502	47,384	-	49,668	951	-	1,229	2,180	
2031 - 2035.....	-	-	27,315	-	27,315	-	-	-	-	
Total lease obligations.....	76,608	21,615	748,287	3,373	849,883	40,924	6,319	111,548	158,791	
Less: current portion:	(13,722)	(3,871)	(152,717)	(705)	(171,015)	(9,863)	(1,438)	(20,803)	(32,104)	
Long - term lease obligations	\$ 62,886	\$ 17,744	\$ 595,570	\$ 2,668	\$ 678,868	\$ 31,061	\$ 4,881	\$ 90,745	\$ 126,687	

11. COMMITMENTS

A. Primary Government

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2010, totaling approximately \$743.2 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, 2010, the University of Massachusetts Building Authority has committed debt of approximately \$1.5 billion, of which approximately \$144.7 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$824.6 million of outstanding debt, of which approximately \$25.4 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 and 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, 2010, the Commonwealth had commitments of approximately \$216 million 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; (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 arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such

assistance constitutes 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 contingent liabilities consist of guarantees 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 (succeeded by MassDOT in FY10) 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 (succeeded by MDOT) 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.

E. MSBA

The MSBA has estimated the amount of outstanding Waiting List and other program commitments at June 30 to be approximately \$912 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 due within a year to be approximately \$20,000,000 as of June 30, 2010.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2010 is estimated to be \$293,400,000, of which approximately \$38,440,000 is expected to be paid during FY11.

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 FY10 totaled approximately \$152,163,000. 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 FY10, the Commonwealth received approximately \$263,700,000 or 79.9% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund. Amounts received in FY10 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the total 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 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 2010, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$293 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY10 and FY09 were (amounts in millions):

	<u>FY10</u>	<u>FY09</u>
Claim liability, beginning of year.....	\$ 307.1	\$ 273.5
Increase in liability estimate.....	35.2	81.7
Payments and decreases in liability estimate.....	(35.7)	(48.1)
MassDOT transfer.....	(13.2)	-
Claims liability, end of year.....	<u>\$ 293.4</u>	<u>\$ 307.1</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 \$129.9 million, net of the employees' reserve of \$20.4 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY10 and FY09 were (amounts in millions):

	<u>FY10</u>	<u>FY09</u>
Claim liability, beginning of year.....	\$ 113.7	\$ 107.0
Increase in liability estimate.....	1,044.6	976.9
Payments and decreases in liability estimate.....	(1,061.2)	(970.2)
Claims liability, end of year.....	<u>\$ 97.1</u>	<u>\$ 113.7</u>

C. Other Claims & Judgments

The following amounts were recognized for claims and judgments as of June 30, 2010 (amounts in thousands):

	2010	2009
Unpaid claims, beginning of year.....	\$ 91.6	\$ 68.2
Incurred claims.....	13.5	61.1
Claim payments and reductions.....	(23.5)	(37.7)
MassDOT transfer-OCIP	(21.6)	-
Unpaid claims end of year.....	<u>\$ 60.0</u>	<u>\$ 91.6</u>

D. 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;
- 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.....	\$ 173,889	\$ 3,150	\$ 177,039
Expected additional future outlays, increasing liability estimates.....	2,650	3,597	6,247
FY10 outlays for environmental remediation	(8,683)	(3,300)	(11,983)
Estimated recoveries from third parties.....	350	-	350
	<u>\$ 168,206</u>	<u>\$ 3,447</u>	<u>\$ 171,653</u>
Environmental remediation liability, end of year.....			

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 amounts to approximately \$4.5 billion so far. Going forward, MWRA anticipates spending an additional \$188.5 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 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 16 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, 2010 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 Department of Transportation (MassDOT)
 The Massachusetts Water Pollution Abatement Trust (MWPAT)
 Commonwealth Health Insurance Connector 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 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 (7 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)
 §Commonwealth Zoological Corporation (Zoo)

Descriptions of Major and Blended Component Units and Entities that are 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 was born by the Commonwealth up to a minimum floor that was adjusted annually by Commonwealth statute through FY09. 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 \$5.5 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 \$4.2 billion at June 30, 2010, 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) are 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 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) but 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 Department of Transportation (MassDOT) incorporates the MTA and has jurisdiction over the MBTA and the RTAs. The Massachusetts Port Authority will become a related organization to MassDOT.

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.

Commonwealth Insurance Connector Authority administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care to small businesses that are eligible for the program.

14. SUBSEQUENT EVENT

A. *Subsequent Bond Issuances*

Subsequent to the close of the fiscal year, the Commonwealth sold \$285,985,000 in bonds in August 2010 (\$120,390,000 General Obligation Refunding Bonds 2010 Series B and \$165,595,000 General Obligation Bonds Consolidated Loan of 2010, Series C); \$358 million in bonds in August 2010 (\$358,000,000 General Obligation Bonds Consolidated Loan of 2010, Series D); \$350 million in bonds in November 2010 (\$350,000,000 General Obligation Bonds Consolidated Loan of 2010, Series E); and \$1.06 billion in bonds in December 2010 which included \$380,530,000 Special Obligation Refunding Notes (Senior Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2010 Series A, and \$576,125,000 Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2010 Series A and \$100,000,000 in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A. Some of the bonds sold subsequent to the close of the fiscal year were sold as tax-exempt bonds, some were sold as Build America Bonds (direct pay to issuer), and some were sold as Recovery Zone Economic Development Bonds (direct pay to issuer).

In addition, on September 8, 2010, the Commonwealth novated its swap agreement with Ambac Financial Services, LLC initially entered into with respect to the Commonwealth's General Obligation Refunding Bonds, 1997 Series B. As part of the novation, Ambac Financial Services, LLC transferred all of its rights, liabilities, duties and obligations with respect to such swap to SMBC Capital Markets, Inc (rated 'A', 'Aa2', and 'A+' by Fitch Ratings, Moody's Investor Services, and Standard & Poor's respectively). The Commonwealth pays a fixed rate of 4.65950% to SMBC and SMBC pays the Commonwealth a variable rate equal to the SIFMA Index.



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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



*The 6th Regiment in Baltimore
Massachusetts State House Mural
Courtesy of the Massachusetts State House*

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

Budgeted Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 17,524,619	\$ 17,524,619	\$ 17,171,378	\$ (353,241)
Assessments.....	-	-	417,335	417,335
Federal grants and reimbursements.....	8,278,000	8,278,000	8,548,836	270,836
Departmental.....	2,629,800	2,629,800	2,179,794	(450,006)
Miscellaneous.....	15,000	15,000	443,040	428,040
Total revenues.....	28,447,419	28,447,419	28,760,383	312,964
Other financing sources:				
Fringe benefit cost recovery.....	-	-	281,807	281,807
Lottery reimbursements.....	-	99,632	88,938	(10,694)
Lottery distributions.....	-	863,369	893,806	30,437
Tobacco settlement transfer.....	-	292,000	263,678	(28,322)
Operating transfers in.....	2,071,400	602,399	299,342	(303,057)
Stabilization transfer.....	-	214,000	217,843	3,843
Commonwealth transportation transfer.....	-	-	275,000	275,000
Total other financing sources.....	2,071,400	2,071,400	2,320,414	249,014
Total revenues and other financing sources.....	30,518,819	30,518,819	31,080,797	561,978
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	72,483	69,920	59,453	10,467
Judiciary.....	759,619	787,453	767,178	20,275
Inspector General.....	2,735	2,735	2,734	1
Governor and Lieutenant Governor.....	5,256	5,498	5,245	253
Secretary of the Commonwealth.....	41,471	48,044	47,819	225
Treasurer and Receiver-General.....	154,698	191,522	175,894	15,628
Auditor of the Commonwealth.....	17,967	16,709	16,708	1
Attorney General.....	39,296	40,851	40,558	293
Ethics Commission.....	1,731	1,731	1,574	157
District Attorney.....	92,647	93,052	92,792	260
Office of Campaign & Political Finance.....	1,222	1,222	1,175	47
Sheriff's Departments.....	257,412	404,363	370,254	34,109
Disabled Persons Protection Commission.....	2,223	2,223	2,150	73
Board of Library Commissioners.....	24,978	24,680	24,672	8
Comptroller.....	11,356	11,353	11,080	273
Administration and finance.....	1,722,428	1,757,816	1,683,109	74,707
Energy and environmental affairs.....	217,036	216,603	202,602	14,001
Health and human services.....	4,818,386	4,784,977	4,689,785	95,192
Transportation and public works.....	-	189,941	66,701	123,240
Executive office of education.....	1,903,050	435,702	435,702	-
Massachusetts department of transportation.....	206,861	1,737,951	1,717,211	20,740
Public safety and homeland security.....	1,035,171	1,114,817	1,075,883	38,934
Housing and economic development.....	326,834	371,017	359,078	11,939
Labor and workforce Development.....	76,413	82,396	42,237	40,159
Direct local aid.....	4,806,224	4,837,441	4,837,371	70
Medicaid.....	8,972,284	9,291,193	9,286,565	4,628
Post employment benefits.....	-	1,748,619	1,748,619	-
Debt service:				
Principal retirement.....	1,049,214	1,067,274	1,048,610	18,664
Interest and fiscal charges.....	899,123	843,703	811,030	32,673
Total expenditures.....	27,518,118	30,180,806	29,623,789	557,017
Other financing uses:				
Fringe benefit cost assessment.....	-	62,000	8,013	53,987
Operating transfers out.....	-	55,994	124,740	(68,746)
Commonwealth care transfer.....	-	592,000	631,685	(39,685)
Medical assistance transfer.....	-	399,000	313,295	85,705
Commonwealth transportation transfer.....	-	275,000	275,000	-
Stabilization transfer.....	-	214,000	217,843	(3,843)
Total other financing uses.....	-	1,597,994	1,570,576	27,418
Total expenditures and other financing uses.....	27,518,118	31,778,800	31,194,365	584,435
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	3,000,701	(1,259,981)	(113,568)	1,146,413
Fund balances (deficit) at beginning of year.....	1,016,636	1,016,636	1,016,636	-
Fund balances (deficits) at end of year.....	\$ 4,017,337	\$ (243,345)	\$ 903,068	\$ 1,146,413

**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>Commonwealth Transportation</u>
REVENUES		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 27,234,238	\$ 1,187,169
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue	187,322	3,547
Federal reimbursements and other receivables.....	124,622	(843)
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting.....	(67,271)	-
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting.....	269,072	-
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	27,747,983	1,189,873
Non-Budgeted Activity.....	-	-
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 27,747,983	\$ 1,189,873
EXPENDITURES		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 27,969,530	\$ 1,380,735
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments.....	125,900	-
Compensated absences and other accrued liabilities.....	(93,174)	(9,177)
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	241,881	-
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.....	(1,003,041)	(856,599)
Higher education expenditures are reclassified for GAAP reporting.....	(954,033)	-
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	26,287,063	514,959
Non-Budgeted Activity.....	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 26,287,063	\$ 514,959
OTHER FINANCING SOURCES		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,034,015	\$ 275,000
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	11,269	-
Adjustments:		
Consolidation of transfers between funds.....	(220,623)	-
Inflows from component units and other miscellaneous financing sources.....	(18,748)	-
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	1,805,913	275,000
Non-Budgeted Activity.....	-	-
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 1,805,913	\$ 275,000
OTHER FINANCING USES		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 1,288,338	\$ 70,587
Adjustments and Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	209,354	-
Consolidation of transfers between funds.....	(220,623)	-
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	886,762	-
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.....	1,003,041	856,599
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.....	3,166,872	927,186
Non-Budgeted Activity.....	-	-
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 3,166,872	\$ 927,186

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 FY10 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 27 of the Acts of 2009:		
Direct appropriations.....	\$ 30,518,819	\$ 26,577,279
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2009	-	940,839
Total original budget.....	30,518,819	27,518,118
Supplemental Acts of 2009:		
Chapter 56.....	-	10,000
Chapter 65.....	-	24,970
Chapter 102.....	-	217,291
Chapter 166.....	-	(23,858)
Chapter 186.....	-	41,962
Supplemental Acts of 2010:		
Chapter 86.....	-	196,693
Chapter 112.....	-	64,585
Chapter 120.....	-	202,952
Authorized budgets and transfers for MassDOT.....	-	407,876
Planned Savings - Chapter 29, Section 9C.....	-	(223,672)
Total as of June 30, 2010	30,518,819	28,436,917
Supplemental Acts of 2010, passed after June 30:		
Chapter 359	-	37,124
Total budgeted revenues and expenditures per Legislative action.....	30,518,819	28,474,041
Plus: Transfers of revenues and expenditures (including rounding).....	-	3,304,759
Budgeted revenues and expenditures as reported.....	<u>\$ 30,518,819</u>	<u>\$ 31,778,800</u>

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.



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Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

Pension Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees' Retirement System						
Actuarial Valuation as of January 1, 2010....	\$ 19,019,062	\$ 24,862,421	\$ 5,843,359	76.5%	\$ 4,711,563	124.0%
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%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2010....	\$ 21,262,462	\$ 33,738,966	\$ 12,476,504	63.0%	\$ 5,509,698	226.4%
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%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2010commonwealth.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.

State Retiree Benefits Trust Fund

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2010....	\$ 309,800	\$ 15,166,300	\$ 14,856,500	2.0%	\$ 4,711,563	315.3%
Actuarial Valuation as of January 1, 2009....	273,500	15,305,100	15,031,600	1.8%	4,712,655	319.0%
Actuarial Valuation as of January 1, 2008....	-	9,812,000	9,812,000	0.0%	4,574,233	214.5%

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.

6th Regiment

Governor Andrew mobilized militia units and organized a departure ceremony at the State House. One day later news came that a mob had attacked the 6th Regiment while changing trains in Baltimore. Four were killed, the first Union casualties in the Civil War.



This poignant and angry letter was written anonymously to Governor Andrew from the father of one of the 6th Regiment soldiers. He demands return of the bodies. Andrew had already requested that the mayor of Baltimore return them to Massachusetts, preserved on ice.

Luther C. Ladd and Addison O. Whitney, of the Lowell based 6th Regiment, were among the first four soldiers killed in the Civil War. They are wearing "Shako" hats, used by militia units early in the war.

Courtesy of the Lowell Historical Society

Massachusetts Archives

1 Boston April 25. 1861.

To
John A. Andrew,
Gov. of Commonwealth of Mass.

Will your Excellency have the kindness to inform the public the reasons for delay in forwarding the bodies of the Massachusetts dead-massacred at Baltimore on the glorious 19th day of April 1861 - Are their ashes to be allowed to mingle with the ashes of traitors and "Plu' N'g'lis" - or is it necessary to raise a force in Mass. (not connected with the force now being raised) for the purpose of ~~compelling the Mayor to deliver~~ marching upon Baltimore and ~~compelling the Mayor to deliver up~~ these now sacred remains - a word from your private Secty. in his next "Official" to the public, will oblige -

Yours Anxiously - A Father.

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

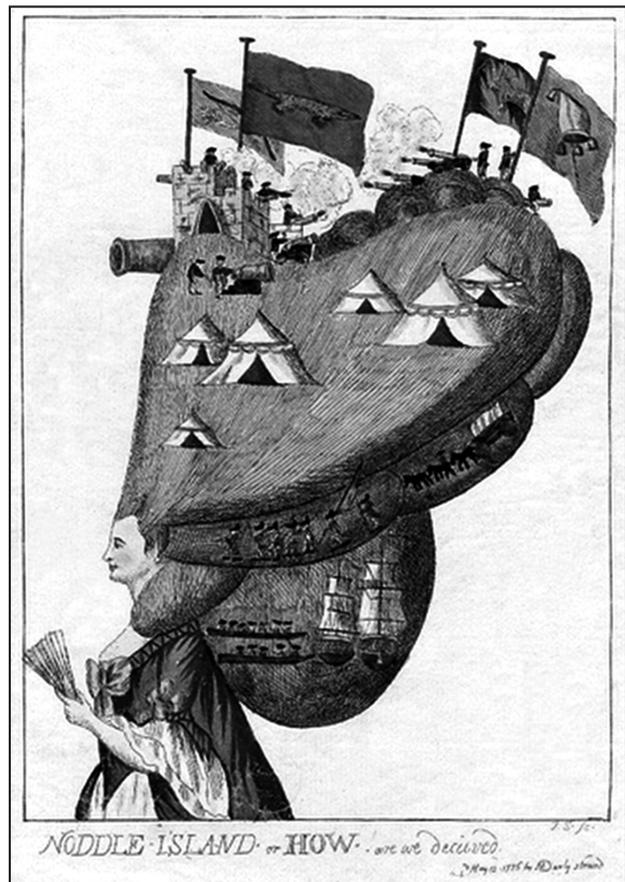


*Noddle's Island, Hog Island, and Winisimmet,
from an old chart of Boston Harbor*

Call it Macaroni

This satire mocks the British Evacuation of Boston. The woman's dress and hairstyle reflect a London fashion called "Macaroni." In the popular song "Yankee Doodle" a provincial American thinks he can simply "stick a feather in his cap and call it macaroni."

As a term Doodle first appeared in the early seventeenth century, and is thought to derive from the Low German dudel or dödel, meaning "fool" or "simpleton". The Macaroni wig was an extreme fashion in the 1770s and became contemporary slang for foppishness.



Courtesy of the Massachusetts Historical Society

On May 27, 1775 at Noodle Island, the HM Armed Schooner Diana was the first British vessel captured and destroyed by colonial forces during the American Revolutionary War.

Combined Balance Sheet
Other Governmental Funds
June 30, 2010
(Amounts in thousands)

	Universal		Special Revenue		Grant		Expendable		Other
	Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Anticipation Note Trust	Trust	Trust	
ASSETS									
Cash and short-term investments.....	\$ 175,167	17,849	\$ -	\$ 82,967	\$ 84,958	\$ 34,081	\$ 473,273	\$ 295,770	
Cash with fiscal agent.....	-	-	-	-	73,695	344,592	-	-	
Receivables, net of allowance for uncollectibles:									
Taxes.....	12,522	74	-	49,289	10,242	-	-	8,178	
Due from federal government.....	-	-	-	-	-	112,172	1,179	343	
Loans receivable.....	-	-	-	-	-	-	914	-	
Other receivables.....	50,077	1	131,972	-	-	-	33,103	15,853	
Due from other funds.....	-	-	-	-	-	-	-	-	
Total assets.....	\$ 237,766	\$ 17,924	\$ 131,972	\$ 132,256	\$ 168,895	\$ 490,845	\$ 508,469	\$ 320,144	
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable.....	\$ 38,060	\$ 318	\$ -	\$ 11,594	\$ 27,557	\$ -	\$ 33,591	\$ 55,503	
Accrued payroll.....	82	187	-	-	-	-	2,636	2,019	
Tax refunds and abatements payable.....	-	-	-	320	-	-	-	-	
Due to other funds.....	-	-	-	-	-	131,469	-	-	
Due to component units.....	-	-	-	120,342	-	-	-	-	
Deferred revenue.....	38,650	-	-	-	-	-	15,566	-	
Other accrued liabilities.....	91,948	-	-	-	-	-	-	-	
Total liabilities.....	168,740	505	-	132,256	27,557	131,469	51,793	57,522	
Fund balances (deficits):									
Reserved for retirement of indebtedness.....	-	-	-	-	73,695	344,592	-	-	
Reserved for permanent trust funds.....	-	-	-	-	-	-	-	-	
Undesignated:									
Special revenue.....	69,026	17,419	131,972	-	67,643	14,784	456,676	262,622	
Capital projects.....	-	-	-	-	-	-	-	-	
Fund balances (deficits).....	69,026	17,419	131,972	-	141,338	359,376	456,676	262,622	
Total liabilities and fund balances.....	\$ 237,766	\$ 17,924	\$ 131,972	\$ 132,256	\$ 168,895	\$ 490,845	\$ 508,469	\$ 320,144	

See Independent Auditor's Report

Debt Service	Capital Projects					Permanent Trust	Total
	General Capital Projects	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Other		
\$ -	\$ 413,625	\$ -	\$ 8,393	\$ -	\$ 221	\$ 5,000	\$ 1,591,304
160,358	-	-	-	-	-	-	578,645
-	-	-	-	-	-	-	80,305
-	-	-	-	-	-	-	113,694
-	-	-	-	-	-	-	914
-	-	-	-	-	16	-	231,022
-	-	-	-	-	131,469	-	131,469
\$ 160,358	\$ 413,625	\$ -	\$ 8,393	\$ -	\$ 131,706	\$ 5,000	\$ 2,727,353
\$ -	\$ 190,584	\$ -	\$ -	\$ -	\$ 254	\$ -	\$ 357,461
-	1,059	-	-	-	-	-	5,983
-	-	-	-	-	-	-	320
-	-	-	-	-	29,506	-	160,975
-	1,542	-	-	-	122,559	-	244,443
-	-	-	-	-	-	-	54,216
-	-	-	-	-	-	-	91,948
-	193,185	-	-	-	152,319	-	915,346
160,358	-	-	-	-	-	-	578,645
-	-	-	-	-	-	5,000	5,000
-	-	-	-	-	-	-	1,020,142
-	220,440	-	8,393	-	(20,613)	-	208,220
160,358	220,440	-	8,393	-	(20,613)	5,000	1,812,007
\$ 160,358	\$ 413,625	\$ -	\$ 8,393	\$ -	\$ 131,706	\$ 5,000	\$ 2,727,353

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
Fiscal Year Ended June 30, 2010
(Amounts in thousands)

	Special Revenue							
	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Grant Anticipation Note Trust	Expendable Trust	Other
REVENUES								
Taxes.....	\$ 138,257	\$ 867	\$ -	\$ 770,473	\$ 76,679	\$ -	\$ -	\$ 86,169
Assessments.....	347,793	-	-	150,148	-	-	15,465	41,041
Federal grants and reimbursements.....	-	6,950	-	-	-	761,351	21,795	45,886
Departmental.....	97,041	7,147	-	-	254	-	62,453	190,810
Miscellaneous.....	85,857	14	249,307	-	2,518	10,512	428,225	12,053
Total revenues.....	668,948	14,978	249,307	920,621	79,451	771,863	527,938	375,959
OTHER FINANCING SOURCES								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	979,980	130	-	-	-	36,693	14,891	26,369
Total other financing sources.....	979,980	130	-	-	-	36,693	14,891	26,369
Total revenues and other financing sources.....	1,648,928	15,108	249,307	920,621	79,451	808,556	542,829	402,328
EXPENDITURES								
Current:								
Judiciary.....	-	-	-	-	-	-	211	578
Inspector General.....	882	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	9
Secretary of the Commonwealth.....	-	-	-	-	-	-	207	3,491
Treasurer and Receiver-General.....	-	-	-	920,621	1,810	12,035	86,633	2,506
Auditor of the Commonwealth.....	-	-	-	-	-	-	793	-
Attorney General.....	-	-	-	-	-	-	2,529	433
District Attorney.....	-	-	-	-	-	-	6,659	214
Sheriff's Departments.....	-	-	-	-	-	-	19,251	920
Comptroller.....	-	-	-	-	-	-	697	1,601
Administration and finance.....	21	-	-	-	57,781	-	14,077	46,741
Energy and environmental affairs.....	-	10,026	-	-	-	-	38,241	84,894
Health and human services.....	345,492	-	-	-	-	-	40,442	14,427
Transportation and public works.....	-	-	-	-	-	-	7,347	5,011
Massachusetts department of transportation.....	-	-	-	-	-	-	-	90
Executive office of education.....	-	-	-	-	-	-	15,755	1,434
Public safety and homeland security.....	-	-	-	-	-	-	4,604	53,124
Housing and economic development.....	-	-	-	-	-	-	23,525	16,855
Labor and workforce development.....	155,615	-	-	-	-	-	53,295	13,979
Medicaid.....	1,162,961	-	-	-	-	-	-	13,122
Direct local aid.....	-	-	-	-	-	-	-	3,089
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
Total expenditures.....	1,664,971	10,026	-	920,621	59,591	12,035	314,266	262,518
OTHER FINANCING USES								
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	-	-
Transfers out.....	5,983	1,609	263,678	-	-	610,061	182,359	73,230
Transfers of appropriations.....	-	-	-	-	-	-	1,796	26
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	34,486	196,249	-	19,052
Transfers to \ from MassDOT.....	-	-	-	-	-	-	-	350,986
Total other financing uses.....	5,983	1,609	263,678	-	34,486	806,310	184,155	443,294
Total expenditures and other financing uses.....	1,670,954	11,635	263,678	920,621	94,077	818,345	498,421	705,812
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses....	(22,026)	3,473	(14,371)	-	(14,626)	(9,789)	44,408	(303,484)
Fund balances (deficits) at beginning of year.....	91,052	13,946	146,343	-	155,964	369,165	412,268	566,106
Fund balances (deficits) at end of year.....	\$ 69,026	\$ 17,419	\$ 131,972	\$ -	\$ 141,338	\$ 359,376	\$ 456,676	\$ 262,622

See Independent Auditor's Report

Debt Service	Capital Projects					Permanent Trust	Total
	General Capital Projects	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Other		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,072,445
-	-	-	-	-	-	-	554,447
-	16,769	-	-	-	1,282	-	854,033
-	-	10,880	-	-	224	-	368,809
8,148	-	35	-	-	1	-	796,670
8,148	16,769	10,915	-	-	1,507	-	3,646,404
(1,433)	7,322	-	-	-	-	-	5,889
-	1,087,291	-	1,000	-	5,273	-	1,093,564
538,120	-	-	-	-	-	-	538,120
2,109,427	-	-	-	-	-	-	2,109,427
-	-	-	-	-	785,843	-	1,843,906
2,646,114	1,094,613	-	1,000	-	791,116	-	5,590,906
2,654,262	1,111,382	10,915	1,000	-	792,623	-	9,237,309
-	-	-	-	-	-	-	789
-	-	-	-	-	-	-	882
-	-	-	-	-	-	-	9
-	-	-	-	-	-	-	3,698
-	-	-	-	-	-	-	1,023,605
-	-	-	-	-	-	-	793
-	-	-	-	-	-	-	2,962
-	-	-	-	-	-	-	6,873
-	-	-	-	-	-	-	20,171
-	-	-	-	-	-	-	2,298
-	-	-	-	-	-	-	118,620
-	-	-	-	-	-	-	133,161
-	-	-	-	-	-	-	400,361
-	16,774	-	-	202	163,874	-	193,208
-	56,286	-	-	-	412,061	-	468,437
-	-	-	-	-	-	-	17,189
-	-	-	-	-	-	-	57,728
-	-	-	-	-	-	-	40,380
-	-	-	-	-	-	-	222,889
-	-	-	-	-	-	-	1,176,083
-	-	-	-	-	-	-	3,089
-	-	-	-	-	532	-	532
-	813,017	-	4,500	-	249,357	-	1,066,874
2,116,507	-	-	-	-	-	-	2,116,507
2,116,507	886,077	-	4,500	202	825,824	-	7,077,137
536,755	-	-	-	-	-	-	536,755
-	8,684	-	-	-	2,439	-	1,148,043
-	-	-	-	-	-	-	1,822
-	99,814	-	-	-	-	-	99,814
-	-	-	-	-	-	-	249,787
-	-	110,348	-	969	42,436	-	504,739
536,755	108,498	110,348	-	969	44,875	-	2,540,960
2,653,262	994,575	110,348	4,500	1,171	870,699	-	9,618,098
1,000	116,807	(99,433)	(3,500)	(1,171)	(78,076)	-	(380,788)
159,358	103,633	99,433	11,893	1,171	57,463	5,000	2,192,795
\$ 160,358	\$ 220,440	\$ -	\$ 8,393	\$ -	\$ (20,613)	\$ 5,000	\$ 1,812,007

Combining Statement of Net Assets Available for Post - Employment Benefits
Pension Trust Funds
June 30, 2010
(Amounts in thousands)

	Pension Trust Funds		
	State Employees' PERS	Teachers' PERS	State Retiree Benefits
ASSETS			
Cash and short-term investments.....	\$ 82,485	\$ 20,321	\$ -
Investments at fair value.....	16,911,984	18,562,127	308,666
Other receivables.....	235	80,809	1,144
Total assets.....	16,994,704	18,663,257	309,810
LIABILITIES			
Accounts payable.....	2,049	3,352	6,317
Total liabilities.....	2,049	3,352	6,317
Net assets available for post - employment benefits.....	\$ 16,992,655	\$ 18,659,905	\$ 303,493

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, 2010
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	State Retiree Benefits
ADDITIONS			
Contribution:			
Employer contributions.....	\$ 443,658	\$ 933,274	\$ 372,000
Employee contributions.....	475,591	593,147	-
MTA retiree funds.....	176,478	-	-
Total contributions.....	1,095,727	1,526,421	372,000
Net investment gain (loss):			
Net Investment gain (loss), net of management fees	1,945,724	2,112,888	34,085
Net investment gain (loss).....	1,945,724	2,112,888	34,085
Total additions.....	3,041,451	3,639,309	406,085
DEDUCTIONS			
Administration.....	7,842	15,831	1,596
Retirement benefits and refunds.....	1,431,646	2,146,929	371,999
Payments to State Boston Retirement System.....	-	126,871	-
Total deductions.....	1,439,488	2,289,631	373,595
Net increase(decrease).....	1,601,963	1,349,678	32,490
Net assets available for post - employment benefits at beginning of year.....	15,390,692	17,310,227	271,003
Net assets available for post - employment benefits at end of year.....	\$ 16,992,655	\$ 18,659,905	\$ 303,493

Combining Statement of Net Assets Held in Trust for Pool Participants
 External Investment Trust Funds
 June 30, 2010
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
ASSETS		
Assets held in trust for pension benefits:		
Cash and short-term investments.....	\$ -	\$ 756,988
Investments at fair value.....	-	4,721,162
Assets held in trust for pool participants:		
Cash and short-term investments.....	4,405,008	-
Other receivables.....	5,426	40,357
Total assets.....	4,410,434	5,518,507
LIABILITIES		
Liabilities:		
Accounts payable.....	51,226	13,772
Other accrued liabilities.....	679	-
Total liabilities.....	51,905	13,772
Net assets held in trust for pool / pension participants.....	\$ 4,358,529	\$ 5,504,735

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, 2010
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
ADDITIONS		
Contribution:		
Proceeds from sale of units.....	\$ 23,224,270	\$ 203,399
Total contributions.....	23,224,270	203,399
Net investment gain (loss):		
Investment gain (loss), net of management fees	31,581	584,009
Net investment gain (loss).....	31,581	584,009
Total additions.....	23,255,851	787,408
DEDUCTIONS		
Cost of units redeemed.....	24,068,689	-
Distributions to unit holders from net interest income.....	24,431	-
Total deductions.....	24,093,120	-
Net increase (decrease).....	(837,269)	787,408
Net assets held in trust for pool / pensions participants at beginning of year.....	5,195,798	4,717,327
Net assets held in trust for pool / pensions participants at end of year.....	\$ 4,358,529	\$ 5,504,735

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>Central Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 335,384	\$ 8,233,374	\$ 8,299,574	\$ 269,184
Investments, restricted investments and annuity contracts....	1,522,440	206,131	243,777	1,484,794
Taxes receivable.....	2,021	1,916	2,021	1,916
Other receivables.....	84	-	84	-
Total assets.....	\$ 1,859,929	\$ 8,441,421	\$ 8,545,456	\$ 1,755,894
LIABILITIES				
Accounts payable.....	\$ 45,314	\$ 3,133,722	\$ 3,133,697	\$ 45,339
Due to cities and towns.....	83,850	378,362	435,379	26,833
Lottery prizes payable.....	1,522,440	206,131	243,777	1,484,794
Agency liabilities.....	208,325	3,518,934	3,528,331	198,928
Total liabilities.....	\$ 1,859,929	\$ 7,237,149	\$ 7,341,184	\$ 1,755,894
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and short-term investments.....	\$ 95,026	\$ 1,221,818	\$ 1,202,517	\$ 114,327
Assets held in trust.....	53,738	38,881	39,583	53,036
Other receivables.....	106,615	111,758	106,615	111,758
Total assets.....	\$ 255,379	\$ 1,372,457	\$ 1,348,715	\$ 279,121
LIABILITIES				
Accounts payable.....	\$ 156	\$ 1,181,304	\$ 1,175,051	\$ 6,409
Agency liabilities.....	255,223	775,486	757,997	272,712
Total liabilities.....	\$ 255,379	\$ 1,956,790	\$ 1,933,048	\$ 279,121
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	776,741	395,316	517,986	654,071
Total assets.....	\$ 776,827	\$ 395,316	\$ 517,986	\$ 654,157
LIABILITIES				
Agency liabilities.....	\$ 776,827	\$ 395,316	\$ 517,986	\$ 654,157
Total liabilities.....	\$ 776,827	\$ 395,316	\$ 517,986	\$ 654,157

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>Total Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 430,496	\$ 9,455,192	\$ 9,502,091	\$ 383,597
Investments, restricted investments and annuity contracts.....	1,522,440	206,131	243,777	1,484,794
Assets held in trust.....	830,479	434,197	557,569	707,107
Taxes receivable.....	2,021	1,916	2,021	1,916
Other receivables.....	106,699	111,758	106,699	111,758
Total assets.....	<u>\$ 2,892,135</u>	<u>\$ 10,209,194</u>	<u>\$ 10,412,157</u>	<u>\$ 2,689,172</u>
LIABILITIES				
Accounts payable.....	\$ 45,470	\$ 4,315,026	\$ 4,308,748	\$ 51,748
Due to cities and towns.....	83,850	378,362	435,379	26,833
Lottery prizes payable.....	1,522,440	206,131	243,777	1,484,794
Agency liabilities.....	1,240,375	4,689,736	4,804,314	1,125,797
Total liabilities.....	<u>\$ 2,892,135</u>	<u>\$ 9,589,255</u>	<u>\$ 9,792,218</u>	<u>\$ 2,689,172</u>

Combining Statement of Net Assets
Nonmajor Component Units
June 30, 2010
(Amounts in thousands)

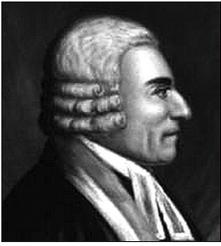
	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
ASSETS AND DEFERRED OUTFLOWS							
Current assets:							
Cash and cash equivalents.....	\$ 6,878	\$ 18,003	\$ 6,770	\$ 31	\$ 62,673	\$ 42,617	\$ 136,972
Short-term investments.....	-	166,015	33,624	34,740	-	42,164	276,543
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable.....	-	-	1,055	-	-	-	1,055
Loans.....	-	12,779	10,523	-	10,770	10,554	44,626
Other receivables.....	5,822	10,485	9,336	1,155	4,630	1,225	32,653
Due from primary government.....	52,557	361	-	2,034	-	13,602	68,554
Inventory.....	-	-	-	-	-	79	79
Other current assets.....	1,132	4,639	90	143	-	260	6,264
Total current assets.....	66,389	212,282	61,398	38,103	78,073	110,501	566,746
Noncurrent assets:							
Cash and cash equivalents - restricted.....	-	36,679	-	18,575	-	1,977	57,231
Long - term investments.....	-	61,194	6,366	8,085	-	3,077	78,722
Restricted investments.....	-	-	162,969	5,523	-	-	168,492
Accounts receivables, net.....	-	1,226	-	-	-	647	1,873
Loans receivables, net.....	-	69,473	-	-	314,339	20,071	403,883
Due from primary government.....	-	4,431	-	-	-	-	4,431
Non-depreciable capital assets.....	83,457	13,042	-	4,627	-	12	101,138
Depreciable capital assets, net.....	699,162	242,226	15,922	9,588	-	13,514	980,412
Other noncurrent assets.....	-	10,198	-	-	337	72	10,607
Total noncurrent assets.....	782,619	438,469	185,257	46,398	314,676	39,370	1,806,789
Deferred outflows from derivative instruments.....	-	18,216	-	-	-	-	18,216
Total assets and deferred outflows.....	849,008	668,967	246,655	84,501	392,749	149,871	2,391,751
LIABILITIES							
Current liabilities:							
Accounts payable and other liabilities.....	10,321	15,849	13,007	3,885	1,063	4,726	48,851
Accrued payroll.....	-	-	1,099	-	-	55	1,154
Compensated absences.....	1,696	894	-	-	-	713	3,303
Accrued interest payable.....	-	2,771	-	-	980	-	3,751
Due to primary government.....	13,222	408	-	6,497	-	12,465	32,592
Deferred revenue.....	9,832	-	-	-	-	7,186	17,018
Bonds, notes payable and other obligations.....	-	2,185	-	-	8,098	4,880	15,163
Total current liabilities.....	35,071	22,107	14,106	10,382	10,141	30,025	121,832
Noncurrent liabilities:							
Compensated absences.....	-	-	-	-	-	94	94
Due to primary government.....	-	15,531	-	-	-	-	15,531
Deferred revenue.....	-	1,459	-	-	25,828	976	28,263
Bonds, notes payable and other obligations.....	-	173,779	-	-	317,357	44,968	536,104
Post - employment obligations.....	1,852	-	-	-	-	-	1,852
Liability for derivative instruments.....	-	18,216	3,089	-	-	-	21,305
Other noncurrent liabilities.....	-	-	14,252	558	-	1,932	16,742
Total noncurrent liabilities.....	1,852	208,985	17,341	558	343,185	47,970	619,891
Total liabilities.....	36,923	231,092	31,447	10,940	353,326	77,995	741,723
NET ASSETS							
Invested in capital assets, net of related debt.....	769,397	87,438	15,922	14,215	263	13,425	900,660
Restricted for:							
Other purposes.....	-	187,035	199,286	50,215	24,579	24,176	485,291
Unrestricted.....	42,688	163,402	-	9,131	14,581	34,275	264,077
Total net assets.....	\$ 812,085	\$ 437,875	\$ 215,208	\$ 73,561	\$ 39,423	\$ 71,876	\$ 1,650,028

See Independent Auditor's Report

Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units
Fiscal Year Ended June 30, 2010
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
Operating revenues:							
Charges for services.....	\$ 46,572	\$ 51,544	\$ 7,408	\$ -	\$ 5,162	\$ 40,825	\$ 151,511
Other.....	673	24,073	30	2,229	8,413	3,431	38,849
Total operating revenues.....	47,245	75,617	7,438	2,229	13,575	44,256	190,360
Operating expenses:							
Cost of services.....	50,116	13,790	26,136	51,402	10,558	88,825	240,827
Administration costs.....	22,665	66,264	461	257	4,213	3,396	97,256
Depreciation.....	39,008	11,227	47	368	487	1,754	52,891
Total operating expenses.....	111,789	91,281	26,644	52,027	15,258	93,975	390,974
Operating income (loss).....	(64,544)	(15,664)	(19,206)	(49,798)	(1,683)	(49,719)	(200,614)
Nonoperating revenues (expenses):							
Operating grants.....	62,212	472	27,374	39,022	-	39,518	168,598
Interest income.....	134	2,100	1,232	7,670	-	168	11,304
Other nonoperating revenue (expense).....	-	(144)	(3,864)	(178,676)	-	-	(182,684)
Nonoperating revenues (expenses), net.....	62,346	2,428	24,742	(131,984)	-	39,686	(2,782)
Income (loss) before contributions.....	(2,198)	(13,236)	5,536	(181,782)	(1,683)	(10,033)	(203,396)
Capital contributions.....	-	(4,321)	174,226	-	-	15,810	185,715
Change in net assets.....	(2,198)	(17,557)	179,762	(181,782)	(1,683)	5,777	(17,681)
Net assets - beginning, as restated.....	814,283	455,432	35,446	255,343	41,106	66,099	1,667,709
Net assets - ending.....	\$ 812,085	\$ 437,875	\$ 215,208	\$ 73,561	\$ 39,423	\$ 71,876	\$ 1,650,028



Chief Justice William Cushing

Quock Walker

Quock Walker was a Worcester County slave belonging to James Caldwell. When Caldwell died in 1763, his widow married a man named Nathaniel Jennison of Barre, Massachusetts. Walker believed that Caldwell had promised him his freedom, but Jennison refused to manumit him. In 1781, Walker ran away from Jennison's home to the nearby farm of James Caldwell's sons, Seth and John. Jennison found Walker, severely beat him with a whip handle and brought him home.



Caldwell Farm in Barre, Massachusetts, where Quock Walker took refuge.
Courtesy of Barre Historical Society

Commonwealth of Massachusetts } To the Honble Senate
and the Honble House of
Representatives in General
Court Assembled June 1782 -
The Memorial of Nathaniel Jennison of
Barre in the County of Worcester humbly shews
That by the Bill of Rights prefixed to the
Constitution of Government, it is among other things declared
"that all Men are born free & equal" - which clause in
the said Constitution has been the Subject of much
Altercation & dispute - that the Judges of the Supreme
Judicial Court have so construed the same as to de-
prive your Mem^o of a great part of his property, to
which he that his title goods, not only by ancient &
established usage, but by the Lawes of the Land -
that your Mem^o having been possessed of Ten Negro
servants, most of whom were born in his family,
some of them young & helpless, others old & infirm
is now informed that by the Determination of the
Supreme Judicial Court, the said Clause in the Bill
of Rights is so to be construed, as to operate to
the total discharge & manumission of all Negro
servants whatsoever - what the true meaning of
said Clause in the Constitution is, your Mem^o
will not undertake to say, but it appears to him
(The

Two civil trials ensued in Worcester County Court of Common Pleas. Walker sued Jennison for his freedom and assault and battery, and Jennison sued the Caldwell brothers for depriving him of his property. A third criminal trial in 1783 before the Supreme Judicial Court charged Jennison with assault and battery against Walker. In his instructions to the jury, Chief Justice William Cushing held that slavery was inconsistent with the rights and privileges guaranteed by our state's constitution and that slavery was effectively abolished in Massachusetts.

Statistical Section

Schedule of Net Assets by Component – Last Nine Fiscal Years

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Massachusetts Real Property Owned and Leased Annual Inventory, Acreage, Improvements and Square Footage

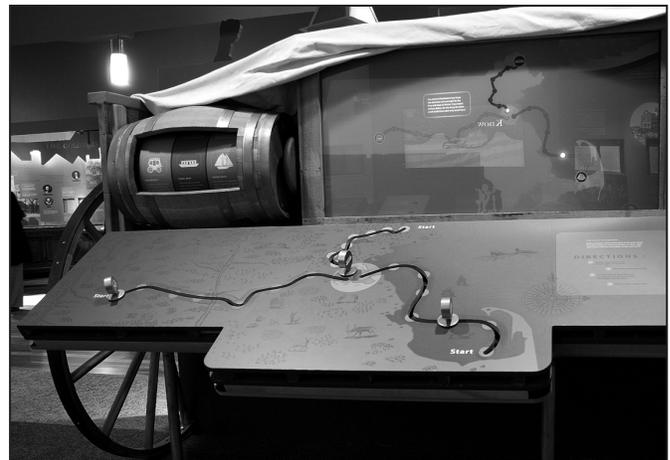
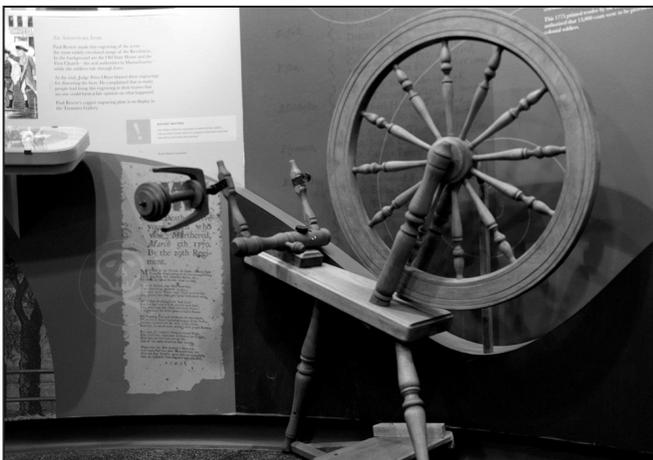
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(Enrollment), Last Ten Years (Degrees)

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Calculation of Transfer – Tax Reduction Fund

Massachusetts General Information



Photography by Vinh Nguyen

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.

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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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¹ Tax Year 2008 is the last “closed” tax year

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

(Amounts in thousands)

	2010	2009	2008	2007*	2006	2005	2004	2003	2002
Governmental activities									
Invested in capital assets, net of related debt..	\$ (885,593)	\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765	\$ 2,032,958	\$ 3,901,007	\$ 5,611,252
Restricted.....	594,492	608,938	979,475	993,520	1,758,291	1,289,174	519,746	311,837	793,991
Unrestricted.....	(22,082,243)	(12,952,506)	(10,587,591)	(11,079,729)	(12,157,187)	(13,030,031)	(8,894,155)	(12,318,385)	(13,820,768)
Total governmental activities net assets.....	\$ (22,373,344)	\$ (12,153,655)	\$ (9,161,450)	\$ (9,596,777)	\$ (10,297,385)	\$ (11,544,092)	\$ (6,341,451)	\$ (8,105,541)	\$ (7,415,525)
Business-type activities									
Invested in capital assets, net of related debt..	\$ 1,767,434	\$ 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.....	1,148,751	1,609,145	2,390,206	2,295,507	1,816,066	1,331,053	915,583	946,704	1,784,322
Unrestricted.....	857,263	621,952	644,363	645,211	548,774	562,777	434,007	321,523	243,605
Total business-type activities net assets.....	\$ 3,773,448	\$ 3,929,922	\$ 4,596,571	\$ 4,333,081	\$ 3,648,410	\$ 3,043,182	\$ 2,482,227	\$ 2,341,379	\$ 3,059,949
Commonwealth net assets									
Invested in capital assets, net of related debt..	\$ 881,841	\$ 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.....	1,743,243	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.....	(21,224,980)	(12,330,554)	(9,943,228)	(10,434,518)	(11,608,413)	(14,597,422)	(8,460,148)	(11,996,862)	(13,577,163)
Total Commonwealth net assets.....	\$ (18,599,896)	\$ (8,223,733)	\$ (4,564,879)	\$ (5,263,696)	\$ (6,648,975)	\$ (8,500,910)	\$ (3,859,224)	\$ (5,764,162)	\$ (4,355,576)

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

(Amounts in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
EXPENSES									
Governmental Activities:									
General government.....	\$ 2,358,706	\$ 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.....	1,043,004	1,138,179	993,424	852,124	731,931	694,245	570,228	641,227	540,248
Direct local aid.....	5,030,363	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.....	10,677,999	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.....	1,092,178	977,565	828,297	1,033,796	970,150	872,970	778,072	732,252	770,832
Interest (unallocated).....	1,090,471	1,116,278	1,152,162	1,079,551	985,474	861,265	788,908	739,463	687,817
Energy and environmental.....	326,128	426,808	537,691	488,883	438,731	419,329	379,710	395,713	469,591
Housing and economic development*.....	1,297,143	1,042,084	899,474	519,399	670,518	609,409	593,000	590,246	554,712
Health and human services*.....	6,119,110	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.....	2,088,354	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*.....	3,395,360	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.....	2,409,557	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*.....	483,091	474,438	340,668	641,134	387,132	358,839	387,590	430,982	391,358
Lottery.....	3,649,396	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
Total governmental activities.....	41,060,860	42,112,705	38,827,362	35,948,184	34,358,196	39,488,186	31,214,448	30,810,430	29,859,108
Business-type Activities:									
Unemployment compensation.....	5,435,611	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
Higher Education:									
University of Massachusetts.....	2,640,134	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.....	762,043	736,972	733,842	624,470	568,592	514,122	456,022	425,154	418,593
Community colleges.....	716,526	671,923	685,235	627,400	592,310	548,017	525,179	523,403	508,895
Total business-type activities.....	9,554,314	7,358,719	5,248,274	4,915,634	4,614,693	4,702,640	5,040,170	5,069,045	4,548,107
Total Commonwealth expenses.....	\$ 50,615,174	\$ 49,471,424	\$ 44,075,636	\$ 40,863,818	\$ 38,972,889	\$ 44,190,826	\$ 36,254,618	\$ 35,879,475	\$ 34,407,214
REVENUES									
Program Revenues:									
Governmental Activities:									
Charges for services:									
General government.....	\$ 464,592	\$ 436,344	\$ 414,614	\$ 564,347	\$ 451,753	\$ 492,750	\$ 463,132	\$ 233,135	\$ 158,825
Judiciary.....	128,198	123,819	124,542	118,652	115,443	105,072	101,994	74,412	62,982
Medicaid.....	185,463	180,380	176,471	172,136	702,104	937,422	687,535	26,772	90,081
Group health insurance.....	349,870	230,456	209,008	151,604	131,611	111,342	98,598	93,529	81,089
Energy and environmental.....	214,269	226,754	162,639	168,789	156,074	138,854	152,632	132,531	124,317
Housing and economic development*.....	221,340	178,011	185,019	1,892	6,245	3,515	1,446	1,373	1,282
Health and human services*.....	797,929	718,628	601,483	538,543	613,780	756,469	861,899	966,813	909,777
Transportation and public works.....	517,045	494,733	477,420	461,217	448,349	478,154	13,687	7,813	6,995
Early elementary and secondary education*.....	9,661	15,728	10,766	8,042	6,346	5,583	11,644	5,073	3,909
Public safety and homeland security.....	202,427	175,069	153,641	126,962	135,846	112,350	564,023	520,496	451,101
Labor and workforce development*.....	38,319	37,728	31,758	187,256	213,078	199,817	179,794	168,471	160,577
Lottery.....	4,626,777	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935	4,603,204	4,421,621	4,423,052
Total Charges for services.....	7,755,891	7,461,243	7,452,873	7,155,550	7,706,968	8,040,263	7,739,588	6,652,039	6,473,987
Operating grants and contributions.....	11,645,306	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.....	779,403	853,221	484,172	487,365	481,780	461,371	602,449	508,235	338
Total governmental activities.....	20,180,600	20,373,482	17,208,980	16,491,961	16,536,570	16,463,538	16,359,506	14,289,986	13,552,435
Business-type Activities									
Charges for services:									
Unemployment Compensation.....	1,727,964	1,671,098	1,587,543	1,698,249	1,741,101	242,769	1,481,803	940,475	25,183
Higher Education:									
University of Massachusetts.....	1,527,880	1,419,932	1,160,513	1,194,393	1,076,875	424,184	822,668	678,812	584,633
State Colleges.....	479,900	442,685	400,369	287,195	272,918	64,872	222,740	182,428	147,902
Community Colleges.....	235,865	219,986	204,190	190,808	175,418	165,257	165,257	141,480	119,671
Operating grants and contributions.....	4,020,351	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
Total business-type activities.....	7,991,960	5,474,900	4,063,589	4,117,030	3,950,420	4,108,237	4,069,134	3,192,962	1,824,398
Total Commonwealth program revenues.....	\$ 28,172,560	\$ 25,848,382	\$ 21,272,569	\$ 20,608,991	\$ 20,486,988	\$ 20,571,775	\$ 20,428,640	\$ 17,482,948	\$ 15,376,834
General Revenues and Other Changes in Net Assets (all types consolidated):									
Governmental Activities:									
Taxes (all types).....	\$ 19,034,227	\$ 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.....	1,474,995	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.....	(864,697)	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
Transfers to \ from MassDOT.....	(8,983,955)	-	-	-	-	-	-	-	-
Total governmental activities.....	10,660,570	18,917,639	22,053,709	20,151,830	19,068,335	17,822,096	16,619,032	15,391,156	13,302,298
Business-type Activities									
Investment earnings and miscellaneous.....	\$ 553,088	\$ 140,227	\$ 270,145	\$ 315,908	247,181	228,643	181,719	207,296	965,901
Loss on sale of capital assets.....	(12,125)	(11,530)	-	-	-	-	-	-	-
Transfers.....	864,697	1,070,652	1,178,030	1,167,367	1,022,320	926,715	830,453	950,217	1,018,603
Total business-type activities.....	1,405,660	1,199,349	1,448,175	1,483,275	1,269,501	1,155,358	1,012,172	1,157,513	1,984,504
Total Commonwealth general revenues.....	\$ 12,066,230	\$ 20,116,988	\$ 23,501,884	\$ 21,635,105	\$ 20,337,836	\$ 18,977,454	\$ 17,631,205	\$ 16,548,670	\$ 15,286,802
CHANGES IN NET ASSETS									
Governmental activities.....	\$ (10,219,689)	\$ (2,821,583)	\$ 435,327	\$ 695,608	\$ 1,246,707	\$ (5,202,551)	\$ 1,764,090	\$ (1,129,287)	\$ (3,004,374)
Business-type activities.....	(156,694)	(684,470)	263,490	684,671	605,228	560,955	41,136	(718,570)	(739,205)
Current year restatements.....	-	(152,800)	-	-	-	-	-	-	-
Total changes in net assets including restatements.....	\$ (10,376,383)	\$ (3,658,854)	\$ 698,817	\$ 1,380,279	\$ 1,851,935	\$ (4,641,596)	\$ 1,805,226	\$ (1,847,857)	\$ (3,743,578)

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



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

(Modified accrual basis of accounting)

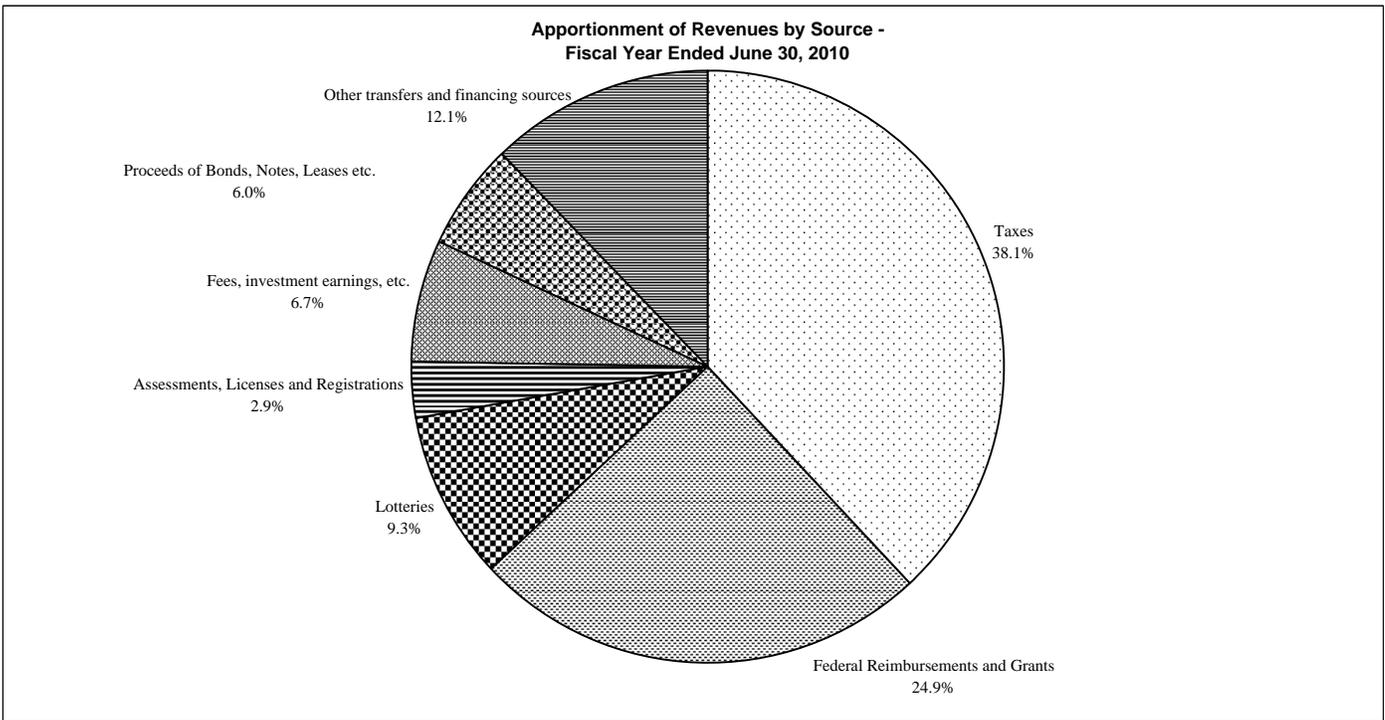
(Amounts in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Total Unreserved general fund.....	\$ 1,834,783	\$ 1,734,822	\$ 3,171,278	\$ 4,899,154	\$ 4,922,074	\$ 4,067,885	\$ 2,497,447	\$ 1,309,917	\$ 2,375,393
All Other Governmental Funds									
Reserved.....	594,492	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.....	2,655,552	2,821,120	3,244,280	1,991,347	1,728,522	329,315	587,008	440,032	(419,077)
Capital Projects Funds.....	(499,111)	(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.....	2,156,441	2,700,982	2,888,710	1,744,362	1,231,222	(174,126)	(20,938)	(763,882)	(1,634,130)
Total all other governmental funds.....	2,750,933	3,326,520	3,891,385	2,836,705	2,341,120	980,681	1,926,959	711,101	92,460
Total governmental fund balances.....	\$ 4,585,716	\$ 5,061,342	\$ 7,062,663	\$ 7,735,859	\$ 7,263,194	\$ 5,048,566	\$ 4,424,406	\$ 2,021,018	\$ 2,467,853
Reclassified from Unreserved to Reserved Other Governmental Funds									

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

(Amounts in millions)

	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total
Taxes.....	\$ 18,991	38.1	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7
Federal reimbursements.....	9,453	19.0	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5
Federal grants.....	2,971	6.0	3,510	7.0	2,681	5.3	2,489	5.0	2,479	5.3
Lotteries.....	4,628	9.3	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0
Assessments.....	965	1.9	929	1.9	858	1.7	860	1.7	850	1.8
Motor vehicle licenses and registrations.....	463	0.9	383	0.8	376	0.7	380	0.8	361	0.8
Fees, investment earnings, etc.....	3,365	6.7	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0
Proceeds of general obligation bonds.....	2,419	4.9	2,042	4.1	1,281	2.6	3,181	6.4	4,492	9.5
Proceeds of refunding bonds.....	538	1.1	390	0.8	-	-	1,428	2.9	633	1.3
Proceeds of capital lease.....	17	-	18	-	17	-	21	-	30	0.1
Transfers.....	6,043	12.1	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.....	\$ 49,853	100.0	\$ 49,788	100.0	\$ 50,136	100.0	\$ 49,402	100.0	\$ 47,190	100.0



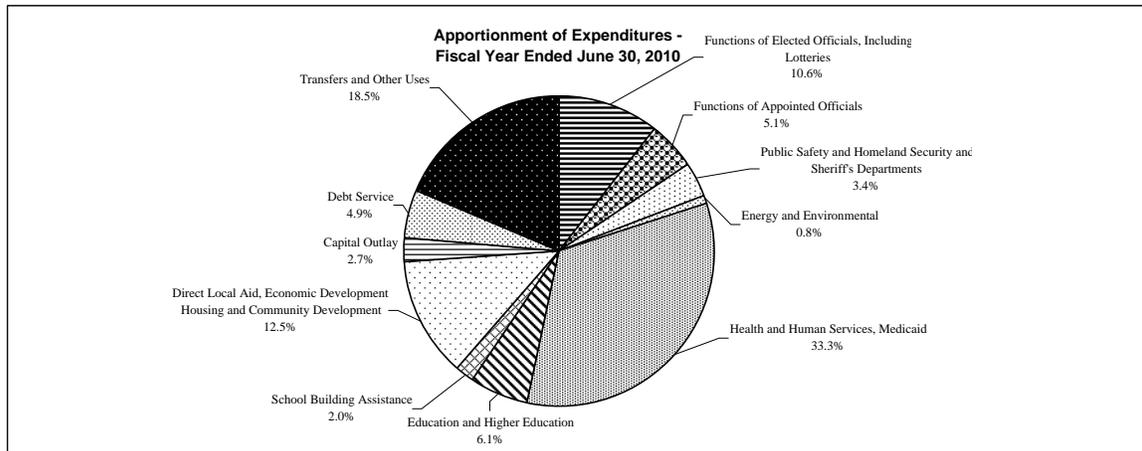
2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total
\$ 17,671	40.6	\$ 16,133	36.4	\$ 15,091	35.3	\$ 14,428	39.6	\$ 16,803	42.8
6,053	13.9	6,284	14.2	5,522	12.9	5,267	14.4	4,716	12.0
2,369	5.4	2,336	5.3	2,112	4.9	1,812	5.0	1,644	4.2
4,705	10.8	4,605	10.4	4,423	10.3	4,425	12.1	4,136	10.5
831	1.9	773	1.7	645	1.5	572	1.6	590	1.5
401	0.9	376	0.8	383	0.9	326	0.9	311	0.8
3,213	7.5	3,028	6.8	2,331	5.4	2,178	6.0	1,885	4.8
1,354	3.1	1,993	4.5	1,911	4.5	1,489	4.1	1,769	4.5
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
5,493	12.6	5,531	12.5	6,981	16.3	4,454	12.2	5,566	14.2
-	-	-	-	-	-	3	-	206	0.5
<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>

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)

	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total
Legislature.....	\$ 59	0.12	\$ 60	0.12	\$ 58	0.11	\$ 59	0.12	\$ 55	0.12
Judiciary.....	769	1.53	797	1.54	796	1.57	799	1.63	660	1.47
Inspector General.....	4	0.01	3	0.01	3	0.01	3	0.01	3	0.01
Governor and Lieutenant Governor.....	5	0.01	8	0.02	9	0.02	5	0.01	5	0.01
Secretary of the Commonwealth.....	52	0.10	51	0.10	51	0.10	52	0.11	44	0.10
Treasurer and Receiver-General.....	4,862	9.66	5,097	9.84	5,089	10.02	4,712	9.63	4,803	10.68
Auditor of the Commonwealth.....	18	0.04	19	0.04	19	0.04	18	0.04	18	0.04
Attorney General.....	52	0.10	53	0.10	45	0.09	62	0.13	52	0.12
Ethics Commission.....	2	0.00	2	-	2	-	2	-	1	-
District Attorney.....	102	0.20	112	0.22	111	0.22	102	0.21	94	0.21
Office of Campaign and Political Finance.....	1	0.00	1	-	1	-	2	-	1	-
Sheriff's Department.....	394	0.78	296	0.57	295	0.58	272	0.56	247	0.55
Disabled Persons Protection Commission.....	2	0.00	3	-	2	-	2	-	2	-
Board of Library Commissioners.....	28	0.05	37	0.07	36	0.07	10	0.02	8	0.02
Comptroller.....	13	0.03	14	0.03	14	0.03	14	0.03	14	0.03
Administration and finance.....	1,686	3.36	1,709	3.30	1,528	3.01	1,849	3.78	1,651	3.67
Energy and environmental.....	403	0.80	352	0.68	312	0.61	318	0.65	282	0.63
Housing and communities development.....	-	-	-	-	-	-	402	0.82	536	1.19
Early education and care.....	-	-	-	-	560	1.10	518	1.06	482	1.07
Health and human services.....	5,529	10.98	6,684	12.91	6,423	12.64	5,907	12.07	5,865	13.04
Transportation and public works.....	474	0.94	389	0.75	347	0.68	350	0.72	282	0.63
Massachusetts department of transportation.....	1,209	2.40	-	-	-	-	-	-	-	-
Executive office of education*.....	2,968	5.90	2,920	5.64	2,205	4.34	2,048	4.19	1,978	4.40
Massachusetts school building assistance.....	973	1.93	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
Public safety and homeland security.....	1,282	2.55	1,416	2.73	1,407	2.77	1,238	2.53	1,165	2.59
Housing and economic development*.....	1,060	2.11	793	1.53	710	1.40	512	1.05	384	0.85
Labor and workforce development*.....	447	0.89	398	0.77	308	0.61	81	0.17	-	-
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	10,678	21.22	10,843	20.94	9,770	19.23	9,044	18.48	8,151	18.12
Pension.....	587	1.17	647	1.25	368	0.72	373	0.76	346	0.77
Direct local aid.....	5,030	9.99	5,208	10.06	5,108	10.05	5,072	10.36	4,674	10.39
Capital outlay:										
Local aid.....	1	0.00	3	0.01	10	0.02	9	0.02	8	0.02
Capital acquisition and construction.....	1,300	2.58	2,514	4.85	1,698	3.34	1,724	3.52	1,754	3.90
Debt service.....	2,407	4.78	2,410	4.65	2,486	4.89	2,538	5.19	2,088	4.64
Other financing uses:										
Payments to refunded bond escrow agent.....	537	1.07	410	0.79	-	-	1,520	3.11	633	1.41
Transfers.....	7,395	14.69	7,887	15.23	10,141	19.96	7,781	15.90	6,253	13.90
Total expenditures and other financing uses.....	\$ 50,329	100.0	\$ 51,789	100.0	\$ 50,810	100.0	\$ 48,935	100.0	\$ 44,975	100.0
Change in Governmental Fund Balance.....	\$ (476)		\$ (2,001)		\$ (674)		\$ 467		\$ 2,215	

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



	2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total
\$	50	0.1	\$ 51	0.1	\$ 53	0.1	\$ 60	0.2	\$ 57	0.2
	580	1.4	577	1.4	568	1.3	593	1.5	597	1.6
	3	-	2	-	2	-	2	-	2	-
	5	-	5	-	5	-	6	-	6	-
	46	0.1	43	0.1	39	0.1	36	0.1	45	0.1
	4,706	11.0	4,535	10.8	4,446	10.3	3,558	9.2	3,335	8.8
	16	-	16	-	16	-	16	-	15	-
	70	0.2	52	0.1	55	0.1	62	0.2	36	0.1
	1	-	1	-	1	-	1	-	2	-
	84	0.2	86	0.2	85	0.2	89	0.2	86	0.2
	1	-	1	-	1	0.0	5	-	1	-
	216	0.5	218	0.5	215	0.5	216	0.6	201	0.5
	2	-	2	-	2	0.0	2	-	2	-
	7	-	6	-	6	-	10	-	11	-
	12	-	8	-	8	-	8	-	8	-
	1,536	3.6	1,508	3.7	1,202	2.8	1,361	3.5	1,202	3.3
	238	0.6	225	0.5	236	0.5	268	0.7	253	0.7
	483	1.1	470	1.1	476	1.1	449	1.2	442	1.2
	-	-	-	-	-	-	-	-	-	-
	6,208	14.5	5,868	14.0	5,327	12.3	5,386	13.9	5,622	15.0
	316	0.7	189	0.5	218	0.5	139	0.4	162	0.4
	-	-	-	-	-	-	-	-	-	-
	2,990	7.0	1,587	3.8	1,546	3.6	1,506	3.9	1,492	3.9
	-	-	-	-	-	-	-	-	-	-
	114	0.3	99	0.2	111	0.3	119	0.3	136	0.4
	1,053	2.5	1,039	2.5	991	2.3	999	2.6	955	2.5
	346	0.8	376	0.9	29	0.1	32	0.1	51	0.1
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	315	0.7	304	0.8	241	0.6
	-	-	-	-	55	0.1	63	0.2	71	0.2
	-	-	-	-	330	0.8	284	0.7	172	0.5
	7,706	18.0	6,909	16.5	6,177	14.3	5,979	15.4	4,761	12.6
	439	1.0	212	0.5	290	0.7	238	0.6	318	0.8
	4,515	10.5	4,861	11.6	5,103	11.8	5,231	13.5	5,012	13.2
	11	-	16	-	15	-	21	0.1	34	0.1
	1,863	4.3	2,120	5.1	2,526	5.8	2,562	6.6	2,566	6.8
	1,719	4.0	1,605	3.8	1,467	3.4	1,382	3.6	1,408	3.7
	1,153	2.7	2,833	6.8	3,398	7.9	1,277	3.3	999	2.6
	6,419	15.0	6,448	15.4	7,931	18.3	6,551	16.9	7,526	19.9
\$	42,908	99.9	\$ 41,968	100.0	\$ 43,245	100.0	\$ 38,815	100.0	\$ 37,827	100.0
\$	624		\$ 2,403		\$ (447)		\$ (1,788)		\$ 1,429	

Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2009	2008	2007	2006
Total personal income.....	\$ 327,324	\$ 333,906	\$ 323,189	\$ 304,855
Unearned Income.....	78,406	76,451	71,530	65,384
Farm earnings.....	145	170	136	131
Nonfarm earnings.....	248,772	257,286	251,524	239,339
Private earnings.....	218,189	227,345	222,947	211,900
Agricultural services, forestry, fishing.....	405	388	402	396
Mining.....	408	468	301	363
Construction.....	11,992	14,307	14,839	15,193
Manufacturing.....	23,299	25,199	25,862	24,697
Durable goods.....	16,542	18,088	18,462	17,638
Nondurable goods.....	6,756	7,111	7,400	7,059
Transportation and utilities.....	6,025	6,144	5,920	5,706
Wholesale trade.....	12,351	13,206	13,057	12,538
Retail trade.....	12,288	12,747	12,976	12,952
Services.....	151,422	154,886	149,588	140,056
Government.....	30,584	29,940	28,577	27,439
Federal, civilian.....	5,319	5,153	5,045	4,873
Military.....	1,222	1,091	1,025	1,005
State and local.....	24,043	23,696	22,507	21,561
Personal income tax revenue (fiscal year, statutory basis).....	\$ 10,584	\$ 12,484	\$ 11,400	\$ 10,483
Total personal income.....	\$ 327,324	\$ 333,906	\$ 323,189	\$ 304,855
Average Effective Rate.....	3.2%	3.7%	3.5%	3.4%
Highest Earned 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.

2005	2004	2003	2002	2001	2000
\$ 282,367	\$ 271,086	\$ 258,600	\$ 254,103	\$ 253,007	\$ 243,132
55,211	51,966	52,227	51,123	49,830	46,105
126	146	132	131	110	131
227,030	218,974	206,242	202,848	203,068	196,896
200,639	193,995	182,312	179,478	180,697	175,464
400	371	314	298	278	226
310	296	318	283	306	422
14,459	13,976	13,223	13,301	12,878	11,234
24,485	24,356	24,159	24,560	26,170	27,664
17,538	17,547	17,175	17,772	19,203	20,503
6,946	6,809	6,984	6,787	6,967	7,162
5,456	5,388	5,226	5,141	5,327	5,032
11,478	11,529	10,887	10,372	10,789	10,904
13,188	12,900	12,472	11,919	11,624	11,098
130,863	125,180	115,712	113,604	113,325	108,885
26,391	24,978	23,930	23,370	22,370	21,432
4,699	4,626	4,319	4,215	4,028	3,895
1,009	934	897	732	583	557
20,683	19,418	18,714	18,423	17,759	16,979
\$ 9,690	\$ 8,830	\$ 8,026	\$ 7,913	\$ 9,903	\$ 9,042
\$ 282,367	\$ 271,086	\$ 258,600	\$ 254,103	\$ 253,007	\$ 243,132
3.4%	3.3%	3.1%	3.1%	3.9%	3.7%
5.3%	5.3%	5.3%	5.3%	5.6%	5.85%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2008 and 1999

(Amounts, except income level are in thousands)

Calendar Year 2008 (or Fiscal Year 2009)				
<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher	585,029	17%	\$ 6,968,523	66%
\$75,001 - \$100,000	289,125	8%	1,079,124	10%
\$50,001 - \$75,000	463,243	14%	1,176,671	11%
\$25,001 - \$50,000	778,201	23%	1,032,343	10%
\$10,001 - \$25,000	641,098	19%	261,657	2%
\$10,000 and lower	664,550	19%	31,182	0%
Total	<u>3,421,246</u>	<u>100%</u>	<u>\$ 10,549,500</u>	<u>100%</u>

Calendar Year 1999 (or Fiscal Year 2000)				
<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher	321,591	10%	\$ 4,294,005	54%
\$75,001 - \$100,000	230,467	7%	963,252	12%
\$50,001 - \$75,000	432,587	14%	1,226,124	15%
\$25,001 - \$50,000	822,389	26%	1,254,757	15%
\$10,001 - \$25,000	722,547	23%	356,806	4%
\$10,000 and lower	666,802	21%	31,288	0%
Total	<u>3,196,383</u>	<u>100%</u>	<u>\$ 8,126,232</u>	<u>100%</u>

Source: Massachusetts Department of Revenue - 2008 is the most recent tax year for which complete data are available.

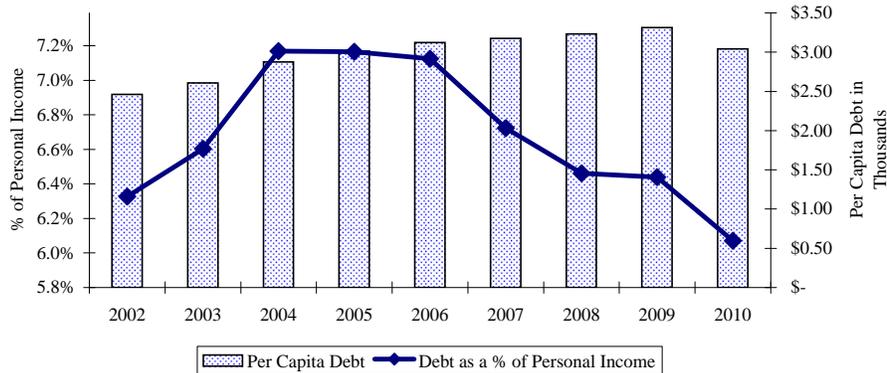
Nine -Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities Bonded Debt ⁽²⁾	Capital Leases ⁽²⁾	Business-Type Activities Bonded Debt ⁽²⁾	Capital Leases ⁽²⁾	Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population ⁽¹⁾	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
2010	\$ 19,726,507	\$ 76,608	\$ 57,699	\$ 40,924	\$ 19,901,738	\$ 327,323,542	6,544	6.1%	\$ 3.04
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	333,906,368	6,499	6.4%	\$ 3.31
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	323,189,195	6,466	6.5%	3.23
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,854,834	6,466	6.7%	3.17
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,467	6,453	7.1%	3.12
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,049	6,451	7.2%	3.02
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,600,458	6,452	7.2%	2.88
2003	15,962,506	75,754	673,398	91,934	16,803,592	254,102,715	6,441	6.6%	2.61
2002	14,955,135	91,146	670,432	79,880	15,796,593	249,243,450	6,412	6.3%	2.46

(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.

Nine - Year Per Capita Debt and Capital Leases



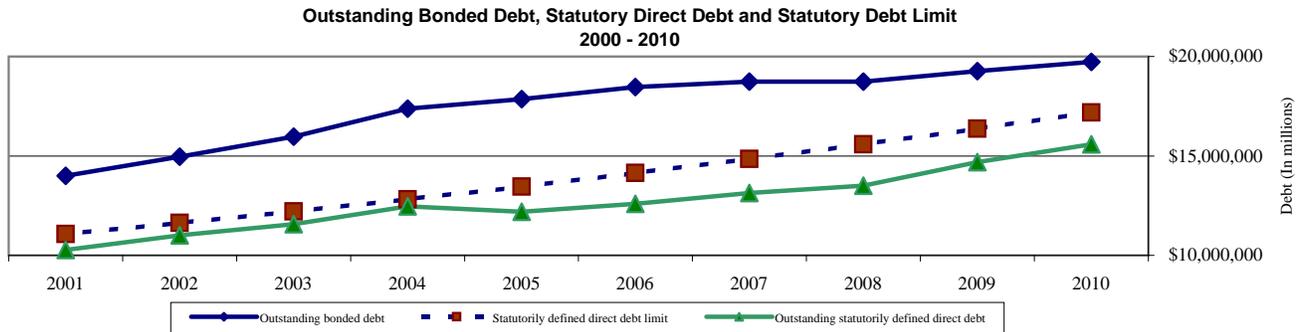
Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2010	2009	2008	2007	2006
Outstanding debt for Statutory Purposes as of June 30 (2).....	\$ 19,726,507	\$ 19,264,569	\$ 18,734,440	\$ 18,736,961	\$ 18,461,406
Less amounts excluded by statute:					
Central artery project bonds net proceeds.....	(1,243,250)	(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)
Chapter 5 of the Acts of 1992 bonds net proceeds.....	-	-	-	-	-
County debt assumed.....	(225)	(300)	(375)	(450)	(525)
Premium / (Discount) and issuance costs.....	216,688	216,890	123,335	102,048	112,673
Grant anticipation notes (GANs) net proceeds (1).....	(997,467)	(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)
School Modernization and Reconstruction Trust bonds.....	(894,502)	(921,751)	(946,285)	(946,285)	(1,000,000)
Convention Center bonds net proceeds	(643,715)	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds net proceeds	(165,559)	(231,000)	(309,203)	(368,873)	(416,830)
Special obligation gas bonds net proceeds.....	(419,785)	(456,984)	(482,953)	(617,226)	(647,551)
Outstanding statutorily defined direct debt.....	\$ 15,578,692	\$ 14,691,332	\$ 13,504,384	\$ 13,132,900	\$ 12,599,293
Statutorily defined direct debt limit.....	\$ 17,183,261	\$ 16,365,011	\$ 15,585,725	\$ 14,843,547	\$ 14,136,712
Debt margin (Debt limit less direct debt).....	\$ 1,604,569	\$ 1,673,679	\$ 2,081,341	\$ 1,710,647	\$ 1,537,418
Debt margin as a percentage of direct debt limit.....	9.34%	10.23%	13.35%	11.52%	10.88%

(1) Inclusive of Crossover Refunding Amounts.

(2) Exclusive of the Massachusetts School Building Authority debt.



	2005	2004	2003	2002	2001
\$	17,856,799	\$ 17,382,172	\$ 15,962,506	\$ 14,955,135	\$ 13,999,454
	(1,336,741)	(1,066,638)	(1,386,869)	(838,193)	(999,995)
	-	-	(10,600)	(22,043)	(71,054)
	(600)	(675)	(855)	(1,115)	(1,375)
	70,937	1,120	(68,718)	(181,910)	(282,829)
	(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)	(1,500,000)
	(500,000)	-	-	-	-
	(693,400)	-	-	-	-
	(511,546)	(601,027)	(680,869)	(625,000)	(325,000)
	(792,148)	(1,347,882)	(748,124)	(772,812)	(539,242)
\$	<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>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>1,278,249</u>	<u>\$ 363,359</u>	<u>\$ 645,352</u>	<u>\$ 616,245</u>	<u>\$ 796,524</u>
	<u>9.49%</u>	<u>2.83%</u>	<u>5.28%</u>	<u>5.30%</u>	<u>7.19%</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)

	2010	2009	2008	2007	2006
<u>Highway Bonds</u>					
These bonds are secured by a pledge of 6.86¢ for 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.....	\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469
Operating Expenses.....	-	-	-	-	6,913
Net Available Revenues.....	\$ 188,666	\$ 189,246	\$ 194,785	\$ 148,047	\$ 232,556
Annual Debt Service Debt Split.....	\$ 58,931	\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545
Debt Service Coverage Ratio.....	3.20	3.21	3.45	2.51	4.11
Ratings History of Bonds*.....	AA-, Aa3, AA				
<u>Convention Center Bonds</u>					
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.....	\$ 75,432	\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052
Operating Expenses.....	59,591	27,560	21,483	33,645	16,613
Net Available Revenues.....	\$ 15,841	\$ 46,358	\$ 57,501	\$ 32,702	\$ 38,439
Annual Debt Service MMARS.....	\$ 36,296	\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964
Debt Service Coverage Ratio.....	0.44	1.28	1.62	0.95	1.13
Ratings History of Bonds*.....	A2, A				
<u>Grant Anticipation Notes</u>					
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.....	\$ 761,351	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
Operating Expenses.....	12,035	-	-	-	-
Net Available Revenues.....	\$ 749,316	\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284
Annual Debt Service Debit Limit.....	\$ 196,248	\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712
Debt Service Coverage Ratio.....	3.82	4.05	2.19	2.18	2.13
Ratings History of Bonds*.....	Aa3, AA				
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1)	\$ 51,278	\$ 39,358	\$ 36,747	\$ 34,373	\$ 33,975

(1) Source: The Federal Budget for Fiscal 2011, Historical Tables, Table 9.6 2010 is estimated. *Uninsured rating, if available.

	2005	2004	2003	2002	2001
\$	196,210	\$ 196,380	\$ 194,232	\$ 191,559	\$ 188,763
	<u>10,052</u>	<u>6,172</u>	<u>7,007</u>	<u>-</u>	<u>-</u>
\$	186,158	\$ 190,208	\$ 187,225	\$ 191,559	\$ 188,763
\$	48,378	\$ 124,751	\$ 52,123	\$ 52,123	\$ 52,120
	3.85	1.52	3.59	3.68	3.62
	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-	AA-
\$	50,561	\$ 35,103			
	<u>19,843</u>	<u>81,644</u>			
\$	30,718	\$ (46,541)			
\$	18,350	\$ -			
	1.67	NMF			
	A2, A	A2, A			
\$	449,331	\$ 599,040	\$ 507,716	\$ 497,453	\$ 460,376
	<u>-</u>	<u>29,208</u>	<u>23,546</u>	<u>8,993</u>	<u>-</u>
\$	449,331	\$ 569,832	\$ 484,170	\$ 488,460	\$ 460,376
\$	95,223	\$ 93,466	\$ 74,822	\$ 74,821	\$ 61,384
	4.72	6.10	6.47	6.53	7.50
	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
\$	31,433	\$ 30,188	\$ 30,379	\$ 30,115	\$ 27,206

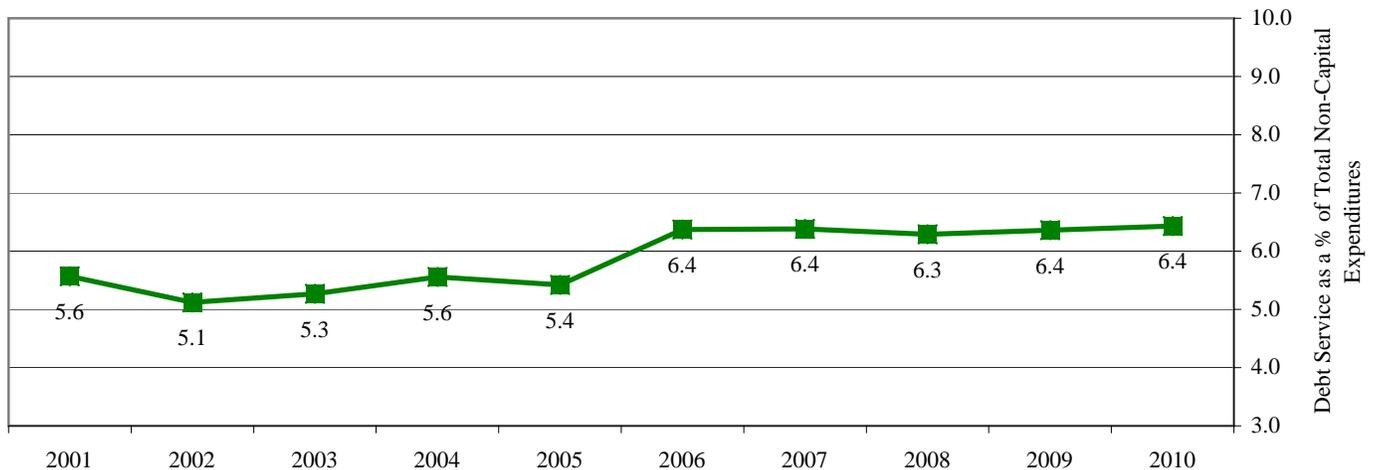
**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures
For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types**

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total Non-capital expenditures	Ratio
2010	\$ 2,407	\$ 37,431	6.4
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

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 2001- 2010



Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

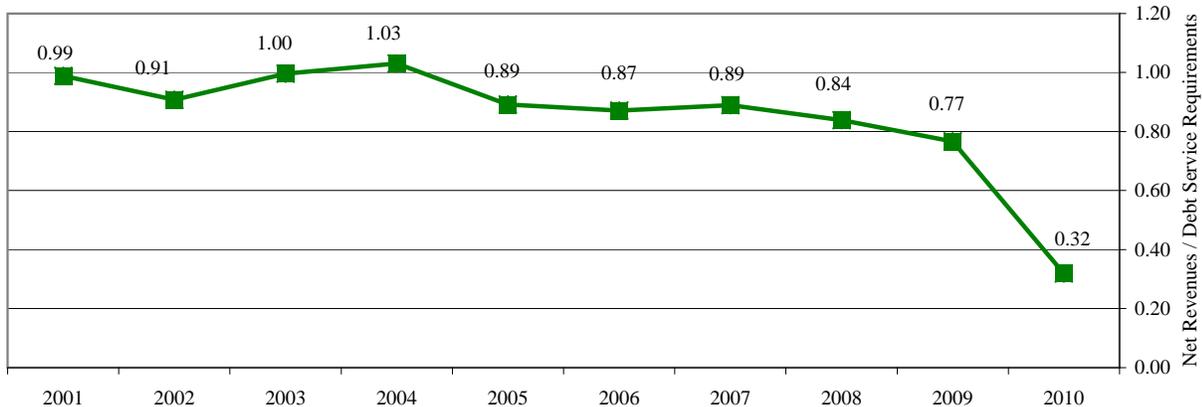
Fiscal year ended June 30	Net revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio
2010	\$ 431,441	\$ 1,350,251	0.32
2009	805,316	1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding. Beginning FY2010, interest expense were included in the net revenue calculation. For FY10, the interest expenses amounted to \$620.8 million

(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 2001 - 2010



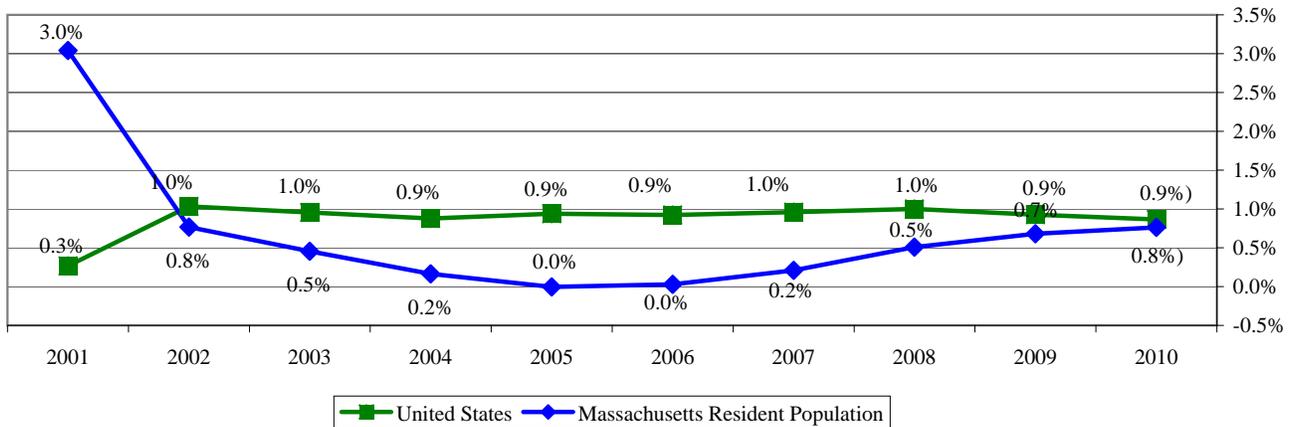
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2010	307,007	0.9%	6,594	0.8%	2.1%
2009	304,375	0.9%	6,544	0.7%	2.1%
2008	301,580	1.0%	6,499	0.5%	2.2%
2007	298,593	1.0%	6,466	0.2%	2.2%
2006	295,753	0.9%	6,453	0.0%	2.2%
2005	293,046	0.9%	6,451	0.0%	2.2%
2004	290,326	0.9%	6,452	0.2%	2.2%
2003	287,804	1.0%	6,441	0.5%	2.2%
2002	285,082	1.0%	6,412	0.8%	2.2%
2001	282,172	0.3%	6,363	3.0%	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
2001 - 2010**

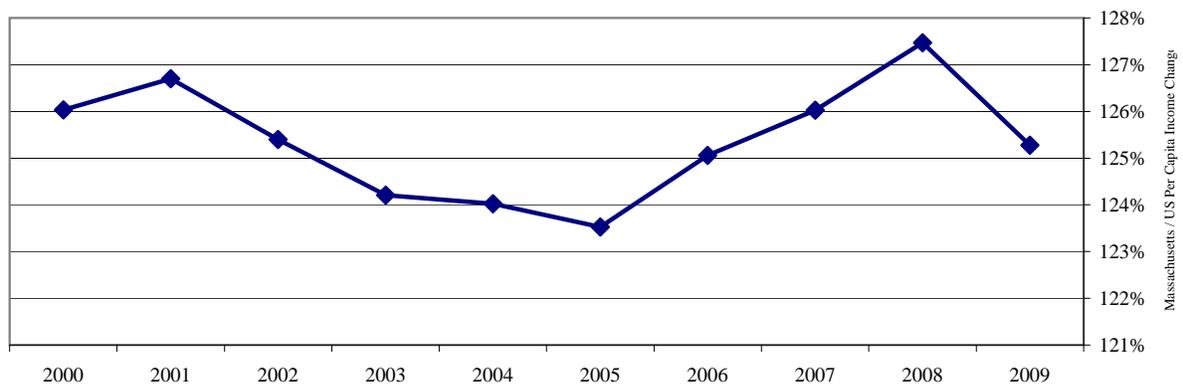


Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Calendar Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2009	39,626	-2.6%	49,643	-2.7%	125.3%
2008	40,673	4.3%	51,028	4.3%	127.5%
2007	39,458	4.7%	49,727	5.5%	126.0%
2006	37,698	6.4%	47,144	7.7%	125.1%
2005	35,424	4.6%	43,757	4.1%	123.5%
2004	33,881	5.0%	42,021	4.8%	124.0%
2003	32,271	2.6%	40,083	1.6%	124.2%
2002	31,461	1.0%	39,451	0.0%	125.4%
2001	31,145	2.7%	39,460	3.3%	126.7%
2000	30,318	7.0%	38,210	10.2%	126.0%

Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 1990-2010 were released on September 20, 2010. These estimates incorporate newly available state-level source data. Per capita personal income were computed using midyear population estimates of the Census Bureau, released October 2009.

**Massachusetts vs. United States Year-to-Year Per Capita Net Income
Calendar Years 2000 - 2009**



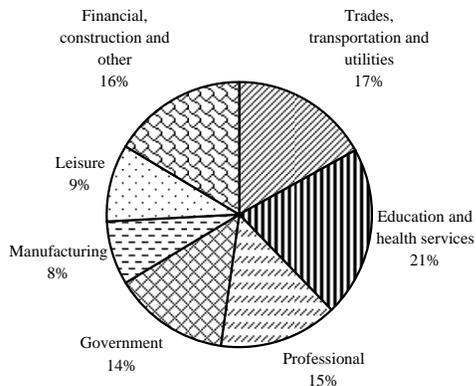
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2010

(Amounts in thousands)

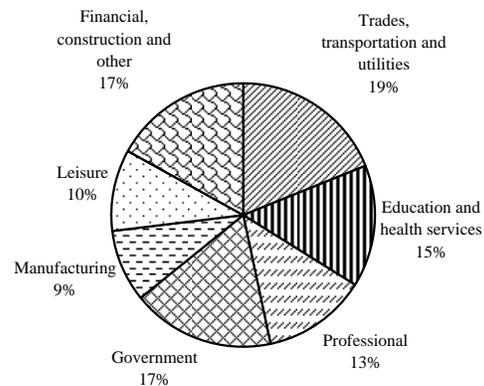
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	253	7.9%	11,672	8.9%	88.8%
Non-manufacturing:					
Construction	108	3.4%	5,596	4.3%	78.8%
Trade, Transportation and Utilities Employment	536	16.8%	24,741	19.0%	88.6%
Education and health services	666	20.9%	19,532	15.0%	139.6%
Financial activities	207	6.5%	7,591	5.8%	111.7%
Information activities	85	2.7%	2,711	2.1%	128.3%
Leisure and hospitality services	302	9.5%	13,100	10.0%	94.5%
Professional and business services	464	14.6%	16,697	12.8%	113.9%
Natural Resources, Mining and Other	120	3.8%	6,056	4.6%	80.8%
Federal, state and local government	445	14.0%	22,723	17.4%	80.1%
Total Non-manufacturing	2,932	92.1%	118,747	91.1%	101.1%
Total	3,185	100.0%	130,419	100.0%	

Source: - Bureau of Labor Statistics, June 2010 Employment, seasonally adjusted, data as of November 2010.

Massachusetts Employment by Industry June 2010



United States Employment by Industry June 2010

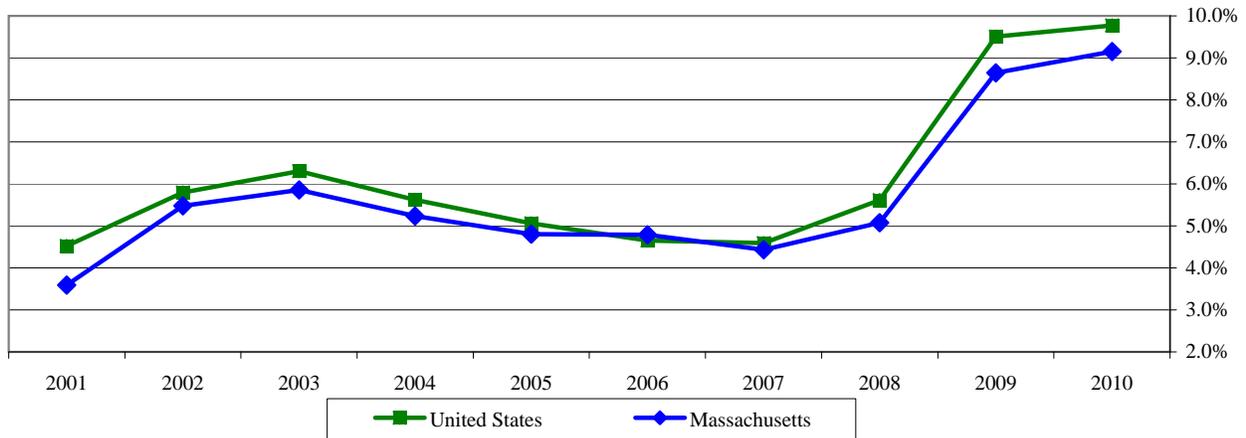


**Ten-Year Schedule Of Fiscal Year Annual Average Civilian Labor Force,
Unemployment And Unemployment Rates
For Massachusetts And The United States**

(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2010	3,477	318	9.1%	153,898	15,040	9.8%	93.6%
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%

**Massachusetts and United States Average Unemployment Rates
FY2001 to FY2010**



Source: - Federal Bureau of Labor Statistics, November 2010. Amounts and rates from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

Largest Private Sector Massachusetts Employers 2010 and 2001
(Alphabetical Order)

<u>2010</u>			<u>2001</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 2010 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 register each 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>2010</u>	<u>2009</u>
Raytheon Company (New)	RTN	Lexington	Industrials	75,100	\$ 24,881	95	108
Staples Inc.	SPLS	Framingham	Consumer Discretionary	54,149	24,275	101	109
TJX Companies Inc.	TJX	Framingham	Consumer Discretionary	154,000	20,288	119	131
EMC Corporation	EMC	Hopkinton	Information Technology	43,200	14,025	166	172
State Street Corp.	STT	Boston	Diversified Financial Services	28,940	9,362	249	206
Thermo Fisher Scientific	TMO	Waltham	Health Care	35,400	10,109	234	258
Boston Scientific	BSX	Natick	Health Care Equipment	20,100	8,188	279	320
Genzyme Corp.	GENZ	Cambridge	Health Care	12,000	4,515	458	-
Biogen IDEC Inc.	BIIB	Cambridge	Health Care	4,750	4,377	471	-
Iron Mountain Incorporated	IRM	Boston	Industrials	21,000	3,013	-	-
Analog Devices	ADI	Waltham	Information Technology	8,500	2,761	-	-
PerkinElmer, Inc.	PKI	Wellesley	Health Care	8,200	1,812	-	-
Boston Properties	BXP	Boston	Financials	700	996	-	-
Waters Corporation	WAT	Milford	Health Care	5,200	904	-	-
American Tower Corp.	AMT	Boston	Telecommunication Services	1,420	1,724	-	-
Teradyne, Inc.	TER	North Reading	Information Technology	2,900	312	-	-
Novell Inc.	NOVL	Waltham	Information Technology	4,100	675	-	-
Akamai Technologies Inc.	AKAM	Cambridge	Information Technology	1,750	609	-	-

Sources: - Standard and Poors (from Standardandpoors.com), Finance.Yahoo.com and Fortune Magazine (from 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 and Poors 500.

**Full Time Equivalent Employees
By Function / Program
Last Ten Years**

Functions / Programs	2010	2009	2008	2007	2006
General Government.....	8,280	6,277	6,368	6,204	6,177
Judiciary.....	7,388	7,821	8,021	7,993	7,635
Energy and Environmental affairs.....	2,783	2,955	2,928	2,847	2,686
Health and human services.....	21,401	22,605	23,322	22,972	22,935
Transportation and construction.....	4,127	3,043	2,892	1,903	2,708
Education.....	1,575	844	615	617	651
Public safety and homeland security.....	15,857	13,951	14,242	14,550	13,517
Housing and economic development.....	846	2,314	2,302	2,339	2,264
Higher Education:					
University of Massachusetts.....	14,031	13,814	13,651	13,602	13,360
State colleges.....	4,282	4,650	4,519	4,495	4,301
Community colleges.....	4,276	4,781	4,775	4,689	4,603
Totals.....	84,846	83,055	83,636	82,211	80,837
Percentage Change	2%	-1%	2%	2%	2%

Source: Office of the State Comptroller

"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and constructions includes MassDOT. FTE's are rounded. Prior years not restated for changes.

2005	2004	2003	2002	2001	Change - 2010 from 2001
5,750	5,449	5,644	5,724	6,261	32%
7,467	7,099	7,198	7,393	8,159	-9%
2,744	2,612	2,814	2,949	3,161	-12%
22,855	22,229	23,087	23,269	25,143	-15%
2,759	1,794	1,843	1,820	2,094	97%
587	569	579	545	530	197%
13,152	13,578	13,964	14,446	14,752	7%
2,299	2,300	2,322	2,382	2,468	-66%
12,807	12,356	12,513	11,821	12,572	12%
4,224	3,914	3,957	3,812	4,026	6%
4,523	4,219	4,408	4,340	4,720	-9%
79,167	76,120	78,328	78,501	83,886	1%
4%	-3%	0%	-6%	1%	

**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
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
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%

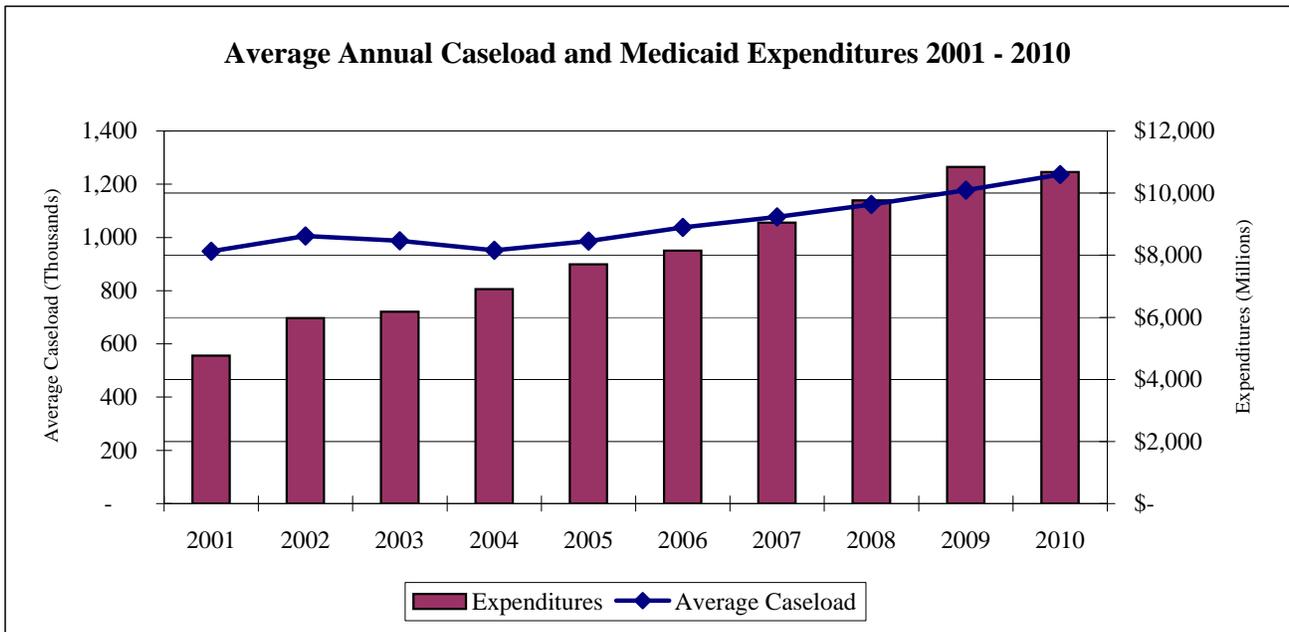
*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development
Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.*

Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2010	1,236	\$ 10,678	\$ 8,639
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

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 2010	Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006
General Government:					
Total Acreage	2,373	2,495	1,858	1,681	2,050
Number of Improvements	227	240	163	84	232
Gross square footage	6,797,819	6,660,792	5,736,028	4,767,751	6,745,962
Judiciary:					
Total Acreage	141	141	145	135	118
Number of Improvements	68	69	71	71	68
Gross square footage	4,787,564	4,826,836	5,080,836	4,889,645	4,351,128
Energy and environmental affairs					
Total Acreage	623,952	606,662	591,511	586,173	569,282
Number of Improvements	2,183	2,170	2,162	2,156	2,159
Gross square footage	7,299,322	7,246,280	7,242,870	7,185,678	7,057,840
Housing and economic development:					
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	77,642
Health and human services:					
Total Acreage	7,196	7,166	7,259	7,604	7,615
Number of Improvements	866	902	980	1,059	1,001
Gross square footage	10,809,259	11,214,034	12,270,433	13,371,858	12,333,804
Transportation and public works:					
Total Acreage	6,966	7,050	6,930	6,933	7,217
Number of Improvements	918	915	915	914	910
Gross square footage	4,876,689	4,876,936	4,876,936	4,856,942	4,845,365
Education:					
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
Public safety and homeland security:					
Total Acreage	18,693	18,331	18,324	18,319	17,530
Number of Improvements	1,029	1,028	1,023	1,031	1,026
Gross square footage	12,685,447	12,632,897	12,631,497	12,768,250	12,885,742
Higher Education:					
Total Acreage	7,169	7,151	7,149	7,133	7,089
Number of Improvements	975	937	940	932	933
Gross square footage	32,117,854	31,101,329	31,197,929	30,947,996	30,870,743
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	666,725	649,231	633,412	628,212	611,136
Number of Improvements	6,315	6,310	6,303	6,296	6,378
Gross square footage	79,723,948	78,909,098	79,386,523	79,138,114	79,440,578
Percentage Change for Commonwealth:					
Acreage	2.7%	2.5%	0.8%	2.8%	1.8%
Improvements	0.1%	0.1%	0.1%	-1.3%	-1.3%
Gross square footage	1.0%	-0.6%	0.3%	-0.4%	-3.0%

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_2010.pdf.

Survey Year 2005	Survey Year 2004	Survey Year 2003	Survey Year 2002	Survey Year 2001
2,772	2,486	3,137	3,750	4,142
300	306	263	352	469
8,429,827	8,315,791	8,428,905	10,124,543	12,346,526
117	114	113	113	113
68	68	68	68	62
4,884,206	4,884,206	4,952,821	4,887,321	4,582,299
558,347	552,857	539,437	511,732	494,093
2,168	1,916	1,903	2,042	1,727
7,039,038	6,677,076	6,601,985	6,965,507	7,101,935
2	2	2	2	2
6	6	6	6	5
76,812	76,812	76,812	76,812	47,500
7,311	7,284	7,561	7,784	7,779
992	997	1,068	1,110	854
12,251,382	12,493,551	13,339,508	13,669,358	12,446,222
7,175	7,513	7,736	7,484	7,562
908	909	909	965	1,019
4,812,965	4,821,599	4,823,279	4,954,627	4,989,788
233	234	233	-	-
43	44	43	-	-
272,352	272,352	272,352	-	-
17,515	17,454	17,485	17,391	17,366
1,038	1,037	1,069	1,113	584
13,137,177	13,131,414	13,563,676	13,630,934	7,876,300
7,138	7,163	7,169	7,353	6,929
941	939	935	990	721
30,997,427	30,728,820	30,267,370	30,975,993	26,420,404
600,609	595,107	582,873	555,609	537,985
6,464	6,222	6,264	6,646	5,441
81,901,186	81,401,621	82,326,708	85,285,095	75,810,974
0.9%	2.1%	4.9%	3.3%	2.2%
3.9%	-0.7%	-5.7%	22.1%	0.2%
0.6%	-1.1%	-3.5%	12.5%	-2.7%

**Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years**

Academic Year	Fall 2009	Fall 2008	Fall 2007	Fall 2006	Fall 2005
<u>ENROLLMENT, TUITION AND FEES</u>					
<u>University System</u>					
Undergraduate (FTE).....	44,543	42,768	40,806	39,283	38,286
Graduate (FTE).....	10,177	9,460	9,328	8,906	8,549
System Enrollment.....	54,720	52,228	50,134	48,189	46,835
Tuition and Fees (per student)					
Resident (undergraduate).....	\$ 9,704	\$ 9,585	\$ 9,305	\$ 9,000	\$ 8,697
<u>State College System</u>					
Undergraduate (FTE).....	34,129	33,040	32,106	31,384	30,464
Graduate (FTE).....	4,582	4,495	4,428	4,352	4,258
System Enrollment.....	38,711	37,535	36,535	35,736	34,722
Tuition and Fees (per student)					
Resident (undergraduate).....	\$ 6,880	\$ 6,399	\$ 6,123	\$ 5,855	\$ 5,448
<u>Community College System</u>					
Undergraduate (FTE).....	60,602	54,228	51,257	49,347	48,555
Tuition and Fees (per student).....					
Resident.....	\$ 4,305	\$ 3,851	\$ 3,654	\$ 3,526	\$ 3,477
	2010	2009	2008	2007	2006
<u>DEGREES CONFERRED</u>					
<u>University System</u>					
Certificates (MD's).....	329	280	270	268	260
Associate's.....	111	103	96	117	99
Bachelors.....	9,362	8,763	8,437	8,191	8,089
Masters.....	3,029	2,882	2,808	2,503	2,484
Doctoral.....	400	381	390	443	371
Total Degrees.....	13,231	12,409	12,001	11,522	11,303
<u>State College System</u>					
Certificates.....	572	605	597	615	556
Bachelors.....	6,886	6,621	6,328	6,207	5,885
Masters.....	2,467	2,343	2,318	2,201	2,190
Total Degrees.....	9,925	9,569	9,243	9,023	8,631
<u>Community College System</u>					
Certificates.....	2,770	2,587	2,495	2,297	2,422
Associates.....	9,257	8,549	8,247	7,942	8,024
Total Degrees.....	12,027	11,136	10,742	10,239	10,446
Total All Systems - Degrees.....	35,183	33,114	31,986	30,784	30,380

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

<u>Fall 2004</u>	<u>Fall 2003</u>	<u>Fall 2002</u>	<u>Fall 2001</u>	<u>Fall 2000</u>	<u>Change - 2009 from 2000</u>
37,598	37,904	37,762	37,961	37,101	20.1%
8,494	8,494	8,334	8,223	8,139	25%
46,093	46,398	46,097	46,184	45,240	21.0%
\$ 8,437	\$ 6,801	\$ 5,798	\$ 4,693	\$ 4,697	106.6%
29,051	29,238	26,489	623	26,791	27.4%
8,658	8,360	7,296	7,138	3,860	19%
37,709	37,598	33,785	7,761	30,651	23.2%
\$ 5,100	\$ 4,590	\$ 3,743	\$ 2,954	\$ 2,962	132.3%
50,972	51,067	49,483	46,756	44,098	37.4%
\$ 3,380	\$ 3,265	\$ 2,833	\$ 2,273	\$ 2,153	100.0%
<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>Change - 2010 from 2001</u>
167	150	146	196	151	117.9%
95	119	106	111	110	0.9%
8,205	7,764	7,645	7,525	7,489	25.0%
2,588	2,467	2,311	2,165	2,332	29.9%
389	407	322	358	337	18.7%
11,444	10,907	10,530	10,355	10,419	27.0%
540	490	535	313	251	127.9%
5,549	5,525	5,545	5,096	5,166	33.3%
2,048	2,157	2,053	1,881	1,659	48.7%
8,137	8,172	8,133	7,290	7,076	40.3%
2,278	2,281	1,947	1,930	1,941	42.7%
7,993	7,670	7,184	6,939	6,958	33.0%
10,271	9,951	9,131	8,869	8,899	35.2%
29,852	29,030	27,794	26,514	26,394	33%

Calculation of Transfers: Stabilization Fund

June 30, 2010

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by FY 2011 General Appropriation Act Section 142, which superceded certain parts of the Section 5c. It presents information contained in the official accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	Amounts in thousands
Undesignated Budgeted Fund Balances before calculation of transfers:	
General Fund	\$ 75,900
Commonwealth Transportation Fund	-
Workforce Training Fund	11,153
Massachusetts Tourism Fund	28,178
International Educational and Foreign Language Grant Program Fund	-
Net surplus / (deficit).....	\$ 115,231
Less: Amount to be carried forward per Chapter 29, Section 5c(a) per Schedule A	93,962
Less: Amount to be deposited in the Stabilization Fund also per Chapter 29, Section 5c(a) per Schedule A - <i>Not Applicable for FY2010 Per FY 2010 General Appropriation Act, Section 126.....</i>	Not Applicable
Net consolidated net surplus as defined in Chapter 29, Section 5c, as amended to be deposited into the Stabilization Fund.....	\$ 21,269
Chapter 131 of the Acts of 2010, Section 142 Transfers:	
The comptroller shall transfer \$10,000,000 from the General Fund to the Massachusetts Life Sciences Investment Fund.....	\$ 10,000
Remaining Amount transferred from General Fund to the Stablization Fund	\$ 11,269
General Law Section 5c of Chapter 29, Fund Balance Deficit Elimination transfers :	
General Fund	\$ -
Commonwealth Transportation Fund	-
Workforce Training Fund	-
Massachusetts Tourism Fund	-
International Educational and Foreign Language Grant Program Fund	-
Net.....	\$ -
Fund Balance after Deficit Elimination	
General Fund	\$ 75,900
Commonwealth Transportation Fund	-
Workforce Training Fund	11,153
Massachusetts Tourism Fund	28,178
International Educational and Foreign Language Grant Program Fund	-
Net.....	\$ 115,231
Stabilization Balance Reconciliation:	
Balance as of July 1, 2009	\$ 841,344
Investment income, certain tax revenues and other recoveries.....	23,764
Less: Transfers from Stabilization Fund	
Investment Income.....	(21,783)
Principal transfers.....	(184,791)
Transfers from Stabilization during the FY 2010	(206,574)
Transfer per Chapter 31 of the Acts of 2010, per the calculation above.....	11,269
Stabilization Fund Balance	\$ 669,803

Calculation Of Transfers: Tax Reduction Fund

June 30, 2010
(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.....	\$ 669,803
Allowable Stabilization Fund balance (per Schedule B).....	<u>4,546,502</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u><u>\$ -</u></u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 669,803
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u><u>\$ 669,803</u></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>\$ -</u></u>

MASSACHUSETTS GENERAL INFORMATION

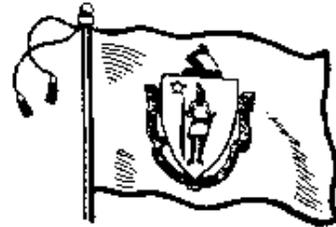
Admitted to Union (6th State): 1788
Population: 6,497,967

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."

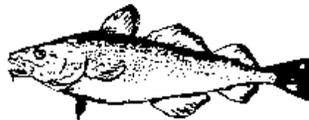
The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower



The Mayflower

The State Fish



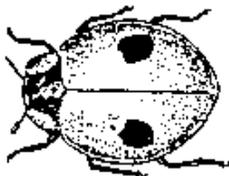
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

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