



COMMONWEALTH OF MASSACHUSETTS

OMB Circular A-133 Report

June 30, 2014

COMMONWEALTH OF MASSACHUSETTS

OMB Circular A-133 Report

June 30, 2014

Table of Contents

	Page
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	14
Schedule of Findings and Questioned Costs:	
Summary of Auditors' Results	21
Findings Relating to the Financial Statements Reported in Accordance with <i>Government Auditing Standards</i> :	
Department of Workforce Development	24
Office of the Comptroller	26
Executive Office of Labor and Workforce Development	28
Executive Office of Health and Human Services	35
Information Technology Division	45
Findings and Questioned Costs Relating to Federal Awards:	
Department of Housing and Community Development	49
Executive Office of Labor and Workforce Development	54
Department of Transportation	65
Department of Elementary and Secondary Education	67
Massachusetts Rehabilitation Commission	80
Massachusetts Commission for the Blind	82

COMMONWEALTH OF MASSACHUSETTS

OMB Circular A-133 Report

June 30, 2014

Table of Contents

	Page
Department of Early Education and Care	85
Executive Office of Health and Human Services	87
Massachusetts Emergency Management Agency	95
Summary of Prior Year's Findings and Questioned Costs – (Not Covered by Auditors Reports)	



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' 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 Benison, Comptroller
Commonwealth of Massachusetts:

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 23, 2014. Our report includes an emphasis of matter paragraph regarding the Commonwealth adopting the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities* and No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our report includes a reference to other auditors who audited the financial statements of the entities described in note 13 to the Commonwealth's basic financial statements. The financial statements of certain entities 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commonwealth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and others that we consider to be significant deficiencies.

A deficiency in internal control 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, 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. We consider the



deficiency described in the accompanying schedule of findings and questioned costs as 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2014-002 through 2014-017 to be significant deficiencies.

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*.

The Commonwealth's Responses to Findings

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commonwealth's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 23, 2014



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Mr. Martin Benison, Comptroller
Commonwealth of Massachusetts:

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Massachusetts' (the Commonwealth) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2014. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

As discussed in note (1) 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 accompanying schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of the entities identified in note (1) as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Commonwealth's compliance.



Opinion on Each Major Federal Program

In our opinion, the Commonwealth complied, in all material respects, with the compliance 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2014-018, 2014-019, 2014-021 through 2014-028, 2014-030, 2014-031, 2014-033 through 2014-038 and 2014-040 through 2014-043. Our opinion on each major federal program is not modified with respect to these matters.

The Commonwealth's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 control 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2014-018 through 2014-043.

The Commonwealth's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses



were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements. We issued our report thereon dated December 23, 2014, which referred to the use of reports of other auditors and which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

March 18, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

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	\$ 6,055,230
10.156	Federal-State Marketing Improvement Program	549,325
10.307	Organic Agriculture Research and Extension Initiative	57,191
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	81,276,948
10.558	Child and Adult Care Food Program	63,696,138
10.560	State Administrative Expenses for Child Nutrition	4,653,698
10.572	WIC Farmers' Market Nutrition Program (FMNP)	386,393
10.576	Senior Farmers Market Nutrition Program	521,316
10.578	WIC Grants To States (WGS)	1,049,778
10.579	Child Nutrition Discretionary Grants Limited Availability	713,969
10.580	Supplemental Nutrition Assistance Program, Outreach/Participation Program	153,390
10.582	Fresh Fruit and Vegetable Program	3,064,745
10.664	Cooperative Forestry Assistance	1,080,502
10.675	Urban and Community Forestry Program	291,952
10.676	Forest Legacy Program	405,723
10.678	Forest Stewardship Program	96,704
10.913	Farm and Ranch Lands Protection Program	2,984,416
	SNAP Cluster:	
10.551	Food Stamps	1,315,904,839
10.561	State Administrative Matching Grants for Food Stamp Program	60,575,125
	Total SNAP Cluster	<u>1,376,479,964</u>
	Child Nutrition Cluster:	
10.553	School Breakfast Program	41,840,521
10.555	National School Lunch Program	394,347,301
10.556	Special Milk Program for Children	248,321
10.559	Summer Food Service Program for Children	7,406,898
	Total Child Nutrition Cluster	<u>443,843,041</u>
	Food Distribution Cluster:	
10.568	Emergency Food Assistance Program administrative costs	1,199,152
	Total Food Distribution Cluster	<u>1,199,152</u>
	Total U.S. Department of Agriculture	<u>1,988,559,575</u>
	U.S. Department of Commerce:	
11.407	Interjurisdictional Fisheries Act of 1986	98,520
11.419	Coastal Zone Management Administration Awards	2,369,389
11.420	Coastal Zone Management Estuarine Research Reserves	777,289
11.454	Unallied Management Projects	740,000
11.463	Habitat Conservation	876,696
11.472	Unallied Science Program	611,274
11.474	Atlantic Coastal Fisheries Cooperative Management Act	341,890
11.549	State and Local Implementation Grant Program	399,061
	Total U.S. Department of Commerce	<u>6,214,119</u>
	U.S. Department of Defense:	
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,041,032
12.400	Military Construction, National Guard	8,764,328
12.401	National Guard Military Operations and Maintenance (O&M) Projects	37,366,432
	Total U.S. Department of Defense	<u>47,171,792</u>
	U.S. Department of Housing and Urban Development:	
14.181	Supportive Housing for Persons with Disabilities	712,529
14.231	Emergency Shelter Grants Program	4,005,105
14.235	Supportive Housing Program	7,524,313
14.238	Shelter Plus Care	466,922
14.239	HOME Investment Partnerships Program	9,658,084
14.241	Housing Opportunities for Persons with AIDS	150,390
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants	29,400

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
14.401	Fair Housing Assistance Program State and Local	\$ 569,523
14.855	Section 8 Rental Voucher Program	1,834,584
14.881	Moving to Work Demonstration Program	222,394,085
14.906	Healthy Homes Technical Studies Grants	254,307
	Section 8 Project-Based Cluster:	
14.182	Section 8 New Construction Program	6,848,082
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	17,963,580
	Total Section 8 Project-Based Cluster	<u>24,811,662</u>
	CDBG – State Administered CSBG Cluster:	
14.228	Community Development Block Grants/State’s Program	28,313,975
	Total CDBG – State Administered CSBG Cluster	<u>28,313,975</u>
	Housing Voucher Cluster:	
14.871	Section 8 Housing Choice Vouchers	6,134,878
14.880	Family Unification Program (FUP)	2,236,264
	Total Housing Voucher Cluster	<u>8,371,142</u>
	Total U.S. Department of Housing and Urban Development	<u>309,096,021</u>
	U.S. Department of the Interior:	
15.423	Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	616,761
15.608	Fish and Wildlife Management Assistance	26,530
15.614	Coastal Wetlands Planning, Protection and Restoration Act	756,250
15.622	Sportfishing and Boating Safety Act	939,417
15.630	Coastal Program	317
15.631	Partners for Fish and Wildlife	10,248
15.633	Landowner Incentive	133,626
15.808	U.S. Geological Survey Research and Data Collection	28,084
15.904	Historic Preservation Fund Grants-In-Aid	1,009,847
15.947	Boston Harbor Islands Partnership	9,680
15.999	Dept of Interior – Miscellaneous	26,650
	Fish and Wildlife Cluster:	
15.605	Sport Fish Restoration	5,028,097
15.611	Wildlife Restoration	1,721,843
	Total Fish and Wildlife Cluster	<u>6,749,940</u>
	Total U.S. Department of the Interior	<u>10,307,350</u>
16.017	Sexual Assault Services Formula Program	299,970
16.321	Antiterrorism Emergency Reserve	135,920
16.393	Residential Substance Abuse Treatment For State Prisoners	150,852
16.523	Juvenile Accountability Incentive Block Grants	312,928
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	590,327
16.543	Missing Children’s Assistance	844,576
16.550	State Justice Statistics Program for Statistical Analysis Centers	70,786
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	606,101
16.575	Crime Victim Assistance	7,871,922
16.576	Crime Victim Compensation	1,645,928
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	593,655
16.585	Drug Court Discretionary Grant Program	459,881
16.588	Violence Against Women Formula Grants	2,533,777
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	361,160
16.606	State Criminal Alien Assistance Program	3,341,667
16.609	Community Prosecution and Project Safe Neighborhoods	116,929
16.610	Regional Information Sharing Systems	3,450,110
16.710	Public Safety Partnership and Community Policing Grants	1,016,930
16.727	Enforcing Underage Drinking Laws Program	40,255
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	101,645
16.741	Forensic DNA Capacity Enhancement Program	1,029,891
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	156,128
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	39,789
16.754	Harold Rogers Prescription Drug Monitoring Program	463,534
16.812	Second Chance Act Prisoner Reentry Initiative	968,156
16.816	John R. Justice Prosecutors and Defenders Incentive Act	7,009
16.820	Postconviction Testing of DNA Evidence to Exonerate the Innocent	127,191
16.824	Emergency Law Enforcement Assistance Grant	997,819

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
	JAG Program Cluster:	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	\$ 6,276,113
16.803	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	<u>111</u>
	Total JAG Program Cluster	<u>6,276,224</u>
	Total U.S. Department of Justice	<u>34,611,060</u>
	U.S. Department of Labor:	
17.002	Labor Force Statistics	2,091,382
17.005	Compensation and Working Conditions	201,754
17.225	Unemployment Insurance	2,163,675,808
17.235	Senior Community Service Employment Program	1,810,374
17.245	Trade Adjustment Assistance Workers	12,036,653
17.260	WIA Dislocated Workers	580,722
17.261	WIA Pilots, Demonstrations, and Research Projects	489
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	<u>303,636</u>
17.277	Workforce Investment Act (WIA) National Emergency Grants	5,944,148
17.280	Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	<u>49,219</u>
17.504	Consultation Agreements	1,285,966
17.600	Mine Health and Safety Grants	20,630
17.999	Dept of Labor – Miscellaneous	86,133
	Employment Service Cluster:	
17.207	Employment Service	19,723,332
17.801	Disabled Veterans’ Outreach Program (DVOP)	2,579,325
17.804	Local Veterans’ Employment representative Program	<u>385,947</u>
	Total Employment Service Cluster	<u>22,688,604</u>
	WIA Cluster:	
17.258	WIA Adult Program	10,778,974
17.259	WIA Youth Activities	12,660,958
17.278	WIA Dislocated Worker Formula Grants	<u>15,993,986</u>
	Total WIA Cluster	<u>39,433,918</u>
	U.S. Department of Labor	<u>2,250,209,436</u>
	U.S. Department of Transportation:	
20.106	Airport improvement Program	96,824
20.218	National Motor Carrier Safety	2,536,521
20.231	Performance and Registration Information Systems Management	664,079
20.232	Commercial Driver License State Programs	288,595
20.234	Safety Data Improvement Program	114
20.237	Commercial Vehicle Information Systems and Networks	141,928
20.238	Commercial Drivers License Information System	9,609
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants□	5,510,894
20.319	ARRA High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants□	16,119,143
20.505	Federal Transit – Metropolitan Planning Grants	2,742,634
20.509	Formula Grants for Other Than Urbanized Areas	3,367,940
20.614	Safety Incentive Grants for Use of Seatbelts	194,337
20.616	National Priority Safety Programs	6,735
20.700	Pipeline Safety	470,553
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	329,016
20.932	Surface Transportation – Discretionary Grants for Capital Investment	822,062
	Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction	477,169,162
20.219	Recreational Trails Program	<u>1,013,806</u>
	Total Highway Planning and Construction Cluster	<u>478,182,968</u>
	Federal Transit Cluster:	
20.500	Federal Transit – Capital Investment Grants	<u>18,232,056</u>
	Total Federal Transit Cluster	<u>18,232,056</u>
	Transit Service Program Cluster :	
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	3,669,105
20.516	Job Access Reverse Commute	2,510,257
20.521	New Freedom Program	<u>1,759,569</u>
	Total Transit Service Program Cluster	<u>7,938,931</u>

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
20.600	Highway Safety Cluster : State and Community Highway Safety	\$ 7,315,885
		<u>7,315,885</u>
	Total U.S. Department of Transportation	<u>544,970,824</u>
30.002	Equal Employment Opportunity Commission: Employment Discrimination State and Local Fair Employment Practices Agency Contracts	<u>1,436,305</u>
45.025	National Endowment for the Arts: Promotion of the Arts Partnership Agreements	816,708
45.310	State Library Program	<u>3,194,813</u>
	Total National Endowment for the Arts:	<u>4,011,521</u>
59.061	Small Business Administration: State Trade and Export Promotion Pilot Grant Program	<u>552,627</u>
64.014	U.S. Department of Veterans Affairs: Veterans State Domiciliary Care	4,436,014
64.015	Veterans State Nursing Home Care	20,630,750
64.999	Department of Veterans Affairs Miscellaneous	<u>1,778,425</u>
	Total U.S. Department of Veterans Affairs	<u>26,845,189</u>
66.032	Environmental Protection Agency: State Indoor Radon Grants	174,426
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	732,254
66.040	State Clean Diesel Grant Program	8,257
66.110	Healthy Communities Grant Program	6,648
66.202	Congressionally Mandated Projects	28,895
66.432	State Underground Water Source Protection	25,330
66.454	Water Quality Management Planning	621,279
66.456	National Estuary Program	1,155,613
66.461	Regional Wetland Program Development Grants	93,454
66.472	Beach Monitoring and Notification Program Implementation Grants	263,635
66.474	Water Protection Grants to the States	4,176
66.605	Performance Partnership Grants	13,102,954
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	411,105
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	135,693
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	389,106
66.708	Pollution Prevention Grants Program	1,476
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	882,219
66.804	State and Tribal Underground Storage Tanks Program	415,119
66.805	Leaking Underground Storage Tank Trust Fund Program	867,268
66.817	State and Tribal Response Program Grants	1,104,422
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	43,120
66.999	Environmental Protection Agency – Miscellaneous	<u>1,037,875</u>
	Total Environmental Protection Agency	<u>21,504,324</u>
81.041	U.S. Department of Energy: State Energy Program	1,763,806
81.042	Weatherization Assistance for Low-Income Persons	4,079,566
81.090	State Heating Oil and Propane Programs	24,578
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	4,103
81.119	State Energy Program Special Projects	852,053
81.138	State Heating Oil and Propane Program	<u>22,581</u>
	Total U.S. Department of Energy	<u>6,746,687</u>
84.002	Adult education State Grant Program	7,875,858
84.010	Title I Grants to Local Educational Agencies	217,609,247
84.011	Migrant education State Grant Program	1,575,110
84.013	Title I Program for Neglected and Delinquent Children	2,540,736
84.048	Vocational Education Basic Grants to States	18,156,931
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	54,405,605
84.144	Migrant Education – Coordination Program	60,889
84.161	Rehabilitation Services Client Assistance Program	221,837
84.169	Independent Living State Grants	1,614,618
84.176	Paul Douglas Teacher Scholarship	11,580
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	674,692
84.181	Special Education Grants for Infants and Families with Disabilities	5,946,959
84.187	Supported Employment Services for Individuals with Severe Disabilities	395,253

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
84.196	Education for Homeless Children and Youth	\$ 892,866
84.224	Assistive Technology	501,307
84.235	Rehabilitation Services Demonstration and Training Programs	148,395
84.265	Rehabilitation Training State Vocational Rehabilitation Unit in-service Training	70,878
84.282	Charter Schools	3,744,186
84.287	Twenty-First Century Community Learning Centers	14,858,794
84.305	Education Research, Development and Dissemination	39,829
84.323	Special Education – State Personnel Development	1,141,718
84.330	Advanced Placement Program	522,264
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,944,223
84.360	High School Graduation Initiative	3,017,411
84.365	English Language Acquisition Grants	11,651,897
84.366	Mathematics and Science Partnerships	1,645,378
84.367	Improving Teacher Quality State Grants	41,682,115
84.369	Grants for State Assessments and Related Activities	7,611,434
84.371	Striving Readers	385
84.378	College Access Challenge Grant Program	625,614
84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	3,956
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act	78,630,559
84.400	ARRA – Centers for Independent Living, Recovery Act	265,575
84.410	Education Jobs Fund	50,749
84.412	Race to the Top – Early Learning Challenge	12,250,467
84.999	Dept of Education – Miscellaneous	125,056
	Special Education Cluster (IDEA):	
84.027	Special Education Grants to States	278,116,596
84.173	Special Education Preschool Grants	9,878,781
	Total Special Education Cluster (IDEA)	<u>287,995,377</u>
	Statewide Data Systems Cluster:	
84.372	Statewide Data Systems	167,281
84.384	ARRA – Statewide Data Systems, Recovery Act	1,815,162
	Total Statewide Data Systems Cluster	<u>1,982,443</u>
	Teacher Incentive Fund Cluster:	
84.374	Teacher Incentive Fund	4,532,663
	Total Teacher Incentive Fund Cluster	<u>4,532,663</u>
	School improvement Grants Cluster:	
84.377	ARRA – School Improvement Grants	8,568,908
84.388	ARRA – School Improvement Grants, Recovery Act	11,944,101
	Total School improvement Grants Cluster	<u>20,513,009</u>
	Total U.S. Department of Education	<u>809,537,863</u>
	National Archives and Records Administration:	
89.003	National Historical Publications and Records Grants	14,649
	U.S. Election Assistance Commission:	
90.401	Help America Vote Act Requirements Payments	159,341
	U.S. Department of Health and Human Services:	
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	123
93.041	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	35,047
93.042	Special Programs for the Aging – Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	1,978
93.043	Special Programs for the Aging – Title III, Part D Disease Prevention and Health Promotion Services	306,441
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	134,832
93.051	Alzheimer’s Disease Demonstration Grants to States	148,587
93.052	National Family Caregiver Support	3,266,572
93.069	Public Health Emergency Preparedness	13,873,228
93.070	Environmental Public Health and Emergency Response	664,382
93.071	Medicare Enrollment Assistance Program	51,344
93.072	Lifespan Respite Care Program	144,888
93.073	Birth Defects and Developmental Disabilities – Prevention and Surveillance	741,646
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	189,496
93.087	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	1,090,587
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	124,544
93.090	Guardianship Assistance	1,700,479
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	1,167,079
93.103	Food and Drug Administration Research	1,280,852
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,854,040

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
93.110	Maternal and Child Health Federal Consolidated Programs	\$ 237,471
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	1,627,275
93.127	Emergency Medical Services for Children	139,874
93.130	Primary Care Services Resource Coordination and Development	23,454
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,360,894
93.150	Project s for Assistance in Transition from Homelessness (PATH)	1,783,462
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	433,606
93.184	Disabilities Prevention	276,813
93.226	Research on Healthcare Costs, Quality and Outcomes	776,909
93.236	Grants for Dental Public Health Residency Training	286,435
93.240	State Capacity Building	380,841
93.241	State Rural Hospital Flexibility Program	190,393
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	4,795,390
93.251	Universal Newborn Hearing Screening	238,229
93.262	Occupational Safety and Health Program	605,086
93.267	State Grants for Protection and Advocacy Services	132,990
93.268	Immunization Cooperative Agreements	66,755,497
93.270	Adult Viral Hepatitis Prevention and Control	573,116
93.275	Substance Abuse and Mental Health Services-Access to Recovery	3,206,778
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	10,094,274
93.292	National Public Health Improvement Initiative	2,364
93.296	State Partnership Grant Program to Improve Minority Health	159,295
93.301	Small Rural Hospital Improvement Grant Program	160,920
93.414	ARRA – State Primary Care Offices	160,688
93.500	Pregnancy Assistance Fund Program	2,071,484
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	9,088,899
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	1,101,974
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	951,106
93.512	Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	402,181
93.517	Affordable Care Act – Aging and Disability Resource Center	482,391
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	312,787
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	1,361,767
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by 2012 Prevention and Public Health Funds	3,397,188
93.535	Affordable Care Act Program for Early Detection of Certain Medical Conditions Related to Environmental Health Hazards	1,861,093
93.538	Affordable Care Act – National Environmental Public Health Tracking Program-Network Implementation	801,062
93.539	PPHF 2012 – Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	1,165,564
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	181,896
93.547	Affordable Care Act – National Health Service Corps	396,075
93.548	548 PPHF 2012: Nutrition, Physical Activity and Obesity Program – financed in part by 2012 Prevention and Public Health Funds (PPHF-2012)	343,809
93.556	Promoting Safe and Stable Families	5,087,127
93.563	Child Support enforcement	87,658,207
93.566	Refugee and Entrant Assistance – State Administered Programs	13,245,089
93.568	Low-Income Home Energy Assistance	137,988,129
93.569	Community Services Block Grant	16,281,896
93.576	Refugee and Entrant Assistance Discretionary Grants	1,377,326
93.583	Refugee and Entrant Assistance Wilson / Fish Program	3,365,388
93.584	Refugee and Entrant Assistance – Targeted Assistance Grants	903,765
93.586	State Court improvement Program	572,789
93.590	Child Abuse Prevention Activities	513,935
93.597	Grants to States for Access and Visitation Programs	173,858
93.599	Chafee Education and Training Vouchers Program (ETV)	1,027,035
93.600	Head Start	159,789
93.609	The Affordable Care Act – Medicaid Adult Quality Grants Department of Health and Human Services The Affordable Care Act – Medicaid Adult Quality Grants Department of Health and Human Services The Affordable Care Act – Medicaid Adult Quality Grants	434,690
93.617	Voting Access for Individuals with Disabilities Grants to States	52,135
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	3,597,545
93.626	Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	78,049

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
93.628	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	\$ 2,412,890
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,206,564
93.643	Children's Justice Grants to States	382,932
93.645	Child Welfare Services State Grants	4,725,914
93.652	Adoption Opportunities	572,527
93.658	Foster Care Title IV-E	56,254,437
93.659	Adoption Assistance	29,888,870
93.667	Social Services Block Grant	78,911,803
93.669	Child Abuse and Neglect State Grants	549,393
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,760,525
93.674	Chafee Foster Care Independence Program	3,022,761
93.708	ARRA – Head Start	349,658
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012)	248,686
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by 2012 Prevention and Public Health Funds (PPHF-2012)	633,798
93.735	State Public Health Approaches for Ensuring Qutline Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	378,699
93.745	PPHF-2012: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by 2012 Prevention and Public Health Funds (PPHF-2012)	111,344
93.767	Children's Health Insurance Program	347,584,245
93.773	Medicare Hospital Insurance	12,088,470
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	2,556,671
93.791	Money Follows the Person Rebalancing Demonstration	5,225,254
93.889	National Bioterrorism Hospital Preparedness Program	6,314,107
93.913	Grants to States for Operation of Offices of Rural Health	112,323
93.917	HIV Care Formula Grants	19,930,052
93.926	Healthy Start initiative	3,909,628
93.928	Special Projects of National Significance	1,039,658
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	293,890
93.940	HIV Prevention Activities Health Department Based	6,641,316
93.941	HIV Demonstration, Research, Public and Professional Education Projects	578,430
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	940,216
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,289,640
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	130,824
93.958	Block Grants for Community Mental Health Services	9,278,198
93.959	Block Grants for Prevention and Treatment of Substance Abuse	32,482,439
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,532,404
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	4,968
93.991	Preventive Health and Health Services Block Grant	2,066,976
93.994	Maternal and Child Health Services Block Grant to the States	11,391,438
93.999	Dept of Health and Human Services – Miscellaneous	2,235,600
	Aging Cluster:	
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	8,093,287
93.045	Special Programs for the Aging Title III, Part Nutrition Services	11,483,730
93.053	Nutrition Services Incentive Program	4,616,824
	Total Aging Cluster	24,193,841
	Health Center Cluster:	
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)	107,658
	Total Health Center Cluster	107,658
	TANF Cluster:	
93.558	Temporary Assistance for Needy Families	378,526,662
	Total TANF Cluster	378,526,662
	CCDF Cluster:	
93.575	Child Care and Development Block Grant	125,343,667
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	82,003,223
	Total CCDF Cluster	207,346,890

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

CFDA number	Federal agency/program or cluster title	Expenditures
	Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units	\$ 6,058,766
93.777	State Survey and Certification of Health Care Providers and Suppliers	8,265,917
93.778	Medical Assistance Program	7,229,435,871
	Total Medicaid Cluster	<u>7,243,760,554</u>
	U.S. Department of Health and Human Services	<u>8,920,587,380</u>
	Social Security Administration:	
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	135,058
96.999	Social Security Administration – Miscellaneous	416,600
	Disability Insurance SSI Cluster:	
96.001	Social Security Disability Insurance	44,021,705
96.006	Supplemental Security Income	4,901,318
	Total Disability Insurance SSI Cluster	<u>48,923,023</u>
	Total Social Security Administration:	<u>49,474,681</u>
	U.S. Department of Homeland Security:	
97.008	Non-Profit Security Program	16,738,889
97.012	Boating Safety Financial Assistance	1,508,497
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	191,360
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	37,062,176
97.039	Hazard Mitigation Grant	5,962,665
97.041	National Dam Safety Program	107,084
97.042	Emergency Management Performance Grants	6,851,250
97.043	State Fire Training Systems Grants	22,284
97.044	Assistance to Firefighters Grant	538,384
97.045	Cooperating Technical Partners	95,032
97.047	Pre-Disaster Mitigation	195,550
97.053	Citizen Corps	153,057
97.055	Interoperable Communications Equipment	5,575
97.056	Port Security Grant Program	985,278
97.067	Homeland Security Grant Program	24,152,226
97.071	Metropolitan Medical Response System	596,106
97.078	Buffer Zone Protection Plan (BZPP)	368,404
97.089	Real ID Program	451,758
97.091	Homeland Security Biowatch Program	1,480,205
97.110	Severe Loss Repetitive Program	56,616
97.111	Regional Catastrophic Preparedness Grant Program (RCPGP)	2,233,211
	Total U.S. Department of Homeland Security	<u>99,755,607</u>
99.999	Federal Reimbursement – Miscellaneous	543,406
		<u>\$ 15,132,309,757</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Single Audit Reporting Entity

For purposes of complying with the Single Audit Act of 1984, the Commonwealth of Massachusetts (the Commonwealth) reporting entity is defined in note 1 to its June 30, 2014 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 Institutions of Higher Education (which include the University of Massachusetts, the State Universities, and the Community Colleges), and all of the discretely presented component units are excluded, except for the Massachusetts Department of Transportation (MassDOT). Accordingly, the accompanying Schedule of Expenditures of Federal Awards (SEFA or Schedule) presents the federal award programs administered by the Commonwealth, as defined above, for the year ended June 30, 2014.

(2) Basis of Presentation

The accompanying SEFA is presented on the cash basis of accounting.

The SEFA is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system.

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.

(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.

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(5) 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 as follows:

CFDA number	Program title	Noncash awards
10.551	Supplemental Nutrition Assistance Program	\$ 1,315,904,839
10.555	National School Lunch Program	22,603,591
10.558	Child and Adult Care Food Program	141,130
10.559	Summer Food Service Program for Children	18,210
93.268	Immunization Cooperative Agreements	61,048,514
	Total	<u>\$ 1,399,716,284</u>

Commodity inventories for the Food Donation Program at June 30, 2014 totaled approximately \$633,778.

(6) Unemployment Insurance Program (UI) CFDA 17.225

The U.S. Department of Labor, in consultation with the OMB, has determined that for the purpose of audits and reporting under OMB Circular A-133, Commonwealth UI funds as well 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. 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	\$ 1,594,657,924
Federal UI Funds – Benefits	480,931,916
Federal UI Funds – Administration	88,085,968
Total expenditures	<u>\$ 2,163,675,808</u>

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(7) 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 2014, the Commonwealth passed through the following amounts to subrecipients:

CDFA number	Program title	2014 Expenditures
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 423
10.156	Federal-State Marketing Improvement Program	442,363
10.307	Organic Agriculture Research and Extension Initiative	52,263
10.555	National School Lunch Program	218,426,878
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	71,995,520
10.558	Child and Adult Care Food Program	63,096,759
10.559	Summer Food Service Program for Children	7,201,733
10.561	State Administrative Matching Grants for Food Stamp Program	2,460,071
10.568	Emergency Food Assistance Program administrative costs	1,081,454
10.579	Child Nutrition Discretionary Grants Limited Availability	416,974
10.580	Supplemental Nutrition Assistance Program, Outreach/Participation Program	7,440
10.582	Fresh Fruit and Vegetable Program	2,949,965
10.664	Cooperative Forestry Assistance	371,225
10.676	Forest Legacy Program	18,860
10.678	Forest Stewardship Program	20,281
10.913	Farm and Ranch Lands Protection Program	1,355,791
11.419	Coastal Zone Management Administration Awards	5,000
11.420	Coastal Zone Management Estuarine Research Reserves	20,491
11.454	Unallied Management Projects	740,000
11.472	Unallied Science Program	604,103
14.181	Supportive Housing for Persons with Disabilities	712,529
14.182	Section 8 New Construction Program	4,050,456
14.228	Community Development Block Grants / State's Program	27,102,389
14.231	Emergency Shelter Grants Program	3,903,486
14.235	Supportive Housing Program	6,755,985
14.238	Shelter Plus Care	466,614
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	29,400
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	16,901,471
14.871	Section 8 Housing Choice Vouchers	5,932,485
14.880	Family Unification Program (FUP)	2,236,264
14.881	Moving to Work Demonstration Program	222,394,085
14.906	Healthy Homes Technical Studies Grants	177,205
15.423	Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	616,761
15.622	Sportfishing and Boating Safety Act	810,951
15.631	Partners for Fish and Wildlife	1,901
15.904	Historic Preservation Fund Grants-In-Aid	185,700
15.999	Dept of Interior – Miscellaneous	20,000
16.017	Sexual Assault Services Formula Program	284,972
16.321	Antiterrorism Emergency Reserve	14,070
16.393	Residential Substance Abuse Treatment For State Prisoners	52,851

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

C DFA number	Program title	2014 Expenditures
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	\$ 323,856
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	8,700
16.575	Crime Victim Assistance	6,673,970
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	140,635
16.585	Drug Court Discretionary Grant Program	17,968
16.588	Violence Against Women Formula Grants	1,509,464
16.609	Community Prosecution and Project Safe Neighborhoods	97,045
16.610	Regional Information Sharing Systems	3,450,110
16.727	Enforcing Underage Drinking Laws Program	37,667
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	9,117
16.738	Edward Byrne Memorial Justice Assistance Grant Program	4,169,563
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	23,944
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	39,789
16.812	Second Chance Act Prisoner Reentry Initiative	310,075
16.820	Postconviction Testing of DNA Evidence to Exonerate the Innocent	6,189
16.824	Emergency Law Enforcement Assistance Grant	957,324
17.207	Employment Service	7,915,207
17.225	Unemployment insurance	1,112,355
17.235	Senior Community Service Employment Program	1,728,190
17.245	Trade Adjustment Assistance Workers	560,888
17.258	WIA Adult Program	9,470,339
17.259	WIA Youth Activities	12,103,532
17.260	WIA Dislocated Workers	540,533
17.275	ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	303,636
17.277	Workforce Investment Act (WIA) National Emergency Grants	5,731,907
17.278	WIA Dislocated Worker Formula Grants	10,091,178
17.801	Disabled Veterans’ Outreach Program (DVOP)	177,232
17.804	Local Veterans’ Employment representative Program	41,478
20.219	Recreational Trails Program	658,577
20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	16,119,143
20.500	Federal Transit_Capital Investment Grants	64,564
20.505	Federal Transit_Metropolitan Planning Grants	2,285,393
20.509	Formula Grants for Other Than Urbanized Areas	3,107,594
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	209,563
20.516	Job Access Reverse Commute	2,300,920
20.521	New Freedom Program	1,521,055
20.600	State and Community Highway Safety	1,720,883
20.616	National Priority Safety Programs	6,735
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	133,506
45.025	Promotion of the Arts Partnership Agreements	815,145
45.310	State Library Program	922,140
59.061	State Trade and Export Promotion Pilot Grant Program	552,627
64.999	Department of Veterans Affairs Miscellaneous	780,385
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	32,982

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

C DFA number	Program title	2014 Expenditures
66.432	State Underground Water Source Protection	\$ 25,330
66.454	Water Quality Management Planning	216,048
66.456	National Estuary Program	377,651
66.474	Water Protection Grants to the States	4,176
66.605	Performance Partnership Grants	2,745,137
66.817	State and Tribal Response Program Grants	55,309
81.041	State Energy Program	846,870
81.042	Weatherization Assistance for Low-Income Persons	3,414,370
81.119	State Energy Program Special Projects	446,490
84.002	Adult education State Grant Program	6,033,733
84.010	Title I Grants to Local Educational Agencies	209,089,753
84.011	Migrant education State Grant Program	1,441,680
84.013	Title I Program for Neglected and Delinquent Children	347,704
84.027	Special Education Grants to States	253,233,459
84.048	Vocational Education Basic Grants to States	16,196,978
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	4,270,228
84.144	Migrant Education_Coordination Program	60,889
84.169	Independent Living State Grants	1,413,703
84.173	Special Education Preschool Grants	8,186,720
84.176	Paul Douglas Teacher Scholarship	11,580
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	62,084
84.181	Special Education Grants for Infants and Families with Disabilities	1,431,356
84.187	Supported Employment Services for Individuals with Severe Disabilities	121,647
84.196	Education for Homeless Children and Youth	686,053
84.224	Assistive Technology	308,496
84.235	Rehabilitation Services Demonstration and Training Programs	45,563
84.282	Charter Schools	3,558,504
84.287	Twenty-First Century Community Learning Centers	13,720,971
84.323	Special Education – State Personnel Development	48,177
84.330	Advanced Placement Program	522,264
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,055,581
84.365	English Language Acquisition Grant s	10,945,081
84.366	Mathematics and Science Partnerships	1,508,116
84.367	Improving Teacher Quality State Grants	38,910,753
84.377	School Improvement Grants	7,570,536
84.378	College Access Challenge Grant Program	617,000
84.384	ARRA – Statewide Data Systems, Recovery Act	10,000
84.388	ARRA – School Improvement Grants, Recovery Act	11,815,954
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act	44,474,999
84.400	ARRA – Centers for Independent Living, Recovery Act.	265,575
84.412	Race to the Top – Early Learning Challenge	5,109,813
93.041	Special Programs for the Aging_Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	35,047
93.042	Special Programs for the Aging_Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	1,978
93.043	Special Programs for the Aging_Title III, Part D Disease Prevention and Health Promotion Services	306,441

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

C DFA number	Program title	2014 Expenditures
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	\$ 6,440,410
93.045	Special Programs for the Aging Title III, Part Nutrition Services	11,483,730
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	114,990
93.051	Alzheimer's Disease Demonstration Grants to States	124,182
93.052	National Family Caregiver Support	2,858,069
93.053	Nutrition Services Incentive Program	2,606,785
93.069	Public Health Emergency Preparedness	3,150,031
93.071	Medicare Enrollment Assistance Program	51,344
93.072	Lifespan Respite Care Program	113,759
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	22,555
93.087	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	759,852
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	948,418
93.136	Injury Prevention and Control Research and State and Community Based Programsz	299,248
93.150	Project s for Assistance in Transition from Homelessness (PATH)	1,780,580
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	256,858
93.236	Grants for Dental Public Health Residency Training	146,474
93.241	State Rural Hospital Flexibility Program	15,100
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	2,354,512
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	1,686,122
93.301	Small Rural Hospital Improvement Grant Program	160,920
93.500	Pregnancy Assistance Fund Program	1,627,843
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	5,603,620
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	278,250
93.517	Affordable Care Act – Aging and Disability Resource Center	312,213
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by 2012 Prevention and Public Health Funds	1,280,717
93.535	Affordable Care Act Program for Early Detection of Certain Medical Conditions Related to Environmental Health Hazards	586,893
93.547	Affordable Care Act – National Health Service Corps	396,075
93.556	Promoting Safe and Stable Families	3,251,769
93.566	Refugee and Entrant Assistance_State Administered Programs	9,316,621
93.568	Low-Income Home Energy Assistance	136,330,131
93.569	Community Services Block Grant	15,763,883
93.575	Child Care and Development Block Grant	87,321,311
93.576	Refugee and Entrant Assistance Discretionary Grants	1,243,428
93.583	Refugee and Entrant Assistance Wilson / Fish Program	721,896
93.584	Refugee and Entrant Assistance_Targeted Assistance Grants	862,419
93.590	Child Abuse Prevention Activities	424,796
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	69,896,402

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

C DFA number	Program title	2014 Expenditures
93.626	Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	\$ 78,049
93.628	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	6,369
93.630	Developmental Disabilities Basic Support and Advocacy Grants	284,601
93.645	Child Welfare Services State Grants	831,539
93.669	Child Abuse and Neglect State Grants	126,052
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,753,573
93.674	Chafee Foster Care Independence Program	6,245
93.708	ARRA – Head Start	113,298
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by 2012 Prevention and Public Health Funds (PPHF-2012)	489,730
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	942,867
93.791	Money Follows the Person Rebalancing Demonstration	230,700
93.889	National Bioterrorism Hospital Preparedness Program	2,797,300
93.917	HIV Care Formula Grants	4,278,068
93.928	Special Projects of National Significance	466,425
93.940	HIV Prevention Activities Health Department Based	2,864,886
93.941	HIV Demonstration, Research, Public and Professional Education Projects	62,720
93.958	Block Grants for Community Mental Health Services	8,417,942
93.959	Block Grants for Prevention and Treatment of Substance Abuse	15,955,927
93.991	Preventive Health and Health Services Block Grant	425,408
93.994	Maternal and Child Health Services Block Grant to the States	1,562,086
93.999	Dept of Health and Human Services – Miscellaneous	72,309
97.008	NonProfit Security Program	15,884,040
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	35,027,885
97.039	Hazard Mitigation Grant	5,440,461
97.042	Emergency Management Performance Grants	2,897,662
97.044	Assistance to Firefighters Grant	98,557
97.047	Pre-Disaster Mitigation	158,008
97.053	Citizen Corps	114,694
97.055	Interoperable Communications Equipment	3,990
97.056	Port Security Grant Program	628,114
97.067	Homeland Security Grant Program	19,778,533
97.071	Metropolitan Medical Response System	596,106
97.078	Buffer Zone Protection Plan (BZPP)	332,475
97.110	Severe Loss Repetitive Program	56,616
97.111	Regional Catastrophic Preparedness Grant Program (RCPGP)	2,168,527
		<u>\$ 1,911,794,037</u>

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> x </u>	yes	<u> </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> x </u>	yes	<u> </u> none reported
Noncompliance material to the financial statements noted?	<u> </u>	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> </u>	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	<u> </u> none reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> x </u>	yes	<u> </u> no

Identification of Major Programs

U.S. Department of Agriculture

- SNAP Cluster (10.551 and 10.561)
- Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)

U.S. Department of Housing and Urban Development

- Community Development Block Grants/State's Program (14.228)
- Emergency Shelter Grants Program (14.231)
- HOME Investment Partnerships Program (14.239)

U.S. Department of Labor

- Unemployment Insurance (17.225)
- WIA Cluster (17.258, 17.259, and 17.278)

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

U.S. Department of Transportation

- High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (20.319)
- Federal Transit – Capital Investment Grants (20.500)
- Formula Grants for Other Than Urbanized Areas (20.509)

U.S. Department of Education

- Title I Grants to Local Educational Agencies (84.010)
- Rehabilitation Services Vocational Rehabilitation Grants to States (84.126)
- Improving Teacher Quality State Grants (84.367)

U.S. Department of Health and Human Services

- Public Health Emergency Preparedness (93.069)
- Immunization Cooperative Agreements (93.268)
- Temporary Assistance for Needy Families (93.558)
- CCDF Cluster (93.575 and 93.596)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Children’s Health Insurance Program (93.767)
- Medicaid Cluster (93.775, 93.777 and 93.778)
- National Bioterrorism Hospital Preparedness Program (93.889)
- Block Grants for Preventive and Treatment of Substance Abuse (93.959)

Social Security Administration

- Disability Insurance/SSI Cluster (96.001 and 96.006)

Department of Homeland Security

- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Dollar threshold used to distinguish between
type A and type B programs:

\$30 million

Auditee qualified as low-risk auditee?

 x

yes

no

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

See accompanying pages 24 through 48.

(3) Findings and Questioned Costs Relating to Federal Awards

See accompanying pages 49 through 96.

**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, 2014

Department of Workforce Development

Financial Reporting

Finding Reference: 2014-001

Observation

The Department of Workforce Development does not maintain a departmental trial balance for the Unemployment Compensation Trust Fund (Trust Fund).

The department prepares and submits monthly summary entries to record Trust Fund activity into the Massachusetts Management Accounting & Reporting System (MMARS). However, there is no documented reconciliation between the amounts submitted by the department and the amounts recorded in MMARS. For year-end reporting, the department prepares and submits a GAAP Package to the Comptroller's Office to record its final Trust Fund accrual adjustments for the Comprehensive Annual Financial Report (CAFR).

We noted several significant late adjustments to the department's Trust Fund GAAP package and/or GAAP basis final balances including:

- A series of adjustments which ultimately increased cash by approximately \$26 million.
- A series of adjustments to more accurately record receivables at net realizable value including adjustments to both receivable balances (prepaid quarter 2 employer billings) and the allowances for uncollectible amounts.

Recommendation

We recommend that a departmental trial balance be maintained and formally reconciled to MMARS on a monthly basis. We also recommend that the department update its internal controls to ensure that the proper amount of analysis and review is performed prior to the submission of its GAAP package and prior to approval of final GAAP basis numbers presented on the CAFR.

Views of Responsible Officials and Corrective Actions

EOLWD will develop a trial balance which will include entries for both UI Revenue and Benefit. The development procedures will be as follows:

- Compilation and organization of accounts that will be included in trial balance by no later than February 20, 2015.
- Submit above document to comptroller's office for review and comments.
- By April 30th we will have reconciled the nine months from July 30, 2014 through March 31, 2015.
- Trial balance results will be available for the annual UI single audit.
- Initially all reconciliations will be manually computed with automated reconciliations to be developed by S FY16.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Responsible Official

Jack Defina

Financial Services Director

Executive Office of Labor and Workforce Development

Robert Ford

Chief Financial Officer

Executive Office of Labor and Workforce Development

Implementation Date

June 30, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Office of the Comptroller

Financial Reporting

Finding Reference: 2014-002

Observation

The Commonwealth issues two financial reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Report (CAFR) which are due by October 31st and December 31st, respectively.

Currently, the closing process is such that complete and accurate fund trial balances are not available until just prior to the established deadlines. This increases the risk of errors or omissions in the Commonwealth's published financial results. At a minimum, the closing process should be completed such that the independent auditor would have at least two weeks to review both the SBFR and CAFR before they are issued.

There are many factors that contribute to the timing of the financial reporting process, including enactment of the final supplemental appropriations bill just before the deadline for the SBFR. That coupled with the complexity of both the SBFR and CAFR only magnify the importance of proper planning and coordination of the process.

During the preparation of the fiscal 2014 CAFR, several significant adjustments were made just days prior to the release of the CAFR such as:

- Various Department of Workforce Development (DWD) adjustments including an increase in cash by approximately \$26 million.
- Investment held in Trust and reported in Agency Funds were not booked to market value in MMARS. The draft of the CAFR reported the par value, instead of the fair value of the securities. The par value is recorded in MMARS by the General Accounting Bureau (GAB) in the Comptroller's Office, based on information provided by Treasury. A top level adjustment was booked for reporting the market value on the CAFR.

The topics discussed above are the result of inaccurate or incomplete information being reported to Office of the Comptroller (CTR) and/or inadequate quality assurance performed on the information received. These topics highlight the risk inherent in such a complex reporting process as the SBFR and CAFR.

Recommendation

We recommend that the CTR annually review its CAFR instructions with the goal of clarifying and updating its instructions for changes in both business and accounting trends. We also recommend that CTR review its quality assurance protocols to ensure that the proper amount of analysis is performed prior to accepting departmental information. We also recommend that the CTR revisit its SBFR and CAFR calendars to ensure that there is proper time allowed to implement any changes to its CAFR internal control process.

We continue to suggest that consideration to be given as to whether a hard close of the Commonwealth's financial records takes place at interim dates throughout the year such that certain account balances, are not reconciled on just an annual basis. While it may not be practical to perform a hard close on an entity-wide basis, there are many accounts within the control of the Comptroller's office for which an interim hard close would facilitate the closing

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

process at year-end. As part of the process described above, management should assess the timeliness provided to departments for completion of GAAP packages and period 13 reporting to see if those timelines can be accelerated.

Views of Responsible Officials and Corrective Actions

The Commonwealth agrees with this finding and through its Financial Reporting and Analysis Bureau (FRAB) will take the following steps to alleviate and/or correct this finding for FY2015:

1. Meet with departments, which have major GAAP accruals (such as DOR, EOL, EHS, etc.) during the summer to communicate our reporting requirements, expectations, deadlines so both parties (FRAB and the departments) know what is expected.
2. FRAB will revisit the SBFR and CAFR calendar and adjust it accordingly in order to 1) make it more reasonable, 2) build in time for any potential issues and 3) use it as a measuring guide against actual performance.
3. Fully review and update, if necessary, the GAAP instructions while enforcing the stated deadlines and holding departments accountable.
4. Major GAAP accruals and the supporting documentation will be heavily scrutinized which could include reviewing the GAAP accruals with the appropriate officials, including CFO's, of the departments.

As far as a "hard close" of the financial records, this will require further discussion with the Comptroller as well as all other Bureaus of the Comptroller's Office as this would impact not only our office, but all departments of the Commonwealth.

Responsible Official

BJ Trivedi, Financial Reporting Director
Michael Rodino, Financial Reporting Manager

Implementation Date

June 30, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

UI Online Application Password Management

Finding Reference: 2014-003

Observation

End-user password parameters for the UI Online application comprise embedded application parameters and Active Directory (AD) domain (QPRD) parameters. The composite parameters which are shared by both internal and external users do not conform to EOLWD's password policy for password expiration or retained password history. Log-in to the Massachusetts Division of Employment and Training (DETMA) AD domain, which enforces stricter password requirements for internal users, is not a requirement to access UI Online internally.

Recommendation

It is recommended that steps be taken to recognize and act upon the different security needs of the various UI Online user constituencies and implement a solution that in particular provides stricter access controls to internal users that have access to system wide sensitive data. Potential solutions include those that require a re-design of access methodology (preferred) and those that attempt to strengthen the existing access approach. Some possible solutions include:

- Re-design and introduce a granular security solution that differentiates between external and internal user populations, and requires stricter password parameters for internal users including password expiration and change requirements and password history retention (to prevent premature reuse or password recycling).
- Enforce the full EOLWD password policy including forced, periodic password change for all UI Online users (including claimants and employers). This is recognized to have practical and operational challenges.
- Only permit DWD staff access to UI Online through the EOLWD DETMA AD domain which is compliant with EOLWD password policies and enforces a stricter access regime and do not permit DUA staff access from outside of the DETMA network, e.g., internet.

Views of Responsible Officials and Corrective Actions

EOLWD Information technology team has implemented a system that only permits DWD staff to access UI Online through the EOLWD DETMA AD domain refraining staff from accessing UI Online remotely.

Once Active Directory 2012 is implemented, IT will be able to set password policy at the container level which will allow for Re-designing and introduce a granular security solution that differentiates between external and internal user populations, and requires stricter password parameters for internal users including password expiration and change requirements and password history retention. Additionally, how the application responds to the request for password change from AD will be explored and implemented.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Responsible Official

Michael Milligan

Secretariat Chief Information Officer

Executive Office of Labor and Workforce Development

Implementation Date

September 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Internal User Remote Access to UI Online

Finding Reference: 2014-004

Observation

Remote access by internal users to UI Online does not meet the EOLWD remote access policy that requires supervisor approval and the use of secured Virtual Private Network (VPN) communications to first authenticate to the DETMA network. To better serve its external user constituency, UI Online is web enabled providing direct remote access over the internet. Internet access is also available to internal staff through a minor change to the UI Online site URL address. Both internal and external user constituencies share the same semi-secure password construction. Additionally, for operational reasons, internal users are permitted multiple concurrent UI Online sessions i.e., an internal user can be logged in from a work computer, a home computer or from other supported devices at the same time without detection.

Recommendation

It is recommended that changes be made to the UI Online remote access capability to conform to EOLWD policy. In particular give consideration to:

- Disabling external internet access from internal user ID accounts
- Require remote access to UI Online by internal staff to first require approved VPN access through the DETMA AD network domain.

Views of Responsible Officials and Corrective Actions

EOLWD has disabled external internet access from internal user ID accounts as well as put in place roles and responsibilities to limit remote access from staff.

Responsible Official

Michael Milligan

Secretariat Chief Information Officer

Executive Office of Labor and Workforce Development

Cari Birkhauser

UI Systems Director

Department of Unemployment Assistance

Implementation Date

November 20, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Internal User UI Online Access Approval

Finding Reference: 2014-005

Observation

According to policy, all new user access to the UI Online system requires approval from a director or above before access is granted. Our review indicated the following exceptions in the 40 new user approvals inspected:

- Two had no evidence who requested the access and who approved it
- Six lacked evidence of the dates approval was granted
- Three were approved after access was granted
- Eleven were approved by a supervisor manager

Furthermore, it was noted that the request forms often lacked adequate detail to determine if the access granted was in line with the original access requested.

Recommendation

It is recommended that:

- The requirement to use appropriately completed and authorized UI Online User Access Request forms be strictly enforced and that only forms that are appropriately authorized (by a preestablished list of approvers) be acted upon
- Management periodically audit a sample of new user access against completed and authorized User Access Request forms to ensure compliance with policy.

Views of Responsible Officials and Corrective Actions

Department of Unemployment Assistance (DUA) has enhanced their internal control requiring that all staff administering the roles and functions system access adhere to policy and procedures. This will be documented on their personnel reviews to ensure compliance.

DUA has also implemented quarterly assessments with the departmental management heads to ensure that staff's system access is reviewed and validation of the roles and functions.

Responsible Official

Cari Birkhauser

UI Systems Director

Department of Unemployment Assistance

Implementation Date

December 1, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

UI Online Periodic Management Access and Separation of Duties (SOD) Review and Terminated Employee Access Removal

Finding Reference: 2014-006

Observation

Our audit noted that periodic reviews by management of employee UI Online access and the appropriateness of the access rights provided did not occur during the fiscal year. Additionally, we noted that the access rights of ten terminated employees (from a population of 122 terminated employees) inspected did not appear to have UI Online access removed in a timely fashion. Using fourteen days as a measurement, the number of days before access was finally removed ranged from 16 to 248 days.

Recommendation

It is recommended that:

- EOLWD HR, the UI Online user management group and IT policy be strengthened to ensure that terminated UI Online user access is removed immediately after termination. While we used 14 days as an initial yardstick to facilitate testing, because of the sensitivity of the data, it is suggested that terminated employee access removal be given a priority and addressed daily.
- UI Online Management and/or the EOLWD Internal Control and Security group conduct quarterly user access reviews to identify those terminated employee accounts that for whatever reason were not removed as part of the day-to-day operational process and also to ensure that existing and authorized users continue to have access privileges commensurate with their job responsibilities.

Views of Responsible Officials and Corrective Actions

DUA will continue coordinate with EOLWD HR to ensure that all terminated employees are disabled effectively.

Responsible Official

Cari Birkhauser

UI Systems Director

Department of Unemployment Assistance

Implementation Date

July 1, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

UI Online Application Software Change Management

Finding Reference: 2014-007

Observation

Functional changes to UI Online requires a valid, authorized business request and business approval of testing. Our inspection of 40 changes made during the fiscal year indicated the following:

- Nine requested changes lacked a change management test director request.
- Twelve changes having a test director ticket did not indicate that user acceptance testing (UAT) had been performed and the results approved by the business prior to migration to production.

It was also noted during our review that the “Build” team (those IT staff members responsible for migrating software changes into production) also have access that would permit them to make application software changes.

Recommendation

It is recommended that:

- All changes to the production application environment be approved either by business and IT depending on the type of change, and that the approval be formally documented and maintained.
- Periodic reviews of documentation and test director tickets associated with application changes migrated to production be conducted by management to ensure compliance by development and user teams.
- Build team access to tools and libraries that support change development be restricted.

Views of Responsible Officials and Corrective Actions

EOLWD IT will continue to conduct User Acceptance Testing (UAT) on all software. After successfully testing the software the business approves it to be migrated to production, there is a formalized build process.

During the course of projects the developers have created different branches within TFS for specific project work and in addition they created items within test director for tracking that work (this work items were components and not the end product for the UAT resources to test).

EOLWD IT has also implemented a new procedure for Team Foundation Source Control Procedure, which was shared with the management of the developer resources stipulating the following:

- All items being worked on in support of UI Online application system must have a test director item associated with it.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- When staff create software or modify software, the items in TFS must stipulate which test director item the change is in support of (the test director item must be recorded in the history of changes within TFS).

DUA management will conduct semiannual reviews to ensure all software code items being promoted to production have an associated test director number and that development staff is adhering to the Team Foundation Source Control Procedure.

EOLWD-IT will put in place a policy to restrict write access to TFS by the Build team.

Responsible Official

Michael Milligan

Secretariat Chief Information Officer

Executive office of labor and Workforce Development

Cari Birkhauser

UI Systems Director

Department of Unemployment Assistance

Implementation Date

February 15, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Access Privileges

Finding Reference: 2014-008

Observation

KPMG was not able to effectively test privileged/administrative access to the Medicaid Management Information System (MMIS) application since a system-generated listing of the application roles and privileges (access to panels and subpanels within MMIS) was not available at the time of our testing.

We noted that the Executive Office of Health and Human Services (EOHHS) manually maintains the listing of MMIS application roles and privileges in an excel document – “MMIS Master Roles Sheet” that detail the various roles and associated access rights that exist in the application. However, the manually maintained document of roles and privileges could not be relied upon by KPMG since it did not accurately and completely match to the roles and privileges configured within the MMIS application. The following exceptions/discrepancies between the EOHHS manually maintained document of roles and privileges and the roles and privileges configured within the MMIS application were noted:

- (1) 1 of 5 roles selected for testing: The role had access to panel “ADMIN” and “SECURITY” in the MMIS application, while the role only had access to panel (functional areas) “SECURITY” in the MMIS Master Roles Sheet.
- (2) There were 139 unique roles assigned to users in the system-generated MMIS user access list, while there were only 103 roles detailed in the MMIS Master Roles Sheet.
- (3) 40 of 139 unique roles in the MMIS user access list were not documented in MMIS Master Roles Sheet.
- (4) 4 of 103 roles in the MMIS Master Roles Sheet were not in the MMIS user access list.

A system-generated listing of the MMIS roles and privileges not being available or having an inaccurate/incomplete document of the MMIS roles and privileges presents the following risks:

- Inappropriate access may be inadvertently granted to new or existing users resulting in undetected/inappropriate changes made to the application data that could potentially impact financial data/transactions in the application.
- Segregation of Duties (SOD) conflicts may arise when new privileges or new roles are created and granted or when existing roles are modified.

Recommendation

- EOHHS should have a system-generated listing of the MMIS roles and privileges documented in order to effectively grant user access to only the required MMIS roles and privileges (access to panels and subpanels in MMIS) in the application. User access to the MMIS application should follow an authorization process and access to only the required roles and privileges that grant a user the requested access in the application should be granted by system administrators.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- EOHHS should perform a periodic review of the MMIS roles and privileges to ensure that the appropriate set of access rights (panel and subpanels) are associated with the roles and privileges within the application. In addition, a periodic review of the MMS user accounts and the associated roles and privileges should be performed to ensure that user accounts have the appropriate access rights associated with their accounts. IT administrators should perform follow-up procedures to ensure corrective action for identified deviations in a timely manner.

Views of Responsible Officials and Corrective Actions

As of November 10, 2014, the MMIS User Access Review was complete including the deactivation of accounts.

Review Process Remediation Underway – Expected date of plan to be completed, March 31, 2015.

- A process for periodic reviews, annual (minimally) or greater (e.g., twice yearly) is in process including streamlining the process to make it more efficient and less impactful on the business.
- A process for identifying users no longer requiring access on a rolling basis (e.g., monthly review) is being developed.

Responsible Official

Brian Chase, Director, IT Controls & Quality Assurance, Acting Chief Information Security Officer

Implementation Date

March 31, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Access Authorization

Finding Reference: 2014-009

Observation

The following exceptions related to the user access authorization process were noted for 6 out of the 25 new users (sample selection of new users selected for testing) that were granted access to the Medicaid Management Information System (MMIS) application during the audit period:

- (1) 1 new user did not have the required access authorization documentation in place (e.g., EHS Security Request form, or approval emails).
- (2) For 5 new users, MMIS roles and privileges were not specified in the EHS Security Request forms. It was noted that upon receipt of the EHS Security Request forms, Security Administrators followed up with the requestors regarding which roles should be granted to the users. However, there is no documentation evidencing that the selected roles for these 5 users were approved.

The lack of following an established access authorization process presents the risk that unauthorized/inappropriate users may be granted access to the application.

Recommendation

The established access authorization process of requesting and approving user access to the MMIS application should be followed by a system administrator prior to granting users access to the application. In addition, the underlying documentation (i.e., Request Forms, Approval e-mails, etc.) should be retained as required by the process.

Views of Responsible Officials and Corrective Actions

Future process will be formally established and will require appropriate business approvals.

Responsible Official

Brian Chase, Director IT Controls & Quality Assurance, Acting Chief Information Security Officer

Implementation Date

March 31, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Change Migration Access

Finding Reference: 2014-010

Observation

One shared account was noted to have inappropriate access to perform Medicaid Management Information System (MMIS) changes by means of having access to the “wheel” user privileges group on the MMIS UNIX server (MMISPH01). Members of the “wheel” group have the ability to perform direct changes by means of having write permissions on the files and directories on the UNIX server containing the application source code and executable files. We were informed that the account was created to grant “san administrators” temporary access to resolve a san disk storage issue and the access should have been removed for the “san administrators” as the account/access was no longer needed.

Inappropriate/excessive administrative level access to MMIS production servers presents the risk of unauthorized and undetected changes being made to the data/files hosted on these servers potentially impacting financial data/transactions.

Recommendation

Privileged access, such as access to perform changes to the application, should follow an authorization process and be very tightly controlled/monitored. Access should only be granted to authorized individuals who need such level of access based on their job responsibilities and a periodic review of users and accounts with privileged access should be performed to ensure inappropriate/temporary access to users and accounts that may have been intentionally/inadvertently granted is identified during such reviews and corrective action is taken to remove any inappropriate access.

Views of Responsible Officials and Corrective Actions

Based on research, it appears this account was created as a generic log-in for a short-term support need related to the HIX project and ITD (MassIT) SAN storage management, and is no longer active.

Future process will require a formal request with individual named accounts.

Responsible Official

Brian Chase, Director IT Controls & Quality Assurance, Acting Chief Information Security Officer

Implementation Date

March 31, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Password

Finding Reference: 2014-011

Observation

The “password history” configuration i.e., number of “previous passwords remembered” for the following Medicaid Management Information System (MMIS) application and servers were not configured in accordance with the Enterprise Access Control Security Standards which requires a minimum of 9 previous passwords remembered to be configured:

- MMIS application: configured to 4 previous passwords remembered
- 4 UNIX production servers supporting MMIS Databases: configured to 4 previous passwords remembered
- 6 Linux production servers supporting MMIS Application: configured to 3 previous passwords remembered for “LDAP” authentication
- No password history configured for “pam.d” authentication

Weak password parameters increase the risk that applications may be compromised, enabling unauthorized and unmonitored access to financial information.

Recommendation

Passwords for all systems should be set-up in accordance with the password policy/procedure document established by the agency which requires a higher “password history” setting to be configured across systems.

Views of Responsible Officials and Corrective Actions

MMIS application user password aging will be brought into line per the Enterprise Access Control Security Standards.

For UNIX production servers supporting MMIS Databases, the password aging will be brought into line per the Enterprise Access Control Security Standards.

For Linux production servers supporting MMIS Application, the password aging will be brought into line per the Enterprise Access Control Security Standards.

Responsible Official

James Cusson, Compliance & Assurance Program Director, Commonwealth of Massachusetts, MassIT

Implementation Date

April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – User Access Reviews

Finding Reference: 2014-012

Observation

The Executive Office of Health and Human Services (EOHHS) implemented an annual Medicaid Management Information System (MMIS) user access review control and subsequently performed an annual review of the MMIS application users and their privileges in FY 2012 as a remediation to a prior year audit finding. However, it was noted that the annual review of user access and privileges was not performed in FY 2013 and 2014.

We were informed that EOHHS is currently working through the annual user access review, attempting to find ways to make the process more efficient, due to the number of users and associated roles/access rights subject to review.

The lack of periodic review of user access increases the risk that users may retain access that is no longer appropriate, typically caused by changes in job responsibilities, transfers or terminations.

Recommendation

- EOHHS should perform a periodic review of user accounts with access to the MMIS application and their privileges to ensure that only authorized personnel have system access based on their job responsibilities. IT administrators should perform follow-up procedures to ensure corrective actions are completed for deviations identified as part of the review process.
- EOHHS should reassess the frequency of the review control from annual to a higher frequency (for e.g., quarterly or semiannual) given that a high number of terminated employees were noted to have active access to MMIS application post their termination date.
- Considering that a high number of users have access to the MMIS application and a more frequent review of all users may not be feasible, it is recommended that the increased frequency user review process could focus on validating that terminated users don't have access to the application. In addition to the termination check on a more frequent basis, an annual review of the complete user base with access to the application should be performed to ensure that the access privileges granted to each user is in line with their job responsibilities.

Views of Responsible Officials and Corrective Actions

Review Process Remediation Underway – Expected date of plan to be completed, March 31, 2015.

- A process for periodic reviews, annual (minimally) or greater (e.g., twice yearly) is in process including streamlining the process to make it more efficient and less impactful on the business.
- A process for identifying users no longer requiring access on a rolling basis (e.g., quarterly review) is being developed.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Responsible Official

Robert D. Brennan, ACIO for Children Youth and Families Executive Office of Health and Human Services

Brian Chase, Director IT Controls & Quality Assurance Executive Office of Health and Human Services

Implementation Date

March 31, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Access Revocation

Finding Reference: 2014-013

Observation

KPMG could not fully test and conclude on the effectiveness of the termination control/process, i.e., the control related to the revocation of access for contractors being performed in a timely manner, since a complete listing of contractors with access to the Medicaid Management Information System (MMIS) application was not available at the time of our testing. We were informed that a complete/system-generated listing of contractors was not available due to the lack of a consistent process to track and report on contractors with access to the MMIS application.

In addition, the following deficiencies were noted for terminated employees and a subset of contractors with access to the MMIS application:

- 110 out of the 1973 terminated employees (full population) selected for our testing had active access to the MMIS application beyond their termination date, with 106 employees exceeding the 30-day period where access revocation would be considered timely.
- 23 out of the 186 terminated MAXIMUS contractors (full population) selected for our testing had active access to the MMIS application beyond their termination date, with 19 contractors exceeding the 30-day period where access revocation would be considered timely.

A periodic user access review/recertification to help identify terminated contractors with active access to the MMIS application may not be effectively performed without having a complete listing of contractors with access to the MMIS application. The lack of an effective periodic review of MMIS users and their access rights can present the risk of users retaining access to the application that is no longer appropriate or terminated contractors having active access to the application for a prolonged period of time post their termination date.

In addition, terminated employees/contractors with active access to the application presents a potential risk of unauthorized/fraudulent financial transactions being processed that may not be detected for a prolonged period of time.

Recommendation

- The access revocation process should be tightened to ensure that access for terminated employees and contractors is being revoked in a timely manner across all systems (including MMIS).
- An accurate and complete listing of all contractors with access to EOHHS systems should be maintained at all times to ensure user access authorization, termination and review processes are effectively performed and monitored (as needed).

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- EOHHS should reassess the frequency of the review control from annual to a higher frequency (for e.g., quarterly or semiannual) given that high a number of terminated employees were noted to have active access to MMIS application post their termination date. A review control, if designed correctly, should detect any terminated users with active access to the application that may have been missed during the termination process.

Views of Responsible Officials and Corrective Actions

Review Process Remediation Underway – Expected date of plan to be completed, March 31, 2015.

- Since the time of the audit conducted by KPMG, an internal reconciliation of MMIS user accounts (verification of access) resulted in the deactivation of over 300 accounts that did not have proper authorization for access. Appropriate authorizations were obtained and documented for requests for reactivation.
- A process for identifying contracted workforce is in process through coordination with vendor billing.
- A process for periodic reviews, annual (minimally) or greater (e.g., twice yearly) is in process including streamlining the process to make it more efficient and less impactful on the business.
- A process for identifying users no longer requiring access on a rolling basis (e.g., monthly review) is being developed.

Responsible Official

Robert D. Brennan, ACIO for Children Youth and Families Executive Office of Health and Human Services
Brian Chase, Director IT Controls & Quality Assurance Executive Office of Health and Human Services

Implementation Date

March 31, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services

MMIS – Privileged Access to Database Server

Finding Reference: 2014-014

Observation

One shared account was noted to have inappropriate/excessive administrative access on a UNIX server (MMISPH01) supporting the Medicaid Management Information System (MMIS) database. We were informed that the account was created to grant “san administrators” temporary access to resolve a san disk storage issue and the access should have been removed for the “san administrators” as the account/access was no longer needed.

Inappropriate/excessive administrative level access to the MMIS database server presents the risk of unauthorized and undetected changes being made to the data/files hosted on the database server potentially impacting financial data/transactions.

Recommendation

Privileged access to the systems and supporting infrastructure (including servers, databases and application) should follow an authorization process and very tightly controlled/monitored. Access should only be granted to authorized individuals who need such level of access based on their job responsibilities and a periodic review of users and accounts with privileged access should be performed to ensure inappropriate/temporary access to users and accounts that may have been intentionally/inadvertently granted is identified during such reviews and corrective action is taken to remove any inappropriate access.

Views of Responsible Officials and Corrective Actions

Privileged access to the systems and supporting infrastructure (including servers, databases and application) will follow an authorization process and will be controlled and monitored. Access will only be granted to authorized individuals who need such level of access based on their job responsibilities. A periodic review of users and accounts with privileged access will be performed.

Responsible Official

James Cusson, Compliance & Assurance Program Director, Commonwealth of Massachusetts, MassIT

Implementation Date

April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Information Technology Division

BEACON – Server Password Parameters

Finding Reference: 2014-015

Observation

System enforced password restrictions including minimum length, history, complexity, expiration and account lockout were not configured on the AIX production servers hosting the Benefit Eligibility and Control On-line Network (BEACON) application and database.

Password parameters not being configured significantly increases the risk of financial data being compromised and enabling unauthorized and unmonitored access to financial information.

Recommendation

The Information Technology Division (ITD) should systematically enforce password parameters including minimum length, complexity, expiration, account lockout, etc., on the AIX production servers hosting the BEACON application and database.

Views of Responsible Officials and Corrective Actions

Privileged access to the systems and supporting infrastructure (including servers, databases and application) will follow an authorization process and will be controlled and monitored. Access will only be granted to authorized individuals who need such level of access based on their job responsibilities. A periodic review of users and accounts with privileged access will be performed.

Responsible Official

James Cusson, Compliance & Assurance Program Director, Commonwealth of Massachusetts, MassIT

Implementation Date

April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Information Technology Division

Data Center Access Authorization and Review

Finding Reference: 2014-016

Observation

The established access authorization process of requesting, approving and documenting data center access was not followed for users granted access to the ITD data center during the year. The following control exceptions were noted for 8 users that were granted access to the data center during the year and selected for our testwork:

- Request and approval of access to the ITD data center for all 8 users was not performed via the COMiT ticketing system (as required by the data center user access authorization process). We noted that data center access for 3 out of the 8 users was requested and approved via e-mail. In addition, access for 1 out the 8 users was requested and approved as part of the quarterly review process resulting in no access authorization documentation to be completed and retained.
- Access approval documentation was not in place for 4 out of the 8 users that were granted access to the data center. We were informed that data center access for these users was verbally approved prior to access being granted and that these users were appropriate to have such access based on their job responsibilities.

In addition, we noted that the second quarterly (Q2) review of the users with access to the ITD Data Center was not performed by ITD in FY2014.

The lack of following an established access authorization process and the lack of periodic review of data center user access present the following risks:

- Unauthorized/inappropriate users gaining access to the data center.
- Users may retain access that is no longer appropriate, typically caused by changes in job responsibilities, transfers or terminations.

Recommendation

The established data center access authorization process should be followed by ITD prior to granting users access to the ITD Data Center.

A periodic review of the Data Center user access should be performed as designed i.e., on a quarterly basis to ensure that the current access for individuals is in line with their job responsibilities.

Views of Responsible Officials and Corrective Actions

MassIT will follow the established data center access authorization process prior to granting users access to the ITD Data Center.

MassIT's Facilities Manager performed a quarterly review of access to the MassIT data center for Q2-FY15 in Oct 2014. MassIT quarterly data center access review for Q3-FY15 will be performed in January 2015.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Responsible Official

James Cusson, Compliance & Assurance Program Director, Commonwealth of Massachusetts, MassIT

Implementation Date

April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Information Technology Division

MMIS – Job Scheduler Access

Finding Reference: 2014-017

Observation

One user was noted to have inappropriate access to make changes to the MMIS jobs (batch jobs and backup jobs) scheduled within the Cybermation ESP Workload Manager Job scheduler. We noted although the user retained the inappropriate level of access during the year, the issue was remediated and the users' access was removed prior to year-end i.e., as of June 12, 2014.

Inappropriate access to MMIS job schedules/jobs presents the risk of undetected changes being made to the underlying job schedules and/or jobs that could potentially impact financial data/transactions in the application.

Recommendation

Access to make changes to the MMIS jobs scheduled in the Cybermation ESP Workload Manager Job scheduler should be available only to appropriate and authorized personnel based on their job responsibilities.

Views of Responsible Officials and Corrective Actions

Access to make changes to the MMIS jobs scheduled in the Cybermation ESP Workload Manager Job scheduler will be available only to appropriate and authorized personnel based on their job responsibilities.

Responsible Official

James Cusson, Compliance & Assurance Program Director, Commonwealth of Massachusetts, MassIT

Implementation Date

April 1, 2015

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

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Housing and Community Development

Community Development Block Grant (14.228)

Federal Award Number: B13DC250001 Federal Award Year: 2013

U.S. Department of Housing and Urban Development

Reference: 2014-018

Requirement

The Federal Funding Accountability and Transparency Act (FFATA), requires grant and cooperative agreement recipient and contractors to register in the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) and report certain subaward data through FSRS.

For grants and cooperative agreements, the effective date was October 1, 2010 for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date.

Finding

We found a lack of segregation of duties with regard to creating and submitting the FFATA report for grant year 2013. The preparer submitted the report without any additional review.

In reviewing the key data elements included for the 2013 grant year FFATA report, we found two issues of noncompliance. First, the report was missing information for the Town of Sturbridge with a grant obligation of \$640,000. Second, the subaward numbers of multiple subawardees were incorrect.

Recommendation

It is recommended that a staff member below the Finance Director completes the FFATA report and prepares it for submission. The Finance Director should then review the report before submission to ensure accuracy. CDBG personnel should review the key data elements prior to submission, to ensure accuracy in their reporting.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

DHCD is in agreement with the finding and will implement the following new procedure to better segregate duties with regard to creating and submitting the FFATA reports:

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Prior to the submission, a Community Development Block Grant (CDBG) Fiscal Representative, who reports to the Division's Finance Director, will verify that the subaward amounts provided by the CDBG Program Manager in the subaward spreadsheet, and approved by the undersecretary, match the subaward amounts entered in the Grant Management System (GMS). GMS is the internal data system used to manage the CDBG subawards and contracts, track financial activity, and report on accomplishments. In the event there are award amendments that increase or decrease the subaward amounts, the current notification process will continue, in which the Fiscal Representative reports to the Finance Director all award amendments entered into GMS.

Upon verification of the contracted subaward amounts, the assigned Fiscal Representative will enter the subaward data for CDBG grants (subawards) in the Federal Subaward Reporting System (FSRS)/FFATA. After all the entries are complete, the Fiscal Representative will print the FFATA reports for each sub award, sign and date the cover sheet (next page), indicating the data has been entered in FFATA, and provide the reports to the CDBG Program Manager.

The CDBG Program Manager will verify the subaward amounts in the FFATA reports, checking those figures against the information contained in GMS. Upon verification, the CDBG Program Manager will sign and date the cover sheet, indicating approval, then transmit the entire package to the Division's Finance Director.

The Finance Director will then review and approve all information before submitting the report to FSRS/FFATA, then sign and date both the cover sheet and summary page, indicating the entire report has been both reviewed and submitted.

The Fiscal Representative will file the summary page, attach the cover page containing all signatures, with the copies of the FFATA reports.

Contact: Dharam Dixit, Director of Finance, Division of Community Services

Implementation Date: July 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Housing and Community Development

Emergency Shelter Grants Program (14.231)

Federal Award Number: E13DC250001

Federal Award Year: 2013

U.S. Department of Housing and Urban Development

Reference: 2014-019

Requirement

According to 24 CFR Part 85.41(b)(4), HUD requires recipients to submit the Federal Financial Report (FFR) (original and two copies), not later than 30 days after the end of each specified reporting period for quarterly and semiannual reports and 90 days for annual reports. Final reports shall be submitted no later than 90 days after the expiration or termination of grant support.

Finding

No FFRs were submitted during FY 2014.

Recommendation

We recommend management track program requirements for all reports applicable to ESG in order to ensure that information is reported timely and accurately.

Questioned Costs

None

Views of Responsible Officials and Corrective Action

The IDIS system used by DHCD for ESG fund drawdown is a HUD proprietary system that includes canned reports. One of the reports (PR05) is the drawdown report by activities. The Division of Housing Stabilization mistakenly made the assumption that because the PR05 report was available to HUD DHCD was no longer required to file Federal Financial Report (FFR).

After discussion with the auditors from KPMG and clarification with HUD, DHCD filed all FY 2014 reports. As of January 6, 2015, all FFR reports (SF 425) for FY 2015 have been filed.

Contact: Alain Fabo, Director of Finance, Division of Housing Stabilization

Implementation Date: September 23, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Housing and Community Development

HOME Investment Partnerships Program (14.239)

Federal Award Number: M13SG250100 Federal Award Year: 2013

U.S. Department of Housing and Urban Development

Reference: 2014-020

Requirement

According to 24 CFR Section 135.3(a) and 135.9, the HUD 60002-Section 3 Summary Report, *Economic Opportunities for Low and Very Low Income persons*, is a required performance report.

Finding

KPMG noted a lack of segregation of duties for creation and submission of the Section 3 Report for grant year 2013. The preparer submitted the report without any additional review by a separate individual.

Recommendation

We recommend that the report be reviewed by someone other than the preparer, prior to submitting it on the Section 3 Reporting Portal.

Questioned Costs

None

Views of Responsible Officials and Corrective Action

The 2013 Section 3 report was, in fact, visually reviewed by a separate individual; however, this step was not documented. Going forward, DHCD has added a formal step where the HOME program manager will provide evidence to document his/her review of the proposed cumulative report prior to submission via the Section 3 60002 Summary Reporting System:

- HOME project managers forward project completion status numbers to a staff person responsible for compiling cumulative program year data. This staff person enters the data onto a master reporting sheet that mimics the categories required for Section 3 and M/WBE reporting. Any questions are pursued with the HOME project managers prior to entering the data on the sheet and finalizing the proposed annual compilation report.
- The HOME program manager reviews the annual compilation report. If there are comments or questions, he/she will ask the staff person responsible to pursue responses through the appropriate parties. When all questions have been satisfied, the HOME program manager will document that the proposed submission has been reviewed and approved. This documentation will be in the form of an e-mail or a written signature on the data compilation spreadsheet.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- Once formally approved, the staff person responsible will submit the electronic 60002 through the Section 3 reporting portal.

Please note that the Section 3 60002 Summary Reporting System, itself, has not been working and HUD has been keeping us informed of the status. Once that system is up and running, DHCD will submit the 2014 HOME program year report using the method described above.

Contact: Rebecca Frawley Wachtel, HOME Program Manager, Division of Housing Development

Implementation Date: January 6, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Unemployment Insurance (17.225)

Federal Award Number: Various Award Year: 2014

U.S. Department of Labor

Finding Reference: 2014-021

Requirement

U.S.C. 3304 states: “(4) all money withdrawn from the unemployment fund of the State shall be used solely in the payment of unemployment compensation”

Pub. L. No. 110-252, Supplemental Appropriations Act of 2008, Title IV, Section 4001(b) states:

“(1) the amount of emergency unemployment compensation (EUC) which shall be payable to any individual for any week of total unemployment shall be equal to the amount of the regular compensation including dependents’ allowances) payable to such individual during such individual’s benefit year under the State law for a week of total unemployment; (2) the terms and conditions of the State law which apply to claims for regular compensation and to the payment thereof shall apply to claims for emergency unemployment compensation and the payment thereof, except – (A) that an individual shall not be eligible for emergency unemployment compensation under this title unless, in the base period with respect to which the individual exhausted all rights to regular compensation under the State law, the individual had 20 weeks of full-time insured employment or the equivalent in insured wages, as determined under the provisions of the State law implementing section 202(a)(5) of the Federal-State Extended Unemployment Compensation Act of 1970 (26 U.S.C. 3304 note); and (B) where otherwise inconsistent with the provisions of this title or with the regulations or operating instructions of the Secretary promulgated to carry out this title; and (3) the maximum amount of emergency unemployment compensation payable to any individual for whom an emergency unemployment compensation account is established under section 4002 shall not exceed the amount established in such account for such individual.”

Finding

For two selections out of 73 tested for compliance with Eligibility and EUC Special Test requirements, it was noted that excess benefits were paid.

- Due to a retro determination program shift, the system paid out benefits of \$102 for what should have been the waiting week for one sample.
- For another sample, the weekly benefit amount (WBA) for the selected EUC Tier under sequestration could not be recalculated due to coding errors regarding rounding rules. For the 2009 Tier 2, the potential overpayment due to coding errors was \$13, although in the case of this tier, not enough weeks were claimed to hit the maximum. Additionally, the total paid on the 2009 Tier 1.1 was \$7,650, while the maximum benefit amount (MBA) ranged from \$7,000 to \$6,514 (change due to sequestration). For purposes of questioned costs, we used the smaller end of the range and compared the amount paid to the highest MBA for the tier. Consequently, we are questioning \$650 in benefit payments.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that the EOLDWD review system configuration for the issues noted above and make any necessary program changes to rectify them. In addition, management should investigate and quantify the impact of system errors and take the appropriate action.

Questioned costs

Questioned costs for above two claimants is \$752.

Views of Responsible Officials and Corrective Actions

1. There was an identified defect in the application that was not resetting the waiting week indicator for a select portion of claimants when the claimant was shifted to an extension and then subsequently went back to the new Regular UI claim. This defect was fixed in December 2013.
2. There were two rounds of sequestration that impacted UI programs across the country. The second round for which this finding is attributed lasted from September 29, 2013–December 28, 2013. Sequestration was a unique situation that only impacted the EUC program for a short amount of time. In the second round, 7.2% of the claimant's EUC benefits were reduced due to the federal budget crisis. What the auditor discovered was that the system did not round the claimant's WBA down to the whole dollar before taking the 7.2% cut. This had a minimal impact. Sequestration and the EUC program are no longer in effect. If this occurs again in the future, DUA will include the programming changes highlighted by the auditor.

Contact:

Robert T. Cunningham

Director

Department of Unemployment Assistance

Implementation Date

December 2013

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Unemployment Insurance (17.225)

Federal Award Number: Various Award Year: 2014

U.S. Department of Labor

Finding Reference: 2014-022

Requirement

For the purpose of proper administration of the system, the State Workforce Agencies (SWA) maintain accounts, or subsidiary ledgers, on State UI taxes received or due from individual employers, and the UC benefits charged to the employer.

The employer’s “experience” with the unemployment of former employees is the dominant factor in the SWA computation of the employer’s annual State UI tax rate. The computation of the employer’s annual tax rate is based on State UI law (26 USC 3303).

Finding

Experience ratings for certain contributory employers with predecessor entities were not calculated properly due to a coding defect. This coding defect caused these employers’ contributions to be double counted, and contributions from more than one base period were factored into the experience rate calculation. As a result, a lower experience rating was assigned to certain companies than was warranted, resulting in less contributions being collected.

Recommendation

We recommend that the department address the configuration issue to ensure future experience ratings are properly established and to also assess the impact of the past configuration deficiency and whether any past contribution deficiencies can be considered in establishing future experience ratings for those affected entities.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions

A system defect in the experience rating process was discovered April 17, 2013 and logged. Specifically, this defect identified an error where Predecessor contributions outside the computation period were being used in the annual rate calculation of the Successor employer. Additionally, in some situations the Predecessor contributions were being duplicated. As employers with this defect were identified, the Rate Setting Unit staff manually adjusted the individual employer’s account where the employer’s UI rate was affected. The fix for this defect was included in the December 23, 2014 Production Build. Additional testing has rendered successful results in production.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Contact:

Robert T. Cunningham

Director

Department of Unemployment Assistance

Implementation Date

December 23, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Unemployment Insurance (17.225)

Federal Award Number: Various Award Year: 2014

U.S. Department of Labor

Finding Reference: 2014-023

Requirement

In accordance with the Code of Federal Regulations, 20 CFR 602.21, the Commonwealth is required to “Perform the requirements of this section in accordance with instructions issued by the Department, pursuant to §602.30(a) of this part, to ensure standardization of methods and procedures in a manner consistent with this part... Complete prompt and in-depth case investigations to determine the degree of accuracy and timeliness in the administration of the State UC law and Federal programs with respect to benefit determinations, benefit payments, and revenue collections; and conduct other measurements and studies necessary or appropriate for carrying out the purposes of this part.”

As such, the Commonwealth is required to follow the Benefit Accuracy Measurement (BAM) State Operations Handbook: ET Handbook No. 395, 5th Edition (the Handbook) published by the U.S. Department of Labor, which in part requires that each state develop written procedures to guide the operation of the BAM program, covering all investigative and administrative functions of the BAM unit. The procedures should be adapted to the particular circumstances of the state, but must adhere to the guidelines contained in the Handbook.

Finding

During fiscal year 2014, we noted the following deficiencies with the Commonwealth’s BAM unit procedures:

- Department policy is that every claimant questionnaire is reviewed as evidenced by the signature of the BAM investigator. For 2 of 25 samples, the claimant questionnaire was signed and returned; however, they did not include the signature of the BAM investigator.
- Department policy requires manager review of a finding of improper payment. For 1 of 25 samples, there were no manager initials on the hard copy case checklist nor electronic manager sign-off noted in the Sun System to evidence a manager’s review even though the Data Collection Instrument report (DCI) concluded that an improper payment had occurred.

A similar finding was reported in the prior year single audit report as finding 2013–18.

Recommendation

We recommend that case reviewers ensure that established procedures are completed prior to close out of investigation case files.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

1. The Benefit Accuracy (BAM) questionnaires have and continue to be reformatted for ease of use by both interested persons and the BAM Investigator. The new format lends itself to easier identification of questionnaire sections that require completion. The purpose of the signature line was to identify who completed the questionnaire. After reviewing the Massachusetts policy that requires an Investigator signature on a questionnaire completed by an interested person(s), the DOL BAM Coordinator and the DUA Chief of Staff determined that the questionnaires would be updated to include an additional "Completed By" field. This more accurately captures the information. The BAM Handbook will be modified accordingly. BAM Investigators will receive training specific to the policy and procedures promulgated in the MA Benefits Accuracy Measurement Handbook.
2. BAM policy requires that cases determined improper will be reviewed by a BAM supervisor or peer. The initialization of the cover sheet, reviewers completed data collection instrument, or SUN data collection instrument with reviewer's numeric identification all serve as evidence of improper case review. In the case identified, BAM staff failed to follow protocol. As such, Benefit Accuracy Measurement (BAM) Investigators and Supervisors will receive training specific to the policy and procedures promulgated in the MA Benefits Accuracy Measurement Handbook.

Contact:

Robert T. Cunningham

Director

Department of Unemployment Assistance

Implementation Date

June 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Unemployment Insurance (17.225)

Federal Award Number: Various Award Year: 2014

U.S. Department of Labor

Finding Reference: 2014-024

Requirement

Per Section 3303(a)(1), FUTA, the state must not relieve an employer of charges (noncharging) when the employer, or an agent of the employer, does both of the following:

- “Was at fault for failing to respond timely or adequately to the request of the [state] agency for information relating to [a] claim” for UC benefits that was subsequently overpaid; and
- “Has established a pattern of failing to respond timely or adequately” to requests from the state agency for information relating to claims for UC benefits.

This prohibition applies if the employer has a pattern of failing to respond timely, failing to respond adequately, or failing to respond both timely and adequately. Section 3303(f)(2), FUTA, permits states to impose stricter standards limiting the relief from charges, such as, but not limited to, denying relief from charges to an employer after the first instance of a failure by an employer or an employer’s agent to respond timely or adequately to requests for information. Thus, states have some latitude in implementing the new requirement, including whether a pattern of behavior is required and, if so, the determination of the definition of a pattern of failure to respond timely or adequately to requests for information. A pattern of failure to respond timely or adequately means two (at a minimum) or more instances of such behavior by the employer or an agent of the employer.

Per Massachusetts State Law, Section 38A: (a) If the director, or the director’s authorized representative, determines, after providing written or electronic notice to the employer, that a payment of benefits was made because the employing unit, or an agent of the employing unit, was at fault for failing to respond timely or adequately to any request of the department for information relating to the claim for benefits, then (i) the employing unit, except for employing units making payments into the Unemployment Compensation Fund under section 14A, shall not be relieved of charges on account of any such payment of benefits; and (ii) if the employing unit makes payments into the Fund under section 14A, it shall not be relieved from reimbursing the fund on account of any such payment of benefits. For purposes of this subsection, a response shall be considered inadequate if it fails to provide sufficient facts to enable the department to make the proper determination regarding a claim for benefits. A response shall not be considered inadequate if the department fails to ask for all necessary information, except in any case where there has been a failure to respond.

Finding

For two samples selected, the employer was relieved of charges even though the employer caused the overpayment. Although the claimant repaid the overpayment, this practice is not in line with federal and state requirements.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that the EOLDWD puts in place controls to ensure that employers who by their actions cause an overpayment of benefits are not relieved of charges to their account.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions

Regulations need to be put in place before this section of law can be fully implemented. These regulations should be published by March 2015. The new business rules will be in production before the end of this fiscal year.

Contact:

Robert T. Cunningham

Director

Department of Unemployment Assistance

Implementation Date

March 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Labor and Workforce Development

Unemployment Insurance (17.225)

Federal Award Number: Various Award Year: 2014

U.S. Department of Labor

Finding Reference: 2014-025

Requirement

The OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Trade Adjustment Assistance Extension Act of 2011 (TAAEA) Pub. L. 112-40 Unemployment Compensation Program Integrity requires states to impose a monetary penalty on claimants whose fraudulent acts resulted in overpayments.

U.S.C. Section 4005 ‘(c) RECOVERY BY STATE AGENCY. – ‘(1) IN GENERAL. – The State agency shall recover the amount to be repaid, or any part thereof, by deductions from any emergency unemployment compensation payable to such individual under this title or from any unemployment compensation payable to such individual under any State or Federal unemployment compensation law administered by the State agency or under any other State or Federal law administered by the State agency which provides for the payment of any assistance or allowance with respect to any week of unemployment, during the 3-year period after the date such individuals received the payment of the emergency unemployment compensation to which they were not entitled, in accordance with the same procedures as apply to the recovery of overpayments of regular unemployment benefits paid by the State. ‘(2) OPPORTUNITY FOR HEARING. – No repayment shall be required, and no deduction shall be made, until a determination has been made, notice thereof and an opportunity for a fair hearing has been given to the individual, and the determination has become final. ‘(d) REVIEW. – Any determination by a State agency under this section shall be subject to review in the same manner and to the same extent as determinations under the State unemployment compensation law, and only in that manner and to that extent.

The Commonwealth requires that overpayment notices be sent to all claimants, per EOLDWD policy outlined in the Service Representatives Handbook, as this notice advises the claimant of his or her right to request a waiver and of appeal rights.

Finding

During fiscal 2014, we noted the following deficiencies in controls over compliance and compliance with Commonwealth procedures.

- Prior to April 2014, notices of overpayments were not sent to claimants whose overpayments were established either by system redeterminations or by a claimant adjusting wage or other information (those overpayments established via “auto-adjudications”).

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- During our testwork, we also observed that system-generated overpayment notices were lacking transparency regarding penalties assessed in fraud cases. The system was not populating penalty information in space indicated on monthly statements. Additionally, the notice of fault populated with the incorrect percentage to be potentially withheld from future benefit payments.

Recommendation

We recommend that EOLDWD put into place processes and controls to ensure that system-generated notices comply with department policy.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions

The initial design of the UI Online system only created an overpayment determination when triggered by a monetary or nonmonetary determination. There are scenarios in which an overpayment is created that are not triggered by a re-determination. For example, the overpayment may be the result of a re-determination but the issue being re-determined does not include the weeks that are overpaid. The overpayment is valid, but the system does not have an issue to attach the overpayment to and no determination link can be created. If no link can be created, no determination is mailed, and the debt is not collectible. DUA is resolving this issue by creating a staff workflow where the overpayment can be manually attached either to a monetary or nonmonetary determination. This workflow will also generate a legal determination, thereby providing due process and allowing the debt to be collectible. DUA plans to roll out this code in March 2015.

The second issue contributing to the overpayment issue noted above had to do with reported earnings. When a claimant or staff updated their earnings via the payment screens this would trigger the system to re-determine the earnings issue and create a new determination, but this notification was not sent to the claimant. This was resolved in April of 2014. The code was changed so if the updating of earnings created an overpayment, the system would both add the overpayment information to the determination and send it to the claimant.

Regarding the overpayment penalty amount not displaying on the monthly statement, the state has the legislative authority to assess a 15% penalty on fault overpayments. Claimants are made aware of this penalty on the determination that provides the overpayment information, therefore it is legally collectible. DUA is updating the monthly statement so that this information is highlighted. We expect this code to be in place before the end of the fiscal year.

Regarding the percentage of offset of benefits for fault overpayments, the past business process allowed for a 100% offset, and the system was originally designed to offset 100%. The process and code were corrected before the system went live in July of 2013. Review of the repository for rationales which populate the text on UI Online notices revealed that the actual text had been written as a 100% and had not been corrected. The new language is currently being translated into the 11 mandated languages and should go into production no later than February 2015.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Contact:

Robert T. Cunningham

Director

Department of Unemployment Assistance

Implementation Date

February 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Transportation

High Speed Rail Corridors & Intercity Passenger Rail – Capital Assistance Grants (20.319)

Federal Award Number: FR-HSR-0040-11-01-00 Award Year: 2011
FR-HSR-0073-11-01-00

U.S. Department of Transportation

Finding Reference: 2014-026

Requirement

A pass-through entity is responsible for:

3. Determining Subrecipient Eligibility – In addition to any programmatic eligibility criteria under E, “Eligibility for Subrecipients,” for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).
4. System for Award Management (previously Central Contractor Registration) – For ARRA subawards, ensuring that the subrecipient maintains a current registration in the System for Award Management (SAM) at all times during which it has an active subaward(s) funded with ARRA funds (2 CFR section 176.50(c)).

Finding

1. The Massachusetts Department of Transportation (MassDOT) has no evidence that it obtained DUNS numbers for its subrecipients for the South Station Expansion project, a non-ARRA project, prior to the subaward.
2. MassDOT does not appear to have identified to its subrecipient for the Knowledge Corridor project (the MBTA), the requirement for SAM registration and presentation in the SEFA and SF-SAC.

A similar finding was reported in the prior year single audit report as finding 2013-27.

Recommendation

MassDOT should put procedures in place to document that the DUNS number for each subrecipient is obtained prior to the issuance of the subaward.

MassDOT should put procedures in place to ensure that subrecipients of ARRA funds are made aware of the requirement for SAM registration and presentation in the SEFA and SF-SAC.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

1. On May 15, 2014, MassDOT implemented a procedure whereby Divisions must complete a checklist for federally funded contracts, for submission to fiscal. The checklist includes a confirmation of DUNS numbers.
2. MassDOT will notify the MBTA Project Manager for the Knowledge Corridor project of the requirement for SAM registration and presentation in the SEFA and SF-SAC.

Contacts: Robert Shaughnessy, Deputy Director of Accounting
Amornrut Harnpukdipatima, Director of Federal Grants Management

Implementation Date: The corrective action for Finding #1 has been implemented.

The corrective action for Finding #2 will be implemented by October 31, 2014.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Title I Grants to Local Education Agencies (84.010)

Award Number: S010A110021

Award Year: 2012

U.S. Department of Education

Finding Reference: 2014-027

Requirement

SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2012 appropriation initially became available on July 1, 2012 and may be obligated by the grantee and subgrantee through September 30, 2014 (Section 421(b) of GEPA (20 USC 1225(b)); 34 CFR sections 76.703 through 76.710).

The practical application of the above compliance requirements can be complex and subject to the interpretation of the Tydings Amendment (Section 4219(b) of the General Education Provisions Act; 20 U.S.C. 1225) which requires both (1) a transaction giving rise to an obligation and (2) a linking of that transaction with the grant funds in question within the period of availability.

Finding

The 2012 federal grant award (budget period 7/1/11 to 9/30/12) that ended its twenty-seven month period of availability on September 30, 2013, was not fully obligated. The DESE has not obligated \$94,242 as of the July 30, 2014 as noted on the MMARS uncommitted funds report.

Recommendation

We recommend that DESE formally adopt a policy of “linking” obligations to grant awards and to apply that policy consistently from year to year. We also recommend that DESE research the nature and context of the unobligated funds noted above and record any necessary journal entries to appropriately “link” obligations to the appropriate grant award and/or return any remaining unobligated funds in a timely manner to DOE.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

DESE is aware of the EDGAR requirements 34 CFR sections 76.703 through 76.710 and 80.23b pertaining to the obligation of funds during the 27-month funding period and return of funds after the 90-day liquidation period. With respect to the 2012 federal grant award, all funds were properly obligated pursuant to applicable regulations. Any uncommitted funds indicated on the MMARS table provided to KPMG were a combination of unused funds and grant returns after the 90-day liquidation period ending on December 31, 2013. These funds were subsequently returned to USED.

We make every effort to comply with the above requirements using the additional 90-day liquidation period to reconcile the award, process any final adjustments and make one final draw if needed. We actively work with our subgrantees to ensure funds are allocated and spent during the appropriate period of spending authority, and will continue to do so to ensure funds are properly obligated within the multiple grant award periods. Any funding that falls outside of the linkage standard established by USED in 1986 is returned to the federal government by DESE.

We welcome the opportunity to implement any process improvement that USED would recommend.

Contact: William Bell, Chief Financial Officer

Implementation Date: April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Title I Grants to Local Education Agencies (84.010)

Award Number:	S010A110021	Award Year:	2012
	S010A120021	Award Year:	2013
	S010A130021	Award Year:	2014

U.S. Department of Education

Finding Reference: 2014-028

Requirement

In accordance with Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 *et seq.*, September 14, 2010) the Transparency Act requires: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds; i.e., the triggering event for reporting under a grant or cooperative agreement is the obligation of funds under a subaward or subaward amendment rather than a payment made pursuant to the subaward; the reporting must be accomplished by the end of the month following the month in which the reportable action occurred.

Finding

For Transparency Act reporting, Title I DESE reports actual expenditures instead of the obligation amount. Actual information is obtained from the Commonwealth of Massachusetts MMARS accounting system and is reported on a monthly basis, this includes subawards that are less than \$25,000. As the obligation is not reported, the date submitted is also not within the reporting deadline. Additionally, we noted for one of the subawards which was greater than \$25,000, the information was not included in the Transparency Act reporting.

Recommendation

The DESE should review its internal control procedures over compliance with the Transparency Act reporting. The procedures should ensure that subawards are reported in accordance with the Federal reporting requirements, including the subaward obligation amount and the reporting due date.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

To be in compliance with the federal regulations, the ESE Data Services Unit will coordinate with the Department's Business Office, Grants Management and other programmatic users to convert our current reporting based on an actual expenditure basis to one using obligated funds.

Contact: Robert Curtin

Implementation Date: January 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Title I Grants to Local Education Agencies (84.010)

Award Number:	S010A110021	Award Year:	2012
	S010A120021	Award Year:	2013
	S010A130021	Award Year:	2014

U.S. Department of Education

Finding Reference: 2014-029

Requirement

DESE reviews each LEA grant application for appropriate funding requirements and requires that the reviewer and approver sign off within the grant management system to approve and fund the LEA award. Proper segregation of duties requires that the reviewer and approver be two separate personnel.

Finding

We noted that in 4 out of 40 LEA's Title I applications selected for testing the same person was reviewing and subsequently approving the LEA grant application within the *Program Acceptance* form.

Recommendation

The DESE should review its internal control procedures to ensure that all LEA grant applications are reviewed and approved by two different people to ensure proper segregation of duties. The reviewer of the application and checklist should complete their review and the approval should be completed by a supervisor or appropriate staff to ensure the application was properly reviewed and approved.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Title I unit has modified its internal control procedures to ensure that LEA grant applications are reviewed and approved by two different people. Specifically, after a grant reviewer has completed their review of a grant application, another qualified individual, typically a unit supervisor, will complete the approval. In instances where the assigned approver is also the reviewer, another supervisor or the unit administrator will approve the application.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Contact: Matthew Pakos

Implementation Date: October 31, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Improving Teacher Quality State Grants (Title II, Part A) (84.367)

Award Number:	S367A110020	Award Year:	2012
	S367A120020-12A	Award Year:	2013
	S367A130020	Award Year:	2014

U.S. Department of Education

Finding Reference: 2014-030

Requirement

In accordance with Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 *et seq.*, September 14, 2010) the Transparency Act requires: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds; i.e., the triggering event for reporting under a grant or cooperative agreement is the obligation of funds under a subaward or subaward amendment rather than a payment made pursuant to the subaward; the reporting must be accomplished by the end of the month following the month in which the reportable action occurred.

Finding

For Transparency Act reporting, Title II, Part A, DESE reports actual expenditures instead of the obligation amount. Actual information is obtained from the Commonwealth of Massachusetts MMARS accounting system and is reported on a monthly basis, this includes subawards that are less than \$25,000. As the obligation is not reported, the date submitted is also not within the reporting deadline. Additionally, we noted for one of the subawards which was greater than \$25,000, the information was not included in the Transparency Act reporting.

Recommendation

The DESE should review its internal control procedures over compliance with the Transparency Act reporting. The procedures should ensure that subawards are reported in accordance with the Federal reporting requirements, including the subaward obligation amount and the reporting due date.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

To be in compliance with the federal regulations, the ESE Data Services Unit will coordinate with the Department's Business Office, Grants Management and other programmatic users to convert our current reporting based on an actual expenditure basis to one using obligated funds.

Contact: Robert Curtin

Implementation Date: January 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Improving Teacher Quality State Grants (Title II, Part A) (84.367)

Award Number: S367A110020

Award Year: 2012

U.S. Department of Education

Finding Reference: 2014-031

Requirement

SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2012 appropriation initially became available on July 1, 2012 and may be obligated by the grantee and subgrantee through September 30, 2014 (Section 421(b) of GEPA (20 USC 1225(b)); 34 CFR sections 76.703 through 76.710).

The practical application of the above compliance requirements can be complex and subject to the interpretation of the Tydings Amendment (Section 4219(b) of the General Education Provisions Act; 20 U.S.C. 1225) which requires both (1) a transaction giving rise to an obligation and (2) a linking of that transaction with the grant funds in question within the period of availability.

Finding

The 2012 federal grant award (budget period 7/1/11 to 9/30/12) that ended its twenty-seven month period of availability on September 30, 2013, was not fully obligated. The DESE has not obligated \$44,387 as of the July 30, 2014 as noted on the MMARS uncommitted funds report.

Recommendation

We recommend that DESE formally adopt a policy of “linking” obligations to grant awards and to apply that policy consistently from year to year. We also recommend that DESE research the nature and context of the unobligated funds noted above and record any necessary journal entries to appropriately “link” obligations to the appropriate grant award and or return any remaining unobligated funds in a timely manner to DOE.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

DESE is aware of the EDGAR requirements 34 CFR sections 76.703 through 76.710 and 80.23b pertaining to the obligation of funds during the 27-month funding period and return of funds after the 90-day liquidation period. With respect to the 2012 federal grant award, all funds were properly obligated pursuant to applicable regulations. Any uncommitted funds indicated on the MMARS table provided to KPMG were a combination of unused funds and grant returns after the 90-day liquidation period ending on December 31, 2013. These funds were subsequently returned to USED.

We make every effort to comply with the above requirements using the additional 90-day liquidation period to reconcile the award, process any final adjustments and make one final draw if needed. We actively work with our subgrantees to ensure funds are allocated and spent during the appropriate period of spending authority, and will continue to do so to ensure funds are properly obligated within the multiple grant award periods. Any funding that falls outside of the linkage standard established by USED in 1986 is returned to the federal government by DESE.

We welcome the opportunity to implement any process improvement that USED would recommend.

Contact: William Bell, Chief Financial Officer

Implementation Date: April 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Improving Teacher Quality State Grants (Title II, Part A) (84.367)

Award Number: S367A130020

Award Year: 2014

U.S. Department of Education

Finding Reference: 2014-032

Requirement

DESE reviews each LEA grant application for appropriate funding requirements and requires that the reviewer and approver sign off within the grant management system to approve and fund the LEA award. Proper segregation of duties requires that the reviewer and approver be two separate personnel.

Finding

We noted that in 37 out of 40 LEA's Title II, Part A applications selected for testing the same person was reviewing and subsequently approving the LEA grant application within the *Program Acceptance* form.

Recommendation

The DESE should review its internal control procedures to ensure that all LEA grant applications are reviewed and approved by two different people to ensure proper segregation of duties. The reviewer of the application and checklist should complete their review and the approval should be completed by a supervisor or appropriate staff to ensure the application was properly reviewed and approved.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Title II unit has modified its internal control procedures to ensure that LEA grant applications are reviewed and approved by two different people. Specifically, after a grant reviewer has completed their review of a grant application, another qualified individual, typically a unit supervisor, will complete the approval. In instances where the assigned approver is also the reviewer, another supervisor or the unit administrator will approve the application.

Contact: Simone Lynch

Implementation Date: October 31, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Department of Elementary and Secondary Education

Improving Teacher Quality State Grants (Title II, Part A) (84.367)

Award Number:	S367A110020	Award Year:	2012
	S367A120020-12A	Award Year:	2013
	S367A130020	Award Year:	2014

U.S. Department of Education

Finding Reference: 2014-033

Requirement

In accordance with the requirements for subrecipient monitoring contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)); OMB Circular A-133 (§___.225, §___.310(d)(5), and §___.400(d)); A-102 Common Rule (§___.37 and §___.40(a)); OMB Circular A-110 (2 CFR section 215.51(a)); and program legislation; the Title II unit within the Department of Elementary and Secondary Education (DESE) is required to provide subrecipient monitoring as a component of the Federal grant requirements, including obtaining a corrective action plan for any deficiencies noted during the monitoring.

Finding

For the two LEA program monitoring reviews that were selected for testing, DESE could not locate the corrective action plan. The corrective action plan is required to ensure that DESE has properly closed out the monitoring process.

Recommendation

The DESE should review its internal control procedures over subrecipient monitoring to ensure that a corrective action plan is received to properly close out the monitoring process. The procedures should include a review of the filing system at DESE to ensure that the Title II unit is in control of the corrective action plan and not the individual who performed the review and monitoring close out.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

ESE has modified its internal control procedures to ensure that all monitoring protocols and processes established are adhered to by all Title IIA reviewers. Specifically, all district correspondences will be

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

saved in the appropriate district folder. There is now a checklist in place to ensure that each step has been taken and completed in the monitoring review process.

Contact: Simone Lynch

Implementation Date: November 1, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Massachusetts Rehabilitation Commission

Rehabilitation Services Vocational Rehabilitation Grants to States (84.126)

Federal Award Number: H126A140028 Award Year: 2014

U.S. Department of Education

Finding Reference: 2014-034

Requirement

According to Act 29 USC 722(a)(6) – Eligibility and Individualized Plan for Employment, the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless –

- (A) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or
- (B) The designated State unit is exploring an individual’s abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B).

Finding

Management of each Vocational Rehabilitation (VR) agency periodically generates a report showing the number of cases in overdue status during the fiscal year. A case is considered overdue if 60 days have passed between the date an individual applied for benefits, and the date he or she was approved as being eligible to receive benefits under the program. Each VR agency must ensure waivers are obtained from and signed by the client, in order to extend the eligibility determination period, unless as mentioned above, there are exceptional circumstances.

As part of our testwork, we obtained the June 30, 2014, overdue status report from the Massachusetts Rehabilitation Commission (MRC) noting that MRC had overdue cases totaling 279 of which 273 were listed as overdue without a waiver.

During our audit, we selected 25 individual cases to determine whether the eligibility requirements had been met. We observed 2 for which the eligibility determination was not made within 60 days of the clients’ application dates. In the first instance, the individual was determined to be eligible in 63 days; the other was completed in 88 days. There was no indication that a waiver was obtained from the client to extend the time frame for eligibility determination in either case.

Further, during our testwork, we observed that management generates a Certificate of Eligibility form which records the determination made on behalf of each applicant. Management requires that this form be completed by a counselor, and reviewed and approved by the counselor and/or supervisor. We identified 1 case relating to MRC which was missing the proper signatures. Therefore, we were unable to determine whether the management review was completed to verify the correct eligibility determination was made for this applicant.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that MRC strengthen controls over its area offices, to ensure counselors are adhering to the federal and state regulations, that the correct determinations are being made, and clients are receiving benefits for which they are eligible. We also recommend that MRC reviews its controls to ensure that determinations are done timely and/or the proper waivers are obtained.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions:

MRC understands that the regulation (Act 29 USC 722(a)(6) does not establish a compliance threshold. A strict interpretation of the regulation would assume 100% compliance.

It must be noted that 100% compliance is rarely if ever achieved when working with thousands of consumers who have severe disabilities and some difficulty being able to comply with scheduled appointments or requests from counselor staff. We strive to keep consumers involved in the process rather than closing out their cases as “failure to cooperate.”

In terms of practice, the Rehabilitation Services Administration has established a compliance standard of 90%. In past years, MRC has been below that threshold and has worked diligently towards making improvements. Those improvements are evident with our present compliance rate being above 90%.

MRC is committed to making on-going improvements that will bring us closer to the 100% compliance rate. Additionally, we are in the process of making case management systems improvements to assure that all eligibility forms are properly signed by both counselors and consumers.

Contact: Charles Carr, Commissioner – Massachusetts Rehabilitation Commission

Implementation Date: June 30, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Massachusetts Commission for the Blind

Rehabilitation Services Vocational Rehabilitation Grants to States (84.126)

Federal Award Number: H126A140029 **Award Year:** 2014

U.S. Department of Education

Finding Reference: 2014-035

Requirement

In accordance with 2 CFR 225, Appendix B8(h)(3), when an employee works solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Finding

During our audit, we found 1 employee in our sample of 40 whose time was charged 100% to the Vocational Rehabilitation Services grant but was not supported by a time and effort certification. This employee resigned in August 2013, and was excluded when the semi-annual certification was performed.

Recommendation

We recommend that management establish procedures to ensure that all time and effort is appropriately documented within the guidelines of 2 CFR 225.

A similar finding was reported in the prior year single audit report as finding 2013-32.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions:

The staff person identified retired before his last certification was completed. MCB will continue to implement controls to validate the list of employees to be certified with the actual bi-weekly payrolls that are included in the certification.

Contact: Shandra Krasser, CFO, MCB

Implementation Date: December 31, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Massachusetts Commission for the Blind

Rehabilitation Services Vocational Rehabilitation Grants to States (84.126)

Federal Award Number: H126A140028 Award Year: 2014

H126A140029

U.S. Department of Education

Finding Reference: 2014-036

Requirement

According to Act 29 USC 722(a)(6) – Eligibility and Individualized Plan for Employment, the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless —

(A) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(B) The designated State unit is exploring an individual’s abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B).

Finding

Management of each Vocational Rehabilitation (VR) agency periodically generates a report showing the number of cases in overdue status during the fiscal year. A case is considered overdue if 60 days have passed between the date an individual applied for benefits, and the date he or she was approved as being eligible to receive benefits under the program. Each VR agency must ensure waivers are obtained from and signed by the client, in order to extend the eligibility determination period, unless as mentioned above, there are exceptional circumstances.

As part of our testwork, we obtained the June 30, 2014, overdue status report from the Massachusetts Commission for the Blind (MCB) noting that MCB had a total of 10 overdue cases, 7 of which had no waiver to support the extended time frame.

Recommendation

We recommend that MCB review its controls to ensure that determinations are done timely and/or the proper waivers are obtained.

Questioned Costs

Not determinable

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions:

MCB will address this finding immediately through specific training for counselors and supervisors, and quarterly reports to all direct service managers, supervisors and counselors to ensure compliance with this requirement. The agency will also continue its ongoing program of peer case reviews and its practice of automatic notification of the counselor of each case nearing the 60-day limit.

Contact: Paul Saner, Commissioner – Massachusetts Commission for the Blind

Implementation Date: July 1, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Desk review of the Contract Providers and Child Care Resource and Referral Agencies contracted with EEC. The reports are generally sent to the DACR via email for review and approval. The FMS send the reports as an attachment or through a hyperlink connecting to where the document is stored on the Network share drive. Microsoft Word tracking is used by the DACR for the purposes of edits or comments, if necessary. Once reviewed, the DACR will reply back to the FMS to correct any changes or respond to any questions. The FMS will address all edits and questions and send the document back to the DACR for final approval. An additional email is sent to the FMS stating “approved for release.” The final report is then sent to the organization that was monitored, and the DACR is cc’d on those emails. Some reports may require an in-person review and approval due to the severity of the findings, potential recoupment amount, or other concerns the FMS may have regarding the report. The DACR will no longer give a verbal approval on such reports, but will now send a follow up email to the FMS with an approval of the reports. For the FY2015 On-site Monitoring Reports and Desk reviews, the FMS will be required to save the report approval emails. An update will be made to the 2014 Audit Unit’s Fiscal Monitoring Guide detailing this control mechanism.

Contact William Concannon, Deputy Commissioner for Administration and Finance

Implementation Date Start of the FY2015 Monitoring Visit Cycle (September 2014)

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services (MassHealth)

Children's Health Insurance Program (93.767)

Federal Award Number: 1405MA5021 Award Year: 2014

U.S. Department of Health and Human Services

Finding Reference: 2014-038

Requirement

The State Medicaid agency (MassHealth) or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

Finding

During our testwork, we selected 65 program participants receiving benefits from the Children's Health Insurance Program that used the MA-21 system. For five of the participants selected, it was determined that, based on the supporting documentation provided by the participants (to MassHealth), monthly income was incorrectly calculated and entered into the MA-21 system. For one of these participants, the incorrect income calculation and data entry into the system resulted in an incorrect eligibility determination decision. For the year ended June 30, 2014, a total of approximately \$1,987 of federal funds was paid related to this participant.

Recommendation

We recommend that the Executive Office review its system input review procedures, as it relates specifically to eligibility file input and maintenance in the MA-21 system to determine if these are isolated instances or systemic program issues. Enhanced review procedures verifying system inputs could prevent incorrect eligibility determinations produced as a result of inaccurate inputs into the system.

Questioned Costs

\$1,987

Views of Responsible Officials and Corrective Actions

The state agrees with the finding and has determined that these errors were the result of data incorrectly entered by eligibility workers into the MA-21 eligibility system. Therefore, they are isolated in nature and not systemic. To mitigate future errors the state took the following corrective actions:

The Director of Member Policy Implementation sent out a communication, via the MassHealth Enrollment Center (MEC) Weekly Update, to eligibility workers, trainers and site management reminding all of the importance to validate data entered into the eligibility system against the supporting documentation. See attached with reference to the finding. The MEC Weekly Update is a weekly electronic communication sent to all eligibility workers that highlights operational issues that require attention and identifies minor changes in operational policies and procedures.

In addition, the Integrated MassHealth Enrollment Center (IMEC) Director instructed the Eligibility Quality Assurance (EQA) Unit to place special focus on data entered into the eligibility system by Eligibility Workers to reduce the likelihood of data entry errors. The EQA Unit is set up to periodically review a random sample of

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

applications entered into the eligibility system to identify errors, share those errors with the pertinent staff for awareness and retraining, and to correct the errors. The state believes that the above Corrective Action Plan is fully implemented.

Contact: Joseph Sousa, Director, Integrated MassHealth Enrollment Centers

Implementation Date: November 30, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services (MassHealth)

Medical Assistance Program (93.778)

Federal Award Number: 1405MA5MAP Award Year: 2014

U.S. Department of Health and Human Services

Finding Reference: 2014-039

Requirement

The A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The objective of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs) are found in section 105 of OMB Circular A-133.

Finding

As part of the MassHealth provider operations, specifically new provider enrollment, the applicant is required to submit an application accompanied by a series of supporting documents. In 6 of the 25 new provider files reviewed, key documentation was included in the file but lacked evidence of management review.

Recommendation

We recommend that appropriate documentation be maintained including employee and management sign-off evidencing review.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions

MassHealth recognizes the need and benefits to maintaining appropriate provider file documentation and will take steps to ensure that all required documentation is imaged to the provider file. Additionally MassHealth is currently evaluating with MMIS a solution that will utilize the MMIS checklist panel for each enrollment. The audit functionality will capture and provide evidence of the employee and management sign-off.

Modifications to the program policy and procedures will also need to be made.

Contact: Janice Wadsworth, Director of Provider Operations

Implementation Date: June 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services (MassHealth)

Medical Assistance Program (93.778)

Federal Award Number: 1405MA5MAP Award Year: 2014

U.S. Department of Health and Human Services

Finding Reference: 2014-040

Requirement

The State Medicaid agency (MassHealth) or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

Finding

During our testwork, we selected 65 program participants receiving benefits from the Medical Assistance Program that used the MA-21 and/or PACES eligibility system. For one of the participants selected, it was determined that, based on supporting documentation provide by the participant (to MassHealth), monthly income was incorrectly calculated and entered into the MA-21 system. Per discussion with management, review of supporting documentation, and calculation of correct monthly income amount, the error did not impact the ultimate eligibility determination, in this instance.

A similar finding was reported in the prior single audit report as finding 2013-35.

Recommendation

We recommend that the Executive Office review its system input review procedures, as it relates specifically to eligibility file input and maintenance in the MA-21 system to determine if these are isolated instances or systemic program issues. Enhanced review procedures verifying system inputs could prevent incorrect eligibility determinations produced as a result of inaccurate inputs into the system.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions

The state agrees with the finding and has determined that the error was the result of data incorrectly entered by an eligibility worker into the MA-21 eligibility system. Therefore, it is isolated in nature and not systemic. To mitigate future errors the state took the following corrective actions:

The Director of Member Policy Implementation sent out a communication, via the MassHealth Enrollment Center (MEC) Weekly Update, to eligibility workers, trainers and site management reminding all of the importance to validate data entered into the eligibility system against the supporting documentation. See attached with reference to the finding. The MEC Weekly Update is a weekly electronic communication sent to all eligibility workers that

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

highlights operational issues that require attention and identifies minor changes in operational policies and procedures.

In addition, the Integrated MassHealth Enrollment Center (IMEC) Director instructed the Eligibility Quality Assurance (EQA) Unit to place special focus on data entered into the eligibility system by Eligibility Workers to reduce the likelihood of data entry errors. The EQA Unit is set up to periodically review a random sample of applications entered into the eligibility system to identify errors, share those errors with the pertinent staff for awareness and retraining, and to correct the errors. The state believes that the above Corrective Action Plan is fully implemented.

Contact: Joseph Sousa, Director, Integrated MassHealth Enrollment Centers

Implementation Date: November 30, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services (MassHealth)

Medical Assistance Program (93.778)

Federal Award Number: 1405MA5MAP Award Year: 2014

U.S. Department of Health and Human Services

Finding Reference: 2014-041

Requirement

The A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The objective of internal control pertaining to the compliance requirements for Federal programs (Internal Control over Federal Programs) are found in section 105 of OMB Circular A-133.

Per 45 CFR 92, appropriate controls are required to be designed, implemented, and operating effectively to provide reasonable assurance that only eligible individuals receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements. Such control activities include verification of accuracy of information used in eligibility determination.

Finding

As part of the MassHealth enrollment process, on a daily basis, discrepancy reports are generated from the current enrollment system, MA-21, which document potential errors in the system input of new enrollment participants. Management evaluates each discrepancy to ensure the system is appropriately updated to reflect all necessary changes. We reviewed 25 daily reports and noted that none of the reports tested included preparer or reviewer sign-off evidencing investigation of discrepancies listed on report.

A similar finding was reported in the prior single audit report as finding 2013-33.

Recommendation

We recommend that appropriate documentation be maintained including employee and management sign-off evidencing review. Additionally, per discussion with management, as the discrepancy reports are presented on a cumulative basis from day-to-day, we recommend management include an aging schedule on the report to enable management to monitor the aging of the individual items shown on the report.

Questioned Costs

Not determinable

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Actions

The state agrees with the finding and recommendation and has implemented the following Corrective Action Plan (CAP): we have added the production date to the Discrepancy Reports, and reports are now being signed off by the processor and manager. See sample report attached with reference to the finding.

Based on the above actions, the state considers this CAP fully implemented.

Contact: Joseph Sousa, Director, Integrated MassHealth Enrollment Centers

Implementation Date: November 30, 2014

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Executive Office of Health and Human Services (MassHealth)

Medical Assistance Program (93.778)

Federal Award Number: 1405MA5MAP Award Year: 2014

U.S. Department of Health and Human Services

Finding Reference: 2014-042

Requirement

The A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The objective of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs) are found in section 105 of OMB Circular A-133.

Finding

As part of the MassHealth program utilization review process, non-institutional care providers are identified for review and case files are developed throughout the course of the investigation. Upon completion of the investigation, any overpayments are identified and claimed by MassHealth and payable from the provider. We reviewed 15 case development files and noted 3 files in which key supporting documentation was missing. Additionally, we noted 4 files in which key supporting documentation missing management signature as evidence of completion and review.

Recommendation

We recommend that appropriate documentation be maintained including employee and management sign-off evidencing review.

Questioned Costs

Not determinable

Views of Responsible Officials and Corrective Actions:

The Non-Institutional Provider Review Team will develop and implement a checklist of all documentation required and completed for each non-institutional provider reviewed as well as employee and management sign offs for each Case Development performed. An original copy of the checklist will be retained in each Non-Institutional Provider Review file and will be reviewed and signed by the Director of Medical Management prior to a case being closed.

Contact: Terry Lindblom, Director of Medical Management, Office of Clinical Affairs

Implementation Date: January 1, 2015

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Massachusetts Emergency Management Agency

Disaster-Grants-Public Assistance (Presidentially Declared Disasters) (97.036)

Federal Award Number: Various Award Year: Various

U.S. Department of Homeland Security

Finding Reference: 2014-043

Requirement

In accordance with Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (FFATA or the Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) the Transparency Act requires: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds; i.e., the triggering event for reporting under a grant or cooperative agreement is the obligation of funds under a subaward or subaward amendment rather than a payment made pursuant to the subaward; the reporting must be accomplished by the end of the month following the month in which the reportable action occurred.

Finding

The Massachusetts Emergency Management Agency does not have adequate controls in place to ensure timely and accurate FFATA reporting. KPMG tested nine monthly reportings for different disasters. Of the nine tested, six were exceptions and not in compliance with FFATA reporting requirements. They were noted as either not reported at all or inaccurately reported.

A similar finding was reported in the prior year single audit report as finding 2013-38.

Recommendation

We recommend additional procedures be implemented to track reporting deadlines and ensure accurate reporting. Procedures should include a reconciliation of obligations for complete reporting and a level of review to have more accurate reporting.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

In response to past findings related to FFATA, MEMA has instituted a formal policy and procedure to ensure that requirements of the Act are met. This has led to regular and timely reporting since the policies were initiated.

As a result of this finding, MEMA has strengthened its FFATA reporting policy by including monthly CAO review of reports prior to submission for accuracy and a full review of all MEMA encumbrances on a monthly basis to ensure no new obligations requiring reports are missed.

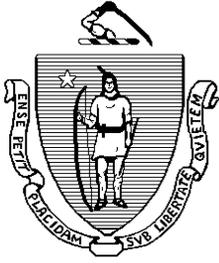
COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Contact: David Mahr, Chief Administrative Officer

Implementation Date: November 1, 2014



Martin J. Benison
Comptroller

***Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place, Room 901
Boston, Massachusetts 02108***

Phone (617) 727-5000
Fax (617) 727-2163
Internet <http://www.mass.gov/osc>

**Commonwealth of Massachusetts
Summary Schedule of Prior Year Audit Findings
FY 2014**

The attached summary schedule of prior year findings (Schedule) lists the finding reference, CFDA #, state agency, program and description for the 39 findings included in the fiscal year 2013 Single Audit Report. It also lists the status of any other prior year finding whose corrective action plan has not been fully implemented. The Schedule indicates “fully” if the corrective action plan (CAP) was fully implemented, “partially” if the CAP was not fully implemented and “not implemented” if not implemented at all. If not fully implemented, an updated CAP is included.

Prior year findings that no longer warrant further action in accordance with OMB Circular A-133 Section 315(b)(4) have been excluded from the Schedule.

Schedule of Prior Year Findings

Finding Reference	CFDA #	Agency	Program(s)	Description/ Summary	Implementation Status	Corrective Action Plan
2013-01 & 2012-01		OSC	State	Financial Reporting	Partially	See finding 2014-002
2013-02		TRE	State	Financial Reporting	Fully	
2013-03 & 2012-03		ITD	State	Change Management- CIW	Fully	
2013-04		ITD	State	Data Center Access Authorization	Partially	See finding 2014-016
2013-05		ITD	State	MMIS - Job Scheduler Access	Partially	See finding 2014-017
2013-06		ITD	State	Beacon - Server Password Parameters	Partially	See finding 2014-015
2013-07		EHS	State	Beacon - Database Password Parameters	Fully	
2013-08		EHS	State	MMIS - User Access Reviews	Partially	See finding 2014-012
2013-09		EHS	State	MMIS - Terminations	Partially	See finding 2014-013
2013-10		EOL	State	QUEST Revenue Application and Oracle Database Access and Password Management	Partially	See finding 2014-003
2013-11		EOL	State	Employee QUEST Termination and Job Change Procedures	Fully	
2013-12		EOL	State	QUEST Physical and Logical Access and Security Event Monitoring and Oversight	Partially	See finding 2014-006
2013-13	10.551, 93.558	DTA	SNAP & TANF	A defect was discovered in the Public Assistance Cost Allocation Plan (PACAP). The allocation methodology was inconsistent between the PACAP system & narrative.	Fully	
2013-14	10.551, 10.561	DTA	SNAP	1 of 3 FNS-46 report amounts submitted electronically to the FNS did not agree to the supporting documentation, prior to signing off.	Fully	
2013-15	10.551	DTA	SNAP	Per visit of 4 Transitional Assistance Office (TAO) locations to review EBT card issuance procedures, 6 of 25 samples, the CIS daily card reconciliation logs were not signed by a manager or properly performed based on the procedures.	Fully	
2013-16 & 2012-06	93.558	DTA	TANF	The department does not maintain adequate monitoring controls over certain activities of certain state agencies & UMASS to ensure TANF expenditures are in accordance with Federal compliance requirements.	Fully	
2013-17	93.558	DTA	TANF	For the samples tested under the Special Test and Provision, there were lack of controls and processes over ensuring assistance is reduced or terminated if an individual in the family receiving assistance refuses to work.	Fully	
2013-18	17.225	EOL	Unemployment Insurance	During the review the Department of Unemployment Assistance in FY2013, the deficiencies with the Benefit Accuracy Measurement (BAM) procedures were found related to cases not completed within the required time frame and BAM procedures handbook was not updated.	Partially	See finding 2014-23
2013-19	17.225	EOL	Unemployment Insurance	During the review the Department of Unemployment Assistance in FY2013, the deficiencies in controls over compliance and compliance with financial reporting requirements were noted related to the 227 report and EUC08 grants.	Fully	
2013-20	17.258, 17.259, 17.278	EOL	WIA	During fiscal 2013, the department was subject to the FFATA reporting requirements however did not demonstrate a "good faith effort" to comply with the FFATA reporting requirements.	Fully	
2013-21	17.258, 17.259, 17.278	EOL	WIA	During the audit, for 1 out of 5 subrecipients selected for testwork was noted one instance where no on-site monitoring visit was performed during fiscal year 2013.	Fully	
2013-22	10.557	DPH	WIC	The department was not in compliance with the U.S. Department of Agriculture regulations to ensure the timely follow-up and completion of compliance investigation.	Fully	
2013-23 & 2012-10	93.268	DPH	Immunization	3 of 15 employees tested, the 50% allocation was pre-populated on their timesheet in what appears to be more an estimate of labor distribution rather than an after-the-fact distribution of actual activity.	Fully	
2013-24	93.959	DPH	Block Grants for Prevention & Treatment of Substance Abuse	25 sub-awards tested and there is no indication of the federal CFDA number or federal awards information in the Department's subrecipient contract. Also, 5 of 25 sub-award sample did not report any federal funds received under the SABG within their A-133 audit report.	Fully	

Schedule of Prior Year Findings

Finding Reference	CFDA #	Agency	Program(s)	Description/ Summary	Implementation Status	Corrective Action Plan
2013-25	93.959	DPH	Block Grants for Prevention & Treatment of Substance Abuse	Per review of the program, there were lack of monitoring and internal control to methodically identify and document its significant level of effort and earmarking process require by the award.	Fully	
2013-26	20.319	DOT	High Speed Rail Corridors & Intercity Passenger Rail – Capital Assistance Grants	The department did not follow the FFATA requirement in submitting report by the deadline.	Fully	
2013-27	20.319	DOT	High Speed Rail Corridors & Intercity Passenger Rail – Capital Assistance Grants	There was a lack of subrecipient monitoring where the department did not obtained DUNS, made subrecipient aware of the requirement for CCR registration and presentation in the SEFA and SF-SAC. Also, department did not fully collect subrecipient A-133.	Partially	See finding 2014-026
2013-28	20.509	DOT	Formula Grants for Other than Urbanized Areas	The department did not follow the FFATA requirement in submitting report by the deadline.	Fully	
2013-29	93.575, 93.596	EEC	Child Care and Development Fund	2 instances of fraud were found, EEC did not follow established procedures to ensure child care payments that are result of fraud are covered.	Fully	
2013-30	93.575, 93.596	EEC	Child Care and Development Fund	Key controls were not in place to ensure reasonable compliance with federal law, regulations, and program requirements.	Partially	See finding 2014-037
2013-31	93.658, 93.659	DCF	Foster Care Title IV-E & Adoption Assistance	The department made Federal Financial Participation (FFP) claims based on allocations that were not calculated in accordance with the approved Public Assistance Cost Allocation Plan.	Fully	
2013-32	84.126	MCB	Rehabilitation Services Vocational Grants to States	7 of 25 employees tested, whose time is charged to the grant were not supported by time and effort certifications.	Partially	See finding 2014-035
2013-33	93.778	EHS	Medicaid	A weekly basis discrepancy report and evidence of the review are not retained beyond 90 days. As such, unable to substantiate that this control was being performed for the full period under the audit FY2013.	Partially	See finding 2014-041
2013-34	93.778	EHS	Medicaid	40 claims selected for testing for participants receiving benefit from the Medical Assistance Program. For one claim, MassHealth paid the outdated rate as compared to the updated rate code.	Fully	
2013-35	93.778	EHS	Medicaid	40 program participants selected for testwork that receiving benefits from the Medicaid Assistance Program that used the MA 21 and /or PACES eligibility system. For one participant, it was determined that the member should not have been deemed eligible.	Partially	See finding 2014-040
2013-36 & 2012-19	93.778	EHS	Medicaid	Re-determination of eligibility not being done on certain area of population.	Fully	
2013-37	97.036	CDA	Disaster Grants - Public Assistance	Reviewing and verifying 100% of project costs from subrecipients prior to certifying payment in accordance with 44 CFR section 13.22(a) was performed. For the 25 subrecipients sampled did not have a full supporting documentation for the federal share costs.	Fully	
2013-38 & 2012-23	97.036	CDA	Disaster Grants - Public Assistance	During fiscal 2013, MEMA was subject to the FFATA reporting requirements however did not demonstrate a "good faith effort" to comply with the FFATA reporting requirements.	Partially	See finding 2014-043
2013-39 & 2012-24	97.036	CDA	Disaster Grants - Public Assistance	As part of subrecipient monitoring, MEMA does perform other subrecipient monitoring procedures during the award, but the agency is not collecting the A-133 audit results of its subrecipients.	Fully	

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

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

This document and related information are available at

Mass.gov

"Your Government, Your Way"

The Office of the Comptroller's home page is www.mass.gov/osc

Arthur Smith Covered Bridge – Colrain
Photo Credit: Massachusetts Office of Travel and Tourism

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Table of Contents

INTRODUCTORY SECTION

<i>LETTER OF TRANSMITTAL</i>	1
<i>CONSTITUTIONAL OFFICERS</i>	8
<i>COMMONWEALTH ORGANIZATIONAL STRUCTURE</i>	9
<i>ADVISORY BOARD TO THE COMPTROLLER</i>	10
<i>ACKNOWLEDGEMENTS</i>	11
<i>CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING</i>	13

FINANCIAL SECTION

<i>INDEPENDENT AUDITORS' REPORT</i>	17
<i>MANAGEMENT'S DISCUSSION AND ANALYSIS</i>	21
<i>BASIC FINANCIAL STATEMENTS:</i>	39
<i>GOVERNMENT-WIDE FINANCIAL STATEMENTS</i>	39
<i>Statement of Net Position</i>	40
<i>Statement of Activities</i>	42
<i>GOVERNMENTAL FUND FINANCIAL STATEMENTS</i>	45
<i>Balance Sheet</i>	46
<i>Reconciliation of Fund Balances to the Statement of Net Position</i>	47
<i>Statement of Revenues, Expenditures and Changes in Fund Balances</i>	48
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities</i>	49
<i>PROPRIETARY FUND FINANCIAL STATEMENTS</i>	51
<i>Statement of Net Position</i>	52
<i>Statement of Revenues, Expenses and Changes in Net Position</i>	53
<i>Statement of Cash Flows</i>	54
<i>FIDUCIARY FUND FINANCIAL STATEMENTS</i>	55
<i>Statement of Net Position</i>	56
<i>Statement of Changes in Net Position</i>	57
<i>DISCRETELY PRESENTED COMPONENT UNIT FINANCIAL STATEMENTS</i>	59
<i>Statement of Net Position</i>	60
<i>Statement of Revenues, Expenses and Changes in Net Position</i>	61
<i>TABLE OF CONTENTS – NOTES TO THE BASIC FINANCIAL STATEMENTS</i>	63
<i>Notes to the Basic Financial Statements</i>	65
<i>REQUIRED SUPPLEMENTARY INFORMATION-OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS</i>	125
<i>Schedules of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual – General Fund</i>	126

<i>Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for the General Fund on a Budgetary Basis and GAAP Basis</i>	127
<i>Notes to Required Supplementary Information – Budgetary Reporting</i>	128
<i>Schedule of Funding Process</i>	130
<i>Schedule of Employer and Non-Employer Contributions</i>	131
<i>Schedule of Changes in the State Employees’ Retirement System (SERS)</i>	
<i>Net Pension Liability and Related Ratios</i>	132
<i>Notes to the SERS Schedule</i>	133
<i>Schedule of Changes in the Massachusetts Teachers’ Retirement System (MTRS)</i>	
<i>Net Pension Liability and Related Ratios</i>	134
<i>Notes to the MTRS Schedule</i>	135
<i>Schedule of Investment Returns</i>	136
OTHER SUPPLEMENTARY INFORMATION	137
<i>Combining Balance Sheet – Other Governmental Funds</i>	138
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds</i>	142
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis – Budget and Actual – Other Budgeted Nonmajor Governmental Funds</i>	146
<i>Combining Budget to GAAP Reconciliation – Other Budgeted Nonmajor Governmental Funds</i>	150
<i>Combining Statement of Net Position Available for Post - Employment Benefits – Pension Trust Funds</i>	152
<i>Combining Statement of Changes in Net Position Available for Post - Employment Benefits – Pension Trust Funds</i>	153
<i>Combining Statement of Net Position Held in Trust for Pool Participants – External Investment Trust Fund</i>	154
<i>Combining Statement of Changes in Net Position Held in Trust for Pool Participants – External Investment Trust Fund</i>	155
<i>Combining Statement of Changes in Assets and Liabilities – Agency Funds</i>	156
<i>Combining Statement of Net Position – Nonmajor Component Units</i>	158
<i>Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Component Units</i>	159

STATISTICAL SECTION

<i>Statistical Section Narrative and Table of Contents</i>	161
<i>Schedule of Net Position by Component Last Ten Fiscal Years</i>	164
<i>Changes in Net Position – Last Ten Fiscal Years</i>	166
<i>Fund Balances, Governmental Funds Last Ten Fiscal Years</i>	168
<i>Ten-Year Schedule of Revenues and Other Financing Sources All Governmental Fund Types – Fund Perspective</i>	170
<i>Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat All Governmental Fund Types – Fund Perspective</i>	172
<i>Personal Income by Industry Last Ten Calendar Years</i>	174

<i>Commonwealth of Massachusetts Personal Income Tax Filers and Liability by Income Level – Tax Years 2012 and 2003.....</i>	<i>176</i>
<i>Ten – Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases.....</i>	<i>177</i>
<i>Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit</i>	<i>178</i>
<i>Ten-Year Schedule of Pledged Revenue Coverage.....</i>	<i>180</i>
<i>Ten-Year Schedule of Percentage of Annual Debt Service Expenditures For General Bonded Debt to Total Expenditures – Fund Perspective All Governmental Fund Types ..</i>	<i>182</i>
<i>Component Units Revenue Bond Coverage for the Last Ten Fiscal Years</i>	<i>183</i>
<i>Ten-Year Schedule of Massachusetts and United States Resident Population.....</i>	<i>184</i>
<i>Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income...185</i>	
<i>Ten-Year Schedule of Annual Average Civilian Labor Force, Unemployment and Unemployment Rates for Massachusetts and the United States</i>	<i>186</i>
<i>Largest Private Sector Massachusetts Employers.....</i>	<i>187</i>
<i>Full Time Equivalent Employees by Function / Program Last Ten Years</i>	<i>188</i>
<i>Average Annual Medicaid Caseload and Medicaid Expenditures – Fund Perspective – Last Ten Fiscal Years.....</i>	<i>190</i>
<i>Massachusetts Road Inventory Calendar Year End, Lane Miles by Type Last Ten Calendar Years</i>	<i>191</i>
<i>Massachusetts Real Property Owned and Leased Annual Inventory, Acreage, Improvements and Square Footage Last Ten Years</i>	<i>192</i>
<i>Massachusetts Public Higher Education Enrollment and Degrees Conferred Last Ten Academic Years.....</i>	<i>194</i>
<i>Calculation of Transfers: Stabilization Fund</i>	<i>196</i>
<i>Calculation of Transfers: Tax Reduction Fund</i>	<i>197</i>
<i>Massachusetts General Information.....</i>	<i>198</i>



THIS PAGE LEFT INTENTIONALLY BLANK

Introductory Section

(Unaudited)

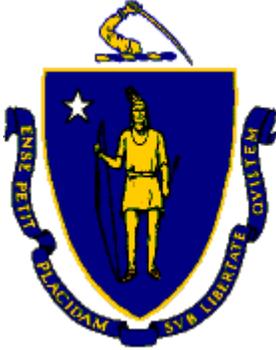


BU Bridge, Boston

Letter of Transmittal
Constitutional Officers
Commonwealth Organizational Structure
Advisory Board to the Comptroller
Acknowledgements
Certificate of Achievement



THIS PAGE LEFT INTENTIONALLY BLANK



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

December 23, 2014

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

I am pleased to transmit the Commonwealth's fiscal year 2014 (FY14) 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 the statutory basis of accounting and the results of operating on that basis from FY14 are found in the Statutory Basis Financial Report (SBFR) issued separately this past November. 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 November.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business-type activities in a statement of net position and a statement of activities, presenting all functions on a full accrual basis of accounting. All capital assets are added to the government-wide 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 position format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net position.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by function, are netted against fees, fines, grant revenues and assessments generated to fund each function in an attempt to derive the net cost to the taxpayer of each function. This 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 an MD&A. This letter of transmittal is designed to complement the MD&A, where the financial analysis is 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. Due to the Commonwealth's high levels of basic education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in high technology, life sciences, health care and business services.

The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted, and 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 statements this past November; the fund basis; and the entity-wide basis statements, the latter two of which are included in this report.

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

Governmental Funds - Statutory Basis, June 30, 2014:	
Budgeted Fund Balance.....	\$ 1,450.5
Non Budgeted Special Revenue Fund Balance.....	2,269.9
Capital Projects Fund Balance.....	<u>(1,101.2)</u>
Governmental Fund Balance - Statutory Basis, June 30, 2014.....	\$ 2,619.2
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	467.9
Less: Massachusetts Department of Transportation Funds.....	<u>(1,292.2)</u>
Adjusted Statutory Governmental Fund Balance.....	1,795.0
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatements.....	\$ 1,951.6
Tobacco Settlement Agreement receivable.....	126.8
Medicaid.....	(355.2)
Other short term accruals:	
Assessments and other receivables.....	280.6
Amounts due to authorities and municipalities, net.....	(576.9)
Claims, judgments and other risks.....	(33.2)
Amounts due to health care providers and insurers.....	(78.5)
Workers' compensation and group insurance.....	(133.3)
Other accruals, net.....	<u>469.2</u>
Net increase to governmental fund balances.....	<u>1,651.1</u>
Massachusetts School Building Authority fund balance.....	<u>1,173.3</u>
Total changes to governmental funds.....	<u>2,824.4</u>
Governmental fund balance (fund perspective).....	\$ 4,619.4
Plus: Capital assets including infrastructure, net of accumulated depreciation.....	4,572.6
Deferred revenue, net of other eliminations.....	682.2
Long term accruals:	
Pension Benefits cumulative over / (under) funding.....	(2,219.0)
Post employment benefits other than pensions cumulative over / (under) funding.....	(4,832.0)
Environmental Remediation Liability.....	(217.3)
Massachusetts School Building Authority debt and school construction payables.....	(7,403.8)
Long term debt, unamortized premiums and deferred losses on debt refundings.....	(23,109.6)
Compensated Absences.....	(527.2)
Capital leases.....	(55.9)
Accrued interest on bonds.....	(353.3)
Other Long term liabilities.....	<u>(115.8)</u>
Total governmental net position (entity wide perspective).....	\$ <u>(28,959.7)</u>

The deficit of \$28.960 billion in governmental net position is largely attributable to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during FY10 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY14, MassDOT held \$22.798 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay

Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$6.174 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. Finally, the Commonwealth has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts' cities and towns and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY14 the Commonwealth's capital spending on Higher Education capital projects exceeded \$1.08 billion, capital spending for transportation-related financial assistance to local governments totaled more than \$2.1 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded \$3.9 billion, including \$1 billion to fund the Massachusetts School Building Authority in FY05 and FY06. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns and entities such as local housing and other quasi-governmental authorities.

*Statement of Net Position
Governmental Activity
Including MassDOT
(Amounts in thousands)*

Net Position as of June 30, 2014:

Commonwealth's Governmental Activity.....	\$ (28,959,690)
Massachusetts Department of Transportation (major assets include roads and bridges).....	<u>21,474,790</u>
Total Net Position of the Commonwealth, including MassDOT...	<u>\$ (7,484,900)</u>

Since MassDOT's governmental activity ended FY14 with a positive net position of \$21.475 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

The deficit in the net position of governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) grew by almost \$2.976 billion in FY14. While tax revenues experienced healthy growth on a statutory basis in FY14, much of this growth resulted from tax settlements, which reduced tax receivables and thus did not increase governmental net position on a GAAP basis. In addition, Medicaid expenditures grew more than 9% in FY14, mostly due to expanded Medicaid eligibility under the Affordable Care Act, federal reimbursements for which are 75% of expenditures and are expected to increase over the next several years, reducing the growth in net state cost. The other main factors underlying the change in the net deficit were as follows:

- The Commonwealth's pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period ("smoothed"). When pension fund asset values decline or increase, the Commonwealth's annual pension funding will lag the ARC.

The triennial updating of the pension fund schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the Commonwealth's ARC to fund the pension liability of \$2.219 billion since 2009, with FY14 being underfunded by \$404 million.

- The Commonwealth had until recently funded 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 \$685 million in FY14, reducing net position; cumulative OPEB underfunding is \$4.832 billion. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.
- As explained on page 4, the Commonwealth continues to fund, through its own debt, transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY14, approximately \$2.0 billion of the more than \$2.5 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$2.308 billion from FY13, with the deficit in governmental activities partially offset by surpluses in Unemployment Insurance and Higher Education.

REPORTING ENTITY

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

In addition, the financial statements include 40 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 MSBA is blended into the Commonwealth's operations.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2014. The independent auditors' report is presented in the Financial Section.

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.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth



French King Bridge Over Connecticut River - Erving

CONSTITUTIONAL OFFICERS

Deval L. Patrick
Governor

William F. Galvin
Secretary of State

Martha Coakley
Attorney General

Steven Grossman
Treasurer and Receiver-General

Suzanne Bump
Auditor

LEGISLATIVE OFFICERS

Therese Murray
President of the Senate

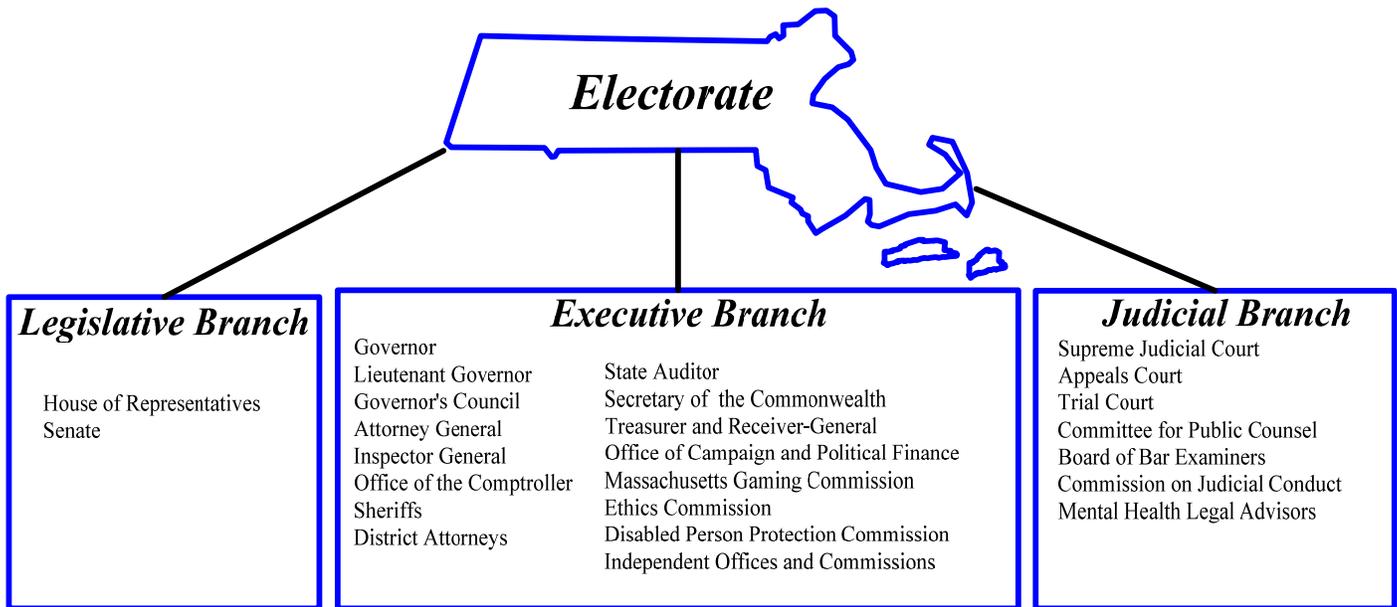
Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

Ralph D. Gants
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Lewis H. Spence
Court Administrator, Trial Court



State Agencies		
<p><u>Administration and Finance</u> Executive Office for Administration and Finance Appellate Tax Board Bureau of the State House Civil Service Commission Department of Revenue Developmental Disabilities Council Division of Administrative Law Appeals Division of Capital Asset Management and Maintenance George Fingold Library Group Insurance Commission Health Policy Commission Human Resource Division Information Technology Division Massachusetts Office on Disability Massachusetts Teachers' Retirement System Operational Services Division Public Employee Retirement Administration Commission</p> <p><u>Public Safety</u> Executive Office of Public Safety and Homeland Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of Public Safety Department of State Police Massachusetts Emergency Management Agency Military Division/ Massachusetts National Guard Municipal Police Training Committee Parole Board Sex Offender Registry</p>	<p><u>Housing and Economic Development</u> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs & Business Regulations Massachusetts Marketing Partnership Department of Housing & Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards</p> <p><u>Energy and Environmental Affairs</u> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities State Reclamation Board</p> <p><u>Transportation and Public Works</u> Department of Transportation</p> <p><u>Executive Office of Labor and Workforce Development</u></p>	<p><u>Health and Human Services</u> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts</p> <p><u>Education</u> Executive Office of Education Department of Early Education and Care Department of Elementary and Secondary Education Department of Higher Education Community Colleges State Universities University of Massachusetts System</p> <p><u>Health Care Security Trust</u></p> <p><u>Board of Library Commissioners</u></p> <p><u>Commission Against Discrimination</u></p>

ADVISORY BOARD TO THE COMPTROLLER

Glen Shor
Secretary of Administration and Finance

Suzanne Bump
Auditor

Steven Grossman
Treasurer and Receiver-General

Lewis H. Spence
Chief Administrator, Trial Court

Martha Coakley
Attorney General

Michael Esmond
Gubernatorial Appointee

Timothy C. Sullivan
Gubernatorial Appointee

REPORT PREPARED BY:

Howard Merkowitz
Deputy Comptroller

Financial Reporting And Analysis Bureau:

Bhavdeep J. Trivedi
Director

Michael Rodino, CPA
Assistant Director

Pauline Lieu, CPA, CGFM, CFE
Accountant

Neil Gouse, CGFM
Accountant

Mayowa Taiwo, CPA
Accountant

Frank Conlon
Accountant

Christine Bender
Accountant

Cathy Hunter
Program Coordinator

Accounting Bureau
Julia P. Burns, CGFM
Director

Art Direction
Scott Olsen



THIS PAGE LEFT INTENTIONALLY BLANK



Government Finance Officers Association

**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, 2013

Executive Director/CEO



THIS PAGE LEFT INTENTIONALLY BLANK

Financial Section



French King Bridge – Erving

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



THIS PAGE LEFT INTENTIONALLY BLANK



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts
Boston, Massachusetts

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 Universities and certain of the Community Colleges all of which are major enterprise funds and represent 85% of the total assets and deferred outflows of the business-type activities. We did not audit 74% of the total assets and deferred outflows of the Community Colleges major enterprise fund. Additionally, we did not audit the financial statements of the nonmajor component units, which represent 8% of the total assets and deferred outflows 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 opinions, insofar as it relates to the amounts included for those entities, is based solely 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 from material misstatement. The financial statements of certain entities identified in Note 13 of the basic financial statements were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in fiscal year 2014, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities* and No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for



placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014, 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* in considering the Commonwealth's internal control over financial reporting and compliance.

KPMG LLP

December 23, 2014



THIS PAGE LEFT INTENTIONALLY BLANK

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, 2014 (FY14). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

Financial Highlights – Primary Commonwealth Government

Government-Wide Highlights

Net Position – The liabilities of the primary government exceeded its assets at the end of FY14 by almost \$23.472 billion, an increase in the net deficit of \$2.308 billion from FY13.

Of the \$23.472 billion deficit, “unrestricted net position” has a deficit of \$28.811 billion and there is a \$2.292 billion positive balance attributable to the net investment in capital assets. There are five primary reasons for the negative unrestricted net position:

1. The Commonwealth has a net liability of \$6.174 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA);
2. In FY10, the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.521 billion, as of the date of the transfer, net of depreciation. These assets were valued at \$22.798 billion as of June 30, 2014. However, the Commonwealth originally paid and continues to pay for the construction of these assets and retains a large amount of transportation-related debt, which is now unrelated to any capital asset owned by the Commonwealth.
3. The Commonwealth, through debt issuances, also pays for non-transportation capital assets not owned by the Commonwealth, particularly assets held by quasi-public entities and local governments and housing authorities.
4. The Commonwealth's pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period (“smoothed”).

When pension fund asset values decline or increase, the Commonwealth's annual pension funding will lag the ARC. The triennial updating of the pension funding schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the

Commonwealth's ARC to fund the pension liability of \$2.219 billion. The Commonwealth's pension funding schedule was updated beginning in fiscal 2015.

5. The Commonwealth had, until recently, funded its retiree health insurance benefits (Other Post-Employment Benefits, or OPEB) on a pay-as-you-go basis. As a result, as of June 30, 2014, it had accumulated a \$4.832 billion liability for OPEB. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.

At the end of FY14, the Commonwealth also held \$3.046 billion in "restricted net position", which are assets restricted primarily for payment of debt service, unemployment insurance benefits and the Institutions of Higher Education. Approximately \$1.366 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.138 billion was restricted for debt retirement (of which \$831 million was restricted for MSBA debt retirement), \$224 million was restricted for Higher Education and \$318 million was restricted for other governmental purposes.

The Commonwealth's governmental activities (which excludes the "business-type activities" of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$2.976 billion, to \$28.960 billion, and its governmental activities unrestricted net deficit increased by approximately \$3.179 billion in FY14, to \$29.913 billion. Approximately \$1.089 billion of the increase in the net deficit was due to increases in the liabilities for state pension and post-employment health benefits.

Total revenues of the primary government increased by \$877 million, or 1.7% in FY14, to \$53.040 billion. Total expenses of the primary government increased by \$2.047 billion, or approximately 3.8%, to \$55.347 billion. Detail on revenue and expenses can be found on pages 28 to 30.

Net position of business-type activities increased by \$668 million, due to a surplus of \$363 million in the Unemployment Insurance Trust Fund and a surplus of \$305 million for Higher Education activity.

At June 30, 2014, the Commonwealth's governmental funds reported a combined ending fund balance of about \$4.619 billion, a decrease of \$251 million from June 30, 2013. Of the ending balances:

- \$1 million is nonspendable, \$1.518 billion is restricted, \$2.250 billion is committed, \$510 million is assigned and \$341 million is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements, on pages 69 - 71)
- The MSBA's fund balance of approximately \$1.173 billion is blended into the Commonwealth. Within this fund balance is

over \$1.058 billion in cash and restricted investments which were funded by bond proceeds in FY14 and previous fiscal years, and other assets, less approximately \$64 million in liabilities. In FY14, over \$731 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued \$549 million in long-term dedicated sales tax bonds.

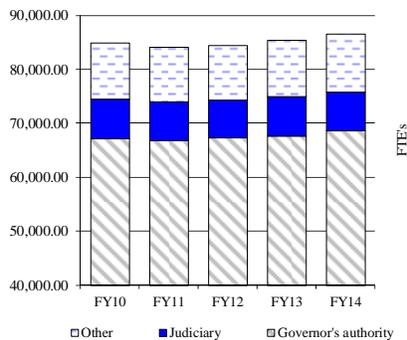
- Lottery revenues for FY14 were \$5.050 billion, an increase of approximately \$7 million, or 0.1%, from FY13. Prizes were approximately \$3.980 billion and operating expenses and mandated transfers to the governmental funds were \$1.070 billion.

Other highlights of FY14 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$282 million on a GAAP basis, an increase of approximately \$29 million from FY13. Approximately \$127 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY15. By statute, in FY14 approximately \$56 million, or the equivalent of 20% of tobacco settlement proceeds, was transferred to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth’s liability for retiree health care. The FY15 budget funds a transfer to the SRBTF equal to 30% of tobacco settlement proceeds. The transfers to the SRBTF will increase 10% per year until an amount equal to 100% of the tobacco settlement proceeds is transferred in FY23.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$14.817 billion in bond authorizations and approximately \$8 million in de-authorizations of previously issued capital appropriations. The Commonwealth determines the timing and extent of capital spending and bonding as part of its five-year capital plan.

**Full Time Equivalent Workforce
Including Higher Education and the
Massachusetts Department of
Transportation**

June 2010 – June 2014



Full-Time Equivalent Employment

The chart to the left shows the Commonwealth’s full-time equivalent employment including Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY14, the number of Commonwealth FTEs increased by approximately 1,100, to a total of 86,490, with most of the increases in public safety (approximately 421 additional FTEs), health and human services (approximately 362 additional FTEs) and the courts (approximately 183 additional FTEs). Employment levels increased by a total of approximately 1,643 FTEs between June 30, 2010 and June 30, 2014 restoring some of the reductions that occurred in FY09 and FY10.

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 made up 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 pension and other post-employment benefits (OPEB) funding schedules. Other supplementary information is also provided to furnish additional detail to support the basic financial statements.

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 Position*, which presents the assets, liabilities and net position for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net position of the Commonwealth. The statements report the Commonwealth's net position and changes in net position. An increase or decrease in the Commonwealth's net position is one way to measure financial health as well as the trend of increases or decreases over time. 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 statement of net position 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 those for which fees are charged for a particular service. For the Commonwealth, business-type activities are comprised of the unemployment insurance compensation system and the Institutions of Higher Education. The component units are separate legal entities that are included in this report due to the nature of their governance and financial relationship with the Commonwealth.

The government–wide financial statements can be found on pages 40-43 of this report.

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 major funds are shown separately in the fund financial statements, with the remaining funds included aggregated and reported as nonmajor funds.

Fund financial statements focus on individual parts of the Commonwealth, reporting its operations in more detail than the government-wide statements. The Commonwealth's funds can be divided into three categories: *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. Further discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the basic 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 component units operate similar to private-sector businesses.

Although the Massachusetts School Building Authority (MSBA) is a component unit, the MSBA's operations have been determined by management to operate in a similar fashion to a Commonwealth department due to the MSBA's service to the Commonwealth and because it relies on a pledged portion of the Commonwealth's sales tax revenue to fund its debt service. 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. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the authority's operations are reported within a governmental fund as a "blended component unit" and on the government-wide financial statements.

**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 on pages 63-123.

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. Required pension schedules under GASB Statement No. 67, *Financial Reporting for Pension Plans*, are also presented in this section.

Other supplementary information is not required, but is included to present combining schedules of various nonmajor funds and component units.

GOVERNMENT-WIDE ANALYSIS

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

Massachusetts School Building Authority net deficit.....	\$ 6,174,141
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	<u>10,972,954</u>
Effect on unrestricted net position of items unique to the Commonwealth....	<u>\$ 17,147,302</u>

The primary government's combined net position (governmental and business-type activities) showed a net deficit of \$23.472 billion at the end of FY14, an increase in the net deficit of \$2.308 billion. Governmental activities unrestricted net position is negative by \$29.913 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 during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance, construction of new assets owned by MassDOT, local governments and local authorities. In FY14, MassDOT reports its capital assets on its financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

Of the Commonwealth's more than \$2.5 billion in FY14 capital spending, approximately \$2.0 billion in state-funded capital spending did not result in capital assets attributed to governmental activities of the Commonwealth, including approximately \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are included in the Commonwealth's business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY14 the Commonwealth's capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$14.5 billion. These include Higher Education capital projects totaling approximately \$1.08 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$7.5 billion, transportation-related financial assistance to local governments totaling more than \$2.1 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget of almost \$3.9 billion, including \$1 billion in FY05 and FY06 to capitalize the Massachusetts School Building Authority.

The Commonwealth also funds school construction through debt issued by the MSBA (beyond its initial \$1 billion capitalization), and includes the MSBA's debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns and school districts.

Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year of the financial statement date, respectively. As of June 30, 2014, the Commonwealth's government-wide current cash and short-term investments totaled \$3.750 billion, a decrease of \$541 million from June 30, 2013. Total current assets were \$9.996 billion, an increase of \$53 million from June 30, 2014. During the year, the Commonwealth issued \$800 million in Revenue Anticipation Notes (RANs). The RANS were retired in April, May and June 2014. As of June 30, 2014, the Commonwealth's current liabilities were \$8.882 billion, an increase of \$518 million from June 30, 2013.

The primary government's non-current assets totaled \$16.885 billion, an increase of \$660 million from June 30, 2013. This increase was due mainly to a \$744 million increase in capital assets, most of which occurred in business-type of activities, as the result of increases in assets recorded by the Institutions of Higher Education.

The Commonwealth holds \$10.769 billion in traditional capital assets such as land, construction in process, 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 should 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 table on page 28 shows the Commonwealth's net position. Restricted net position represents resources that are subject to external constraints.

In addition to the Commonwealth funding assets owned by other entities, the primary reasons for the increase in net deficit were:

- As described in more detail on page 21, the combination of the stock market decline and the fact that the pension funding schedule is updated only triennially but the pension Annual Required Contribution (ARC) is updated annually has resulted in the Commonwealth underfunding its pension obligation by a cumulative \$2.219 billion, including underfunding of the obligation by \$404 million in FY14;
- 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 \$685 million in FY14, reducing net position; cumulative underfunding of the Commonwealth's OPEB obligation was \$4.832 billion as of June 30, 2014.

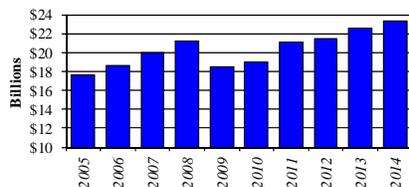
Net Position as of June 30, 2014 and 2013
(in thousands of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current assets.....	\$ 8,292,538	\$ 8,315,303	\$ 1,691,508	\$ 1,627,511	\$ 9,984,046	\$ 9,942,814
Non-capital non-current assets.....	3,274,393	3,782,145	2,842,280	2,418,725	6,116,673	6,200,870
Capital assets.....	4,572,621	4,366,071	6,196,149	5,658,798	10,768,770	10,024,869
Deferred outflows of resources.....	505,587	566,095	143,319	72,304	648,906	638,399
Total assets and deferred outflows.....	16,645,139	17,029,614	10,873,256	9,777,338	27,518,395	26,806,952
Current liabilities.....	7,852,089	7,337,053	1,029,600	1,026,890	8,881,689	8,363,943
Long term liabilities.....	37,733,551	35,632,437	4,337,997	3,895,042	42,071,548	39,527,479
Deferred inflows of resources.....	19,189	-	18,018	14,283	37,207	14,283
Total liabilities and deferred outflows.....	45,604,829	42,969,490	5,385,615	4,936,215	50,990,444	47,905,705
Net position:						
Net investment in capital assets.....	(502,370)	(592,483)	2,794,845	2,605,263	2,292,475	2,012,780
Restricted.....	1,455,704	1,386,416	1,590,545	1,209,630	3,046,249	2,596,046
Unrestricted.....	(29,913,024)	(26,733,809)	1,102,251	1,026,230	(28,810,773)	(25,707,579)
Total net position.....	\$ (28,959,690)	\$ (25,939,876)	\$ 5,487,641	\$ 4,841,123	(23,472,049)	\$ (21,098,753)

As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$2.308 billion between FY13 and FY14. The table on page 29 shows the major categories of government-wide revenues and expenses for FY13 and FY14, as well as net position for the two fiscal years. In FY14, approximately 44.0% 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 was federal aid. Total revenues increased by \$877 million, or 1.7%, with tax revenue increasing by \$720 million, or 3.2%, from FY13. The increase in tax revenue was attributable primarily to sales tax revenue growth of \$291 million, or 5.5%, corporate excise tax growth of \$229 million, or 11.8% (due primarily to an increase in tax settlements), and motor fuels tax revenue growth of \$90 million, or 13.8%, due to an increase in gasoline tax rates.

Changes in Net Position

**Revenue from Taxation
FY05-FY14**



Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by \$158 million, or 1.1%, in FY14, with unemployment insurance benefit reimbursements from the federal government declining by \$466 million, or 48.2%, as the extended unemployment benefits program expired. These declines in federal funding were partially offset by an increase in federal Medicaid reimbursements due to growth in state Medicaid spending and an increased reimbursement rate under the Affordable Care Act.

Total charges for services increased by approximately \$124 million, or 0.9%, with charges increasing by a net of \$79 million across various governmental activities programs. In business-type activities, charges for Higher Education services increased by \$71 million, offset by a decline in charges for Unemployment Compensation of \$26 million.

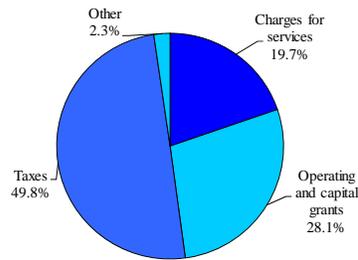
Government-wide restricted net position increased by \$450 million due primarily to a \$363 million increase in assets restricted for unemployment benefits, a \$105 million increase in assets restricted for indebtedness, offset by a \$18 million decrease in assets restricted for other purposes.

Total primary government spending increased by \$2.047 billion, or 3.8%, from FY13, with governmental activities spending growing by \$2.467 billion, or 5.3%, to \$48.611 billion, and business-type activities spending declining by \$420 million, or 5.9%, to \$6.737 billion. Medicaid expenses increased by \$1.749 billion, or 14.2%, although \$564 million of this increase was due to reclassification of certain health care spending formerly included in the health and human services category. Medicaid spending increased by \$1.185 billion, or 9.6%, adjusting for this reclassification, with growth primarily due to expanded Medicaid eligibility under the Affordable Care Act. The reimbursement rate for this expanded coverage is 75% of expenditures and is expected to increase over the next several years, limiting the growth in net state cost. Unemployment insurance compensation declined by \$682 million, or 25.1%, as unemployment declined in the Commonwealth and the extended benefit program expired. Other significant spending changes occurred in health and human services, where spending declined by \$427 million, or 5.5%, after adjusting for the Medicaid reclassification noted above, in transportation and public works, where spending grew by \$512 million, or 27.2%, in direct local aid, where spending increased by \$174 million, or 3.4%, and in general government expenses, where spending declined by \$49 million, or 1.9%.

Changes in Net Position during the Fiscal Years Ended June 30, 2014 and 2013
(in thousands of dollars except percentages)

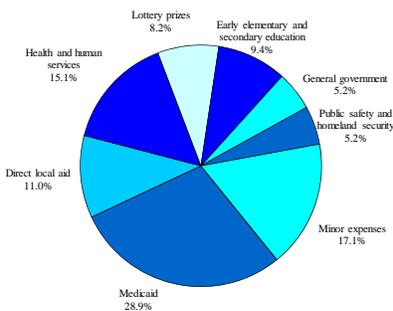
	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014 Distribution	June 30, 2013 Distribution	'14 to '13 % Change
Revenues									
Program Revenues:									
Charges for services.....	\$ 9,236,702	\$ 9,158,100	\$ 4,423,762	\$ 4,378,547	\$ 13,660,464	\$ 13,536,647	25.8%	26.0%	0.9%
Operating grants and contributions.....	13,121,648	12,836,122	1,347,423	1,791,196	14,469,071	14,627,318	27.3%	28.0%	-1.1%
Capital grants and contributions.....	30,699	18,726	-	-	30,699	18,726	0.1%	0.0%	63.9%
General Revenues:									
Taxes.....	23,319,168	22,599,332	-	-	23,319,168	22,599,332	44.0%	43.3%	3.2%
Other.....	1,131,754	985,713	428,771	395,228	1,560,525	1,380,941	3.0%	2.5%	13.0%
Total Revenues.....	46,839,971	45,597,993	6,199,956	6,564,971	53,039,927	52,162,964	100.0%	100.0%	1.7%
Expenses									
Medicaid.....	14,034,862	12,286,342	-	-	14,034,862	12,286,342	25.4%	23.1%	14.2%
Direct local aid.....	5,353,521	5,179,104	-	-	5,353,521	5,179,104	9.7%	9.7%	3.4%
Health and human services.....	7,360,519	7,787,051	-	-	7,360,519	7,787,051	13.3%	14.6%	-5.5%
Lottery.....	3,980,980	3,982,700	-	-	3,980,980	3,982,700	7.2%	7.5%	0.0%
Higher education.....	-	-	4,700,342	4,437,894	4,700,342	4,437,894	8.5%	8.3%	5.9%
Early elementary and secondary education.....	4,545,848	4,335,639	-	-	4,545,848	4,335,639	8.2%	8.1%	4.8%
Unemployment compensation.....	-	-	2,036,431	2,718,447	2,036,431	2,718,447	3.7%	5.1%	-25.1%
Other.....	13,334,933	12,573,184	-	-	13,334,933	12,573,184	24.1%	23.6%	6.1%
Total Expenses.....	48,610,664	46,144,020	6,736,773	7,156,341	55,347,437	53,300,361	100.0%	100.0%	3.8%
Excess/(Deficiency)									
before transfers.....	(1,770,693)	(546,027)	(536,817)	(591,370)	(2,307,510)	(1,137,397)			
Transfers.....	(1,205,141)	(1,096,061)	1,205,141	1,096,061	-	-			
Change in net position (deficits).....	(2,975,834)	(1,642,088)	668,324	504,691	(2,307,510)	(1,137,397)			
Net position/(deficit) - beginning, as restated....	(25,983,856)	(24,297,788)	4,819,317	4,336,432	(21,164,539)	(19,961,356)			
Net position/(deficit) - ending.....	\$(28,959,690)	\$(25,939,876)	\$ 5,487,641	\$ 4,841,123	\$(23,472,049)	\$(21,098,753)			

Revenue—Governmental Activities
Fiscal Year Ending June 30, 2014



The largest category of tax revenue is income taxes. Of the \$23.319 billion in tax revenue within governmental activities, \$12.866 billion, or 55.2% of total taxes, was from income taxes, \$5.543 billion, or 23.8%, was from sales taxes, \$2.173 billion, or 9.3%, was from corporate taxes, \$740 million, or 3.2%, was from motor fuels taxes and \$1.998 billion, or 8.6%, was from other forms of taxation. Lottery revenues of \$5.050 billion made up 54.7% of the Commonwealth’s governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$7.618 billion, other health and human services grants of \$2.632 billion and education grants of \$1.230 billion. Most of the state’s capital grants are for highway construction, and those federal grants are recorded not in the Commonwealth’s financial statements but in the financial statements of the Massachusetts Department of Transportation.

Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2014



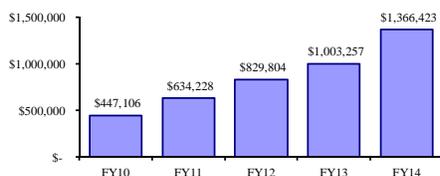
Medicaid expenses of \$14.035 billion accounted for 28.9% of the Commonwealth’s governmental activities expenses. Historically, approximately half of Medicaid expenses have been reimbursed by the federal government, although under the Affordable Care Act some Medicaid expenditures are reimbursed at higher rates. 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 large expenditures for governmental activities included non-Medicaid health and human services costs of approximately \$7.361 billion, accounting for 15.1% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$4.546 billion, accounting for 9.4% of governmental expenses and public safety and homeland security costs of approximately \$2.504 billion, accounting for 5.2% of governmental expenses. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.954 billion.

Business—Type Activities

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.

Unemployment Compensation Fund
Net Position
Fiscal Years 2010 - 2014
(Amounts in Thousands)

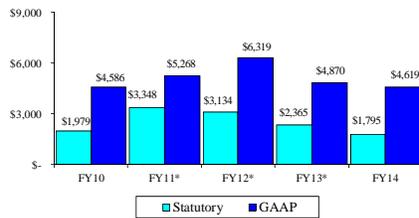


Business-type activities increased the Commonwealth’s net position by approximately \$668 million in FY14. Operating grants and contributions dropped by \$466 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth and the extended benefits program expired. Charges for services increased by \$45 million due largely to a \$71 million increase in sales and service revenue from the Institutions of Higher Education, offset by a decline of \$26 million in Unemployment Insurance charges. Total revenues of business-type activities dropped by \$365 million, but unemployment insurance benefit spending declined by \$682 million as the economy recovered. The net position of the Unemployment Compensation Trust Fund increased by \$363 million. The net position of the Institutions of Higher Education increased by \$305 million, not including a restatement of beginning

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

Governmental Funds

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



*Statutory basis excludes MassDOT

balance by \$309 million, as expenses increased by \$262 million and revenues increased by \$236 million.

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.

The General Fund is the primary operating fund of the Commonwealth. At the end of FY14, the fund balance of the General Fund was \$2.835 billion. Of this amount, \$1.248 billion represents the balance in the Commonwealth's Stabilization Fund. \$154 million was also assigned for continuing appropriations from FY14 into FY15.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. Between FY09 and FY11, this fund saw a significant increase in activity as a result of ARRA, with annual ARRA revenues in excess of \$2 billion, but by FY14 ARRA revenues had declined to approximately \$155 million, almost entirely for education and transportation projects. Also reported in this fund is almost \$1.316 billion in food stamp benefit payments, \$61 million of childhood immunization grant and \$23 million from the USDA's food program, which do not flow through the Commonwealth but are included in this report under governmental accounting rules.

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

	FY14	FY13	FY12	FY11	FY10
Beginning fund balances.....	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715	\$ 5,061,342
Revenues and other financing sources.....	57,209,970	55,289,871	54,370,101	53,898,404	49,853,115
Expenditures and other financing uses.....	57,460,487	56,738,878	53,318,771	53,216,491	50,328,742
Excess/(deficiency).....	(250,517)	(1,449,007)	1,051,330	681,913	(475,627)
Ending fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715

Governmental fund tax revenues increased by \$1.396 billion, or 6.2%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements increased by \$280 million, or 2.2%, due to growth in reimbursable Medicaid spending, but would have grown by \$377 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal reimbursements to departmental revenue in FY14. Assessments, fees and investment earnings combined increased by \$403 million, or 3.9%, but would have grown by \$306 million or 2.9%, if not for the pharmacy rebate revenue classification. Revenues from other financing sources decreased by \$159 million, or 1.6%. Overall revenues increased by \$1.920 billion, or approximately 3.5%.

During FY14, governmental fund expenditures and other financing uses increased by \$722 million, or 1.3%. Medicaid expenditures increased by \$1.749 billion, or 14.2%, but would have increased by \$1.185 billion, or 9.2%, if not for a reclassification of \$564 million in health care expenditures as Medicaid spending in FY14. Debt service expenditures grew by \$15.8 million, or 0.6%, post-employment benefits decreased by \$13 million, or 1.5% and direct local aid grew by \$175 million or 3.4%. Other financing uses declined by \$1.549 billion, or 17.2%, due primarily to a decline in payments to refunding escrows.

As of the end of FY14, the Commonwealth's governmental funds reported combined ending fund balances of \$4.619 billion, a decrease of \$251 million from the previous year. The decline in fund balance was due primarily to expenditures that exceeded revenues for the Commonwealth's general operations paid from the state's General Fund.

Governmental Funds - Fund Balance Classification

(Amounts in thousands)

	2014	2013	Change	Percentage Change
<u>Nonspendable/Restricted:</u>				
Nonspendable.....	\$ 1,116	\$ 914	\$ 202.0	22.1%
Restricted.....	1,517,555	1,557,928	(40,374)	-2.6%
Total Nonspendable/Restricted.....	1,518,671	1,558,842	(40,172)	-2.6%
<u>Unrestricted</u>				
Committed.....	2,249,906	2,324,228	(74,323)	-3.2%
Assigned.....	510,353	595,085	(84,732)	-14.2%
Unassigned.....	340,505	391,795	(51,290)	-13.1%
Total Unrestricted.....	3,100,763	3,311,108	(210,345)	-6.4%
Total fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ (250,517)	-5.1%

Nonspendable amounts represent loans receivable. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds and most of the balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraints on their use than restricted balances, as well the fund balance of the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements, on pages 69-71.

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 increased the Commonwealth's net position by approximately \$669 million.

BUDGETARY HIGHLIGHTS

The FY14 General Appropriation Act (GAA) authorized approximately \$33.527 billion in spending, exclusive of approximately \$1.630 billion in required pension contributions and \$283 million in FY13 spending authorized to be continued into FY14 as part of FY13 end-of-year supplemental budgets.

The FY14 budget as enacted by the Legislature was based on a FY14 consensus tax revenue estimate of \$22.334 billion, of which approximately \$19.179 billion represented taxes available for budget after adjusting for \$3.155 billion in tax revenue allocated to state pension contributions (\$1.630 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$799 million) and the Massachusetts School Building Authority (\$704 million) and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million).

The FY14 tax revenue estimate was further adjusted to \$22.797 billion (of which \$19.642 billion was available for budget) as a result of several tax law changes included in the FY14 budget or enacted separately. On October 15, 2013 the Executive Office for Administration and Finance reaffirmed the FY14 tax revenue estimate of \$22.797 billion and taxes available for budget of \$19.642 billion.

The estimate was revised upward by \$403 million to \$23.200 billion on January 14, 2014. Tax revenues ended the year at \$23.369 billion, \$169 million above the final FY14 tax estimate and \$572 million above the original FY14 tax estimate.

Approximately \$582 million in supplemental appropriations were authorized during FY14 prior to June 30, 2014. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$89 million in new and continued appropriations, \$38 million of which was for FY14 expenditures and \$51 million of which was continued to FY15 and reappropriated. The year's significant supplemental appropriation activity included:

- \$226 million transfer for payments to hospitals that provide care for low-income Massachusetts residents; the majority of the increase aligned federal fiscal year 2013 payments with federal approval timelines;
- \$66 million for the Group Insurance Commission to pay health care benefits for Commonwealth employees;
- \$62 million for emergency homeless assistance for family shelters and services;
- \$34 million to compensate private counsel who defend indigent defendants;
- \$62 million for snow and ice removal costs;
- \$28 million to reimburse cities and towns for lost revenue from charter school funding;
- \$24 million to pay Sheriffs' Departments costs;
- \$15 million to fund the costs of collective bargaining agreements;

- \$15 million to seed a brownfields redevelopment fund;
- \$11 million for a purchase of service rate increase;
- \$11 million for a facility services program;
- \$11 million for the operations of the House of Representatives;
- \$7 million for a reserve for Sheriffs' facilities operations;
- \$6 million for delivery of group care services;
- \$5 million for a Community College critical investment reserve.

FY14 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$35.473 billion, an increase of \$1.694 billion, or 5.0%, from FY13. Tax revenue grew by \$1.190 billion, or 5.8%, as a result of continuing growth in the economy and increased tax settlements, and despite a \$399 million decrease in capital gains tax revenues that resulted from a one-time acceleration of capital gains realizations by investors in FY13 in anticipation of tax increases effective January 1, 2014, much of which was "borrowed" from FY14. Federal reimbursements increased by \$144 million, or 1.7%, primarily due to growth in reimbursable Medicaid spending, but would have grown by \$241 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal to departmental. Departmental revenue totaled \$3.712 billion, an increase of \$342 million, or 10.1%, but would have grown by 7.1% if not for the pharmacy rebate reclassification, with the remaining growth primarily due to a \$52 million increase in the employer portion of health insurance reimbursements from non-state entities and cities and towns. Interfund transfers from non-budgeted funds totaled \$1.567 billion, an increase of \$18 million, or 1.2%.

FY14 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$35.897 billion, an increase of \$2.003 billion, or 5.9%, from FY13, primarily due to increases in health care spending, including Medicaid and local aid.

Spending on programs and services totaled \$30.211 billion, an increase of \$2.117 billion, or 7.5% from FY13. Medicaid expenditures totaled \$11.901 billion, an increase of \$1.101 billion, or 10.2%, from FY13, due to provisions of the federal Affordable Care Act (ACA), which expanded eligibility for Medicaid as of January 1, 2014, as well as to base enrollment growth.

Debt service totaled \$2.133 billion, up \$16 million, or 0.8% from FY13. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.502 billion, a decrease of \$214 million, or 12.5%, primarily due to decreases in health care transfers of \$116 million to the Delivery System Transformation Initiatives Trust Fund and \$117 million to the Commonwealth Care Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) grew by \$83 million, or 4.2%. Spending for direct local aid (both education aid and unrestricted aid), at \$5.293 billion, was up \$174 million, or 3.5%, from FY13.

CAPITAL ASSETS 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, 2014 amounts to approximately \$18.578 billion, with accumulated depreciation of approximately \$7.809 billion, leaving a net book value of \$10.769 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, piers and dams. (The investments in capital assets noted above do not include capital assets owned by MassDOT.) The total increase in the Commonwealth’s investment in capital assets from 2013 to 2014 was approximately \$740 million, with \$207 million in governmental activities and \$533 million in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table below details the capital asset activity for the Commonwealth.

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

	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013*	2014	2013*
Land.....	\$ 842,713	\$ 822,076	\$ 114,530	\$ 107,847	\$ 957,243	\$ 929,923
Historical treasures.....	-	-	1,162	1,101	1,162	1,101
Construction in process.....	866,236	649,712	1,139,836	1,317,594	2,006,072	1,967,306
Buildings.....	2,483,617	2,546,882	4,125,043	3,398,886	6,608,660	5,945,768
Machinery and equipment.....	245,966	241,082	728,235	740,675	974,201	981,757
Infrastructure, excluding central artery.....	134,089	106,319	-	-	134,089	106,319
Library collections.....	-	-	87,343	96,584	87,343	96,584
Total	\$ 4,572,621	\$ 4,366,071	\$ 6,196,149	\$ 5,662,687	\$ 10,768,770	\$ 10,028,758

*Re-stated

Additional detail on the Commonwealth’s FY14 capital asset activity can be found in Note 5 to the basic financial statements (“Capital Assets”) on pages 86 – 87.

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.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million of which was special obligation debt secured by motor fuels taxes, motor vehicle license and registration fees and future federal reimbursements for transportation spending. All new bond sales were either for general government purposes, for road and bridge repair, or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$637 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY14.

Approximately 18.3% percent of the Commonwealth’s \$19.597 billion in general obligation debt outstanding as of June 30, 2014 was issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2.0% of all general obligation debt).

The table below details the Commonwealth’s debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Additional detail on the Commonwealth’s short-term debt can be found in Note 6 (“Short-Term Financing and Credit Arrangements”) on pages 87-88 and Note 7 (“Long-Term Obligations”) on pages 88 – 103.

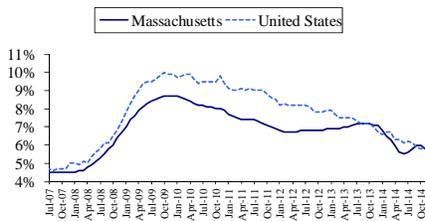
Outstanding Long - Term Debt Obligations

(Amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds.....	\$ 19,596,662	\$ 19,140,239	\$ -	\$ -	\$ 19,596,662	\$ 19,140,239
Special obligation bonds (excluding GANs).....	2,292,255	1,923,700	-	-	2,292,255	1,923,700
Revenue obligation bonds.....	-	-	4,243,731	3,736,432	4,243,731	3,736,432
Grant anticipation notes.....	530,935	449,100	-	-	530,935	449,100
Subtotal.....	22,419,852	21,513,039	4,243,731	3,736,432	26,663,583	25,249,471
Massachusetts School Building Authority.....	5,632,470	5,195,160	-	-	5,632,470	5,195,160
Total.....	\$ 28,052,322	\$ 26,708,199	\$ 4,243,731	\$ 3,736,432	\$ 32,296,053	\$ 30,444,631

ECONOMIC FACTORS AFFECTING NEXT YEAR’S BUDGET

*Unemployment Rate
July 2007 – November 2014*



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 and consequently the state relies heavily on a highly educated workforce. The Commonwealth is home to sixteen S&P 500 companies, among them eight Fortune 500 headquarters.

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation’s gross domestic product fell and unemployment hit the highest levels in decades. While the national recession ended in June 2009, recovery has been slow compared to previous recessions.

The Massachusetts economy outperformed the nation’s economy as a whole during and immediately following the most recent recession. Home prices fell in Massachusetts by approximately 18% at their lowest point during the recession, compared to a decline of 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, declined to a low of 5.6% in June 2014, and stood at 5.8% as of November 2014. Nationally, the unemployment rose from 5.8% in July 2008 to a high of 10.0 % in

October 2009 (a rate that had not been seen since 1983), and had declined to 5.8% as of November 2014. Based on the “establishment survey” of employment, which is considered by most economists to be more accurate than the “household survey” upon which the unemployment rate is based, Massachusetts employment growth has exceeded the nation’s both since the start and end of the most recent recession.

At the time of its enactment, the Commonwealth’s FY15 statutory-based budget assumed revenues of \$38.286 billion (net of tax revenues dedicated to funding the Massachusetts Bay Transit Authority and Massachusetts School Building Authority, and tax revenues allocated to the non-budgeted Workforce Training Fund, but including tax revenues allocated to budgeted pension contributions) an increase of \$2.813 billion, or 7.9%, from FY14, and expenditures of \$38.331 billion (including expenditures for pension contributions), an increase of \$2.433 billion, or 6.8%, from FY14. Tax revenues available for budget (including revenues allocated for budgeted pension expenditures) were projected to total \$23.604 billion, representing growth of \$1.242 billion, or 5.7% from FY14.

Based on tax revenue collections through September 2014, the Secretary for Administration and Finance affirmed the tax revenue estimate reflected in the enacted budget. Through November 30, 2014, tax revenue collections were reported by the Department of Revenue to have been \$48 million below the year-to-date benchmark based on the FY14 official tax revenue estimate. In November 2014, the Secretary estimated that FY15 tax revenue would be reduced by approximately \$70 million due to an anticipated reduction in the personal income tax rate, a reduction that was officially certified by the Department of Revenue on December 3, 2014.

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/publications-and-reports/financial-reports/cafr-reports.html>.



THIS PAGE LEFT INTENTIONALLY BLANK

Basic Financial Statements



Burkeville Covered Bridge - Conway

*Government-wide Financial Statements
Statement of Net Position
Statement of Activities*

Statement of Net Position

June 30, 2014

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash, cash equivalents and short-term investments.....	\$ 2,547,529	\$ 894,786	\$ 3,442,315	\$ 2,762,301
Cash with fiscal agent.....	307,371	-	307,371	-
Assets held in trust.....	-	-	-	194,137
Receivables, net of allowance for uncollectibles:				
Taxes.....	3,079,790	-	3,079,790	-
Federal grants and reimbursements receivable.....	1,957,550	87,106	2,044,656	188,428
Loans.....	8,710	48,092	56,802	482,962
Other receivables.....	386,096	627,381	1,013,477	233,656
Due from cities and towns.....	5,020	-	5,020	-
Due from component units.....	472	328	800	-
Due from primary government.....	-	-	-	573,596
Other current assets.....	-	33,815	33,815	59,312
Total current assets.....	8,292,538	1,691,508	9,984,046	4,494,392
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	747,011	747,011	1,017,547
Long - term investments.....	-	1,011,213	1,011,213	1,673,565
Investments, restricted investments and annuity contracts.....	2,474,298	924	2,475,222	157,173
Receivables, net of allowance for uncollectibles:				
Taxes.....	511,972	-	511,972	-
Federal grants and reimbursements receivable.....	62,064	-	62,064	-
Loans.....	107,898	12,268	120,166	4,053,861
Other receivables.....	108,165	44,107	152,272	14,927
Due from component units.....	9,996	-	9,996	-
Non-depreciable capital assets.....	1,708,949	1,255,528	2,964,477	7,306,047
Depreciable capital assets, net.....	2,863,672	4,940,621	7,804,293	25,750,603
Other noncurrent assets.....	-	42,113	42,113	35,588
Other noncurrent assets - restricted.....	-	984,644	984,644	-
Total noncurrent assets.....	7,847,014	9,038,429	16,885,443	40,009,311
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps.....	353,639	42,398	396,037	219,627
Deferred loss on refunding.....	151,948	100,921	252,869	390,500
Total deferred outflows of resources.....	505,587	143,319	648,906	610,127
Total assets and deferred outflows.....	16,645,139	10,873,256	27,518,395	45,113,830
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities.....	2,951,052	309,238	3,260,290	1,080,685
Accrued payroll.....	194,809	189,113	383,922	1,623
Compensated absences.....	348,880	141,272	490,152	34,046
Accrued interest payable.....	353,308	22,145	375,453	216,603
Tax refunds and abatements payable.....	1,073,247	6,194	1,079,441	-
Due to component units.....	541,254	354	541,608	-
Due to primary government.....	-	-	-	29,377
Due to federal government.....	23,962	-	23,962	-
Claims and judgments.....	33,203	-	33,203	-
Deferred revenue.....	-	107,617	107,617	302,182
Deposits and unearned revenue.....	-	69,826	69,826	-
School construction grants payable.....	397,171	-	397,171	-
Capital leases.....	9,383	4,852	14,235	4,160
Massachusetts School Building Authority bonds and unamortized premiums.....	157,204	-	157,204	-
Bonds payable and unamortized premiums.....	1,757,106	177,542	1,934,648	781,111
Environmental remediation liability.....	11,510	1,447	12,957	-
Total current liabilities.....	7,852,089	1,029,600	8,881,689	2,449,787

Statement of Net Position

June 30, 2014

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	178,320	64,089	242,409	18,444
Accrued interest payable.....	-	-	-	199,068
Due to primary government.....	-	-	-	9,996
Due to federal government - grants.....	-	10,750	10,750	-
Claims and judgments.....	2,500	-	2,500	-
Deferred revenue.....	-	-	-	55,348
Prizes payable.....	1,370,277	-	1,370,277	-
Capital leases.....	46,495	9,677	56,172	69,591
Bonds payable and unamortized premiums.....	21,333,328	4,066,189	25,399,517	11,353,138
Massachusetts School Building Authority bonds and unamortized premiums.....	5,986,042	-	5,986,042	-
School construction grants payable.....	927,387	-	927,387	-
Retirement system net pension obligations.....	2,218,980	-	2,218,980	-
Post - employment benefits obligations.....	4,832,000	-	4,832,000	863,748
Environmental remediation liability.....	205,836	-	205,836	-
Liability for derivative instruments.....	353,639	70,145	423,784	464,994
Other noncurrent liabilities.....	278,747	117,147	395,894	179,083
Total noncurrent liabilities.....	37,733,551	4,337,997	42,071,548	13,213,410
Deferred inflows of resources:				
Deferred service concession arrangements.....	-	18,018	18,018	-
Deferred gain on refunding.....	19,189	-	19,189	238
Total deferred inflows of resources.....	19,189	18,018	37,207	238
Total liabilities and deferred inflows.....	45,604,829	5,385,615	50,990,444	15,663,435
NET POSITION				
Net investment in capital assets.....	(502,370)	2,794,845	2,292,475	26,105,633
Restricted for:				
Unemployment benefits.....	-	1,366,423	1,366,423	-
Retirement of indebtedness.....	1,137,947	-	1,137,947	-
Higher education endowment funds.....	-	17,442	17,442	-
Higher education academic support and programs.....	-	3,377	3,377	-
Higher education scholarships and fellowships:				
Nonexpendable.....	-	3,176	3,176	-
Expendable.....	-	5,865	5,865	-
Other nonexpendable purposes.....	-	4,026	4,026	-
Capital projects - expendable purposes.....	-	1,744	1,744	-
Other purposes.....	317,757	188,492	506,249	3,667,519
Unrestricted (deficits).....	(29,913,024)	1,102,251	(28,810,773)	(322,757)
Total net positon.....	\$ (28,959,690)	\$ 5,487,641	\$ (23,472,049)	\$ 29,450,395

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

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2014
(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.....	\$ 2,538,043	\$ 361,105	\$ 752,124	\$ -	\$ (1,424,813)	\$ -	\$ (1,424,813)	\$ -
Judiciary.....	1,027,875	108,766	1,436	-	(917,673)	-	(917,673)	-
Direct local aid.....	5,353,521	-	-	-	(5,353,521)	-	(5,353,521)	-
Medicaid.....	14,034,862	1,226,108	7,617,732	307	(5,190,714)	-	(5,190,714)	-
Group health insurance.....	1,403,590	660,359	-	-	(743,231)	-	(743,231)	-
Energy and environmental affairs.....	623,952	262,339	467,084	-	105,470	-	105,470	-
Housing and economic development.....	1,291,676	165,365	53,074	-	(1,073,237)	-	(1,073,237)	-
Health and human services.....	7,360,519	483,080	2,631,581	16,395	(4,229,463)	-	(4,229,463)	-
Transportation and public works.....	2,391,322	530,853	460	13,997	(1,846,011)	-	(1,846,011)	-
Early elementary and secondary education.....	4,545,848	10,067	1,229,640	-	(3,306,141)	-	(3,306,141)	-
Public safety and homeland security.....	2,503,812	228,730	202,798	-	(2,072,285)	-	(2,072,285)	-
Labor and workforce development.....	356,954	150,394	165,719	-	(40,841)	-	(40,841)	-
Lottery.....	3,980,980	5,049,536	-	-	1,068,556	-	1,068,556	-
Interest (unallocated).....	1,197,709	-	-	-	(1,197,709)	-	(1,197,709)	-
Total governmental activities.....	48,610,664	9,236,702	13,121,648	30,699	(26,221,614)	-	(26,221,614)	-
Business-Type Activities:								
Unemployment Compensation.....	2,036,431	1,897,495	502,102	-	-	363,166	363,166	-
Higher Education:								
University of Massachusetts.....	2,925,013	1,697,585	518,714	-	-	(708,714)	(708,714)	-
State Universities.....	922,383	558,170	68,647	-	-	(295,566)	(295,566)	-
Community Colleges.....	852,946	270,512	257,960	-	-	(324,474)	(324,474)	-
Total business-type activities.....	6,736,773	4,423,762	1,347,423	-	-	(965,588)	(965,588)	-
Total primary government.....	\$ 55,347,437	\$ 13,660,464	\$ 14,469,071	\$ 30,699	(26,221,614)	(965,588)	(27,187,202)	-
Component Units:								
Massachusetts Department of Transportation.....	\$ 4,841,647	\$ 1,322,535	\$ 1,955,084	\$ 2,334,862	-	-	-	770,834
Commonwealth Health Insurance Connector.....	874,825	796,883	76,830	-	-	-	-	(1,112)
Massachusetts Clean Water Trust.....	177,327	148,090	32,388	74,155	-	-	-	77,306
Other nonmajor component units.....	446,017	352,661	140,080	14,329	-	-	-	61,053
Total component units.....	\$ 6,339,816	\$ 2,620,169	\$ 2,204,382	\$ 2,423,346	-	-	-	908,081

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
General revenues:				
Taxes:				
Income.....	12,866,096	-	12,866,096	-
Sales taxes.....	5,542,740	-	5,542,740	-
Corporate taxes.....	2,172,608	-	2,172,608	-
Motor and special fuel taxes.....	740,128	-	740,128	-
Other taxes.....	1,997,596	-	1,997,596	-
Miscellaneous:				
Investment earnings.....	41,674	111,827	153,501	99,828
Tobacco settlement.....	282,049	-	282,049	-
Contribution from municipalities.....	41,700	-	41,700	-
Other revenue.....	766,330	316,944	1,083,274	43,896
Transfers.....	(1,205,141)	1,205,141	-	-
Total general revenues and transfers.....	23,245,781	1,633,912	24,879,693	143,724
Change in net position.....	(2,975,834)	668,324	(2,307,510)	1,051,805
Net position (deficits) - beginning, as restated.....	(25,983,856)	4,819,317	(21,164,539)	28,398,590
Net position (deficits) - ending.....	\$ (28,959,690)	\$ 5,487,641	\$ (23,472,049)	\$ 29,450,395

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

(concluded)



THIS PAGE LEFT INTENTIONALLY BLANK

Governmental Fund Financial Statements



Old North Bridge - Concord

Balance Sheet
Governmental Funds
June 30, 2014
(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
ASSETS					
Cash, cash equivalents and short-term investments.....	\$ 874,844	\$ 48,099	\$ 215,431	\$ 1,409,155	\$ 2,547,529
Cash with fiscal agent.....	-	-	-	307,371	307,371
Investments and restricted investments.....	261,837	-	842,184	-	1,104,021
Receivables, net of allowance for uncollectibles:					
Taxes.....	3,377,368	-	55,068	159,326	3,591,762
Due from federal government.....	1,593,740	-	-	425,874	2,019,614
Loan receivable.....	-	-	114,578	2,030	116,608
Other receivables.....	278,022	4,944	10,263	197,580	490,809
Due from cities and towns.....	5,020	-	-	-	5,020
Due from other funds.....	533,226	-	-	80,348	613,574
Due from component units.....	472	-	-	-	472
Total assets.....	\$ 6,924,529	\$ 53,043	\$ 1,237,524	\$ 2,581,684	\$ 10,796,780
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 2,100,085	\$ 45,754	\$ -	\$ 726,751	\$ 2,872,590
Accrued payroll.....	175,141	-	-	19,668	194,809
Tax refunds and abatements payable.....	1,072,899	-	174	174	1,073,247
Due to other funds.....	-	-	-	613,574	613,574
Due to component units.....	68,100	-	-	473,154	541,254
Due to federal government.....	23,962	-	-	-	23,962
Claims and judgments.....	33,203	-	-	-	33,203
School construction grants payable.....	-	-	64,044	-	64,044
Other accrued liabilities.....	-	-	-	78,462	78,462
Total liabilities.....	3,473,390	45,754	64,218	1,911,783	5,495,145
Deferred inflows of resources.....	615,825	5,240	-	61,136	682,201
Total liabilities and deferred inflows of resources.....	4,089,215	50,994	64,218	1,972,919	6,177,346
Fund balances:					
Nonspendable.....	-	-	-	1,116	1,116
Restricted.....	-	-	840,610	676,945	1,517,555
Committed.....	1,248,435	-	-	1,001,470	2,249,906
Assigned.....	154,358	2,049	332,696	21,250	510,353
Unassigned (deficits).....	1,432,521	-	-	(1,092,016)	340,505
Fund balances.....	2,835,314	2,049	1,173,306	608,765	4,619,434
Total liabilities and fund balances.....	\$ 6,924,529	\$ 53,043	\$ 1,237,524	\$ 2,581,684	\$ 10,796,780

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

**Reconciliation of Governmental Fund Balances
to the Statement of Net Position**

June 30, 2014
(Amounts in thousands)

Total fund balances - governmental funds	\$	4,619,434
Amounts reported for governmental activities in the statement of net position 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.....	\$ 1,708,949	
Capital assets being depreciated, net.....	<u>2,863,672</u>	
Capital assets, net of accumulated depreciation.....		4,572,621
Revenues are not available soon enough after year end to pay for the current period's expenditures and therefore are unavailable deferred inflows of resources in the governmental funds.....		682,201
Massachusetts School Building Authority assets and deferred outflows.....		155,400
Lottery annuity contracts.....		1,370,277
Due from component units.....		9,996
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/(under) funding State Retirement Systems net pension obligation.....	(2,218,980)	
Net post-employment benefits obligations.....	(4,832,000)	
Commonwealth bonded debt.....	(22,419,852)	
Unamortized bond premiums.....	(670,582)	
Deferred loss/(gain) on refunding.....	(19,189)	
Accrued interest on bonds.....	(353,308)	
Massachusetts School Building Authority bonded debt.....	(6,143,246)	
Massachusetts School Building Authority grants to municipalities.....	(1,260,514)	
Prizes payable.....	(1,370,277)	
Capital leases.....	(55,878)	
Environmental remediation liability.....	(217,346)	
Claims and judgments.....	(2,500)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(805,947)</u>	
Long - term liabilities (including current portions).....		<u>(40,369,619)</u>
Total net (deficit) - governmental activities	\$	<u>(28,959,690)</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, 2014
(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
REVENUES					
Taxes.....	\$ 20,667,904	\$ 631	\$ 731,239	\$ 2,386,427	\$ 23,786,201
Assessments.....	440,227	-	-	640,087	1,080,314
Federal grants and reimbursements.....	8,542,565	-	-	4,604,130	13,146,695
Departmental.....	2,470,761	5,048,502	-	1,121,025	8,640,288
Miscellaneous.....	470,116	694	69,519	515,736	1,056,065
Total revenues.....	32,591,574	5,049,827	800,758	9,267,405	47,709,563
EXPENDITURES					
Current:					
Legislature.....	56,299	-	-	-	56,299
Judiciary.....	814,405	-	-	1,322	815,727
Inspector General.....	6,162	-	-	12	6,174
Governor and Lieutenant Governor.....	5,144	-	-	89	5,233
Secretary of the Commonwealth.....	44,339	-	-	6,762	51,101
Treasurer and Receiver-General.....	206,885	3,979,882	13,374	1,126,734	5,326,875
Auditor of the Commonwealth.....	17,536	-	-	-	17,536
Attorney General.....	63,533	-	-	24,106	87,639
Ethics Commission.....	1,904	-	-	-	1,904
District Attorney.....	105,962	-	-	9,219	115,181
Office of Campaign and Political Finance.....	1,370	-	-	-	1,370
Sheriff's Departments.....	553,390	-	-	11,500	564,890
Disabled Persons Protection Commission.....	2,412	-	-	-	2,412
Board of Library Commissioners.....	22,184	-	-	2,994	25,178
Massachusetts Gaming Commission.....	-	-	-	22,869	22,869
Comptroller.....	12,811	-	-	3,482	16,293
Administration and Finance.....	1,942,401	-	-	353,775	2,296,176
Energy and Environmental Affairs.....	201,257	-	-	209,120	410,377
Health and Human Services.....	4,980,556	-	-	1,976,796	6,957,353
Massachusetts Department of Transportation.....	-	-	-	2,295,787	2,295,787
Executive Office of Education.....	2,156,311	-	-	1,044,484	3,200,795
Center for Health and Information Analysis.....	23,706	-	-	1,967	25,673
Massachusetts School Building Assistance.....	-	-	868,948	-	868,948
Public Safety and Homeland Security.....	1,058,890	-	-	214,918	1,273,808
Housing and Economic Development.....	499,814	-	-	535,294	1,035,108
Labor and Workforce development.....	56,419	-	-	274,066	330,485
Medicaid.....	12,247,883	-	-	1,786,979	14,034,862
Post employment benefits.....	864,693	-	-	-	864,693
Direct local aid.....	5,353,467	-	-	-	5,353,467
Capital outlay:					
Local aid.....	-	-	-	54	54
Capital acquisition and construction.....	-	-	-	998,484	998,484
Debt service.....	-	-	394,516	2,374,950	2,769,466
Principal on current refundings.....	-	-	-	159,335	159,335
Total expenditures.....	31,299,733	3,979,882	1,276,838	13,435,098	49,991,552
Excess (deficiency) of revenues over (under) expenditures.....	1,291,841	1,069,945	(476,080)	(4,167,694)	(2,281,988)
OTHER FINANCING SOURCES					
Bonds premium.....	-	-	-	192,575	192,575
Issuance of general and special obligation bonds.....	-	-	599,125	2,359,899	2,959,024
Issuance of current refunding bonds.....	-	-	-	159,335	159,335
Issuance of advance refunding bonds.....	-	-	-	477,460	477,460
Proceeds of capital leases.....	10,571	-	-	-	10,571
Transfers in for debt service.....	-	-	-	2,374,950	2,374,950
Transfers in.....	1,523,264	-	-	1,803,228	3,326,492
Total other financing sources.....	1,533,835	-	599,125	7,367,447	9,500,407
OTHER FINANCING USES					
Payments to refunding bond escrow agent.....	-	-	-	562,352	562,352
Transfers out.....	1,104,450	1,069,958	-	1,061,286	3,235,694
Transfers of appropriations.....	1,058,662	-	-	21,587	1,080,249
Transfers of bond proceeds.....	-	-	-	215,690	215,690
Transfers out for debt service.....	1,060,211	-	-	1,314,739	2,374,950
Total other financing uses.....	3,223,323	1,069,958	-	3,175,655	7,468,936
Total other financing sources and uses.....	(1,689,488)	(1,069,958)	599,125	4,191,792	2,031,471
Net change in fund balances (deficits).....	(397,647)	(13)	123,045	24,098	(250,517)
Fund balances at beginning of year.....	3,232,961	2,062	1,050,261	584,667	4,869,951
Fund balances at end of year.....	\$ 2,835,314	\$ 2,049	\$ 1,173,306	\$ 608,765	\$ 4,619,434

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, 2014

(Amounts in thousands)

Net change in fund balances - total governmental funds	\$	(250,517)
---	-----------	------------------

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.....		401,844
---	--	---------

Current year depreciation expense.....		(195,292)
--	--	-----------

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.....		(485,171)
---	--	-----------

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 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.....		(1,094,399)
---	--	-------------

Decrease in capital leases.....		(5,047)
---------------------------------	--	---------

Massachusetts School Building Authority.....		(261,551)
--	--	-----------

Net underfunding of post employment benefit obligations.....		(1,088,971)
--	--	-------------

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.....		3,271
---	--	-------

Change in net position of governmental activities	\$	(2,975,834)
--	-----------	--------------------

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



THIS PAGE LEFT INTENTIONALLY BLANK

Proprietary Fund Financial Statements



Bass River Bridge - Dennis

Statement of Net Position
Proprietary Funds
June 30, 2014
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents.....	\$ 26,369	\$ 91,619	\$ 378,721	\$ 117,299	\$ 614,008
Short-term investments.....	-	192,957	25,701	62,120	280,778
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	81,006	1,295	4,805	87,106
Loans.....	-	46,573	1,329	190	48,092
Other receivables.....	414,789	114,897	20,766	36,122	586,574
Due from affiliates.....	-	40,807	-	-	40,807
Due from foundation.....	-	181	37	110	328
Other current assets.....	-	24,710	4,947	4,158	33,815
Total current assets.....	441,158	592,750	432,796	224,804	1,691,508
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	712,615	32,309	2,087	747,011
Long-term investments.....	-	775,953	196,596	38,664	1,011,213
Investments, restricted investments and annuity contracts.....	-	-	924	-	924
Accounts receivable, net.....	-	40,498	3,609	-	44,107
Loans receivable, net.....	-	-	11,784	484	12,268
Non-depreciable capital assets.....	-	848,253	330,006	77,269	1,255,528
Depreciable capital assets, net.....	-	3,202,037	1,368,033	370,551	4,940,621
Other noncurrent assets.....	-	28,821	13,277	15	42,113
Other noncurrent assets - restricted.....	984,644	-	-	-	984,644
Total noncurrent assets.....	984,644	5,608,177	1,956,538	489,070	9,038,429
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	-	41,082	-	1,316	42,398
Loss on debt refunding.....	-	71,798	29,123	-	100,921
Total deferred outflows of resources.....	-	112,880	29,123	1,316	143,319
Total assets and deferred outflows.....	1,425,802	6,313,807	2,418,457	715,190	10,873,256
LIABILITIES AND DEFERRED INFLOWS					
Current liabilities:					
Accounts payable and other liabilities.....	53,185	177,785	51,909	26,359	309,238
Accrued payroll.....	-	110,464	44,143	34,506	189,113
Compensated absences.....	-	74,092	32,623	34,557	141,272
Accrued interest payable.....	-	21,872	131	142	22,145
Tax refunds and abatements payable.....	6,194	-	-	-	6,194
Deferred revenue.....	-	-	104,168	3,449	107,617
Student deposits and unearned revenues.....	-	40,923	9,972	18,931	69,826
Due to Foundation.....	-	354	-	-	354
Capital leases.....	-	2,232	1,227	1,393	4,852
Environmental remediation liability.....	-	-	1,447	-	1,447
Bonds, notes payable and other obligations.....	-	137,321	35,647	4,574	177,542
Total current liabilities.....	59,379	565,043	281,267	123,911	1,029,600
Noncurrent liabilities:					
Compensated absences.....	-	31,779	16,050	16,260	64,089
Due to federal government - grants.....	-	-	10,735	15	10,750
Capital leases.....	-	-	7,046	2,631	9,677
Bonds, notes payable and other obligations.....	-	2,726,436	1,280,425	59,328	4,066,189
Liability for derivative instruments.....	-	68,843	-	1,302	70,145
Other noncurrent liabilities.....	-	103,411	8,203	5,533	117,147
Total noncurrent liabilities.....	-	2,930,469	1,322,459	85,069	4,337,997
Deferred inflows of resources:					
Deferred service concession arrangements.....	-	-	17,664	354	18,018
Total liabilities and deferred inflows.....	59,379	3,495,512	1,621,390	209,334	5,385,615
NET POSITION					
Net investment in capital assets.....	-	1,800,767	608,062	386,016	2,794,845
Restricted for:					
Unemployment benefits.....	1,366,423	-	-	-	1,366,423
Higher education endowment funds.....	-	17,387	35	20	17,442
Higher education academic support and programs.....	-	-	-	3,377	3,377
Higher education scholarships and fellowships:					
Nonexpendable.....	-	-	3,176	-	3,176
Expendable.....	-	-	4,812	1,053	5,865
Other nonexpendable purposes.....	-	-	4,026	-	4,026
Capital projects - expendable purposes.....	-	-	1,744	-	1,744
Other purposes.....	-	174,530	12,142	1,820	188,492
Unrestricted.....	-	825,611	163,070	113,570	1,102,251
Total net position.....	\$ 1,366,423	\$ 2,818,295	\$ 797,067	\$ 505,856	\$ 5,487,641

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

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution.....	\$ 1,858,020	\$ -	\$ -	\$ -	\$ 1,858,020
Net tuition and fees.....	-	740,116	350,303	208,793	1,299,212
Grants and reimbursements.....	-	511,694	68,647	257,960	838,301
Auxiliary enterprises.....	-	349,485	102,560	14,848	466,893
Sales & services.....	-	514,566	91,865	28,694	635,125
Miscellaneous.....	39,475	93,418	13,442	18,177	164,512
Total operating revenues.....	1,897,495	2,209,279	626,817	528,472	5,262,063
Operating expenses:					
Unemployment compensation.....	2,036,431	-	-	-	2,036,431
Instruction.....	-	690,635	284,807	316,972	1,292,414
Research.....	-	407,425	2	11	407,438
Academic support.....	-	151,000	79,723	93,409	324,132
Student services.....	-	119,295	92,062	113,226	324,583
Scholarships and fellowships.....	-	49,242	23,396	79,235	151,873
Public service.....	-	77,985	4,710	9,843	92,538
Operation and maintenance of plant.....	-	214,972	84,715	74,150	373,837
Institutional support.....	-	219,920	105,613	113,038	438,571
Other operating expenses.....	-	414,090	2,881	4,832	421,803
Depreciation.....	-	200,256	73,188	30,383	303,827
Auxiliary operations.....	-	265,080	124,128	14,498	403,706
Total operating expenses.....	2,036,431	2,809,900	875,225	849,597	6,571,153
Operating income/(loss).....	(138,936)	(600,621)	(248,408)	(321,125)	(1,309,090)
Nonoperating revenues/(expenses):					
Other federal revenues.....	486,160	7,020	-	-	493,180
Other revenues.....	-	205,864	88,355	22,725	316,944
Other expenses.....	-	(115,113)	(47,158)	(3,349)	(165,620)
Investment income/(loss).....	15,942	86,685	15,583	9,559	127,769
Total nonoperating revenues/(expenses).....	502,102	184,456	56,780	28,935	772,273
Income/(loss) before transfers.....	363,166	(416,165)	(191,628)	(292,190)	(536,817)
Transfers, net.....	-	620,103	271,651	313,387	1,205,141
Change in net position.....	363,166	203,938	80,023	21,197	668,324
Total net position - beginning, as restated.....	1,003,257	2,614,357	717,044	484,659	4,819,317
Total net position - ending.....	\$ 1,366,423	\$ 2,818,295	\$ 797,067	\$ 505,856	\$ 5,487,641

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

Statement of Cash Flows

Proprietary Funds

June 30, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions.....	\$ 1,579,214	\$ -	\$ -	\$ -	\$ 1,579,214
Tuition, residence, dining and other student fees.....	-	793,246	356,525	227,236	1,377,007
Research grants and contracts.....	-	798,973	154,085	282,305	1,235,363
Payments to suppliers.....	-	(1,273,332)	(229,378)	(216,673)	(1,719,383)
Payments to employees.....	-	(1,587,022)	(453,310)	(470,958)	(2,511,290)
Payments to students.....	-	(56,448)	(20,432)	(72,018)	(148,898)
Payments for unemployment benefits.....	(2,109,271)	-	-	-	(2,109,271)
Collection of loans to students and employees.....	-	5,302	1,463	33	6,798
Income from contract services.....	-	-	4,847	2,278	7,125
Maintenance costs.....	-	-	(936)	-	(936)
Auxiliary enterprise charges.....	-	336,456	59,635	(4,970)	391,121
Other receipts.....	39,475	575,524	15,824	32,363	663,186
Net cash used by operating activities.....	(490,582)	(407,301)	(111,677)	(220,404)	(1,229,964)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations.....	-	594,212	232,571	248,414	1,075,197
Grants and contracts.....	486,160	74,279	606	606	561,651
Student organizations agency transactions.....	-	30	-	219	249
Principal on notes payable.....	-	-	-	(288)	(288)
Net cash provided by non-capital financing activities.....	486,160	668,521	233,177	248,951	1,636,809
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations.....	-	112,132	4,932	5,017	122,081
Purchases of capital assets.....	-	(565,648)	(184,775)	(20,159)	(770,582)
Proceeds from sales of capital assets.....	-	-	2	-	2
Proceeds from revenue obligation debt issuance.....	-	587,555	187,561	11,090	786,206
Other capital asset activity.....	-	33,937	(31,756)	(969)	1,212
Investments held by bond trustee, net.....	-	-	(1,150)	2,720	1,570
Principal paid on capital debt and leases.....	-	(257,837)	(32,259)	(15,215)	(305,311)
Interest paid on capital debt and leases.....	-	(104,441)	(59,732)	(2,959)	(167,132)
Net cash provided by (used in) capital financing activities.....	-	(194,302)	(117,177)	(20,475)	(331,954)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments.....	-	1,141,206	196,207	94,955	1,432,368
Purchases of investments.....	-	(1,162,801)	(192,504)	(87,437)	(1,442,742)
Investment earnings.....	15,942	8,959	6,516	621	32,038
Net cash provided by (used by) investing activities.....	15,942	(12,636)	10,219	8,139	21,664
Net increase (decrease) in cash and cash equivalents.....	11,520	54,282	14,542	16,211	96,555
Cash and cash equivalents at the beginning of the fiscal year.....	14,849	749,952	396,488	103,175	1,264,464
Cash and cash equivalents at the end of the fiscal year.....	\$ 26,369	\$ 804,234	\$ 411,030	\$ 119,386	\$ 1,361,019
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating loss.....	\$ (138,936)	\$ (600,621)	\$ (248,408)	\$ (321,125)	\$ (1,309,090)
Adjustments to reconcile operating loss to net cash used by operating activities:					
Depreciation expense.....	-	200,256	73,188	30,383	303,827
Fringe benefits paid by the Commonwealth.....	-	-	55,975	64,503	120,478
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	23,233	(6,609)	1,897	(1,191)	17,330
Accounts payable, accrued liabilities and benefits.....	(72,840)	754	7,165	4,155	(60,766)
Student deposits and other unearned and deferred revenues.....	-	696	979	854	2,529
Other noncurrent assets - restricted and liabilities.....	(302,039)	(1,777)	(2,473)	2,017	(304,272)
Net cash used by operating activities.....	\$ (490,582)	\$ (407,301)	\$ (111,677)	\$ (220,404)	\$ (1,229,964)

Non-cash investing, capital and financing activities:

The University System had approximately \$74 million of non-cash activities, and the State Universities and Community Colleges had approximately \$298 million and \$82 million, respectively, of non-cash activities, including new capital leases.

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

Fiduciary Fund Financial Statements



Stockbridge, MA

Statement of Net Position

Fiduciary Funds

June 30, 2014

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
ASSETS				
Cash and short-term investments.....	\$ -	\$ -	\$ 819	\$ 679,599
Assets held in trust for post-employment benefits:				
Cash and short-term investments.....	238,343	-	-	-
Net investment in PRIT at fair value.....	49,752,178	10,923,596	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	2,747,948	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,960,631
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,183
Other receivables.....	85,992	-	-	134,492
Other assets.....	15,405	-	-	-
Total assets.....	50,091,918	13,671,544	819	2,776,905
LIABILITIES				
Accounts payable and other accrued liabilities.....	17,308	-	-	137,256
Due to cities and towns.....	-	-	-	33,065
Lottery prizes payable.....	-	-	-	1,370,277
Agency liabilities.....	-	-	-	1,236,307
Total liabilities.....	17,308	-	-	\$ 2,776,905
NET POSITION				
Restricted for employees' post-employment benefits.....	50,074,610	-	-	
Restricted for external investment trust fund participants.....	-	13,671,544	-	
Restricted for private purposes.....	-	-	819	
Total net position.....	\$ 50,074,610	\$ 13,671,544	\$ 819	

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

Statement of Changes in Net Position

Fiduciary Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
ADDITIONS			
Contribution:			
Employer contributions.....	\$ 1,081,091	\$ -	\$ -
Non-employer contributions.....	1,035,418	-	-
Employee contributions.....	1,154,434	793,507	-
Proceeds from sale of units.....	-	20,642,368	-
Other additions.....	122,894	-	-
Total contributions.....	3,393,837	21,435,875	-
Net investment gain/(loss):			
Investment gain/(loss).....	7,663,234	1,678,298	-
Less: investment expense.....	(247,698)	(73,741)	-
Net investment gain/(loss).....	7,415,536	1,604,557	-
Total additions.....	10,809,373	23,040,432	-
DEDUCTIONS			
Administration.....	77,937	-	-
Retirement benefits and refunds.....	4,797,113	739,175	-
Payments to State Boston Retirement System.....	99,532	-	-
Cost of units redeemed.....	-	20,606,497	-
Distribution to unit holders.....	-	5,705	-
Total deductions.....	4,974,582	21,351,377	-
Net increase/(decrease).....	5,834,791	1,689,055	-
Net position - beginning.....	44,239,819	11,982,489	819
Net position - ending.....	\$ 50,074,610	\$ 13,671,544	\$ 819

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



THIS PAGE LEFT INTENTIONALLY BLANK

Discretely Presented Component Unit Financial Statements



Bourne Bridge

Statement of Net Position
Component Units
June 30, 2014
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents.....	\$ 368,390	\$ 38,469	\$ 367,669	\$ 184,678	\$ 959,206
Short-term investments.....	-	-	43,576	266,460	310,036
Restricted cash and investments.....	1,382,468	3,532	-	107,059	1,493,059
Assets held in trust.....	-	-	16,540	177,597	194,137
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	73,014	33,100	81,507	807	188,428
Loans.....	-	4,277	437,317	41,368	482,962
Other receivables.....	145,055	-	58,520	30,081	233,656
Due from primary government.....	470,968	34,174	-	68,454	573,596
Inventory.....	-	-	-	195	195
Other current assets.....	39,610	110	-	19,397	59,117
Total current assets.....	2,479,505	113,662	1,005,129	896,096	4,494,392
Noncurrent assets:					
Cash and cash equivalents - restricted.....	909,409	-	-	108,138	1,017,547
Long-term investments.....	-	-	1,029,899	643,666	1,673,565
Restricted investments and annuity contracts.....	-	-	-	157,173	157,173
Accounts receivables, net.....	5,216	-	-	9,711	14,927
Loans receivables, net.....	-	-	3,469,108	584,753	4,053,861
Non-depreciable capital assets.....	7,078,091	-	-	227,956	7,306,047
Depreciable capital assets, net.....	24,699,239	743	-	1,050,621	25,750,603
Other noncurrent assets.....	23,564	-	42	11,982	35,588
Total noncurrent assets.....	32,715,519	743	4,499,049	2,794,000	40,009,311
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	203,156	-	2,206	14,265	219,627
Deferred loss on refunding.....	279,490	-	111,010	-	390,500
Total deferred outflows of resources.....	482,646	-	113,216	14,265	610,127
Total assets and deferred outflows.....	35,677,670	114,405	5,617,394	3,704,361	45,113,830
LIABILITIES AND DEFERRED INFLOWS					
Current liabilities:					
Accounts payable and other liabilities.....	885,996	70,817	16,977	106,895	1,080,685
Accrued payroll.....	-	623	-	1,000	1,623
Compensated absences.....	31,205	-	-	2,841	34,046
Accrued interest payable.....	161,266	-	53,749	1,588	216,603
Due to primary government.....	28,577	-	-	800	29,377
Deferred revenue.....	59,214	12,827	-	230,141	302,182
Capital leases.....	3,867	-	-	293	4,160
Bonds, notes payable and other obligations.....	554,780	-	205,540	20,791	781,111
Total current liabilities.....	1,724,905	84,267	276,266	364,349	2,449,787
Noncurrent liabilities:					
Compensated absences.....	16,974	-	-	1,470	18,444
Accrued interest payable.....	196,429	-	-	2,639	199,068
Due to primary government.....	-	-	-	9,996	9,996
Deferred revenue.....	-	-	28,065	27,283	55,348
Capital leases.....	69,591	-	-	-	69,591
Bonds, notes payable and other obligations.....	7,497,768	-	3,183,470	671,900	11,353,138
Post-employment benefits obligations.....	854,571	3,064	-	6,113	863,748
Liability for derivative instruments.....	448,523	-	2,206	14,265	464,994
Other noncurrent liabilities.....	144,833	-	-	34,250	179,083
Total noncurrent liabilities.....	9,228,689	3,064	3,213,741	767,916	13,213,410
Deferred inflows of resources:					
Deferred gain on refundings.....	238	-	-	-	238
Total liabilities and deferred inflows.....	10,953,832	87,331	3,490,007	1,132,265	15,663,435
NET POSITION					
Net investment in capital assets.....	24,973,627	743	-	1,131,263	26,105,633
Restricted for:					
Clean energy trusts.....	-	-	-	221,105	221,105
Economic development financing.....	-	-	-	172,629	172,629
Other purposes.....	839,181	-	1,718,052	716,552	3,273,785
Unrestricted.....	(1,088,970)	26,331	409,335	330,547	(322,757)
Total net position.....	\$ 24,723,838	\$ 27,074	\$ 2,127,387	\$ 2,572,096	\$ 29,450,395

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

Statement of Revenues, Expenses and Changes in Net Position

Component Units

Fiscal Year Ending June 30, 2014

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
Operating revenues:					
Charges for services.....	\$ 1,255,832	\$ 776,053	\$ 5,156	\$ 230,354	\$ 2,267,395
Other.....	66,703	20,830	142,934	122,307	352,774
Total operating revenues.....	1,322,535	796,883	148,090	352,661	2,620,169
Operating expenses:					
Cost of services.....	2,980,957	776,052	169,467	229,365	4,155,841
Administration costs.....	804,086	98,687	7,860	154,797	1,065,430
Depreciation.....	1,056,604	86	-	61,855	1,118,545
Total operating expenses.....	4,841,647	874,825	177,327	446,017	6,339,816
Operating income (loss).....	(3,519,112)	(77,942)	(29,237)	(93,356)	(3,719,647)
Nonoperating revenues (expenses):					
Operating grants.....	1,955,084	76,830	32,388	140,080	2,204,382
Interest income.....	29,121	61	-	70,646	99,828
Other nonoperating revenues (expenses).....	23,841	-	(20,812)	40,867	43,896
Nonoperating revenues (expenses), net.....	2,008,046	76,891	11,576	251,593	2,348,106
Income (loss) before contributions.....	(1,511,066)	(1,051)	(17,661)	158,237	(1,371,541)
Capital contributions.....	2,334,862	-	74,155	14,329	2,423,346
Change in net position (deficits).....	823,796	(1,051)	56,494	172,566	1,051,805
Net position - beginning, as restated.....	23,900,042	28,125	2,070,893	2,399,530	28,398,590
Net position - ending.....	\$ 24,723,838	\$ 27,074	\$ 2,127,387	\$ 2,572,096	\$ 29,450,395

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



THIS PAGE LEFT INTENTIONALLY BLANK

Contents

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	65
A. <i>FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION.....</i>	<i>65</i>
B. <i>GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.....</i>	<i>67</i>
C. <i>MEASUREMENT FOCUS AND BASIS OF ACCOUNTING.....</i>	<i>67</i>
D. <i>CASH, SHORT-TERM INVESTMENTS AND INVESTMENTS.....</i>	<i>71</i>
E. <i>RECEIVABLES.....</i>	<i>72</i>
F. <i>DUE FROM CITIES AND TOWNS.....</i>	<i>72</i>
G. <i>CAPITAL ASSETS.....</i>	<i>73</i>
H. <i>INTERFUND / INTRAFUND TRANSACTIONS.....</i>	<i>74</i>
I. <i>STATEWIDE COST ALLOCATION PLAN – FRINGE BENEFIT COST RECOVERY.....</i>	<i>74</i>
J. <i>SCHOOL CONSTRUCTION GRANTS, CONTRACT ASSISTANCE AND OTHER PAYABLES.....</i>	<i>74</i>
K. <i>COMPENSATED ABSENCES.....</i>	<i>75</i>
L. <i>DEDICATED REVENUES AND PLEDGES.....</i>	<i>75</i>
M. <i>LOTTERY REVENUE AND PRIZES.....</i>	<i>76</i>
N. <i>RISK FINANCING.....</i>	<i>76</i>
O. <i>NET POSITON.....</i>	<i>76</i>
P. <i>RECLASSIFICATIONS.....</i>	<i>77</i>
Q. <i>ESTIMATES.....</i>	<i>77</i>
R. <i>SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS.....</i>	<i>77</i>
2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS.....	78
A. <i>DERIVATIVE INSTRUMENTS.....</i>	<i>82</i>
B. <i>DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS.....</i>	<i>84</i>
3. RECEIVABLES.....	84
4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS.....	84
5. CAPITAL ASSETS.....	86
6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS.....	87
A. <i>GENERAL FUND.....</i>	<i>87</i>
B. <i>CREDIT FACILITIES.....</i>	<i>88</i>
7. LONG-TERM OBLIGATIONS.....	88
A. <i>GENERAL OBLIGATION BONDS.....</i>	<i>90</i>
B. <i>SPECIAL OBLIGATION BONDS.....</i>	<i>92</i>
C. <i>FEDERAL GRANT ANTICIPATION NOTES.....</i>	<i>93</i>
D. <i>THE BUILD AMERICA BOND PROGRAM.....</i>	<i>93</i>
E. <i>INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS.....</i>	<i>94</i>
F. <i>OUTSTANDING SWAPPED DEBT.....</i>	<i>98</i>
G. <i>OUTSTANDING LONG-TERM DEBT AND CHANGES IN LONG TERM DEBT.....</i>	<i>99</i>
H. <i>PRIOR DEFEASANCE.....</i>	<i>100</i>
I. <i>STATUTORY DEBT LIMIT.....</i>	<i>100</i>
J. <i>ADMINISTRATION DEBT LIMIT.....</i>	<i>101</i>
K. <i>CHANGES IN LONG-TERM LIABILITIES.....</i>	<i>102</i>
8. INDIVIDUAL FUND DEFICITS.....	103
9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS.....	103

A. <i>PLAN DESCRIPTIONS</i>	104
B. <i>INVESTMENTS</i>	105
C. <i>NET PENSION LIABILITY OF THE SYTEMS REQUIRED BY GASB 67</i>	106
D. <i>ANNUAL PENSION COST AND NET PENSION OBLIGATION REQUIRED BY GASB 27</i>	107
E. <i>STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION</i>	109
F. <i>RESERVES</i>	110
G. <i>COMMONWEALTH POST EMPLOYMENT OBLIGATIONS OTHER THAN PENSIONS</i>	111
10. LEASES	113
11. COMMITMENTS	114
A. <i>PRIMARY GOVERNMENT</i>	<i>114</i>
B. <i>SALTONSTALL BUILDING</i>	<i>114</i>
C. <i>OTHER CONSTRUCTION COMMITMENTS</i>	<i>115</i>
D. <i>CONTRACTUAL ASSISTANCE TO AUTHORITIES</i>	<i>115</i>
E. <i>MSBA</i>	<i>115</i>
12. CONTINGENCIES	115
A. <i>TOBACCO SETTLEMENT</i>	<i>116</i>
B. <i>WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES</i>	<i>117</i>
C. <i>OTHER CLAIMS & JUDGMENTS</i>	<i>118</i>
D. <i>ENVIRONMENTAL REMEDIATION</i>	<i>118</i>
E. <i>SOCIAL IMPACT BONDS</i>	<i>119</i>
13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED	119
14. SUBSEQUENT EVENTS	121

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

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.

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 (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Additional information related to the 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 position 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, that starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. The MSBA's bonded debt is secured by these sales tax revenues. 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 position totaling approximately \$10.924 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 position is approximately \$2.748 billion at June 30, 2014, and is reported as an external investment trust within the fiduciary fund type.

Departments Audited Separately from the Commonwealth but not legally separate from the Commonwealth - 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 position of the Commission and results thereon are presented as a major governmental fund.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net position 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 State University and Community College Systems including the 9 state universities and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority.

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 former Massachusetts Turnpike Authority and has jurisdiction over the Massachusetts Bay Transportation Authority (MBTA) and the Regional Transit Authorities.

The Massachusetts Clean Water Trust 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.

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. In June of 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).

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 State Single 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 MassDOT's 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 for 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.

Related Organizations

The following are “related organizations” under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* and Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*: Massachusetts Port Authority, Massachusetts Housing Finance Agency and MassVentures. 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 from the various entities, or by contacting the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for component unit contact information.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position 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 Position** presents all of the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** 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 position** results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

Resources from restricted net position are used prior to those from unrestricted net position.

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.

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

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

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.

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 Universities and Community Colleges.

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 Universities' activity and the Community Colleges' activity.

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 on pages 103 - 113.

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.

Fund Balances:

Governmental fund balances are considered nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of spending constraints.

Nonspendable fund balances are those that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact, such as balances in the form of inventories, permanent funds, and notes receivable. For the Commonwealth, the only nonspendable balances are notes receivable in the non-major governmental funds.

Restricted fund balances are those where constraints on their use are: a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by constitutional provisions or enabling legislation such that there is a legally enforceable requirement that those resources be used only for the specific purposes stipulated. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the stipulated purposes.

Committed balances are those that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which in the case of the Commonwealth is the Legislature and Governor. Committed amounts cannot be used for other than the specified purposes unless the Governor and Legislature

remove or change the specified use through legislation. The authorization specifying the purposes for which amounts can be used must have the consent of both the legislative and executive branches of the government prior to the end of the reporting period.

Assigned balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Massachusetts Legislature has the authority to assign or modify previously assigned fund balance. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, i.e., the Legislature and Governor, and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes in the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In addition, in accordance with GASB No. 54, negative balances in other governmental funds are classified as unassigned.

While the Commonwealth has not announced a formal policy governing the priority of spending fund balances, in conformance with GASB 54 requirements, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are spent first, followed by committed resources, assigned resources and unassigned resources.

Detail of FY14 ending fund balances is shown below.

Governmental Fund Balances at June 30, 2014
(amounts in thousands)

	Nonspendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
General Fund						
General Government.....	\$ -	\$ -	\$ -	\$ -	\$ 1,432,521	\$ 1,432,521
Stabilization Fund.....	-	-	1,248,435	-	-	1,248,435
FY 14 Appropriations Reappropriated in FY15.....	-	-	-	154,358	-	154,358
Subtotals, General Fund.....	-	-	1,248,435	154,358	1,432,521	2,835,314
Lottery Funds						
Lottery Operations.....	-	-	-	2,049	-	2,049
Subtotals, Lottery Funds.....	-	-	-	2,049	-	2,049
Massachusetts School Building Authority (MSBA)						
Debt Service.....	-	830,576	-	-	-	830,576
Grants to Cities, Towns and Local School Districts.....	-	10,034	-	332,696	-	342,730
Subtotals, MSBA.....	-	840,610	-	332,696	-	1,173,306
Other Governmental Funds						
Restricted by Federal Grantors.....	-	78,852	-	-	-	78,852
Child Support -- Restricted by Federal Grantors.....	-	41,133	-	-	-	41,133
Environmental.....	-	-	20,850	-	(844)	20,006
Public Safety -- Enhanced 911 Services.....	-	-	105,169	-	-	105,169
Public Safety -- Other.....	-	-	3,195	-	-	3,195
Universal Health Care - Distressed Hospital Relief.....	-	-	84,336	-	-	84,336
Universal Health Care - Affordable Care Act Primary Care Payments.....	-	-	51,669	-	-	51,669
Universal Health Care - Health Insurance for the Unemployed.....	-	-	65,425	-	-	65,425
Universal Health Care - Other.....	-	-	51,366	-	-	51,366
Other Health Care.....	-	-	24,068	-	-	24,068
Workforce Training.....	-	-	30,570	-	-	30,570
Convention Centers.....	-	-	126,104	-	-	126,104
General Government Capital Projects Fund.....	-	-	-	-	(556,769)	(556,769)
Highway Capital Projects Fund.....	-	-	-	-	(484,066)	(484,066)
General Government Debt Service.....	-	20,320	-	-	-	20,320
Transportation (GANS/Commonwealth Transportation Fund).....	-	218,883	75,279	-	-	294,162
Local Aid.....	-	-	-	21,250	(8,325)	12,925
Gaming.....	-	-	23,626	-	-	23,626
Expendable Trusts.....	-	317,757	158,878	-	-	476,635
Other.....	1,116	-	180,935	-	(42,012)	140,039
Subtotals, Other Governmental Funds.....	1,116	676,945	1,001,470	21,250	(1,092,016)	608,765
Totals.....	\$ 1,116	\$ 1,517,555	\$ 2,249,906	\$ 510,353	\$ 340,505	\$ 4,619,434

*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those funds that are authorized to end a fiscal year in deficit are discussed in note 8 to the basic financial statements, "Individual Fund Deficits" on page 103.

Stabilization Fund Arrangements:

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization ("Rainy Day") Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth's "consolidated net surplus" (the sum of the "undesignated" balances in certain specific state budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion (adjusted annually for economic growth) during a fiscal year to the Stabilization Fund. Starting in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed \$10 million. For FY14, this statute was suspended by budgetary legislation enacted during the fiscal year and all settlements and judgments revenue was retained in the General Fund.

Historically, balances in the Stabilization Fund have been used almost exclusively during recessionary periods to offset budget shortfalls after other budgetary measures have been taken. Per Chapter 29, the Commonwealth is required to maintain a balanced budget, and if a revenue shortfall is projected, the Secretary of Administration and Finance is required to reduce state agencies' spending authorizations in an amount equal to any projected shortfall.

The Stabilization Fund ended FY14 with a balance of \$1.248 billion. For the fiscal year ending June 30, 2014, the Stabilization Fund's balance decreased by \$308 million as a result of inflows, including approximately \$45 million in capital gains tax revenue, \$414 million in judgment and settlement receipts (which were transferred to the General Fund) and approximately \$1 million in statutorily mandated deposits of withholding taxes on certain Lottery proceeds, offset by \$776 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

Fiscal Year-End

All funds and 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, SHORT-TERM INVESTMENTS AND 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 Portfolio. The Cash Portfolio is a money-market-like investment pool; its investments are

carried at amortized cost, which approximates fair value. The Short Term Bond Portfolio investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management section of the Office of the State Treasurer's website at www.mass.gov/treasury. General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

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', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT) are required to invest in the PRIT Fund and comprise approximately 39.4%, 41.7 % and 0.9 % respectively, of the net position 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 domestic and international equities (marketable securities) and fixed income securities, as well as the following alternative investments: real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities are reported at fair value based upon quoted market prices. Investments in fixed income securities, including U.S. government agency obligations, are reported at fair value using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and rating, supplemented by deal quotations. Alternative investments are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Alternative investment securities comprise approximately 34.1 % of the total investments of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. PRIT funds invested in the MMDT are accounted for separately. 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.

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 position.

"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 FY14 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 approximately \$127 million, representing 50% of the amounts expected to be received during FY15 and is 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.

The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY43. 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, 2014 were \$114.6 million, of which \$6.7 million is due in FY15. During FY14, the MSBA executed one new loan for \$6.3 million and collected \$6.5 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.

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.

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.....	20
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

Road and Bridge Assets

Effective November 1, 2009 all road and bridge assets formerly owned by the Commonwealth are owned by MassDOT. The debt incurred for the construction of these assets remains a liability of the Commonwealth.

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.

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 Position, 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

Under the former school building assistance program (prior to the creation of the MSBA) the Commonwealth reimbursed 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation to 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, \$1.0 billion as of June 30, 2014, will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings of debt related to the project. In addition, the MSBA is retiring the liabilities and commitments related to 428 school projects that were maintained on a waiting list for funding under the former program (prior to the creation of the MSBA). The MSBA funds projects on the waiting list via a lump sum, annual payments, or through progress payments. Each funding method has different eligibility requirements and is determined in part by the method of finance used by the local district to fund the capital project. 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 on the waiting list that receive annual payments, because the local district had permanently financed both the local and Commonwealth share, have a liability that is recognized based on the final audit conducted by the MSBA, which liability will be reduced over time through annual payments and any savings from refundings of debt related to the project. 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. As of June 30, 2014, MSBA had an outstanding liability of \$145 million, and \$23 million of commitments outstanding, for the waiting list projects. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement in order to receive grants. These New Program projects are funded via the progress payment method, and a liability is generally recognized once a grantee requests reimbursement from the MSBA. Outstanding grants for projects that have approved funding agreements with the MSBA, but for which eligible project costs have not been submitted, are considered commitments of the MSBA. As of June 30, 2014, MSBA had an outstanding liability of \$177 million, and \$1.1 billion of commitments outstanding, for the New Program projects. The Commonwealth dedicates a 1% statewide sales tax (drawn from the existing statewide 6.25% sales tax), excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales, to the School Modernization and Reconstruction Trust Fund (the “SMART Fund”), in support of these grant programs and for all other operations of the MSBA, including debt service.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Clean Water Trust (the Trust). This assistance is applied as a subsidy to repayments from the Trust loan borrowers. The expectation is that the assistance will be available for the life of the Trust 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 the Trust in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the Trust 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, the largest of which is Medicaid for \$1.149 billion.

K. COMPENSATED ABSENCES

Compensated absences are recorded as a long-term liability in the statement of net position. 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, 2014 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.

Compensated absences in the governmental funds are liquidated from the same sources that fund the personnel expenses of the employees who are compensated for unused vacation and sick leave pay. In most cases, this is the General Fund, but also includes non-General Fund sources to the extent that personnel expenses are charged to those funding sources.

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. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections B and C of note 7, on page 92-93.

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). The MBTA receives sales tax revenues equal to 1% of applicable sales, subject to an annual floor set in statute. In FY14, total dedicated sales tax revenue that was directed to the MBTA was approximately \$799 million, \$72 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY14 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.10% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1.0% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY14, approximately \$728 million of the dedicated sales tax revenue stream was directed to the MSBA.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the general fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY14, approximately \$501 million in sales tax revenue was transferred to

MassDOT. From the Commonwealth Transportation Fund, \$275 million was dedicated to funding the operations of the MBTA while an additional \$68 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

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 position. 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 POSITON

The Commonwealth reports net position as restricted where legally segregated for a specific future use by enabling legislation. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

"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.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments.

"Restricted for nonexpendable purposes" – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2014, the government-wide statement of net position reports the following as restricted net position (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total
Restricted for:			
Unemployment benefits	\$ -	\$ 1,366,423	\$ 1,366,423
Retirement of indebtedness	1,137,947	-	1,137,947
Restricted for other purposes including:			
Higher education endowment funds	-	17,442	17,442
Higher education academic support and programs	-	3,377	3,377
Higher education scholarships and fellowships:			
Nonexpendable	-	3,176	3,176
Expendable	-	5,865	5,865
Other nonexpendable purposes	-	4,026	4,026
Capital projects - expendable trusts	-	1,744	1,744
Other purposes	317,757	188,492	506,249
Total restricted net position	<u>\$ 1,455,704</u>	<u>\$ 1,590,545</u>	<u>\$ 3,046,249</u>

The net position of the Pension Trust Funds and the Pension Reserves Investment Trust portion of the External Investment Trust Funds are restricted for post-employment benefits. These restrictions identify resources held in trust for the members and beneficiaries of the Commonwealth's post-employment plans. The Pension Reserves Investment Trust portion of the External Investment Trust Funds also includes pooled cash and pension assets held under the custodianship of the Commonwealth for the benefits of cities, towns and other political subdivisions of the Commonwealth.

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.

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. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

The Commonwealth has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, for the fiscal year ending June 30, 2014. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 requires plans to calculate a net pension liability (or NPL) to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets or liabilities. The Commonwealth implemented this new standard during the fiscal year ended June 30, 2014 resulting in the restatement of the beginning net position of the governmental activities and the following business-type activities: the University of Massachusetts, State Universities and Community Colleges

The table below details the restatement and other prior period adjustments:

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Net position/(deficit) as of June 30, 2013, as previously reported.....	\$ (25,939,876)	\$ 4,841,123	\$ 28,397,382
Plus:			
Other Restatements.....	-	648	1,208
Less:			
Reclassification of bond issue costs.....	(43,980)	(22,454)	-
Net position/(deficit) as of July 1, 2013, as restated.....	<u>\$ (25,983,856)</u>	<u>\$ 4,819,317</u>	<u>\$ 28,398,590</u>

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".

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash and cash equivalents.....	\$ 1,192,194	\$ 614,008	\$ 1,806,202	\$ 918,761
Short-term investments.....	1,355,335	280,778	1,636,113	-
Cash with fiscal agent.....	307,371	-	307,371	-
Total.....	<u>\$ 2,854,900</u>	<u>\$ 894,786</u>	<u>\$ 3,749,686</u>	<u>\$ 918,761</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. As of June 30, 2014, the amortized cost of annuities is approximately \$137 million. At June 30, 2014, the Commonwealth held these investments with a maturity value of approximately \$1.109 billion and with a carrying value of approximately \$1.233 billion. Approximately 89% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 4.5% 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, 2014, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	151,251
Cash and cash equivalents held in pooled cash.....		64,180
Restricted investments.....		842,184
Total.....	\$	<u>1,057,615</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 or a letter of credit. For programs created by the Treasury, such as the Small Business Banking Program, 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. Membership in the DIF is limited to Massachusetts chartered savings banks while membership in the SIF is limited to Massachusetts cooperative banks.

Custodial Credit Risk – Higher Education

The Institutions of Higher Education have investment policies that may vary by institution for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2014, the bank balances of uninsured deposits totaled approximately \$392 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 deposits that are fully collateralized. As of June 30, 2014, all MSBA bank balances were fully protected against loss.

Interest Rate Risk – MMDT

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 Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

The MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 63 days on July 1, 2013 to 57 days on June 30, 2014.

Investments in the MMDT Short Term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Short Term Bond Portfolio 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.

For the MMDT Short Term Bond Portfolio, the duration fluctuated from 2.18 to 2.52 years. At June 30, 2014, investments in the MMDT Short Term Bond Portfolio had a total net position of \$441 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2014, the Short Term Bond Portfolio's effective maturity schedule was as follows:

<u>Securities with an Effective Maturity of</u>	<u>Percentage of Total Net Position</u>
Less than one year.....	17.10%
One to five years.....	78.50%
Six to ten years.....	2.00%
Greater than ten years.....	<u>0.20%</u>
Total*	<u><u>97.80%</u></u>

*The remaining 2.2% consists of cash equivalents and other assets.

Interest Rate Risk – Higher Education

As of June 30, 2014, the Institutions of Higher Education had debt investments stated at fair value of approximately \$805 million and had investment maturities ranging from less than one year to more than ten years, with approximately 50.1% of the investment's fair values maturing in less than 1 year, approximately 29.8% from one to five years, approximately 10.2% from six to ten years, and approximately 9.9% more than ten years.

Interest Rate Risk - MSBA

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2014, the MSBA had approximately \$226 million invested in a collateralized guaranteed investment contract and approximately \$407 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2043. These investments represent approximately 76% of the MSBA's total investments.

Interest Rate Risk – Agency Funds

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2014, these investments had a fair value of approximately \$590 million with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 27.9% has maturities of less than one year, 43.8% from one to five years, 14.2% from six to ten years and 14.1% greater than ten years.

Credit Risk – MMDT

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 Treasury cash portfolio is invested only in First Tier and Second Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the [Investment Company Act of 1940](#). The Treasury does not have any additional policies regarding credit ratings of investments. At June 30, 2014, the Cash Portfolio's securities were rated as follows: First tier 96.7% and Second Tier 3.3%.

At June 30, 2014, the Short Term Bond Portfolio's follows:

<u>Portfolio Composition</u>	<u>Percentage of Total Net Position</u>
AAA.....	61.40%
AA.....	6.90%
A.....	17.40%
BBB.....	<u>12.10%</u>
Total*	<u><u>97.80%</u></u>

* The remaining 2.2% consists of cash equivalents and other assets.

Credit Risk – Higher Education

For the Institutions of Higher Education presented in the Business-Type Activities, fair values of debt investments were approximately \$473 million at AAA, approximately \$180 million from AA+ to A- and approximately \$152 million either unrated, BBB+ or less.

Credit Risk – MSBA

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance. As of June 30, 2014, the guaranteed investment contracts were not rated; however, the issuer was rated AA by Standard & Poor's and A2 by Moody's and the guaranteed investment contracts were collateralized.

As of June 30, 2014, the MSBA's investments in municipal bonds were rated AA+ or above.

Credit Risk – Agency Funds

The agency funds debt investments with a fair value of \$590 million, of which approximately \$472 million were in U.S Government securities. The remaining \$118 million were unrated as of June 30, 2014.

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 fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective 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 \$16.095 billion at fair value with an effective weighted average duration range from 1.33 to 21.81 years at June 30, 2014.

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 BBB+ at June 30, 2014.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.205 billion, BBB+ to B- investments with a fair value of approximately \$2.555 billion, \$245 million rated CCC+ to D, \$5.407 billion are unrated and the remaining \$4.683 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, 2014 were approximately \$191 million in cash and investments, \$13.154 billion in equities, \$2.297 billion in fixed income investments, \$1.455 billion in private equity investments and \$172 million in timber investments. An additional \$2.867 billion is invested in international investments denominated in U. S. dollars.

Concentration of Credit Risk – PRIT

The PRIM Board manages 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 and PRIT have no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2014.

A. DERIVATIVE INSTRUMENTS

PRIT may invest in derivative transactions. In accordance with GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*, PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

Forward Currency Contracts

PRIT enters 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 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, 2014, PRIT had open foreign exchange contracts with combined net unrealized losses of approximately \$8 million with various delivery dates.

Further information on derivative instruments can be found in the notes to PRIT's basic financial statements.

Futures Contracts

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 may not correspond to the change in 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 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.

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

PRIT held contracts outstanding at June 30, 2014 with various expirations from FY15 to FY17. 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, 2014 was approximately \$3.212 billion with a fair value of \$3.236 billion, yielding an unrealized net gain of approximately \$23 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 PRIT Fund recognizes a realized gain or loss.

Swaps – PRIT

PRIT has entered into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risk. 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. Changes in fair value are included as part of investment income.

As of June 30, 2014, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.927 billion to various investment banks that had maturity dates from FY15 to FY46. The contracts have an aggregate fair value gain of approximately \$11 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT's counterparty exposure was with various major investment companies with ratings ranging from AA- to A- and various other banks with other ratings. Open swap contracts as of June 30, 2014 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Inflation Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Barclays Bank PLC.....	A	\$ 23,150	\$ 291	\$ 12,500	\$ (64)	\$ 116,010	\$ 92
CME Group Inc.....	AA-	784,699	4,955	-	-	-	-
Citibank NA.....	A	181,717	107	29,361	14	-	-
Deutsche Bank AG.....	A	-	-	35,700	255	-	-
Intercontinental Exchange Inc.....	A-	-	-	78,294	2,653	-	-
JPMorgan Chase Bank NA.....	A+	22,617	(19)	9,900	45	-	-
UBS AG.....	A	4,582	42	27,346	152	-	-
U.S. Bank National Association.....	AA-	500,000	2,603	-	-	-	-
All others.....	Various	4,741	99	95,900	(142)	-	-
Totals.....		\$ 1,521,506	\$ 8,078	\$ 289,001	\$ 2,913	\$ 116,010	\$ 92

B. DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS

Component units invest in derivative transactions. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

3. RECEIVABLES

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

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
<u>Governmental activities:</u>					
Gross receivables.....	\$ 4,885,913	\$ 2,137,327	\$ 116,608	\$ 1,822,052	\$ 8,961,900
Less: allowance for uncollectibles.....	(1,294,151)	(117,713)	-	(1,327,791)	(2,739,655)
Receivables, net of allowance for uncollectibles..	3,591,762	2,019,614	116,608	494,261	6,222,245
Less: current portion.....	(3,079,790)	(1,957,550)	(8,710)	(386,096)	(5,432,146)
Noncurrent receivables.....	<u>\$ 511,972</u>	<u>\$ 62,064</u>	<u>\$ 107,898</u>	<u>\$ 108,165</u>	<u>\$ 790,099</u>
<u>Business-Type activities:</u>					
Gross receivables.....	\$ -	\$ 88,366	\$ 61,720	\$ 864,140	\$ 1,014,226
Less: allowance for uncollectibles.....	-	(1,260)	(1,360)	(192,652)	(195,272)
Receivables, net of allowance for uncollectibles..	-	87,106	60,360	671,488	818,954
Less: current portion.....	-	(87,106)	(48,092)	(627,381)	(762,579)
Noncurrent receivables.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,268</u>	<u>\$ 44,107</u>	<u>\$ 56,375</u>

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from the Stabilization Fund 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	Lotteries	Other Governmental Funds	Total
Governmental funds:				
<u>Transfers in:</u>				
Debt service.....	\$ -	\$ -	\$ 2,374,950	\$ 2,374,950
Transfers in.....	1,523,264	-	1,803,228	3,326,492
Subtotal.....	1,523,264	-	4,178,178	5,701,442
<u>Transfers out:</u>				
Appropriations.....	(1,058,662)	-	(21,587)	(1,080,249)
Transfer of bond proceeds.....	-	-	(215,690)	(215,690)
Debt service.....	(1,060,211)	-	(1,314,739)	(2,374,950)
Transfers out.....	(1,104,450)	(1,069,958)	(1,061,286)	(3,235,694)
Subtotal.....	(3,223,323)	(1,069,958)	(2,613,303)	(6,906,583)
Total governmental funds.....	(1,700,059)	(1,069,958)	1,564,875	(1,205,141)
Proprietary funds:				
	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds.....	\$ 676,365	\$ 289,175	\$ 330,399	\$ 1,295,939
<u>Transfers out:</u>				
Transfers out to the General Fund.....	(56,262)	(17,524)	(17,011)	(90,798)
Total proprietary funds.....	\$ 620,103	\$ 271,651	\$ 313,387	1,205,141
Net transfers in / (out) between funds..				\$ -

Due to/from component units on the Statement of Net Position reflects a timing difference for a payment of approximately \$3 million at year end.

Remaining receivables and payables between funds as of June 30, 2014 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2014. 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, 2014 (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds:		
General	Nonmajor Governmental Funds.....	\$ 533,226
Non-major Governmental Funds	Nonmajor Governmental Funds.....	80,348
Total Governmental Funds.....		\$ 613,574

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2014 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2013 Beginning Balance*	Increases	Decreases and Reclassifications	June 30, 2014 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 822,076	\$ 21,658	\$ (1,021)	\$ 842,713
Construction in process.....	649,712	327,211	(110,687)	866,236
Total capital assets not being depreciated.....	1,471,788	348,869	(111,708)	1,708,949
Capital assets being depreciated:				
Buildings.....	5,410,250	45,994	(4,745)	5,451,499
Machinery and equipment.....	1,028,669	89,468	(14,744)	1,103,393
Infrastructure non - central artery/tunnel project.....	333,004	35,750	(3,500)	365,254
Total capital assets being depreciated.....	6,771,923	171,212	(22,989)	6,920,146
Less, accumulated depreciation:				
Buildings.....	(2,863,368)	(108,133)	3,619	(2,967,882)
Machinery and equipment.....	(787,587)	(79,238)	9,398	(857,427)
Infrastructure non - central artery/tunnel project.....	(226,685)	(7,921)	3,441	(231,165)
Total accumulated depreciation.....	(3,877,640)	(195,292)	16,458	(4,056,474)
Total capital assets being depreciated, net.....	2,894,283	(24,080)	(6,531)	2,863,672
Governmental activity capital assets, net.....	4,366,071	324,789	(118,239)	4,572,621
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	107,847	7,201	(518)	114,530
Construction in process.....	1,317,594	797,531	(975,289)	1,139,836
Historical treasures.....	1,101	61	-	1,162
Total capital assets not being depreciated.....	1,426,542	804,793	(975,807)	1,255,528
Capital assets being depreciated:				
Buildings.....	6,610,770	962,622	(10,474)	7,562,918
Machinery and equipment.....	990,186	57,605	(22,351)	1,025,440
Library collections, not including historical treasures.....	113,739	551	(9,590)	104,700
Total capital assets being depreciated.....	7,714,695	1,020,778	(42,415)	8,693,058
Less, accumulated depreciation:				
Buildings.....	(3,211,884)	(243,122)	17,131	(3,437,875)
Machinery and equipment.....	(249,511)	(60,087)	12,393	(297,205)
Library collections, not including historical treasures.....	(17,155)	(618)	416	(17,357)
Total accumulated depreciation.....	(3,478,550)	(303,827)	29,940	(3,752,437)
Total capital assets being depreciated, net.....	4,236,145	716,951	(12,475)	4,940,621
Business - type activity capital assets, net.....	5,662,687	1,521,744	(988,282)	6,196,149
Total Primary Government capital assets, net.....	\$ 10,028,758	\$ 1,846,533	\$ (1,106,521)	\$ 10,768,770

*As restated and are more fully described in footnote #1

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

Function	Amount
General government.....	\$ 50,315
Judiciary.....	32,796
Health and human services.....	43,345
Early elementary and secondary education.....	820
Public safety and homeland security.....	57,631
Housing and economic development.....	48
Labor and workforce development.....	10,337
Total depreciation, governmental activities.....	\$ 195,292
University of Massachusetts.....	\$ 200,256
State universities.....	73,188
Community colleges.....	30,383
Total depreciation, business-type activities.....	\$ 303,827

6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. Short-term borrowing may be issued as fixed rate notes, floating rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth. Per the State Constitution, revenue anticipation notes (RANs) issued for cash flow purposes are required to be paid within the same fiscal year. Temporary financings for capital needs, such as bond anticipation notes may be outstanding for up to five years, per statute.

A. GENERAL FUND

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$800 million by selling RANs in September 2013. All of the \$800 million in RANs were retired in April, May and June of 2014.

On June 30, 2014, the Commonwealth issued \$200 million in commercial paper bond anticipation notes (BANs) in anticipation of the issuance of bonds. These notes were redeemed subsequent to year end with a portion of the long-term General Obligation Bonds, Consolidated Loan of 2014, Series C, dated July 11, 2014. The bonds mature annually starting in FY2022 through FY2032 and carry interest rates ranging from 3.0% to 5.0%. The BANs meet long-term financing criteria and, therefore, are reported as long-term debt rather than as fund liability.

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

	Beginning Balance July 1, 2013	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2014
General Fund:				
Revenue anticipation notes.....	\$ -	\$ 800,000	\$ (800,000)	\$ -
Capital Projects Funds:				
Commercial paper - Bond anticipation notes.....	-	200,000	(200,000)	-
Total primary government.....	\$ -	\$ 1,000,000	\$(1,000,000)	\$ -

B. CREDIT FACILITIES

During FY14, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY14 with a total of two credit facilities to provide such liquidity support, each in the amount of \$200 million. These facilities expire in periods at various times in FY14 and FY15. In addition, to credit facilities for commercial paper, the Commonwealth maintained standby bond purchase agreements for Variable Rate (VR) Demand Bonds sold from FY97 through FY06. These VR bonds require external liquidity support because bond holders have the right to sell the bonds back to the Commonwealth at par at any time. As of June 30, 2014, these agreements totaled \$759 million.

7. LONG-TERM OBLIGATIONS

Section 1 of Article 62 of the Massachusetts Constitution empowers the State Legislature to borrow money on the credit of the Commonwealth for various public purposes. Under the state Constitution, the Commonwealth may pledge its credit to borrow money only by a vote of two-thirds of each house of the Legislature. Borrowed funds may be used for defense of the state or of the United States, and 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”. The Legislature may not in any manner allow the Commonwealth’s 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 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.

Statutorily, the authority to borrow is delegated to the Massachusetts State Treasurer & Receiver General pursuant to Chapter 29 of the Massachusetts General Laws. Section 49 of Chapter 29 of the Massachusetts General Laws is the primary statute governing the issuance of Commonwealth debt and contains a number of provisions spelling out the process for the issuance of bonds.

The issuance of bonds to fund the Commonwealth’s capital needs must be authorized by the Legislature. Pursuant to legislative authorizations to borrow, the Governor determines the amount and timing of any authorized borrowing to fund capital investments. At the request of the Governor, the State Treasurer & Receiver General borrows by issuing bonds to the public. The Governor approves the use of the bond proceeds by agencies to pay for authorized and budgeted capital projects.

Massachusetts General Law provides for the allocation of bond proceeds to bond authorizations and capital spending in arrears (as needed), as expenditures are made, or at the time of issuance of the bonds. In general, bond proceeds are primarily allocated to capital spending that has already occurred. When allocating in arrears, the allocation of segregated bond proceeds is a reimbursement to the General Fund.

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth’s primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT), which is structured similarly to an SEC – registered money market fund (for more information please see the notes on the Commonwealth’s short-term investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth’s bond counsel.

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 cannot file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2014, 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 outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

The following is a summary of the Commonwealth's outstanding debt, exclusive of capital leases, (amounts in thousands):

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General obligation bonds, net proceeds.....	\$ 20,149,098
Special obligation bonds (including GANs), net proceeds.....	<u>2,941,336</u>
Outstanding Commonwealth bonds, net proceeds.....	23,090,434
MSBA bonds, net proceeds.....	<u>6,143,246</u>
Total governmental activities, net proceeds.....	29,233,680
Less:	
Unamortized premiums on general obligation bonds.....	(552,436)
Unamortized premiums on special obligation bonds.....	(118,146)
Unamortized premiums on MSBA bonds.....	<u>(510,776)</u>
Total governmental activities, principal.....	<u>\$ 28,052,322</u>

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, and debt assumed from former counties. The special obligation (SO) bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders, as defined in the trust agreement. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise taxes and Registry of Motor Vehicle fees and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2014, there were five different special obligation bond programs with bonds outstanding. It should be noted that two of the five bond programs have closed liens, meaning that no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of GO bonds principal outstanding as of June 30, 2014, (amounts in thousands):

<u>General Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Fixed rate bonds.....	\$ 16,004,332	81.7%
Variable rate bonds.....	<u>3,592,330</u>	<u>18.3%</u>
Total.....	<u>\$ 19,596,662</u>	<u>100.0%</u>

The following is a table of the different types of outstanding variable rate GO bonds, (amounts in thousands):

<u>Variable Rate GO Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Direct purchase bonds.....	\$ 443,545	2.3%
Variable rate demand bonds.....	759,265	3.9%
Auction rate securities.....	401,500	2.0%
CPI-index bonds.....	145,765	0.7%
LIBOR index bonds.....	845,795	4.3%
SIFMA index bonds.....	<u>996,460</u>	5.1%
Total.....	<u>\$ 3,592,330</u>	

The following is a table of hedged and unhedged variable rate GO bonds, (amounts in thousands):

	<u>Principal Outstanding</u>	<u>Percent of Total Variable Rate GO Bonds</u>
Hedged variable rate GO bonds.....	\$ 2,820,455	78.5%
Unhedged variable rate GO bonds..	<u>771,875</u>	<u>21.5%</u>
Total variable rate GO bonds.....	<u>\$ 3,592,330</u>	<u>100.0%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2014, (amounts in thousands):

<u>Special Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total SO</u>
Fixed rate bonds.....	\$ 2,640,110	93.5%
Variable rate bonds.....	<u>183,080</u>	<u>6.5%</u>
Total.....	<u>\$ 2,823,190</u>	<u>100.0%</u>

The following is a table of the different types of outstanding SO bonds (amounts in thousands):

<u>Special Obligation Bonds</u>	<u>Amount Outstanding</u>
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds.....	\$ 557,125
CPI variable rate convention center bonds.....	<u>86,590</u>
Total convention center bonds, net proceeds.....	643,715
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds.....	156,234
CPI variable rate gas tax bonds.....	<u>96,490</u>
Total gas tax bonds, net proceeds.....	252,724
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program.....	1,466,857
Special obligation federal highway grant anticipation notes and accelerated bridge program.....	<u>578,040</u>
Total special obligation bonds, net proceeds.....	2,941,336
Less: unamortized premiums.....	<u>(118,146)</u>
Outstanding special obligation principal.....	<u>\$ 2,823,190</u>

A. GENERAL OBLIGATION BONDS

General obligation bonds are authorized and issued primarily to provide funds for the Commonwealth's five-year capital improvement program (CIP), including capital infrastructure projects throughout the state as well as Commonwealth-supported local government capital improvements. The five-year plan is developed by the Executive Office for Administration and Finance (A&F) and updated annually. The CIP is primarily funded through the issuance of bonds that are sold by the State Treasurer and Receiver General. The Commonwealth borrows from the capital markets by selling GO bonds and notes pursuant to Chapter 29 of the Massachusetts General Laws. GO bonds are backed by the full faith and credit of the Commonwealth and are paid mainly from the Governmental Funds, to which debt service principal and interest payments are appropriated in the state's operating budget.

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2014, the Commonwealth had approximately \$142 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds. Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2014, approximately 81.7% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 18.3% of outstanding GO debt is in the form of 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 different variable rate structures. For example, most of the Commonwealth's outstanding variable rate debt is in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2014, the Commonwealth had approximately \$759 million in outstanding VRDBs. This accounts for approximately 3.9% of total GO debt and approximately 21.1% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2014, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the outstanding bank liquidity facilities.

The Commonwealth has also issued GO 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 from a commercial bank. The Commonwealth's outstanding 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. Beginning in February 2008, however, and continuing through FY14, all of the Commonwealth's outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401.5 million in total outstanding debt obligations, including Commonwealth of Massachusetts GO Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

A portion of the Commonwealth's outstanding bonds have been directly purchased by banks (or "direct purchase bonds"). These variable rate, direct purchase bonds bear interest at an index rate and are payable on the first business day of each month until maturity. As of June 30, 2014, the Commonwealth had \$444 million direct purchase bonds outstanding. This includes \$200 million of the Commonwealth's Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series B. Those bonds were tendered by the Commonwealth in FY2013, converted to direct purchase bonds from variable rate demand bonds, and purchased by JP Morgan Chase Bank and TD Bank, NA. The final portion of outstanding direct purchase bonds were purchased from the Commonwealth by Royal Bank of Canada in FY2012. All of the bonds are subject to bondholder agreements.

The following table details the general obligation direct purchase bonds (amounts in thousands):

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2001 Series B Refunding Bonds...	\$ 243,545	1/1/2021	1 Month LIBOR/ Monthly Pay	Royal Bank of Canada	8/1/2014	8/1/2017
2006 Series B, Subseries B-1.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	JP Morgan Chase Bank	5/17/2013	5/31/2016
2006 Series B, Subseries B-2.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	TD Bank	5/17/2013	5/31/2016
Total.....	<u>\$ 443,545</u>					

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2014, the Commonwealth had approximately \$146 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 \$996 billion of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 0.7%, 4.3% and 5.1% of total outstanding general obligation indebtedness, respectively.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, \$637 million in refunding bonds were issued in three separate transactions; one current and two advanced refunding transactions. The present value savings of these refunding transactions are immaterial to these financial statements.

MSBA Debt

As of June 30, 2014, the MSBA had outstanding approximately \$5.632 billion of Dedicated Sales Tax bonds, including approximately \$511 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 2.0% to 5.715% and each series is payable semiannually with the latest maturity occurring in FY43. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.632 billion of debt outstanding as of June 30, 2014, \$450 million is taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the United States Treasury. In addition, \$293 million of the Subordinated Dedicated Sales Tax Bonds was issued as "Qualified School Construction Bonds" for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the United States Treasury. During FY13 and FY14, the federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. Subsidy payments received from March 1, 2013 through September 30, 2013 were reduced by 8.7% (5.1% on an annualized basis) due to sequestration. On September 30, 2013, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the FY14 sequestration rate of 7.2%. The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise modifies the sequester. The reductions were approximately \$662,000 on the 2010 Series A Bonds and 2011 Series A Bonds in FY13, and \$2.1 million on the 2009 Series B Bonds, 2010 Series A Bonds and 2011 Series A Bonds in FY 14.

B. SPECIAL OBLIGATION BONDS

Commonwealth Transportation Fund (CTF)

The largest amount of special obligation bonds outstanding (by par) are bonds secured by certain revenues of the Commonwealth Transportation Fund. In FY14, the Commonwealth issued approximately \$424 million in special obligation bonds under the Accelerated Bridge Program (ABP). These bonds mature from FY15 to FY43 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry

of Motor Vehicle fees deposited into the CTF. These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2014, approximately \$1.404 billion in principal was outstanding on the ABP bonds and approximately \$1.125 billion of interest (net of the federal subsidy) was expected to be paid through maturity.

Motor Fuels Tax Bonds

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 24 cent per gallon gasoline tax. During FY14, the Commonwealth issued current refunding bonds of approximately \$10 million to refund, in the current year, a future maturity. As of June 30, 2014 bonds secured by these pledged funds totaled approximately \$250 million of principal and approximately \$54 million in interest. These bonds mature from FY14 to FY22 and were issued in various series. Principal and interest paid during FY14 amounted to approximately \$37 million and \$15 million, respectively.

Convention Center Fund

Chapter 152 of the Acts of 1997, as amended, authorized \$694 million of special obligation bonds to be issued for the purpose of building a new convention center in Boston (\$609 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 that 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%). As of June 30, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 million.

C. FEDERAL GRANT ANTICIPATION NOTES

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011, 2014 and refunding notes in fiscal 2003 and fiscal 2011. During FY14, the Commonwealth issued approximately \$253 million in GANs for new-money needs under the Commonwealth's Accelerated Bridge Program. As of June 30, 2014, total principal remaining to be paid is approximately \$531 million. Maturities are from FY15 through FY27. Debt service paid during FY14 was approximately \$186 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such GANs 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 GANs 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 that an additional 10 cents 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 GANs 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.

D. THE BUILD AMERICA BOND PROGRAM

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program issuers, including the Commonwealth, issued taxable bonds in calendar years 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% of the interest costs on the

bonds, depending on whether the proceeds are used for projects in economically distressed areas. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as “direct pay to issuer”, meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2014, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$862 million. The Commonwealth’s repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds’ debt service is budgeted at the net-of-interest-rate subsidy rate.

Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth’s BABs sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

E. INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS

Over the last twenty years, the Commonwealth has periodically 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. Of the Commonwealth’s variable-rate debt outstanding of approximately \$3.592 billion, approximately \$2.820 billion were hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.740 billion are for G.O. bonds and the remainder on outstanding special obligation bonds.

Under the terms of these floating-to-fixed rate hedge agreements, counterparties to the hedge agreements are obligated to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense on the Commonwealth’s 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, 2006, and 2007, the Commonwealth entered into interest rate swap hedge agreements with certain counterparties to hedge against the volatility of the interest rates on certain bonds whose interest costs were floating and not fixed. Additional swap agreements were entered into to hedge this same volatility on certain special obligation bonds, including the Commonwealth’s 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 novated or 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 hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2014, all of the Commonwealth’s interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

Terms of the Interest Rate Swap Agreements

The variable rate bonds and their related swap agreements have final maturities ranging from 2014 to 2037. The swaps' total notional value of approximately \$2.923 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 3.555% to 5.250% 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 or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to Libor, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

Credit Risk of the Interest Rate Swap Agreements

As of June 30, 2014, 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, including credit rating downgrades. 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	Effective Date	Replacement Agreement Effective Date	Terms		Fair value at June 30		Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating Moody's/S&P/Fitch
				Fixed Rate Paid (Range)	Variable Rate Received	2014	2013				
<i>General Obligation Bonds:</i>											
Series 1997B	\$ 54,075	8/12/1997	8/12/1997	4.659%	Cost of Funds	\$ (1,427)	\$ (4,013)	\$ 2,586	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2/AAA/NA
Series 1997B	36,050	8/12/1997	9/1/2010	4.659%	SIFMA	(938)	(2,633)	1,695	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3/A+/A-
Series 1998A	60,775	9/17/1998	9/3/2012	4.174%	Cost of Funds	(2,155)	(7,452)	5,297	9/1/2016	Wells Fargo Bank	A2/A/A+
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	143,838	9/17/1998	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(5,208)	(10,608)	5,400	9/1/2016	Deutsche Bank AG	Aa3/AA-/AA-
Series 2000A	105,417	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(8,713)	(11,693)	2,980	8/1/2018	Merrill Lynch Cap Svcs	Baa2/A-/A
Series 2000A	53,108	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(4,224)	(5,882)	1,658	8/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/A+
Series 2001B & C	487,095	2/20/2001	2/20/2001	4.150%	Cost of Funds	(61,534)	(71,913)	10,379	1/1/2021	Morgan Stanley Capital Services	Baa2/A-/A
Series 2003B	45,765	3/12/2003	3/12/2003	4.500%	CPI-based formula	(2)	(979)	977	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2 / AAA / NA
Series 2003B	-	-	-	-	-	-	(93)	93	12/1/2013	Deutsche Bank AG	A2 / A+ / A+
Series 2006B, Series 2000D	294,000	11/25/2008	4/2/2009	4.515%	67% 3-Month LIBOR	(80,716)	(81,725)	1,009	6/15/2033	Barclays Bank PLC	A2/A/A
Series 2006C	100,000	1/1/2007	9/1/2013	3.73%-3.85%	CPI-based formula	(2,762)	(4,813)	2,051	11/1/2020	Wells Fargo Bank	Aa3/AA-/AA-
Series 2007A	400,000	5/30/2007	10/8/2008	4.420%	67% 3-Month LIBOR + 0.57%	(35,836)	(41,967)	6,131	5/1/2037	Barclays Bank PLC	A2/A/A
Series 2007A (refunding)	414,130	5/30/2007	10/8/2008	4.083%	67% 3-Month LIBOR + 0.57%	(64,950)	(66,641)	1,691	11/1/2025	Bank of NY Mellon	Aa2/AA-/AA-
Series 2007A (refunding)	31,665	5/30/2007	10/8/2008	3.936%	67% 3-Month LIBOR + 0.57%	(4,212)	(4,575)	363	11/1/2020	Deutsche Bank AG	A2/A/A+
Series 2010A, 2011A, 2012A(refunding) & 2013A	513,680	3/15/2005	9/1/2013	3.555% - 4.004%	SIFMA	(73,991)	(78,161)	4,170	2/1/2028	Wells Fargo Bank	Aa3/AA-/AA-
Subtotal	2,739,598					(346,668)	(393,148)	46,480			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>											
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(932)	(1,861)	929	1/1/2018	Goldman Sachs Cap Markets	A2/A-/A
Series 2004 (Convention Ctr)	28,864	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(942)	(1,861)	919	1/1/2018	JP Morgan formerly Bear Stearns	A3/A/A+
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(940)	(1,861)	921	1/1/2018	JPMorgan Chase Bank	Aa3/A+/A+
Series 2005A (Gas Tax)	96,490	1/12/2005	1/12/2005	4.771% - 5.059%	CPI-based formula	(4,157)	(5,993)	1,836	6/1/2022	Merrill Lynch Cap Serv	Baa2/A-/A
Subtotal	183,080					(6,971)	(11,576)	4,605			
Total	\$ 2,922,678					\$(353,639)	\$(404,724)	\$ 51,085			

Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2014 is negative \$354 million and is reflected on the statement of net position as a 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 hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2014 were recognized as deferred outflows resulting in no impact on the Statement of Activities.

If all the Commonwealth's swap agreements had been terminated as of the end of FY14, 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 above 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 swap agreements 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 hedge 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 the terms 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 paid to bondholders 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 bonds being hedged by the \$294 million notional hedge agreement with Barclays and the 2010A bonds being hedged by the \$513 million notional swap with Wells Fargo Bank. 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 agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements 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 agreements 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, well above the current credit rating of 'AA+' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold 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.

F. 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.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2014 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 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, 2014. 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.

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, 2014 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2015.....	\$ 225,515	\$ 17,512	\$ 99,066	\$ 342,093
2016.....	238,668	15,333	91,876	345,877
2017.....	343,700	14,026	83,089	440,815
2018.....	114,840	11,455	75,082	201,377
2019.....	205,290	10,971	69,488	285,749
2020-2024.....	1,000,875	31,819	237,353	1,270,047
2025-2029.....	497,535	10,817	93,629	601,981
2030-2034.....	212,605	5,469	35,288	253,362
2035-2039.....	83,650	933	4,721	89,304
Total.....	<u>\$2,922,678</u>	<u>\$ 118,335</u>	<u>\$ 789,592</u>	<u>\$ 3,830,605</u>

Business - Type Activities – Swapped Debt

The University System has various swaps. At June 30, 2014, the fair value liability of the universities' outstanding interest rate swaps was \$69 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, 2014, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$449 million. For complete details, see separate MassDOT financial statements.

G. 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. Long-term debt principal outstanding and debt authorized and unissued at June 30, 2014 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 530,935	2015-2027	\$ -
Capital projects:			
General.....	9,393,350	2015-2044	9,131,114
Highway.....	10,605,205	2015-2044	17,107,407
Local aid.....	1,251,662	2015-2038	17,247
Other.....	638,700	2015-2034	-
Subtotal.....	<u>21,888,917</u>		<u>26,255,768</u>
Subtotal - governmental activities debt (exclusive of MSBA)..	22,419,852		<u>\$ 26,255,768</u>
MSBA debt.....	<u>5,632,470</u>		
Governmental activities debt.....	<u>\$ 28,052,322</u>		

Interest rates on the Commonwealth's outstanding debt at the end of FY14 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, 2014 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2013.....	\$ 21,513,039	\$ 5,195,160	\$ 26,708,199	\$ 13,762,257
Plus: Increases in bonds authorized.....	-	-	-	14,816,620
Less: Authorizations deauthorized.....	-	-	-	(8,048)
General and special obligation bonds:				
Proceeds, as defined as principal, premium				
less discount.....	3,189,269	599,125	3,788,394	(2,315,061)
Less: Net premium.....	(192,575)	(50,125)	(242,700)	-
Less: Principal on refunded bonds.....	(655,370)	-	(655,370)	-
Less: Bonds retired.....	(1,434,511)	(111,690)	(1,546,201)	-
Outstanding principal June 30, 2014.....	<u>\$ 22,419,852</u>	<u>\$ 5,632,470</u>	<u>\$ 28,052,322</u>	<u>\$ 26,255,768</u>

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state universities 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 million. 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 universities have also entered into various loan agreements as participants in the MassDevelopment's ongoing capital asset program to finance construction projects and equipment.

At June 30, 2014, debt service requirements to maturity for principal and interest 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	Interest subsidies (1)	Principal	Interest
2015.....	\$ 1,691,269	\$ 949,381	\$ 116,555	\$ 278,385	\$ (22,470)	\$ 177,542	\$ 180,363
2016.....	1,596,448	889,779	119,885	272,158	(24,213)	136,691	174,041
2017.....	1,353,826	828,344	128,420	266,328	(24,213)	137,061	169,608
2018.....	1,226,674	773,928	132,665	260,118	(24,213)	142,712	162,058
2019.....	1,100,787	722,135	154,630	253,838	(24,213)	145,525	161,095
2020 - 2024.....	5,429,819	2,822,841	810,640	1,153,765	(121,065)	780,156	714,370
2025- 2029.....	3,996,950	1,735,559	1,070,285	937,646	(101,074)	765,044	549,371
2030 - 2034.....	2,792,324	978,905	1,227,660	625,924	(41,062)	665,124	365,809
2035 - 2039.....	1,892,655	498,721	1,270,385	314,308	(19,093)	729,654	205,089
2040 - 2044.....	1,339,100	146,135	601,345	69,311	(578)	440,671	59,853
2045 - 2049.....	-	-	-	-	-	123,551	4,431
Total long - term debt..	22,419,852	10,345,728	5,632,470	4,431,781	(402,194)	4,243,731	2,746,088
Less: current portion...	(1,691,269)	(949,381)	(116,555)	(278,385)	22,470	(177,542)	(180,363)
Long - term debt.....	\$ 20,728,583	\$ 9,396,347	\$ 5,515,915	\$ 4,153,396	\$ (379,724)	\$ 4,066,189	\$ 2,565,725

*for all variable rate interest not hedged by swap agreements the budgeted interest rate is 5%

(1) FY15 Interest Subsidies reflect projected sequestration reductions of 7.2%. There may be sequestration reductions in future years as well.

H. PRIOR DEFEASANCE

The Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance 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. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2014, approximately \$2.436 billion of bonds outstanding from advance refunding activities is considered defeased.

Business - Type Activities

The University of Massachusetts (UMass) and the Massachusetts State College Building Authority (MSCBA) defeased various bonds by issuing refunding bonds and placing the proceeds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust assets and the liabilities of the defeased bonds are not included in the business type activity financial statements. As of June 30, 2014, approximately \$309 million and \$133 million of bonds outstanding from advanced refunding transactions are considered defeased for UMass and MSCBA, respectively.

I. STATUTORY DEBT LIMIT

The Massachusetts General Laws, as recently amended, establishes 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 FY14 was approximately \$18.820 billion. Outstanding debt subject to the limit at June 30, 2014 was approximately \$17.631 billion.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute, as amended on June 10, 2013 (effective January 1, 2013), as principal outstanding. It excludes BANs and discount, 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):

	Principal Outstanding
Statutory debt June 30, 2014.....	\$ 22,419,852
Less amounts excluded:	
Central artery project bonds.....	(1,241,263)
Accelerated bridge program.....	(1,756,395)
GANs.....	(178,390)
MBTA forward funding.....	(207)
SMART bonds.....	(723,917)
Convention center bonds.....	(638,700)
Special obligation gas bonds.....	(249,705)
	<hr/>
Outstanding direct debt.....	\$ 17,631,275

J. ADMINISTRATION DEBT LIMIT

During FY09, 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 2014. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration intends to 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 debt service as a percentage of budgeted revenues, (amounts in thousands):

	Fiscal 2014
Bond cap as approved by the Governor.....	\$ 2,205,673
Total annual debt service obligations.....	2,354,910
Budgeted fund revenues.....	37,230,145
Debt service as % of budgeted revenues.....	6.3%

K. 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):

Changes in Long Term Liabilities - Governmental Activities:

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 518,309	\$ 527,200	\$ 518,309	\$ 527,200	\$ 348,880
Claims and judgments.....	12,831	36,137	13,265	35,703	33,203
Prizes payable.....	1,486,299	175,999	292,021	1,370,277	-
School construction grants payable.....	1,519,769	869,223	1,064,434	1,324,558	397,171
Retirement system pension obligations.....	1,815,009	1,913,335	1,509,364	2,218,980	-
Post employment benefit obligations.....	4,147,000	1,293,000	608,000	4,832,000	-
Environmental remediation liability.....	230,784	-	13,438	217,346	11,510
Lottery instant grand prizes.....	29,771	803	-	30,574	-
Workers' compensation.....	282,694	43,035	52,297	273,432	38,554
Arbitrage rebate - MSBA.....	10,022	1,042	-	11,064	-
Group insurance claims.....	96,356	1,403,590	1,402,925	97,021	94,790
Total other long-term obligations.....	10,148,844	6,263,364	5,474,053	10,938,155	924,108
Liability for derivative instruments.....	404,724	353,639	404,724	353,639	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	21,513,039	2,341,324	1,434,511	22,419,852	1,691,269
Unamortized bond and note premiums - non MSBA...	532,634	192,575	54,627	670,582	65,837
MSBA Bonds and notes payable excluding premium...	5,195,160	549,000	111,690	5,632,470	116,555
Unamortized bond and note premiums - MSBA.....	466,437	50,125	5,786	510,776	40,649
Other financing arrangements:					
Capital leases.....	50,831	10,569	5,522	55,878	9,383
Total bonded debt and other financing arrangements.....	27,758,101	3,143,593	1,612,136	29,289,558	1,923,693
Long-term liabilities, governmental activities.....	\$ 38,311,669	\$ 9,760,596	\$ 7,490,913	\$ 40,581,352	\$ 2,847,801

Changes in Major Long Term Liabilities - Business-Type Activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 201,006	\$ 32,506	\$ 28,151	\$ 205,361	\$ 141,272
Environmental remediation liability.....	1,467	-	20	1,447	1,447
Total other long-term obligations.....	202,473	32,506	28,171	206,808	142,719
Liability for derivative instruments.....	70,610	-	465	70,145	-
Bonded Debt:					
Bonds and notes payable, including MSCBA.....	3,736,937	766,921	260,127	4,243,731	177,542
Other financing arrangements:					
Capital leases.....	19,299	1,650	6,420	14,529	4,852
Total bonded debt and other financing arrangements.....	3,756,236	768,571	266,547	4,258,260	182,394
Long-term liabilities, business - type activities.....	\$ 4,029,319	\$ 801,077	\$ 295,183	\$ 4,535,213	\$ 325,113

*as restated and more fully described in footnote 1

Governmental long-term liabilities, other than debt, are typically liquidated by using General Fund resources.

Discretely Presented Component Units – The change in bonds and notes outstanding at June 30, 2014, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2013			June 30, 2014	Due	
	<u>Interest Rates</u>	<u>Maturities</u>	Beginning Balance*	Increases	Decreases	Ending Balance	Within One Year	Long Term
Major component units:								
MassDOT.....	0.00 - 7.00%	2015-2041	\$ 8,107,623	\$ 251,073	\$ (306,148)	\$ 8,052,548	\$ 554,780	\$ 7,497,768
MCWT.....	1.00 - 6.375%	2015-2043	3,771,008	668,168	(1,050,166)	3,389,010	205,540	3,183,470
Nonmajor component units.....	1.00 - 6.50%	2015-2038	640,276	126,009	(73,594)	692,691	20,791	671,900
Total bonds and notes payable.....			12,518,907	1,045,250	(1,429,908)	12,134,249	781,111	11,353,138
Compensated absences, net.....			50,239	4,847	(2,596)	52,490	34,046	18,444
Total long term liabilities.....			<u>\$ 12,569,146</u>	<u>\$ 1,050,097</u>	<u>\$ (1,432,504)</u>	<u>\$ 12,186,739</u>	<u>\$ 815,157</u>	<u>\$ 11,371,582</u>

*As restated and more fully described in footnote 1

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, 2014. 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):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Government land bank fund.....	\$ 35,033
Local aid stabilization fund.....	8,325
Community preservation trust fund.....	844
General capital projects fund.....	556,769
Highway capital projects fund.....	484,066
Other Capital Project Funds:	
Federal highway construction program capital projects fund.....	6,814
Government land bank capital projects fund.....	129
Local aid capital projects fund.....	36

9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

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.

A. PLAN DESCRIPTIONS***Plan administration***

The Massachusetts *State Employees' Retirement System* (SERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan 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 Massachusetts Turnpike Authority (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 SERS. 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.

Management of the SERS is vested in the Massachusetts State Retirement Board (the SRB), which consists of five members—two elected by current and active SERS members, one by the remaining members of the SRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chairman of the SRB.

Certain Commonwealth employees and current retirees employed prior to the establishment of SERS are covered on a “pay-as-you-go” basis. Benefits are recorded when due and payable.

The Massachusetts *Teachers' Retirement System* (MTRS) is a PERS that administers a cost-sharing multi-employer defined benefit plan managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts and Quincy College. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves as ex-officio and is the Chairman of the MTRB.

Plan membership. As of January 1, 2014, the date of the most recent valuation, plan membership consisted of the following:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits.....	56,327	61,034
Terminated employees entitled to		
benefits but not yet receiving them.....	<u>4,216</u>	<u>-</u>
Subtotal.....	60,543	61,034
Current members.....	<u>88,156</u>	<u>88,788</u>
Total.....	<u><u>148,699</u></u>	<u><u>149,822</u></u>

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

Benefits provided. SERS and MTRS provide retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes 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. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The retirement systems' funding policies have been established by Chapter 32 of the MGL. 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. Member contributions for SERS and MTRS vary depending on the most recent date of membership:

Hire Date	% of Compensation
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

B. INVESTMENTS

Investment Policy. Investment of assets in the SERS and MTRS are with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2014. See note 1 (D) for a description of the fair value policies of PRIT's investments.

The following was the PRIT Fund asset allocation as of June 30, 2014:

Asset Class	Target Allocation	
	SERS	MTRS
Global Equity.....	43.0%	43.0%
Core Fixed Income.....	13.0%	13.0%
Hedge Funds.....	10.0%	10.0%
Private Equity.....	10.0%	10.0%
Real Estate.....	10.0%	10.0%
Value Added Fixed Income.....	10.0%	10.0%
Timber/Natural Resources.....	4.0%	4.0%
Total.....	<u>100.0%</u>	<u>100.0%</u>

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses for fiscal 2014 was 17.13% for SERS and 17.12% for MTRS. A money-weighted

rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

C. NET PENSION LIABILITY OF THE SYTEMS REQUIRED BY GASB 67

The components of the net pension liability for SERS and MTRS at June 30, 2014 are as follows (amounts in thousands):

	<u>SERS</u>	<u>MTRS</u>
Total pension liability	\$ 31,355,000	\$ 41,435,000
Plan fiduciary net position	<u>(23,930,895)</u>	<u>(25,538,646)</u>
Net pension liability	<u>\$ 7,424,105</u>	<u>\$ 15,896,354</u>
Fiduciary net position as a percentage of the total pension liability	76.3%	61.6%

Additional information regarding changes in the net pension liability can be found in the Required Supplementary Information section of these financial statements.

Actuarial assumptions. The total pension liability, for both SERS and MTRS, was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - a. **SERS:**
 - Pre-retirement - reflects RP-2000 Employees Table projected 20 years with Scale AA (gender distinct)
 - Post-retirement - reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
 - Disability - the morality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.
 - b. **MTRS:**
 - Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)
 - Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 (see the discussion of the pension plan’s investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	SERS	MTRS
Private Equity	8.8%	8.8%
Global Equity	7.2%	7.2%
Real Estate	6.3%	6.3%
Value Added Fixed Income	6.3%	6.3%
Hedge Funds	5.5%	5.5%
Timber/Natural Resources	5.0%	5.0%
Core Fixed Income	2.5%	2.5%

Discount rate. The discount rate used to measure the pension liability for SERS and MTRS was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the SERS and MTRS net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for SERS and MTRS.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of SERS and MTRS, calculated using the discount rate of 8.0%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
SERS net pension liability	\$ 10,748,000	\$ 7,424,105	\$ 4,571,000
MTRS net pension liability	20,247,000	15,896,354	12,200,000

D. ANNUAL PENSION COST AND NET PENSION OBLIGATION REQUIRED BY GASB 27

GASB Statement No. 68, *Accounting and Reporting for Pensions*, which determines how employers and nonemployer contributing entities will report their pension liabilities on their financial statements, is effective for years beginning after June 15, 2014. Until that statement is implemented, the Commonwealth continues to report its annual pension cost and net pension obligation in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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 2011, the amortization payments are designed to eliminate the unfunded liability by FY40 according to the following schedule: in FY14 5.0%, increasing to 6.0% in FY15 through FY17. In FY18 the unfunded actuarial liability will be amortized on a 4.0% annual increasing basis to FY40. 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 \$1.629 billion were made during the fiscal year ended June 30, 2014. Of this amount \$21 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$100 million represents payments for Boston Teachers.

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 years 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, 2014 was \$201 million.

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 following table shows the detail of annual required contributions (ARC) and Commonwealth contribution, as well as pension cost contributions exclusive of cost of living adjustments (amounts in thousands), under GASB 27 reporting requirements:

	<u>SERS</u>	<u>MTRS</u>	<u>Total</u>
<u>2014</u>			
Annual required contribution.....	\$ 718,909	\$ 1,158,461	\$ 1,877,370
Interest on net pension obligation.....	36,852	93,677	130,529
Adjustment to annual required contribution.....	<u>(26,698)</u>	<u>(67,866)</u>	<u>(94,564)</u>
Annual pension cost.....	729,063	1,184,272	1,913,335
Less: Contributions made, excluding COLAs.....	<u>(573,428)</u>	<u>(935,936)</u>	<u>(1,509,364)</u>
Increase in net pension obligation.....	155,635	248,336	403,971
Net pension obligation beginning of year.....	<u>541,056</u>	<u>1,273,953</u>	<u>1,815,009</u>
Net pension obligation end of year.....	<u>\$ 696,691</u>	<u>\$ 1,522,289</u>	<u>\$ 2,218,980</u>
Percentage of annual pension cost contributed.....	78.7%	79.0%	78.9%
<u>2013</u>			
Annual pension cost.....	\$ 706,912	\$ 1,126,236	\$ 1,833,148
Percentage of annual pension cost contributed.....	77.2%	79.2%	78.4%
Net pension obligation end of year.....	\$ 541,056	\$ 1,273,953	\$ 1,815,009
<u>2012</u>			
Annual pension cost.....	\$ 625,165	\$ 962,782	\$ 1,587,947
Percentage of annual pension cost contributed.....	83.0%	88.2%	86.2%
Net pension obligation end of year.....	\$ 379,597	\$ 1,039,297	\$ 1,418,894

The funded status of SERS and MTRS as of January 1, 2014, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages), under GASB 27 reporting requirements:

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees Retirement System						
Actuarial Valuation as of January 1, 2014.....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2014.....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%

* The covered payroll amount approximates the employer payroll

The actuarial assumptions used to determine the annual pension cost and net pension obligation are based on an actuarial valuation as of January 1, 2014. In addition to those assumptions described in section C of this note, the additional actuarial assumptions that are applicable to the GASB 27 tables above are:

1. 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.
2. Normal costs are amortized using level percentage of payroll, closed.
3. The remaining amortization period for the unfunded pension liability at January 1, 2014 was 27 years to FY40.

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. For the fiscal year ending June 30, 2014, the Commonwealth contributed \$100 million in satisfaction of its actuarially required contribution to the SBRS. 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, or you may download this report at <http://www.cityofboston.gov/retirement/investment.asp>.

E. STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION

The following table displays the Statement of Net Position and the Statement of Changes in Net Position for the SERS, the MTRS and the SRBT as of June 30, 2014, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
Total assets.....	23,935,958	25,550,880	605,080	50,091,918
LIABILITIES				
Accounts payable.....	5,063	12,234	11	17,308
Net position available for post-employment benefits.....	\$ 23,930,895	\$ 25,538,646	\$ 605,069	\$ 50,074,610
ADDITIONS				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
Total contributions.....	1,144,153	1,762,405	487,279	3,393,837
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
Net investment gain/(loss).....	3,562,856	3,771,883	80,797	7,415,536
Total additions.....	4,707,009	5,534,288	568,076	10,809,373
DEDUCTIONS				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
Total deductions.....	1,861,072	2,692,944	420,566	4,974,582
Net increase/(decrease).....	2,845,937	2,841,344	147,510	5,834,791
Net position available for post-employment benefits at beginning of year.....				
	21,084,958	22,697,302	457,559	44,239,819
Net position available for post-employment benefits at end of year.....	\$ 23,930,895	\$ 25,538,646	\$ 605,069	\$ 50,074,610

F. RESERVES

Chapter 32 of the MGL establishes certain legally required reserve accounts for both SERS and MTRS. These reserves are used to account for the accumulation of resources according to purpose for which they are received, acquired or held. The reserve accounts can only be modified or changed by legislation.

The balances of legally required reserves at June 30, 2014 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund.....	\$ 5,684,452	\$ 6,136,294	Active members' contribution balance
Annuity Reserve Fund.....	1,543,995	2,559,907	Retired members' contribution account
Special Military Service Fund.....	44	223	Members' contribution account while on military leave
Pension Reserve Fund.....	<u>16,702,404</u>	<u>16,842,222</u>	Amounts appropriated to fund future retirement benefits
Total	<u>\$23,930,895</u>	<u>\$25,538,646</u>	

G. COMMONWEALTH POST EMPLOYMENT OBLIGATIONS OTHER THAN PENSIONS

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 (SRBT).

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 liability for MassDOT (including former MTA employees) is included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of approximately \$77 million as of June 30, 2014 and the trustees had yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets. On December 17, 2014, the Trustees voted to transfer the assets of the trust to the State Retiree Benefits Trust Fund (SRBTF) for the exclusive benefit and use of the members of the MTA Retirement System and their beneficiaries pending acceptance by the SRBT Board.

The SRBT 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 FY14 General Appropriation Act transferred approximately \$420 million to the Trust for the purpose of benefits payments.

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, 2014 and as of the valuation date (January 1, 2014), Commonwealth participants contributed 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 FY14 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY14 totaled approximately \$608 million. There are approximately 151,007 participants eligible to receive benefits at June 30, 2014.

Effective beginning FY13, the Commonwealth by statute is required to allocate, to the SRBTF, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in FY13 to 100% by FY23. In FY14, 20% of tobacco settlement proceeds or approximately \$56 million was allocated to the SRBTF.

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

The Commonwealth is not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of GASB 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 FY14, the Commonwealth’s annual OPEB contribution of approximately \$608 million for retiree benefits was less than the ARC. The Commonwealth’s annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBT and the net OPEB obligation for the Commonwealth for FY14 are as follows from the valuation calculated as of January 1, 2014 (amounts in millions except percentages):

<u>2014</u>	<u>SRBT</u>
Annual required contribution (ARC).....	\$ 1,251
Interest on net OPEB obligation.....	187
Adjustment to annual required contribution.....	(145)
Annual OPEB cost (AOC).....	1,293
Less: Contributions made*.....	(608)
Increase in net OPEB obligation.....	685
Net OPEB obligation as reported at beginning of year.....	4,147
Net OPEB obligation - end of year.....	<u>\$ 4,832</u>
Percentage of annual OPEB cost contribution.....	47.0%
 <u>2013</u>	
Annual OPEB cost.....	\$ 1,286
Percentage of annual OPEB cost contributed.....	45.5%
Net OPEB obligation - end of year.....	\$ 4,147
 <u>2012</u>	
Annual OPEB cost.....	\$ 1,313
Percentage of annual OPEB cost contributed.....	42.4%
Net OPEB obligation - end of year.....	\$ 3,446

*Includes approximately \$32 million in Medicare Part D Retiree Drug Subsidy Payments

	<u>Actuarial</u> <u>Value of</u> <u>Plan Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Unfunded</u> <u>Actuarial</u> <u>Liability (UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Annual</u> <u>Covered Payroll *</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll *</u>
Actuarial Valuation as of January 1, 2014...	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%

* The covered payroll amount approximates the employer payroll

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 SRBT 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 the 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 the 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 6.5%, decreasing to 6.0% for the next eight years, and then decreasing by 0.5% for two years to an ultimate rate of 5.0%.

Administrative expenses are expected to rise 5.0% 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 Required Supplementary Information (RSI).

The most recent OPEB actuarial valuation for the Commonwealth is available on the Comptroller's web site at <http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html>. There is currently no separate, audited GAAP-basis postemployment benefit plan report available for the Commonwealth.

MSBA

The MSBA has a separate OPEB trust fund. The amount of assets and actuarial accrued liabilities related to MSBA's OPEB plan are not material to the Commonwealth (approximately \$2 million) and are therefore, not included in these financial statements.

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 FY14, these additions are approximately \$11 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 Institutions of Higher Education 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 Institutions of Higher Education – reported as a business-type activity, for the fiscal year ended June 30, 2014 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities				
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total
	Principal	Interest				Principal	Interest		
2015.....	\$ 9,383	\$ 2,095	\$ 179,580	\$ 579	\$ 191,637	\$ 4,852	\$ 497	\$ 25,673	\$ 31,022
2016.....	8,225	1,836	123,757	-	133,818	2,397	373	24,110	26,880
2017.....	7,938	1,772	111,604	-	121,314	1,969	295	20,056	22,320
2018.....	7,514	1,675	98,759	-	107,948	835	279	17,301	18,415
2019.....	3,517	785	79,321	-	83,623	586	228	133,912	134,726
2020 - 2024.....	15,147	3,384	141,934	-	160,465	2,379	770	6,170	9,319
2025 - 2029.....	4,144	926	65,249	-	70,319	1,511	116	1,555	3,182
2030 - 2034.....	10	2	47,823	-	47,835	-	-	-	-
2034 - 2038.....	-	-	6,399	-	6,399	-	-	-	-
2040 - 2044.....	-	-	6,316	-	6,316	-	-	-	-
Total lease obligations.....	55,878	12,475	860,742	579	929,674	14,529	2,558	228,777	245,864
Less: current portion.....	(9,383)	(2,095)	(179,580)	(579)	(191,637)	(4,852)	(497)	(25,673)	(31,022)
Long - term lease obligations....	\$ 46,495	\$ 10,380	\$ 681,162	\$ -	\$ 738,037	\$ 9,677	\$ 2,061	\$ 203,104	\$ 214,842

Capital assets acquired under capital lease (amounts in thousands):

Asset type:	Primary Government	
	Governmental Activities	Business-type Activities
Buildings.....	\$ -	\$ 12,298
Machinery and equipment.....	71,934	70,682
Total assets.....	71,934	82,980
Less: accumulated depreciation.....	(15,988)	(67,236)
Total.....	\$ 55,946	\$ 15,744

11. COMMITMENTS

A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2014, totaling approximately \$297 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, 2014, the University of Massachusetts Building Authority has approximately \$2.478 billion, of outstanding debt, of which approximately \$126 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.031 billion of outstanding debt, of which approximately \$32 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, 2014, the Commonwealth had commitments of approximately \$489 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 MassDOT) 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 universities 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 commitments and New Program commitments at June 30, 2014 to be \$23 million and \$1.1 billion, respectively.

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. The Commonwealth records a liability 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. A short term liability of approximately \$33 million is recorded based on; 1) historical payments made and 2) actual claims settled and to be paid prior to June 30, 2015.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2014 is estimated to be \$273 million of which approximately \$39 million is expected to be paid during FY15.

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 FY14 totaled approximately \$99 million. 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.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may have been affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. Those additional state costs cannot be fully estimated at this time.

A. TOBACCO SETTLEMENT

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. Several additional tobacco companies have joined the MSA and are bound by its terms. 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 FY14, the Commonwealth received approximately \$282 million or 76.2% of the estimated amounts shown in the MSA. During FY14, 20.0% of tobacco settlement payments, or approximately \$56 million, was deposited in the State Retiree Benefits Trust (SRBT) to fund the Commonwealth's liability for retiree health care, with the remainder deposited in the General Fund. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase by 10.0% per year until it reaches 100% in FY23. While fiscal 2012 legislation required that 30% of fiscal 2015 tobacco settlement proceeds be transferred to SRBT, the fiscal 2015 budget, as approved by the Governor on July 15, 2014, included provisions that temporarily changed the funding source for this transfer for fiscal 2014. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the SRBT, up to 30% of the value of fiscal 2015 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 30% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 30% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the SRBT. Amounts received in FY14 continued to be less than had previously been projected as payments under the MSA, primarily because the payment amounts are related to national tobacco sales volumes, which have continued to decline since the settlement. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is \$8.96 billion, which is 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, from FY06 to the present, certain manufacturers have withheld portions of the payments due to the states. 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 any 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, minus an offset for amounts received by the attorneys from the tobacco companies pursuant to an arbitration award. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2014, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

B. WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES

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

Based on actuarial calculations as of June 30 2014, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$273 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 282,694	\$ 276,132
Increase in liability estimate.....	43,035	58,354
Payments and decreases in liability estimate.....	<u>(52,297)</u>	<u>(51,792)</u>
Claims liability, end of year.....	<u>\$ 273,432</u>	<u>\$ 282,694</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 \$141 million, net of the employees' reserve of \$98 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 96,356	\$ 92,176
Increase in liability estimate.....	1,403,590	1,282,661
Payments and decreases in liability estimate.....	<u>(1,402,925)</u>	<u>(1,278,481)</u>
Claims liability, end of year.....	<u>\$ 97,021</u>	<u>\$ 96,356</u>

C. OTHER CLAIMS & JUDGMENTS

The following amounts were recognized for claims and judgments in FY14 and FY13 (amounts in thousands):

	FY14	FY13
Unpaid claims, beginning of year.....	\$ 12,831	\$ 40,000
Incurring claims.....	36,137	9,002
Claim payments and reductions.....	(13,265)	(36,171)
Unpaid claims end of year.....	\$ 35,703	\$ 12,831

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 continual 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.....	\$ 230,784	\$ 1,467	\$ 232,251
Expected additional future outlays, changes in liability estimates.	(5,627)	-	(5,627)
FY14 outlays for environmental remediation	<u>(7,811)</u>	<u>(20)</u>	<u>(7,831)</u>
Environmental remediation liability, end of year.....	<u>\$ 217,346</u>	<u>\$ 1,447</u>	<u>\$ 218,793</u>

Massachusetts Military Reservation. The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are 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. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

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 all 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.

E. SOCIAL IMPACT BONDS

In January 2014, the Commonwealth entered into a "pay for success contract" (Social Impact Bonds) with a nonprofit intermediary organization and a nonprofit social service agency to reduce the re-recidivism rate of young men in the juvenile justice system or on probation. The Commonwealth is obligated to make success payments totaling \$27 million through calendar year 2019 and the Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged. Payments are only made based upon successful achievement of specified outcomes based on defined performance targets contained in the contract. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. As the amount required to be paid as of June 30, 2014 cannot be determined until performance targets have been achieved as determined by an independent evaluator, no liability has been accrued in these financial statements for this contract.

13. 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 40 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, 2013 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 Massachusetts Department of Transportation (MassDOT)
The Massachusetts Clean Water Trust
Commonwealth Health Insurance Connector Authority
*§The Massachusetts Municipal Depository Trust (MMDT)

***Community Colleges:**

Greenfield Community College
Middlesex Community College
North Shore Community College

Entities Audited by Other Auditors:

*The University of Massachusetts System
*Community Colleges (in addition to the three Community Colleges audited by KPMG LLP, above):

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Holyoke Community College
Massasoit Community College
Massachusetts Bay Community College
Mount Wachusett Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

***State Universities**

Bridgewater State University
Fitchburg State University
Framingham State University
Massachusetts College of Art
Massachusetts Maritime Academy
Massachusetts College of Liberal Arts
Salem State University
Westfield State University
Worcester State University
The Massachusetts State College Building Authority

Massachusetts Convention Center Authority (MCCA)

Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Massachusetts Clean Energy Center (CEC)

Massachusetts Housing Partnership (MHP)

Economic Development Entities (5 separate entities) including:

Massachusetts Growth Capital Corporation (MGCC)
Commonwealth Corporation
Community Economic Development Assistance Corporation (CEDAC)
§Massachusetts Life Sciences Center
Commonwealth Zoological Corporation (Zoo)

Higher Education Foundations (25 separate entities) including:

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.

Bridgewater State University Foundation:

The Bridgewater State University Foundation
The Bridgewater Alumni Association of Bridgewater State University

Fitchburg State University Foundation, Inc.
Framingham State University Foundation, Inc.
Massachusetts College of Art Foundation, Inc.
Massachusetts College of Liberal Arts Foundation, Inc.
The Massachusetts Maritime Academy Foundation, Inc.

Salem State University Foundation:

The Salem State University Foundation, Inc.
Salem State University Assistance Corporation

Westfield State University Foundation, Inc.
Worcester State Foundation

The University of Massachusetts System Foundation

14. SUBSEQUENT EVENTS

SUBSEQUENT BOND ISSUANCES

On July 2, 2014, the Commonwealth issued \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 7. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2017 and final maturity on July 1, 2024.

On July 2, 2014, the Commonwealth issued approximately \$28 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 8. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2016 and final maturity on July 1, 2023.

On July 10, 2014, the Commonwealth issued \$450 million in General Obligation Bonds, Consolidated Loan of 2014, Series C. These bonds carry interest rates from 3.00% to 5.00% with the first payment due July 1, 2022 and final maturity on July 1, 2031.

On July 17, 2014, the MSBA issued \$300 million 2014 Series A Subordinated Dedicated Sales Tax Bond Anticipation Notes plus approximately \$8.9 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the Notes range from approximately 1.0% to 5.0% with interest payable at maturity on July 16, 2015.

On August 1, 2014, the Commonwealth issued approximately \$10 million in General Obligation Bonds, Consolidated Loan of 2014 (College Opportunity Bonds), Series A. These bonds carry an interest rate of 0.50% with the first principal payment due on August 1, 2019 and final maturity on August 1, 2034.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-1 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.20% or 20 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the first principal payment due on August 1, 2038 and final maturity on August 1, 2043.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-2 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.30% or 30 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the principal payment and final maturity due on August 1, 2017.

On August 13, 2014, the Commonwealth issued approximately \$44 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 9. These bonds carry interest rates from 2.00% to 5.00% with the first payment due August 1, 2017 and final maturity on August 1, 2024.

On September 24, 2014, the Commonwealth issued approximately \$429 million in General Obligation Refunding Bonds 2014 Series C. These bonds were issued to advance refund approximately \$453 million of various General Obligation Bonds and carry interest rates from 1.25% to 5.00% with final maturity on August 1, 2025. The refunding resulted in reduced debt service principal of approximately \$24 million and a present value savings of approximately \$38 million over the life of the bonds.

On September 24, 2014, the Commonwealth issued \$350 million in General Obligation Bonds, Consolidated Loan of 2014, Series E (Green Bonds). These bonds carry interest rates from 2.00% to 5.00% with the first payment due on September 1, 2019 with final maturity on September 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$500 million in General Obligation Bonds, Consolidated Loan of 2014, Series F. These bonds carry interest rates from 3.00% to 5.00% with the first payment due November 1, 2023 and final maturity on November 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series G (Federally Taxable). These bonds carry interest rates from 0.25% to 1.85% with the first payment due November 1, 2015 and final maturity on November 1, 2019.

On November 5, 2014, the Commonwealth issued approximately \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 10. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2017 and final maturity on November 1, 2024.

On November 5, 2014, the Commonwealth issued approximately \$6 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 11. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2016 and final maturity on November 1, 2023.

On December 3, 2014, the Commonwealth issued approximately \$35 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 12. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2017 and final maturity on December 1, 2024.

On December 3, 2014, the Commonwealth issued approximately \$5 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 13. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2016 and final maturity on December 1, 2023.

On December 10, 2014, the Commonwealth issued approximately \$347 million in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2014 Series A. These notes carry interest rates from 2.00% to 5.00% with the first payment due June 15, 2016 and final maturity on June 15, 2027.

On December 16, 2014, the Commonwealth issued approximately \$100 million in Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2014 Series A. This bond carries an interest rate of 5.00%. The Commonwealth will pay interest only starting on June 1, 2015 with the principal payment due on June 1, 2044.

All debt issues were sold as tax exempt.



THIS PAGE LEFT INTENTIONALLY BLANK

Required Supplementary Information Other Than Management Discussion and Analysis

(Unaudited)



Covered Bridge at Governor's Academy - Byfield

Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual – General Fund

Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for the General Fund on a Budgetary Basis and GAAP Basis

Notes to Required Supplementary Information – Budgetary Reporting

Required Pension Schedules

Schedule of Revenues, Expenditures and Changes In Fund Balances - Statutory Basis - Budget and Actual

General Fund

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 20,077,700	\$ 20,077,700	\$ 20,540,602	\$ 462,902
Assessments.....	458,634	458,634	439,998	(18,636)
Federal grants and reimbursements.....	8,777,590	8,777,590	8,366,140	(411,450)
Tobacco settlement revenue.....	253,628	253,628	282,049	28,421
Departmental.....	2,069,011	2,069,011	2,511,712	442,701
Miscellaneous.....	256,544	256,544	262,227	5,683
Total revenues.....	31,893,107	31,893,107	32,402,728	509,621
Other financing sources:				
Fringe benefit cost recovery.....	294,051	294,051	310,559	16,508
Lottery reimbursements.....	91,216	91,216	95,891	4,675
Lottery distributions.....	946,917	946,917	921,730	(25,187)
Operating transfers in.....	249,706	249,706	241,225	(8,481)
Stabilization transfer.....	508,000	508,000	1,231,336	723,336
Total other financing sources.....	2,089,890	2,089,890	2,800,741	710,851
Total revenues and other financing sources.....	33,982,997	33,982,997	35,203,469	1,220,472
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	74,274	74,274	56,299	17,975
Judiciary.....	780,288	822,826	814,129	8,697
Inspector General.....	3,745	6,251	6,162	89
Governor and Lieutenant Governor.....	9,024	9,338	5,144	4,194
Secretary of the Commonwealth.....	44,490	44,932	44,339	593
Treasurer and Receiver-General.....	1,071,200	236,874	203,358	33,516
Auditor of the Commonwealth.....	17,624	17,624	17,536	88
Attorney General.....	40,775	44,678	43,028	1,650
Ethics Commission.....	1,922	1,922	1,904	18
District Attorney.....	102,648	106,090	105,962	128
Office of Campaign & Political Finance.....	1,408	1,408	1,370	38
Sheriff's Departments.....	482,822	567,569	552,978	14,591
Disabled Persons Protection Commission.....	2,413	2,413	2,412	1
Board of Library Commissioners.....	22,241	22,241	22,184	57
Comptroller.....	8,544	13,249	12,811	438
Administration and finance.....	2,812,963	2,240,131	2,128,733	111,398
Energy and environmental affairs.....	184,115	210,220	202,266	7,954
Health and human services.....	16,904,766	5,216,338	5,070,536	145,802
Executive office of education.....	6,458,160	2,111,262	2,077,838	33,424
Center for Health Information and Analysis.....	26,668	32,193	23,706	8,487
Public safety and homeland security.....	940,357	1,088,751	1,088,751	29,976
Housing and economic development.....	443,124	522,176	499,814	22,362
Labor and workforce development.....	50,312	71,724	41,437	30,287
Direct local aid.....	-	5,294,063	5,292,467	1,596
Medicaid.....	-	12,116,397	11,900,776	215,621
Post employment benefits.....	-	2,050,361	2,050,361	-
Debt service:				
Principal retirement.....	643,059	649,277	631,610	17,667
Interest and fiscal charges.....	436,371	436,371	428,601	7,770
Total expenditures.....	31,563,312	34,010,953	33,296,536	714,417
Other financing uses:				
Operating transfers out.....	2,268,439	8,922	76,727	(67,805)
State Retiree Benefits transfer.....	-	-	29,619	(29,619)
State Pension transfer.....	-	-	2,273	(2,273)
Commonwealth care transfer.....	340,079	340,079	390,079	(50,000)
Medical assistance transfer.....	394,000	620,025	395,025	225,000
Stabilization transfer.....	364,700	401,700	1,231,336	(829,636)
Delivery system transformation initiatives trust transfer.....	93,449	93,449	70,732	22,717
Other fund deficit support.....	-	-	148,019	(148,019)
Total other financing uses.....	3,460,667	1,464,175	2,343,810	(879,635)
Total expenditures and other financing uses.....	35,023,979	35,475,128	35,640,346	(165,218)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	807,095	(1,492,131)	(436,877)	1,055,254
Fund balances (deficit) at beginning of year.....	1,839,670	1,839,670	1,839,670	-
Fund balances (deficits) at end of year.....	\$ 2,646,765	\$ 347,539	\$ 1,402,793	\$ 1,055,254

See Independent Auditor's Report and notes to required supplementary information

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

	<u>General</u>
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 32,402,728
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue.....	127,302
Federal reimbursements and other receivables.....	228,192
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(166,665)
Inflows from component units and other miscellaneous financing sources.....	17
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 32,591,574</u>
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 33,296,536
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	255,600
Compensated absences and other accrued liabilities.....	28,589
Reclassifications:	
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	4,546
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.....	(1,060,211)
Higher education expenditures are reclassified for GAAP reporting.....	(1,225,327)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 31,299,733</u>
OTHER FINANCING SOURCES	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,800,741
Adjustments:	
Consolidation of transfers between funds.....	(1,277,477)
Inflows from component units and other miscellaneous financing sources.....	10,571
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 1,533,835</u>
OTHER FINANCING USES	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,343,810
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(1,234,814)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,058,662
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	(4,546)
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.....	1,060,211
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 3,223,323</u>

See Independent Auditor's Report and notes to required supplementary information

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. Generally, expenditures may not exceed the level of spending authorized for an appropriation account.

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.

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 below summarizes budgetary activity for FY14 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 38 of the Acts of 2013:		
Direct appropriations.....	\$ 33,858,500	\$ 33,526,507
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2013.....	-	1,239,494
Total original budget.....	<u>33,858,500</u>	<u>34,766,001</u>
Supplemental Acts of 2013:		
Chapter 118.....	-	175,521
Supplemental Acts of 2014:		
Chapter 52.....	-	258,911
Chapter 62.....	-	450
Chapter 70.....	-	600
Chapter 119.....	-	144,679
Chapter 295.....	-	1,853
Chapter 359.....	-	38,000
Total budgeted revenues and expenditures per Legislative action.....	-	620,014
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending.....	<u>2,033,983</u>	<u>2,109,723</u>
Budgeted revenues and expenditures as reported.....	<u>\$ 35,892,483</u>	<u>\$ 37,495,738</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.

Schedule of Funding Progress

(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, 2014....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
Actuarial Valuation as of January 1, 2013....	20,317,389	29,385,442	9,068,053	69.1%	5,183,195	175.0%
Actuarial Valuation as of January 1, 2012....	20,507,644	27,784,731	7,277,087	73.8%	4,922,388	147.8%
Actuarial Valuation as of January 1, 2011....	21,244,900	26,224,776	4,979,876	81.0%	4,808,250	103.6%
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%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2014....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%
Actuarial Valuation as of January 1, 2013....	21,787,470	39,135,218	17,347,748	55.7%	5,783,294	300.0%
Actuarial Valuation as of January 1, 2012....	22,141,475	36,483,027	14,341,552	60.7%	5,655,353	253.6%
Actuarial Valuation as of January 1, 2011....	23,117,952	34,890,991	11,773,039	66.3%	5,558,311	211.8%
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%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2014commonwealth.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 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
Actuarial Valuation as of January 1, 2014....	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%
Actuarial Valuation as of January 1, 2013....	406,700	15,784,100	15,377,400	2.6%	5,183,195	296.7%
Actuarial Valuation as of January 1, 2012....	360,500	16,659,400	16,298,900	2.2%	4,922,388	331.1%
Actuarial Valuation as of January 1, 2011....	350,500	16,568,600	16,218,100	2.1%	4,808,250	337.3%
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%

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.

See Independent Auditor's Report

Schedule of Employer and Non-Employer Contributions

(Amounts in thousands except for percentages)

Retirement System	Fiscal Year Ended June 30,	Actuarially Determined Contribution	Amount Contributed	Percentage Contributed	Covered Employee Payroll	Contribution as a Percentage of Payroll
State Employees' Retirement System	2014	\$ 718,909	\$ 573,428	79.8%	\$ 5,344,510	10.7%
	2013	699,962	545,453	77.9%	5,183,195	10.5%
	2012	620,274	518,918	83.7%	4,922,388	10.5%
	2011	471,096	431,166	91.5%	4,808,250	9.0%
	2010	646,932	410,682	63.5%	4,711,563	8.7%
	2009	697,340	397,482	57.0%	4,712,655	8.4%
	2008	369,866	460,788	124.6%	4,574,233	10.1%
	2007	432,219	435,610	100.8%	4,391,891	9.9%
	2006	445,527	425,751	95.6%	4,200,577	10.1%
	2005	390,867	415,296	106.2%	3,967,000	10.5%
Teachers' Retirement System	2014	\$ 1,158,461	\$ 935,936	80.8%	\$ 5,962,650	15.7%
	2013	1,104,486	891,580	80.7%	5,783,294	15.4%
	2012	941,918	849,496	90.2%	5,655,353	15.0%
	2011	767,960	855,201	111.4%	5,558,311	15.4%
	2010	1,106,052	690,397	62.4%	5,509,698	12.5%
	2009	1,149,629	781,026	67.9%	5,389,895	14.5%
	2008	749,853	809,000	107.9%	5,163,498	15.7%
	2007	763,798	747,000	97.8%	4,969,092	15.0%
	2006	779,158	727,000	93.3%	4,819,325	15.1%
	2005	699,722	682,000	97.5%	4,643,000	14.7%

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Retiree Benefits Trust (SRBT) for each of the past six fiscal years.

	Annual Required Contribution	Percentage Contributed
2014	\$ 1,251,000	48.6%
2013	1,251,000	46.8%
2012	1,286,000	43.4%
2011	1,276,000	43.7%
2010	1,163,000	32.0%
2009	1,222,000	28.8%

See Independent Auditor's Report

**Schedule of Changes in the State Employees' Retirement
System (SERS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 29,918,000
Service cost.....	677,845
Interest.....	2,320,439
Differences between expected and actual experience.....	161,731
Changes of assumptions.....	102,000
Benefit payments, including refunds of member contributions.....	<u>(1,825,015)</u>
Net change in total pension liability.....	<u>1,437,000</u>
Total pension liability, June 30 (a).....	<u>\$ 31,355,000</u>
Plan fiduciary net position, July 1.....	\$ 21,084,958
Contributions:	
Employers.....	593,932
Plan members.....	501,106
Other additions.....	<u>49,115</u>
Total contributions.....	1,144,153
Net investment income.....	3,562,856
Benefit payments, including refunds of plan member contributions.....	(1,825,015)
Administrative expense.....	<u>(36,057)</u>
Net change in plan fiduciary net position.....	<u>2,845,937</u>
Plan fiduciary net position, June 30 (b).....	<u>\$ 23,930,895</u>
Plan net pension liability/(asset) - June 30 (a) - (b).....	<u>\$ 7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability.....	76.3%
Covered employee payroll.....	\$ 5,344,510
Net pension liability/(asset) as a percentage of covered employee payroll.....	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

NOTES TO THE SERS SCHEDULE

Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%

Salary increases..... 3.5% for 2013, 3.75% for 2014 and 4.0% for 2015. After 2015, salary increase are from 4.0% to 9.0%, depending on group and years of service.

Investment rate of return..... 8.0%

Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct)
Post-retirement mortality reflects RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

**Schedule of Changes in the Massachusetts Teachers' Retirement
System (MTRS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 39,952,000
Service cost.....	747,049
Interest.....	3,094,091
Differences between expected and actual experience.....	85,597
Changes of assumptions.....	108,000
Benefit payments, including refunds of member contributions.....	<u>(2,551,737)</u>
Net change in total pension liability.....	<u>1,483,000</u>
Total pension liability, June 30 (a).....	<u>\$ 41,435,000</u>
Plan fiduciary net position, July 1.....	\$ 22,697,302
Contributions:	
Employers.....	1,035,418
Plan members.....	653,328
Other additions.....	<u>73,659</u>
Total contributions.....	1,762,405
Net investment income.....	3,771,883
Benefit payments, including refunds of plan member contributions.....	(2,551,737)
Administrative expense.....	(41,675)
Other changes.....	<u>(99,532)</u>
Net change in plan fiduciary net position.....	<u>2,841,344</u>
Plan fiduciary net position, June 30 (b).....	<u>\$ 25,538,646</u>
Plan net pension liability/(asset) - June 30 (a) - (b).....	<u>\$ 15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability.....	61.6%
Covered employee payroll.....	\$ 5,962,650
Net pension liability/(asset) as a percentage of covered employee payroll.....	266.6%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

NOTES TO THE MTRS SCHEDULE

Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%

Salary increases..... 4.0% to 7.5% depending on length of service

Investment rate of return..... 8.0%

Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)

Post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

For disabled members, post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

Schedule of Investment Returns

	<u>2014</u>
Annual money-weighted rate of return net of investment expense - SERS.....	17.13%
Annual money-weighted rate of return net of investment expense - MTRS.....	17.12%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

Other Supplementary Information



Charlemont Bissell Bridge

Combining Balance Sheet – Nonmajor Governmental Funds

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

*Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis – Budget
and Actual – Other Budgeted Nonmajor Governmental Funds*

Combining Budget to GAAP Reconciliation – Other Budgeted Nonmajor Governmental Funds

Combining Statement of Net Position Available for Pension Benefits

Combining Statement of Changes in Net Position Available for Pension Benefits

Combining Statement of Net Position Held in Trust for Pool Participants

Combining Statement of Changes in Net Position Held in Trust for Pool Participants

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Combining Statement of Net Position – Nonmajor Component Units

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

Combining Balance Sheet

Other Governmental Funds

June 30, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
ASSETS								
Cash and short-term investments.....	\$ 608	\$ -	\$ 272,094	\$ 21,086	\$ 1,376	\$ 21,250	\$ -	\$ 30
Cash with fiscal agent.....	14,384	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	64,125	-	14,251	84	5,242	-	-	-
Due from federal government.....	-	324,277	-	735	-	-	-	-
Loans receivable.....	-	-	-	-	-	-	-	-
Other receivables.....	2,372	-	154,860	199	-	-	-	-
Due from other funds.....	-	-	-	-	-	-	-	-
Total assets.....	\$ 81,489	\$ 324,277	\$ 441,205	\$ 22,104	\$ 6,618	\$ 21,250	\$ -	\$ 30
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable.....	\$ 608	\$ 208,942	\$ 14,340	\$ 895	\$ 1,279	\$ -	\$ 1,143	\$ 30
Accrued payroll.....	-	10,767	297	359	77	-	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-	-
Due to other funds.....	-	25,716	-	-	-	-	7,182	-
Due to component units.....	5,602	-	34,174	-	-	-	-	-
Other accrued liabilities.....	-	-	78,462	-	-	-	-	-
Total liabilities.....	6,210	245,425	127,273	1,254	1,356	-	8,325	30
Deferred inflows of resources.....	-	-	61,136	-	-	-	-	-
Total liabilities and deferred inflows of resources.....	6,210	245,425	188,409	1,254	1,356	-	8,325	30
Fund balances:								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	-	78,852	-	-	-	-	-	-
Committed.....	75,279	-	252,796	20,850	5,262	-	-	-
Assigned.....	-	-	-	-	-	21,250	-	-
Unassigned (deficits).....	-	-	-	-	-	-	(8,325)	-
Fund balances (deficits).....	75,279	78,852	252,796	20,850	5,262	21,250	(8,325)	-
Total liabilities and fund balances.....	\$ 81,489	\$ 324,277	\$ 441,205	\$ 22,104	\$ 6,618	\$ 21,250	\$ -	\$ 30

See Independent Auditor's Report

Special Revenue									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ 778	\$ 23,407	\$ 19,705	\$ 74,513	\$ 23,902	\$ 8,702	\$ 2,949	\$ 122,876	\$ 18,552	\$ 5,629
-	-	-	-	-	-	-	-	-	-
-	-	-	55,068	-	-	-	-	-	-
-	-	-	-	-	267	-	-	-	10,192
-	-	1,116	-	-	-	-	-	-	-
-	72	-	-	11,390	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
\$ 778	\$ 23,479	\$ 20,821	\$ 129,581	\$ 35,292	\$ 8,969	\$ 2,949	\$ 122,876	\$ 18,552	\$ 15,821
\$ -	\$ 1,531	\$ 56	\$ 41,968	\$ 36,136	\$ 425	\$ 119	\$ 17,565	\$ 642	\$ 9,810
758	160	-	-	-	6	300	142	3	9
-	-	-	174	-	-	-	-	-	-
-	-	-	87,439	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
758	1,691	56	129,581	36,136	431	419	17,707	645	9,819
-	-	-	-	-	-	-	-	-	-
758	1,691	56	129,581	36,136	431	419	17,707	645	9,819
-	-	1,116	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
20	21,788	19,649	-	-	8,538	2,530	105,169	17,907	6,002
-	-	-	-	-	-	-	-	-	-
-	-	-	-	(844)	-	-	-	-	-
20	21,788	20,765	-	(844)	8,538	2,530	105,169	17,907	6,002
\$ 778	\$ 23,479	\$ 20,821	\$ 129,581	\$ 35,292	\$ 8,969	\$ 2,949	\$ 122,876	\$ 18,552	\$ 15,821

continued

Combining Balance Sheet

Other Governmental Funds

June 30, 2014

(Amounts in thousands)

	Special Revenue						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
ASSETS							
Cash and short-term investments.....	\$ 8,426	\$ 9,811	\$ 45,345	\$ 36,401	\$ 38,544	\$ 7,534	\$ 41,578
Cash with fiscal agent.....	-	-	-	-	-	-	76,542
Receivables, net of allowance for uncollectibles:							
Taxes.....	-	-	-	6,048	-	-	14,508
Due from federal government.....	-	-	-	-	3,956	-	-
Loans receivable.....	-	-	-	-	-	-	-
Other receivables.....	-	-	-	-	3,379	18,238	-
Due from other funds.....	-	-	-	-	-	-	-
Total assets.....	\$ 8,426	\$ 9,811	\$ 45,345	\$ 42,449	\$ 45,879	\$ 25,772	\$ 132,628
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable.....	\$ 57	\$ 898	\$ 4,617	\$ 11,862	\$ 4,436	\$ -	\$ 14,917
Accrued payroll.....	-	-	66	17	310	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-
Due to other funds.....	-	-	-	-	-	-	-
Due to component units.....	-	-	-	-	-	-	-
Other accrued liabilities.....	-	-	-	-	-	-	-
Total liabilities.....	57	898	4,683	11,879	4,746	-	14,917
Deferred inflows of resources.....	-	-	-	-	-	-	-
Total liabilities and deferred inflows of resources.....	57	898	4,683	11,879	4,746	-	14,917
Fund balance:							
Nonspendable.....	-	-	-	-	-	-	-
Restricted.....	8,369	-	-	-	41,133	-	-
Committed.....	-	8,913	40,662	30,570	-	25,772	117,711
Assigned.....	-	-	-	-	-	-	-
Unassigned (deficits).....	-	-	-	-	-	-	-
Fund balances (deficits).....	8,369	8,913	40,662	30,570	41,133	25,772	117,711
Total liabilities and fund balances.....	\$ 8,426	\$ 9,811	\$ 45,345	\$ 42,449	\$ 45,879	\$ 25,772	\$ 132,628

See Independent Auditor's Report

Grant Anticipation Note Trust	Special Revenue			Debt Service	Capital Projects					Total
	Expendable Trust	Other			General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	
\$ 14,389	\$ 523,630	\$ 48,092	\$ -	\$ -	\$ 8,393	\$ -	\$ 9,555	\$ -	\$ 1,409,155	
204,494	-	-	11,951	-	-	-	-	-	307,371	
-	-	-	-	-	-	-	-	-	159,326	
80,348	840	400	-	4,717	-	-	142	-	425,874	
-	914	-	-	-	-	-	-	-	2,030	
-	6,968	84	-	-	-	-	18	-	197,580	
-	-	-	-	-	-	-	80,348	-	80,348	
\$ 299,231	\$ 532,352	\$ 48,576	\$ 11,951	\$ 4,717	\$ 8,393	\$ -	\$ 90,063	\$ -	\$ 2,581,684	
\$ -	\$ 52,895	\$ 7,732	\$ -	\$ 293,847	\$ -	\$ -	\$ -	\$ 1	\$ 726,751	
-	2,822	1,096	-	2,479	-	-	-	-	19,668	
-	-	-	-	-	-	-	-	-	174	
80,348	-	-	-	248,531	-	251,633	-	164	613,574	
-	-	-	-	16,629	-	232,433	96,877	-	473,154	
-	-	-	-	-	-	-	-	-	78,462	
80,348	55,717	8,828	-	561,486	-	484,066	96,877	165	1,911,783	
-	-	-	-	-	-	-	-	-	61,136	
80,348	55,717	8,828	-	561,486	-	484,066	96,877	165	1,972,919	
-	-	-	-	-	-	-	-	-	1,116	
218,883	317,757	-	11,951	-	-	-	-	-	676,945	
-	158,878	74,781	-	-	8,393	-	-	-	1,001,470	
-	-	-	-	-	-	-	-	-	21,250	
-	-	(35,033)	-	(556,769)	-	(484,066)	(6,814)	(165)	(1,092,016)	
218,883	476,635	39,748	11,951	(556,769)	8,393	(484,066)	(6,814)	(165)	608,765	
\$ 299,231	\$ 532,352	\$ 48,576	\$ 11,951	\$ 4,717	\$ 8,393	\$ -	\$ 90,063	\$ -	\$ 2,581,684	

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
REVENUES								
Taxes.....	\$ 1,215,075	\$ -	\$ 163,293	\$ 972	\$ 48,854	\$ -	\$ -	\$ -
Assessments.....	23,133	-	403,813	-	-	-	-	-
Federal grants and reimbursements.....	-	3,729,503	77,407	6,060	-	-	-	-
Departmental.....	522,409	-	304,291	8,564	-	-	-	-
Miscellaneous.....	3,629	1,273	79,727	40	-	-	-	-
Total revenues.....	1,764,246	3,730,776	1,028,531	15,636	48,854	-	-	-
OTHER FINANCING SOURCES								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	112,759	3,923	1,047,631	179	113	21,250	375	13,583
Total other financing sources.....	112,759	3,923	1,047,631	179	113	21,250	375	13,583
Total revenues and other financing sources.....	1,877,005	3,734,699	2,076,162	15,815	48,967	21,250	375	13,583
EXPENDITURES								
Current:								
Judiciary.....	-	1,215	-	-	-	-	-	-
Inspector General.....	-	-	12	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	17	-	-	-
Secretary of the Commonwealth.....	-	916	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	1,044	-	-	-	-	-	-
Attorney General.....	-	9,559	-	-	-	-	-	-
District Attorney.....	-	1,850	-	-	-	-	-	-
Sheriff's Departments.....	-	3,437	-	-	-	-	-	-
Board of Library Commissioners.....	-	2,939	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-	-
Administration and Finance.....	125,000	10,731	12,612	118	-	-	-	-
Energy and Environmental Affairs.....	-	40,106	-	14,152	-	-	-	-
Health and Human Services.....	-	1,807,561	37,342	-	-	-	-	-
Massachusetts Department of Transportation.....	586,382	446	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	1,008,560	-	-	-	-	8,700	0
Massachusetts School Building Assistance.....	-	676	593	-	-	-	-	-
Public Safety and Homeland Security.....	-	143,236	-	-	-	-	-	-
Housing and Economic Development.....	-	460,108	-	-	25,182	-	-	9,729
Labor and Workforce development.....	-	146,762	29,829	-	-	-	-	2,000
Medicaid.....	-	-	1,776,579	-	-	-	-	-
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-	-
Total expenditures.....	711,382	3,639,146	1,856,967	14,270	25,199	-	8,700	11,729
OTHER FINANCING USES								
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-	-
Transfers out.....	40,483	94,999	189,313	2,150	23,442	-	-	272
Transfers of appropriations.....	-	-	-	-	-	-	-	1,582
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	1,073,217	-	-	-	-	-	-	-
Total other financing uses.....	1,113,700	94,999	189,313	2,150	23,442	-	-	1,854
Total expenditures and other financing uses.....	1,825,082	3,734,145	2,046,280	16,420	48,641	-	8,700	13,583
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses...	51,923	554	29,882	(605)	326	21,250	(8,325)	-
Fund balances (deficits) at beginning of year.....	23,356	78,298	222,914	21,455	4,936	-	-	-
Fund balances (deficits) at end of year.....	\$ 75,279	\$ 78,852	\$ 252,796	\$ 20,850	\$ 5,262	\$ 21,250	\$ (8,325)	\$ -

See Independent Auditor's Report

Special Revenue									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ -	\$ -	\$ -	\$ 802,831	\$ 23,771	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	157,283	-	-	-	-	-	-
-	31,939	-	-	-	13,241	-	-	-	60,711
-	-	21,937	-	11,410	-	10,761	74,685	-	1,875
-	31,939	21,937	960,114	35,181	13,241	10,761	74,775	-	62,586
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
33,719	-	-	-	25,000	-	-	-	-	1,125
33,719	-	-	-	25,000	-	-	-	-	1,125
33,719	31,939	21,937	960,114	60,181	13,241	10,761	74,775	-	63,711
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	960,114	-	-	-	-	-	-
-	72	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	5,948	-	-
-	20,087	-	-	-	-	-	-	-	-
-	-	-	-	63,432	-	-	495	-	-
-	-	1,172	-	-	-	-	-	794	61,147
-	-	-	-	-	-	-	59	-	-
8,311	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	61,401	-	-
-	-	-	-	-	-	8,375	-	-	-
-	-	-	-	-	10,400	-	-	1,282	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
8,311	20,159	1,172	960,114	63,432	10,400	8,375	67,903	2,076	61,147
-	-	-	-	-	-	-	-	-	-
5,389	861	-	-	44	306	1,779	3,692	17	94
19,999	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
25,388	861	-	-	44	306	1,779	3,692	17	94
33,699	21,020	1,172	960,114	63,476	10,706	10,154	71,595	2,093	61,241
20	10,919	20,765	-	(3,295)	2,535	607	3,180	(2,093)	2,470
-	10,869	-	-	2,451	6,003	1,923	101,989	20,000	3,532
\$ 20	\$ 21,788	\$ 20,765	\$ -	\$ (844)	\$ 8,538	\$ 2,530	\$ 105,169	\$ 17,907	\$ 6,002

continued

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
REVENUES							
Taxes.....	\$ -	\$ -	\$ -	\$ 22,219	\$ -	\$ -	\$ 108,897
Assessments.....	-	-	-	-	-	11,548	-
Federal grants and reimbursements.....	46,617	-	-	-	35,969	-	-
Departmental.....	-	-	67,631	-	4,987	2,391	-
Miscellaneous.....	-	-	-	-	68	5	2,308
Total revenues.....	46,617	-	67,631	22,219	41,024	13,944	111,205
OTHER FINANCING SOURCES							
Bonds premium.....	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-
Transfers in.....	-	17,380	-	-	-	-	-
Total other financing sources.....	-	17,380	-	-	-	-	-
Total revenues and other financing sources.....	46,617	17,380	67,631	22,219	41,024	13,944	111,205
EXPENDITURES							
Current:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	33,747	-	-	-	315	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	220	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	49,444	-	49,685
Energy and Environmental Affairs.....	-	-	64,839	-	-	-	-
Health and Human Services.....	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	-	-	-	-	-	-
Massachusetts School Building Assistance.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-
Housing and Economic Development.....	-	8,467	-	-	-	-	-
Labor and Workforce development.....	-	-	-	14,889	40	-	-
Medicaid.....	-	-	-	-	-	-	-
Capital outlay:							
Local aid.....	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-
Total expenditures.....	33,747	8,467	64,839	14,889	50,019	-	49,685
OTHER FINANCING USES							
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-
Transfers out.....	12,791	-	-	162	1,456	21,878	-
Transfers of appropriations.....	-	-	-	-	-	-	-
Transfers of bond proceeds.....	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	-	-	36,722
Total other financing uses.....	12,791	-	-	162	1,456	21,878	36,722
Total expenditures and other financing uses.....	46,538	8,467	64,839	15,051	51,475	21,878	86,407
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	79	8,913	2,792	7,168	(10,451)	(7,934)	24,798
Fund balances (deficits) at beginning of year.....	8,290	-	37,870	23,402	51,584	33,706	92,913
Fund balances (deficits) at end of year.....	\$ 8,369	\$ 8,913	\$ 40,662	\$ 30,570	\$ 41,133	\$ 25,772	\$ 117,711

See Independent Auditor's Report

Special Revenue			Capital Projects						Total
Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ -	\$ -	\$ 515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,386,427
-	18,794	25,516	-	-	-	-	-	-	640,087
582,871	19,810	1,242	-	16,702	-	-	13,997	-	4,604,130
-	42,839	47,313	-	-	-	-	3,215	-	1,121,025
71	387,626	4,037	-	1,313	-	327	-	-	515,736
582,942	469,069	78,623	-	18,015	-	327	17,212	-	9,267,405
19,014	-	-	84,920	35,185	-	53,456	-	-	192,575
-	-	-	-	1,179,662	-	1,178,525	-	1,712	2,359,899
-	-	-	159,335	-	-	-	-	-	159,335
-	-	-	477,460	-	-	-	-	-	477,460
-	-	-	2,374,950	-	-	-	-	-	2,374,950
9,773	21,573	28,259	-	-	-	-	466,586	-	1,803,228
28,787	21,573	28,259	3,096,664	1,214,847	-	1,231,981	466,586	1,712	7,367,447
611,729	490,642	106,882	3,096,664	1,232,862	-	1,232,308	483,798	1,712	16,634,851
-	107	-	-	-	-	-	-	-	1,322
-	-	-	-	-	-	-	-	-	12
-	72	-	-	-	-	-	-	-	89
-	-	5,846	-	-	-	-	-	-	6,762
9,070	117,242	65	27	4,357	-	753	-	-	1,126,734
-	13,944	531	-	-	-	-	-	-	24,106
-	7,045	104	-	-	-	-	-	-	9,219
-	1,543	572	-	-	-	-	-	-	11,500
-	55	-	-	-	-	-	-	-	2,994
-	744	2,038	-	-	-	-	-	-	22,869
-	455	3,027	-	-	-	-	-	-	3,482
-	39,903	2,355	-	-	-	-	-	-	353,775
-	62,746	26,105	-	-	-	-	-	-	209,120
-	48,147	21,737	-	-	-	-	9	-	1,976,796
-	-	11	-	174,867	-	1,082,167	451,914	-	2,295,787
-	16,821	2,093	-	-	-	-	-	-	18,914
-	609	89	-	-	-	-	-	-	1,026,268
-	-	-	-	-	-	-	-	-	1,269
-	6,547	3,734	-	-	-	-	-	-	214,918
-	22,230	1,203	-	-	-	-	-	-	535,294
-	79,264	-	-	-	-	-	-	-	274,066
-	-	-	-	-	-	-	-	-	1,786,979
-	-	-	-	-	-	-	-	54	54
-	-	-	-	957,757	-	39,302	497	928	998,484
-	-	-	2,374,950	-	-	-	-	-	2,374,950
-	-	-	159,335	-	-	-	-	-	159,335
9,070	417,474	69,510	2,534,312	1,136,981	-	1,122,222	452,420	982	13,435,098
-	-	-	562,352	-	-	-	-	-	562,352
404,481	128,145	25,796	-	11,342	-	84,866	7,528	-	1,061,286
-	-	6	-	-	-	-	-	-	21,587
-	-	-	-	215,690	-	-	-	-	215,690
186,166	-	18,634	-	-	-	-	-	-	1,314,739
590,647	128,145	44,436	562,352	227,032	-	84,866	7,528	-	3,175,655
599,717	545,619	113,946	3,096,664	1,364,013	-	1,207,088	459,948	982	16,610,753
12,012	(54,977)	(7,064)	-	(131,151)	-	25,220	23,850	730	24,098
206,871	531,612	46,812	11,951	(425,618)	8,393	(509,286)	(30,664)	(895)	584,667
\$ 218,883	\$ 476,635	\$ 39,748	\$ 11,951	\$ (556,769)	\$ 8,393	\$ (484,066)	\$ (6,814)	\$ (165)	\$ 608,765

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ 1,217,400	\$ 1,217,400	\$ 1,231,994	\$ 14,594	\$ 900	\$ 900	\$ 962	\$ 62
Assessments.....	22,460	22,460	22,211	(249)	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	5,600	5,600	6,005	405
Departmental.....	523,795	523,795	522,364	(1,431)	8,638	8,638	8,487	(151)
Miscellaneous.....	1,410	1,410	2,430	1,020	28	28	40	12
Total revenues.....	<u>1,765,065</u>	<u>1,765,065</u>	<u>1,778,999</u>	<u>13,934</u>	<u>15,166</u>	<u>15,166</u>	<u>15,494</u>	<u>328</u>
Other financing sources:								
Operating transfers in.....	-	-	11,428	11,428	130	130	179	49
Other fund deficit support.....	-	-	102,495	102,495	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>113,923</u>	<u>113,923</u>	<u>130</u>	<u>130</u>	<u>179</u>	<u>49</u>
Total revenues and other financing sources.....	<u>1,765,065</u>	<u>1,765,065</u>	<u>1,892,922</u>	<u>127,857</u>	<u>15,296</u>	<u>15,296</u>	<u>15,673</u>	<u>377</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	177,981	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	118	118	-
Energy and Environmental Affairs.....	-	-	-	-	14,689	14,570	14,152	418
Massachusetts Department of Transportation.....	351,895	275,300	275,200	100	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	637,447	616,364	21,083	-	-	-	-
Interest and fiscal charges.....	-	470,315	456,853	13,462	-	-	-	-
Total expenditures.....	<u>529,877</u>	<u>1,383,062</u>	<u>1,348,417</u>	<u>34,645</u>	<u>14,689</u>	<u>14,688</u>	<u>14,270</u>	<u>418</u>
Other financing uses:								
Fringe benefit cost assessment.....	-	-	-	-	-	1,939	2,150	(211)
Operating transfers out.....	238,462	512,079	515,089	(3,010)	-	-	-	-
State Retiree Benefits transfer.....	-	-	29,064	(29,064)	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	<u>238,462</u>	<u>512,079</u>	<u>544,153</u>	<u>(32,074)</u>	<u>-</u>	<u>1,939</u>	<u>2,150</u>	<u>(211)</u>
Total expenditures and other financing uses.....	<u>768,339</u>	<u>1,895,141</u>	<u>1,892,570</u>	<u>2,571</u>	<u>14,689</u>	<u>16,627</u>	<u>16,420</u>	<u>207</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	996,726	(130,076)	352	130,428	607	(1,331)	(747)	584
Fund balances/(deficit) at beginning of year.....	-	14,032	14,032	-	-	20,579	20,579	-
Fund balances/(deficit) at end of year.....	<u>\$ 996,726</u>	<u>\$ (116,044)</u>	<u>\$ 14,384</u>	<u>\$ 130,428</u>	<u>\$ 607</u>	<u>\$ 19,248</u>	<u>\$ 19,832</u>	<u>\$ 584</u>

See Independent Auditor's Report

Massachusetts Tourism Fund				Local Capital Projects Fund				Local Aid Stabilization Fund			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ 46,000	\$ 46,000	\$ 48,472	\$ 2,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
46,000	46,000	48,472	2,472	-	-	-	-	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	825	(18,425)	8,750	8,750	375	(8,375)
-	-	-	-	-	-	20,425	20,425	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
48,625	48,625	48,585	(40)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
-	17	17	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	5	-	5	-	-	-	-	-	-	-	-
25,033	25,300	25,182	118	19,250	21,250	-	21,250	7,350	8,700	8,700	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
25,033	25,322	25,199	123	19,250	21,250	-	21,250	7,350	8,700	8,700	-
-	356	480	(124)	-	-	-	-	-	-	-	-
-	-	3,009	(3,009)	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	19,953	(19,953)	-	-	-	-	-	-	-	-
-	356	23,442	(23,086)	-	-	-	-	-	-	-	-
25,033	25,678	48,641	(22,963)	19,250	21,250	-	21,250	7,350	8,700	8,700	-
23,592	22,947	(56)	(23,003)	-	(2,000)	21,250	23,250	1,400	50	(8,325)	(8,375)
76	76	76	-	-	-	-	-	-	-	-	-
<u>\$ 23,668</u>	<u>\$ 23,023</u>	<u>\$ 20</u>	<u>\$ (23,003)</u>	<u>\$ -</u>	<u>\$ (2,000)</u>	<u>\$ 21,250</u>	<u>\$ 23,250</u>	<u>\$ 1,400</u>	<u>\$ 50</u>	<u>\$ (8,325)</u>	<u>\$ (8,375)</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Manufacturing Fund				Community College Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-	-
Departmental.....	-	-	-	-	-	-	-	-
Miscellaneous.....	-	-	-	-	-	-	-	-
Total revenues.....	-	-	-	-	-	-	-	-
Other financing sources:								
Operating transfers in.....	22,750	22,750	975	(21,775)	29,750	29,750	1,275	(28,475)
Other fund deficit support.....	-	-	12,608	12,608	-	-	32,444	32,444
Total other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
Total revenues and other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-	-
Administration and Finance.....	1,582	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-	-
Executive Office of Education.....	-	1,582	1,582	-	24,750	30,469	28,310	2,159
Housing and Economic Development.....	18,750	19,163	9,729	9,434	-	-	-	-
Labor and Workforce Development.....	2,000	2,000	2,000	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-	-
Total expenditures.....	22,332	22,745	13,311	9,434	24,750	30,469	28,310	2,159
Other financing uses:								
Fringe benefit cost assessment.....	-	-	272	(272)	-	-	5,389	(5,389)
Operating transfers out.....	-	-	-	-	-	-	-	-
State Retiree Benefits transfer.....	-	-	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	-	-	272	(272)	-	-	5,389	(5,389)
Total expenditures and other financing uses.....	22,332	22,745	13,583	9,162	24,750	30,469	33,699	(3,230)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	418	5	-	(5)	5,000	(719)	20	739
Fund balances/(deficit) at beginning of year.....	-	-	-	-	-	-	-	-
Fund balances/(deficit) at end of year.....	\$ 418	\$ 5	\$ -	\$ (5)	\$ 5,000	\$ (719)	\$ 20	\$ 739

See Independent Auditor's Report

Public Safety Trust Fund				Children and Families Protection Fund				Totals			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,264,300	\$ 1,264,300	\$ 1,281,428	\$ 17,128
-	-	-	-	-	-	-	-	22,460	22,460	22,211	(249)
-	-	-	-	-	-	-	-	5,600	5,600	6,005	405
-	-	568	568	-	-	1	1	532,433	532,433	531,420	(1,013)
-	-	-	-	-	-	-	-	1,438	1,438	2,470	1,032
-	-	568	568	-	-	1	1	1,826,231	1,826,231	1,843,534	17,303
-	-	-	-	-	-	-	-	83,255	83,255	15,170	(68,085)
-	-	-	-	-	-	-	-	-	-	167,972	167,972
-	-	-	-	-	-	-	-	83,255	83,255	183,142	99,887
-	-	568	568	-	-	1	1	1,909,486	1,909,486	2,026,676	117,190
-	-	-	-	-	-	-	-	-	17	17	-
-	-	-	-	-	-	-	-	177,981	-	-	-
-	-	-	-	-	-	-	-	1,582	118	118	-
-	-	-	-	-	-	-	-	14,689	14,570	14,152	418
-	-	-	-	-	-	-	-	351,895	275,305	275,200	105
-	-	-	-	-	-	-	-	32,100	40,751	38,592	2,159
-	-	-	-	-	-	-	-	63,033	65,713	34,911	30,802
-	-	-	-	-	-	-	-	2,000	2,000	2,000	-
-	-	-	-	-	-	-	-	-	637,447	616,364	21,083
-	-	-	-	-	-	-	-	-	470,315	456,853	13,462
-	-	-	-	-	-	-	-	643,280	1,506,236	1,438,207	68,029
-	-	-	-	-	-	-	-	-	2,295	8,291	(5,996)
-	-	-	-	-	-	1	(1)	238,462	512,079	518,099	(6,020)
-	-	-	-	-	-	-	-	-	-	29,064	(29,064)
-	-	-	-	-	-	-	-	-	-	19,953	(19,953)
-	-	-	-	-	-	1	(1)	238,462	514,374	575,407	(61,033)
-	-	-	-	-	-	1	(1)	881,743	2,020,610	2,013,614	6,996
-	-	568	568	-	-	-	-	1,027,743	(111,124)	13,062	124,186
-	-	-	-	-	-	-	-	76	34,687	34,687	-
\$ -	\$ -	\$ 568	\$ 568	\$ -	\$ -	\$ -	\$ -	\$ 1,027,819	\$ (76,437)	\$ 47,749	\$ 124,186

Combining Budget to GAAP Reconciliation
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Massachusetts Tourism Fund	Local Capital Projects Fund
Total actual revenues - budgetary basis (pages 142-145).....	\$ 1,778,999	\$ 15,494	\$ 48,472	\$ -
Adjustments:				
Taxes receivable, net.....	(16,919)	10	382	-
Federal grants and other receivables, net.....	2,166	132	-	-
Total actual revenues - GAAP basis (pages 138-141).....	<u>\$ 1,764,246</u>	<u>\$ 15,636</u>	<u>\$ 48,854</u>	<u>\$ -</u>
Total actual other financing sources - budgetary basis (page 142-145).....	\$ 113,923	\$ 179	\$ 113	\$ 21,250
MassDOT transfers in is reclassified to revenues.....	(1,164)	-	-	-
Total actual other financing sources - GAAP basis (pages 138-141).....	<u>\$ 112,759</u>	<u>\$ 179</u>	<u>\$ 113</u>	<u>\$ 21,250</u>
Total actual expenditures- budgetary basis (pages 142-145).....	\$ 1,348,417	\$ 14,270	\$ 25,199	\$ -
Adjustment:				
Due to component units accrual, net.....	(67,488)	-	-	-
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	503,670	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	(1,073,217)	-	-	-
Total actual expenditures - GAAP basis (pages 138-141).....	<u>\$ 711,382</u>	<u>\$ 14,270</u>	<u>\$ 25,199</u>	<u>\$ -</u>
Total actual other financing uses - budgetary basis (pages 142-145).....	\$ 544,153	\$ 2,150	\$ 23,442	\$ -
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	(503,670)	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	1,073,217	-	-	-
Total actual other financing uses - GAAP basis (pages 138-141).....	<u>\$ 1,113,700</u>	<u>\$ 2,150</u>	<u>\$ 23,442</u>	<u>\$ -</u>

* On a GAAP basis, the activity of these funds is combined in the other special revenue funds column on the combined statement of revenues, expenditures and changes in f balance. The revenues, other financing sources, expenditures and other financing uses of these other special revenue funds are \$205,437, \$28,259, \$68,135 and \$172,625, respectively (all amounts in thousands).

See Independent Auditor's Report

Local Aid Stabilization Fund	Manufacturing Fund	Community College Fund	Public Safety Trust Fund*	Children and Families Protection Fund*	Totals
\$ -	\$ -	\$ -	\$ 568	\$ 1	\$ 1,843,534
-	-	-	-	-	(16,527)
-	-	-	-	2	2,300
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 568</u>	<u>\$ 3</u>	<u>\$ 1,829,307</u>
\$ 375	\$ 13,583	\$ 33,719	\$ -	\$ -	\$ 183,142
-	-	-	-	-	(1,164)
<u>\$ 375</u>	<u>\$ 13,583</u>	<u>\$ 33,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,978</u>
\$ 8,700	\$ 13,311	\$ 28,310	\$ -	\$ -	\$ 1,438,207
-	-	-	-	-	(67,488)
-	-	-	-	-	503,670
-	(1,582)	(19,999)	-	-	(21,581)
-	-	-	-	-	(1,073,217)
<u>\$ 8,700</u>	<u>\$ 11,729</u>	<u>\$ 8,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 779,590</u>
\$ -	\$ 272	\$ 5,389	\$ -	\$ 1	\$ 575,407
-	-	-	-	-	(503,670)
-	1,582	19,999	-	-	21,581
-	-	-	-	-	1,073,217
<u>\$ -</u>	<u>\$ 1,854</u>	<u>\$ 25,388</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,166,536</u>

Combining Statement of Net Position Available for Post-Employment Benefits
Pension Trust Funds
June 30, 2014
(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
Total assets.....	23,935,958	25,550,880	605,080	50,091,918
LIABILITIES				
Accounts payable.....	5,063	12,234	11	17,308
Net position available for post-employment benefits.....	\$ 23,930,895	\$ 25,538,646	\$ 605,069	\$ 50,074,610

See Independent Auditor's Report

Combining Statement of Changes in Net Position Available for Post-Employment Benefits
Pension Trust Funds
Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
Total contributions.....	1,144,153	1,762,405	487,279	3,393,837
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
Net investment gain/(loss).....	3,562,856	3,771,883	80,797	7,415,536
Total additions.....	4,707,009	5,534,288	568,076	10,809,373
DEDUCTIONS				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
Total deductions.....	1,861,072	2,692,944	420,566	4,974,582
Net increase/(decrease).....	2,845,937	2,841,344	147,510	5,834,791
Net position available for post-employment benefits				
at beginning of year.....	21,084,958	22,697,302	457,559	44,239,819
Net position available for post-employment benefits at end of year.....	\$ 23,930,895	\$ 25,538,646	\$ 605,069	\$ 50,074,610

See Independent Auditor's Report

Combining Statement of Net Position Held in Trust for Pool Participants
 External Investment Trust Funds
 June 30, 2014
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Assets held in trust for pension benefits:			
Net investment in PRIT at fair value.....	\$ -	\$ 10,923,596	\$ 10,923,596
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,747,948	-	2,747,948
Total assets.....	2,747,948	10,923,596	13,671,544
LIABILITIES			
Accounts payable.....	-	-	-
Net position held in trust for pool/pension participants.....	\$ 2,747,948	\$ 10,923,596	\$ 13,671,544

See Independent Auditor's Report

Combining Statement of Changes in Net Position Held in Trust for Pool Participants
External Investment Trust Funds
Fiscal Year Ended June 30, 2014
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ADDITIONS			
Contribution:			
Employees contributions.....	\$ -	\$ 793,507	\$ 793,507
Proceeds from sale of units.....	20,642,368	-	20,642,368
Total contributions.....	20,642,368	793,507	21,435,875
Net investment gain/(loss):			
Investment gain/(loss).....	7,433	1,670,865	1,678,298
Less: investment expense.....	(1,515)	(72,226)	(73,741)
Net investment gain/(loss).....	5,918	1,598,639	1,604,557
Total additions.....	20,648,286	2,392,146	23,040,432
DEDUCTIONS			
Cost of units redeemed.....	20,606,497	-	20,606,497
Distributions to unit holders from net interest income.....	5,705	-	5,705
Retirement benefits and refunds.....	-	739,175	739,175
Total deductions.....	20,612,202	739,175	21,351,377
Net increase/(decrease).....	36,084	1,652,971	1,689,055
Net position held in trust for pool/pensions participants at beginning of year.....	2,711,864	9,270,625	11,982,489
Net position held in trust for pool/pensions participants at end of year	\$ 2,747,948	\$ 10,923,596	\$ 13,671,544

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Central Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 334,680	\$ 9,556,140	\$ 9,483,824	\$ 406,996
Investments, restricted investments and annuity contracts.....	1,486,299	175,999	292,021	1,370,277
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	22,743	12,927	22,743	12,927
Total assets.....	<u>\$ 1,846,139</u>	<u>\$ 9,747,249</u>	<u>\$ 9,801,005</u>	<u>\$ 1,792,383</u>
LIABILITIES				
Accounts payable.....	\$ 71,270	\$ 3,646,641	\$ 3,587,254	\$ 130,657
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	252,429	4,054,348	4,054,750	252,027
Other liabilities.....	12,691	6,357	12,691	6,357
Total liabilities.....	<u>\$ 1,846,139</u>	<u>\$ 8,391,285</u>	<u>\$ 8,445,041</u>	<u>\$ 1,792,383</u>
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and short-term investments.....	\$ 144,044	\$ 1,700,318	\$ 1,685,436	\$ 158,926
Other receivables.....	116,660	121,565	116,660	121,565
Total assets.....	<u>\$ 260,704</u>	<u>\$ 1,821,883</u>	<u>\$ 1,802,096</u>	<u>\$ 280,491</u>
LIABILITIES				
Accounts payable.....	\$ 422	\$ 1,953,237	\$ 1,953,417	\$ 242
Agency liabilities.....	260,282	1,126,780	1,106,813	280,249
Total liabilities.....	<u>\$ 260,704</u>	<u>\$ 3,080,017</u>	<u>\$ 3,060,230</u>	<u>\$ 280,491</u>
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and short-term investments.....	\$ 113,794	\$ 531,862	\$ 531,979	\$ 113,677
Investments, restricted investments and annuity contracts.....	564,610	36,374	10,630	590,354
Total assets.....	<u>\$ 678,404</u>	<u>\$ 568,236</u>	<u>\$ 542,609</u>	<u>\$ 704,031</u>
LIABILITIES				
Agency liabilities.....	<u>\$ 678,404</u>	<u>\$ 568,236</u>	<u>\$ 542,609</u>	<u>\$ 704,031</u>

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Total Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 592,518	\$ 11,788,320	\$ 11,701,239	\$ 679,599
Investments, restricted investments and annuity contracts.....	2,050,909	212,373	302,651	1,960,631
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	139,403	134,492	139,403	134,492
Total assets.....	<u>\$ 2,785,247</u>	<u>\$ 12,137,368</u>	<u>\$ 12,145,710</u>	<u>\$ 2,776,905</u>
LIABILITIES				
Accounts payable.....	\$ 71,692	\$ 5,599,878	\$ 5,540,671	\$ 130,899
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	1,191,115	5,749,364	5,704,172	1,236,307
Other liabilities.....	12,691	6,357	12,691	6,357
Total liabilities.....	<u>\$ 2,785,247</u>	<u>\$ 12,039,538</u>	<u>\$ 12,047,880</u>	<u>\$ 2,776,905</u>

See Independent Auditor's Report

Combining Statement of Net Position
Nonmajor Component Units
June 30, 2014
(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	Higher Education Foundations	Total
ASSETS AND DEFERRED OUTFLOWS								
Current assets:								
Cash and cash equivalents.....	\$ 28,275	\$ 9,498	\$ 40,400	\$ 129	\$ 14,876	\$ 68,287	\$ 23,213	\$ 184,678
Short-term investments.....	-	116,264	-	38,376	-	44,723	67,097	266,460
Restricted cash and investment.....	1,033	16,922	-	-	59,175	27,151	2,778	107,059
Assets held in trust.....	-	-	177,597	-	-	-	-	177,597
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable.....	-	-	-	-	-	807	-	807
Loans.....	318	15,559	1,984	-	12,280	11,227	-	41,368
Other receivables.....	2,057	13,103	2,582	1,541	2,194	2,497	6,107	30,081
Due from primary government.....	14,917	762	-	1,634	-	50,787	354	68,454
Inventory.....	-	139	-	-	-	56	-	195
Other current assets.....	1,944	1,999	86	402	-	13,730	1,236	19,397
Total current assets.....	48,544	174,246	222,649	42,082	88,525	219,265	100,785	896,096
Noncurrent assets:								
Cash and cash equivalents - restricted.....	-	34,690	63,950	8,120	-	-	1,378	108,138
Long - term investments.....	-	74,138	8,803	-	-	1,690	559,035	643,666
Restricted investments.....	-	-	113,904	-	-	-	43,269	157,173
Accounts receivables, net.....	-	-	-	-	-	601	9,110	9,711
Loans receivables, net.....	17,095	79,539	-	-	446,968	41,151	-	584,753
Non-depreciable capital assets.....	189,082	19,789	2,536	1,984	-	495	14,070	227,956
Depreciable capital assets, net.....	634,886	214,138	73,500	90,112	-	12,400	25,585	1,050,621
Other noncurrent assets.....	-	7,890	-	-	609	-	3,483	11,982
Total noncurrent assets.....	841,063	430,184	262,693	100,216	447,577	56,337	655,930	2,794,000
Deferred outflows of resources:								
Deferred change in fair value of interest rate swaps.....	-	14,265	-	-	-	-	-	14,265
Total assets and deferred outflows.....	889,607	618,695	485,342	142,298	536,102	275,602	756,715	3,704,361
LIABILITIES								
Current liabilities:								
Accounts payable and other liabilities.....	13,690	8,785	10,610	7,894	1,256	47,524	17,136	106,895
Accrued payroll.....	-	-	-	-	840	160	-	1,000
Compensated absences.....	1,187	833	-	-	-	821	-	2,841
Accrued interest payable.....	-	-	-	-	1,572	-	16	1,588
Due to primary government.....	-	472	-	-	-	-	328	800
Deferred revenue.....	10,858	-	177,591	-	-	39,997	1,695	230,141
Capital leases.....	-	-	-	-	-	-	293	293
Bonds, notes payable and other obligations.....	-	4,350	-	-	10,848	4,326	1,267	20,791
Total current liabilities.....	25,735	14,440	188,201	7,894	14,516	92,828	20,735	364,349
Noncurrent liabilities:								
Compensated absences.....	1,350	-	-	-	-	120	-	1,470
Accrued interest payable.....	-	2,639	-	-	-	-	-	2,639
Due to primary government.....	-	9,996	-	-	-	-	-	9,996
Deferred revenue.....	-	-	-	-	25,862	1,421	-	27,283
Bonds, notes payable and other obligations.....	-	162,338	-	-	436,882	60,250	12,430	671,900
Post - employment obligations.....	6,113	-	-	-	-	-	-	6,113
Liability for derivative instruments.....	-	14,265	-	-	-	-	-	14,265
Other noncurrent liabilities.....	6,179	8,705	-	-	13,773	1,900	3,693	34,250
Total noncurrent liabilities.....	13,642	197,943	-	-	476,517	63,691	16,123	767,916
Total liabilities.....	39,377	212,383	188,201	7,894	491,033	156,519	36,858	1,132,265
NET POSITION								
Net investment in capital assets.....	823,968	103,036	76,036	92,096	-	12,889	23,238	1,131,263
Restricted for:								
Clean energy trusts.....	-	-	221,105	-	-	-	-	221,105
Economic development financing.....	-	163,473	-	-	-	9,156	-	172,629
Other purposes.....	1,033	-	-	30,345	19,117	43,941	622,116	716,552
Unrestricted.....	25,229	139,803	-	11,963	25,952	53,097	74,503	330,547
Total net position.....	\$ 850,230	\$ 406,312	\$ 297,141	\$ 134,404	\$ 45,069	\$ 119,083	\$ 719,857	\$ 2,572,096

See Independent Auditor's Report

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Component Units

Fiscal Year Ended June 30, 2014

(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	Higher Education Foundations	Total
Operating revenues:								
Charges for services.....	\$ 51,519	\$ 50,603	\$ -	\$ -	\$ 7,882	\$ 105,771	\$ 14,579	\$ 230,354
Other.....	805	29,168	26,456	34,738	6,351	6,613	18,176	122,307
Total operating revenues.....	52,324	79,771	26,456	34,738	14,233	112,384	32,755	352,661
Operating expenses:								
Cost of services	47,952	10,085	21,980	26,883	6,367	116,098	-	229,365
Administration costs.....	30,265	61,066	8,485	41	5,485	11,935	37,520	154,797
Depreciation.....	45,524	11,979	1,804	552	107	885	1,004	61,855
Total operating expenses.....	123,741	83,130	32,269	27,476	11,959	128,918	38,524	446,017
Operating income (loss).....	(71,417)	(3,359)	(5,813)	7,262	2,274	(16,534)	(5,769)	(93,356)
Nonoperating revenues (expenses):								
Operating grants.....	49,684	434	64,008	-	-	25,954	-	140,080
Interest income.....	796	1,834	-	88	-	113	67,815	70,646
Other nonoperating revenue (expense).....	(67)	-	8,091	-	(14)	(1,275)	34,132	40,867
Nonoperating revenues (expenses), net.....	50,413	2,268	72,099	88	(14)	24,792	101,947	251,593
Income (loss) before contributions.....	(21,004)	(1,091)	66,286	7,350	2,260	8,258	96,178	158,237
Capital contributions.....	-	13,736	-	-	-	593	-	14,329
Change in net position (deficits).....	(21,004)	12,645	66,286	7,350	2,260	8,851	96,178	172,566
Net position - beginning, as restated.....	871,234	393,667	230,855	127,054	42,809	110,232	623,679	2,399,530
Net position - ending.....	\$ 850,230	\$ 406,312	\$ 297,141	\$ 134,404	\$ 45,069	\$ 119,083	\$ 719,857	\$ 2,572,096

See Independent Auditor's Report



THIS PAGE LEFT INTENTIONALLY BLANK

Statistical Section

(Unaudited)



Old North Bridge, Concord

Schedule of Net Position by Component – Last Ten Fiscal Years
Changes in Net Position – Last Ten Fiscal Years
Fund Balances, Governmental Funds – Last Ten Fiscal Years
Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types
Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat – All Governmental Fund Types
Personal Income by Industry – Last Ten Calendar Years
Personal Income Tax Filers and Liability by Income Level Calendar (Tax) Years 2012 and 2003
Ten-Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases
Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit
Ten-Year Schedule of Pledged Revenue Coverage
*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*
Component Units Revenue Bond Coverage for the Last Ten Fiscal Years
Ten-Year Schedule of Massachusetts and United States Resident Population
Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income
Ten-Year Schedule of Annual Average Civilian Labor Force, Unemployment and Unemployment Rates
Largest Private Sector Massachusetts Employers
Full Time Equivalent Employees by Function / Program – Last Ten Years
Average Annual Medicaid Caseload and Medicaid Expenditure – Last Ten Fiscal Years
Massachusetts Road Inventory – Calendar Year End, Lane Miles by Type – Last Ten Calendar Years
Massachusetts Real Property Owned and Leased Annual Inventory, Acreage, Improvements and Square Footage
Massachusetts Public Higher Education Enrollment and Degrees Conferred – Last Ten Academic Years
Calculation of Transfers – Stabilization Fund
Calculation of Transfer – Tax Reduction Fund
Massachusetts General Information

Statistical Section Narrative and Table of Contents

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

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Commonwealth’s financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

Entity Wide Perspective:

Schedule of Net Position by Component, last ten fiscal years 164
Changes in Net Position, last ten fiscal years 166

Fund Perspective:

Fund Balances (deficits), Governmental Funds, last ten fiscal years 168
Ten-Year Schedule of Revenues and Other Financing Sources,
 All Governmental Fund Types – Fund Perspective..... 170
Ten-Year Schedule of Expenditures And Other Financing Uses By Secretariat,
 All Governmental Fund Types – Fund Perspective..... 172

Revenue Capacity

These schedules contain information to help the reader assess the Commonwealth’s most significant revenue source, income taxation. Schedules included are:

Personal Income by Industry, Last Ten Calendar Years -
 (inclusive of the Commonwealth’s highest income tax rate) 174
Personal Income Tax Filers and Liability by Income Level,
 Tax Years 2012 and 2003..... 176

Debt Capacity

These schedules present information to help the reader assess the affordability of the Commonwealth’s current levels of outstanding debt and the Commonwealth’s ability to issue additional debt in the future. Schedules included are:

Ten Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases 177
Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit 178
Ten Year Schedule of Pledged Revenue Coverage 180
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..... 182
Component Unit Revenue Bond Coverage for the Last Ten Fiscal Years 183

Demographic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within the Commonwealth's financial activities take place. Schedules included are:

Ten Year Schedule of Massachusetts and United States Resident Population.....	184
Ten Year Schedule of Massachusetts and United States Resident Per Capita Net Income	185
Ten Year Schedule of Annual Average Civilian Labor Force, Unemployment and Unemployment Rates For Massachusetts and The United States.....	186
Largest Private Sector Employers	187

Operating Information

These schedules offer operating data to help the reader understand how the information in the Commonwealth's financial report relates to the services it provides and the activities it performs. Schedules included are:

Full Time Equivalent Commonwealth Employees by Function / Program, Last Ten Years.....	188
Average Annual Medicaid Caseload and Expenditures – Fund Perspective, Last Ten Fiscal Years	190
Massachusetts Road Inventory, Calendar Year End, Lane Miles by Type, Last Ten Calendar Years	191
Commonwealth Owned Real Property by Executive Office, Last Ten Years.....	192
Massachusetts Public Higher Education, Enrollment and Degrees Conferred, Last Ten Academic Years	194

Other Information

Calculation of Transfers: Stabilization Fund.....	196
Calculation of Transfers: Tax Reduction Fund	197
Massachusetts General Information	198

**Schedule of Net Position by Component
Last Ten Fiscal Years**

(Amounts in thousands)

	2014	2013	2012	2011	2010*
Governmental activities					
Net investment in capital assets.....	\$ (502,370)	\$ (592,483)	\$ (849,338)	\$ (722,469)	\$ (885,593)
Restricted.....	1,455,704	1,386,416	1,456,715	1,520,702	1,403,877
Unrestricted.....	<u>(29,913,024)</u>	<u>(26,733,809)</u>	<u>(24,905,165)</u>	<u>(23,631,098)</u>	<u>(22,891,629)</u>
Total governmental activities net position.....	<u>\$ (28,959,690)</u>	<u>\$ (25,939,876)</u>	<u>\$ (24,297,788)</u>	<u>\$ (22,832,865)</u>	<u>\$ (22,373,344)</u>
Business-type activities					
Net investment in capital assets.....	\$ 2,794,845	\$ 2,605,263	\$ 2,366,038	\$ 2,026,223	\$ 1,767,434
Restricted.....	1,590,545	1,209,630	1,576,865	1,364,646	1,148,751
Unrestricted.....	<u>1,102,251</u>	<u>1,026,230</u>	<u>969,309</u>	<u>978,043</u>	<u>857,263</u>
Total business-type activities net position.....	<u>\$ 5,487,641</u>	<u>\$ 4,841,123</u>	<u>\$ 4,912,212</u>	<u>\$ 4,368,912</u>	<u>\$ 3,773,448</u>
Commonwealth net position					
Net investment in capital assets.....	\$ 2,292,475	\$ 2,012,780	\$ 1,516,700	\$ 1,303,754	\$ 881,841
Restricted.....	3,046,249	2,596,046	3,033,580	2,885,348	2,552,628
Unrestricted.....	<u>(28,810,773)</u>	<u>(25,707,579)</u>	<u>(23,935,856)</u>	<u>(22,653,055)</u>	<u>(22,034,366)</u>
Total Commonwealth net position.....	<u>\$ (23,472,049)</u>	<u>\$ (21,098,753)</u>	<u>\$ (19,385,576)</u>	<u>\$ (18,463,953)</u>	<u>\$ (18,599,896)</u>

* Restated

See Independent Auditor's Report

2009*	2008*	2007*	2006*	2005*
\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765
1,377,951	1,413,968	1,271,051	2,010,373	1,526,576
<u>(13,721,519)</u>	<u>(11,022,084)</u>	<u>(11,357,260)</u>	<u>(12,409,269)</u>	<u>(13,267,433)</u>
<u>\$ (12,153,655)</u>	<u>\$ (9,161,450)</u>	<u>\$ (9,596,777)</u>	<u>\$ (10,297,385)</u>	<u>\$ (11,544,092)</u>
\$ 1,698,825	\$ 1,562,002	\$ 1,392,363	\$ 1,283,570	\$ 1,149,352
1,609,145	2,390,206	2,295,507	1,816,066	1,331,053
<u>621,952</u>	<u>644,363</u>	<u>645,211</u>	<u>548,774</u>	<u>562,777</u>
<u>\$ 3,929,922</u>	<u>\$ 4,596,571</u>	<u>\$ 4,333,081</u>	<u>\$ 3,648,410</u>	<u>\$ 3,043,182</u>
\$ 1,888,738	\$ 2,008,668	\$ 1,881,795	\$ 1,385,080	\$ 1,346,117
2,987,096	3,804,174	3,566,558	3,826,439	2,857,629
<u>(13,099,567)</u>	<u>(10,377,721)</u>	<u>(10,712,049)</u>	<u>(11,860,495)</u>	<u>(12,704,656)</u>
<u>\$ (8,223,733)</u>	<u>\$ (4,564,879)</u>	<u>\$ (5,263,696)</u>	<u>\$ (6,648,975)</u>	<u>\$ (8,500,910)</u>

**Changes in Net Position
Last Ten Fiscal Years**

(Amounts in thousands)

	2014	2013	2012	2011	2010
EXPENSES					
Governmental Activities:					
General government.....	\$ 2,538,043	\$ 2,587,273	\$ 2,391,694	\$ 2,305,783	\$ 2,358,706
Judiciary.....	1,027,875	1,002,797	945,457	992,990	1,043,004
Direct local aid.....	5,353,521	5,179,104	4,991,532	4,845,738	5,030,363
Medicaid.....	14,034,862	12,286,342	11,708,397	12,124,261	10,677,999
Group health insurance.....	1,403,590	1,282,661	1,218,079	1,113,544	1,092,178
Energy and environmental.....	623,952	532,330	572,632	685,032	326,128
Housing and economic development*.....	1,291,676	1,252,292	1,247,310	1,362,822	1,297,143
Health and human services*.....	7,360,519	7,787,051	7,643,950	7,124,856	7,244,968
Transportation and public works.....	2,391,322	1,879,271	1,765,101	2,262,374	2,088,354
Early elementary and secondary education*.....	4,545,848	4,335,639	4,259,568	3,649,543	3,395,360
Public safety and homeland security.....	2,503,812	2,440,212	2,346,958	2,276,402	2,409,557
Labor and workforce development*.....	356,954	389,806	474,096	497,927	483,091
Lottery.....	3,980,980	3,982,700	3,877,305	3,661,834	3,649,396
Interest (unallocated).....	1,197,709	1,206,542	1,202,772	1,177,569	1,090,471
Total governmental activities.....	48,610,664	46,144,020	44,644,851	44,080,674	42,186,717
Business-type Activities:					
Unemployment compensation.....	2,036,431	2,718,447	3,466,500	4,388,360	5,435,611
Higher Education:					
University of Massachusetts.....	2,925,013	2,759,488	2,684,039	2,865,015	2,640,134
State Universities.....	922,383	864,161	851,118	834,453	762,043
Community Colleges.....	852,946	814,245	801,038	772,883	716,526
Total business-type activities.....	6,736,773	7,156,341	7,802,695	8,860,711	9,554,314
Total Commonwealth expenses.....	\$ 55,347,437	\$ 53,300,361	\$ 52,447,546	\$ 52,941,385	\$ 51,741,031
REVENUES					
Program Revenues:					
Governmental Activities:					
Charges for services:					
General government.....	\$ 361,105	\$ 352,291	\$ 458,320	\$ 443,869	\$ 464,592
Judiciary.....	108,766	111,384	114,170	120,293	128,198
Medicaid.....	1,226,108	471,539	297,566	258,032	185,463
Group health insurance.....	660,359	619,982	495,377	431,078	349,870
Energy and environmental.....	262,339	228,019	214,340	270,449	214,269
Housing and economic development*.....	165,365	150,690	142,320	142,387	221,340
Health and human services*.....	483,080	1,143,551	931,535	896,328	797,929
Transportation and public works.....	530,853	567,348	505,842	502,004	517,045
Early elementary and secondary education*.....	10,067	6,748	6,783	6,645	9,661
Public safety and homeland security.....	228,730	218,643	205,546	193,983	202,427
Labor and workforce development*.....	150,394	246,577	237,772	142,731	38,319
Lottery.....	5,049,536	5,041,329	4,940,151	4,630,205	4,626,777
Total Charges for services.....	9,236,702	9,158,100	8,549,722	8,038,003	7,755,891
Operating grants and contributions.....	13,121,648	12,836,122	12,909,908	14,217,481	12,771,164
Capital grants and contributions.....	30,699	18,726	79,733	168,912	779,403
Total governmental activities.....	22,389,049	22,012,948	21,539,363	22,424,397	21,306,458
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,897,495	1,923,476	1,982,602	1,945,801	1,727,964
Higher Education:					
University of Massachusetts.....	1,697,585	1,640,296	1,519,496	1,685,386	1,527,880
State Universities.....	558,170	533,347	523,979	530,078	479,900
Community Colleges.....	270,512	281,428	275,778	250,341	235,865
Operating grants and contributions.....	1,347,423	1,791,196	2,525,342	3,500,210	4,020,351
Total business-type activities.....	5,771,185	6,169,743	6,827,197	7,911,816	7,991,960
Total Commonwealth program revenues.....	\$ 28,160,234	\$ 28,182,691	\$ 28,366,560	\$ 30,336,213	\$ 29,298,418
General Revenues and Other Changes in Net Position (all types consolidated):					
Governmental Activities:					
Taxes (all types).....	\$ 23,319,168	\$ 22,599,332	\$ 21,403,426	\$ 21,066,430	\$ 19,034,227
Investment earnings and miscellaneous.....	1,131,754	985,713	1,393,094	991,230	1,474,995
Gain on sale of capital assets.....	-	-	-	-	-
Transfers.....	(1,205,141)	(1,096,061)	(1,155,955)	(860,904)	(864,697)
Transfers to/from MassDOT.....	-	-	-	-	(8,983,955)
Total governmental activities.....	23,245,781	22,488,984	21,640,565	21,196,756	10,660,570
Business-type Activities:					
Investment earnings and miscellaneous.....	\$ 428,771	\$ 395,228	\$ 376,327	\$ 695,308	\$ 553,088
Other losses.....	-	-	-	(10,746)	(12,125)
Transfers.....	1,205,141	1,096,061	1,155,955	860,904	864,697
Total business-type activities.....	1,633,912	1,491,289	1,532,282	1,545,466	1,405,660
Total Commonwealth general revenues.....	\$ 24,879,693	\$ 23,980,273	\$ 23,172,847	\$ 22,742,222	\$ 12,066,230
CHANGES IN NET POSITION					
Governmental activities.....	\$ (2,975,834)	\$ (1,642,088)	\$ (1,464,923)	\$ (459,521)	\$ (10,219,688)
Business-type activities.....	668,324	504,691	556,784	596,571	(156,694)
Current year restatements.....	-	-	-	-	-
Total changes in net position including restatements.....	\$ (2,307,510)	\$ (1,137,397)	\$ (908,139)	\$ 137,050	\$ (10,376,382)

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

See Independent Auditor's Report

	2009	2008	2007	2006	2005
\$	2,630,554	\$ 2,321,251	\$ 2,198,999	\$ 2,043,365	\$ 1,861,827
	1,138,179	993,424	852,124	731,931	694,245
	5,210,451	5,118,858	5,081,359	4,682,027	4,525,847
	10,842,549	9,769,893	9,044,420	8,150,576	7,705,717
	977,565	828,297	1,033,796	970,150	872,970
	426,808	537,691	488,883	438,731	419,329
	1,042,084	899,474	519,399	670,518	609,409
	7,452,418	6,726,961	6,414,249	6,585,029	6,441,959
	1,336,257	1,199,103	1,271,608	1,286,857	1,566,773
	3,210,200	2,932,143	1,870,250	1,948,769	8,226,508
	2,561,607	2,097,076	1,763,191	1,768,924	1,638,434
	474,438	340,668	641,134	387,132	358,839
	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520
	1,116,278	1,152,162	1,079,551	985,474	861,265
	42,112,704	38,827,362	35,948,184	34,358,196	39,488,186
	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955
	2,474,797	2,274,312	2,233,634	2,116,226	1,977,546
	736,972	733,842	624,470	568,592	514,122
	671,923	685,235	627,400	592,310	548,017
	7,358,719	5,248,274	4,915,634	4,614,693	4,702,640
\$	49,471,424	44,075,636	40,863,818	38,972,889	44,190,826
\$	436,344	\$ 414,614	\$ 564,347	\$ 451,753	\$ 492,750
	123,819	124,542	118,652	115,443	105,072
	180,380	176,471	172,136	702,104	937,422
	230,456	209,008	151,604	131,611	111,342
	226,754	162,639	168,789	156,074	138,854
	178,011	185,019	1,892	6,245	3,515
	718,628	601,483	538,543	613,780	756,469
	494,733	477,420	461,217	448,349	478,154
	15,728	10,766	8,042	6,346	5,583
	175,069	153,641	126,962	135,846	112,350
	37,728	31,758	187,256	213,078	199,817
	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935
	7,461,243	7,452,873	7,155,550	7,706,968	8,040,263
	12,059,019	9,271,936	8,849,046	8,347,822	7,961,904
	853,221	484,172	487,365	481,780	461,371
	20,373,482	17,208,980	16,491,961	16,536,570	16,463,538
	1,671,098	1,587,543	1,698,249	1,741,101	242,769
	1,419,932	1,160,513	1,194,393	1,076,875	424,184
	442,685	400,369	287,195	272,918	64,872
	219,986	204,190	190,808	175,418	122,828
	1,721,199	710,974	746,385	684,108	854,653
	5,474,900	4,063,589	4,117,030	3,950,420	4,108,237
\$	25,848,382	21,272,569	20,608,991	20,486,988	20,571,775
\$	18,499,273	\$ 21,174,430	\$ 20,001,189	\$ 18,668,322	\$ 17,580,271
	1,489,018	2,057,309	1,318,008	1,396,033	1,168,540
	-	-	-	26,300	-
	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)
	-	-	-	-	-
	18,917,639	22,053,709	20,151,830	19,068,335	17,822,096
\$	140,227	\$ 270,145	\$ 315,908	247,181	228,643
	(11,530)	-	-	-	-
	1,070,652	1,178,030	1,167,367	1,022,320	926,715
	1,199,349	1,448,175	1,483,275	1,269,501	1,155,358
\$	20,116,988	23,501,884	21,635,105	20,337,836	18,977,454
\$	(2,821,583)	\$ 435,327	\$ 695,608	\$ 1,246,707	\$ (5,202,551)
	(684,470)	263,490	684,671	605,228	560,955
	(152,800)	-	-	-	-
\$	(3,658,854)	698,817	1,380,279	1,851,935	(4,641,596)

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

(Modified accrual basis of accounting)

(Amounts in thousands)

	2014	2013	2012	2011	2010*
Total Unreserved general fund.....	\$ -				
All Other Governmental Funds					
Reserved.....	-	-	-	-	-
Unreserved:					
Special Revenue Funds.....	-	-	-	-	-
Capital Projects Funds.....	-	-	-	-	-
Permanent Trust Funds.....	-	-	-	-	-
Total Unreserved.....	-	-	-	-	-
Total all other governmental funds.....	-	-	-	-	-
Total governmental fund balances.....	\$ -				

* 2010 has been restated for GASB 54 presentation. Years prior have not been restated.

Fund balances (deficits) GASB 54 :

Nonspendable.....	\$ 1,116	\$ 914	\$ 914	\$ 914	\$ 5,914
Restricted.....	1,517,555	1,557,928	2,195,287	1,675,055	1,905,749
Committed.....	2,249,906	2,324,228	2,404,158	2,020,009	2,166,175
Assigned.....	510,353	595,085	574,621	750,462	156,483
Unassigned.....	340,505	391,795	1,143,978	821,188	351,395
Total governmental fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,716

See Independent Auditor's Report

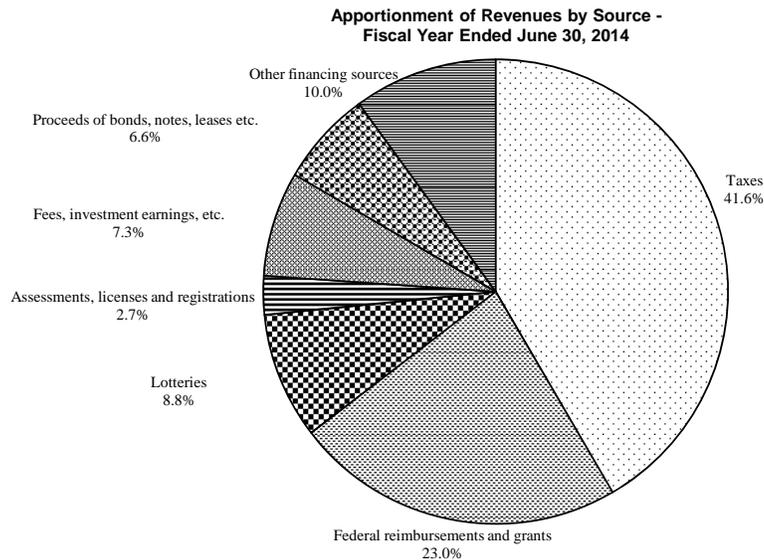
2009*	2008*	2007*	2006*	2005*
\$ 1,734,822	\$ 3,171,278	\$ 4,899,154	\$ 4,922,074	\$ 4,067,885
1,401,985	1,809,058	1,496,094	1,361,980	1,392,209
2,044,674	2,437,897	1,587,596	1,476,440	91,913
(125,138)	(360,570)	(251,985)	(497,300)	(503,441)
5,000	5,000	5,000	-	-
1,924,535	2,082,327	1,340,611	979,140	(411,528)
3,326,520	3,891,385	2,836,705	2,341,120	980,681
\$ 5,061,342	\$ 7,062,663	\$ 7,735,859	\$ 7,263,194	\$ 5,048,566

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

(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010
Taxes.....	\$ 23,786	41.6	\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7	\$ 18,991
Federal reimbursements.....	9,417	16.5	8,981	16.2	8,934	16.4	10,066	18.8	9,453
Federal grants.....	3,730	6.5	3,887	7.0	4,051	7.5	4,311	8.0	4,097
Lotteries.....	5,049	8.8	5,042	9.1	4,944	9.1	4,631	8.6	4,628
Assessments.....	1,080	1.8	1,093	2.0	1,024	1.9	980	1.8	965
Motor vehicle licenses and registrations.....	495	0.9	487	0.9	474	0.9	461	0.9	463
Fees, investment earnings, etc.....	4,152	7.3	3,750	6.8	3,823	7.0	3,246	6.0	3,365
Issuance of general and special obligation bonds...	2,360	4.1	1,471	2.7	2,902	5.3	2,233	4.1	2,419
Issuance of refunding bonds.....	1,236	2.2	1,913	3.5	388	0.7	888	1.6	538
Bond premiums.....	193	0.3	398	0.7	260	0.5	130	0.2	16
Proceeds of capital lease.....	11	-	1	-	4	-	12	-	17
Other financing sources.....	5,701	10.0	5,876	10.6	6,033	11.1	6,086	11.3	6,027
Total revenues and other financing sources.....	\$ 57,210	100.0	\$ 55,290	100.0	\$ 54,370	100.0	\$ 53,898	100.0	\$ 50,979

See Independent Auditor's Report



<u>% Total</u>	<u>2009</u>	<u>% Total</u>	<u>2008</u>	<u>% Total</u>	<u>2007</u>	<u>% Total</u>	<u>2006</u>	<u>% Total</u>	<u>2005</u>	<u>% Total</u>
37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7	\$ 17,671	40.6
18.5	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5	6,053	13.9
8.0	3,510	7.0	2,681	5.4	2,489	5.0	2,479	5.3	2,369	5.4
9.1	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0	4,705	10.8
2.0	929	1.9	858	1.8	860	1.7	850	1.9	831	1.9
0.9	383	0.8	376	0.7	380	0.8	361	0.8	401	0.9
6.6	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0	3,213	7.5
4.7	2,042	4.1	1,281	2.6	3,104	6.3	4,445	9.4	1,371	3.1
1.1	390	0.8	-	-	1,428	2.9	633	1.3	1,385	3.2
-	99	0.2	25	-	129	0.3	47	0.1	(17)	-
-	18	0.0	17	-	21	-	30	0.1	58	0.1
11.8	6,817	13.7	8,280	16.5	6,743	13.6	5,232	11.1	5,493	12.6
<u>100.0</u>	<u>\$ 49,788</u>	<u>100.0</u>	<u>\$ 50,136</u>	<u>100.0</u>	<u>\$ 49,402</u>	<u>100.0</u>	<u>\$ 47,190</u>	<u>100.0</u>	<u>\$ 43,533</u>	<u>100.0</u>

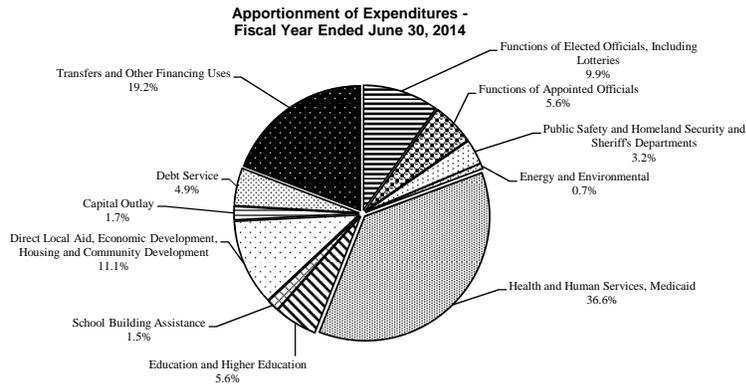
Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Legislature.....	\$ 56	0.1	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1
Judiciary.....	816	1.4	792	1.4	757	1.4	771	1.4	769	1.5
Inspector General.....	6	-	6	-	3	-	4	0.0	4	0.0
Governor and Lieutenant Governor.....	5	-	6	-	7	-	5	0.0	5	0.0
Secretary of the Commonwealth.....	51	0.1	49	0.1	41	0.1	45	0.1	52	0.1
Treasurer and Receiver-General.....	5,327	9.5	5,307	9.5	5,282	9.9	5,084	9.6	4,862	9.4
Auditor of the Commonwealth.....	18	-	18	-	17	-	18	0.0	18	0.0
Attorney General.....	88	0.2	76	0.1	55	0.1	34	0.1	52	0.1
Ethics Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
District Attorney.....	115	0.2	115	0.2	110	0.2	104	0.2	102	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	3	0.0	1	0.0
Sheriff's Department.....	565	1.0	541	1.0	529	1.0	514	1.0	394	0.8
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
Board of Library Commissioners.....	25	-	25	-	24	-	25	0.0	28	0.1
Massachusetts Gaming Commission.....	23	-	14	-	1	-	-	-	-	-
Comptroller.....	16	-	14	-	14	-	14	0.0	13	0.0
Administration and finance.....	2,296	4.0	2,295	4.1	1,949	3.7	1,852	3.3	1,686	3.3
Energy and environmental.....	410	0.7	365	0.6	351	0.7	368	0.7	403	0.8
Housing and communities development.....	-	-	-	-	-	-	-	-	-	-
Early education and care.....	-	-	-	-	-	-	-	-	-	-
Health and human services.....	6,957	12.1	7,384	13.1	7,301	13.6	6,791	12.8	6,655	12.9
Transportation and public works.....	-	-	-	-	-	-	-	-	474	0.9
Massachusetts department of transportation.....	2,296	4.0	1,785	3.1	1,679	3.1	2,086	3.9	1,209	2.3
Executive office of education*.....	3,201	5.6	3,008	5.3	3,069	5.8	3,232	6.1	2,968	5.8
Center for Health and Information Analysis.....	26	-	9	-	-	-	-	-	-	-
Massachusetts school building assistance.....	869	1.5	1,037	1.8	975	1.8	791	1.5	973	1.9
Higher education.....	-	-	-	-	-	-	-	-	-	-
Public safety and homeland security.....	1,274	2.2	1,296	2.3	1,208	2.3	1,146	2.2	1,282	2.5
Housing and economic development*.....	1,035	1.8	988	1.7	999	1.9	1,082	2.0	1,060	2.1
Labor and workforce development*.....	330	0.6	350	0.6	455	0.9	478	0.9	447	0.9
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	14,035	24.4	12,286	21.7	11,708	22.0	12,124	22.8	10,678	20.8
Pension.....	865	1.5	878	1.5	801	1.5	744	1.4	587	1.1
Direct local aid.....	5,353	9.3	5,179	9.1	4,991	9.4	4,846	9.1	5,030	9.8
Capital outlay:										
Local aid.....	0	-	-	-	-	-	-	-	1	-
Capital acquisition and construction.....	999	1.7	854	1.5	847	1.6	885	1.7	1,300	2.5
Debt service.....	2,769	4.8	2,754	4.9	2,504	4.7	2,220	4.2	2,407	4.7
Principal on current refunding.....	159	0.3	230	0.4	-	-	-	-	-	-
Other financing uses:										
Payments to refunding bond escrow agent.....	562	1.0	2,046	3.6	388	0.7	945	1.8	537	1.0
Transfers.....	6,907	12.0	6,972	12.3	7,189	13.5	6,947	13.1	7,395	14.4
Total expenditures and other financing uses.....	\$ 57,461	100.0	\$ 56,739	100.0	\$ 53,319	100.0	\$ 53,217	100.0	\$ 51,455	100.0
Change in Governmental Fund Balance.....	\$ (251)		\$ (1,448)		\$ 1,051		\$ 681		\$ (476)	

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

See Independent Auditor's Report



	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$	60	0.1	\$ 58	0.1	\$ 59	0.1	\$ 55	0.1	\$ 50	0.1
	797	1.5	796	1.6	799	1.6	660	1.5	580	1.4
	3	0.0	3	0.0	3	0.0	3	0.0	3	-
	8	0.0	9	0.0	5	0.0	5	0.0	5	-
	51	0.1	51	0.1	52	0.1	44	0.1	46	0.1
	5,097	9.8	5,089	10.0	4,712	9.6	4,803	10.7	4,706	11.0
	19	0.0	19	0.0	18	0.0	18	0.0	16	-
	53	0.1	45	0.1	62	0.1	52	0.1	70	0.2
	2	-	2	-	2	-	1	-	1	-
	112	0.2	111	0.2	102	0.2	94	0.2	84	0.2
	1	-	1	-	2	-	1	-	1	-
	296	0.6	295	0.6	272	0.6	247	0.5	216	0.5
	3	-	2	-	2	-	2	-	2	-
	37	0.1	36	0.1	10	0.0	8	0.0	7	-
	-	-	-	-	-	-	-	-	-	-
	14	0.0	14	0.0	14	0.0	14	0.0	12	-
	1,709	3.4	1,528	3.1	1,849	3.9	1,651	3.9	1,536	3.5
	352	0.7	312	0.6	318	0.6	282	0.6	238	0.6
	-	-	-	-	402	0.8	536	1.2	483	1.1
	-	-	560	1.1	518	1.1	482	1.1	-	-
	6,684	12.9	6,423	12.6	5,907	12.1	5,865	13.0	6,208	14.5
	389	0.8	347	0.7	350	0.7	282	0.6	316	0.7
	-	-	-	-	-	-	-	-	-	-
	2,920	5.6	2,205	4.3	2,048	4.2	1,978	4.4	2,990	7.0
	-	-	-	-	-	-	-	-	-	-
	657	1.3	765	1.5	1,411	2.9	2,330	5.2	-	-
	-	-	131	0.3	126	0.3	106	0.2	114	0.3
	1,416	2.7	1,407	2.8	1,238	2.5	1,165	2.6	1,053	2.5
	793	1.5	710	1.4	512	1.0	384	0.9	346	0.8
	398	0.8	308	0.6	81	0.2	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	10,843	20.9	9,770	19.2	9,044	18.5	8,151	18.1	7,706	18.0
	647	1.2	368	0.7	373	0.8	346	0.8	439	1.0
	5,208	10.1	5,108	10.1	5,072	10.4	4,674	10.4	4,515	10.5
	-	-	-	-	-	-	-	-	-	-
	3	0.0	10	0.0	9	0.0	8	0.0	11	-
	2,514	4.9	1,698	3.3	1,724	3.5	1,754	3.9	1,863	4.3
	2,410	4.7	2,486	4.9	2,538	5.2	2,088	4.6	1,719	4.0
	-	-	-	-	-	-	-	-	-	4.0
	410	0.8	-	-	1,520	3.1	633	1.4	1,153	2.7
	7,887	15.2	10,141	20.0	7,781	15.9	6,253	13.9	6,419	15.0
\$	51,789	100.0	\$ 50,810	100.0	\$ 48,935	100.0	\$ 44,975	100.0	\$ 42,908	104.0
\$	(2,001)		\$ (674)		\$ 467		\$ 2,215		\$ 624	

Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2013	2012	2011	2010	2009
Total personal income.....	\$ 381,271	\$ 363,944	\$ 352,243	\$ 336,400	\$ 324,680
Unearned income.....	91,615	87,333	83,338	81,190	78,336
Farm earnings.....	151	150	136	186	137
Nonfarm earnings.....	289,505	276,461	268,769	255,024	246,208
Private earnings.....	252,939	243,502	236,763	223,784	215,396
Agricultural services, forestry, fishing.....	373	426	409	383	376
Mining.....	201	113	124	97	101
Construction.....	14,759	13,426	12,526	11,687	11,717
Manufacturing.....	25,341	26,375	25,387	25,108	23,290
Durable goods.....	17,977	19,223	18,319	18,053	16,466
Nondurable goods.....	7,364	7,152	7,069	7,055	6,824
Transportation and utilities.....	7,083	6,742	6,604	6,208	6,029
Wholesale trade.....	13,483	12,979	13,082	12,501	12,458
Retail trade.....	13,565	13,333	12,891	12,599	12,255
Services.....	178,134	170,109	165,740	155,202	149,171
Government.....	36,567	32,959	32,006	31,240	30,812
Federal, civilian.....	4,792	5,442	5,426	5,431	5,314
Military.....	943	1,221	1,245	1,260	1,220
State and local.....	30,832	26,296	25,335	24,550	24,278
Personal income tax revenue (fiscal year, statutory basis)....	\$ 12,831	\$ 11,911	\$ 11,576	\$ 10,110	\$ 10,584
Total personal income.....	381,271	363,944	352,243	336,400	324,680
Average Effective Rate.....	3.4%	3.3%	3.3%	3.0%	3.3%
Highest Earned Income Tax Rate.....	5.3%	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.

See Independent Auditor's Report

	2008	2007	2006	2005	2004
\$	335,722	\$ 322,543	\$ 304,855	\$ 282,368	\$ 271,086
	80,365	71,529	65,384	55,211	51,966
	180	135	131	126	147
	255,176	250,878	239,340	227,030	218,974
	225,122	222,302	211,900	200,639	193,996
	383	405	396	400	371
	181	301	363	311	297
	13,671	14,900	15,193	14,460	13,976
	25,449	25,865	24,698	24,485	24,356
	18,170	18,464	17,639	17,539	17,547
	7,280	7,401	7,059	6,947	6,809
	6,235	5,891	5,706	5,456	5,388
	13,412	13,025	12,538	11,478	11,529
	12,545	12,960	12,952	13,188	12,900
	153,246	148,954	140,056	130,864	125,180
	30,054	28,577	27,439	26,392	24,978
	5,157	5,045	4,873	4,700	4,626
	1,092	1,025	1,005	1,009	934
	23,806	22,507	21,561	20,683	19,419
\$	12,484	\$ 11,400	\$ 10,483	\$ 9,690	\$ 8,830
	335,722	322,543	304,855	282,368	271,086
	3.7%	3.5%	3.4%	3.4%	3.3%
	5.3%	5.3%	5.3%	5.3%	5.3%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2012 and 2003

(Amounts, except income level are in thousands)

Calendar Year 2012 (or Fiscal Year 2013)

<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.....	651,136	18.2%	\$ 8,525,382	70.6%
\$75,001 - \$100,000.....	286,030	8.0%	1,064,216	8.8%
\$50,001 - \$75,000.....	459,265	12.8%	1,163,314	9.6%
\$25,001 - \$50,000.....	771,026	21.6%	1,014,322	8.4%
\$10,001 - \$25,000.....	674,488	18.9%	277,196	2.3%
\$10,000 and lower.....	<u>733,227</u>	<u>20.5%</u>	<u>30,289</u>	<u>0.3%</u>
Total.....	<u><u>3,575,172</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 12,074,719</u></u>	<u><u>100.0%</u></u>

Calendar Year 2003 (or Fiscal Year 2004)

<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.....	405,104	12.3%	\$ 4,416,981	54.8%
\$75,001 - \$100,000.....	266,179	8.1%	1,008,220	12.5%
\$50,001 - \$75,000.....	450,676	13.7%	1,164,688	14.4%
\$25,001 - \$50,000.....	807,287	24.6%	1,127,217	14.0%
\$10,001 - \$25,000.....	674,895	20.5%	317,698	3.9%
\$10,000 and lower.....	<u>681,768</u>	<u>20.7%</u>	<u>25,383</u>	<u>0.3%</u>
Total.....	<u><u>3,285,909</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 8,060,187</u></u>	<u><u>100.0%</u></u>

Source: *Massachusetts Department of Revenue - 2012 is the most recent tax year for which complete data are available.*

See Independent Auditor's Report

Ten-Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population (4)	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt (1)	Capital Leases (2)	Bonded Debt (2)	Capital Leases					
2014	\$ 22,419,852	\$ 55,878	\$ 4,243,731	\$ 14,529	\$ 26,733,990	\$ 381,271,000	6,693	7.0%	\$ 3.99
2013	21,513,039	50,831	3,736,432	19,299	25,319,601	363,943,750	6,646	7.0%	3.81
2012	21,907,683	60,457	3,370,389	23,327	25,361,856	352,242,750	6,557	7.2%	3.87
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,518	7.2%	3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,469	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,432	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,410	6.5%	3.26
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,855,000	6,410	6.7%	3.20
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,750	6,403	7.1%	3.15
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,000	6,412	7.2%	3.03

(1) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes.

For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

(2) Governmental capital leases exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.

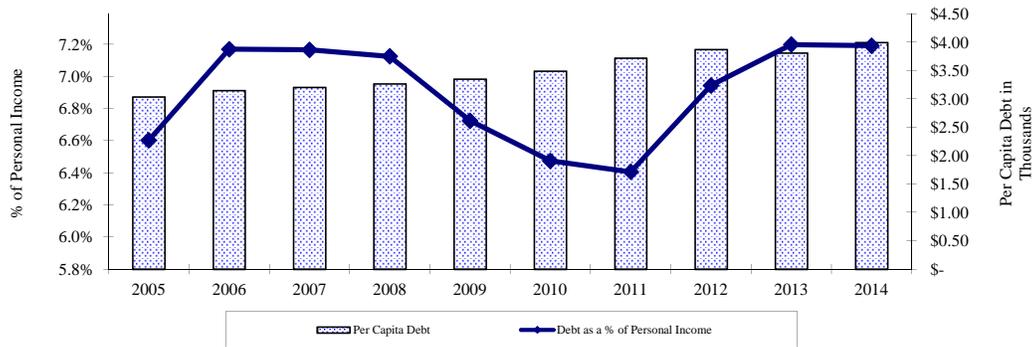
(3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.

(4) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year.

Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

See Independent Auditor's Report

Ten-Year Per Capita Debt and Capital Leases



Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2014 (3)	2013 (3)	2012	2011	2010
Outstanding principal as of June 30 (1).....	\$ 22,419,852	\$ 21,513,039	\$ 21,433,553	\$ 20,875,056	\$ 19,509,819
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs.....	-	-	474,130	335,078	216,688
Total net proceeds/principal.....	22,419,852	21,513,039	21,907,683	21,210,134	19,726,507
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds.....	(1,241,263)	(1,303,013)	(1,342,841)	(1,356,606)	(1,243,250)
Accelerated bridge program.....	(1,756,395)	(1,088,605)	(1,095,385)	(676,125)	-
County debt assumed.....	-	-	(75)	(150)	(225)
(Premium)/discount.....	-	-	(474,130)	(335,078)	216,688
Grant anticipation notes (2).....	(178,390)	(349,100)	(510,385)	(666,790)	(997,467)
School Modernization and Reconstruction Trust Bonds.....	(723,917)	(764,337)	(795,009)	(824,279)	(894,502)
Convention center bonds.....	(638,700)	(638,700)	(638,700)	(643,715)	(643,715)
MBTA forward funding bonds.....	(207)	(207)	(207)	(44,472)	(165,559)
Special obligation gas bonds.....	(249,705)	(296,395)	(337,545)	(371,665)	(419,785)
Outstanding direct debt, net proceeds/principal.....	17,631,275	17,072,682	16,713,406	16,291,254	15,578,692
Statutory debt limit*.....	18,819,675	17,923,500	17,070,000	18,042,424	17,183,261
Debt margin (debt limit less direct debt).....	<u>\$ 1,188,400</u>	<u>\$ 850,818</u>	<u>\$ 356,594</u>	<u>\$ 1,751,170</u>	<u>\$ 1,604,569</u>
Debt margin as a percentage of direct debt limit.....	<u>6.3%</u>	<u>4.7%</u>	<u>2.1%</u>	<u>9.7%</u>	<u>9.3%</u>

(1) Exclusive of the Massachusetts School Building Authority debt

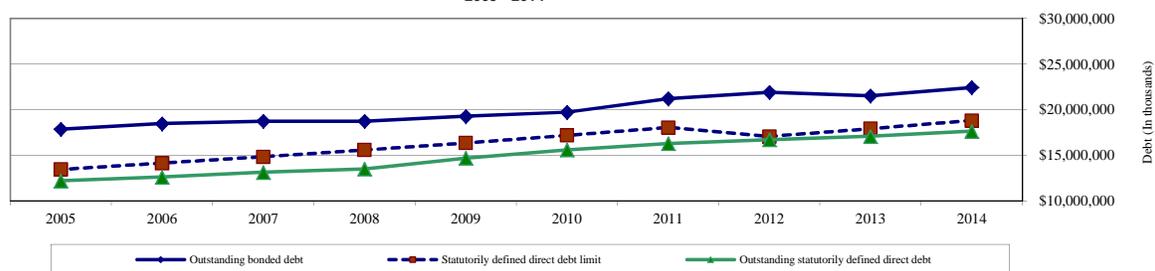
(2) Inclusive of crossover refunding amounts

(3) For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutory defined debt limit, effective July 1, 2012, to \$17.070 billion

See Independent Auditor's Report

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
2005 - 2014**



2009	2008	2007	2006	2005
\$ 19,047,679	\$ 18,611,105	\$ 18,634,913	\$ 18,348,733	\$ 17,785,862
216,890	123,335	102,048	112,673	70,937
19,264,569	18,734,440	18,736,961	18,461,406	17,856,799
(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)	(1,336,741)
-	-	-	-	-
(300)	(375)	(450)	(525)	(600)
216,890	123,335	102,048	112,673	70,937
(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)	(1,908,015)
(921,751)	(946,285)	(946,285)	(1,000,002)	(500,000)
(643,715)	(643,715)	(643,715)	(643,715)	(693,400)
(231,000)	(309,203)	(368,873)	(416,830)	(511,546)
(456,984)	(482,953)	(617,226)	(647,551)	(792,148)
14,691,331	13,504,384	13,132,900	12,599,293	12,185,286
16,365,011	15,585,725	14,843,547	14,136,712	13,463,535
\$ 1,673,680	\$ 2,081,341	\$ 1,710,647	\$ 1,537,419	\$ 1,278,249
10.2%	13.4%	11.5%	10.9%	9.5%

Ten Year Schedule of Pledged Revenue Coverage

Special Obligation Highway Bonds (Motor Fuels Taxation and Motor Vehicle Fees), 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)

	2014	2013	2012	2011	2010
Highway Bonds					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
Pre-2010 Bond Issues					
Tax Receipts.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Annual Debt Service.....	\$ 52,228	\$ 58,922	\$ 58,939	\$ 59,453	\$ 58,931
Debt Service Coverage Ratio.....	3.59	3.17	3.23	3.19	3.20
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	6469	AA+, Aa1, AAA	AA, Aa1, AAA	AA, Aa2, AA+
Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)					
Receipts.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Annual Debt Service.....	\$ 69,921	\$ 58,108	\$ 32,623	\$ 14,318	
Debt Service Coverage Ratio.....	16.44	20.14	34.38	43.76	
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	
Convention Center Bonds					
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 in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Annual Debt Service.....	\$ 36,722	\$ 36,469	\$ 36,345	\$ 35,391	\$ 36,296
Debt Service Coverage Ratio.....	2.99	2.76	2.59	2.40	2.08
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, A1, A				
Grant Anticipation Notes (GANS)					
Notes issued prior to December 2010 ("Senior Federal Highway 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. Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") are secured by all federal highway reimbursements after payment of debt service on the Senior Federal Highway Notes and also by any revenues pledged to the payment of pre-2010 and December 2010 Highway Bonds (as described above) in excess of debt service paid on those bonds. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
Pre-2010 GANS					
Receipts.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Annual Debt Service.....	\$ 176,215	\$ 174,467	\$ 184,394	\$ 188,379	\$ 196,248
Debt Service Coverage Ratio.....	3.40	3.65	4.10	3.31	3.88
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+ ⁽²⁾ , Aa2, AA+
Amount Appropriated for National Federal Highway Spending (Federal Fiscal Year) (billions) (1).....	\$ 43,449	\$ 43,427	\$ 43,896	\$ 44,323	\$ 43,040
Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)					
Receipts.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Annual Debt Service.....	\$ 7,173	\$ 6,402	\$ 4,271	\$ 2,039	
Debt Service Coverage Ratio.....	209.58	246.04	392.10	446.01	
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	

(1) Source: The Federal Budget for Fiscal 2015, Historical Tables, Table 9.6 2014 is estimated. *Uninsured rating, if available.

(2) Reflects rating recalibration

See Independent Auditor's Report

2009	2008	2007	2006	2005
------	------	------	------	------

\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545	\$ 48,378
3.21	3.45	2.51	4.24	4.06
AA+, Aa3, AA+	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA

\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964	\$ 18,350
2.04	2.22	1.92	1.62	2.76
NA, A1, A	NA, A2, A	A2, A	A2, A	A2, A

\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712	\$ 95,223
4.05	2.19	2.18	2.13	4.72
AA, Aa3, AA+	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA

\$ 39,358	\$ 36,747	\$ 34,373	\$ 33,975	\$ 31,433
-----------	-----------	-----------	-----------	-----------

**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 thousands)

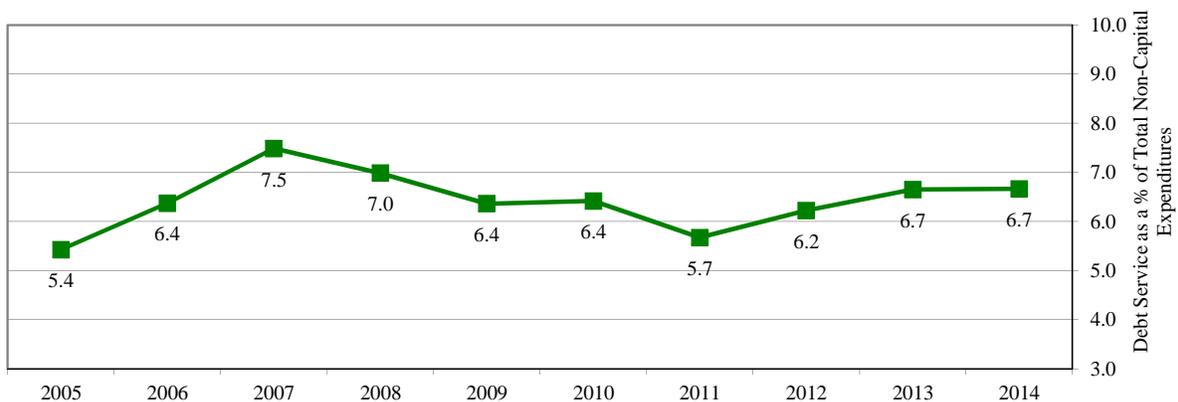
Fiscal year ended June 30	Debt service(1)	Total Non-capital expenditures(2)	Ratio (%)
2014	\$ 2,928,801	\$ 43,953,346	6.7
2013	2,753,715	41,403,978	6.7
2012	2,504,253	40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,486,403	35,608,652	7.0
2007	2,538,134	33,918,074	7.5
2006	2,028,441	31,831,391	6.4
2005	1,719,489	31,699,602	5.4

(1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

(2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

See Independent Auditor's Report

Debt Service to Non-Capital Expenditures Ratio 2005 - 2014



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 (%)
2014	\$ 1,481,374	\$ 1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	1.06
2009	1,825,018	1,066,175	1.71
2008	1,753,149	831,978	2.11
2007	1,725,941	853,752	2.02
2006	1,499,896	825,170	1.82
2005	1,613,858	766,686	2.10

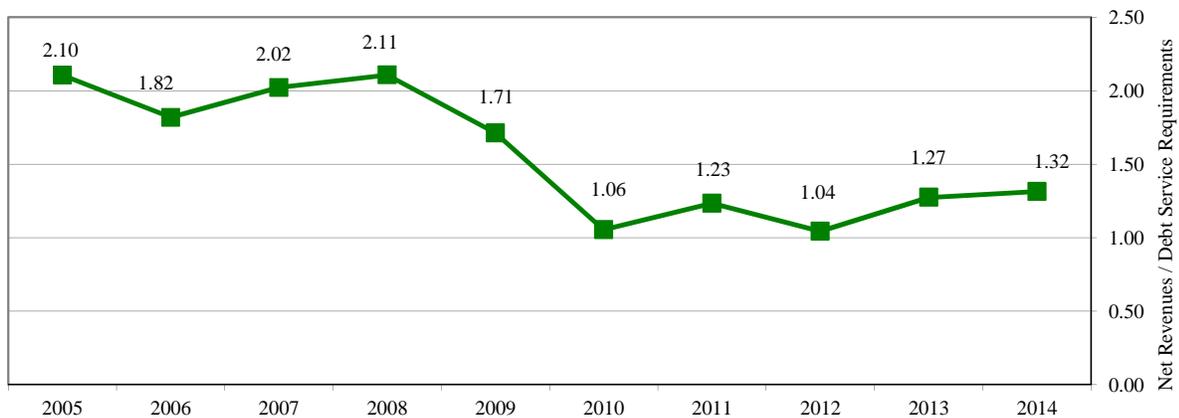
(1) Net revenues represent revenue pledged and available for the repayment of revenue bonds. In most cases, revenue pledged for the bonds is available prior to use for any other purposes. Thus operating expenses paid from these revenue sources are not applicable when calculating debt service coverage and are not subtracted from pledged revenues.

(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.

See Independent Auditor's Report

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 2005 - 2014



Ten-Year Schedule of Massachusetts and United States Resident Population

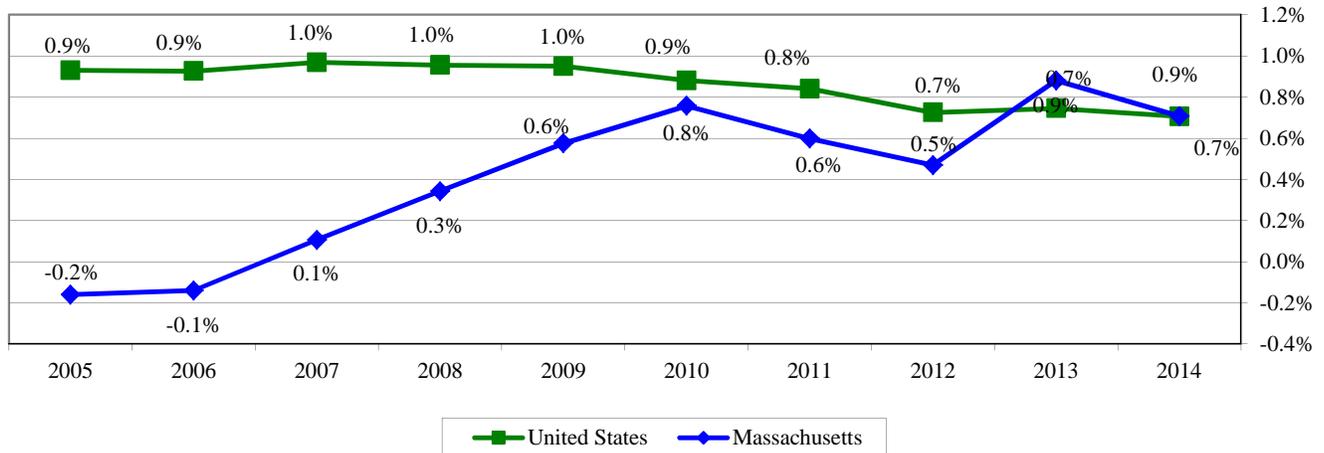
(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2014	316,129	0.7%	6,693	0.7%	2.1%
2013	313,914	0.7%	6,646	0.9%	2.1%
2012	311,592	0.7%	6,588	0.5%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%

(1) Population estimates have been restated using most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau Data.

See Independent Auditor's Report

**Massachusetts and United States Estimated Year-to-Year Population Change
2005 - 2014**



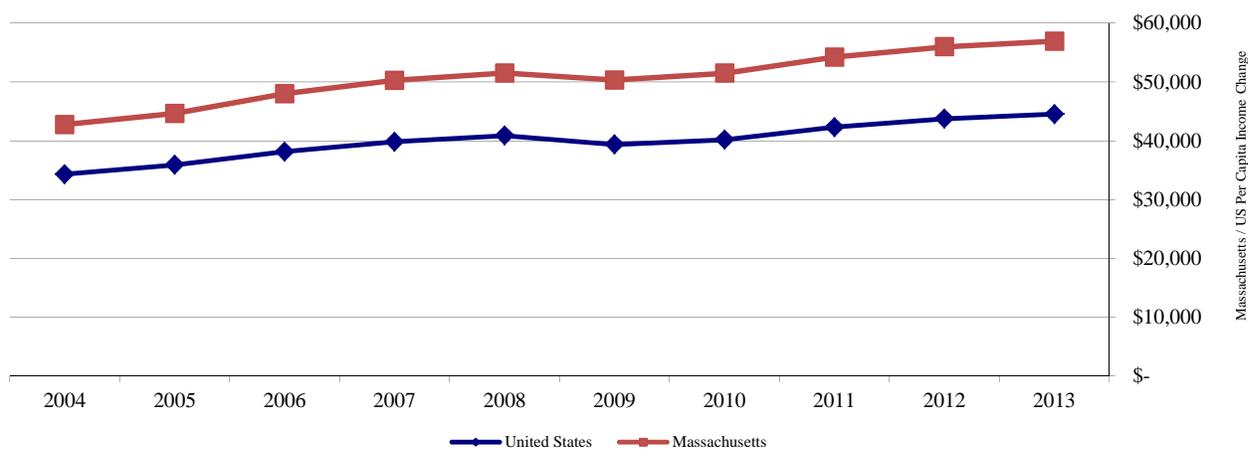
Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2013	\$ 44,543	1.8%	\$ 56,923	1.7%	127.8%
2012	43,735	3.4%	55,976	3.2%	128.0%
2011	42,298	5.3%	54,218	5.3%	128.2%
2010	40,163	2.0%	51,488	2.4%	128.2%
2009	39,357	-3.7%	50,304	-2.4%	127.8%
2008	40,873	2.7%	51,515	2.5%	126.0%
2007	39,804	4.4%	50,257	4.7%	126.3%
2006	38,127	6.2%	47,993	7.5%	125.9%
2005	35,888	4.6%	44,646	4.5%	124.4%
2004	34,300	5.0%	42,726	5.2%	124.6%

See Independent Auditor's Report

Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on May 30, 2014.

**Massachusetts vs. United States Year-to-Year Per Capita Net Income
Calendar Years 2004 - 2013**



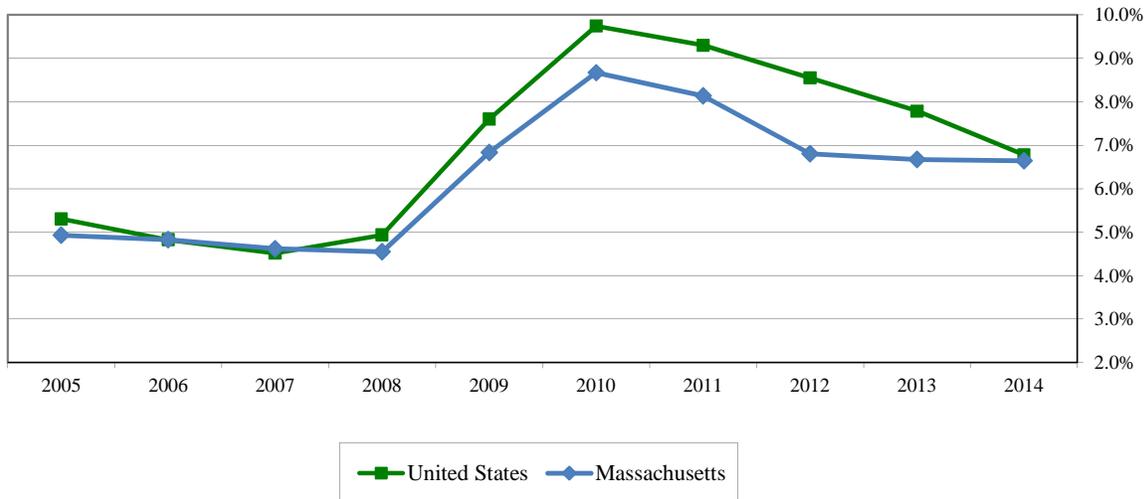
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,
Unemployment and Unemployment Rates
For Massachusetts and the United States**

(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 %	
2014	3,492	232	6.6%	155,466	10,534	6.8%	98.1%
2013	3,477	232	6.7%	155,337	12,092	7.8%	85.7%
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.6%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.5%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%

See Independent Auditor's Report

**Massachusetts and United States Average Unemployment Rates
FY2005 to FY2014**



Source: Federal Bureau of Labor Statistics, November 2014. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

Largest Private Sector Massachusetts Employers 2014 and 2005
(Alphabetical Order)

2014			2005		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
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	Boston University		
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	Friendly Ice Cream Corporation	Wilbraham	Food Service
Harvard University	Cambridge	University	General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University	Harvard University	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
The Stop & Shop Supermarkets , Co.	Quincy	Supermarket	S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2014 survey. In addition, Bank of America NA, Home DepotUSA, 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.

See Independent Auditor's Report

**Full Time Equivalent Employees
By Function / Program
Last Ten Years**

Functions / Programs	2014	2013	2012	2011	2010
General government.....	7,637	7,627	7,408	8,020	8,280
Judiciary.....	7,195	7,297	7,087	7,111	7,388
Energy and environmental affairs.....	2,629	2,684	2,685	2,737	2,783
Health and human services.....	21,496	21,996	21,042	21,011	21,401
Transportation and construction.....	4,301	4,243	4,230	4,209	4,127
Education.....	1,099	928	922	1,037	1,575
Public safety and homeland security.....	17,215	16,907	16,503	15,785	15,857
Housing and economic development.....	891	868	845	831	846
Higher Education:					
University of Massachusetts.....	14,066	14,688	14,159	14,159	14,031
State universities.....	4,969	4,856	4,747	4,487	4,282
Community colleges.....	4,990	5,111	4,834	4,684	4,276
Totals.....	86,488	87,205	84,462	84,070	84,846
Percentage Change	-0.8%	3.2%	0.5%	-0.9%	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 construction includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security (see page 23 of Management's Discussion and Analysis for details).

See Independent Auditor's Report

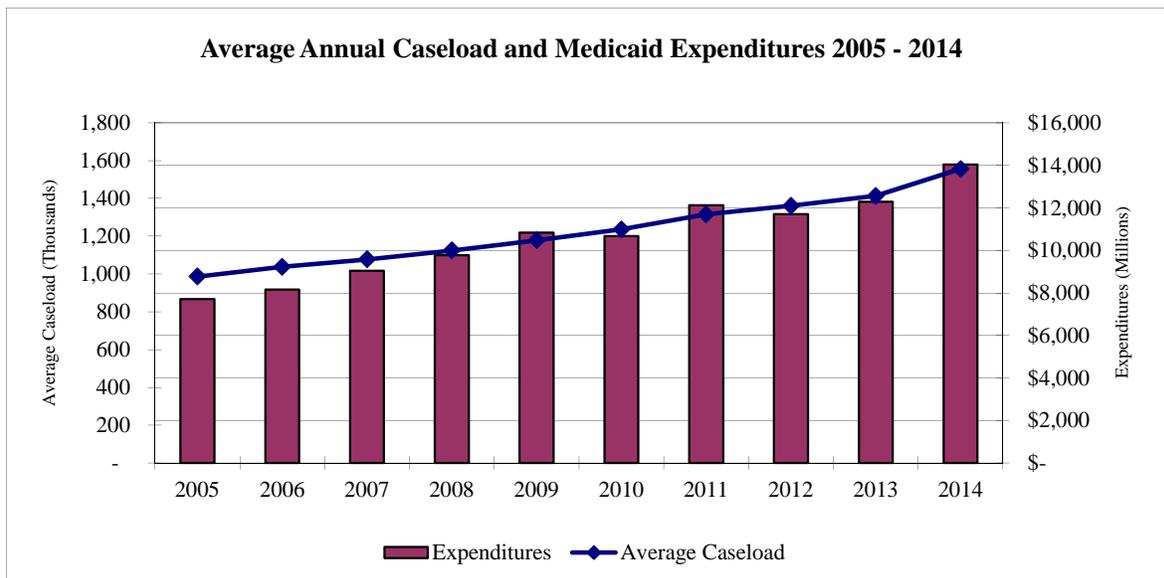
2009	2008	2007	2006	2005	Change - 2014 from 2005
6,277	6,368	6,204	6,177	5,750	32.8%
7,821	8,021	7,993	7,635	7,467	-3.6%
2,955	2,928	2,847	2,686	2,744	-4.2%
22,605	23,322	22,972	22,935	22,855	-5.9%
3,043	2,892	1,903	2,708	2,759	55.9%
844	615	617	651	587	87.2%
13,951	14,242	14,550	13,517	13,152	30.9%
2,314	2,302	2,339	2,264	2,299	-61.2%
13,814	13,651	13,602	13,360	12,807	9.8%
4,650	4,519	4,495	4,301	4,224	17.6%
4,781	4,775	4,689	4,603	4,523	10.3%
83,055	83,636	82,211	80,837	79,167	9.2%
-0.7%	1.7%	1.7%	2.1%	4.0%	

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
2014*	1,556	\$ 14,035	\$ 9,020
2013	1,413	12,286	8,695
2012	1,361	11,708	8,602
2011	1,315	12,124	9,220
2010	1,263	10,678	8,454
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

See Independent Auditor's Report



* Includes members in transitional coverage program starting January 1, 2014.

**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
2013	3,211	15,674	9,058	44,438	72,381	0.16%	85.7%	14.3%
2012	3,212	15,639	9,038	44,379	72,268	0.13%	85.8%	14.2%
2011	3,212	15,051	9,611	44,300	72,174	0.20%	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.20%	81.1%	18.9%
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	0.40%	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%

*2010 was restated to include both urban and rural roads.

*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development
Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.*

See Independent Auditor's Report

**Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years**

Functions / Programs	Survey Year 2014	Survey Year 2013	Survey Year 2012	Survey Year 2011	Survey Year 2010
General Government:					
Total Acreage.....	3,114	3,101	3,039	2,993	2,373
Number of Improvements.....	513	333	279	255	227
Gross square footage.....	10,916,681	9,076,550	7,690,761	7,206,548	6,797,819
Judiciary:					
Total Acreage.....	149	148	148	141	141
Number of Improvements.....	74	73	73	68	68
Gross square footage.....	5,310,049	4,700,920	4,700,920	4,787,564	4,787,564
Energy and environmental affairs					
Total Acreage.....	668,631	652,400	642,799	627,286	623,952
Number of Improvements.....	1,806	2,192	2,191	2,182	2,183
Gross square footage.....	6,507,161	7,287,961	7,283,666	7,295,922	7,299,322
Housing and economic development:					
Total Acreage.....	-	2	2	2	2
Number of Improvements.....	4	5	5	6	6
Gross square footage.....	57,812	68,412	68,412	77,642	77,642
Health and human services:					
Total Acreage.....	5,834	5,829	6,407	6,449	7,196
Number of Improvements.....	907	792	855	866	866
Gross square footage.....	10,995,096	9,759,611	10,923,090	10,834,266	10,809,259
Transportation and public works:					
Total Acreage.....	7,014	6,965	6,972	7,013	6,966
Number of Improvements.....	675	921	919	918	918
Gross square footage.....	1,989,583	4,876,689	4,876,689	4,873,783	4,876,689
Education:					
Total Acreage.....	208	208	208	233	233
Number of Improvements.....	40	43	43	43	43
Gross square footage.....	205,503	272,352	272,352	272,352	272,352
Public safety and homeland security:					
Total Acreage.....	19,166	19,169	19,172	19,158	18,693
Number of Improvements.....	1,083	997	990	991	1,029
Gross square footage.....	14,402,161	12,213,112	12,191,229	12,141,396	12,685,447
Higher Education:					
Total Acreage.....	7,128	7,473	7,254	7,178	7,169
Number of Improvements.....	873	1,009	1,007	987	975
Gross square footage.....	29,666,140	32,594,800	32,523,400	32,144,815	32,117,854
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage.....	711,244	695,295	686,001	670,454	666,725
Number of Improvements.....	5,975	6,365	6,362	6,316	6,315
Gross square footage.....	80,050,186	80,850,407	80,530,519	79,634,288	79,723,948
Percentage Change for Commonwealth:					
Acreage.....	2.3%	1.4%	2.3%	0.6%	2.7%
Improvements.....	-6.1%	0.0%	0.7%	0.0%	0.1%
Gross square footage.....	-1.0%	0.4%	1.1%	-0.1%	1.0%

Source: *Executive Office of Administration and Finance, Division of Capital Asset Management.*
See <http://www.mass.gov/Eoaf/docs/dcam/dlforms/>

See Independent Auditor's Report

Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005
2,495	1,858	1,681	2,050	2,772
240	163	84	232	300
6,660,792	5,736,028	4,767,751	6,745,962	8,429,827
141	145	135	118	117
69	71	71	68	68
4,826,836	5,080,836	4,889,645	4,351,128	4,884,206
606,662	591,511	586,173	569,282	558,347
2,170	2,162	2,156	2,159	2,168
7,246,280	7,242,870	7,185,678	7,057,840	7,039,038
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	77,642	76,812
7,166	7,259	7,604	7,615	7,311
902	980	1,059	1,001	992
11,214,034	12,270,433	13,371,858	12,333,804	12,251,382
7,050	6,930	6,933	7,217	7,175
915	915	914	910	908
4,876,936	4,876,936	4,856,942	4,845,365	4,812,965
233	233	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
18,331	18,324	18,319	17,530	17,515
1,028	1,023	1,031	1,026	1,038
12,632,897	12,631,497	12,768,250	12,885,742	13,137,177
7,151	7,149	7,133	7,089	7,138
937	940	932	933	941
31,101,329	31,197,929	30,947,996	30,870,743	30,997,427
649,231	633,412	628,212	611,136	600,609
6,310	6,303	6,296	6,378	6,464
78,909,098	79,386,523	79,138,114	79,440,578	81,901,186
2.5%	0.8%	2.8%	1.8%	0.9%
0.1%	0.1%	-1.3%	-1.3%	3.9%
-0.6%	0.3%	-0.4%	-3.0%	0.6%

**Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years**

Academic Year	Fall 2013	Fall 2012	Fall 2011	Fall 2010	Fall 2009
<u>ENROLLMENT</u>					
<u>University System</u>					
Undergraduate (FTE).....	48,893	48,136	47,432	48,018	44,543
Graduate (FTE).....	12,442	12,202	12,048	11,734	10,177
System Enrollment.....	61,335	60,338	59,480	59,752	54,720
<u>State University System</u>					
Undergraduate (FTE).....	35,429	34,773	35,639	36,721	34,129
Graduate (FTE).....	7,704	7,894	6,224	7,227	4,582
System Enrollment.....	43,133	42,667	41,863	43,948	38,711
<u>Community College System</u>					
Undergraduate (FTE).....	64,584	62,445	64,586	64,971	60,602
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>DEGREES CONFERRED</u>					
<u>University System</u>					
Certificates (MD's).....	376	426	348	246	329
Associate's.....	96	121	97	100	111
Bachelors.....	11,544	10,910	10,399	9,958	9,362
Masters.....	3,559	3,442	3,360	3,242	3,029
Doctoral.....	502	486	450	414	400
Cert. of Adv. Grad. Study.....	77	62	89	87	79
Post-Bacc. Certificate.....	691	664	659	550	509
First Professional.....	79	103	43	47	-
Total Degrees.....	16,924	16,214	15,445	14,644	13,819
<u>State University System</u>					
Certificates.....	34	37	29	35	572
Bachelors.....	8,184	8,024	7,722	7,190	6,886
Masters.....	2,478	2,327	2,404	2,376	2,467
Cert. of Adv. Grad. Study.....	114	108	143	116	170
Post-Bacc. Certificate.....	327	371	362	408	362
Total Degrees.....	11,137	10,867	10,660	10,125	10,457
<u>Community College System</u>					
Certificates.....	3,365	2,929	2,888	3,020	2,770
Associates.....	11,341	10,772	10,404	9,693	9,257
Total Degrees.....	14,706	13,701	13,292	12,713	12,027
Total All Systems - Degrees.....	42,767	40,782	39,397	37,482	36,303

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

See Independent Auditor's Report

Fall 2008	Fall 2007	Fall 2006	Fall 2005	Fall 2004	Change - 2013 from 2004
42,768	40,806	39,283	38,286	37,598	30.0%
9,460	9,328	8,906	8,549	8,494	46.5%
52,228	50,134	48,189	46,835	46,093	33.1%
33,040	32,106	31,384	30,464	29,051	22.0%
4,495	4,428	4,352	4,258	8,658	-11.0%
37,535	36,535	35,736	34,722	37,709	14.4%
54,228	51,257	49,347	48,555	50,972	26.7%
2009	2008	2007	2006	2005	Change - 2014 from 2005
280	270	268	260	167	125.1%
103	96	117	99	95	1.1%
8,763	8,437	8,191	8,089	8,205	40.7%
2,882	2,808	2,503	2,484	2,588	37.5%
381	390	443	371	389	29.0%
70	86	77	97	88	-12.5%
173	133	146	115	63	996.8%
-	-	-	-	-	100.0%
12,652	12,220	11,745	11,515	11,595	46.0%
605	597	615	556	540	-93.7%
6,621	6,328	6,207	5,885	5,549	47.5%
2,343	2,318	2,201	2,190	2,048	21.0%
157	224	151	179	142	-19.7%
406	347	431	361	369	-11.4%
10,132	9,814	9,605	9,171	8,648	28.8%
2,587	2,495	2,297	2,422	2,278	47.7%
8,549	8,247	7,942	8,024	7,993	41.9%
11,136	10,742	10,239	10,446	10,271	43.2%
33,920	31,986	31,589	31,132	30,514	40.2%

Calculation of Transfers: Stabilization Fund

June 30, 2014
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended by Section 155 of Chapter 139 of the Acts of 2012, and subsequent acts, which superseded certain parts of Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Children and Families Protection	Commonwealth Transportation	Massachusetts Tourism	Local Capital Projects	Manufacturing	Community College	Total
Budgeted Fund Undesignated Balances.....	\$ 167,787	\$ 1	\$ (102,495)	\$ 22,963	\$ (20,425)	\$ (12,608)	\$ (32,444)	\$ 22,779
Fund Balance Deficit Elimination Transfers Per Sec. 5c of Ch. 29	<u>(148,018)</u>	<u>-</u>	<u>102,495</u>	<u>(19,954)</u>	<u>20,425</u>	<u>12,608</u>	<u>32,444</u>	<u>-</u>
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus).....	19,769	1	-	3,009	-	-	-	22,779
Year-end Transfers to the General Fund to Fund Statutory Allocations.....	3,010	(1)	-	(3,009)	-	-	-	-
<u>Disposition of Consolidated Net Surplus per Sec. 242(a) of Chapter 165 of the Acts of 2014, as Amended:</u>								
To the Massachusetts Life Sciences Investment Fund.....	(11,390)	-	-	-	-	-	-	(11,390)
To the Massachusetts Community Preservation Trust Fund.....	<u>(11,390)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,390)</u>
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 242(a) of Ch. 165 of the Acts of 2014, as Amended.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Stabilization Balance Reconciliation:

Balance as of July 1, 2013.....	1,556,657
Capital Gains Tax Transfers to Stabilization Fund during FY 2014 per Chapter 29, Section 5G.....	45,457
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H.....	414,310
Investment income, certain tax revenues and other recoveries.....	6,414
Change in Market Value from General Fund per Sec.172(b) of Ch. 38 of the Acts of 2013.....	1,712
Less Transfers from Stabilization Fund:	
Investment Income to General Fund per Sec.172(b) of Ch. 38 of the Acts of 2013.....	(7,259)
5% Capital Gains Tax Transfer to the State Retiree Benefits Trust Fund per Chapter 29, Section 5G.....	(2,273)
5% Capital Gains Tax Transfer to the State Pension Liability Fund per Chapter 29, Section 5G.....	(2,273)
Judgments and Settlements In Excess of \$10 million Transferred to the General Fund per Sec. 25 of Ch. 237 of the Acts of 2014.....	(414,310)
To General Fund Per Sec. 172(a) of Ch. 38 of the Acts of 2013.....	<u>(350,000)</u>
Total Transfers from Stabilization Fund during FY 2014.....	(776,115)
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above.....	<u>-</u>
Stabilization Fund Balance as of June 30, 2014.....	<u>\$ 1,248,435</u>

See Independent Auditor's Report

Calculation Of Transfers: Tax Reduction Fund

June 30, 2014
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I 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.....	\$ 1,248,435
Allowable Stabilization Fund balance.....	<u>5,320,973</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,248,435
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,248,435</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>

See Independent Auditor's Report

MASSACHUSETTS GENERAL INFORMATION

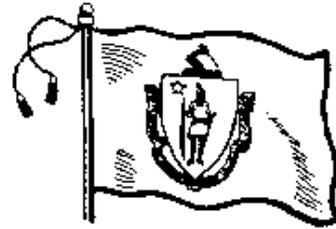
Admitted to Union (6th State): 1788
Population: 6,692,824

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



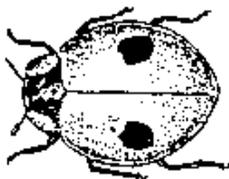
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

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