

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2005*

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

*This document and related information are available at*



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*The Office of the Comptroller's home page is [www.mass.gov/osc](http://www.mass.gov/osc)*



Due to its size, Boston is a very accessible city, but it may be that its reputation as a walking city relies on the creation of one of America's first historic walking tours, the Freedom Trail.

Sixteen historic sites, all significant in this country's early struggle for freedom, are connected by a 2.5 mile red brick line that not only links one place to another, but the past to the present. What makes the sites on the Freedom Trail so special is that they are not recreations or adaptations. They are real. Each one has a role in the beginning of a nation, each one connects us to the spirit of Boston's early patriots whose hearts were ignited by the spark of liberty.

The Freedom Trail Foundation was established in 1958 and continues to work to preserve this perfect introduction to Colonial Revolutionary Boston, conducting tours with spirited costumed historic characters telling stories about the people, the places, the events and the drama of the American Revolution, and sharing lively anecdotes about the vitality of contemporary Boston.

To travel back to Revolutionary Boston — to understand the people, the events, and ideals of the 18th century — is a great leap for us today. But the sites along the Freedom Trail do speak eloquently of that time. Bostonians and other colonists shared a notion of liberty that was precious and worth fighting for. The Freedom Trail sites include scenes of those critical events in Boston's and the nation's struggles for freedom.

*Unless otherwise noted, all photography and content courtesy of the Freedom Trail Foundation.*

*Special thanks to Mimi La Camera, President of the Freedom Trail Foundation,  
the National Park Service  
and to photographer Steve Dunwell.*

*Cover: Bartlett's Illustrated Map of Boston, Places of Amusement & Its Architectural Features, 1871  
Courtesy of the State Library of Massachusetts*

*Special thanks to Jim Guan of the Office of the Comptroller for his photography and assistance.*

# Comprehensive Annual Financial Report

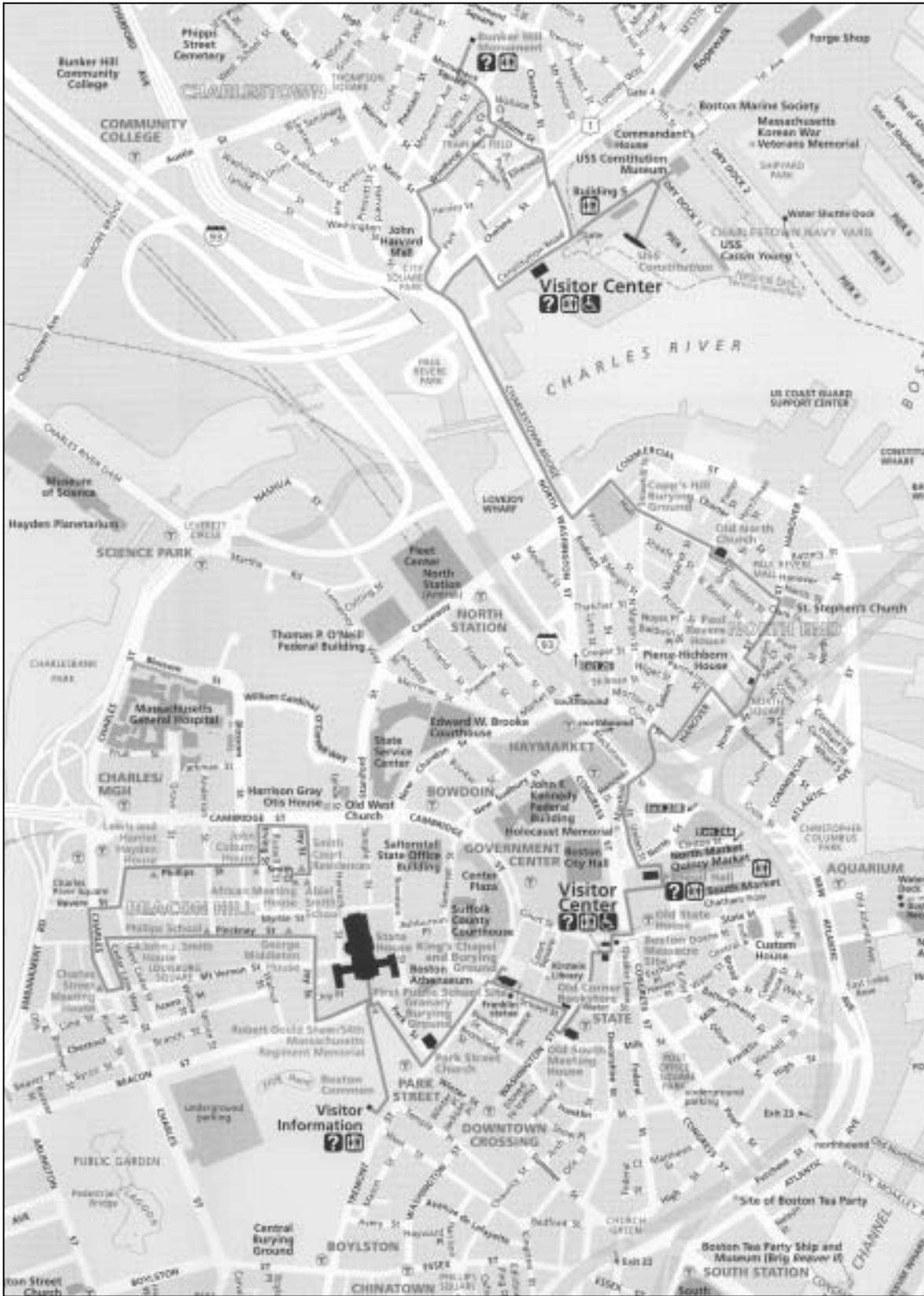
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Freedom Trail Map – Courtesy of National Park Service

# ***Introductory Section***

*Letter of Transmittal*

*Acknowledgements*

*Commonwealth Organizational Structure*

*Principal Commonwealth Officers*

*Advisory Board to the Comptroller*

*Certificate of Achievement*



**Paver**

## **Boston Common**



Originally owned by William Blackstone who came to Boston in 1622, the Boston Common is America's oldest public park and the starting point of the Freedom Trail. Situated on 44 acres of open land, it was used as a common pasture for grazing cattle owned by the townspeople of Boston. The Common later became a "trayning" field for the militia and was used as a British Army camp during the occupation of Boston.

Over many generations, the Common has been the site of hangings, duels, public celebrations and spirited oratory. The gallows were removed in 1817 and 20 years later the grazing of cattle was forbidden. After the War of 1812, it was declared a "pleasure ground" and it was formally landscaped.

The Common is located in the heart of downtown Boston and is linked to the Public Garden, the first botanical garden in the country and home to the famous swan boats since 1877.

Today people use the Common as a gathering and meeting place throughout the seasons. Abundant flower displays herald spring, children frolic in the Frog Pond in summer and picnickers enjoy a series of free concerts, the magnificent trees are a riot of color in the fall and in winter are illuminated with lights. Boston was the first city to host a New Year's celebration — First Night — and each year Ice Sculptures appear all throughout the Common.



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

*December 22, 2005*

*To the Citizens of the Commonwealth of Massachusetts,  
Governor Mitt Romney, Lieutenant Governor Kerry Healey,  
and Honorable Members of the General Court*

I am pleased to transmit the Commonwealth's fiscal 2005 (FY05) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer 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 as "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 FY05 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within reports from 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 on pages 40 to 44 present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting.

All fixed assets, including road and bridge infrastructure, are added to the statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a “net assets format.” This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth’s government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management’s Discussion and Analysis (MD&A) section, and the Commonwealth’s Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth’s MD&A can be found immediately following the independent auditors’ report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, warehousing and public utilities sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use in the world. It specified three branches of Government: Executive, Legislative, 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. The Massachusetts Senate is the second oldest democratic deliberative body in the world.

The table below reconciles the fund balances on three basis of accounting, the statutory basis presented in separately issued financial statement this past October, and the fund basis and entity wide basis statements included in this report.

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

<b>Governmental Funds - Statutory Basis, June 30, 2005:</b>	
Budgeted fund balance.....	\$ 2,487.2
Non Budgeted Special Revenue fund balance.....	1,686.1
Capital Projects fund balance.....	<u>(160.9)</u>
<b>Governmental fund balance - Statutory Basis, June 30, 2005.....</b>	<b>\$ 4,012.4</b>
Plus: Expendable Trust and similar fund statutory balances that are	
considered Governmental Funds for GAAP reporting purposes.....	337.1
Owner Controlled Insurance Program Net Assets.....	<u>132.2</u>
<b>Net adjustment to governmental fund balance.....</b>	<b><u>469.3</u></b>
<b>Adjusted statutory governmental fund balance.....</b>	<b>4,481.7</b>
Accruals, net of allowances and deferrals for increases /(decreases):	
Taxes.....	1,267.9
Medicaid.....	(209.2)
Master Settlement Agreement receivables.....	127.2
Compensated absences.....	(5.2)
Contract Assistance due to Component Units.....	(277.8)
Other accruals:	
Liabilities related to universal health.....	(163.3)
Claims, judgements and other risks.....	(57.9)
Workers' compensation and group insurance.....	(102.3)
Other accruals, net.....	<u>(12.6)</u>
<b>Net change to governmental fund balances due to accruals.....</b>	<b><u>566.9</u></b>
<b>Governmental fund balance (fund perspective).....</b>	<b>5,048.6</b>
Plus: Fixed assets including infrastructure.....	29,595.3
Less: Accumulated depreciation.....	(7,375.8)
Plus: Deferred revenue, net of other eliminations.....	573.5
Less: School construction grants payable.....	(8,397.3)
Central Artery / Tunnel Project assets to be transferred to MTA .....	(11,640.7)
Bonds payable, current and long term.....	(17,856.8)
Other current and long term liabilities.....	<u>(1,490.9)</u>
<b>Net changes to entity wide statements.....</b>	<b><u>(16,592.7)</u></b>
<b>Total governmental net assets (entity wide perspective).....</b>	<b>\$ <u>(11,544.1)</u></b>

**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 29 independent public authorities and the State Employees' and Teachers' Retirement Systems. These entities defined as component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are

further described in Note 1 to the financial statements. A new component unit, the Massachusetts School Building Authority was established for FY05 in order to fund school construction in the Commonwealth. The results of its operations are blended into the Commonwealth's operations.

## **ECONOMIC CONDITION**

By most measures, the Commonwealth has outperformed the national economy in recent years. This year was no exception and the trend might continue in the future. Over the last ten years, the Commonwealth's unemployment rate has ranged from .3% to 1.3% below the national unemployment rate. This is largely due to the Commonwealth's large employment base from the education and health and human services sectors, which stabilize the economy. Per capita net income also over the past decade has been at least 20% ahead of the national average. Further economic data is found in the statistical section to this report.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, Deloitte & Touche, LLP, together with subcontractors and assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2005. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditor's report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.mass.gov/sao>.

The Office of the Comptroller prepares these financial statements and assumes responsibility 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 the cost of 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.

## FINANCIAL SYSTEM

In September of 2002, the Commonwealth undertook a two-year project to upgrade its statewide accounting system to a web-based software with minimal customization.

The issuance of this report marks the completion of the first full year of implementation. The system is meeting the major success factors outlined at the initiation of the project, including:

- The system went “live” on schedule at the opening of FY05.
- The project was “under budget,” returning \$2.4 million of the project contingency fund.
- The system was available to users 96% of its scheduled “up time” – 8:00AM to 6:00PM Monday through Friday. The system is usually available for additional time in the morning outside these planned hours.
- 100% of critical payments were issued on schedule. The system issued a payment file to the Treasurer each day with the exception of two. On these two days, the problem was corrected within 24 hours.
- 1.3 million payments, totaling \$31.5 Billion, have been issued by the system.
- The financial statements contained herein were prepared using the system and issued on schedule with an unqualified opinion included on pages 15 through 17. No material weaknesses were identified with the system.

Some challenges remain:

- The nightly cycle still occasionally requires manual intervention to complete on schedule.
- On-line response time occasionally slows down preventing users from working effectively in the system.
- Users still request additional training and assistance in some of the more complicated areas of the application.

While these areas result in frustration, they are not serious enough to impede the Commonwealth’s functions. The Chief Information Officer of the Commonwealth, the vendor, CGI-AMS and I have an aggressive action plan monitored on a weekly basis to address these remaining issues.

I again would like to express my thanks to the many dedicated employees within the Office of the State Comptroller and across the government who have worked to upgrade the Commonwealth’s accounting system, MMARS. This has been a significant effort but will provide enduring benefits to the Commonwealth

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth

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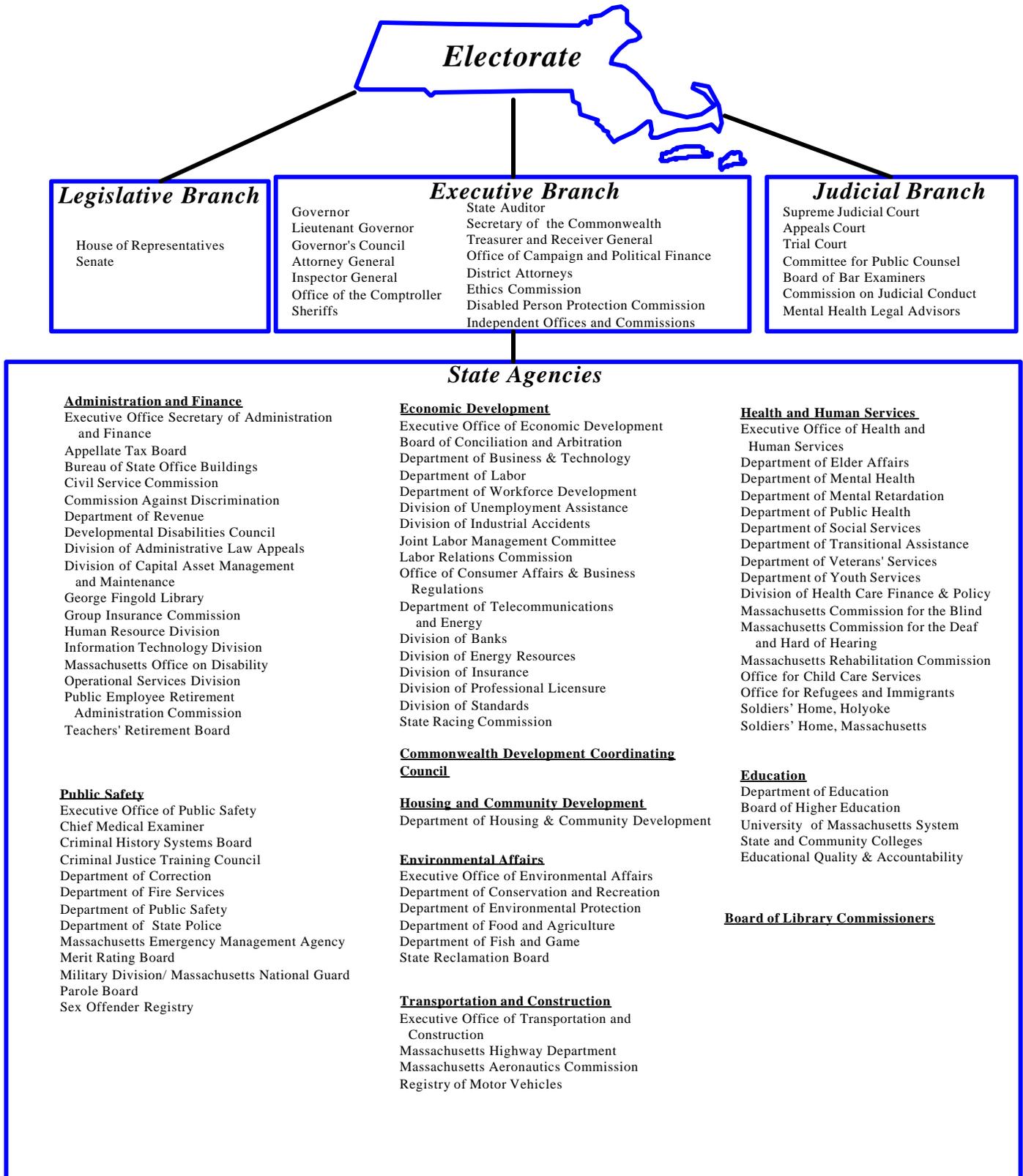
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*\*As of June 30, 2005*

## **CONSTITUTIONAL OFFICERS**

Mitt Romney  
*Governor*

Kerry Healey  
*Lieutenant Governor*

William F. Galvin  
*Secretary of State*

Thomas F. Reilly  
*Attorney General*

Timothy P. Cahill  
*Treasurer and Receiver-General*

A. Joseph DeNucci  
*Auditor*

## **LEGISLATIVE OFFICERS**

Robert E. Travaglini  
*President of the Senate*

Salvatore F. DiMasi  
*Speaker of the House*

## **JUDICIAL OFFICERS**

Margaret H. Marshall  
*Chief Justice, Supreme Judicial Court*

Christopher J. Armstrong  
*Chief Justice, Appeals Court*

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

**ADVISORY BOARD TO THE COMPTROLLER**

Mr. Thomas H. Trimarco (Chair)  
*Secretary for Administration and Finance*

A. Joseph DeNucci  
*Auditor*

Timothy P. Cahill  
*Treasurer and Receiver-General*

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

Thomas F. Reilly  
*Attorney General*

Thomas M. Whitney  
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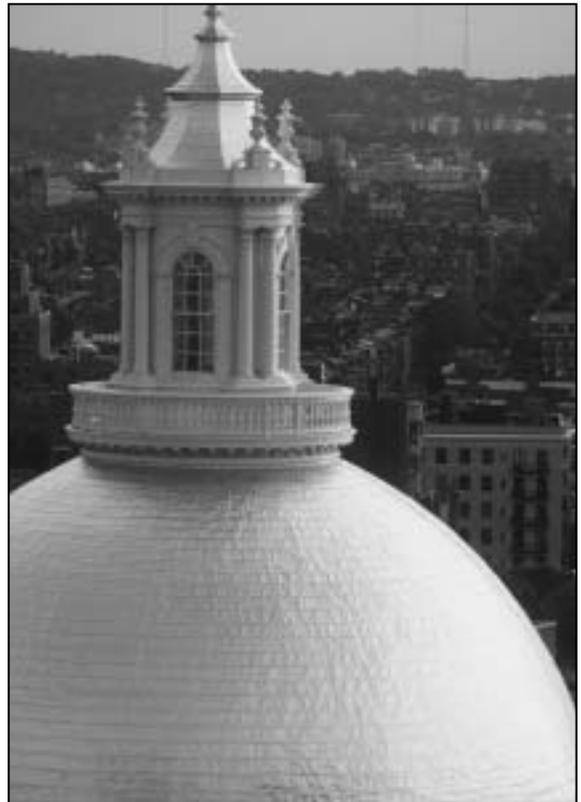
*Photographs by Steve Dunwell*

## **The State House**

Designed by Charles Bulfinch, the State House was completed on January 11, 1798, and widely acclaimed as one of the more magnificent and well-suited buildings in the country. The land was originally owned by John Hancock, Massachusetts' first elected governor, and used as his cow pasture. The cornerstone for the building was laid in 1795 in a ceremony overseen by Governor Samuel Adams and Grandmaster of the Masons, Paul Revere.

Today, the State House is the oldest building on Beacon Hill, and its grounds cover 6.7 acres of land. In 1802, the original wooden shingled dome was covered with copper from Paul Revere's foundry to prevent water leakage. In 1874, the dome was gilded with 23-carat gold leaf in time for the centennial celebration of America's independence.

In the House of Representatives balcony hangs a large wooden Sacred Cod, a symbol of the Commonwealth's economic beginnings, as the fishing industry provided the Puritans with food, fertilizer and revenue from trade.



# 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, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carla E. Perry*

President

*Jeffrey R. Egan*

Executive Director



*Photograph by Steve Dunwell*

## **Park Street Church**

This church was founded in 1809 in the midst of an exciting chapter in the nation's history. Ten people, including author Oliver Wendell Holmes, gathered in the mansion of William Thurston on Beacon Hill on February 27, 1809, to discuss the organization of a church in this area. British architect Peter Banner designed the brick building in a Georgian style with a 217-foot steeple.

During the War of 1812, gunpowder was stored beneath the church and it was called Brimstone Corner as Brimstone (which is sulfur) was a key component in making gunpowder. It is also the site of the first Sunday school in 1818, and the first prison aid society in 1824.

"America" (My Country 'Tis of Thee), by Samuel Francis Smith, was first sung at the Park Street Church on July 4, 1831. The church was also where William Lloyd Garrison delivered his first major public address against slavery, "Dangers to the Nation," in 1829. In 1849, abolitionist Senator Charles Sumner spoke to the American Peace Society here on "The War System of the Nations." The Park Street Church is still known and respected for its missionary and social work.

# *Financial Section*

*Independent Auditors' Report*

*Management's Discussion and Analysis*

*Basic Financial Statements*

*Notes to The Basic Financial Statements*

*Required Supplementary Information Other Than  
Management's Discussion and Analysis*

*Other Supplementary Information*



## **The Black Heritage Trail**

The Freedom Trail meets another famous Boston trail at the Robert Gould Shaw/54th Massachusetts Regiment Memorial on Beacon Hill, where the Black Heritage Trail begins.

The 54th Massachusetts Regiment Volunteer Infantry was the first black regiment to be recruited in the North. Robert Gould Shaw, a young white officer from a prominent Boston family, volunteered for its command.

On July 18, 1863, the 54th Regiment became famous for leading an assault on Fort Wagner. In this hard-fought battle, Shaw and many members of the regiment were killed. Sergeant William Carney of New Bedford was wounded three times in saving the American flag from Confederate capture. As a result of his bravery, he became the first African-American to be awarded the Congressional Medal of Honor. The Memorial sculpture by August Saint-Gaudens was dedicated in 1897 and the story of the Regiment was depicted in the movie "*Glory*."



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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the financial statements of the institutions of higher education or their component units for the year ended June 30, 2005, which represent 83.5% percent and 53.6% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets and Statement of Activities of the Government-wide Financial Statements. We did not audit 98.7% and 97.4% respectively of the total assets and total revenues of the Commonwealth's component units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Massachusetts State Lottery Commission for the year ended June 30, 2005, which represent 11.1% and 13.4% of the assets and the revenues, respectively of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and 4.4% and 13.4% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Owner Controlled Insurance Program for the year ended June 30, 2005, which represent 1.3% and 0.01% of the assets and the revenues, respectively, of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and 0.5% and 0.01% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust for the year ended June 30, 2005, which represent 94.3% and 100% of the total assets and total additions, respectively, of the Fiduciary Fund Types (as presented in the Fiduciary Fund Financial Statements). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in 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, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth of Massachusetts' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

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, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, for the year ended June 30, 2005 the Commonwealth adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement 3*. This Statement requires disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk where such risks are deemed to exist. Deposit and investment policies are also disclosed.

The Management's Discussion and Analysis, on pages 17 through 29, as well as the Budgetary Comparison Schedule – All Major Funds and notes thereto, on pages 120 through 124, are not a required part of the basic financial statements but are supplementary information required by the GASB. Such information is the responsibility of management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combined Balance Sheet – Non-Major Governmental Funds, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, the Combining Balance Sheet – Non-Major Special Revenue Funds, the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Special Revenue Funds, the Combining Balance Sheet – Non-Major Capital Projects Funds, and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Capital Projects Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 22, 2005



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## Management's Discussion and Analysis

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, 2005 (FY05). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, 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 and excluded from this analysis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights – Primary Commonwealth Government

#### *Government–Wide Highlights*

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY05 by over \$8.5 billion. Of this amount, “unrestricted net assets” is reported as a negative \$14.6 billion. The primary reason for negative unrestricted net assets is that the Commonwealth is incurring long-term obligations to either construct or assist political subdivisions in constructing assets owned by these political subdivisions. For example, upon completion, the Central Artery / Third Harbor Tunnel will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and retains \$5.4 billion of related debt. Similarly, the Commonwealth has a liability of \$8.7 billion for its share of the construction costs of schools owned and operated by municipalities. In FY05, new legislation changed the funding of school construction from direct appropriations to a dedicated portion of the sales tax administered by the new Massachusetts School Building Authority (MSBA), a “blended” component unit of the Commonwealth. Also, the authority's enabling legislation obligated the authority for projects that had previously been on a waiting list. This change caused an increase in the liability for school construction from \$3.6 billion in FY04 to \$8.7 billion in FY05. Finally, significant restricted net asset balances were set aside for unemployment benefits and debt retirement.

#### *Fund Highlights*

- ◆ **Changes in Net Assets** – The Commonwealth's net assets decreased by over \$4.6 billion in FY05. Net assets of governmental activities decreased by the majority of this \$4.6 billion, incurring a \$5.2 billion deficit during the fiscal year. The decrease in net assets is primarily attributable to the aforementioned school construction activity. However, this was somewhat offset by an increase in tax revenues by nearly \$1.2 billion above prior year collections. Net assets of the business – type activities showed an increase of nearly \$561 million. Expenses of governmental activities were nearly \$39.5 billion. General revenue for the Commonwealth, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was over \$18.7 billion.

◆ **Governmental Funds – Fund Balances** – As of the close of FY05, the Commonwealth’s governmental funds reported a combined ending fund balance of over \$5.0 billion. Of the \$5.0 billion:

- Nearly \$1.6 billion represents unreserved fund balance. This is an increase from previous years due to an increase in the general fund fund balance of \$1.6 billion. The highway fund maintains a deficit of over \$791 million. The highway fund’s deficit increased by \$117 million from the prior year. The unreserved general fund balance of over \$1.7 billion offsets the highway fund deficit. Similar to last year, a \$126.9 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY06.
- Governmental reserved fund balances total nearly \$3.5 billion. They include nearly \$330 million for continuing appropriations, \$305 million of spending that is yet to be identified by the legislature, over \$1.7 billion for stabilization, nearly \$29 million in bond proceeds reserved for capital projects, most of which are connected with the Boston Convention and Exhibition Center project and nearly \$364 million reserved for retirement of indebtedness, the vast majority of which is held in escrows related to crossover refunding bonds. Nearly \$132 million is reserved for the CA/T owner controlled insurance program for workers’ compensation and general liability. This reserve will be used to fund \$73 million of projected long-term claims payable with the remaining \$59 million represents amounts currently due and accumulated surplus.

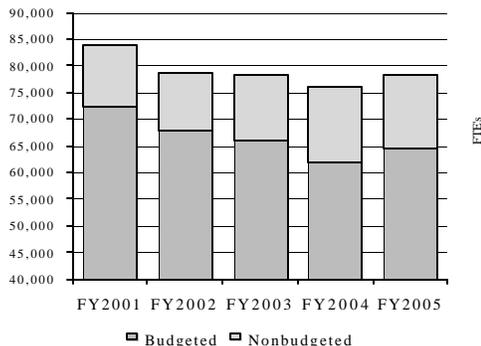
To meet the fiscal challenges of fiscal 2005 and beyond, the Commonwealth took a series of measures to remain in fiscal balance.

- At the beginning of the fiscal year, \$343 million was transferred from the Stabilization Fund to pay for current expenditures. However, higher than expected tax revenues resulted in a year end inflows to the fund of \$691 million from surplus. Also in FY06, an additional 0.5% of current year net tax revenues, or \$86 million, was deposited into the Stabilization Fund. In addition, \$136 million of tax revenue withheld by control measures restricting tax growth in excess of inflation was deposited into the Stabilization Fund.

- Tobacco settlement proceeds for the year were \$257 million. All of the tobacco settlement proceeds for the year were used in support of current operations.

- Though full time equivalent employee counts grew by approximately 3% this year, employee counts are still nearly 5,500 below FY01. The graphic to the left details the changes over the last five years.

**Full Time Equivalent Workforce  
Including Higher Education  
June 2001 – June 2005**



Other changes in 2005 included:

- Continuing in FY05, the employee's share of group health insurance premiums increased from 15% to 20% of the cost of the insurance for those who earn more than \$35,000. All new employees hired after June 30, 2003 contribute 25% of the cost of the insurance, regardless of salary. However, this figure reverts to the pre-2004 figure of 15% for all employees on January 1, 2006.
- Tax decreases reducing the income tax rate from 5.3% to 5.0% were suspended in FY02 and remain frozen.
- The graduated capital gains tax portion was challenged before the Supreme Judicial Court for Suffolk County in FY04. The FY05 General Appropriation Act attempted to fix the date of the latest change in capital gains rates to January 1, 2002 and offered a remediation for taxpayers who incurred capital gains from January 1, 2002 to April 30, 2002. However, the Supreme Judicial Court found these acts unconstitutional, effectively setting the capital gains transition back to January 1, 2002. The Department of Revenue estimated that the Commonwealth will collect an additional \$150 to \$200 million in taxes under the current January 1, 2002 rate. Legislation was enacted on December 8, 2005 to rectify this issue, extending the lower tax rates to all of calendar 2002. This may result in a revenue reduction in FY06.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### **Government-wide Financial Statements**

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which present the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements 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*. Additional information is presented for college and university foundations in accordance with the implementation of Government Accounting Standards Board (GASB) Statement 39.

The government-wide financial statements can be found immediately following this discussion and analysis.

**Fund Financial Statements and Component Unit Financial Statements**

*Funds* are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted appropriations. Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government-wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds, Proprietary Funds and Fiduciary Funds*. Further discussion on the funds can be found in the section “Financial Analysis of the Commonwealth’s Funds” and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. They operate similar to private-sector businesses.

**Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information**

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units’ financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The required supplementary information section includes budgetary comparison schedules for the General and Highway Funds, along with a reconciliation comparing the original general appropriation act, all supplemental appropriations and actual budgetary spending. Variance columns are also provided. GASB Statement 41 - *Budgetary Comparison Schedule Perspective Differences*, which was effective for FY03 and forward, requires a further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures.

**Net Assets**

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

Long - term assistance to authorities .....	\$	341,500
School construction grants payable.....		8,397,288
Outstanding bonds issued to fund the MBTA .....		511,546
Central Artery / Tunnel Project to be transferred to the Turnpike.....		11,275,667
Central Artery / Tunnel Project to be transferred to Massport.....		365,000
Change in unrestricted net assets due to items unique to the Commonwealth.....	\$	20,891,001

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

Net assets may serve over time as a useful indicator of a government’s financial position. The Commonwealth’s combined net assets (governmental and business-type activities) showed a net deficit of over \$8.5 billion at the end of FY05. The *unrestricted net assets* are negative by nearly \$14.6 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that it does not own. The most significant example of this is to the aforementioned Commonwealth bonding for the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be with the Turnpike Authority and Massport, (a related organization,) a

large portion of the liabilities will remain with the Commonwealth. In FY05, \$10.4 billion of the related assets to these liabilities have entered into service. The non-right of way portion of these assets is depreciating over forty years until transferred.

Another example of this type of arrangement is connected to the aforementioned MSBA. Prior to FY05, the Commonwealth declared a liability for its share of the construction costs of schools owned and operated by municipalities based on expected discounted cash flows of projects that were funded. In FY05, legislation changed the funding of school construction from a direct appropriation to a dedicated portion of the sales tax administered by the authority. This allowed a guarantee of a larger portion amount of projects, amounting to \$8.7 billion. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39, the authority's operations are reported within a governmental fund in this report and on the government-wide financial statements.

Two other instances where the Commonwealth incurs debt, but has no related assets relate to authorities. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the Massachusetts Bay Transportation Authority (MBTA) enacted in FY00. The second is the contractual assistance obligations to other authorities to help subsidize their debt service. The majority of these assistance obligations are for the Massachusetts Water Pollution Abatement Trust, the Route 3 North Transportation Improvements Association and the Massachusetts Development Finance Agency. As of June 30, 2005, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately \$512 million, while long-term obligations for contractual assistance to other authorities was nearly \$341.5 million.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments increased by over \$417 million between July 1, 2004 and June 30, 2005. This is directly due to the increased tax and charges for services revenues offset by increases in the Commonwealth's core expenses for debt service, Medicaid, other health and human services and public safety. Payments for local aid dropped in FY05 entirely due to the redirection of \$396 million in sales taxes to fund the School Modernization and Reconstruction Trust, which transfers this revenue to the MSBA. Higher education costs continue to increase. The year was also marked by a continuation of commercial paper borrowing due to the timing of current year receipts and current year major expenses such as the payment of local aid, though at a lower rate than in previous years due to improving tax revenues.

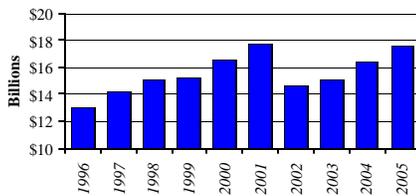
Noncurrent assets increased by over \$1.4 billion, exclusive of restricted investments. A total of nearly \$24.4 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB Statement 34 requires the addition of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to

the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were nearly \$10.2 billion, while its current liabilities were nearly \$7.3 billion. Restricted net assets represent resources that are subject to external constraints on resources. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, due to the implementation of GASB Statement No. 39 in FY04 net assets of higher education foundations have been included as part of the business – type activities.

**Net Assets as of June 30, 2005 and 2004**  
(in millions of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Current and other non-capital assets...	\$ 10,905	\$ 8,976	\$ 3,022	\$ 2,543	\$ 13,927	\$ 11,519
Capital assets.....	22,220	21,774	2,174	1,691	24,394	23,464
<b>Total Assets .....</b>	<b>33,125</b>	<b>30,750</b>	<b>5,196</b>	<b>4,234</b>	<b>38,321</b>	<b>34,983</b>
Long term liabilities.....	37,914	32,071	1,616	1,205	39,530	33,276
Other Liabilities.....	6,755	5,020	537	547	7,292	5,567
<b>Total Liabilities .....</b>	<b>44,669</b>	<b>37,091</b>	<b>2,153</b>	<b>1,752</b>	<b>46,822</b>	<b>38,843</b>
Net assets:						
Invested in capital assets, net of related debt.....	197	2,033	1,149	1,133	1,346	3,166
Restricted.....	3,419	3,349	1,331	916	4,750	4,265
Unrestricted.....	(15,160)	(11,723)	563	433	(14,597)	(11,290)
<b>Total Net Assets (deficits) ....</b>	<b>\$ (11,544)</b>	<b>\$ (6,341)</b>	<b>\$ 3,043</b>	<b>\$ 2,481</b>	<b>\$ (8,501)</b>	<b>\$ (3,860)</b>

**Changes in Net Assets**  
**Revenue from Taxation –**  
**GAAP Basis 1996-2005**



The Commonwealth's net assets decreased by over \$4.6 billion between FY04 and FY05, almost entirely due to the restructuring of the school construction program. Revenues in general increased, led by tax revenue increases of \$1.2 billion. Grants and contributions decreased by nearly \$719 million, led by less draws for unemployment compensation by nearly \$569 million and a \$141 million drop in capital grants, due to near completion of the Central Artery / Tunnel Project. The tax revenue increase is attributable in large part to increases of \$838 million in income tax payments and \$153 million in sales and use tax collections. Corporate tax collections improved by \$147 million. The Department of Revenue has also implemented sophisticated "data mining" software, which seeks out non-filer data from a multitude of sources.

This has increased the amount that has been declared as receivable on the Statement of Net Assets, but also has increased an offsetting allowance for doubtful accounts, as many of these non-filers may be cash-based businesses or are already in financial difficulty.

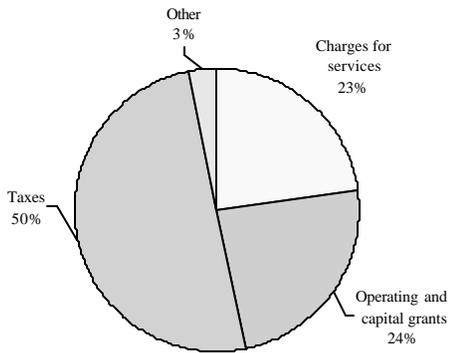
Total charges for services also increased by nearly \$862 million due to a nearly \$278 million increase in unemployment collections and a \$283 million increase in charges related to higher education. Approximately 44% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Increases also occurred in restricted net assets amounting to \$487 million largely due to an additional crossover refunding of debt and additional amounts set aside for stabilization. This is coupled with decreased spending in the Unemployment Compensation Fund, but slight increases to Higher Education. However, Medicaid spending continued to increase as did other Health and Human Services largely connected to the continual skyrocketing medical costs. Other programmatic expenses remained largely unchanged or dropped due to tighter budget controls.

The Commonwealth's revenues are presented in the table and graphics that follow.

***Changes in Net Assets during the Fiscal Years Ended June 30, 2005 and 2004***  
***(in millions of dollars except percentages)***

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	% Change
							Percentage	Percentage	
<b>Revenues</b>									
<b>Program Revenues:</b>									
Charges for services.....	\$ 8,040	\$ 7,740	\$ 3,254	\$ 2,692	\$ 11,294	\$ 10,432	29%	27%	1%
Operating grants and contributions....	7,962	8,017	855	1,377	8,817	9,394	22%	25%	-2%
Capital grants and contributions.....	461	602	-	-	461	602	1%	2%	0%
<b>General Revenues:</b>									
Taxes.....	17,580	16,407	-	-	17,580	16,407	44%	43%	1%
Other.....	1,168	1,043	229	182	1,397	1,224	4%	3%	0%
<b>Total Revenues.....</b>	<b>35,211</b>	<b>33,808</b>	<b>4,338</b>	<b>4,251</b>	<b>39,549</b>	<b>38,059</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>
<b>Expenses</b>									
Medicaid.....	7,706	6,909	-	-	7,706	6,909	17%	19%	-2%
Direct local aid.....	4,526	4,877	-	-	4,526	4,877	10%	13%	-3%
Other health and human services.....	5,197	4,829	-	-	5,197	4,829	12%	13%	-2%
Lottery.....	3,692	3,607	-	-	3,692	3,607	8%	10%	-2%
Higher education.....	4,162	-	3,040	2,579	7,202	2,579	16%	7%	9%
Primary and secondary education.....	4,058	1,211	-	-	4,058	1,211	9%	3%	6%
Unemployment compensation.....	-	-	1,663	2,461	1,663	2,461	4%	7%	-3%
Other.....	10,147	9,781	-	-	10,147	9,781	24%	27%	-3%
<b>Total Expenses.....</b>	<b>39,488</b>	<b>31,214</b>	<b>4,703</b>	<b>5,040</b>	<b>44,189</b>	<b>36,254</b>	<b>100%</b>	<b>100%</b>	<b>6%</b>
<b>Excess / (Deficiency)</b>									
<b>before transfers.....</b>	<b>(4,277)</b>	<b>2,594</b>	<b>(365)</b>	<b>(789)</b>	<b>(4,641)</b>	<b>1,805</b>			
Transfers.....	(927)	(830)	927	830	-	-			
Change in Net assets (deficits).....	(5,203)	1,763	562	41	(4,642)	1,804			
Net assets - beginning .....	(6,341)	(8,105)	2,482	2,441	(3,860)	(5,664)			
Net assets - ending.....									
<b>Total Net Assets (deficits) .....</b>	<b>\$ (11,544)</b>	<b>\$ (6,341)</b>	<b>\$ 3,043</b>	<b>\$ 2,482</b>	<b>\$ (8,501)</b>	<b>\$ (3,860)</b>			

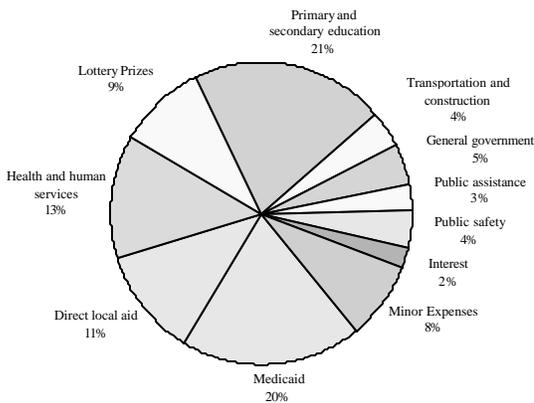
**Revenue—Governmental Activities**  
Fiscal Year Ending June 30, 2005



The largest category of tax revenue is income taxes. Of the nearly \$17.6 billion in tax revenue within governmental activities, \$10.0 billion was from income taxation, \$3.9 billion from sales, \$1.1 billion from corporations, \$687 million from motor fuels and over \$1.8 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies.

The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues encompass approximately 59% of the Commonwealth’s charges for services. Lottery revenues increased this year by approximately \$96 million, largely due to increases in scratch ticket sales and new ticket sales from the new online game Cash Winfall, which commenced during the fiscal year. Starting in FY06, legislation directs that the ceiling on lottery revenues that are to be distributed to municipalities will be gradually removed by FY09.

**Major Expenses—Governmental Activities**  
Fiscal Year Ending June 30, 2005

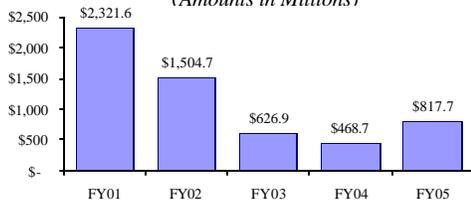


Medicaid represents 20% of all the Commonwealth’s governmental expenses. However, it must be noted that approximately half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted below in the “charges for services” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, inclusive of regional school aid, nearly 77% of these funds are earmarked for public education or related activities. Below is a chart that summarizes governmental expenses of the Commonwealth.

Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

**Business—Type Activities**

**Unemployment Compensation Fund**  
**Net Assets**  
Fiscal Year Ending June 30, 2005  
(Amounts in Millions)



The business-type activities increased the Commonwealth’s net assets by nearly \$561 million. This primarily resulted from a \$349 million increase in the Commonwealth’s Unemployment Compensation Fund net assets due to the improving economy and a 19% increase in contributions. Net assets of the schools of higher education, increased by \$212 million largely due to increases in net tuition and fee revenue (by over 8%) and in ancillary revenues (by nearly 40%).

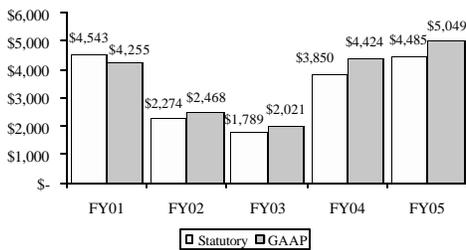
**FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS**

As noted earlier, the Commonwealth uses fund accounting to demonstrate interperiod equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

**Governmental Funds**

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. In FY05, because of the nature of the relationship between the Commonwealth and the MSBA, the MSBA's operations and results thereon are presented as a fund in the governmental fund statements, though it is a legally separate authority. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

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



The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level. There are four major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals. From the governmental fund perspective, additional major adjustments are necessary to present the government wide statements, largely for debt and fixed assets activity.

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

	FY01	FY02	FY03	FY04	FY05
Beginning fund balances .....	\$2,826.1	\$4,255.4	\$2,467.9	\$2,021.0	\$4,424.4
Restatement due to implementation of GASB 34	-	551.2	-	-	-
Revenues and other financing sources.....	39,256.4	36,476.6	42,798.0	44,371.7	43,532.6
Expenditures and other financing sources.....	37,827.1	38,815.3	43,244.9	41,968.3	42,908.4
Excess / (deficiency).....	1,429.3	(1,787.5)	(446.9)	2,403.4	624.2
Ending fund balances .....	<u>\$4,255.4</u>	<u>\$2,467.9</u>	<u>\$2,021.0</u>	<u>\$4,424.4</u>	<u>\$5,048.6</u>

The drop in revenues and expenditures in FY05 from FY04 is attributable to a \$2.6 billion drop in new and refunding bond sources from FY04 due to increased interest rates, which lessen refunding opportunities.

As of the end of fiscal 2005, the Commonwealth's governmental funds reported combined ending fund balances of over \$5.0 billion, an increase of over \$624 million from the previous year. However, of the \$5.0 billion, the following amounts are reserved or committed:

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

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
Continuing appropriations .....	\$ 329.6	\$ 638.5	\$ (309.0)	-48%
Transitional escrow .....	304.8	-	304.8	100%
Commonwealth stabilization .....	1,729.1	1,137.3	591.7	52%
Retirement of indebtedness .....	967.7	761.3	206.4	27%
Capital projects .....	29.0	734.7	(705.8)	-96%
Central artery				
Workers Compensation and General liability insurance reserve..	<u>132.2</u>	<u>159.0</u>	<u>(26.8)</u>	-17%
<b>Total reserved balances .....</b>	<b><u>3,492.3</u></b>	<b><u>3,430.9</u></b>	<b><u>61.4</u></b>	2%
Unreserved:				
General Fund.....	1,730.3	1,014.5	715.8	71%
Special revenue funds.....	329.3	587.0	(257.7)	-44%
Capital projects funds.....	(503.3)	(607.9)	104.6	-17%
Debt service fund.....	-	-	-	0%
<b>Total unreserved balances .....</b>	<b><u>1,556.3</u></b>	<b><u>993.5</u></b>	<b><u>562.8</u></b>	57%
<b>Total fund balances .....</b>	<b>\$ 5,048.6</b>	<b>\$ 4,424.4</b>	<b>\$ 624.2</b>	<b>14%</b>

The change in unreserved was nearly \$563 million, due largely to the healthy excess of revenues over expenditures noted above, offset by the increase in school construction grants. During FY05 over \$343 million was used from the stabilization fund to balance the budget. These draws were offset by contributions to the stabilization fund in the amount of over \$934 million.

The amounts reserved for retirement of indebtedness entirely represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY06. The reserve for Central Artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance program. The reserve will continue to decline as claims arise during the windup of the project.

During FY05 the general and highway funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was over \$4.1 billion. Of this amount, over \$1.7 billion was apportioned to the Commonwealth's Stabilization Fund. An additional \$305 million was reserved in a transitional escrow to be either spent in FY06 or returned to the General Fund. Nearly \$303 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund.

Presented in the governmental funds are the balances and results of operations from the MSBA. In its initial year of operations, the MSBA received \$396 million of dedicated sales tax revenues and \$565 million in Commonwealth general obligation bond proceeds. Nearly all of

these revenues and the initial funding from FY04 of \$150 million were used for to fund school construction in municipalities during FY05 and for previous years with an additional \$1.5 million in expenditures of the MSBA used for administrative and “start up” costs.

### **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 in the business – type activities above, the business type activities increased the Commonwealth’s net assets by nearly \$561 million.

### **BUDGETARY HIGHLIGHTS**

Differences between the original budget and final budget expenditures amount to nearly \$355 million, exclusive of transfers. As revenues continued to increase this fiscal year, supplemental budget legislation grew. The supplemental budgets are summarized as follows:

- ◆ An initial supplemental operating budget of nearly \$121 million, inclusive of \$32 million in collective bargaining agreements for higher education employees, \$34 million for costs associated with snow and ice removal, \$12 million for private counsel compensation for public defenders and \$43 million for a variety of other programs and services.
- ◆ A second supplemental operating budget including an additional \$41 million for snow and ice removal, \$21 million for health insurance premium costs and \$9 million for substance abuse treatment to ensure the receipt of \$15 million in federal funds from the substance abuse block grant. The legislation also included \$8 million for a variety of programs and services.
- ◆ \$25 million in a special budget to fund the relief effort at Camp Edwards on the Otis Air National Guard Base for the victims of Hurricane Katrina.
- ◆ A final supplemental budget for over \$129 million including \$72 million in additional collective bargaining agreement funding, \$6 million to fund workers compensation and utility costs for the Department of Corrections, \$24 million to cover a shortfall in the uncompensated care pool and the remainder for a large number of programs and services.

The original budget was passed on June 25, 2004, just before the start of FY05. Transfers of revenues and expenditures largely related to stabilization activity and taxation transfers resulted in nearly \$2 billion of additional financial uses, net.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth’s investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$33.8 billion, net of accumulated depreciation of \$9.4 billion, leaving a net book value of \$24.4 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as

roads, bridges, beaches, piers and dams. Of the investment in capital assets noted above though, \$11.2 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project that are in use and depreciating or are right of way. This is in addition to \$1.7 billion already transferred to these Authorities.

The total increase in the Commonwealth's investment in capital assets , net of disposals and changes in accumulated depreciation from 2004 to 2005 was nearly \$929 million, including increases to construction of the CA/T. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY04 amounts for business-type activities include amounts for the foundations established on behalf of the schools of higher education.

**Changes in Capital Assets**

(net of depreciation - amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land, including Central Artery .....	\$ 1,166,762	\$ 1,127,714	\$ 62,033	\$ 59,361	\$ 1,228,795	\$ 1,187,075
Historical treasures .....	-	-	729	703	729	703
Construction in process .....	1,311,728	1,023,815	449,722	136,233	1,761,450	1,160,048
Construction in process - Central Artery / Tunnel Project .....	350,247	1,244,463	-	-	350,247	1,244,463
Buildings .....	1,943,684	1,982,991	1,285,709	1,128,039	3,229,393	3,111,030
Machinery and equipment .....	241,029	120,869	270,847	260,741	511,876	381,610
Infrastructure, including Central Artery ...	17,206,074	16,273,667	-	-	17,206,074	16,273,667
Library collections .....	-	-	105,021	105,590	105,021	105,590
<b>Total .....</b>	<b>\$ 22,219,524</b>	<b>\$ 21,773,519</b>	<b>\$ 2,174,061</b>	<b>\$ 1,690,667</b>	<b>\$ 24,393,585</b>	<b>\$ 23,464,186</b>

**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.

The Commonwealth issued nearly \$2.7 billion in debt this year. Of this amount, nearly \$1.4 billion was used to fund ongoing projects and nearly \$1.3 billion was in the form of general and special obligation refunding bonds, taking advantage of low interest rates. Of the \$1.4 billion in new issuances, \$500 million was used to fund school construction through the MSBA. An additional \$227 million was generated through a second special obligation crossover refunding transaction. Though this is a legal defeasance of debt, because of the nature of the transaction and the use of its proceeds, an accounting defeasance is not accomplished. Subsequent to year-end, the Commonwealth completed three additional bond transactions, with a \$60 million portion of the third transaction sold as a taxable transaction.

Though the majority of bond sales this year were for transportation related expenditures and the aforementioned school construction, for governmental purposes, the ongoing projects bond sales also included debt issuances in excess of \$50 million for:

- ◆ \$93.7 million for the rehabilitation of the Suffolk County Courthouse.
- ◆ Nearly \$121.9 million for preservation and improvement of environmental assets, including parks.

During FY05 over \$882 million in bond principal was repaid. Additional information on the Commonwealth's short and long-term debt obligations can be found in the notes to the financial statements.

Below is a table, which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year.

**Changes in Long - Term Debt Obligations**  
(net of related premiums and discounts - amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds ....	\$ 14,501,086	\$ 14,142,886	\$ -	\$ -	\$ 14,501,086	\$ 14,142,886
Special obligation bonds .....	1,448,373	1,331,946	-	-	1,448,373	1,331,946
Revenue obligation bonds ..	-	-	1,421,557	1,049,095	1,421,557	1,049,095
Grant anticipation notes .....	<u>1,907,340</u>	<u>1,907,340</u>	<u>-</u>	<u>-</u>	<u>1,907,340</u>	<u>1,907,340</u>
<b>Total .....</b>	<b><u>\$ 17,856,799</u></b>	<b><u>\$ 17,382,172</u></b>	<b><u>\$ 1,421,557</u></b>	<b><u>\$ 1,049,095</u></b>	<b><u>\$ 19,278,356</u></b>	<b><u>\$ 18,431,267</u></b>

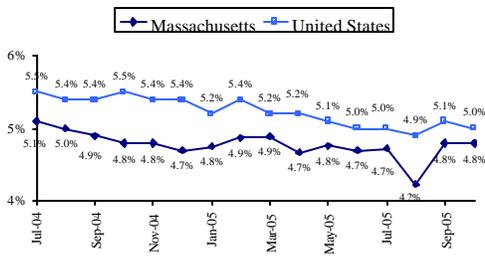
**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Massachusetts continues to recover economically. Our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has dropped due to this stabilization.

The Commonwealth with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge – based technology and service industries. The Commonwealth is home to 16 S&P 500 companies, among them eight *Fortune 500* headquarters.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census, updated in March of 2005, estimated that 36.7% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 28% for the United States as a whole. Excluding Washington DC, Massachusetts is first in the nation in educational attainment by age 25. In the same survey, nearly 87% of residents over age 25 at least have a high school diploma.

**Monthly Unemployment Rate  
July 2004 – October 2005**



**REQUESTS FOR INFORMATION**

Inflation continued to rise though in the past year. The Boston consumer price index rose nearly 4% from July 2004 to July 2005. However, fuel and utilities prices rose nearly 16% and transportation 6%. Extended to September 2005 to include the oil price shock from Hurricane Katrina, inflation was 8.4% with a huge 34% jump in fuel and utilities prices and a nearly 24% rise in other transportation prices. Though the oil price shock seems to be abating, it will effect budgeting decisions throughout FY06.

Per capita net income continues to rise in the Commonwealth faster than inflation. Per capita net income rose 5.3% in FY05, though lagging behind the 6.5% rise nationally. However, on a dollar basis, per capita net income is over \$9,200 higher than the national average.

Unemployment declined throughout the year, but spiked in September of 2005, due to Katrina. Preliminary figures indicate that the downward trend is resuming in October. The unemployment rate in the Commonwealth stood at 4.8% in October. This figure is down from a high of 5.1% early last year. The Commonwealth is still below the national rate of 5.0%.

This financial report is designed to provide a general overview of the Commonwealth’s finances 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 to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.

# ***BASIC FINANCIAL STATEMENTS***

## ***Government-wide Financial Statements***

### ***Statement of Net Assets***

### ***Statement of Activities***



*Photograph by Steve Dunwell*



**Paul Revere's Headstone**

### **Granary Burying Ground**

Founded in 1660, the Granary is the third oldest burying ground in Boston proper. With its massive Egyptian Revival-style gates facing Tremont Street, the Granary Burying Ground is the final resting place of many eminent Revolutionary-era patriots, such as Samuel Adams, Peter Faneuil, Paul Revere and John Hancock.

Originally called South Burying Ground because of its location at the most southerly area of Boston settlement, it was then renamed Middle Burying Ground, as Boston sprawled toward the south. The current name is derived from the grain storage building, or granary, which stood on the site where the Park Street Church now stands.

## Statement of Net Assets

June 30, 2005

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents.....	\$ 3,747,939	\$ 254,166	\$ 4,002,105	\$ 631,305
Cash with fiscal agent.....	1,134,727	-	1,134,727	-
Short-term investments.....	-	253,908	253,908	604,670
Receivables, net of allowance for uncollectibles:				
Taxes.....	2,432,335	-	2,432,335	-
Federal grants and reimbursements receivable.....	1,292,542	35,287	1,327,829	55,176
Loans.....	-	40,615	40,615	189,342
Other receivables.....	304,994	591,726	896,720	166,292
Due from cities and towns.....	29,884	-	29,884	16,043
Due from component units.....	17,450	-	17,450	-
Due from primary government.....	-	-	-	252,436
Due from affiliates.....	-	4,071	4,071	-
Inventory.....	-	-	-	48,488
Other current assets.....	-	36,082	36,082	20,848
<b>Total current assets.....</b>	<b>8,959,871</b>	<b>1,215,855</b>	<b>10,175,726</b>	<b>1,984,600</b>
Noncurrent assets:				
Cash and cash equivalents - restricted.....	507,837	589,221	1,097,058	88,891
Long-term investments.....	-	682,188	682,188	2,224,381
Restricted investments and annuity contracts.....	1,437,489	11,427	1,448,916	649,710
Accounts receivable, net.....	-	37,136	37,136	35,708
Loans receivable, net.....	-	17,404	17,404	2,640,677
Due from primary government.....	-	-	-	341,500
Capital assets, net of accumulated depreciation.....	22,219,524	2,174,061	24,393,585	11,204,666
Other noncurrent assets.....	-	38,419	38,419	74,106
Other noncurrent assets - restricted.....	-	429,793	429,793	-
<b>Total noncurrent assets.....</b>	<b>24,164,850</b>	<b>3,979,649</b>	<b>28,144,499</b>	<b>17,259,639</b>
<b>Total assets.....</b>	<b>33,124,721</b>	<b>5,195,504</b>	<b>38,320,225</b>	<b>19,244,239</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and other liabilities.....	2,639,338	154,799	2,794,137	372,755
Accrued payroll.....	-	117,552	117,552	20,549
Compensated absences.....	244,548	92,515	337,063	19,940
Accrued interest payable.....	324,800	9,821	334,621	222,805
Tax refunds and abatements payable.....	650,191	11,265	661,456	-
Due to component units.....	252,436	-	252,436	-
Due to primary government.....	-	-	-	17,450
Due to federal government.....	16,860	-	16,860	4,398
Claims and judgments.....	57,900	-	57,900	-
Deferred revenue.....	-	76,027	76,027	18,723
Deposits and unearned revenue.....	-	20,071	20,071	-
Due to affiliates.....	-	4,214	4,214	-
School construction grants payable.....	1,382,152	-	1,382,152	-
Capital leases.....	21,601	19,004	40,605	16,255
Notes payable.....	140,100	-	140,100	-
Bonds payable.....	1,024,522	31,244	1,055,766	455,063
<b>Total current liabilities.....</b>	<b>6,754,448</b>	<b>536,512</b>	<b>7,290,960</b>	<b>1,147,938</b>

(continued)

## Statement of Net Assets

June 30, 2005

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
<b>Noncurrent liabilities:</b>				
Compensated absences.....	152,369	54,977	207,346	6,871
Accrued interest payable.....	-	-	-	54,236
Due to federal government - grants.....	-	8,626	8,626	-
Claims and judgments.....	73,000	-	73,000	-
Deferred revenue.....	-	15,290	15,290	107,231
Prizes payable.....	1,437,489	-	1,437,489	-
Capital leases.....	49,417	82,592	132,009	533,858
Bonds payable and other obligations.....	16,832,277	1,390,313	18,222,590	10,117,651
Due to component units - Central Artery / Tunnel Project.....	11,275,667	-	11,275,667	-
Due to non-component units - Central Artery / Tunnel Project.....	365,000	-	365,000	-
School construction grants and other contract assistance payable.....	7,015,136	-	7,015,136	-
Contract assistance payable.....	341,500	-	341,500	-
Boston teacher's retirement system net pension obligation.....	96,279	-	96,279	-
Other noncurrent liabilities.....	276,231	64,012	340,243	223,431
<b>Total noncurrent liabilities.....</b>	<b>37,914,365</b>	<b>1,615,810</b>	<b>39,530,175</b>	<b>11,043,278</b>
<b>Total liabilities.....</b>	<b>44,668,813</b>	<b>2,152,322</b>	<b>46,821,135</b>	<b>12,191,216</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt.....	196,765	1,149,352	1,346,117	4,639,646
Restricted for:				
Capital projects.....	28,952	-	28,952	1,679
Unemployment benefits.....	-	817,739	817,739	-
Retirement of indebtedness.....	967,712	-	967,712	19,995
Central artery workers' compensation and general liability.....	59,234	-	59,234	-
Other purposes.....	2,363,444	513,314	2,876,758	1,940,747
Unrestricted.....	(15,160,199)	562,777	(14,597,422)	450,956
<b>Total net assets.....</b>	<b>\$ (11,544,092)</b>	<b>\$ 3,043,182</b>	<b>\$ (8,500,910)</b>	<b>\$ 7,053,023</b>

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

(concluded)

**Statement of Activities**  
Fiscal Year Ended June 30, 2005  
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental Activities:								
General government.....	\$ 1,815,877	\$ 492,750	\$ 468,958	\$ -	\$ (854,169)	\$ -	\$ (854,169)	\$ -
Judiciary.....	636,381	105,072	1,059	-	(530,250)	-	(530,250)	-
Direct local aid.....	4,525,847	-	-	-	(4,525,847)	-	(4,525,847)	-
Medicaid.....	7,705,717	937,422	3,888,755	-	(2,879,540)	-	(2,879,540)	-
Group health insurance.....	872,970	111,342	-	-	(761,628)	-	(761,628)	-
Public assistance.....	1,095,903	-	534,239	-	(561,664)	-	(561,664)	-
Interest (unallocated).....	861,265	-	-	-	(861,265)	-	(861,265)	-
Pension.....	440,152	-	-	-	(440,152)	-	(440,152)	-
Environmental and recreation.....	396,094	138,854	30,742	-	(226,498)	-	(226,498)	-
Housing and community development.....	603,227	3,515	359,149	-	(240,563)	-	(240,563)	-
Health and human services.....	5,196,735	756,469	1,745,850	10,787	(2,683,628)	-	(2,683,628)	-
Transportation and construction.....	1,546,361	478,154	10,418	450,584	(607,206)	-	(607,206)	-
Education.....	8,219,960	5,583	684,149	-	(7,530,228)	-	(7,530,228)	-
Public safety and homeland security.....	1,520,338	112,350	98,767	-	(1,309,221)	-	(1,309,221)	-
Economic development.....	358,839	199,817	139,818	-	(19,204)	-	(19,204)	-
Lottery.....	3,692,520	4,698,935	-	-	1,006,415	-	1,006,415	-
<b>Total governmental activities.....</b>	<b>39,488,186</b>	<b>8,040,263</b>	<b>7,961,904</b>	<b>461,371</b>	<b>(23,024,648)</b>	<b>-</b>	<b>(23,024,648)</b>	<b>-</b>
Business-Type Activities:								
Unemployment Compensation.....	1,662,955	1,759,801	242,769	-	-	339,615	339,615	-
Higher Education:								
University of Massachusetts.....	1,977,546	1,085,843	424,184	-	-	(467,519)	(467,519)	-
State Colleges.....	514,122	240,285	64,872	-	-	(208,965)	(208,965)	-
Community Colleges.....	548,017	167,655	122,828	-	-	(257,534)	(257,534)	-
<b>Total business-type activities.....</b>	<b>4,702,640</b>	<b>3,253,584</b>	<b>854,653</b>	<b>-</b>	<b>-</b>	<b>(594,403)</b>	<b>(594,403)</b>	<b>-</b>
<b>Total primary government.....</b>	<b>\$ 44,190,826</b>	<b>\$ 11,293,847</b>	<b>\$ 8,816,557</b>	<b>\$ 461,371</b>	<b>(23,024,648)</b>	<b>(594,403)</b>	<b>(23,619,051)</b>	<b>-</b>
Component Units:								
Massachusetts Bay Transportation Authority.....	\$ 1,408,682	\$ 371,553	\$ 842,541	\$ 182,382	-	-	-	(12,206)
Massachusetts Turnpike Authority.....	364,296	305,579	19,508	-	-	-	-	(39,209)
Massachusetts Water Pollution Abatement Trust.....	238,028	3,603	10,983	148,901	-	-	-	(74,541)
Other nonmajor component units.....	455,301	276,771	149,082	155,781	-	-	-	126,333
<b>Total component units.....</b>	<b>\$ 2,466,307</b>	<b>\$ 957,506</b>	<b>\$ 1,022,114</b>	<b>\$ 487,064</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>377</b>

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income.....	10,013,837	-	10,013,837	-
Sales taxes.....	3,908,951	-	3,908,951	-
Corporate taxes.....	1,122,175	-	1,122,175	-
Motor and special fuel taxes.....	686,971	-	686,971	-
Other taxes.....	1,848,337	-	1,848,337	-
Miscellaneous:				
Investment earnings.....	145,490	69,593	215,083	214,764
Tobacco settlement.....	257,417	-	257,417	-
Contribution from municipalities .....	35,457	-	35,457	-
Other revenue.....	730,176	159,050	889,226	1,491
Transfers.....	(926,715)	926,715	-	-
<b>Total general revenues and transfers.....</b>	<b>17,822,096</b>	<b>1,155,358</b>	<b>18,977,454</b>	<b>216,255</b>
<b>Change in net assets.....</b>	<b>(5,202,551)</b>	<b>560,955</b>	<b>(4,641,596)</b>	<b>216,632</b>
Net assets - beginning.....	(6,341,541)	2,482,227	(3,859,314)	6,836,391
<b>Net assets - ending.....</b>	<b>\$ (11,544,092)</b>	<b>\$ 3,043,182</b>	<b>\$ (8,500,910)</b>	<b>\$ 7,053,023</b>

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

(concluded)



### **King's Chapel**

In 1688, the Royal Governor built King's Chapel on the town burying ground when no one in the city would sell him land to build a non-Puritan church. The first King's Chapel was a tiny church used by the King's men who occupied Boston to enforce British law. By 1749, the building was too small for the congregation, which had grown to include a number of prominent merchants and their families.

The congregation hired America's first architect, Peter Harrison, to design a church "that would be the equal of any in England." The new church was completed in 1754. Harrison's plans included a steeple, which has never been built, and a colonnade, which was not completed until after the Revolution. The magnificent interior is considered the finest example of Georgian church architecture in North America.

### **King's Chapel Burying Ground**

Located next to King's Chapel on Tremont Street, King's Chapel Burying Ground was Boston Proper's only burying place for nearly 30 years.

The Burying Ground is the final resting place of some of Massachusetts Bay Colony's most prominent citizens — John Winthrop, the Colony's first governor; William Dawes, Jr., who rode with Paul Revere to Lexington and Concord; and Mary Chilton, the first woman to step off the Mayflower in Plymouth Colony.

# *Governmental Fund Financial Statements*



## **Benjamin Franklin's Statue/Site of the First Public School**

As you follow the Freedom Trail down School Street, you will notice a half-smiling, half-serious statue of Benjamin Franklin outside the Old City Hall. It is the first portrait statue erected in the United States. Franklin was born just one block away on Milk Street across from the Old South Meeting House. A plaque on the sidewalk marks the site of the first Public School. Puritan settlers established the Boston Latin School in 1635 in the home of Schoolmaster Philemon Pormont. It later moved a few blocks away to School Street. Benjamin Franklin, Samuel Adams and John Hancock once attended the school. The Boston Latin School no longer stands in its once downtown location, but is now located in Boston's Fenway neighborhood.

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**  
(Amounts in thousands)

	Capital Projects						Total
	General	Highway	Lotteries	Debt Service	Central Artery Statewide Roads and Bridges	Other Governmental Funds	
<b>ASSETS</b>							
Cash and short-term investments.....	\$ 2,573,917	\$ -	\$ 24,434	\$ -	\$ -	\$ 1,149,588	\$ 3,747,939
Cash with fiscal agent.....	-	26,060	-	364,153	-	744,514	1,134,727
Restricted investments and annuity contracts.....	-	-	1,437,489	-	-	507,837	1,945,326
Receivables, net of allowance for uncollectibles:							
Taxes.....	2,274,105	51,363	-	-	-	106,867	2,432,335
Due from federal government.....	732,491	-	-	-	-	560,051	1,292,542
Other receivables.....	96,096	1,257	7,319	-	-	200,322	304,994
Due from cities and towns.....	8,884	-	-	-	-	21,000	29,884
Due from other funds.....	1,815,649	-	-	-	377,483	138,412	2,331,544
Due from component units.....	17,450	-	-	-	-	-	17,450
<b>Total assets.....</b>	<b>\$ 7,518,592</b>	<b>\$ 78,680</b>	<b>\$ 1,469,242</b>	<b>\$ 364,153</b>	<b>\$ 377,483</b>	<b>\$ 3,428,591</b>	<b>\$ 13,236,741</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable.....	\$ 1,666,737	\$ 10,777	\$ 23,185	\$ -	\$ 43,037	\$ 822,377	\$ 2,566,113
Compensated absences.....	4,032	106	67	-	-	982	5,187
Tax refunds and abatements payable.....	650,191	-	-	-	-	-	650,191
Due to other funds.....	405,332	846,155	-	-	-	1,073,634	2,325,121
Due to component units.....	128,336	13,020	-	-	-	111,080	252,436
Due to federal government.....	16,765	-	-	-	-	95	16,860
Deferred revenue.....	549,314	83	5,651	-	-	18,413	573,461
Claims and judgments.....	30,000	-	-	-	-	27,900	57,900
Notes payable.....	-	-	-	-	-	140,100	140,100
Prizes payable.....	-	-	1,437,489	-	-	-	1,437,489
Other accrued liabilities.....	-	-	-	-	-	163,317	163,317
<b>Total liabilities.....</b>	<b>3,450,707</b>	<b>870,141</b>	<b>1,466,392</b>	<b>-</b>	<b>43,037</b>	<b>2,357,898</b>	<b>8,188,175</b>
<b>Fund balances (deficits):</b>							
<b>Reserved for:</b>							
Continuing appropriations.....	303,646	272	-	-	-	25,637	329,555
Commonwealth stabilization.....	1,729,051	-	-	-	-	-	1,729,051
Transitional escrow.....	304,838	-	-	-	-	-	304,838
Retirement of indebtedness.....	-	26,060	-	364,153	-	577,499	967,712
Capital projects.....	-	-	-	-	-	28,952	28,952
Central artery workers' compensation and general liability.....	-	-	-	-	-	132,234	132,234
<b>Unreserved:</b>							
General.....	1,730,350	-	-	-	-	-	1,730,350
Special revenue.....	-	(817,793)	2,850	-	-	1,144,258	329,315
Capital projects.....	-	-	-	-	334,446	(837,887)	(503,441)
<b>Fund balances (deficits).....</b>	<b>4,067,885</b>	<b>(791,461)</b>	<b>2,850</b>	<b>364,153</b>	<b>334,446</b>	<b>1,070,693</b>	<b>5,048,566</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 7,518,592</b>	<b>\$ 78,680</b>	<b>\$ 1,469,242</b>	<b>\$ 364,153</b>	<b>\$ 377,483</b>	<b>\$ 3,428,591</b>	<b>\$ 13,236,741</b>

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

**Reconciliation of Fund Balances  
to the Statement of Net Assets**

June 30, 2005

(Amounts in thousands)

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<b>Total fund balances - governmental funds</b> .....	<b>\$</b>	<b>5,048,566</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land.....	\$	707,283	
Construction in process.....		1,311,728	
Depreciable capital assets and infrastructure, net of \$ 6,881,806 of accumulated depreciation.....		8,559,846	
Central Artery / Tunnel Project construction in process.....		350,247	
Central Artery / Tunnel Project untransferred assets in use net of \$ 493,977 accumulated depreciation .....		<u>11,290,420</u>	
Capital assets, net of accumulated depreciation.....			22,219,524

Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different bases of accounting.....		573,461
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Elimination of due from / due to activity between state departments within primary government and business type activities.....		(6,423)
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Long - term 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 underfunding Boston Teacher's Retirement System net pension obligation.....		(96,279)	
Bonded debt.....		(17,856,799)	
Accrued interest on bonds and contract assistance payable. ....		(234,644)	
School construction grants payable.....		(8,397,288)	
Contract assistance payable.....		(341,500)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project.....		(11,640,667)	
Capital leases (including accrued interest).....		(71,018)	
Claims and judgments.....		(73,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....		<u>(668,025)</u>	
Long - term liabilities (including current portions).....			<u>(39,379,220)</u>

<b>Total net assets - governmental activities</b> .....	<b>\$</b>	<b><u>(11,544,092)</u></b>
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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, 2005  
(Amounts in thousands)

	General	Highway	Lotteries	Debt Service	Capital Projects		Total
					Central Artery Statewide Roads and Bridges	Other Governmental Funds	
<b>Revenues:</b>							
Taxes.....	\$ 15,711,796	\$ 587,854	\$ 1,392	\$ -	\$ -	\$ 1,369,841	\$ 17,670,883
Assessments.....	110,562	11,720	-	-	-	708,456	830,738
Federal grants and reimbursements.....	4,403,224	1,526	-	-	-	4,017,972	8,422,722
Departmental.....	1,323,416	419,801	4,698,768	-	-	1,036,876	7,478,861
Miscellaneous.....	156,024	831	6,444	9,030	14,079	652,806	839,214
<b>Total revenues.....</b>	<b>21,705,022</b>	<b>1,021,732</b>	<b>4,706,604</b>	<b>9,030</b>	<b>14,079</b>	<b>7,785,951</b>	<b>35,242,418</b>
<b>Expenditures:</b>							
Current:							
Legislature.....	50,011	-	-	-	-	-	50,011
Judiciary.....	576,116	-	-	-	-	4,174	580,290
Inspector General.....	1,844	-	-	-	-	1,049	2,893
Governor and Lieutenant Governor.....	4,797	-	-	-	-	-	4,797
Secretary of the Commonwealth.....	39,561	-	-	-	-	6,618	46,179
Treasurer and Receiver-General.....	134,787	945	3,686,809	-	-	883,132	4,705,673
Auditor of the Commonwealth.....	15,466	-	-	-	-	61	15,527
Attorney General.....	56,612	431	-	-	-	12,643	69,686
Ethics Commission.....	1,183	-	-	-	-	-	1,183
District Attorney.....	72,161	3,217	-	-	-	8,865	84,243
Office of Campaign and Political Finance.....	921	-	-	-	-	-	921
Sheriff's Departments.....	212,738	373	-	-	-	3,044	216,155
Disabled Persons Protection Commission.....	1,646	-	-	-	-	6	1,652
Board of Library Commissioners.....	3,509	-	-	-	-	3,070	6,579
Comptroller.....	10,042	-	-	-	-	2,409	12,451
Administration and finance.....	1,421,349	5,041	-	-	-	109,610	1,536,000
Environmental affairs.....	162,517	-	-	-	-	75,517	238,034
Housing and community development.....	94,261	-	-	-	-	388,354	482,615
Health and human services.....	4,529,589	-	-	-	-	3,072,121	7,601,710
Transportation and construction.....	159,900	74,627	-	-	-	81,032	315,559
Education.....	1,090,524	-	-	-	-	1,899,586	2,990,110
Higher education.....	100,445	-	-	-	-	13,296	113,741
Public safety and homeland security.....	723,132	191,856	-	-	-	138,296	1,053,284
Economic development.....	77,804	60	-	-	-	268,343	346,207
Medicaid.....	5,565,835	-	-	-	-	746,409	6,312,244
Pension.....	439,353	-	-	-	-	-	439,353
Direct local aid.....	4,505,419	-	-	-	-	9,850	4,515,269
Capital outlay:							
Local aid.....	-	-	-	-	-	10,578	10,578
Capital acquisition and construction.....	-	-	-	-	487,451	1,375,976	1,863,427
Debt service.....	-	-	-	1,719,489	-	-	1,719,489
<b>Total expenditures.....</b>	<b>20,051,522</b>	<b>276,550</b>	<b>3,686,809</b>	<b>1,719,489</b>	<b>487,451</b>	<b>9,114,039</b>	<b>35,335,860</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,653,500</b>	<b>745,182</b>	<b>1,019,795</b>	<b>(1,710,459)</b>	<b>(473,372)</b>	<b>(1,328,088)</b>	<b>(93,442)</b>

(continued)

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
Fiscal Year Ended June 30, 2005  
(Amounts in thousands)

	General	Highway	Lotteries	Debt Service	Capital Projects Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
<b>Other financing sources:</b>							
Proceeds of general obligation bonds.....	-	-	-	-	-	1,354,225	1,354,225
Proceeds of refunding bonds.....	-	-	-	1,384,763	-	-	1,384,763
Proceeds of capital leases.....	58,479	-	-	-	-	-	58,479
Transfers in for debt service .....	-	-	-	1,698,766	-	-	1,698,766
Transfers in.....	2,076,242	20,751	-	10,052	75,316	1,611,562	3,793,923
<b>Total other financing sources.....</b>	<b>2,134,721</b>	<b>20,751</b>	<b>-</b>	<b>3,093,581</b>	<b>75,316</b>	<b>2,965,787</b>	<b>8,290,156</b>
<b>Other financing uses:</b>							
Payments to refunded bond escrow agent.....	-	-	-	1,153,150	-	-	1,153,150
Transfers out.....	409,114	158,085	1,017,637	-	79	2,128,781	3,713,696
Transfers of appropriations.....	953,086	-	-	-	-	267	953,353
Transfers of bond proceeds.....	-	-	-	-	-	53,589	53,589
Transfers out for debt service.....	855,583	725,164	-	-	-	118,019	1,698,766
<b>Total other financing uses.....</b>	<b>2,217,783</b>	<b>883,249</b>	<b>1,017,637</b>	<b>1,153,150</b>	<b>79</b>	<b>2,300,656</b>	<b>7,572,554</b>
<b>Total other financing sources and uses.....</b>	<b>(83,062)</b>	<b>(862,498)</b>	<b>(1,017,637)</b>	<b>1,940,431</b>	<b>75,237</b>	<b>665,131</b>	<b>717,602</b>
<b>Net change in fund balances.....</b>	<b>1,570,438</b>	<b>(117,316)</b>	<b>2,158</b>	<b>229,972</b>	<b>(398,135)</b>	<b>(662,957)</b>	<b>624,160</b>
Fund balances (deficits) at beginning of year.....	2,497,447	(674,145)	692	134,182	732,581	1,733,650	4,424,406
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 4,067,885</b>	<b>\$ (791,461)</b>	<b>\$ 2,850</b>	<b>\$ 364,154</b>	<b>\$ 334,446</b>	<b>\$ 1,070,693</b>	<b>\$ 5,048,566</b>

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

*(concluded)*

**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, 2005

(Amounts in thousands)

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**Net change in fund balances - total governmental funds..... \$ 624,160**

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 is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in process, but excluding reductions and dispositions..... 137,846

Amounts presented in the statement of activities, but not in the change in fund balances due to difference in revenue and expense recognition under different bases of accounting..... (78,728)

Elimination of due from / due to activity between state departments within government and business-type activities..... 3,536

The issuance of long - term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items..... (474,627)

School Building Assistance Program..... (5,138,162)

Pension Underfunding Boston Teachers' Retirement System Net Obligation..... (799)

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..... (275,777)

**Change in net assets of governmental activities..... \$ (5,202,551)**

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

# ***PROPRIETARY FUND FINANCIAL STATEMENTS***



## **Old Corner Bookstore Building**

This little brick building sits at the corner of School and Washington Streets. The original building was destroyed by the Great Fire of 1711, and was replaced by the current gambrel-roofed structure built in 1718 by Dr. Thomas Crease. It served as his office as well as his residence and was Boston's first apothecary shop. The transition from medicine shop to marketplace for ideas began in 1820s when the house was leased to Timothy Harrington Carter, a bookseller.

The Old Corner Bookstore was a flourishing literary center. Nine similar companies followed the first bookseller's business, Carter & Hendlee, over a 75-year period, the most famous being Ticknor & Fields.

The building was purchased in 1829 by William Ticknor, who established the firm Ticknor and Fields. From 1833 to 1864, the firm of Ticknor and Fields was the leading publisher in the United States. Its list of authors included Nathaniel Hawthorne, Ralph Waldo Emerson, Henry Wadsworth Longfellow, Harriet Beecher Stowe, Oliver Wendell Holmes and Henry David Thoreau. The writers would often gather there along with traveling authors like Charles Dickens.

## Statement of Net Assets

### Proprietary Funds

June 30, 2005

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 63,098	\$ 125,426	\$ 65,642	\$ 254,166
Short-term investments .....	-	185,494	35,406	33,008	253,908
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	35,287	-	-	35,287
Loans.....	-	38,861	1,486	268	40,615
Other receivables.....	442,599	114,672	11,725	22,730	591,726
Due from affiliates.....	-	4,018	-	53	4,071
Other current assets.....	-	27,584	3,686	4,812	36,082
<b>Total current assets.....</b>	<b>442,599</b>	<b>469,014</b>	<b>177,729</b>	<b>126,513</b>	<b>1,215,855</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	553,377	31,153	4,691	589,221
Long-term investments.....	-	509,695	125,098	47,395	682,188
Restricted investments and annuity contracts.....	-	-	6,483	4,944	11,427
Accounts receivable, net.....	-	37,004	76	56	37,136
Loans receivable, net.....	-	-	15,859	1,545	17,404
Capital assets, net of accumulated depreciation.....	-	1,331,416	560,073	282,572	2,174,061
Other noncurrent assets.....	-	24,044	11,714	2,661	38,419
Other noncurrent assets - restricted.....	414,998	-	6,559	8,236	429,793
<b>Total noncurrent assets.....</b>	<b>414,998</b>	<b>2,455,536</b>	<b>757,015</b>	<b>352,100</b>	<b>3,979,649</b>
<b>Total assets.....</b>	<b>857,597</b>	<b>2,924,550</b>	<b>934,744</b>	<b>478,613</b>	<b>5,195,504</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and other liabilities.....	11,690	109,583	14,818	18,708	154,799
Accrued payroll.....	-	81,436	15,955	20,161	117,552
Compensated absences.....	-	55,825	16,577	20,113	92,515
Accrued interest payable.....	-	9,404	88	329	9,821
Tax refunds and abatements payable.....	11,265	-	-	-	11,265
Deferred revenue.....	16,903	42,218	11,256	5,650	76,027
Student deposits and unearned revenues .....	-	5,127	5,873	9,071	20,071
Due to affiliates.....	-	4,019	-	195	4,214
Capital leases.....	-	12,184	2,600	4,220	19,004
Bonds, notes payable and other obligations.....	-	21,106	8,325	1,813	31,244
<b>Total current liabilities.....</b>	<b>39,858</b>	<b>340,902</b>	<b>75,492</b>	<b>80,260</b>	<b>536,512</b>
Noncurrent liabilities:					
Compensated absences.....	-	25,163	13,770	16,044	54,977
Due to federal government - grants.....	-	-	6,898	1,728	8,626
Deferred revenue.....	-	12,019	3,271	-	15,290
Capital leases.....	-	65,825	6,348	10,419	82,592
Bonds, notes payable and other obligations.....	-	925,048	432,490	32,775	1,390,313
Other noncurrent liabilities.....	-	48,369	11,562	4,081	64,012
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>1,076,424</b>	<b>474,339</b>	<b>65,047</b>	<b>1,615,810</b>
<b>Total liabilities.....</b>	<b>39,858</b>	<b>1,417,326</b>	<b>549,831</b>	<b>145,307</b>	<b>2,152,322</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt.....	-	702,043	208,406	238,903	1,149,352
Restricted for:					
Unemployment benefits.....	817,739	-	-	-	817,739
Other purposes.....	-	380,408	84,906	48,000	513,314
Unrestricted.....	-	424,773	91,601	46,403	562,777
<b>Total net assets.....</b>	<b>\$ 817,739</b>	<b>\$ 1,507,224</b>	<b>\$ 384,913</b>	<b>\$ 333,306</b>	<b>\$ 3,043,182</b>

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

# Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,710,224	\$ -	\$ -	\$ -	\$ 1,710,224
Net tuition and fees.....	-	388,385	182,842	132,961	704,188
Federal grants and reimbursements.....	242,769	424,184	64,872	122,543	854,368
Miscellaneous.....	49,577	697,458	57,443	34,694	839,172
<b>Total operating revenues.....</b>	<b>2,002,570</b>	<b>1,510,027</b>	<b>305,157</b>	<b>290,198</b>	<b>4,107,952</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	1,662,955	-	-	-	1,662,955
Instruction.....	-	452,409	168,859	202,634	823,902
Research.....	-	301,422	165	91	301,678
Academic support.....	-	103,803	54,644	69,860	228,307
Student services.....	-	75,724	54,835	75,081	205,640
Scholarships and fellowships.....	-	32,616	7,819	29,636	70,071
Public service.....	-	401,634	5,213	7,549	414,396
Operation and maintenance of plant.....	-	132,940	59,046	54,633	246,619
Institutional support.....	-	132,776	68,453	68,603	269,832
Other operating expenses.....	-	37,329	4,212	3,160	44,701
Depreciation.....	-	118,665	31,576	19,578	169,819
Auxiliary operations.....	-	151,113	39,909	15,222	206,244
<b>Total operating expenses.....</b>	<b>1,662,955</b>	<b>1,940,431</b>	<b>494,731</b>	<b>546,047</b>	<b>4,644,164</b>
<b>Operating gain (loss).....</b>	<b>339,615</b>	<b>(430,404)</b>	<b>(189,574)</b>	<b>(255,849)</b>	<b>(536,212)</b>
<b>Non-operating revenues (expenses):</b>					
Other revenues.....	-	110,964	23,813	24,558	159,335
Other expenses.....	-	(37,115)	(19,391)	(1,970)	(58,476)
Investment income.....	9,390	43,549	10,546	6,108	69,593
<b>Total non-operating revenues (expenses).....</b>	<b>9,390</b>	<b>117,398</b>	<b>14,968</b>	<b>28,696</b>	<b>170,452</b>
<b>Income (loss) before contributions and transfers.....</b>	<b>349,005</b>	<b>(313,006)</b>	<b>(174,606)</b>	<b>(227,153)</b>	<b>(365,760)</b>
Transfers out.....	-	460,001	204,126	262,588	926,715
<b>Change in net assets.....</b>	<b>349,005</b>	<b>146,995</b>	<b>29,520</b>	<b>35,435</b>	<b>560,955</b>
Total net assets - beginning.....	468,734	1,360,229	355,393	297,871	2,482,227
<b>Total net assets - ending .....</b>	<b>\$ 817,739</b>	<b>\$ 1,507,224</b>	<b>\$ 384,913</b>	<b>\$ 333,306</b>	<b>\$ 3,043,182</b>

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

## Statement of Cash Flows

### Proprietary Funds

June 30, 2005

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
<b>Cash flows from operating activities:</b>					
Collection of unemployment contributions.....	\$ 1,619,418	\$ -	\$ -	\$ -	\$ 1,619,418
Tuition, residence, dining and other student fees.....	-	396,713	183,430	134,370	714,513
Research grants and contracts.....	-	458,655	65,276	120,386	644,317
Payments to suppliers.....	-	(533,092)	(139,771)	(131,470)	(804,333)
Payments to employees.....	-	(933,833)	(265,618)	(306,626)	(1,506,077)
Payments to students.....	-	(34,511)	(7,543)	(24,203)	(66,257)
Payments for unemployment benefits.....	(1,678,385)	-	-	-	(1,678,385)
Collection of loans to students and employees.....	-	7,071	1,841	254	9,166
Income from contract services.....	-	344,568	3,963	1,430	349,961
Maintenance costs.....	-	-	(855)	499	(356)
Auxilliary enterprise charges.....	-	207,597	27,679	130	235,406
Other receipts.....	49,577	(207,181)	5,584	25,208	(126,812)
<b>Net cash provided by (used by) operating activities.....</b>	<b>(9,390)</b>	<b>(294,013)</b>	<b>(126,014)</b>	<b>(180,022)</b>	<b>(609,439)</b>
<b>Cash flows from non-capital financing activities:</b>					
State appropriations.....	-	485,674	180,009	190,712	856,395
Grants and contracts.....	-	25,718	1,335	730	27,783
Student organizations agency transactions.....	-	249	2	47	298
Assignment of perkins loans.....	-	1,264	6,033	508	7,805
<b>Net cash provided by non-capital financing activities.....</b>	<b>-</b>	<b>512,905</b>	<b>187,379</b>	<b>191,997</b>	<b>892,281</b>
<b>Cash flows from capital and related financing activities:</b>					
Capital appropriations.....	-	24,124	6,018	2,529	32,671
Purchases of capital assets.....	-	(165,483)	(99,366)	(11,597)	(276,446)
Proceeds from sales of capital assets.....	-	-	37,359	-	37,359
Proceeds from debt issuance.....	-	68,880	16,881	480	86,241
Other capital asset activity.....	-	(302)	1,555	1,610	2,863
Net purchases / sales of investments held by bond trustee.....	-	(103,234)	-	(11)	(103,245)
Principal paid on capital debt and leases.....	-	(53,510)	(9,701)	(6,448)	(69,659)
Interest paid on capital debt and leases.....	-	(36,196)	(19,072)	(2,103)	(57,371)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>(265,721)</b>	<b>(66,326)</b>	<b>(15,540)</b>	<b>(347,587)</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales and maturities of investments.....	-	484,973	189,225	45,860	720,058
Purchases of investments.....	-	(553,611)	(149,170)	(44,910)	(747,691)
Investment earnings.....	9,390	12,237	6,494	4,731	32,852
<b>Net cash provided by (used by) investing activities.....</b>	<b>9,390</b>	<b>(56,401)</b>	<b>46,549</b>	<b>5,681</b>	<b>5,219</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>-</b>	<b>(103,230)</b>	<b>41,588</b>	<b>2,116</b>	<b>(59,526)</b>
Cash and cash equivalents at the beginning of the fiscal year.....	-	719,705	114,991	68,217	902,913
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ -</b>	<b>\$ 616,475</b>	<b>\$ 156,579</b>	<b>\$ 70,333</b>	<b>\$ 843,387</b>
<b>Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities</b>					
<b>Operating loss.....</b>	<b>\$ 339,615</b>	<b>\$ (430,404)</b>	<b>\$ (189,574)</b>	<b>\$ (255,849)</b>	<b>\$ (536,212)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:</b>					
Depreciation expense.....	-	118,665	31,576	19,578	169,819
Fringe benefits paid by the Commonwealth.....	-	-	40,004	52,577	92,581
<b>Changes in assets and liabilities:</b>					
Accounts receivable, prepaids and other assets.....	(40,659)	2,198	(3,731)	(5,159)	(47,351)
Accounts payable, accrued liabilities and benefits.....	(15,430)	18,160	(6,277)	5,631	2,084
Student deposits and other unearned and deferred revenues.....	(367)	2,220	(8)	2,972	4,817
Other noncurrent assets - restricted and liabilities.....	(292,549)	(4,852)	1,996	228	(295,177)
<b>Net cash provided by (used by) operating activities.....</b>	<b>\$ (9,390)</b>	<b>\$ (294,013)</b>	<b>\$ (126,014)</b>	<b>\$ (180,022)</b>	<b>\$ (609,439)</b>

#### Non-cash investing, capital and financing activities:

The University System had \$ 1,681,000 of non-cash activities, and the State and Community Colleges had \$ 120,102,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

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

# ***FIDUCIARY FUND FINANCIAL STATEMENTS***



*Photograph by Steve Dunwell*

## **Old South Meeting House**

Built in 1729, Old South Meeting House was a Puritan house of worship. It was the largest building in Colonial Boston, and is best known as the site where the Boston Tea Party began. In the winter of 1773, more than 5,000 colonists gathered here for a meeting to protest the tax on tea. Three British vessels with tea shipments were in the harbor. The Colonists demanded that they return to England. Governor Hutchinson insisted that the vessels be unloaded and the tax paid. After many hours of debate, an outraged Samuel Adams announced “this meeting can do nothing more to save the country.” Protestors stormed out of the Old South Meeting House to the waterfront where they dumped three shiploads of tea into the Boston harbor. Following a two-year rehabilitation and restoration project, the Old South Meeting House reopened in October of 1997.

Old South’s reputation as a place for history-making oratory has continued through the generations. Inside “Voices of Protest,” a permanent exhibition, tells Old South’s story over two centuries. It’s a sometimes disturbing, often inspiring, and frequently controversial, but always fascinating story of the people who have made history within those walls.

**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**  
**(Amounts in thousands)**

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
<b>ASSETS</b>					
Cash and short-term investments.....	\$ -	\$ -	\$ 5,834	\$ 391,881	\$ 397,715
Assets held in trust for pension benefits:					
Cash and short-term investments.....	979,718	44,026	-	-	1,023,744
Investments at fair value.....	35,153,266	1,641,149	-	-	36,794,415
Assets held in trust for pool participants:					
Cash and short-term investments.....	-	2,118,748	-	-	2,118,748
Assets held in trust.....	-	-	-	1,962,709	1,962,709
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	-	2,017	2,017
Other receivables.....	598,142	27,496	-	90,200	715,838
Other assets.....	19,788	924	-	-	20,712
<b>Total assets.....</b>	<b>36,750,914</b>	<b>3,832,343</b>	<b>5,834</b>	<b>2,446,807</b>	<b>43,035,898</b>
<b>LIABILITIES</b>					
Accounts payable.....	1,954,868	95,155	-	55,954	2,105,977
Accrued payroll.....	-	201	-	-	201
Due to cities and towns.....	-	-	-	55,591	55,591
Agency liabilities.....	-	-	-	2,335,262	2,335,262
<b>Total liabilities.....</b>	<b>1,954,868</b>	<b>95,356</b>	<b>-</b>	<b>2,446,807</b>	<b>4,497,031</b>
<b>Net assets:</b>					
Restricted for employees' pension benefits.....	34,796,046	-	-	-	34,796,046
Restricted for external investment trust fund participations.....	-	3,736,987	-	-	3,736,987
Restricted for nonexpendable trusts.....	-	-	5,834	-	5,834
<b>Total net assets.....</b>	<b>\$ 34,796,046</b>	<b>\$ 3,736,987</b>	<b>\$ 5,834</b>	<b>\$ -</b>	<b>\$ 38,538,867</b>

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

**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**Fiscal Year Ended June 30, 2005**  
**(Amounts in thousands)**

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
<b>Additions:</b>				
Contribution:				
Employer contributions.....	\$ 1,112,195	\$ -	\$ -	\$ 1,112,195
Employee contributions.....	873,970	-	-	873,970
Proceeds from sale of units.....	-	9,793,026	-	9,793,026
Units issued - reinvestment of distributions.....	-	31,893	-	31,893
<b>Total contributions.....</b>	<b>1,986,165</b>	<b>9,824,919</b>	<b>-</b>	<b>11,811,084</b>
Net investment income :				
Net appreciation in fair value .....	3,048,638	144,690	-	3,193,328
Interest.....	424,602	62,573	-	487,175
Dividends.....	397,976	18,888	-	416,864
Real estate operating income, net.....	188,063	8,925	-	196,988
Alternative investments.....	9,543	453	-	9,996
Other.....	51,165	2,428	-	53,593
<b>Total investment income.....</b>	<b>4,119,987</b>	<b>237,957</b>	<b>-</b>	<b>4,357,944</b>
Less: investment expense.....	98,739	6,819	-	105,558
<b>Net investment income .....</b>	<b>4,021,248</b>	<b>231,138</b>	<b>-</b>	<b>4,252,386</b>
<b>Total additions.....</b>	<b>6,007,413</b>	<b>10,056,057</b>	<b>-</b>	<b>16,063,470</b>
<b>Deductions:</b>				
Administration.....	15,374	-	-	15,374
Retirement benefits and refunds.....	2,424,471	164,890	-	2,589,361
Cost of units redeemed.....	-	9,601,764	-	9,601,764
Distribution to unit holders.....	-	40,288	-	40,288
<b>Total deductions.....</b>	<b>2,439,845</b>	<b>9,806,942</b>	<b>-</b>	<b>12,246,787</b>
<b>Net increase .....</b>	<b>3,567,568</b>	<b>249,115</b>	<b>-</b>	<b>3,816,683</b>
Net assets - beginning.....	31,228,478	3,487,872	5,834	34,722,184
<b>Net assets - ending.....</b>	<b>\$ 34,796,046</b>	<b>\$ 3,736,987</b>	<b>\$ 5,834</b>	<b>\$ 38,538,867</b>

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



*Photograph by Steve Dunwell*

### **Old State House and the Site of the Boston Massacre**

Beginning with its construction in 1713, the Old State House (also known as Boston’s “Towne House”) was the headquarters of British government in Boston and the center of all political life and debate in colonial Boston. The building with its distinctive cupola was once the tallest and most impressive building in the town, sending the message that there was no higher authority than the king.

From this balcony the first public reading of the Declaration of Independence was given to the people of Boston in 1776. The lion and the unicorn on the building, which are symbols of the British Crown, were removed by revolutionaries during the independence celebrations and burned in a bonfire. Now, Old State is the oldest surviving public building in Boston, housing a museum of Boston history operated by the Bostonian Society. It houses a suit of clothes worn by John Hancock and the wool flag with nine red and white stripes that was flown to assemble the Sons of Liberty under Liberty Tree. In 1882 during restoration, replicas of the lion and the unicorn were put back in place.

On the way out of the Old State House, there is a ring of cobblestones marking the site of the Boston Massacre that unfolded in 1770, when British troops fired into a mob of 60, killing five including Crispus Attucks, the first African-American to die in the Revolution. Paul Revere’s engraving of this event, entitled “Bloody Massacre Perpetrated in King Street,” is one of the most famous (and inaccurate) pieces of revolutionary propaganda. This event helped to fuel the spirit of rebellion in the Colonies.

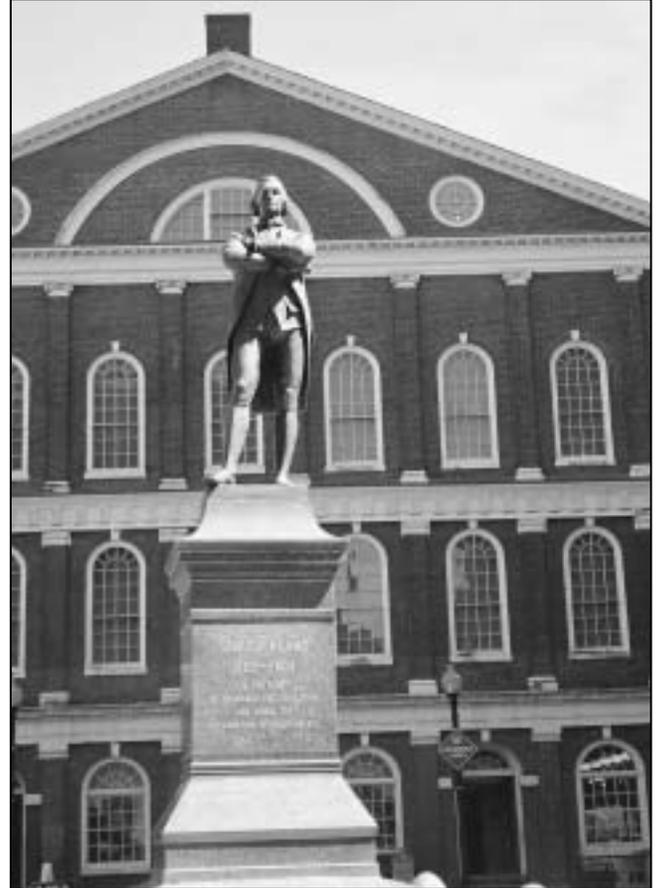
# *Discretely Presented Component Unit Financial Statements*

## **Faneuil Hall**

The “Cradle of Liberty,” Faneuil Hall was the site of many fiery town meetings. Wealthy merchant Peter Faneuil built it in 1742 and gave it to the town as a gift. Faneuil Hall has served as an open forum-meeting hall and marketplace for more than 250 years.

The first floor served as a marketplace for the local townspeople to sell their goods. The second floor housed the town meeting hall. Here, Bostonians protested the taxation policies of the British Empire and set the doctrine of “no taxation without representation.” It was here on November 5, 1773, that John Hancock and other Bostonians held the first of the tea meetings to discuss the fate of that “baneful weed.” Famous abolitionists Wendell Phillips, William Lloyd Garrison and Frederick Douglas all spoke here.

It was enlarged in 1806 by Charles Bulfinch. A grasshopper weather vane built in 1742 sits on top of the meeting hall. It measures 52 inches and weighs 38 pounds and is one of the best known and best loved symbols of the City of Boston. Today, it is a vibrant marketplace and tourist destination. The first floor houses restaurants and shops and the second floor is a meeting hall where many Boston City debates are held. The Ancient and Honorable Artillery Company, the oldest militia organization in the country, maintains a museum on the fourth floor.



## Statement of Net Assets

Component Units

June 30, 2005

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents.....	\$ 473,025	\$ 8,082	\$ 1,036	\$ 149,162	\$ -	\$ 631,305
Short-term investments.....	16,928	-	353,346	234,396	-	604,670
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable.....	19,240	-	14,418	21,518	-	55,176
Loans.....	-	-	141,954	47,388	-	189,342
Other receivables.....	29,812	28,109	81,584	26,787	-	166,292
Due from cities and towns.....	-	-	-	16,043	-	16,043
Due from primary government.....	97,930	34,089	13,150	107,267	-	252,436
Inventory.....	42,726	-	-	5,762	-	48,488
Other current assets.....	3,681	4,759	-	12,408	-	20,848
<b>Total current assets.....</b>	<b>683,342</b>	<b>75,039</b>	<b>605,488</b>	<b>620,731</b>	<b>-</b>	<b>1,984,600</b>
<b>Noncurrent assets:</b>						
Cash and cash equivalents - restricted.....	-	32,280	-	56,611	-	88,891
Long - term investments.....	606,360	168,861	1,252,231	196,929	-	2,224,381
Restricted investments and annuity contracts.....	-	558,712	-	90,998	-	649,710
Accounts receivables, net.....	-	21,540	-	14,168	-	35,708
Loans receivables, net.....	-	-	2,388,370	252,307	-	2,640,677
Due from primary government.....	-	-	-	341,500	-	341,500
Capital assets, net of accumulated depreciation.....	7,392,655	2,434,257	-	1,377,754	-	11,204,666
Other noncurrent assets.....	23,421	10,243	7,080	33,362	-	74,106
<b>Total noncurrent assets.....</b>	<b>8,022,436</b>	<b>3,225,893</b>	<b>3,647,681</b>	<b>2,363,629</b>	<b>-</b>	<b>17,259,639</b>
<b>Total assets.....</b>	<b>8,705,778</b>	<b>3,300,932</b>	<b>4,253,169</b>	<b>2,984,360</b>	<b>-</b>	<b>19,244,239</b>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Accounts payable and other liabilities.....	231,212	38,081	29,929	73,533	-	372,755
Accrued payroll.....	11,324	2,100	-	7,125	-	20,549
Compensated absences.....	15,994	3,159	-	787	-	19,940
Accrued interest payable.....	92,187	59,533	54,842	16,243	-	222,805
Due to primary government.....	-	-	-	17,450	-	17,450
Due to federal government.....	-	-	-	4,398	-	4,398
Deferred revenue.....	-	-	-	18,723	-	18,723
Capital leases.....	15,490	-	-	765	-	16,255
Bonds, notes payable and other obligations - current.....	162,695	19,535	111,655	161,178	-	455,063
<b>Total current liabilities.....</b>	<b>528,902</b>	<b>122,408</b>	<b>196,426</b>	<b>300,202</b>	<b>-</b>	<b>1,147,938</b>
<b>Noncurrent liabilities:</b>						
Compensated absences.....	-	6,391	-	480	-	6,871
Accrued interest payable.....	-	52,549	1,687	-	-	54,236
Deferred revenue.....	19,436	50,216	-	37,579	-	107,231
Capital leases.....	533,093	-	-	765	-	533,858
Bonds, notes payable and other obligations.....	4,415,847	2,355,398	2,502,266	844,140	-	10,117,651
Other noncurrent liabilities.....	9,252	64,191	117,418	32,570	-	223,431
<b>Total noncurrent liabilities.....</b>	<b>4,977,628</b>	<b>2,528,745</b>	<b>2,621,371</b>	<b>915,534</b>	<b>-</b>	<b>11,043,278</b>
<b>Total liabilities.....</b>	<b>5,506,530</b>	<b>2,651,153</b>	<b>2,817,797</b>	<b>1,215,736</b>	<b>-</b>	<b>12,191,216</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt.....	3,130,920	330,848	-	1,177,878	-	4,639,646
Restricted for:						
Debt service.....	-	-	-	19,995	-	19,995
Capital projects.....	-	-	-	1,679	-	1,679
Other purposes.....	36,092	214,605	1,322,417	367,633	-	1,940,747
Unrestricted.....	32,236	104,326	112,955	201,439	-	450,956
<b>Total net assets.....</b>	<b>\$ 3,199,248</b>	<b>\$ 649,779</b>	<b>\$ 1,435,372</b>	<b>\$ 1,768,624</b>	<b>\$ -</b>	<b>\$ 7,053,023</b>

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

**Statement of Revenues, Expenses and Changes in Net Assets**  
Component Units  
Fiscal Year Ending June 30, 2005  
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
<b>Operating revenues and expenses:</b>						
Charges for services.....	\$ 319,271	\$ 273,463	\$ 3,603	\$ 173,151	\$ -	\$ 769,488
Other.....	52,282	32,116	-	103,620	-	188,018
<b>Total operating revenues.....</b>	<b>371,553</b>	<b>305,579</b>	<b>3,603</b>	<b>276,771</b>	<b>-</b>	<b>957,506</b>
<b>Operating expenses:</b>						
Cost of services.....	504,391	144,071	98,683	256,216	524,793	1,528,154
Administration costs.....	425,740	15,365	2,888	100,239	-	544,232
Depreciation.....	262,738	75,427	-	55,756	-	393,921
<b>Total operating expenses.....</b>	<b>1,192,869</b>	<b>234,863</b>	<b>101,571</b>	<b>412,211</b>	<b>524,793</b>	<b>2,466,307</b>
<b>Operating income (loss).....</b>	<b>(821,316)</b>	<b>70,716</b>	<b>(97,968)</b>	<b>(135,440)</b>	<b>(524,793)</b>	<b>(1,508,801)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating grants.....	842,541	19,508	10,983	149,082	-	1,022,114
Interest income.....	5,999	16,336	170,646	21,783	-	214,764
Interest expense.....	(215,813)	(129,433)	(136,457)	(43,090)	524,793	-
Other nonoperating revenue (expense).....	11,888	-	-	(10,397)	-	1,491
<b>Nonoperating revenues (expenses), net.....</b>	<b>644,615</b>	<b>(93,589)</b>	<b>45,172</b>	<b>117,378</b>	<b>524,793</b>	<b>1,238,369</b>
<b>Income (loss) before contributions and operating transfer.....</b>	<b>(176,701)</b>	<b>(22,873)</b>	<b>(52,796)</b>	<b>(18,062)</b>	<b>-</b>	<b>(270,432)</b>
Capital contributions.....	182,382	-	148,901	155,781	-	487,064
<b>Net income (loss) for the year.....</b>	<b>5,681</b>	<b>(22,873)</b>	<b>96,105</b>	<b>137,719</b>	<b>-</b>	<b>216,632</b>
Net assets - beginning.....	3,193,567	672,652	1,339,267	1,630,905	-	6,836,391
<b>Net assets - ending.....</b>	<b>\$ 3,199,248</b>	<b>\$ 649,779</b>	<b>\$ 1,435,372</b>	<b>\$ 1,768,624</b>	<b>\$ -</b>	<b>\$ 7,053,023</b>

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



### **Paul Revere House**

Built around 1680, the Revere House is the oldest building in downtown Boston and was home to silversmith and patriot Paul Revere when he made his famous ride in 1775. The house was built on the site of the former parsonage. Increase Mather and his family (including his son Cotton Mather) occupied the parsonage until it was destroyed in the Great Fire of 1676. Four years later a larger house was erected. Revere purchased the house in 1770 and lived there with his wife, five children and his mother. After the Revolution he opened a foundry in 1788 and produced bolts, spikes, nails and cannons. In 1801, Revere opened the first copper rolling mill in North America where he produced copper sheeting for the hull of the USS Constitution and for the dome of the new State House.

Revere sold the house in 1800. It then became a tenement and over the years the first floor housed a variety of shops. In 1902, Paul Revere's great-grandson, John P. Reynolds, purchased it and the Paul Revere Memorial Association was formed to preserve and renovate the house. Ninety percent of the structure, two doors, three window frames and portions of the flooring, foundation, inner wall material and rafters are original. Two chambers on the second floor contain period furnishings belonging to the Revere family.



*Photograph by Steve Dunwell*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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. Except where noted, all numbers in the footnote tables and other sections of this Comprehensive Annual Financial Report are in thousands.

**A. Reporting Entity**

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 county government has been abolished in seven of those counties in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 36 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

***Component Units and Details of Departments and Entities that are Separately Audited***

*Blended Component Units* – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

- **The Massachusetts School Building Authority (MSBA)** is charged with administering and funding a program for grants to cities, towns and regional school districts for school construction and renovation projects. The MSBA enabling statute eliminated the school building assistance program which was in existence since 1946. The revenues of the MSBA are derived from dedicated sales tax revenues and Commonwealth general obligation debt and MSBA bond proceeds. Their expenditures are on behalf of the Commonwealth. The MSBA's operations and results thereon are reported as a non-major governmental fund.
- **The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension net 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 related to municipal holdings of PRIT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets.

- **The Health Care Security Trust Account (HCST)** is the long - term investment account of the Health Care Security Trust, a minor governmental fund. The Health Care Security Trust was the ultimate recipient of tobacco settlement remittances to the Commonwealth from fiscal year (FY) 99 through FY02. The HCST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HCST. The HCST utilizes certain resources and staff of PRIT or PRIM. Certain Medicaid related revenues are also managed by the HCST before expenditure.
- **The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. Portions of MMDT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets. MMDT is established by the Treasurer – Receiver General, who serves as trustee.

**The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:**

- **The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth’s lottery. The net assets of the Commission and results of operations are presented as part of the Commonwealth’s governmental activities.
- **The Commonwealth of Massachusetts Owner Controlled Worker’s Compensation and General Liability Insurance Program (OCIP)** provides worker’s compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery / Tunnel Project (CA / T). The OCIP is managed by the Massachusetts Highway Department. The net assets of the program and results of operations are presented as part of the Commonwealth’s governmental activities.

**The institutions of higher education of the Commonwealth have operations and net assets that are presented as part of the Commonwealth’s business – type activities. These systems include:**

- **The University of Massachusetts System** including its discretely presented component units, the University of Massachusetts Building Authority, the University of Massachusetts Foundation, Inc., and the Worcester City Campus Corporation (doing business as Umass Health System.) The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. Finally, the University System includes the University of Massachusetts Dartmouth Foundation, Inc.
- **The State and Community College System** including the 9 State and 15 Community Colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit). The following are Community Colleges:

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

The following are State Colleges:

- Bridgewater State College
- Fitchburg State College
- Framingham State College
- Massachusetts College of Art
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State College
- Westfield State College
- Worcester State College

Pursuant to the implementation of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, in addition to the aforementioned University of Massachusetts System, component units are the following State and Community College System foundations, all of which are legally separate, tax-exempt, separately audited, component units of the various colleges. These entities resources can only be used by or are for the benefit of the various colleges to which they serve. All are presented within the various college financial statements because of the nature and significance of these entities to those colleges. Complete financial statements may be obtained at their various offices.

Community College Component Units:

- Berkshire Community College Foundation
- Bristol Community College Foundation
- Bunker Hill Community College Foundation
- Cape Cod Community College Educational Foundation, Inc.
- Greenfield Community College Foundation, Inc.
- Holyoke Community College Foundation
- Massasoit Community College Foundation
- Massachusetts Bay Community College Foundation, Inc.
- Middlesex Community College Foundation, Inc.
- The Mount Wachusett Community College Foundation, Inc.
- The Northern Essex Community College Foundation, Inc.
- North Shore Community College Foundation
- The Quinsigamond Community College Foundation, Inc.
- The Roxbury Community College Foundation, Inc.
- Springfield Technical Community College Foundation

## State College Component Units:

- Bridgewater State College Component Units:
  - The Bridgewater State College Foundation
  - The Bridgewater Alumni Association of Bridgewater State College
- Fitchburg State College Foundation, Inc.
- Framingham State College Foundation, Inc.
- Massachusetts College of Art Foundation, Inc.
- Massachusetts College of Liberal Arts Foundation, Inc.
- The Massachusetts Maritime Academy Foundation, Inc.
- Salem State College Component Units:
  - The Salem State College Foundation, Inc.
  - Salem State College Assistance Corporation
- Westfield State College Foundation, Inc.
- Worcester State Foundation

None of these foundations are considered major component units of the Commonwealth under the definitions put forth under GA SB Statement 34, but are blended within their various systems.

***Other Discretely Presented Component Units that are Separately Audited*** – Discrete component units are entities which are legally separate (often called Authorities) are 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 Bay Transportation Authority (MBTA)** provides mass transit facilities within the Greater Boston metropolitan area, comprising 175 cities and towns.
- **The Massachusetts Turnpike Authority (MTA)** operates the Massachusetts Turnpike and the Boston Harbor Tunnel crossings that are part of the Metropolitan Highway System.
- **The Massachusetts Water Pollution Abatement Trust (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

*Minor Component Units*

- **The Massachusetts Convention Center Authority (MCCA)**
- **The Massachusetts Development Finance Agency (MassDevelopment)**
- **The Massachusetts Technology Park Corporation (MTPC)**
- **The Massachusetts Community Development Finance Corporation (MCDFC)**
- **Commonwealth Corporation**
- **The Massachusetts International Trade Council, Inc. (MITC)**
- **The Community Economic Development Assistance Corporation (CEDAC)**

- **The Massachusetts Housing Partnership (MHP)**
- **Route 3 North Transportation Improvements Association (R3N)**
- **The Commonwealth Zoological Corporation (Zoo)**
- **The Regional Transit Authorities (15 separate entities)** including:
  - Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transit Authority
  - Cape Cod Regional Transit Authority
  - Franklin Regional Transit Authority
  - Greater Attleboro / Taunton Regional Authority
  - Greenfield-Montague Transportation Area
  - Lowell Regional Transit Authority
  - Martha's Vineyard Transit Authority
  - Merrimack Valley Regional Transit Authority
  - Montachusett Regional Transit Authority
  - Nantucket Regional Transit Authority
  - Pioneer Valley Regional Transit Authority
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority

#### *Related Organizations*

The following are “related organizations” under GASB Statement No. 14, “*The Financial Reporting Entity*” as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

#### *Availability of Financial Statements*

The Commonwealth’s component units, departments and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities. To obtain their phone numbers, you may contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

#### **B. Government – Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

#### *Government – Wide Financial Statements*

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

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories.

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.

**C. 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.

**D. Measurement Focus and Basis of Accounting**

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 imposed by the provider 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 for which they are levied, grants expended or services provided. Revenues from other financing sources are recognized when received. The measurement period for accrual for taxes generally is one year from the statement of net assets date for income, corporate and other taxes and within thirty days for sales and use taxes, for taxes earned as of June 30, 2005. For federal and other reimbursements, the measurement period for accrual is generally sixty to seventy five days from the statement of net assets date if the related expenditures being reimbursed occurred previous to the statement of net assets date. 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.

**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.

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 Finance Law 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.

**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.

**Fiduciary Fund Types:**

**Pension Trust Funds** report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth’s pension plans.

**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 purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals. The remaining trust fund in the Massachusetts School Fund, established in 1834 a fund “for the aid and encouragement of common schools.” The fund was originally capitalized from

the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

**Agency Funds** account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within the governmental fund types, the Commonwealth has established the following funds:

**Highway Fund**, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

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

**Debt Service Fund**, a governmental fund, accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest.

**Capital Projects - Central Artery Statewide Roads and Bridges Fund**, a governmental fund, accounts for the construction of a portion of the Central Artery / Tunnel project financed from FY01 forward, as well as various other statewide road and bridge projects. These expenditures are financed from bond proceeds, certain revenues from Registry of Motor Vehicles fees (net of debt service expenditures) and payments from authorities.

The proprietary funds include the following:

**Unemployment Compensation Fund** reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

**College and University Information** is presented here, aggregated by the University's activity, the State Colleges activity and the Community College's activity.

#### *Reporting Standards*

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

#### *Fiscal Year Ends*

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority which utilizes a December 31 year end.

*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. A corresponding receivable is declared, if applicable.

Revenues and expenses of business type activities and proprietary funds are classified as operating or nonoperating 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 nonoperating.

**E. *Cash and Short-Term Investments***

The Commonwealth follows the practice of pooling the cash and cash equivalents of its Governmental and Fiduciary Funds. 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, Expendable Trust Funds and, when so directed by law, to certain Special Revenue and Capital Projects Funds.

The Pension Trust Funds, with investments of approximately \$37,702,809,000 at fair value and the Health Care Security Trust Account investments of approximately \$156,655,000 at fair value, are permitted to make investments in equity securities, fixed income securities, real estate, timber and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentration of credit risk exists if a number of companies in which the fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 2005, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$7,503,233,000 of the Pension Trust Funds, representing 17.5% of the total assets of the Fiduciary Fund Type.

Pension Trust Fund and External Investment Trust Fund net assets have been restricted as follows:

“Restricted for employee’s pension benefits” identifies resources held in trust for the members and beneficiaries of the Commonwealth’s pension plans.”

“Restricted for external investment trust fund participants” identifies the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth. The Commonwealth also manages pension assets on behalf of other governments.

The Commonwealth maintains a short-term investment pool. The investments are carried at amortized cost, which approximates fair value. The primary government’s and component unit’s share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of net assets is approximately

\$2,115,200,000 and is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units are investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

**F.     *Securities Lending Program***

The Pension Trust funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the fair value of the security borrowed. The collateral securities cannot be pledged or sold by PRIT unless the lending agents default. Then lending agents are required to indemnify PRIT in the event that they fail to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agents fail to perform their obligations as stipulated in the agreements. There were no losses resulting from default of the lending agents during the years ending June 30, 2005 and 2004. At June 30, 2005, the fair value of the securities on loan from PRIT was approximately \$1,877,595,000. The fair value of the collateral held by PRIT amounted to approximately \$1,953,412,000 at June 30, 2005, of which \$1,101,100,000 was cash.

**G.     *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. If revenue is not received by year – end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts. These are the only types of receivables that have allowances.

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.”

Included in receivables for FY05 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 \$126.9 million, representing 50% of the amounts estimated to be received in FY05, adjusted for historical trends and included as part of a governmental fund and governmental activities within the statement of net assets.

**H.     *Due From Cities and Towns***

These amounts represent reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

On July 9, 2004, the Governor signed Chapter 169 of the Acts of 2004, related to the financial ability of the City of Springfield. Section 2 of the Act provides

for \$52,000,000 in zero interest loans to be drawn from time to time by a finance control board established by the Act. This activity is recorded in the Springfield Fiscal Recovery Trust Fund. The loans are to be paid back to the Commonwealth no later than June 30, 2012. During FY2005, \$100,000,000 in cash flow was issued to the City from the Trust Fund. Of this amount, \$78,000,000 was repaid to the Commonwealth before June 30, 2005 and the remaining \$22,000,000 is reflected as “Due from Cities and Towns.” It is anticipated that this revolving activity will continue for the foreseeable future. The Act provides for no forgiveness of the loans and failure to repay the full value of loans disbursed from the fund to the city shall result in an equally commensurate reduction in local aid payments made by the Commonwealth to the City in FY2013.

**I. Fixed 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, if cost is greater than \$1. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

*Depreciation and useful lives*

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

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

*Central Artery / Tunnel Project Depreciation*

In FY04 and continuing in FY05, certain Central Artery / Tunnel Project segments were opened to traffic, but not transferred as of June 30, 2005 to the MTA or Massport, as required by general laws. The Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as “Due to Component Units – Central Artery / Tunnel Project” and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth’s statement of activities.

*Construction in Process*

Construction in process includes all associated cumulative costs of a constructed fixed asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or the Massachusetts Port Authority, its engineers and respective boards. The chief engineer of the Highway Department, or their designees, jointly determine and certify to the MTA or the Massachusetts Port Authority that the respective authorities can safely open each such facility or segment thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June 30 2005, approximately \$1,737,610,000 of project costs has been transferred to the various authorities, including \$10,252,000 of costs transferred outside of the current agreements to the Massachusetts Port Authority and \$10,697,000 to the Boston Redevelopment Authority.

**J. *Interfund/Intrafund Transactions***

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

**K. *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 benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its 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 worker’s compensation activity is accounted for in the governmental funds.

- L. *School Construction Grants and Contract Assistance Payable***
- The Commonwealth, through the MSBA, is committed to reimburse cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. The MSBA's enabling statute gave the authority responsibility for 728 grant projects under the former school building assistance program of the Commonwealth and 428 waiting list projects. 728 grant project amounts are recorded as current and long-term liabilities in the statement of net assets once all applicable eligibility requirements have been met. Upon completion of the projects, all costs incurred by the grantees are subject to audit by the MSBA and, based on the results of the audits, the approved eligible costs and the related liability may increase or decrease. Completion of these audits by the MSBA will allow the MSBA to determine the final approved cost of these projects, and the MSBA will adjust the payments it makes for these projects in accordance with the results of those audits. The remaining wait list projects are reported as commitments.
- The Commonwealth recognizes contract assistance due to MCCA, R3N, MWPAT and MassDevelopment as long-term liabilities on the statement of net assets. These liabilities equate to portions or the whole of certain debt service of these entities. In addition, a payable is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.
- M. *Compensated Absences***
- Compensated absences are recorded as a long-term liability in the statement of net assets. Short-term compensated absences represent obligations for sick and vacation payments to terminated employees as of June 30, 2005 but paid after the fiscal year end.
- For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death.
- Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.
- In the business type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.
- N. *Long Term Obligations***
- Long-term obligations consist of unmatured long term debt obligations, CA/T assets due to discretely presented component units and related organizations, school construction grants payable (through the MSBA) and contract assistance payable to component units and other liabilities including capital lease obligations and the net pension obligation of the Commonwealth (representing the actuarially derived pension cost in excess of actual contributions made).
- O. *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 governmental funds and the governmental activities on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

- P. Risk Financing**
- The Commonwealth does not insure 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 employee's 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.
- Q. Net Assets**
- The Commonwealth reports net assets as reserved where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.
- Net Assets have been restricted as follows:
- "Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances.
- "Restricted for unemployment benefits" – identifies amounts solely for payment of unemployment compensation.
- "Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted.
- "Restricted for central artery workers' compensation and general liability" – identifies amounts held to pay future workers' compensation and general liability claims through the Central Artery / Tunnel Project's owner controlled insurance program.
- "Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the Commonwealth through constitutional or enabling statutes. Included in this restriction are reserves for stabilization and prior appropriations continued.
- R. Reclassifications and Restatement**
- Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said Component Units. Due to the provisions of GASB Statement No. 34 ("GASB 34") "*Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*", major governmental and proprietary funds presented in a previous year may not be major funds presented in the current year.
- S. New Accounting Standards**
- During FY05, the Commonwealth implemented the following new accounting standards issued by the GASB:
- Statement No. 40 "*Deposit and Investment Risk Disclosures*," amends Statement No. 3 "*Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*".

For FY06, the Commonwealth will be implementing the following:

Statement No. 42 *“Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*.

Statement No. 44 *“Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1”*.

Statement No. 46 *“Net Assets Restricted by Enabling Legislation”*.

Statement No. 47 *“Accounting for Termination Benefits”*.

For Statements 44 and 46, there is no financial impact for these statements. For Statements 42 and 47, as of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing this statement.

In FY07, the Commonwealth will be implementing Statement No. 45 *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing this statement.

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## 2. BUDGETARY CONTROL

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State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and 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 discrepancy to separately published budget documents. 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.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions. Alternatively, the Governor may propose specific additional revenues to equal the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure such deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The following table summarizes budgetary activity for FY05 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 149 of the Acts of 2004:		
Direct appropriations.....	\$ 22,548,599	\$ 21,281,758
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2004 .....	1,438,101	1,818,140
Total original budget.....	23,986,700	23,099,898
Supplemental Acts of 2004:		
* Chapter 352.....	-	(750)
Chapter 462.....	-	350
Chapter 502.....	-	3,271
Supplemental Acts of 2005:		
Chapter 65.....	-	118,544
Chapter 35.....	-	79,568
Chapter 81.....	-	25,000
Total before June 30, 2005 .....	23,986,700	23,325,881
Supplemental Acts of 2005, passed after June 30:		
Chapter 106 .....	-	129,447
Total budgeted revenues and expenditures per Legislative action .....	23,986,700	23,455,328
Plus: Transfers of revenues and expenditures (including rounding).....	-	1,986,736
Budgeted revenues and expenditures as reported.....	\$ 23,986,700	\$ 25,442,064

\* The negative supplemental appropriation is the outcome of a pilot program implemented at certain state college institutions whereby they were allowed to retain and spend out - of - state tuitions. The offsetting estimated state savings was reduced from the institutions original General Appropriation Act allocation.

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.

### 3. DEPOSITS AND INVESTMENTS

#### *Primary Government -*

The Commonwealth maintains a cash and short-term investment pool that is available for use by all funds. Each fund type's net equity in this pool is displayed on the combined balance sheet as either "Cash and short-term investments" or "Deficiency in cash and short-term investments." The investments of the Pension Trust Funds are held in a separate trust.

The Treasury manages the Commonwealth's short-term investment pool. Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by two or more nationally recognized statistical rating organizations and repurchase agreements that any of these obligations secure. Such investments are carried at cost, which approximates fair value.

Pooled cash and short-term investments include the following (amounts in thousands):

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Government Wide Total</u>
Cash and short-term investments.....	\$ 3,747,939	\$ 254,166	\$ 4,002,105
Cash with fiscal agent.....	<u>1,134,727</u>	<u>-</u>	<u>1,134,727</u>
Total.....	<u>\$ 4,882,666</u>	<u>\$ 254,166</u>	<u>\$ 5,136,832</u>

The deficiency in cash is reported as amounts due to other funds in the governmental balance sheet, and as an offset to positive cash account balances in the statement of net assets. Other investments, mainly in escrows, the Pension Trust Funds and the HCST are reported at fair value in the financial statements. The investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. The Pension Trust Funds and the HCST are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table of interest rate risk – Non-Pension trust funds, which contains investment maturities, these alternative investments, venture capital and futures pools are classified as other investments. The MSBA is authorized to invest similarly to the Treasurer and Receiver – General.

#### *Interest Rate Risk – Non Pension Trust Funds*

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. The following table (in thousands of dollars) provides information about the interest rate risk associated with the Commonwealth's investments, exclusive of its Pension Trust Funds but inclusive of the HCST, which is managed by PRIT. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 90 days and holding all of the portfolio's total market value in securities with a maturity of six months or less. Because of the short – term nature of these investments, they are defined as cash equivalents. Therefore, they are not investments. The MSBA invests similarly to the Treasury (amounts in thousand of dollars):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	One to Five Years	Six to Ten Years	More than Ten Years
Certificates of Deposit.....	\$ 478,447	\$ 476,614	\$ 1,527	\$ 165	\$ 141
Yankee Dollars, Foreign Banks.....	588,227	588,227	-	-	-
Commercial Paper.....	1,887,178	1,885,178	2,000	-	-
U.S. Government Securities.....	106,633	18,089	86,797	1,674	73
Federal Agencies.....	218,406	154,382	42,050	2,372	19,602
Corporate Banks.....	274,658	107,239	92,006	22,898	52,515
Master Note Agreements.....	10,847	10,847	-	-	-
Medium Term Notes.....	570,379	570,379	-	-	-
Repurchase Agreements.....	426,937	426,937	-	-	-
Guaranteed Investment Contracts	41,421	11,039	30,382	-	-
Annuity and Treasury Strips.....	1,000,000	-	1,000,000	-	-
Bond Mutual Funds.....	13,423	5,956	4,662	2,805	-
Other Deposits, Assets and Liabilities, Net.....	509,846	507,273	1,975	598	-
<b>Total Fixed Income Investments.....</b>	<b>\$ 6,126,402</b>	<b>\$ 4,762,160</b>	<b>\$ 1,261,399</b>	<b>\$ 30,512</b>	<b>\$ 72,331</b>

#### Credit Risk – Non – Pension Trust Funds

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 10% of the total investment portfolio into any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions in the amount that can be invested in public entity securities; however, the portfolio may be invested in U.S. Treasury obligations and repurchase agreements. During FY05, the Commonwealth, exclusive of Pension Trust Funds, maintained an investment with Sovereign Bank, which was valued at 9.1% of the portfolio's total fair value as of June 30, 2005. This investment contains funds in a daily reset account with interest accruing at the London Inter- Bank Offered Rate (LIBOR).

The Treasury requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking as rated by nationally recognized statistical ratings organizations as defined by the investment act of 1940. The Treasury does not have any additional policies regarding credit ratings of investments. The following table (in thousands of dollars) provides information on the credit ratings associated with the Commonwealth's investments in debt securities:

Rated and Unrated Investments	Quality Ratings		
	Fair Value	A1 / P1	Unrated
Certificates of deposit.....	\$ 477,785	\$ 45,938	\$ 431,847
Yankee dollars, foreign banks.....	588,227	588,159	68
Guaranteed investments contracts.....	41,421	41,421	-
Commercial paper.....	1,887,178	1,842,747	44,431
US Government Securities.....	64,505	64,505	-
Federal agencies.....	264,438	264,438	-
Corporate bonds.....	271,349	207,500	63,849
Annuity and treasury strips.....	1,000,000	1,000,000	-
Bond Mutual Funds.....	7,883	7,883	-
Master note agreements.....	10,847	10,845	2
Medium term notes.....	570,379	570,247	132
Repurchase agreements.....	426,937	-	426,937
Other deposits, assets and liabilities, net.....	515,453	5,399	510,054
<b>Total Fixed Income Investments.....</b>	<b>\$ 6,126,402</b>	<b>\$ 4,649,082</b>	<b>\$ 1,477,320</b>

As of June 30, 2005, the Commonwealth held, at present value, approximately \$540 million of annuity contracts and \$898 million in US treasury securities on behalf of lottery prize winners. These contracts have maturities ranging from 1 to 30 years. For the annuities, ratings by AM Best range from not rated to AA+. If the annuity contracts default, the Commonwealth is liable for the prize payments.

#### *Interest Rate Risk – Pension Trust Funds*

As pension trust funds have a different investment horizon, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors. These factors are reflected in the effective durations numbers provided in the table below.

The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. At June 30, 2005, the following table shows the debt investments by investment type, fair value and effective weighted duration rate (amounts in thousands):

<b>Investment</b>	<b>Fair Value</b>	<b>Effective Weighted Duration Rate (Years)</b>
Asset backed securities.....	\$ 198,820	2.08
Commercial mortgage backed securities.....	142,051	3.66
Non-U. S. Government backed C.M.O.s.....	56,128	3.92
Commercial paper.....	62,960	0.11
Corporate bonds and other credits.....	2,945,971	3.83
U.S. Government bonds.....	774,531	5.73
U.S. Government agencies.....	336,781	2.27
U.S. Government TIPS.....	1,743,098	6.15
U.S. Government mortgage backed securities.....	1,652,586	2.35
Municipal bonds.....	16,706	9.72
Pooled money market fund.....	908,415	0.08
Other pooled funds.....	<u>790,782</u>	<u>NA</u>
Total fixed income and short-term investments.....	9,628,829	
Non-fixed income investments.....	25,524,437	
Total investments at fair value	<u>\$ 35,153,266</u>	

*Credit Risk - Pension Trust 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.

The weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was A- at June 30, 2005.

The following presents the PRIT Fund's debt securities credit ratings at June 30, 2005 (amounts in thousands):

<b>Investment</b>	<b>Quality Ratings</b>					
	<b>Fair Value</b>	<b>AAA</b>	<b>AA+ to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BBB-</b>	<b>BB+ to Unrated</b>
Asset backed securities.....	\$ 198,820	\$ 188,287	\$ -	\$ -	\$ -	\$ 10,533
Commercial mortgage backed securities.....	142,051	134,446	1,028	-	-	6,577
Non-U.S. government backed C.M.O.s.....	56,128	50,324	-	-	-	5,804
Commercial paper.....	62,960	60,678	-	-	-	2,282
Corporate bonds and other credits.....	2,945,971	163,083	146,974	254,539	537,465	1,843,910
U.S. government agencies.....	336,781	335,301	1,480	-	-	-
U.S. government backed securities.....	1,566,771	1,502,868	-	-	-	63,903
Municipal bonds.....	16,706	3,286	4,047	-	9,373	-
Pooled money market fund.....	908,415	-	908,415	-	-	-
Other pooled funds.....	<u>790,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>790,782</u>
<b>Total credit risk, fixed income and short-term investments.....</b>	<b>7,025,385</b>	<b>\$ 2,438,273</b>	<b>\$ 1,061,944</b>	<b>\$ 254,539</b>	<b>\$ 546,838</b>	<b>\$ 2,723,791</b>
Fixed income investments explicitly backed by the U.S. Government.....	2,603,444					
Total fixed income and short-term investments.....	9,628,829					
Non-fixed income investments.....	<u>25,524,437</u>					
Total investments at fair value	<u>\$ 35,153,266</u>					

*Foreign Currency Risk - Pension Trust 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. The PRIM Board manages PRIT's exposure to foreign currencies by holding a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through forward foreign currency and future contracts. The following table on the next page represents PRIT's foreign currency exposure at June 30, 2005:

	<b>Cash and Short-Term Investments</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Alternative Investments</b>	<b>Total</b>
Argentine Peso.....	\$ 54	\$ 326	\$ -	\$ -	\$ 380
Australian Dollar.....	8,827	221,406	776	-	231,009
Brazilian Real.....	1,236	159,214	-	-	160,450
British Pound.....	14,448	1,300,740	4,568	-	1,319,756
Canadian Dollar.....	3	-	1,338	-	1,341
Chilean Peso.....	168	8,778	-	-	8,946
Columbian Peso.....	27	4,088	-	-	4,115
Czech Coruna.....	16	2,833	-	-	2,849
Danish Krone.....	528	59,084	-	-	59,612
Egyptian Pound.....	1,470	11,247	-	-	12,717
Euro.....	26,676	1,742,675	50,635	-	1,819,986
Greek Drachma.....	4	-	-	-	4
Hong Kong Dollar.....	1,656	270,597	400	-	272,653
Hungarian Forint.....	106	10,424	-	-	10,530
Indian Rupee.....	-	375	-	-	375
Indonesian Rupian.....	26	43,940	-	-	43,966
Israeli Shekel.....	98	17,711	-	-	17,809
Japanese Yen.....	10,297	1,268,502	1,487	-	1,280,286
Malaysian Ringgit.....	896	89,023	-	-	89,919
Mexican Peso.....	29	49,905	-	-	49,934
Taiwan Dollar.....	4,128	174,257	-	-	178,385
Turkish Lira.....	77	42,772	-	-	42,849
New Zealand Dollar.....	538	18,499	-	-	19,037
Norwegian Krone.....	611	27,096	-	-	27,707
Pakistan Rupee.....	-	2,438	-	-	2,438
Peruvian Neuvo Sol.....	-	1,411	-	-	1,411
Philippines Peso.....	104	11,738	-	-	11,842
Polish Zloty.....	102	24,023	-	-	24,125
Russian Rubel.....	-	918	-	-	918
South African Rand.....	500	188,415	14	-	188,929
Singapore Dollar.....	873	75,057	-	-	75,930
South Korean Won.....	1,083	432,351	-	-	433,434
Swedish Krona.....	2,562	170,633	-	-	173,195
Swiss Franc.....	4,186	274,105	-	-	278,291
Thailand Baht.....	78	43,436	-	-	43,514
Alternative investment funds denominated in foreign currencies (various currencies).....	-	-	-	284,155	284,155
International equity pooled funds (various currencies).....	-	295,173	-	-	295,173
International fixed income pooled funds (various currencies).....	-	-	58,424	-	58,424
Total securities subject to foreign currency risk.....	81,407	7,043,190	117,642	284,155	7,526,394
International investments denominated in U.S. Dollars.....	-	808,216	1,139,831	-	1,948,047
<b>Total international investments, deposits and cash.....</b>	<b>\$ 81,407</b>	<b>\$ 7,851,406</b>	<b>\$ 1,257,473</b>	<b>\$ 284,155</b>	<b>\$ 9,474,441</b>

*Concentration of Credit Risk – Pension Trust Funds*

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.

PRIT has no investments at fair value, that exceed 5% of PRIT's net assets held in trust for pool participants as of June 30, 2005.

**A. Financial Investments  
with Off-Balance Sheet  
Risk**

PRIT may invest in other off-balance sheet transactions. These investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. Descriptions of such "off-balance sheet risks" are as follows:

*Forward Currency Contracts*

The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts 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 contract is marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record 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. Fluctuations in the value of forward currency contracts are recorded as unrealized gains or losses by the Pension Trust Funds.

As of June 30, 2005, PRIT had open foreign exchange contracts with combined net unrealized gains of \$17,768,000 with various delivery dates to November, 2005.

*Futures Contracts*

The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may 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 arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The Pension Trust Funds may also invest in financial futures contracts for non-hedging purposes.

### Forward Purchase Agreement

During FY02, the Commonwealth entered into a forward purchase agreement with two investment providers to receive investment earnings on grant draws for the payment of the Commonwealth's Grant Anticipation Notes (GANs) principal and interest for the period from June 19, 2002 to July 15, 2014 for note payments approximately six to eleven months after these grant draws. The agreements may only be terminated in the event of a defeasance or refunding of the GANs by the Commonwealth. Should termination occur, the Commonwealth may be liable for a termination amount to be agreed upon between the Commonwealth and the providers at the termination date.

### Options

PRIT is also engaged in selling or "writing" options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bear the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 2005, there were no material options outstanding.

### Swap Agreements at PRIT and HST

During FY05, PRIT's Core Realty Holdings LLC (a limited liability company inclusive of PRIT and HST – "LLC,") held interest rate swap contracts for the purpose of hedging its floating – rate interest exposure. As of June 30, 2005, PRIT holds 98.99% of the LLC while HST holds the remaining 1.01%. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC 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 the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts are included in real estate income, net in PRIT and HST's financial statements.

As of June 30, 2005, the LLC had the following swap contracts in effect (amounts in thousands):

Counterparty	Fixed Rate Paid	Notional Amount	Effective Date	Maturity Date	Fair-Value
Bank of America.....	4.82%	\$ 50,000	07/23/02	07/01/12	\$ (2,740)
Citibank, N. A. New York.....	4.32%	50,000	08/05/02	08/01/06	(991)
Bear Stearns Bank PLC.....	3.95%	50,000	08/19/02	09/01/07	(248)
Bank of America.....	4.18%	50,000	12/02/02	12/03/12	(726)
Citibank, N. A. New York.....	3.68%	50,000	01/01/03	01/01/10	343
Mellon Bank.....	3.17%	50,000	01/30/03	02/01/08	742
Mellon Bank.....	3.82%	50,000	03/06/03	06/01/13	523
Bear Stearns Bank PLC.....	3.45%	50,000	05/13/03	06/01/11	1,217
Citibank, N. A. New York.....	3.54%	50,000	08/21/03	09/01/08	353
Fleet National Bank.....	4.34%	50,000	09/22/03	12/01/13	(1,245)
Citibank, N. A. New York.....	4.11%	50,000	10/27/03	12/01/11	(552)
Bear Stearns Bank PLC.....	3.37%	50,000	11/24/03	03/01/09	758
Bank of America.....	4.32%	50,000	12/17/03	06/01/14	(1,167)
Citibank, N. A. New York.....	3.98%	50,000	04/23/04	06/01/10	(275)
Bear Stearns Bank PLC.....	5.01%	50,000	05/21/04	12/01/14	(3,926)
Mellon Bank.....	4.49%	50,000	06/21/04	12/01/10	(1,525)
Citibank, N. A. New York.....	4.47%	50,000	07/19/04	09/01/12	(1,655)
Bear Stearns Bank PLC.....	4.44%	50,000	11/16/04	05/01/15	(1,614)
Citibank, N. A. New York.....	4.17%	50,000	12/20/04	03/01/14	(625)
Citibank, N. A. New York.....	4.27%	50,000	02/15/05	12/01/15	(865)
Bear Stearns Bank PLC.....	4.59%	50,000	03/15/05	09/01/13	(2,152)
Bear Stearns Bank PLC.....	4.42%	50,000	04/21/05	03/01/15	(1,459)
		<u>\$ 1,100,000</u>			<u>\$ (17,829)</u>

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of PRIT's financial statements. Such methods and assumptions incorporate standard valuation conventions and techniques such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result in only general approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market interest rates will generally increase the swaps' termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts. As of June 30, 2005, neither the LLC, nor its counterparties expressed intentions to terminate its swap agreements prior to their scheduled maturity dates.

### B. Discretely Presented Component Unit Investments

Management of the various discretely presented component units hedge interest rate risk and credit risk differently, dependent on the particular needs and circumstances of each entity. More detailed information may be found in the component units' separately audited financial statements. In the aggregate, interest rate risk and credit risk of the investments of the discretely presented component units at June 30, 2005 are as follows (amounts in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			Over 10 years	Range of Credit Ratings
		Less Than 1	1-5 years	6-10 years		
Forward delivery agreements.....	\$ 241,995	\$ -	\$ -	\$ -	\$ 241,995	N/R
Guaranteed investment contracts .....	1,567,245	133,035	459,878	333,256	641,076	N/R - AAA
Fixed income securities.....	146,426	42,512	84,276	19,637	1	N/R - AAA
Repurchase agreements.....	23,230	23,230	-	-	-	N/R
Various federal obligations.....	663,056	319,435	117,380	92,000	134,241	AAA
Corporate bonds.....	21,185	-	17,059	4,126	-	BBB - AAA
Asset backed securities.....	10,415	-	1,960	1,131	7,324	N/R - AAA
Auction rate securities.....	33,225	33,225	-	-	-	AAA
<b>Total Fixed Income Investments.....</b>	<b>\$ 2,706,777</b>	<b>\$ 551,437</b>	<b>\$ 680,553</b>	<b>\$ 450,150</b>	<b>\$ 1,024,637</b>	
Other Investments						
Equities.....	2,673					
MMDT.....	400,122					
Short - term investment funds.....	3,219					
Money market mutual funds.....	350,039					
<b>Total Investments .....</b>	<b>\$ 3,462,830</b>					

#### Custodial Credit Risk-Deposits

Custodial Credit Risk is the risk that in the event of a bank failure the component unit's deposits may not be recovered. The component units do not have deposit policies for custodial credit risk. At June 30, 2005, the carrying amount of deposits totaled \$691,544,000 of which \$184,351,000 was insured and collateralized and \$507,193,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### Foreign Currency Risk-Investment

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The MBTA is subject to foreign currency risk as a result of a cross-border lease transactions that is denominated in Swedish Krona. The transaction allows for a guaranteed exchange rate during

the term of the lease. At June 30, 2005 the MBTA's exposure to foreign currency risk amounted to \$44,583.

*Concentration of Credit Risk – MWPAT*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MWPAT places no limit on the amount that may be invested in any one issuer. More than 5% of MWPAT's total investments are with the following issuers:

<u>Issuer:</u>	<u>Percent of total Investments</u>
SA Capital Management Services, LLC.....	22%
IXIS Funding Corp. ....	22%
Societe Generale.....	6%
Trinity Funding Company, LLC.....	18%

*Component Unit Swap Agreement Investments*

The MBTA has three interest rate swaps and swaptions in order to lower its cost of capital, protect against rising interest rates, lock in interest rate savings, realize refinancing savings according to schedules that suit the MBTA's needs, and to provide the authority with a stable and predictable cost of fuel. At June 30, 2005, the MBTA's swap and swaption transactions had an aggregate notional amount of \$300.1 million, termination dates ranging from FY06 through FY22, fixed payable rates ranging from 4.1% to 5.2%, variable receipt rates of either BMA or CPI+79 basis points. On swap has a lump sum payment due from a counterparty in FY07 for \$4.4 million, which is recognized as deferred revenue. Counterparty ratings range from A to AAA. The fair value of these investments as of June 30, 2005 was a negative \$12.3 million.

In FY99, the MTA entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This "Swaption" agreement runs through July 1, 2029 and carries a notional amount of \$100 million. The MTA received a premium payment in FY00 of \$5.4 million as part of the agreement. This premium was recorded by the MTA as a deferred credit and is being recognized as an adjustment of interest expense over the 30-year life of the agreement. MGTC had the right, but not the obligation, to exercise the swap option on January 1, April 1, July 1 and October 1 of any year from July 1, 2002 to July 1, 2029. MGTC had the right to enter the MTA into the swap when the average Bond Market Association Municipal Swap Index (BMA) / London Interbank Offered Rate (LIBOR) ratio exceeds 72% over 12 consecutive months beginning April 1, 2002. The MTA's payment obligation would be equal to the difference between the BMA and 67% of LIBOR, multiplied by the \$100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. MGTC exercised its option on October 1, 2002. The MTA received \$194,000 of interest in January 2004. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In FY01, the MTA entered into five interest rate swap options with UBS AG, the Parent Company of UBS Paine Webber (UBS). These swaptions grant UBS the right to enter a swap with the MTA in which UBS would pay a floating rate and receive a fixed rate from the MTA. The swaption exercise dates and fixed

rates due from the MTA are designed to match the call provisions and rates of certain of the MTA's bonds. If UBS exercises its option, the MTA expects to refund certain of its fixed rate bonds with floating rate bonds. The floating rate received by the MTA under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the MTA's payments to UBS would match the payments expected to be made to fixed rate bondholders. UBS paid \$6.2 million on behalf of the MTA during FY01 to purchase insurance for the payments that the MTA may be required to make under the swaps, if exercised. This amount was recorded in the MTA's financial statements as prepaid insurance and is amortized over the life of the swap, which is 35 years.

As of December 31, 2004 the MTA had recorded a long-term receivable of \$13.1 million related to the swaption. A corresponding deferred credit totaling \$29.1 million was recorded during FY05 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In FY03, the MTA entered into five interest rate swap option agreements with Lehman Brothers Special Financing Inc. (Lehman). These Swaptions grant Lehman the right to enter a swap with the MTA in which Lehman would pay the MTA a fixed rate of 5% and the MTA would pay Lehman a floating rate of BMA. As a fixed – to – floating swap, the transaction was designed to "offset" the FY01 UBS swaption and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid \$6.4 million to the MTA during FY03 and will pay an additional \$28.8 million in subsequent years. This amount was recorded in the MTA's financial statements as a deferred credit and will be amortized over the life of the swap, which is 35 years.

A corresponding deferred credit totaling \$17.5 million was recorded during FY05 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default. The unamortized balance as of December 31, 2004 is \$35.2 million.

Receivable amounts recorded by the MTA under these agreements are as follows (amount in thousands):

Due January 1,	UBS Amounts	Lehman Amounts
2005.....	\$ 3,281	\$ 5,849
2006.....	3,281	5,849
2007.....	3,281	5,848
2008.....	3,281	-
	<u>13,124</u>	<u>17,546</u>
Less: Current Portion.....	<u>(3,281)</u>	<u>(5,849)</u>
	<u>\$ 9,843</u>	<u>\$ 11,697</u>

**4. RECEIVABLES**

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets as follows (amounts in thousands):

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables .....	\$ 3,004,666	\$ 1,299,254	\$ -	\$ 1,510,154	\$ 5,814,074
Business-type activity receivables.....	-	35,287	63,487	783,840	882,614
Less: allowance for uncollectibles.....	(572,331)	(6,712)	(5,468)	(1,360,138)	(1,944,649)
Receivables, net of allowance for uncollectibles .....	2,432,335	1,327,829	58,019	933,856	4,752,039
Less: current portion:					
Governmental activities .....	2,432,335	1,292,542	-	304,994	4,029,871
Business-type activities .....	-	35,287	40,615	591,726	<u>667,628</u>
Noncurrent receivables .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,404</u>	<u>\$ 37,136</u>	<u>\$ 54,540</u>

<i>Discretely Presented Component Units</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Massachusetts Bay Transportation Authority .....	\$ -	\$ 19,240	\$ -	\$ 29,812	\$ 49,052
Massachusetts Turnpike Authority.....	-	-	-	50,462	50,462
Massachusetts Water Pollution Abatement Trust .....	-	14,418	2,530,324	81,584	2,626,326
Nonmajor component units .....	-	21,518	317,707	48,584	387,809
Less: allowance for uncollectibles.....	-	-	18,012	8,442	26,454
Receivables, net of allowance for uncollectibles .....	-	55,176	2,830,019	202,000	3,087,195
Less: current portion .....	<u>-</u>	<u>55,176</u>	<u>189,342</u>	<u>166,292</u>	<u>410,810</u>
Noncurrent receivables .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,640,677</u>	<u>\$ 35,708</u>	<u>\$ 2,676,385</u>

## 5. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by Legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations. Activity between funds reflected as due to / from primary government in the combined balance sheet and various transfers in the combined statement of revenues, expenditures and changes in fund balance as of June 30, 2005 are summarized as follows (amounts in thousands):

<b>Governmental Funds</b>		
<b>Receiving Fund:</b>	<b>Paying Fund</b>	<b>Amount</b>
General	Highway	\$ 51,967
	Lotteries	1,017,637
	Other Governmental Funds	926,411
Highway	Other Governmental Funds	20,751
Debt Service*	General	855,583
	Highway	735,216
	Other Governmental Funds	118,019
Central Artery		
Statewide Roads and Bridges	Highway	75,316
Other Governmental Funds	General	409,114
	Highway	20,750
	Central Artery	
	Statewide Roads and Bridges	79
	Other Governmental Funds	<u>1,181,619</u>
<b>Total Governmental Funds</b>		5,412,462
<b>Business Type Activities</b>		
General Fund	University of Massachusetts	52,001
	State Colleges	13,603
	Community Colleges	14,623
University of Massachusetts	General Fund	484,615
	Other Governmental Funds	27,386
State Colleges	General Fund	206,085
	Other Governmental Funds	11,644
Community Colleges	General Fund	262,386
	Other Governmental Funds	14,826
<b>Total Business Type Activities (net)</b>		<u>926,715</u>
<b>Total Transfers</b>		<b><u>\$ 6,339,177</u></b>

\*Transfers for debt service are net of amounts funded in escrows for crossover refunding debt.

Remaining receivables and payables between funds as of June 30, 2005 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2005. The following is a summary of receivables and payables between funds remaining as of June 30, 2005 (amounts in thousands):

<u>Receivable Fund:</u> <u>Governmental Funds:</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Highway Fund	\$ 846,155
	Nonmajor Governmental Funds	963,071
<b>Highway Fund</b>	Nonmajor Governmental Funds	-
Central Artery Statewide Road and Bridge Fund	General Fund	377,483
Nonmajor Governmental Funds	General Fund	27,849
Nonmajor Governmental Funds	Nonmajor Governmental Fund	<u>110,563</u>
<b>Total Governmental Funds</b>		<b>\$ 2,325,121</b>
<b>University of Massachusetts</b>		<u>6,423</u>
<b>Total amounts due</b>		<b><u>\$ 2,331,544</u></b>

#### *Central Artery / Tunnel Project*

The Commonwealth is in the final stages of completion in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project depressed the Central Artery (Interstate 93) through downtown Boston and connected the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA (a component unit) and Massport (a related organization) have contributed to the costs of construction. Once completed, the assets of the project will be transferred to these entities for operations and maintenance.

The Commonwealth has recorded as assets the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" in the Statement of Net Assets for the MTA's portion and "Due to Other Related Organizations" for Massport's portion. As portions of the project are completed and transferred to either the MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

The following summarizes the activity for the CA / T for FY05 (amounts in thousands):

<b>Total Project budget as of June 30, 2005 .....</b>	<b><u>\$ 14,625,000</u></b>
<b>Determination of Amounts Payable:</b>	
Cumulative authorized project invoices as of June 30, 2005 .....	\$ 13,872,253
Less: Amounts to be transferred to Massport as of December 31, 2004 .....	(365,000)
Less: Amounts transferred previous to December 31, 2004 to MTA and recognized as assets by MTA.....	(1,716,660)
Less: Amounts transferred to other entities.....	<u>(20,949)</u>
Subtotal.....	11,769,644
Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred.....	<u>(493,977)</u>
<b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2005 .....</b>	<b><u>\$ 11,275,667</u></b>
<b>Reconciliation of Central Artery / Tunnel Fixed Assets to Assets to Due to Component Units - Central Artery / Tunnel Project as of June 30, 2005:</b>	
<b>Determination of Assets in Use:</b>	
Infrastructure - Central Artery / Tunnel Project.....	\$ 11,324,918
Less: Accumulated depreciation of infrastructure assets in use to be transferred.....	<u>(493,977)</u>
Net book value of Infrastructure - Central Artery / Tunnel Project.....	10,830,941
Land - Central Artery / Tunnel Project.....	<u>459,479</u>
<b>Net book value of Central Artery / Tunnel Project Assets in use to be transferred.....</b>	<b>11,290,420</b>
Construction in process - Central Artery / Tunnel Project.....	<u>350,247</u>
Subtotal.....	11,640,667
Less: Due to related organizations (Massport) .....	<u>(365,000)</u>
<b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2005 .....</b>	<b><u>\$ 11,275,667</u></b>

**6. FIXED ASSETS**

Capital asset activities for the fiscal year ended June 30, 2005 are as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 685,432	\$ 21,935	\$ 84	\$ 707,283
Land Central Artery / Tunnel Project .....	442,282	17,934	737	459,479
Construction in process - non - Central Artery / Tunnel Project .....	1,023,815	341,977	54,064	1,311,728
Construction in process - Central Artery / Tunnel Project .....	1,244,462	555,546	1,449,761	350,247
Total capital assets not being depreciated .....	3,395,991	937,392	1,504,646	2,828,737
Capital assets being depreciated:				
Buildings .....	3,662,981	80,228	11,501	3,731,708
Machinery and equipment .....	718,851	165,044	98,385	785,510
Infrastructure non - Central Artery / Tunnel Project.....	10,914,234	10,203	3	10,924,434
Infrastructure - Central Artery / Tunnel Project.....	<u>9,893,091</u>	<u>1,431,827</u>	<u>-</u>	<u>11,324,918</u>
Total capital assets being depreciated .....	25,189,157	1,687,302	109,889	26,766,570
Less, accumulated depreciation:				
Buildings .....	1,679,990	114,416	6,382	1,788,024
Machinery and equipment .....	597,982	122,696	176,197	544,481
Infrastructure non - Central Artery / Tunnel Project.....	4,286,330	262,971	-	4,549,301
Infrastructure - Central Artery / Tunnel Project.....	<u>247,327</u>	<u>246,650</u>	<u>-</u>	<u>493,977</u>
Total accumulated depreciation .....	<u>6,811,629</u>	<u>746,733</u>	<u>182,579</u>	<u>7,375,783</u>
Total capital assets being depreciated, net .....	18,377,528	940,569	(72,690)	19,390,787
Governmental activity capital assets, net .....	<u>\$ 21,773,519</u>	<u>\$ 1,877,961</u>	<u>\$ 1,431,956</u>	<u>\$ 22,219,524</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land .....	59,522	2,511	-	62,033
Construction in process .....	136,214	342,740	29,232	449,722
Historical treasures .....	<u>703</u>	<u>26</u>	<u>-</u>	<u>729</u>
Total capital assets not being depreciated .....	196,439	345,277	29,232	512,484
Capital assets being depreciated:				
Buildings .....	2,494,296	336,214	59,244	2,771,266
Machinery and equipment .....	688,942	72,018	15,602	745,358
Library collections, not including historical treasures .....	<u>124,486</u>	<u>9,378</u>	<u>8,184</u>	<u>125,680</u>
Total capital assets being depreciated .....	3,307,724	417,610	83,030	3,642,304
Less, accumulated depreciation:				
Buildings .....	1,366,433	120,588	1,464	1,485,557
Machinery and Equipment .....	427,816	47,092	397	474,511
Library collections, not including historical treasures .....	<u>19,247</u>	<u>2,139</u>	<u>727</u>	<u>20,659</u>
Total accumulated depreciation .....	1,813,496	169,819	2,588	1,980,727
Total capital assets being depreciated, net .....	<u>1,494,228</u>	<u>247,791</u>	<u>80,442</u>	<u>1,661,577</u>
Business - type activity capital assets, net .....	\$ 1,690,667	\$ 593,068	\$ 109,674	\$ 2,174,061
<b>Total Primary Government capital assets, net .....</b>	<b>\$ 23,464,186</b>	<b>\$ 2,471,029</b>	<b>\$ 1,541,630</b>	<b>\$ 24,393,585</b>

Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction of the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is presented as an adjustment to depreciation expense so that the value of the untransferred assets and the amount due to the Turnpike Authority and to Massport always equal.

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

<u>Function:</u>	<u>Amount</u>
General Government.....	\$ 73,030
Judiciary.....	9,007
Environmental and Recreation.....	66,310
Housing and Community Development.....	80
Health and Human Services.....	19,398
Transportation and Construction.....	484,860
Education.....	70,063
Public Safety and Homeland Security.....	21,951
Economic Development.....	<u>2,034</u>
Total depreciation expensed.....	746,733
Less: Amount recognized as an offset to depreciation to equalize the payable to component units and non - component units related to the Central Artery / Tunnel Project.....	<u>(246,650)</u>
Depreciation charged to governmental activities.....	<u>\$ 500,083</u>

**Discretely Presented Component Units** – Fixed assets consist of the following at June 30, 2005 (amounts in thousands):

<i>Discretely Presented Component Units</i>	July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 488,336	\$ 64,791	\$ 5,203	\$ 547,924
Construction in process .....	<u>2,249,453</u>	<u>615,396</u>	<u>1,685,335</u>	<u>1,179,514</u>
Total capital assets not being depreciated .....	2,737,789	680,187	1,690,538	1,727,438
Capital assets being depreciated:				
Buildings .....	7,939,589	1,435,123	249,228	9,125,484
Machinery and equipment .....	2,350,917	248,736	38,364	2,561,289
Infrastructure .....	<u>2,338,075</u>	<u>28,208</u>	<u>487</u>	<u>2,365,796</u>
Total capital assets being depreciated .....	12,628,581	1,712,067	288,079	14,052,569
Less, accumulated depreciation.....	<u>4,300,967</u>	<u>393,921</u>	<u>119,547</u>	<u>4,575,341</u>
Total capital assets being depreciated, net .....	<u>8,327,614</u>	<u>1,318,146</u>	<u>168,532</u>	<u>9,477,228</u>
Discretely Presented Component Unit capital assets, net .....	<u>\$ 11,065,403</u>	<u>\$ 1,998,333</u>	<u>\$ 1,859,070</u>	<u>\$ 11,204,666</u>

## 7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

### *Primary Government -*

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

#### **A. General Fund**

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During FY05, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. A maximum of \$700,000,000 of RANs were outstanding at any time during the year. All RANs were retired before the end of June 2005.

#### **B. Capital Projects Funds**

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

Beginning in FY03 and continuing through FY05, the Commonwealth periodically issued BANs through the commercial paper program. BANs were rolled over and paid down at various times during the fiscal year. No more than \$375,100,000 of BANs were outstanding under the commercial paper program at any time during FY05. At June 30, 2005, BANs totaling \$140,100,000 remain outstanding.

On March 28, 2002, \$180,000,000 in General Obligation BANs were also issued to finance costs of the Central Artery / Tunnel Project, in advance of receiving certain contributions from the Massachusetts Port Authority (Massport). The majority of the BANs were retired previous to FY2005. During June 2003, Massport delivered to the Commonwealth \$104,900,000 pursuant to Section 12 of Chapter 81A of the General Laws and the Roadway Transfer Agreement dated as of March 23, 1999, as amended (the "Transfer Agreement") among Massport, the Commonwealth, acting by and through the Massachusetts Highway Department, and the Massachusetts Turnpike Authority. This payment of \$104,900,000 was applied to retire a portion of the commercial paper BANs. \$75,100,000 of such BANs remains outstanding as of June 30, 2005 and represent a component of the \$140,100,000 in BANs outstanding.

On December 31, 2003, Massport was expected to make an additional payment to the Commonwealth under the Transfer Agreement of \$50,000,000. This payment was received and applied in August of 2005, leaving a balance of BANs of \$25,100,000. A final payment of \$50,000,000 was due on December 31, 2004 under the Transfer Agreement only to the extent that Massport has received assets of commensurate value. Massport has informed the Commonwealth that such assets have not been received and that Massport therefore will withhold the final payment until such assets are transferred. Massport and the Commonwealth have not agreed on a scheduled date of payment.

#### **C. Line-of-Credit Facilities**

During FY05, the Commonwealth maintained line-of-credit facilities to provide liquidity support for commercial paper notes totaling \$1,000,000,000. The Commonwealth has a total of five line-of-credit facilities to provide such liquidity support, each in the amount of \$200,000,000. These facilities expire in

periods from September 2005, through November 2015 at various times, with an optional termination at January 2010. The annual cost of these facilities ranges from 0.12% to 0.16%.

The following schedule details short – term financing and credit agreement activity for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2004	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2005	Credit Limit June 30, 2005
<b>General Fund:</b>					
Revenue anticipation notes.....	\$ -	\$ 700,000	\$ (700,000)	\$ -	\$ 1,000,000
Line-of-credit agreements.....	-	-	-	-	-
Subtotal - General Fund activity.....	-	700,000	(700,000)	-	1,000,000
<b>Capital Projects Funds:</b>					
Bond anticipation notes.....	75,100	365,000	(300,000)	140,100	-
Subtotal - Capital Projects Funds activity.....	75,100	365,000	(300,000)	140,100	-
Total short-term financing and credit agreement activity.....	<u>\$ 75,100</u>	<u>\$ 1,065,000</u>	<u>\$ (1,000,000)</u>	<u>\$ 140,100</u>	<u>\$ 1,000,000</u>

As of June 30, 2005, no major component units had short – term debt outstanding.

## 8. LONG-TERM OBLIGATIONS

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. 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.

As of June 30, 2005, the Commonwealth had two types of long-term debt outstanding, general obligation bonds (inclusive of federal highway grant anticipation notes) and special obligation bonds.

The following is a summary of the Commonwealth's debt outstanding by type of debt (amounts in thousands):

	Amount Outstanding
<b><u>General Obligation Debt:</u></b>	
General obligation bonds:	
Fixed rate.....	\$ 11,841,879
Variable rate.....	2,199,795
Auction rate securities.....	401,500
College opportunity bonds.....	91,074
County debt assumed.....	600
Grant anticipation notes (inclusive of cross-over refunding notes).....	1,907,340
Discount / (Premium) and issuance cost, general obligations.....	<u>(33,762)</u>
<b>Subtotal - general obligation debt.....</b>	<b>16,408,426</b>
<b><u>Special Obligation Debt:</u></b>	
Special obligation bonds (inclusive of cross-over refunding bonds):	
Fixed rate.....	1,302,469
Variable rate.....	<u>183,080</u>
<b>Subtotal - special obligation debt.....</b>	<b>1,485,549</b>
Discount / (premium) and issuance cost.....	<u>(37,176)</u>
<b>Total outstanding debt.....</b>	<b><u>\$ 17,856,799</u></b>

**A. General Obligation Bonds**

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and Commonwealth supported local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In FY05, the Commonwealth sold \$500,000,000 in General Obligation Bonds to partially capitalize the MSBA. The proceeds of the debt were used to fund school construction projects throughout the Commonwealth pursuant to changes in the funding of school building assistance initiated during the fiscal year.

In addition, forms of general obligation bonds are issued for specific programs approved by the Legislature. These are as follows:

*College Opportunity Bonds*

Some Commonwealth general obligation debt is issued in the form of College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year, including FY05, during which approximately \$11,990,000, (including accretion), of such bonds were issued. Outstanding COBs have maturity dates ranging from 2005 through 2025. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the annual change in the Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately \$169,548,000, including accretion. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. The full faith and credit of the Commonwealth back these bonds.

*County Debt Assumed*

Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished governments of several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998, that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2005, \$600,000 of these obligations remains outstanding.

*Variable Rate Demand Bonds*

Included in the long-term debt is \$2,199,795,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2008 through 2030 in varying amounts, of which \$1,924,205,000 is swapped to fixed rates. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily

based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date, holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds (a "put"). The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The Commonwealth pays an annual fee to the remarketing agents equal to 0.05% of the outstanding par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold. During any such period, the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between August of 2005 and December 2015. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding. The Commonwealth currently pays an annual fee to maintain these agreements, which range from 0.13% to 0.22% of the par amount of the bonds.

#### *Other Variable Rate Bonds*

As part of its refunding activities during FY03, the Commonwealth issued \$97,455,000 of refunding bonds which pay a variable rate interest that depends on changes in the Consumer Price Index (CPI). These bonds, which pay interest every six months, are not subject to periodic remarketing, nor do bondholders have the right to "put" such bonds back to the Commonwealth.

On June 29, 2004 as part of the Commonwealth's issuance of the Convention and Exhibition Center Special Obligation Bonds, \$86,590,000 of such bonds were issued paying a variable rate of interest also indexed to changes in the CPI. Similar to the 2003 Bonds, the Convention Center Bonds pay interest semiannually, but mature serially from FY15 to FY18.

As detailed in the variable rate debt schedule, these CPI based bonds all have been swapped to fixed rates ranging from 4.45% to 5.25%

#### *Auction Rate Securities*

Also included in the long-term debt is \$401,500,000 of general obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index, up to a maximum rate of 12.0%.

### **B. Special Obligation Bonds**

The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. The majority of bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2005, the Commonwealth had outstanding \$1,458,375,000 of such special obligation bonds, of which

\$1,448,372,000 is allocated to debt not subject to the Commonwealth's statutory debt limit. These bonds are secured by a pledge of 6.86 cents of the 21 cent motor fuel excise tax imposed on gasoline.

In March of 2005, the Commonwealth sold \$216,765,000 of special obligation revenue bonds, Series 2005A. The bonds generated \$25,705,000 of premium. Of the proceeds, \$216,725,000 was issued to refund prior special obligation bonds, including \$73,495,000 of bonds pursuant to a crossover refunding. The remainder was used to fund capital spending in the Commonwealth. The escrow funded by the refunding bonds and related premium will be used only to secure the principal related to the crossover refunding portion (as well as exclusive of related call premiums.) These particular bonds will mature on June 1, 2008. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of motor fuel excise taxes. Interest on a portion of the newly issued refunding bonds will be paid from the proceeds of the escrow until the aforementioned prior bonds are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a normal refunding, but does not meet the accounting definition of defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed. Until such time as the escrow is used to repay the principal of the refunded bonds, such amounts will be reported in the Highway Capital Projects Fund. Additional special obligation refunding bonds that were the result of crossover refundings, were sold during FY2002. As of June 30, 2005, \$389,425,000 from both cross over refundings remained outstanding.

The remainder of unrefunded special obligation debt is attributable to the aforementioned gasoline tax bonds and other bonds that permanently financed the Commonwealth's convention and exhibition centers in Boston, Springfield and Worcester, which are secured by certain taxes collected related to those facilities.

### ***C. Federal Highway Grant Anticipation Notes***

The Commonwealth also issued Federal Highway GANs to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes the Commonwealth to sell up to \$1,500,000,000 in GANs. All Federal Highway Construction reimbursements and reimbursements from the federal highway construction trust funds are pledged to the repayment of the GANs. These notes are secured by the pledge of Federal Highway Construction Reimbursements without a general obligation pledge. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANs.

In July of 2003, the Commonwealth sold \$408,015,000 of GANs refunding notes, Series 2003A. These notes are Special Obligations of the Commonwealth. The escrow funded by the notes will be used to secure the principal related to \$418,340,000 of GANs, including related call premiums, in previously issued series callable on December 15, 2008 and 2010. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from Commonwealth appropriations or the existing stream of future federal grants. Interest on the newly issued refunding notes will be paid from the proceeds of the escrow until the aforementioned prior notes are called for redemption. For the purposes of the pledge but not for accounting purposes, at the time of call, the refunding notes will become GANs. This results in economic savings to the Commonwealth similar to a normal refunding, but does

not meet the accounting definition of defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed. Until such time as the escrow is issued to repay the principal of the refunded notes, such amounts will be reported in the Grant Anticipation Note Trust Fund. Inclusive of the cross-over refunding notes, at June 30, 2005, the Commonwealth has \$1,907,340,000 of GANs outstanding, including accreted interest on capital appreciation bonds with maturity dates ranging from 2006 to 2015.

#### D. Interest Rate Swap Agreements

The Commonwealth enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

##### Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001, 2003 and 2005, the Commonwealth entered into interest rate swap agreements with certain counterparties. The purpose of these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve an all-in synthetic interest rate that is lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

##### Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2013 to 2028. The swaps' total notional value of \$2,107,285,000 matches the par amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties' fixed rates ranging from 2.56% to 5.25% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

Associated Bond Issue	Notional Amounts (thousands)	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Market Values (thousands)	Final Termination Date	Counterparty Credit Rating
<i>General Obligation Bonds:</i>							
Series 1997B.....	\$ 162,768	8/12/1997	4.659%	Cost of Funds	\$ (15,634)	August 1, 2015	AA+/Aaa
Series 1997B.....	108,512	8/12/1997	4.659%	Cost of Funds	(11,653)	August 1, 2015	AAA/Aaa
Series 1998A & B...	299,712	9/17/1998	4.174%	Cost of Funds	(25,297)	September 1, 2016	AAA/Aaa
Series 1998A & B...	199,808	9/17/1998	4.174%	Cost of Funds	(13,586)	September 1, 2016	AAA/Aaa
Series 2001B & C...	496,225	2/20/2001	4.150%	Cost of Funds	(61,394)	January 1, 2021	AAA/Aaa
Series 2003B.....	87,455	3/12/2003	4.500%	Cost of Funds / CPI	(303)	March 1, 2014	AA+/Aaa
Series 2003B.....	10,000	3/12/2003	4.500%	Cost of Funds / CPI	42	March 1, 2013	A/A2
Series 2005A.....	559,725	3/29/2005	2.56%-4.00%	BMA	(13,479)	February 1, 2028	AA-/Aa2
Subtotal.....	1,924,205				(141,304)		
<i>Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):</i>							
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds / CPI	2,226	January 1, 2018	A/A1
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds / CPI	(2,305)	January 1, 2018	A+/Aa3
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds / CPI	(2,401)	January 1, 2018	AA-/Aa2
Series 2005A.....	96,490	6/12/2005	4.78% - 5.06%	Cost of Funds / CPI	(5,736)	June 1, 2022	AA-/Aa3
Subtotal.....	183,080				(8,216)		
Total.....	\$ 2,107,285				\$ (149,520)		

*Fair Market Value of the Interest Rate Swap Agreements*

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2005) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative \$149,520,000 as of June 30, 2005. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2005 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 magnitude estimated if certain termination events occurred, as described below.

*Credit Risk of the Interest Rate Swap Agreements*

The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth could choose 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 a certain credit rating under the agreements, generally in the "A" category. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) that would subject the Commonwealth to basis risk, as noted below.

*Basis, Market and Rollover Risk of the Interest Rate Swap Agreements*

Because the terms on the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, 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 BMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied significantly from the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process.

The swap contracts have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

*Termination Risk of the Interest Rate Swap Agreements*

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. If one or more of the swap agreements were terminated, then 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.

The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth's General Obligation Bonds, 2001 Series B and 2001 Series C. The swap documentation provides that the method for determining the floating rate obligation of the counterparty may change upon an "Event of Taxability". The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth's monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court. The swap payment made by the Commonwealth on May 3, 2004 and each monthly payment made thereafter have been calculated based on the pre-existing method. Had they been calculated as asserted by the swap counterparty, under marked conditions on each such payment date through June 1, 2005, the payments would have been approximately \$1.7 million greater in the aggregate. The termination value of this swap as of June 30, 2005 is believed to have been approximately \$61.4 million in favor of the swap counterparty and will vary from time to time. The Commonwealth has continued to make net swap payments based on its actual variable rate bond payments pending legal developments.

Debt service on the variable rate bonds is as follows (assuming a short term rate of 2.75% and a CPI rate of 3%):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006.....	\$ 3,245	\$ 58,622	\$ 30,231	\$ 92,098
2007.....	3,745	58,528	30,235	92,508
2008.....	6,190	58,376	30,207	94,773
2009.....	12,030	58,135	30,145	100,310
2010.....	34,545	57,292	29,784	121,621
2011-2015.....	722,010	243,062	124,284	1,089,356
2016-2020.....	817,915	119,305	56,807	994,027
2021-2025.....	408,650	38,357	17,220	464,227
2026-2030.....	98,955	4,487	2,016	105,458
Total	\$ 2,107,285	\$ 696,164	\$ 350,929	\$ 3,154,378

**E. Outstanding Debt**

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including discount and issuance cost) and debt authorized and unissued at June 30, 2005 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 1,907,340	2006-2015	\$ -
<b>Capital Projects:</b>			
General.....	6,004,267	2006-2031	4,903,055
Highway.....	8,837,377	2006-2034	3,907,063
Local Aid.....	1,049,668	2006-2031	593,693
Other.....	58,146	2006-2029	103,010
	<u>15,949,459</u>		<u>9,506,821</u>
Total.....	<u>\$ 17,856,799</u>		<u>\$ 9,506,821</u>

Interest rates on the Commonwealth’s debt outstanding at the end of FY05 ranged from 0.0% to 8.0%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2005 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2004.....	\$ 17,382,172	\$ 6,827,993
<b>General and special obligation bonds:</b>		
Principal, less discount and issuance costs.....	1,354,226	(1,354,226)
Net premium and issuance costs.....	(86,945)	-
<b>General obligation refunding bonds:</b>		
Principal on Refunding Bonds.....	1,296,532	-
Principal on Refunded Bonds.....	(1,230,673)	-
Retired discount on Refunded Bonds.....	23,753	-
Increase in bonds authorized.....	-	4,041,138
Decrease in bonds authorized.....	-	(8,084)
Bonds retired.....	<u>(882,266)</u>	<u>-</u>
Balance June 30, 2005.....	<u>\$ 17,856,799</u>	<u>\$ 9,506,821</u>

*Business Type Activities – Colleges and University Debt*

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2005, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business - Type Activities	
	General Obligation		Revenue Obligation	
	Principal	Interest	Principal	Interest
2006.....	\$ 1,024,522	\$ 886,927	\$ 31,244	\$ 68,717
2007.....	1,072,597	840,831	35,657	67,484
2008.....	1,097,010	785,623	44,255	65,804
2009.....	1,105,235	729,723	45,605	63,809
2010.....	1,051,320	673,298	47,176	61,781
2011 - 2015.....	5,283,141	2,549,006	269,098	269,626
2016 - 2020.....	3,404,067	1,393,035	283,443	213,497
2021 - 2025.....	2,507,867	599,824	264,490	158,633
2026 - 2030.....	916,560	240,054	245,952	94,443
2031 - 2035.....	394,480	31,617	96,740	26,606
2036 - 2040.....	-	-	32,742	11,187
2041 - 2045.....	-	-	25,155	2,822
Total long - term debt .....	17,856,799	8,729,938	1,421,557	1,104,409
Less: Current Portion .....	(1,024,522)	(886,927)	(31,244)	(68,717)
Long - term debt .....	\$ 16,832,277	\$ 7,843,011	\$ 1,390,313	\$ 1,035,692

The Commonwealth issued bonds and notes through both competitive and negotiated sales during FY05. The costs for legal counsel and underwriting fees for bond sales were \$470,000 and \$10,209,000 respectively. In addition, the Commonwealth paid \$176,000 for disclosure counsel services.

**F. Bonds Defeased Through Refunding**

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general and special obligation bonds through the issuance of \$1,395,377,000 of general and special obligation refunding bonds, inclusive of premiums, during FY05. Net proceeds after issuance costs totaled approximately \$1,377,083,000 were used to purchase U.S. Government and U.S. Government Agency securities, which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, with the exception of the aforementioned crossover refunding bonds, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the financial statements. As a result of these refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$112,274,000 over the next 23 years and will experience an economic gain (the

difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$67,273,000. At June 30, 2005, approximately \$1,286,720,000 of the bonds defeased and refunded during FY05 remain outstanding.

**G. Prior Defeasance**

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, exclusive of the aforementioned crossover refunding, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2005, approximately \$5,264,035,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

**H. Statutory Debt Limit**

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth’s ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY05 was approximately \$13,463,535,000. Outstanding debt subject to the limit at June 30, 2005 was approximately \$12,185,286,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance June 30, 2005.....	\$ 17,856,799
Less amounts excluded:	
Premium / (discount) and issuance cost.....	70,937
Special obligation principal.....	(1,485,548)
GANs principal.....	(1,908,015)
Central Artery / Tunnel.....	(1,336,741)
County debt assumed.....	(600)
MBTA forward funding.....	(511,546)
SMART bonds for the MSBA.....	<u>(500,000)</u>
Outstanding Direct Debt.....	<u>\$ 12,185,286</u>

### I. *Changes in Long - Term Liabilities*

Other long-term liabilities will be liquidated in the future from governmental funds. Due to the major restructuring of school construction finance in the Commonwealth that commenced in FY05, a large increase in liabilities occurred. During the year ended June 30, 2005, the following changes occurred in liabilities reported as part of the long-term liabilities in the statement of net assets (amounts in thousands):

<i>Primary Government Governmental Activities</i>	Interest Rates	Maturity Through	July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance	Due Within One Year
Long - term debt:							
General obligation bonds .....	0.00 - 8.00%	2031	\$ 14,127,395	\$ 2,406,133	\$ 1,999,355	\$ 14,534,173	\$ 878,062
Special obligation bonds .....	4.00 - 5.50%	2034	1,347,882	227,497	89,831	1,485,548	28,565
Grant anticipation notes .....	0.00 - 7.00%	2015	1,908,015	-	-	1,908,015	117,895
Unamortized (premiums) / discounts:							
General obligation bonds .....			15,491	16,632	65,209	(33,086)	-
Special obligation bonds .....			(15,936)	495	21,735	(37,176)	-
Grant anticipation notes .....			(675)	-	-	(675)	-
Total long - term debt .....			17,382,172	2,650,757	2,176,130	17,856,799	\$ 1,024,522
Less: Current portion .....			(880,272)	1,024,522	880,272	(1,024,522)	
Net long - term debt .....			<u>16,501,900</u>	<u>1,626,235</u>	<u>1,295,858</u>	<u>16,832,277</u>	
Other long - term liabilities:							
Due to Component Units - Central Artery / Tunnel Project .....			10,967,508	2,005,307	1,697,148	11,275,667	-
Due to related organizations .....			365,000	-	-	365,000	-
MSBA School construction grants payable .....			3,259,126	7,015,136	3,259,126	7,015,136	386,908
Contract assistance payable .....			333,228	154,482	146,210	341,500	-
Prizes payable .....			-	1,437,489	-	1,437,489	-
Other liabilities .....			<u>644,786</u>	<u>647,296</u>	<u>644,786</u>	<u>647,296</u>	-
Total other long - term liabilities .....			15,569,648	11,259,710	5,747,270	21,082,088	386,908
Total non - current liabilities .....			<u>\$ 32,071,548</u>	<u>\$ 12,885,945</u>	<u>\$ 7,043,128</u>	<u>\$ 37,914,365</u>	<u>\$ 1,411,430</u>
<i>Business - Type Activities</i>	Interest Rates	Maturity Through	July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance	Due Within One Year
Long - term debt:							
Revenue obligation debt .....	0.0 - 7.5%	2037	\$ 1,049,095	\$ 498,248	\$ 125,786	\$ 1,421,557	\$ 31,244
Other long - term liabilities:							
Compensated absences .....			147,827	17,221	17,556	147,492	92,515
Capital lease obligations .....			73,971	45,649	18,024	101,596	19,004
Other liabilities .....			85,932	68,829	66,833	87,928	-
Total other long - term liabilities .....			<u>307,730</u>	<u>131,699</u>	<u>102,413</u>	<u>337,016</u>	-
Total Long - term liabilities .....			1,356,825	629,947	228,199	1,758,573	\$ 142,763
Less: Current portion .....			<u>(152,050)</u>	142,763	152,050	<u>(142,763)</u>	
Total non - current liabilities .....			\$ 1,204,775	\$ 487,184	\$ 76,149	\$ 1,615,810	

**Discretely Presented Component Units** – Bonds and notes outstanding at June 30, 2005 (December 31, 2004 for MTA), net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately \$93,098,000, are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance	Due Within One Year
Major component units:							
MBTA .....	2.00 - 7.00%	2006-2034	\$ 4,504,505	\$ 1,139,113	\$ 1,063,941	\$ 4,579,677	\$ 162,695
MTA .....	3.90 - 5.65%	2006-2039	2,515,738	-	140,805	2,374,933	19,535
MWPAT .....	2.00 - 6.375%	2006-2035	2,279,395	1,035,524	700,998	2,613,921	111,655
Nonmajor component units .....	1.77 - 9.00%	2006-2034	<u>1,244,247</u>	<u>54,167</u>	<u>398,689</u>	<u>899,725</u>	<u>55,585</u>
Total bonds payable .....			10,543,885	2,228,804	2,304,433	10,468,256	349,470
Compensated absences .....			24,489	20,899	18,577	26,811	19,940
Total Component Units Long Term Obligations .....			\$ 10,568,374	\$ 2,249,703	\$ 2,323,010	\$ 10,495,067	\$ 369,410

The amounts below represent the gross face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the financial statements. Maturities of principal and interest are as follows (as of December 31, 2004 for MTA) (amounts in thousands):

Fiscal Year Ended	Massachusetts Bay Transportation Authority		Massachusetts Turnpike Authority		Massachusetts Water Pollution Abatement Trust		Nonmajor Component Units		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006.....	\$ 162,695	\$ 226,636	\$ 19,535	\$ 118,054	\$ 111,655	\$ 125,935	\$ 55,585	\$ 49,189	\$ 349,470	\$ 519,814
2007.....	146,355	235,254	19,890	117,009	114,825	124,822	31,992	41,058	313,062	518,143
2008.....	146,480	229,114	20,555	115,927	117,595	115,641	16,267	40,715	300,897	501,397
2009.....	168,605	220,527	21,620	114,770	120,705	110,225	17,789	39,168	328,719	484,690
2010.....	184,180	211,251	247,195	535,195	124,185	104,543	18,052	38,940	573,612	889,929
2011 - 2015.....	976,255	902,528	279,580	536,827	652,905	434,589	148,558	162,790	2,057,298	2,036,734
2016 - 2020.....	944,040	630,939	355,771	581,908	620,680	261,463	189,608	135,092	2,110,099	1,609,402
2021 - 2025.....	928,545	377,856	299,359	497,061	416,070	120,021	179,843	103,158	1,823,817	1,098,096
2026 - 2030.....	662,680	168,838	124,013	262,998	186,705	45,341	169,236	74,028	1,142,634	551,205
2031 - 2035.....	295,970	34,368	946,285	108,859	84,690	8,549	76,801	6,720	1,403,746	158,496
2036 - 2040.....	16,000	400	142,000	-	-	-	-	-	158,000	400
Total long - - term debt*.....	4,631,805	3,237,711	2,475,803	2,988,608	2,550,015	1,451,129	903,731	690,858	10,561,354	8,368,306
Current portion*.....	(162,695)	(226,636)	(19,535)	(118,054)	(111,655)	(125,935)	(55,585)	(49,189)	(349,470)	(519,814)
Long - term debt*.....	<u>\$ 4,469,110</u>	<u>\$ 3,011,075</u>	<u>\$ 2,456,268</u>	<u>\$ 2,870,554</u>	<u>\$ 2,438,360</u>	<u>\$ 1,325,194</u>	<u>\$ 848,146</u>	<u>\$ 641,669</u>	<u>\$ 10,211,884</u>	<u>\$ 7,848,492</u>

\* Does not include certificates of participation described below.

The MBTA issued certificates of participation (COPs) in the amounts of approximately \$28,565,000 on December 15, 1988 and approximately \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the "Forward Funding" of the MBTA, the COPs payments are not reimbursable by the Commonwealth, but are guaranteed. \$1,135,000 of such COPs, bearing interest at 7.75% to 7.80% are due in FY06.

The remaining outstanding principal balance of COPs that were defeased in prior years is \$9,075,000 at June 30, 2005.

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2005, approximately \$1,940,460,000 of these bonds outstanding are considered defeased.

In FY05 and prior years, the MWPAT defeased in-substance ten series' of Loan Program Bonds similarly to the MBTA. On June 30, 2005, approximately \$1,026,215,000 of these bonds outstanding are considered defeased.

*Interest Rate Swap Agreements – Discretely Presented Component Units*

The MBTA has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

*Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions*

From FY00 through FY02, MBTA executed swap agreements, associated with particular series of bonds. On one of the agreements, the MBTA will receive a \$4,338,000 payment for the counterparty, due in FY07. The transactions are summarized as follows: (amounts in thousands):

Fixed Rate Paid	Variable Receive Rate	Component Unit	Notional Amount	Effective Date	Maturity Date	Fair Value
4.93%.....	BMA	MBTA	\$ 188,000	June, 2000	2005	\$ (741)
5.2%.....	BMA	MBTA	87,805	December, 2001	2022	(9,974)
4.13%.....	CPI+79bps.	MBTA	<u>25,005</u>	February, 2004	2020	<u>(1,567)</u>
			<u>\$ 300,810</u>			<u>\$ (12,282)</u>

*Swap Payments and Associated Debt*

As of June 30, 2005, debt service requirements on the various bond issuances of the MBTA that have swap payments applied to them were calculated by applying fixed rates ranging from 4.13% to 5.2% and assuming variable rates of 1.02%, using BMA and 4.679% plus 79 basis points for the CPI – based bonds. Debt service related to these swaps is as follows (amounts in thousands).

Fiscal Year Ending June 30,	Variable - Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2006 .....	\$ -	\$ 3,324	\$ 2,422	\$ 5,746
2007 .....	-	3,324	2,422	5,746
2008 .....	-	3,324	2,422	5,746
2009 .....	-	3,324	2,422	5,746
2010 .....	-	3,324	2,422	5,746
2011 - 2015 .....	18,990	16,622	11,157	46,769
2016 - 2020 .....	64,900	16,378	2,963	84,241
2021 - 2023 .....	<u>28,920</u>	<u>4,695</u>	<u>(1,471)</u>	<u>32,144</u>
Total	<u>\$ 112,810</u>	<u>\$ 54,315</u>	<u>\$ 24,759</u>	<u>\$ 191,884</u>

*Swaptions for Forward Refundings*

In addition, the MBTA has four swaptions generally exercisable from FY06 through FY11 on its variable rate general transportation system bonds. The swaptions are summarized as follows (amounts in thousands):

Date of Execution	Notional Amount	Lump - Sum Payment From Counterparty	Counterparty Option Exercise Dates	Term of Swap	Fixed Payable Swap Rate	Variable Receivable Swap Rate	Counterparty Credit Rating as of June 30, 2005	Fair Value at June 30, 2005
* July 2001	\$ 188,000	\$12,230 (August 2005)	Each March and September from September 2005 through and including March 2010	2030	5.000%	67% of one-month LIBOR	Aa2 / AA+	\$ (32,455)
December 1, 2001	79,645	\$4,140 (August 2005)	Each March and September from 2009 through and including 2011	2030	5.610%	BMA	Aaa / AAA	(9,836)
June 1, 2005	248,485	N/A	Not a swaption, but a forward swap, effective commencing December 2, 2006 through July 1, 2030	2023	3.783%	BMA	Aa2 / AA+	(2,269)
June 1, 2005	47,055	N/A	Not a swaption, but a forward swap, effective commencing April 3, 2010 through July 1, 2030	2030	4.132%	BMA	Aa2 / AA+	(514)
								<u>\$ (45,074)</u>

\*On August 2, 2005, the Authority was notified by USB AG that the option, as described in the swap agreement, will be exercised.

*Credit Risk*

Because all of the MBTA's swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the Component Units maintain strict credit standards for swap counterparties. For the MBTA, all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. On the MBTA's swap that matures in FY06, the counterparty is rated in the "A" category by both agencies. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the MBTA's benefit if they are downgraded below a designated threshold.

*Basis Risk*

The MBTA is exposed to basis risk if the relationship between the floating index the MBTA receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2005, the BMA rate was 2.28% while the variable rates on the associated MBTA bonds ranged from 2.22% to 2.60%.

*Termination Risk*

The MBTA’s swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The MBTA views such events to be remote. If at the time of the termination a swap has a negative value, the MBTA would be liable to the counterparty for a payment equal to the fair value of each swap.

*Rollover Risk*

Only the MBTA’s 2000 series bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the MBTA will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

*Market Access Risk and Potential Basis Risk*

In the case of the swaptions, other than the FY02 swaption, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the MBTA would make net swap payments as required by the terms of each contract. There is no market access risk for the FY02 swaption. If any of the options are exercised, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

**9. INDIVIDUAL FUND DEFICITS**

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2005. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows: (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Major governmental funds:	
Highway .....	\$ 791,461
Other governmental funds:	
Federal Grants.....	2,302
General Capital Projects.....	480,142
Capital Expenditure Reserve.....	98,829
Highway Capital Projects .....	219,726

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**10. RETIREMENT SYSTEMS**

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*Primary Government*

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1981 to 1996. The Commonwealth performs this valuation on an annual basis.

*Plan Descriptions*

The *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

The *Teachers' Retirement System* (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

The *State – Boston Retirement System* (SBRS) is a hybrid multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity (BTRS). The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. During the year ended June 30, 2005, the Commonwealth's pension expenditure included payments totaling \$11,631,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

The policy for post-retirement benefit increases for all retirees of the SERS, TRS, BTRS and COLA of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and BTRS as of January 1, 2005, the date of the most recent valuation, is as follows:

	SERS	TRS	BTRS
Retirees and beneficiaries			
currently receiving benefits.....	50,907	42,164	3,155
Terminated employees entitled to			
benefits but not yet receiving them.....	<u>3,033</u>	<u>N/A</u>	<u>183</u>
Subtotal.....	<u>53,940</u>	<u>42,164</u>	<u>3,338</u>
Current employees:			
Vested*.....	41,432	44,021	3,218
Non-vested*.....	<u>40,250</u>	<u>44,006</u>	<u>2,562</u>
Subtotal.....	<u>81,682</u>	<u>88,027</u>	<u>5,780</u>
Total.....	<u>135,622</u>	<u>130,191</u>	<u>9,118</u>

\*Estimated

#### *Benefit Provisions*

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions is 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.

#### *Funding Progress*

During FY01, the Legislature passed Chapter 114 of the Acts of 2000, which modified Chapter 32 of the General Laws. This modification became effective on July 1, 2001. In Chapter 114, teachers who are members of the State Teachers Retirement System, or teachers who are members of the State – Boston Retirement System before 1975, who resigned or took an unpaid leave of absence because of maternity leave will be allowed to “buy back” into the fund up to a maximum of four years. The member must pay the amount determined by the Retirement Board by December 31, 2001 to qualify, as long as the member has worked longer than ten years. If the member completes ten years of service after December 31, 2001, payment can be made within 18 months of completion of ten years of service. In addition, the law creates a superannuation retirement benefit program for all teachers hired on or after July 1, 2001. This program has a contribution rate of 11 percent of regular compensation. To be

eligible for the alternative benefit at retirement, the teacher must have completed thirty years of eligible service. All previous members may elect to participate in the program, as long as they participate with the equivalent of a minimum of five years of employee contributions at the new rate. If the member retires before five years, the teacher must pay into the system, the amount that would have been paid in one lump sum, or in installments as the Board may prescribe. The alternative benefit is calculated as the percentage of average compensation determined under the current formula increased by 2% of the average annual compensation for each full year of service in excess of 24 years. The election to participate is irrevocable.

The following table presents the schedule of funding progress as presented in the most recent actuarial valuations at the dates indicated (amounts in thousands):

Actuarial Valuation as of January 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employees' Retirement System						
2005	\$ 16,211,000	\$ 19,575,000	\$ 3,364,000	82.8 %	\$ 3,967,000	84.8 %
2004	15,931,000	18,966,000	3,065,000	84.0	3,842,000	79.8
2003	13,947,000	17,551,000	3,604,000	79.5	3,779,000	95.4
2002	15,002,000	15,961,000	959,000	94.0	4,034,000	23.8
2001	13,922,000	15,170,000	1,248,000	91.8	3,700,000	33.7
2000	13,364,000	14,138,000	773,000	94.5	3,472,000	22.3
1998	9,914,000	11,361,000	1,447,000	87.3	3,111,000	46.5
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
Teachers' Retirement System						
2005	17,683,000	26,167,000	8,483,000	67.6	4,643,000	182.7
2004	17,075,000	24,519,000	7,444,000	69.6	4,556,000	163.4
2003	14,762,000	22,892,000	8,129,000	64.5	4,406,000	184.5
2002	15,712,000	20,620,000	4,908,000	76.2	4,264,000	115.1
2001	14,390,000	18,170,000	3,779,000	79.2	4,072,000	92.8
2000	13,681,000	16,420,000	2,739,000	83.3	3,704,000	73.9
1998	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
State - Boston Retirement System ( Boston Teachers)						
2005	1,044,000	2,141,000	1,097,000	48.8	379,000	289.4
2004	1,040,000	2,022,000	982,000	51.4	368,000	266.8
2003	919,000	1,918,000	998,000	47.9	387,000	257.9
2002	984,000	1,756,000	772,000	56.0	370,000	208.6
2001	918,000	1,502,000	583,000	61.1	304,000	191.8
2000	860,000	1,381,000	521,000	62.3	285,000	182.8
1998	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3

*Pension Actuarial Valuation*

The Commonwealth’s pension actuarial valuation was performed as of January 1, 2005 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time. The following are the most significant assumptions used in preparing the 2005 actuarial valuation:

Investment return.....	8.25% per year
Interest rate credited to annuity savings.....	3.5% per year
Cost of living increases.....	3% per year
Mortality.....	RP-2000 Health Annuitant table projected with scale AA (gender distinct). This is applicable to both pre-retirement and post-retirement benefits. Adjustments made for disabled members and certain other groups.
Salary Increases.....	Based on analysis of past experience - ranges from 4.75% to 8.5% for groups 1 and 2, 5.5% to 9.5% for group 3, 5.5% to 12% for group 4 and 4.75% to 9.5% for teachers.

*Contributions Required and Contributions Made*

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

The Commonwealth was financially responsible for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1981 to 1996. 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 the respective system. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity. The actuarial accrued liability for COLA as of January 1, 2005 was approximately \$475,000,000.

The retirement systems’ funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and BTRS 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 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

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover BTRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation.

This legislation also directed the Secretary of Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. Contributions by the Commonwealth of \$1,216,936,000 were made during the fiscal year ended June 30, 2005. Of this amount \$59,520,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties. The Commonwealth schedule encompasses SERS, TRS and Boston Teachers.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

Actuarial Valuation as of January 1	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
<b>State Employees' Retirement System</b>								
2005	\$ 390,867	\$ (102,399)	\$ (88,069)	\$ 376,538	\$ 415,296	\$ 1,297,953	106 %	110 %
2004	349,557	(109,346)	(90,749)	330,960	246,754	1,241,195	71	75
2003	397,698	(117,299)	(96,940)	377,338	280,929	1,325,401	71	74
2002	215,795	(111,506)	(92,152)	196,441	266,660	1,421,811	124	136
2001	275,204	(109,731)	(133,387)	298,861	320,381	1,351,592	116	107
2000	352,084	(108,400)	107,190	350,873	367,000	1,330,071	104	105
1999	319,454	(103,188)	98,556	314,822	378,000	1,313,944	118	120
1998	261,255	(83,446)	77,180	254,989	494,289	1,250,766	189	194
1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
1996	232,158	(46,918)	29,523	214,763	433,114	770,324	187	202
<b>Teachers' Retirement System</b>								
2005	699,722	(45,553)	(39,178)	693,347	682,000	540,806	97	98
2004	610,841	(65,373)	(54,225)	599,722	359,476	552,153	59	60
2003	651,021	(83,468)	(68,980)	636,534	417,204	792,400	64	66
2002	411,225	(82,377)	(68,079)	396,927	410,143	1,011,729	100	103
2001	475,053	(78,498)	(95,421)	491,976	539,000	998,513	113	110
2000	480,873	(79,487)	78,599	479,985	468,000	951,489	97	98
1999	373,777	(70,312)	67,155	370,620	481,826	963,474	129	130
1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
<b>Boston Teachers Retirement System</b>								
2005	85,679	7,877	6,775	86,800	86,000	(96,279)	100	99
2004	74,787	5,374	4,460	75,701	45,364	(95,480)	61	60
2003	76,151	3,411	2,819	76,743	52,944	(65,142)	70	69
2002	94,003	(67)	(56)	93,992	51,833	(41,343)	55	55
2001	66,820	1,542	1,875	66,488	86,000	815	129	129
2000	58,266	448	(443)	58,271	45,000	(18,697)	77	77
1999	53,453	(989)	944	53,409	36,000	(5,426)	67	67
1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

#### *Net Pension Asset – SERS and TERS*

Though the table above presents an actuarially calculated net pension asset for the SERS and TERS, the Commonwealth has elected to reserve 100% against these balances. The funding schedule adopted by the Commonwealth will not eliminate the overall unfunded liability until 2023. These balances are reserved because these net pension assets result from the timing of payments according to the funding schedule and cannot be accessed by the Commonwealth unless the plans are terminated. The likelihood of such an event has been deemed to be remote.

*Post-retirement Health Care and Life Insurance Benefits*

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 is 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 Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$316,693,000 for the fiscal year ended June 30, 2005. There are approximately 53,334 participants eligible to receive benefits at June 30, 2005.

The Commonwealth has not performed an actuarial valuation of its post-retirement health care and life insurance benefit liability. Private industry typically sees an actuarial accrued liability of 10 to 20 times the current annual payments. For the Commonwealth, this would extrapolate to an actuarial accrued liability of \$2.5 billion to \$5 billion.

The FY04 General Appropriation Act changed the employee contribution rates for group health insurance, with the exception of current employees earning less than \$35,000 and retirees. Current employees as of July 1, 2003 will contribute 20% to their health insurance costs if they earn over \$35,000. New employees will contribute 25%. In fiscal 2006, the contribution rates will return to 15% for all employees.

**11. 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. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2005 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities			
	Capital Leases		Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total
	Principal	Interest			Principal	Interest		
2006 .....	\$ 21,601	\$ 3,276	\$ 154,606	\$ 179,483	\$ 19,004	\$ 3,905	\$ 14,373	\$ 37,282
2007 .....	15,603	2,366	104,792	122,761	17,564	3,099	12,196	32,859
2008 .....	14,046	2,130	76,453	92,629	16,193	2,350	10,749	29,292
2009 .....	5,841	887	58,420	65,148	10,621	1,731	9,028	21,380
2010 .....	5,384	817	40,118	46,319	9,939	1,308	8,431	19,678
2011 - 2015 .....	4,255	645	143,126	148,026	27,935	2,262	17,943	48,140
2016 - 2020 .....	2,227	338	67,707	70,272	340	-	1,018	1,358
2021 - 2025 .....	2,061	312	49,743	52,116	-	-	-	-
2026 - 2030 .....	-	-	46,732	46,732	-	-	-	-
2031 - 2034 .....	-	-	28,039	28,039	-	-	-	-
Total lease obligations.....	71,018	10,771	769,736	851,525	101,596	14,655	73,738	189,989
Less: current portion: .....	(21,601)	(3,276)	(154,606)	(179,483)	(19,004)	(3,905)	(14,373)	(37,282)
Long - term lease obligations .....	\$ 49,417	\$ 7,495	\$ 615,130	\$ 672,042	\$ 82,592	\$ 10,750	\$ 59,365	\$ 152,707

#### Discretely Presented Component Units -

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 2005 (amounts in thousands):

Fiscal Year Ended June 30	Massachusetts Bay Transportation Authority	Nonmajor Component Units	Total
2006 .....	\$ 45,629	\$ 831	\$ 46,460
2006 .....	49,700	788	50,488
2007 .....	54,830	5	54,835
2008 .....	49,345	-	49,345
2010 .....	41,305	-	41,305
2011 - 2015 .....	376,519	-	376,519
2016 - 2020 .....	131,719	-	131,719
Lease obligations .....	749,047	1,624	750,671
Less: Interest portion: .....	(200,464)	(94)	(200,558)
Present value of minimum lease payments .....	548,583	1,530	550,113
Less: current portion .....	(15,490)	(765)	(16,255)
Long - term lease obligations .....	\$ 533,093	\$ 765	\$ 533,858

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40% -70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2006. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately \$953,000 of which \$855,000 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned approximately \$32,400,000 in rental income of which \$16,500,000 was received for restaurant, concessions and service station rentals.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (as of December 31, 2004 for the MTA) (amounts in thousands):

Fiscal Year Ended June 30	Massachusetts		Nonmajor Component Units	Total
	Bay Transportation Authority	Massachusetts Turnpike Authority		
2006 .....	\$ 16,636	\$ 437	\$ 15,403	\$ 32,476
2007 .....	16,396	-	15,243	31,639
2008 .....	13,766	-	14,693	28,459
2009 .....	13,466	-	14,829	28,295
2010 .....	13,297	-	14,779	28,076
2011 - 2015 .....	27,584	-	1,974	29,558
2016 - 2020 .....	-	-	337	337
2021 - 2025 .....	-	-	74	74
2026 - 2030 .....	-	-	48	48
Total lease obligations .....	<u>\$ 101,145</u>	<u>\$ 437</u>	<u>\$ 77,380</u>	<u>\$ 178,962</u>

## 12. COMMITMENTS

### A. *Commitments to Discretely Presented Component Units and Other Entities*

The Commonwealth is obligated to dedicate a sales tax amounting to 1% of applicable sales in the Commonwealth, directly to the MBTA to fund its operations. The dedicated sales tax equals to the greater of the amount raised by the sales tax or a defined base revenue amount, subject to an adjustment for inflation, capped at 3% annually. For FY06, the base revenue is approximately \$712,586,000.

In FY05, the legislature began phasing in a dedication of sales tax revenues amounting to 1% of applicable sales. \$395,700,000 of dedicated sales tax revenue was pledged to fund school construction via a transfer to the MSBA. This amount rises to a minimum of \$488,700,000 or 70% of dedicated sales taxes, whichever is larger in FY2006. In future years these amounts rise further per statute until 1% of applicable sales is pledged in FY2011.

Under the MSBA enabling statute, the MSBA is committed to paying for its share of projects on a "Waiting List" once communities meet all applicable eligibility requirements for receiving such grants. The amount of commitments outstanding for these Waiting List projects that are not reflected as MSBA school construction grants payable is \$1.1 billion.

Other major dedicated tax revenue streams include surcharges from areas contiguous to convention centers to support such centers' operations, motor fuels taxes to support highway construction, repairs and maintenance and cigarette taxation to support health and human service costs. The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2005, totaling \$1,791,835,000.

At June 30, 2005, the Commonwealth had commitments of approximately \$418,930,000 related to ongoing construction projects. The Central Artery/Tunnel Project continues to anticipate federal participation and payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort).

In addition to the residual obligations of the MBTA, the Commonwealth guarantees debt of a number of Public Authorities. At June 30, 2005, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$1,569,206,000, of which \$687,310,000 is for the Route 3 North Transportation Improvements Association and \$642,390,000 is for the University of Massachusetts Building Authority.

**B. *Saltonstall Building***

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office 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 leases 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 subject to annual appropriation.

**C. *Central Artery / Tunnel Project***

The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the projects finance plan filed as of October 1, 2004. The current cost estimate is \$14.625 billion, of this amount all but \$753 million has been expended. The plan includes a maximum obligation of \$8.549 billion from the federal government. The finance plan is currently under review.

**D. *Pension Trust Funds***

At June 30, 2005, PRIT had outstanding commitments to invest approximately \$1,797,000,000 in alternative investments and \$155,535,000 in distressed debt. The fair value of the proposed investment commitments approximates their stated value.

**E. *Commitments of Discretely Presented Component Units***

As of June 30, 2005, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$35,400,000 to various local government units to be funded with grant awards.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 2004 approximated \$14,600,000.

**F. *Boston Housing Authority West Broadway Homes Project***

In FY04, the Boston Housing Authority (BHA) issued \$10 million of housing project bonds to finance a portion of the costs of construction of a lower income public housing project in South Boston. A captive non-profit corporation of the BHA will own and operate the project. The Commonwealth has agreed in the form of contract assistance to subsidize these bonds as part of other subsidies provided to the BHA for its normal operations, subject to appropriation. A portion of the bonds may be redeemed by advance additional grant funds to the

BHA on December 1, 2006, to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment of Commonwealth operating subsidy fund to the BHA allocable to the project as well as other funds available to the BHA.

### 13. CONTINGENCIES

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#### *Primary Government -*

Governmental Funds – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its general operations. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$30,000,000 as of June 30, 2005. The governmental funds only report the amount of claims and judgments estimated to be probable. However, for government – wide purposes, claims and judgments are reported on a full-accrual basis based on the probability that a loss has been incurred and if the amount can be reasonably estimated.

The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year. The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional 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. Any disallowances become liabilities of the fund that received the assistance. As of June 30, 2005, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less \$3,355,000 that is expected to be reclaimed and paid in fiscal year 2006, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 2005 totaled approximately \$172,502,000. Since inception, approximately \$1,492,533,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

#### **A. Tobacco Settlement**

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments.

In FY05, the Commonwealth received approximately \$257,417,000 or 91% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2005, 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.

One of the adjustments discussed above has been called into question and is in the process of being adjudicated. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the OPMs suffer a specified market share loss. Because the OPMs did suffer the requisite market share loss, the OPMs are seeking to reduce, by \$1.1 billion (or 18.6%), the \$6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for 2003. This proceeding got underway in June 2005. The preliminary determination is expected by February 20, 2006, and the final determination is expected by March 27, 2006. It is anticipated that, should the OPMs prevail, they will withhold approximately \$1.1 billion from the April 2006 MSA payment to the States, which would likely reduce the initial 2006 MSA payout to Massachusetts by approximately \$45-50 million. The \$1.1 billion withheld will still be subject to a showing that the States did not "diligently enforce" their individual NPM Escrow Statutes. If Massachusetts proves that it did diligently enforce its NPM Escrow Statute, the \$45-50 million withheld will have to be released to the Commonwealth. If Massachusetts fails to prove that it diligently enforced its NPM statute, then the April, 2006, MSA payment to Massachusetts would be permanently reduced by the \$45-50 million withheld, or by potentially some greater amount, yet to be determined, depending upon the outcome of the proceedings in other states.

**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 2005, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling \$312.6 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth’s liability relating to workers’ compensation claims in FY05 were (amounts in millions):

Claim liability, beginning of year.....	\$ 302.2
Increase in liability estimate.....	62.8
Payments and decreases in liability estimate.....	<u>52.4</u>
 Claims liability, end of year.....	 <u>\$ 312.6</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 \$63.9 million. Changes in the Commonwealth’s liability relating to Group Insurance claims in FY05 were (in million):

Claim liability, beginning of year.....	\$ 37.4
Increase in liability estimate.....	873.0
Payments and decreases in liability estimate.....	<u>846.5</u>
 Claims liability, end of year.....	 <u>\$ 63.9</u>

**C. Central Artery/Tunnel Project**

*Owner Controlled Insurance Program (OCIP)*

The Commonwealth of Massachusetts has assumed responsibility for providing worker’s compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project by establishing an Owner Controlled Insurance. The Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project. The insurance coverage provided by the Commonwealth currently extends through June 30, 2006.

The Project’s OCIP activity is reported as a minor governmental (capital project) fund. The “Claims and Judgements” liabilities reported within the fund represents the Project’s liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year

for FY05. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2005, the OCIP has accumulated approximately \$167,933,000 in assets that consist of approximately \$134,642,000 in cash and investments, approximately \$32,373,000 in funds held by the investment provider and approximately \$918,000 in interest income receivable. Net assets at year – end of approximately \$59,234,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of \$1,000,000 per claim, \$3,000,000 per occurrence for worker's compensation and \$2,000,000 per contractor, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

The estimated Claims and Judgements liability for the OCIP for occurrences through June 30, 2005 is \$100,900,000, of which \$27,900,000 is presented as a current liability in the minor governmental fund, while the remaining \$73,000,000 is presented on the statement of net assets. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2005.

#### *Central Artery / Tunnel Project Leaks and Contractor Difficulties*

Financial difficulties could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial or material impact on CA/T Project schedule and cost, although the likelihood and potential severity of such impact diminish as the CA/T Project progresses towards completion.

The Turnpike Authority is monitoring particular CA/T contractor's progress with respect to its obligations under CA/T Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to progress its work on the CA/T Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

In addition, the Project has had some water infiltration problems in the project's tunnels. The Turnpike Authority and project staff have indicated that the tunnels have been surveyed, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the CA/T Project for these purposes are expected to fall within the \$14.625 billion finance plan. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. The Turnpike Authority has estimated that it will assume responsibility for ongoing leak repairs from the project and its contractors in

2007 at an initial cost of \$1.3 million for that year declining to \$156,000 in 2010 and thereafter, excluding inflation. An independent evaluation has suggested that, based on current productivity compared to that assumed in the Turnpike Authority’s estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the CA/T’s slurry wall construction. The Turnpike Authority’s current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

*MassHighway Safety Review.* On March 15, 2005 the Governor directed the Executive Office of Transportation and the Massachusetts Highway Department to conduct an examination of the safety of the tunnel elements of the CA/T Project open to traffic. This examination is ongoing.

*Federal Safety Review.* In December 2004 a team of Federal Highway Administration (FHWA) experts from around the United States, including geotechnical and hydraulics experts and structural engineers, conducted a tunnel leak assessment of the CA/T Project. On April 4, 2005, FHWA Administrator Mary E. Peters wrote to the Chairman of the Turnpike Authority, stating that the FHWA had completed its interim leak assessment report and stating: “In summary, FHWA found that the CA/T is structurally sound and remains safe for traffic.” The letter further stated that the FHWA will issue another report upon completion of slurry wall inspections, sealing of low-level leaks and repair of slurry wall defects.

As a whole, at this time, the Commonwealth has not independently assessed the extent of the leaks or to what extent a liability, if any for these repairs, would accrue to the Commonwealth.

**D. *Claims and Judgments***

The following amounts were recognized as of June 30, 2005 (amounts in thousands):

	Balance as of <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance as of <u>June 30, 2005</u>
Short-term.....	\$ 37,750	\$ 45,074	\$ 24,924	\$ 57,900
Long-term.....	82,700	-	9,700	73,000
	<u>\$ 120,450</u>	<u>\$ 45,074</u>	<u>\$ 34,624</u>	<u>\$ 130,900</u>

**E. *Discretely Presented Component Units***

The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2005. Changes in the self-insurance reserves in fiscal 2005 and 2004 were as follows (amounts in thousands):

	<u>2005</u>	<u>2004</u>
Liability, beginning of year.....	\$ 89,106	\$ 88,837
Current year claims and changes in estimates.....	129,679	128,281
Claims payments.....	<u>(122,857)</u>	<u>(128,012)</u>
Liability, end of year.....	<u>\$ 95,928</u>	<u>\$ 89,106</u>

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**14. SUBSEQUENT EVENTS**

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On August 15, 2005, the MSBA issued \$2.5 billion of Dedicated Sales Tax Bond (the Bonds). The Bonds mature at various dates through FY31. The interest rates on the Bonds range from 3% to 5%. The Bonds will primarily be used to fund grants to cities, towns and regional school districts for school construction and renovation projects. These Bonds are secured by the Dedicated Sales Tax as discussed in footnote 1A.

On October 18, 2005, MWPAT issued approximately \$294 million of Pool Program Bonds, Series 11. These bonds were used to fund 92 loans in MWPAT's Clean Water, Safe Drinking Water and Community Septic Management Program (Title 5) programs.

Subsequent to year-end, the MBTA issued \$425 million in Series 2005A Assessment Bonds. Maturity dates are from FY07 through FY36. The bonds were used to refund approximately \$113 million of bond anticipation notes with the remainder funding system-wide improvements, vehicle replacements and a commuter rail expansion project.

In August 2005, the MBTA entered into a forward starting swap with Bear Stearns Financial Products, Inc., for a notional amount of \$280 million, equal to the approximate par amount of sales tax bonds anticipated to be issued in January 2007. The proceeds of such bonds will be used to finance system-wide improvements, vehicle replacement and computer tail expansion. The swap is effective commencing January 10, 2007 and the MBTA will receive variable rate equal to the BMA index and pay a fixed rate of 4.158%.



### **The North End**

Many of the Freedom Trail destinations are located in or near the historic North End, Boston's Italian neighborhood. It has a very European feel to it and houses the oldest public square in America. The North End is a culinary paradise with a large concentration of restaurants, bakeries and cafes. The streets are bustling with activity and festivals are held all summer long. The Paul Revere Mall (also known as the Prado) is a little brick-walled park with a famous equestrian statue of Paul Revere. The walls are lined with tablets that describe famous people and places in the history of the North End. It is a nice place to rest in between Freedom Trail sites.

# *Required Supplementary Information*

*Other than Management Discussion and Analysis*



**Old North Church**

On April 18, 1775, Robert Newman, sexton of the Old North Church, displayed two lanterns to warn Paul Revere and others of the British troop movements. Paul Revere’s famous “midnight ride” began with that signal, and so did the American War for Independence. Newman held the lanterns from the northwest window of the steeple to warn the patriots in Charlestown of the British troops’ march to Lexington and Concord.

Built in 1723, Old North is the oldest church building in Boston, and continues to serve a thriving, active Episcopal congregation. Its steeple is 191 feet tall, making it the tallest steeple in Boston. Its box pews are the highest of any church in America and were designated to keep worshippers warm. It also contains the first peal of bells ever brought to English America. They were cast in 1744 and installed in the tower in 1745. A young Paul Revere was a founding member of the guild of bell-ringers. They are still rung regularly.

# Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

## Budgeted Funds

Fiscal Year Ended June 30, 2005

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance over/(under)
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 14,888,200	\$ 14,888,200	\$ 15,987,399	\$ 1,099,199
Assessments.....	-	-	122,303	122,303
Federal grants and reimbursements.....	5,029,200	5,029,200	4,696,883	(332,317)
Departmental.....	1,850,000	1,844,300	1,840,320	(3,980)
Miscellaneous.....	-	5,700	172,139	166,439
<b>Total revenues.....</b>	<b>21,767,400</b>	<b>21,767,400</b>	<b>22,819,044</b>	<b>1,051,644</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	-	-	215,338	215,338
Lottery reimbursements.....	-	86,900	86,614	(286)
Lottery distributions.....	-	963,959	927,791	(36,168)
Tobacco settlement transfer.....	-	240,000	257,417	17,417
Excess permissible tax revenue.....	-	-	271,982	271,982
Operating transfers in.....	2,219,300	318,441	331,402	12,961
Stabilization transfer.....	-	340,000	1,120,230	780,230
Transfer for transitional escrow.....	-	-	304,838	304,838
Federal medicaid assistance percentage escrow transfer.....	-	270,000	270,000	-
<b>Total other financing sources.....</b>	<b>2,219,300</b>	<b>2,219,300</b>	<b>3,785,612</b>	<b>1,566,312</b>
<b>Total revenues and other financing sources.....</b>	<b>23,986,700</b>	<b>23,986,700</b>	<b>26,604,656</b>	<b>2,617,956</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	80,820	80,820	53,681	27,139
Judiciary.....	615,676	618,960	607,170	11,790
Inspector General.....	2,695	2,625	2,258	367
Governor and Lieutenant Governor.....	5,363	5,363	4,805	558
Secretary of the Commonwealth.....	43,292	43,337	41,290	2,047
Treasurer and Receiver-General.....	212,831	131,557	112,773	18,784
Auditor of the Commonwealth.....	16,623	16,998	16,989	9
Attorney General.....	36,211	36,668	34,988	1,680
Ethics Commission.....	1,265	1,265	1,265	-
District Attorney.....	79,637	80,051	79,594	457
Office of Campaign & Political Finance.....	998	998	993	5
Sheriff's Departments.....	215,612	225,668	221,543	4,125
Disabled Persons Protection Commission.....	1,705	1,705	1,704	1
Board of Library Commissioners.....	3,581	3,580	3,578	2
Comptroller.....	14,336	14,336	10,653	3,683
Administration and finance.....	1,626,854	1,680,197	1,507,874	172,323
Environmental affairs.....	235,834	234,328	179,926	54,402
Housing and community development.....	83,412	97,609	94,674	2,935
Health and human services.....	4,650,434	4,709,511	4,598,966	110,545
Transportation and construction.....	142,400	245,863	244,165	1,698
Education.....	489,992	429,047	417,732	11,315
Higher education.....	812,218	917,609	914,960	2,649
Public safety and homeland security.....	954,441	995,533	940,975	54,558
Economic development.....	151,352	159,965	126,403	33,562
Direct local aid.....	4,473,166	4,477,449	4,476,670	779
Medicaid.....	6,498,292	6,498,247	5,977,221	521,026
Pension.....	-	1,216,936	1,216,936	-
Debt service:				
Principal retirement.....	927,544	887,571	880,128	7,443
Interest and fiscal charges.....	723,314	753,019	700,619	52,400
<b>Total expenditures.....</b>	<b>23,099,898</b>	<b>24,566,815</b>	<b>23,470,533</b>	<b>1,096,282</b>
<b>Other financing uses:</b>				
Fringe benefit cost assessment.....	-	30,600	52,019	(21,419)
Excess permissible tax revenue.....	-	-	271,982	(271,982)
Uncompensated care pool transfer.....	-	75,000	309,100	(234,100)
Operating transfers out.....	-	159,649	211,572	(51,923)
Stabilization transfer.....	-	340,000	1,120,230	(780,230)
Transfer for transitional escrow.....	-	-	304,838	(304,838)
Federal medicaid assistance percentage escrow transfer.....	-	270,000	270,000	-
<b>Total other financing uses.....</b>	<b>-</b>	<b>875,249</b>	<b>2,539,741</b>	<b>(1,664,492)</b>
<b>Total expenditures and other financing uses.....</b>	<b>23,099,898</b>	<b>25,442,064</b>	<b>26,010,274</b>	<b>(568,210)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>886,802</b>	<b>(1,455,364)</b>	<b>594,382</b>	<b>2,049,746</b>
Fund balances (deficit) at beginning of year.....	1,892,805	1,892,805	1,892,805	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,779,607</b>	<b>\$ 437,441</b>	<b>\$ 2,487,187</b>	<b>\$ 2,049,746</b>

See note to required supplementary information-Budgetary Reporting

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)  
for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):**

	<u>Budgeted Funds</u>
<b>Revenues:</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 22,819,044
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue .....	440,976
Federal reimbursements and other receivables.....	(12,671)
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	<u>(76,295)</u>
<b>Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 23,171,054</u></b>
Non-Budgeted Activity.....	12,071,364
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 35,242,418</u></b>
<b>Expenditures:</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 23,470,533
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	43,400
Compensated absences and other accrued liabilities.....	(65,100)
Reclassifications:	
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.....	(1,580,747)
Higher education expenditures are reclassified for GAAP reporting.....	<u>(1,029,381)</u>
<b>Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 20,838,705</u></b>
Non-Budgeted Activity.....	14,497,155
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 35,335,860</u></b>
<b>Other Financing Sources:</b>	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 3,785,612
Adjustments:	
Consolidation of transfers between funds.....	(1,688,522)
Inflows from component units and other miscellaneous financing sources.....	<u>58,479</u>
<b>Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 2,155,569</u></b>
Non-Budgeted Activity.....	6,134,587
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 8,290,156</u></b>
<b>Other Financing Uses:</b>	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,539,741
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(1,688,522)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	953,086
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.....	<u>1,580,747</u>
<b>Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 3,385,052</u></b>
Non-Budgeted Activity.....	4,187,502
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 7,572,554</u></b>

## Note to Required Supplementary Information – Budgetary Reporting

### *Statutory Basis of Accounting*

The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations (not funds, which are deemed to be accounting entities) and is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year-end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year-end.

### *Budgetary Approval*

State finance law requires that the Governor and the Legislature approve a balanced budget. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations 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 and other costs that 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 discrepancy to separately published budget documents. 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.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the “original budget column” and the final legally adopted budget, including supplemental appropriations, be reflected in the “final budget” column. The “actual” column contains the statutory inflows and outflows related to budgetary accounts. The “variance” column contains the difference between the “final budget” and the “actual” columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget.



## **Bunker Hill Monument**

Less than two months after Lexington and Concord, patriots and British troops engaged in one of the bloodiest encounters of the War for Independence — the Battle of Bunker Hill. The Battle of Bunker Hill was actually fought on Breed's Hill, which was lower and closer to the water.

On June 17, 1775, a regiment of nearly 1,500 colonists was entrenched in an earthwork fort on top of Breed's Hill. The famous order, "Don't fire until you see the whites of their eyes!", which legend attributes to Colonel William Prescott, has come to immortalize the determination of the Colonists facing the powerful British Army during the famous battle and was ordered to make sure that each shot would count. The poorly trained and ill-prepared colonial forces repelled two major assaults. During the third assault the Americans' ammunition ran out and they engaged in hand-to-hand combat. The British had bayonets and finally took over. Over 1,000 British, approximately half of the regiment, were killed or wounded. The Americans lost 441 men, the most famous was the patriot, Dr. Joseph Warren. Although he held the rank of major general, Warren fought the battle as gentleman volunteer. Though the British won the battle, their losses were immense, inspiring patriots to continued resistance. By 1783, the United States had won its independence.

Today a 221-foot granite obelisk denotes the site of the first major battle of the American Revolution. Visitors can choose to climb the 294 steps to the top of the monument for a wonderful view of Boston.



# Other Supplementary Information



*Photograph by Steve Dunwell*

## **Copp's Hill Burying Ground**

Copp's Hill Burying Ground is the final resting place of merchants, artisans and craft people who lived in the North End. Located on a hill on which a windmill once stood, the land was given to the town. It was named after the 17th century shoemaker William Copp, who originally owned the property.

The grounds are also the final resting place of thousands of free African-Americans who lived in a community on the current Charter Street side of the burying ground, called the "New Guinea Community." Notable people who are buried here include Robert Newman, the sexton who displayed the signal lanterns the night of Revere's ride; Edmund Hartt, builder of the USS Constitution; and Prince Hall, a freed slave and founder of the African Grand Lodge of Massachusetts.

Because of its height and panoramic vistas, the British used this vantage point to train their cannons on Charlestown during the Battle of Bunker Hill. The British used the graves of patriots for target practice and you can see musketball marks on the graves. Daniel Malcom, who was a member of the Sons of Liberty, requested to be buried "in a Stone Grave 10 feet deep" safe from the British bullets. This is noted on his headstone.



**Combined Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**  
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
<b>ASSETS</b>			
Cash and short-term investments.....	\$ 1,149,588	\$ -	\$ 1,149,588
Cash with fiscal agent.....	577,499	167,015	744,514
Restricted investments and annuity contracts.....	507,837	-	507,837
Receivables, net of allowance for uncollectibles:			
Taxes.....	106,867	-	106,867
Due from federal government.....	553,426	6,625	560,051
Other receivables.....	220,286	1,036	221,322
Due from other funds.....	-	138,412	138,412
<b>Total assets.....</b>	<b>\$ 3,115,503</b>	<b>\$ 313,088</b>	<b>\$ 3,428,591</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable.....	\$ 565,551	\$ 256,826	\$ 822,377
Compensated absences.....	721	261	982
Due to other funds.....	522,177	551,457	1,073,634
Due to component units.....	97,930	13,150	111,080
Due to federal government.....	-	95	95
Deferred revenue.....	18,413	-	18,413
Claims and judgments.....	-	27,900	27,900
Notes payable.....	-	140,100	140,100
Other accrued liabilities.....	163,317	-	163,317
<b>Total liabilities.....</b>	<b>1,368,109</b>	<b>989,789</b>	<b>2,357,898</b>
Fund balances (deficits):			
Reserved for continuing appropriations.....	25,637	-	25,637
Reserved for retirement of indebtedness.....	577,499	-	577,499
Reserved for capital projects.....	-	28,952	28,952
Reserved for central artery workers' compensation and general liability.....	-	132,234	132,234
Unreserved.....	1,144,258	(837,887)	306,371
<b>Fund balances (deficits).....</b>	<b>1,747,394</b>	<b>(676,701)</b>	<b>1,070,693</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 3,115,503</b>	<b>\$ 313,088</b>	<b>\$ 3,428,591</b>

**Combined Statement Of Revenues, Expenditures And Changes In Fund Balances**  
**Nonmajor Governmental Funds**  
**Fiscal Year Ended June 30, 2005**  
**(Amounts in thousands)**

	Other Special Revenue	Other Capital Projects	Total
<b>Revenues:</b>			
Taxes.....	\$ 1,369,841	\$ -	\$ 1,369,841
Assessments.....	708,456	-	708,456
Federal grants and reimbursements.....	4,005,932	12,040	4,017,972
Departmental.....	1,036,413	463	1,036,876
Miscellaneous.....	649,969	2,837	652,806
<b>Total revenues.....</b>	<b>7,770,611</b>	<b>15,340</b>	<b>7,785,951</b>
<b>Other financing sources:</b>			
Proceeds of general obligation bonds.....	499,998	854,227	1,354,225
Operating transfers in.....	1,125,942	485,620	1,611,562
<b>Total other financing sources.....</b>	<b>1,625,940</b>	<b>1,339,847</b>	<b>2,965,787</b>
<b>Total revenues and other financing sources.....</b>	<b>9,396,551</b>	<b>1,355,187</b>	<b>10,751,738</b>
<b>Expenditures:</b>			
Current:			
Judiciary.....	4,174	-	4,174
Inspector General.....	1,049	-	1,049
Secretary of the Commonwealth.....	6,618	-	6,618
Treasurer and Receiver-General.....	869,981	13,151	883,132
Auditor of the Commonwealth.....	61	-	61
Attorney General.....	12,643	-	12,643
District Attorney.....	8,865	-	8,865
Sheriff's Departments.....	3,044	-	3,044
Disabled Persons Protection Commission.....	6	-	6
Board of Library Commissioners.....	3,070	-	3,070
Comptroller.....	2,409	-	2,409
Administration and finance.....	109,610	-	109,610
Environmental affairs.....	75,517	-	75,517
Housing and community development.....	388,354	-	388,354
Health and human services.....	3,072,121	-	3,072,121
Transportation and construction.....	51,419	29,613	81,032
Education.....	1,899,586	-	1,899,586
Higher education.....	13,296	-	13,296
Public safety and homeland security.....	138,296	-	138,296
Economic development.....	268,343	-	268,343
Medicaid.....	746,409	-	746,409
Direct local aid.....	9,850	-	9,850
Capital outlay:			
Local aid.....	-	10,578	10,578
Capital acquisition and construction.....	-	1,375,976	1,375,976
<b>Total expenditures.....</b>	<b>7,684,721</b>	<b>1,429,318</b>	<b>9,114,039</b>
<b>Other financing uses:</b>			
Operating transfers out.....	1,946,568	182,213	2,128,781
Transfers of appropriations.....	267	-	267
Transfers of bond proceeds.....	-	53,589	53,589
Transfers out for debt service.....	118,019	-	118,019
<b>Total other financing uses.....</b>	<b>2,064,854</b>	<b>235,802</b>	<b>2,300,656</b>
<b>Total expenditures and other financing uses.....</b>	<b>9,749,575</b>	<b>1,665,120</b>	<b>11,414,695</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(353,024)</b>	<b>(309,933)</b>	<b>(662,957)</b>
Fund balances (deficits) at beginning of year.....	2,100,418	(366,768)	1,733,650
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 1,747,394</b>	<b>\$ (676,701)</b>	<b>\$ 1,070,693</b>

**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2005**  
(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and short-term investments.....	\$ -	\$ 213,777	\$ 13,027	\$ 922,784	\$ 1,149,588
Cash with fiscal agent.....	-	-	-	577,499	577,499
Restricted investments and annuity contracts.....	-	-	-	507,837	507,837
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	78	106,789	106,867
Due from federal government.....	389,109	-	1,280	163,037	553,426
Other receivables.....	-	27,486	650	192,150	220,286
<b>Total assets.....</b>	<b>\$ 389,109</b>	<b>\$ 241,263</b>	<b>\$ 15,035</b>	<b>\$ 2,470,096</b>	<b>\$ 3,115,503</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ 242,051	\$ 11,315	\$ 661	\$ 311,524	\$ 565,551
Compensated absences.....	626	-	30	65	721
Due to other funds.....	148,734	-	-	373,443	522,177
Due to component units.....	-	-	-	97,930	97,930
Deferred revenue.....	-	18,156	-	257	18,413
Other accrued liabilities.....	-	163,317	-	-	163,317
<b>Total liabilities.....</b>	<b>391,411</b>	<b>192,788</b>	<b>691</b>	<b>783,219</b>	<b>1,368,109</b>
Fund balances (deficits):					
Reserved for continuing appropriations.....	-	-	-	25,637	25,637
Reserved for retirement of indebtedness.....	-	-	-	577,499	577,499
Unreserved.....	(2,302)	48,475	14,344	1,083,741	1,144,258
<b>Fund balances (deficits).....</b>	<b>(2,302)</b>	<b>48,475</b>	<b>14,344</b>	<b>1,686,877</b>	<b>1,747,394</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 389,109</b>	<b>\$ 241,263</b>	<b>\$ 15,035</b>	<b>\$ 2,470,096</b>	<b>\$ 3,115,503</b>

**Combining Statement Of Revenues, Expenditures And Changes In Fund Balances**  
**Nonmajor Special Revenue Funds**  
**Fiscal Year Ended June 30, 2005**  
**(Amounts in thousands)**

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
<b>Revenues:</b>					
Taxes.....	\$ -	\$ -	\$ 902	\$ 1,368,939	\$ 1,369,841
Assessments.....	-	336,560	-	371,896	708,456
Federal grants and reimbursements.....	2,369,432	673,167	4,083	959,250	4,005,932
Departmental.....	-	906,996	7,956	121,461	1,036,413
Miscellaneous.....	88	3,908	32	645,941	649,969
<b>Total revenues.....</b>	<b>2,369,520</b>	<b>1,920,631</b>	<b>12,973</b>	<b>3,467,487</b>	<b>7,770,611</b>
<b>Other financing sources:</b>					
Proceeds of general obligation bonds.....	-	-	-	499,998	499,998
Operating transfers in.....	864	539,737	97	585,244	1,125,942
<b>Total other financing sources.....</b>	<b>864</b>	<b>539,737</b>	<b>97</b>	<b>1,085,242</b>	<b>1,625,940</b>
<b>Total revenues and other financing sources.....</b>	<b>2,370,384</b>	<b>2,460,368</b>	<b>13,070</b>	<b>4,552,729</b>	<b>9,396,551</b>
<b>Expenditures:</b>					
Current:					
Judiciary.....	1,191	-	-	2,983	4,174
Inspector General.....	-	1,049	-	-	1,049
Secretary of the Commonwealth.....	707	-	-	5,911	6,618
Treasurer and Receiver-General.....	1,170	185	-	868,626	869,981
Auditor of the Commonwealth.....	-	-	-	61	61
Attorney General.....	9,073	-	-	3,570	12,643
District Attorney.....	2,496	-	-	6,369	8,865
Sheriff's Departments.....	2,840	-	-	204	3,044
Disabled Persons Protection Commission.....	6	-	-	-	6
Board of Library Commissioners.....	2,859	-	-	211	3,070
Comptroller.....	-	-	-	2,409	2,409
Administration and finance.....	9,749	106	-	99,755	109,610
Environmental affairs.....	30,303	-	8,532	36,682	75,517
Housing and community development.....	382,867	-	-	5,487	388,354
Health and human services.....	751,803	2,072,710	-	247,608	3,072,121
Transportation and construction.....	17,504	-	-	33,915	51,419
Education.....	829,653	-	-	1,069,933	1,899,586
Higher education.....	5,438	-	-	7,858	13,296
Public safety and homeland security.....	97,671	-	-	40,625	138,296
Economic development.....	138,362	18,047	-	111,934	268,343
Medicaid.....	-	-	-	746,409	746,409
Direct local aid.....	-	-	-	9,850	9,850
<b>Total expenditures.....</b>	<b>2,283,692</b>	<b>2,092,097</b>	<b>8,532</b>	<b>3,300,400</b>	<b>7,684,721</b>
<b>Other financing uses:</b>					
Operating transfers out.....	84,124	344,846	1,374	1,516,224	1,946,568
Transfers of appropriations.....	234	-	-	33	267
Transfers out for debt service.....	-	-	-	118,019	118,019
<b>Total other financing uses.....</b>	<b>84,358</b>	<b>344,846</b>	<b>1,374</b>	<b>1,634,276</b>	<b>2,064,854</b>
<b>Total expenditures and other financing uses.....</b>	<b>2,368,050</b>	<b>2,436,943</b>	<b>9,906</b>	<b>4,934,676</b>	<b>9,749,575</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>2,334</b>	<b>23,425</b>	<b>3,164</b>	<b>(381,947)</b>	<b>(353,024)</b>
Fund balances (deficits) at beginning of year.....	(4,636)	25,050	11,180	2,068,824	2,100,418
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ (2,302)</b>	<b>\$ 48,475</b>	<b>\$ 14,344</b>	<b>\$ 1,686,877</b>	<b>\$ 1,747,394</b>

**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
**June 30, 2005**  
(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
<b>ASSETS</b>						
Cash with fiscal agent.....	\$ -	\$ -	\$ -	\$ -	\$ 167,015	\$ 167,015
Receivables, net of allowance for uncollectibles:						
Due from federal government.....	6,211	-	-	-	414	6,625
Other receivables.....	-	-	-	-	1,036	1,036
Due from other funds.....	-	27,849	-	-	110,563	138,412
<b>Total assets.....</b>	<b>\$ 6,211</b>	<b>\$ 27,849</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 279,028</b>	<b>\$ 313,088</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable.....	\$ 135,168	\$ 1,631	\$ -	\$ 40,727	\$ 79,300	\$ 256,826
Compensated absences.....	13	-	-	248	-	261
Due to other funds.....	273,022	-	23,729	178,751	75,955	551,457
Due to component units.....	13,150	-	-	-	-	13,150
Due to federal government.....	-	-	-	-	95	95
Claims and judgments.....	-	-	-	-	27,900	27,900
Notes payable.....	65,000	-	75,100	-	-	140,100
<b>Total liabilities.....</b>	<b>486,353</b>	<b>1,631</b>	<b>98,829</b>	<b>219,726</b>	<b>183,250</b>	<b>989,789</b>
Fund balances (deficits):						
Reserved for capital projects.....	-	26,218	-	-	2,734	28,952
Reserved for central artery workers' compensation.....	-	-	-	-	132,234	132,234
Unreserved.....	(480,142)	-	(98,829)	(219,726)	(39,190)	(837,887)
<b>Fund balances (deficits).....</b>	<b>(480,142)</b>	<b>26,218</b>	<b>(98,829)</b>	<b>(219,726)</b>	<b>95,778</b>	<b>(676,701)</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 6,211</b>	<b>\$ 27,849</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 279,028</b>	<b>\$ 313,088</b>

**Statement Of Revenues, Expenditures And Changes In Fund Balances**  
**Nonmajor Capital Projects Funds**  
**Fiscal Year Ended June 30, 2005**  
(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
<b>Revenues:</b>						
Federal grants and reimbursements.....	\$ 10,788	\$ -	\$ -	\$ -	\$ 1,252	\$ 12,040
Departmental.....	-	-	-	-	463	463
Miscellaneous.....	-	-	-	2	2,835	2,837
<b>Total revenues.....</b>	<b>10,788</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>4,550</b>	<b>15,340</b>
<b>Other financing sources:</b>						
Proceeds of general obligation bonds.....	473,051	-	-	368,341	12,835	854,227
Operating transfers in.....	-	-	-	-	485,620	485,620
<b>Total other financing sources.....</b>	<b>473,051</b>	<b>-</b>	<b>-</b>	<b>368,341</b>	<b>498,455</b>	<b>1,339,847</b>
<b>Total revenues and other financing sources.....</b>	<b>483,839</b>	<b>-</b>	<b>-</b>	<b>368,343</b>	<b>503,005</b>	<b>1,355,187</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Treasurer and Receiver-General.....	13,151	-	-	-	-	13,151
Transportation and construction.....	-	-	-	-	29,613	29,613
<b>Capital outlay:</b>						
Local aid.....	-	-	-	-	10,578	10,578
Capital acquisition and construction.....	592,667	54,155	-	229,470	499,684	1,375,976
<b>Total expenditures.....</b>	<b>605,818</b>	<b>54,155</b>	<b>-</b>	<b>229,470</b>	<b>539,875</b>	<b>1,429,318</b>
<b>Other financing uses:</b>						
Operating transfers out.....	5,668	-	-	174,862	1,683	182,213
Transfers of bond proceeds.....	53,589	-	-	-	-	53,589
<b>Total other financing uses.....</b>	<b>59,257</b>	<b>-</b>	<b>-</b>	<b>174,862</b>	<b>1,683</b>	<b>235,802</b>
<b>Total expenditures and other financing uses.....</b>	<b>665,075</b>	<b>54,155</b>	<b>-</b>	<b>404,332</b>	<b>541,558</b>	<b>1,665,120</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>(181,236)</b>	<b>(54,155)</b>	<b>-</b>	<b>(35,989)</b>	<b>(38,553)</b>	<b>(309,933)</b>
Fund balances (deficits) at beginning of year.....	(298,906)	80,373	(98,829)	(183,737)	134,331	(366,768)
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ (480,142)</b>	<b>\$ 26,218</b>	<b>\$ (98,829)</b>	<b>\$ (219,726)</b>	<b>\$ 95,778</b>	<b>\$ (676,701)</b>

## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 203,648	\$ 5,838,646	\$ 5,740,430	\$ 301,864
Assets held in trust.....	15,183	230,657	219,275	26,565
Taxes receivable.....	980	2,017	980	2,017
<b>Total assets.....</b>	<b>\$ 219,811</b>	<b>\$ 6,071,320</b>	<b>\$ 5,960,685</b>	<b>\$ 330,446</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 25,482	\$ 3,002,842	\$ 2,972,370	\$ 55,954
Due to cities and towns.....	35,828	394,277	374,514	55,591
Due to federal government.....	5	73	78	-
Agency liabilities.....	158,496	3,110,999	3,050,594	218,901
<b>Total liabilities.....</b>	<b>\$ 219,811</b>	<b>\$ 6,508,191</b>	<b>\$ 6,397,556</b>	<b>\$ 330,446</b>
 <b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 98,805	\$ 1,434,630	\$ 1,443,504	\$ 89,931
Assets held in trust.....	46,828	35,114	25,521	56,421
Other receivables.....	104,900	90,200	104,900	90,200
<b>Total assets.....</b>	<b>\$ 250,533</b>	<b>\$ 1,559,944</b>	<b>\$ 1,573,925</b>	<b>\$ 236,552</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ -	\$ 470,000	\$ 470,000	\$ -
Agency liabilities.....	250,533	653,090	667,071	236,552
<b>Total liabilities.....</b>	<b>\$ 250,533</b>	<b>\$ 1,123,090</b>	<b>\$ 1,137,071</b>	<b>\$ 236,552</b>
 <b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	2,981,982	1,285	1,103,544	1,879,723
<b>Total assets.....</b>	<b>\$ 2,982,068</b>	<b>\$ 1,285</b>	<b>\$ 1,103,544</b>	<b>\$ 1,879,809</b>
<b>LIABILITIES</b>				
Agency liabilities.....	\$ 2,982,068	\$ 1,285	\$ 1,103,544	\$ 1,879,809
<b>Total liabilities.....</b>	<b>\$ 2,982,068</b>	<b>\$ 1,285</b>	<b>\$ 1,103,544</b>	<b>\$ 1,879,809</b>

(continued)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 302,539	\$ 7,273,276	\$ 7,183,934	\$ 391,881
Assets held in trust.....	3,043,993	267,056	1,348,340	1,962,709
Taxes receivable.....	980	2,017	980	2,017
Other receivables.....	104,900	90,200	104,900	90,200
<b>Total assets.....</b>	<b><u>\$ 3,452,412</u></b>	<b><u>\$ 7,632,549</u></b>	<b><u>\$ 8,638,154</u></b>	<b><u>\$ 2,446,807</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 25,482	\$ 3,472,842	\$ 3,442,370	\$ 55,954
Due to cities and towns.....	35,828	394,277	374,514	55,591
Due to federal government.....	5	73	78	-
Agency liabilities.....	3,391,097	3,765,374	4,821,209	2,335,262
<b>Total liabilities.....</b>	<b><u>\$ 3,452,412</u></b>	<b><u>\$ 7,632,566</u></b>	<b><u>\$ 8,638,171</u></b>	<b><u>\$ 2,446,807</u></b>

*(concluded)*

## Combined Balance Sheet

Nonmajor Component Units

June 30, 2005

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Economic Development Entities	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents.....	\$ 5,519	\$ 56,694	\$ 18,135	\$ 1,078	\$ 67,736	\$ 149,162
Short-term investments.....	-	147,201	-	52,660	34,535	234,396
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable.....	-	-	17,064	-	4,454	21,518
Loans.....	-	12,928	-	-	34,460	47,388
Other receivables.....	1,379	5,590	14,944	3,512	1,362	26,787
Due from cities and towns.....	-	-	16,043	-	-	16,043
Due from primary government.....	23,209	10,533	65,099	-	8,426	107,267
Inventory.....	-	5,071	633	-	58	5,762
Other current assets.....	1,286	6,807	3,855	202	258	12,408
<b>Total current assets.....</b>	<b>31,393</b>	<b>244,824</b>	<b>135,773</b>	<b>57,452</b>	<b>151,289</b>	<b>620,731</b>
Noncurrent assets:						
Cash and cash equivalents - restricted.....	-	27,726	175	28,652	58	56,611
Long - term investments.....	28,613	15,102	-	53,782	99,432	196,929
Restricted investments.....	-	-	-	90,803	195	90,998
Accounts receivables, net.....	-	3,600	1,415	-	9,153	14,168
Loans receivables, net.....	-	67,375	-	4,097	180,835	252,307
Due from primary government.....	-	-	3,812	-	337,688	341,500
Capital assets, net of accumulated depreciation.....	880,854	215,701	258,147	12,824	10,228	1,377,754
Other noncurrent assets.....	181	26,222	3,237	-	3,722	33,362
<b>Total noncurrent assets.....</b>	<b>909,648</b>	<b>355,726</b>	<b>266,786</b>	<b>190,158</b>	<b>641,311</b>	<b>2,363,629</b>
<b>Total assets.....</b>	<b>941,041</b>	<b>600,550</b>	<b>402,559</b>	<b>247,610</b>	<b>792,600</b>	<b>2,984,360</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and other liabilities.....	21,673	20,579	20,040	1,171	10,070	73,533
Accrued payroll.....	-	-	6,895	-	230	7,125
Compensated absences.....	-	-	98	-	689	787
Accrued interest payable.....	7,421	2,865	1,588	2,787	1,582	16,243
Due to primary government.....	17,450	-	-	-	-	17,450
Due to federal government.....	-	-	-	4,398	-	4,398
Deferred revenue.....	7,332	-	5,101	-	6,290	18,723
Capital leases.....	-	-	678	-	87	765
Bonds, notes payable and other obligations - current.....	6,568	13,115	105,642	-	35,853	161,178
<b>Total current liabilities.....</b>	<b>60,444</b>	<b>36,559</b>	<b>140,042</b>	<b>8,356</b>	<b>54,801</b>	<b>300,202</b>
Noncurrent liabilities:						
Compensated absences.....	-	-	381	-	99	480
Deferred revenue.....	-	11,915	-	-	25,664	37,579
Capital leases.....	-	-	721	-	44	765
Bonds, notes payable and other obligations.....	16,242	234,129	1,951	-	591,818	844,140
Other noncurrent liabilities.....	4,596	1	2,516	710	24,747	32,570
<b>Total noncurrent liabilities.....</b>	<b>20,838</b>	<b>246,045</b>	<b>5,569</b>	<b>710</b>	<b>642,372</b>	<b>915,534</b>
<b>Total liabilities.....</b>	<b>81,282</b>	<b>282,604</b>	<b>145,611</b>	<b>9,066</b>	<b>697,173</b>	<b>1,215,736</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt.....	848,668	50,173	256,000	12,824	10,213	1,177,878
Restricted for:						
Debt service.....	6,489	-	-	13,506	-	19,995
Capital projects.....	-	-	-	-	1,679	1,679
Other purposes.....	-	89,932	2,755	208,467	66,479	367,633
Unrestricted.....	4,602	177,841	(1,807)	3,747	17,056	201,439
<b>Total net assets.....</b>	<b>\$ 859,759</b>	<b>\$ 317,946</b>	<b>\$ 256,948</b>	<b>\$ 238,544</b>	<b>\$ 95,427</b>	<b>\$ 1,768,624</b>

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

## Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

### Nonmajor Component Units

Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Economic Development Entities	Total
<b>Operating revenues and expenses:</b>						
Charges for services.....	\$ 26,553	\$ 29,091	\$ 83,143	\$ 1,165	\$ 33,199	\$ 173,151
Other.....	278	15,109	10,829	44,252	33,152	103,620
<b>Total operating revenues.....</b>	<b>26,831</b>	<b>44,200</b>	<b>93,972</b>	<b>45,417</b>	<b>66,351</b>	<b>276,771</b>
<b>Operating expenses:</b>						
Cost of services.....	29,763	4,870	163,560	20,485	37,538	256,216
Administration costs.....	12,060	40,503	24,668	356	22,652	100,239
Depreciation.....	21,321	9,474	23,256	762	943	55,756
<b>Total operating expenses.....</b>	<b>63,144</b>	<b>54,847</b>	<b>211,484</b>	<b>21,603</b>	<b>61,133</b>	<b>412,211</b>
<b>Operating income (loss).....</b>	<b>(36,313)</b>	<b>(10,647)</b>	<b>(117,512)</b>	<b>23,814</b>	<b>5,218</b>	<b>(135,440)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating grants.....	26,978	13,281	93,203	-	15,620	149,082
Interest income.....	442	6,461	477	10,860	3,543	21,783
Interest expense.....	(9,450)	(11,742)	(2,507)	-	(19,391)	(43,090)
Other nonoperating revenue (expense).....	(7,338)	132	(726)	-	(2,465)	(10,397)
<b>Nonoperating revenues (expenses), net.....</b>	<b>10,632</b>	<b>8,132</b>	<b>90,447</b>	<b>10,860</b>	<b>(2,693)</b>	<b>117,378</b>
<b>Income (loss) before contributions and operating transfer.....</b>	<b>(25,681)</b>	<b>(2,515)</b>	<b>(27,065)</b>	<b>34,674</b>	<b>2,525</b>	<b>(18,062)</b>
Capital contributions.....	98,022	6,177	49,903	-	1,679	155,781
<b>Net income (loss) for the year.....</b>	<b>72,341</b>	<b>3,662</b>	<b>22,838</b>	<b>34,674</b>	<b>4,204</b>	<b>137,719</b>
Net assets - beginning.....	787,418	314,284	234,110	203,870	91,223	1,630,905
<b>Net assets - ending.....</b>	<b>\$ 859,759</b>	<b>\$ 317,946</b>	<b>\$ 256,948</b>	<b>\$ 238,544</b>	<b>\$ 95,427</b>	<b>\$ 1,768,624</b>

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



*Photograph by Steve Dunwell*

### **USS Constitution**

The oldest commissioned warship in the world became known as “Old Ironsides” during the war of 1812 when she fought the British Frigate H.M.S. Guerriere. The Guerriere sank like a stone, while the cannonballs she fired at the USS Constitution merely “bounced off” as if she were made of iron.

In fact the Constitution is made of a three-layer sandwich of wood from all across America. Her “ironsides” are white oak from New Jersey, New Hampshire and Massachusetts; her frame is the dependable live oak from Saint Simons Island off Georgia; and her masts are yellow pine from Georgia and the Carolinas.

She was one of six ships ordered for construction by George Washington to protect America’s growing maritime interests and was launched in 1797. Because it is a wooden ship, it needs to be maintained. In 1830 Congress appropriated funds to restore it. It sailed around the world in 1844. By 1905 it needed significant repair. Congress passed a bill to repair it but appropriated no funds. In 1925, a public fundraising campaign was begun and children all over the country donated pennies to this cause. Eventually, Congress funded the difference. She has had a number of restorations since then and on July 21, 1997 celebrated her 200th birthday by setting sail for the first time in 116 years.

# Statistical Section



**Detail on USS Constitution**



*Schedule of Net Assets by Component – Last Four Fiscal Years*  
*Changes in Net Assets – Last Four Fiscal Years*  
*Fund Balances, Governmental Funds – Last Four Fiscal Years*  
*Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types*  
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*Standard and Poors 500 Companies Headquartered in Massachusetts*  
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## *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 presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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<sup>1</sup> Tax Year 2003 is the last “closed” tax year

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**Schedule Of Net Assets by Component  
Last Four Fiscal Years**

(Amounts in thousands)

	2005	2004	2003	2002
<b>Governmental activities</b>				
Invested in capital assets, net of related debt.....	\$ 196,765	\$ 2,032,958	\$ 3,901,007	\$ 5,611,252
Restricted.....	3,419,342	3,348,175	1,153,792	2,694,315
Unrestricted.....	<u>(15,160,199)</u>	<u>(11,722,584)</u>	<u>(13,160,340)</u>	<u>(15,721,092)</u>
<b>Total governmental activities net assets.....</b>	<b><u>\$ (11,544,092)</u></b>	<b><u>\$ (6,341,451)</u></b>	<b><u>\$ (8,105,541)</u></b>	<b><u>\$ (7,415,525)</u></b>
<b>Business - type activities</b>				
Invested in capital assets, net of related debt.....	\$ 1,149,352	\$ 1,132,637	\$ 1,073,152	\$ 1,032,022
Restricted.....	1,331,053	915,583	946,704	1,784,322
Unrestricted.....	<u>562,777</u>	<u>434,007</u>	<u>321,523</u>	<u>243,605</u>
<b>Total business - type activities net assets.....</b>	<b><u>\$ 3,043,182</u></b>	<b><u>\$ 2,482,227</u></b>	<b><u>\$ 2,341,379</u></b>	<b><u>\$ 3,059,949</u></b>
<b>Commonwealth net assets</b>				
Invested in capital assets, net of related debt.....	\$ 1,346,117	\$ 3,165,595	\$ 4,974,159	\$ 6,643,274
Restricted.....	4,750,395	4,263,758	2,100,496	4,478,637
Unrestricted.....	<u>(14,597,422)</u>	<u>(11,288,577)</u>	<u>(12,838,817)</u>	<u>(15,477,487)</u>
<b>Total Commonwealth net assets.....</b>	<b><u>\$ (8,500,910)</u></b>	<b><u>\$ (3,859,224)</u></b>	<b><u>\$ (5,764,162)</u></b>	<b><u>\$ (4,355,576)</u></b>

**Changes in Net Assets  
Last Four Fiscal Years**

(Amounts in thousands)

	2005	2004	2003	2002
<b>EXPENSES</b>				
<b>Governmental Activities:</b>				
General government.....	\$ 1,815,876	\$ 2,059,234	\$ 1,833,325	\$ 1,360,663
Judiciary.....	636,381	538,434	594,584	571,467
Direct local aid.....	4,525,847	4,877,089	5,118,711	5,252,805
Medicaid.....	7,705,717	6,909,412	6,177,280	5,978,811
Group health insurance.....	872,970	778,072	732,252	770,832
Public assistance.....	1,095,903	1,019,068	1,017,997	1,029,645
Interest (unallocated).....	861,265	788,908	739,463	687,817
Pension.....	440,152	241,845	354,802	237,472
Environmental and recreation.....	396,094	366,943	376,983	457,055
Communities and development.....	603,227	589,603	585,263	551,377
Health and human services including Elder affairs.....	5,196,735	4,839,472	4,639,823	4,516,606
Transportation and construction.....	1,546,362	1,558,462	2,037,485	1,753,244
Education.....	8,219,960	1,248,020	1,422,204	1,893,438
Public safety.....	1,520,338	1,412,580	1,289,341	959,425
Consumer, Labor and Economic Development.....	358,839	380,698	420,871	384,591
Lottery.....	3,692,520	3,606,608	3,470,046	3,453,858
<b>Total governmental activities.....</b>	<b>39,488,186</b>	<b>31,214,448</b>	<b>30,810,430</b>	<b>29,859,108</b>
<b>Business - type Activities:</b>				
Unemployment compensation.....	1,662,955	2,461,293	2,589,107	2,183,100
<b>Higher Education:</b>				
University of Massachusetts.....	1,977,546	1,597,676	1,531,381	1,437,518
State colleges.....	514,122	456,022	425,154	418,593
Community colleges.....	548,017	525,179	523,403	508,895
<b>Total business - type activities.....</b>	<b>4,702,640</b>	<b>5,040,170</b>	<b>5,069,045</b>	<b>4,548,107</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 44,190,826</b>	<b>\$ 36,254,618</b>	<b>\$ 35,879,475</b>	<b>\$ 34,407,214</b>
<b>REVENUES</b>				
<b>Program Revenues (all types consolidated):</b>				
<b>Governmental Activities:</b>				
Charges for services.....	\$ 8,040,263	\$ 7,739,588	\$ 6,652,039	\$ 6,473,988
Operating grants and contributions.....	7,961,904	8,017,469	7,129,712	7,078,110
Capital grants and contributions.....	461,371	602,449	508,235	338
<b>Total governmental activities.....</b>	<b>16,463,538</b>	<b>16,359,506</b>	<b>14,289,986</b>	<b>13,552,436</b>
<b>Business - type Activities:</b>				
Charges for services.....	3,253,584	2,692,468	1,943,194	877,389
Operating grants and contributions.....	854,653	1,376,666	1,249,768	869,848
Capital grants and contributions.....	-	-	-	77,161
<b>Total business - type activities.....</b>	<b>4,108,237</b>	<b>4,069,134</b>	<b>3,192,962</b>	<b>1,824,398</b>
<b>Total Commonwealth Program Revenues.....</b>	<b>\$ 20,571,775</b>	<b>\$ 20,428,640</b>	<b>\$ 17,482,948</b>	<b>\$ 15,376,834</b>
<b>General Revenues and Other Changes in Net Assets (all types consolidated):</b>				
<b>Governmental Activities:</b>				
Taxes (all types).....	\$ 17,580,271	\$ 16,406,781	\$ 15,161,687	\$ 14,688,596
Investment earnings and miscellaneous.....	1,168,540	1,042,704	1,179,686	(367,695)
Transfers.....	(926,715)	(830,453)	(950,217)	(1,018,603)
<b>Total governmental activities.....</b>	<b>17,822,096</b>	<b>16,619,033</b>	<b>15,391,157</b>	<b>13,302,298</b>
<b>Business - type Activities:</b>				
Investment earnings and miscellaneous.....	228,643	181,719	207,296	965,901
Transfers.....	926,715	830,453	950,217	1,018,603
<b>Total business - type activities.....</b>	<b>1,155,358</b>	<b>1,012,172</b>	<b>1,157,513</b>	<b>1,984,504</b>
<b>Total Commonwealth General Revenues.....</b>	<b>\$ 18,977,454</b>	<b>\$ 17,631,205</b>	<b>\$ 16,548,670</b>	<b>\$ 15,286,802</b>
<b>CHANGES IN NET ASSETS</b>				
<b>Governmental activities.....</b>	<b>\$ (5,202,551)</b>	<b>\$ 1,764,090</b>	<b>\$ (1,129,287)</b>	<b>\$ (3,004,374)</b>
<b>Business - type activities.....</b>	<b>560,955</b>	<b>41,136</b>	<b>(718,570)</b>	<b>(739,205)</b>
<b>Total Commonwealth.....</b>	<b>\$ (4,641,596)</b>	<b>\$ 1,805,226</b>	<b>\$ (1,847,857)</b>	<b>\$ (3,743,578)</b>

**Fund Balances, Governmental Funds  
Last Four Fiscal Years**

*(Modified accrual basis of accounting)*

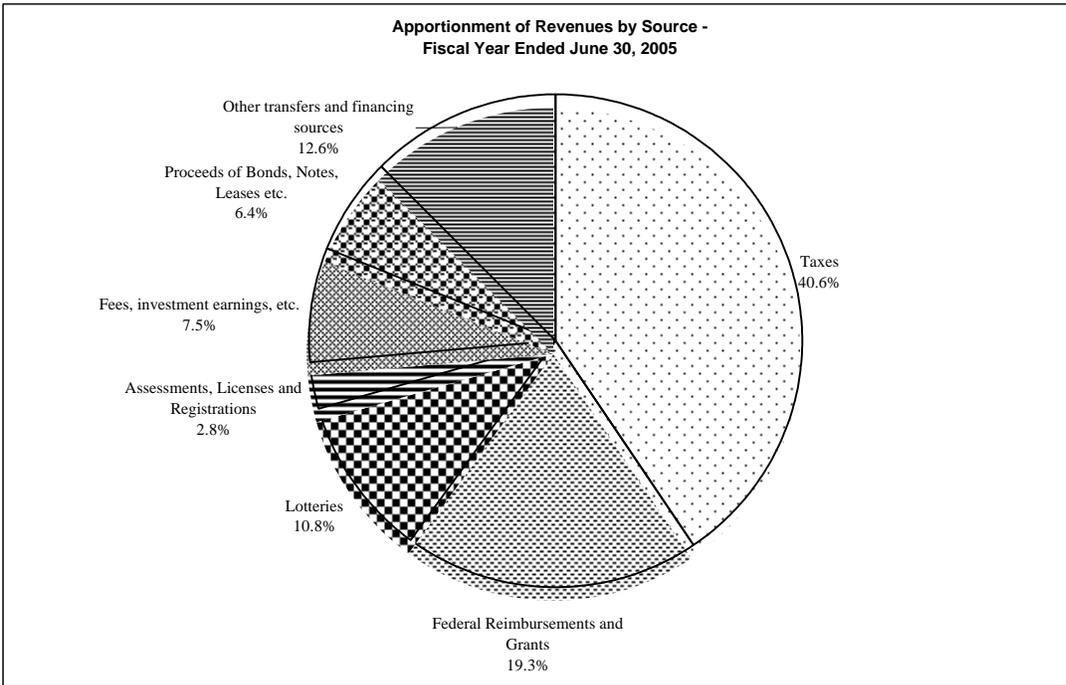
(Amounts in thousands)

	2005	2004	2003	2002
<b>General Fund</b>				
Reserved.....	\$ 2,337,535	\$ 1,482,978	\$ 690,727	\$ 967,724
Unreserved.....	1,730,350	1,014,469	619,190	1,407,669
<b>Total general fund.....</b>	<b>4,067,885</b>	<b>2,497,447</b>	<b>1,309,917</b>	<b>2,375,393</b>
<b>All Other Governmental Funds</b>				
Reserved.....	1,154,807	1,947,897	1,474,983	1,726,590
Unreserved.....	(174,126)	(20,938)	(763,882)	(1,634,130)
<b>Total all other governmental funds.....</b>	<b>980,681</b>	<b>1,926,959</b>	<b>711,101</b>	<b>92,460</b>
<b>Total governmental fund balances.....</b>	<b>\$ 5,048,566</b>	<b>\$ 4,424,406</b>	<b>\$ 2,021,018</b>	<b>\$ 2,467,853</b>

**Ten-Year Schedule Of Revenues And Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2005	% Total	2004	% Total	2003	% Total	2002	% Total
Taxes.....	\$ 17,671	40.6	\$ 16,133	36.4	\$ 15,091	35.3	\$ 14,428	39.6
Federal reimbursements.....	6,053	13.9	6,284	14.2	5,522	12.9	5,267	14.4
Federal grants.....	2,369	5.4	2,336	5.3	2,112	4.9	1,812	5.0
Lotteries.....	4,705	10.8	4,605	10.4	4,423	10.3	4,425	12.1
Assessments.....	831	1.9	773	1.7	645	1.5	572	1.6
Motor vehicle licenses and registrations.....	401	0.9	376	0.8	383	0.9	326	0.9
Fees, investment earnings, etc.....	3,213	7.5	3,028	6.8	2,331	5.4	2,178	6.0
Proceeds of general obligation bonds.....	1,354	3.1	1,993	4.5	1,911	4.5	1,489	4.1
Proceeds of special obligation bonds.....	-	-	-	-	-	-	12	-
Proceeds of grant anticipation notes.....	-	-	-	-	-	-	-	-
Proceeds of refunding bonds.....	1,385	3.2	3,302	7.4	3,398	7.9	1,501	4.1
Proceeds of capital lease.....	58	0.1	11	0.0	-	-	10	-
Operating transfers.....	5,493	12.6	5,531	12.5	6,981	16.3	4,454	12.2
Other financing sources.....	-	-	-	-	-	-	3	-
<b>Total revenues and other financing sources.....</b>	<b>\$ 43,533</b>	<b>100.0</b>	<b>\$ 44,372</b>	<b>100.0</b>	<b>\$ 42,796</b>	<b>100.0</b>	<b>\$ 36,477</b>	<b>100.0</b>

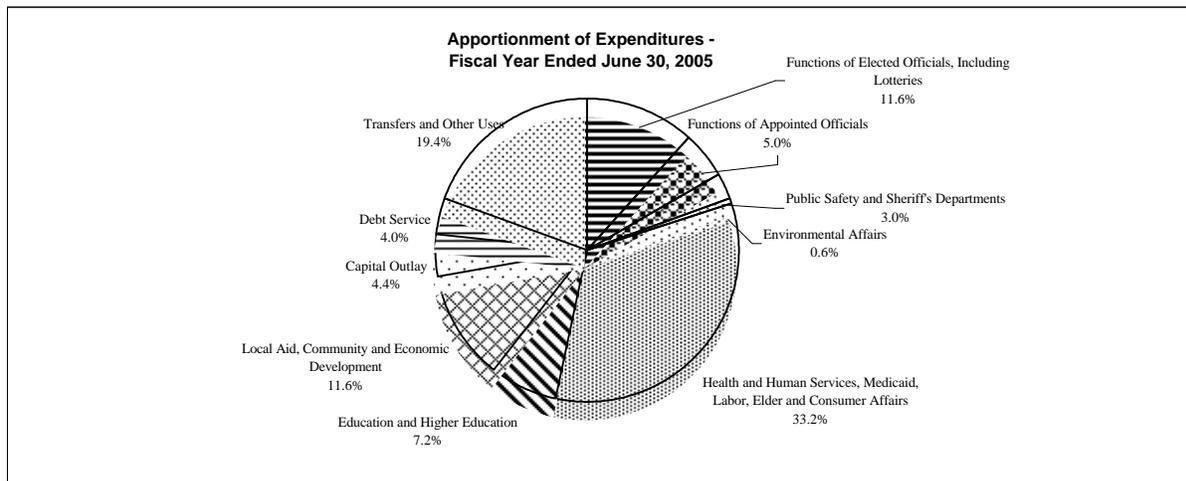


	2001	% Total	2000	% Total	1999	% Total	1998	% Total	1997	% Total	1996	% Total
\$	16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0	\$ 14,033	44.9	\$ 13,030	47.7	\$ 11,926	47.5
	4,716	12.0	4,496	11.8	4,213	12.7	4,385	14.0	4,124	15.1	3,861	15.4
	1,644	4.2	1,565	4.1	1,456	4.4	1,470	4.7	1,457	5.3	1,482	5.9
	4,136	10.5	3,914	10.3	3,570	10.7	3,392	10.9	3,375	12.3	3,201	12.8
	590	1.5	462	1.2	546	1.6	514	1.6	552	2.0	595	2.4
	311	0.8	285	0.7	281	0.8	295	0.9	295	1.1	263	1.0
	1,885	4.8	1,776	4.7	1,433	4.3	1,394	4.5	930	3.4	1,110	4.4
	1,769	4.5	1,762	4.6	1,015	3.0	1,347	4.3	899	3.3	940	3.7
	-	-	-	-	-	-	100	0.3	-	-	147	0.6
	600	1.5	602	1.6	319	1.0	-	-	-	-	-	-
	999	2.5	-	-	499	1.5	862	2.8	723	2.6	-	-
	31	0.1	9	0.0	9	0.1	15	0.1	62	0.2	26	0.1
	5,566	14.2	7,502	19.7	4,555	13.7	3,338	10.7	1,920	7.0	1,551	6.2
	206	0.5	106	0.3	1,056	3.2	104	0.3	6	-	-	-
\$	39,256	100.0	\$ 38,174	100.0	\$ 33,273	100.0	\$ 31,249	100.0	\$ 27,373	100.0	\$ 25,102	100.0

**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)

	2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total
Legislature.....	\$ 50	0.1	\$ 51	0.1	\$ 53	0.1	\$ 60	0.2	\$ 57	0.2
Judiciary.....	580	1.4	577	1.4	568	1.3	593	1.5	597	1.6
Inspector General.....	3	0.0	2	0.0	2	-	2	-	2	-
Governor and Lieutenant Governor.....	5	0.0	5	0.0	5	-	6	-	6	-
Secretary of the Commonwealth.....	46	0.1	43	0.1	39	0.1	36	0.1	45	0.1
Treasurer and Receiver-General.....	4,706	11.0	4,535	10.8	4,446	10.3	3,558	9.2	3,335	8.8
Auditor of the Commonwealth.....	16	0.0	16	0.0	16	-	16	-	15	-
Attorney General.....	70	0.2	52	0.1	55	0.1	62	0.2	36	0.1
Ethics Commission.....	1	0.0	1	0.0	1	-	1	-	2	-
District Attorney.....	84	0.2	86	0.2	85	0.2	89	0.2	86	0.2
Office of Campaign and Political Finance.....	1	0.0	1	0.0	1	0.0	5	-	1	-
Sheriff's Department.....	216	0.5	218	0.5	215	0.5	216	0.6	201	0.5
Disabled Persons Protection Commission.....	2	0.0	2	0.0	2	0.0	2	-	2	-
Board of Library Commissioners.....	7	0.0	6	0.0	6	-	10	-	11	-
Comptroller.....	12	0.0	8	0.0	8	-	8	-	8	-
Administration and finance.....	1,536	3.6	1,508	3.6	1,202	2.8	1,361	3.5	1,202	3.3
Environmental affairs.....	238	0.6	225	0.5	236	0.5	268	0.7	253	0.7
Communities and development.....	483	1.1	470	1.1	476	1.1	449	1.2	442	1.2
Health and human services.....	7,602	17.7	6,832	16.3	5,962	13.8	6,104	15.7	5,622	15.0
Transportation and construction.....	316	0.7	189	0.5	218	0.5	139	0.4	162	0.4
Education.....	2,990	7.0	1,587	3.8	1,546	3.6	1,506	3.9	1,492	3.9
Educational affairs.....	-	-	-	-	-	-	-	-	-	-
Higher education.....	114	0.3	99	0.2	111	0.3	119	0.3	136	0.4
Public safety.....	1,053	2.5	1,039	2.5	991	2.3	999	2.6	955	2.5
Economic development.....	-	-	-	-	29	0.1	32	0.1	51	0.1
Elder affairs.....	-	-	-	-	315	0.7	304	0.8	241	0.6
Consumer affairs.....	346	0.8	376	0.9	55	0.1	63	0.2	71	0.2
Labor.....	-	-	-	-	330	0.8	284	0.7	172	0.5
Medicaid.....	6,312	14.7	5,945	14.2	5,542	12.8	5,261	13.6	4,761	12.6
Pension.....	439	1.0	212	0.5	290	0.7	238	0.6	318	0.8
Direct local aid.....	4,515	10.5	4,861	11.6	5,103	11.8	5,231	13.5	5,012	13.2
Capital outlay:	-	-	-	-	-	-	-	-	-	-
Local aid.....	11	0.0	16	0.0	15	0.0	21	0.1	34	0.1
Capital acquisition and construction.....	1,863	4.3	2,120	5.1	2,526	5.8	2,562	6.6	2,566	6.8
Debt service.....	1,719	4.0	1,605	3.8	1,467	3.4	1,382	3.6	1,408	3.7
Other financing uses:	-	-	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent.....	1,153	2.7	2,833	6.8	3,398	7.9	1,277	3.3	999	2.6
Transfers.....	6,419	15.0	6,448	15.4	7,931	18.3	6,551	16.9	7,526	19.9
Total expenditures and other financing uses.....	\$ 42,908	100.0	\$ 41,968	100.0	\$ 43,245	100.0	\$ 38,815	100.0	\$ 37,827	100.0



2000	% Total	1999	% Total	1998	% Total	1997	% Total	1996	% Total
\$ 51	0.1	\$ 51	0.2	\$ 51	0.2	\$ 49	0.2	\$ 49	0.2
544	1.4	511	1.6	470	1.5	433	1.6	404	1.7
2	-	2	-	2	-	2	-	2	-
6	-	5	-	5	-	5	-	5	-
42	0.1	33	0.1	23	0.1	17	0.1	15	0.1
3,483	9.2	2,783	8.6	2,649	8.7	2,711	10.0	2,576	10.5
15	-	14	-	14	-	12	-	13	-
34	0.1	49	0.2	41	0.1	5	-	29	0.1
1	-	1	-	1	-	1	-	1	-
77	0.2	72	0.2	68	0.2	62	0.2	55	0.2
1	-	1	-	1	-	1	-	1	-
178	0.5	134	0.4	40	0.1	-	-	-	-
2	-	2	-	2	-	1	-	1	-
10	-	10	-	9	-	6	-	4	-
8	-	8	-	7	-	7	-	7	-
1,192	3.1	1,056	3.3	1,058	3.5	937	3.5	943	3.9
241	0.6	232	0.7	216	0.7	196	0.7	205	0.8
405	1.1	356	1.1	351	1.2	344	1.3	347	1.4
5,324	14.0	5,160	15.9	5,058	16.6	4,507	16.7	4,606	18.8
228	0.6	137	0.4	117	0.4	151	0.6	155	0.6
1,353	3.6	1,263	3.9	1,153	3.8	1,026	3.8	958	3.9
-	-	-	-	-	-	-	-	14	0.1
111	0.3	97	0.3	82	0.3	90	0.3	80	0.3
879	2.3	860	2.6	853	2.8	860	3.2	841	3.4
38	0.1	57	0.2	31	0.1	33	0.1	111	0.5
217	0.6	197	0.6	179	0.6	174	0.6	155	0.6
70	0.2	68	0.2	57	0.2	37	0.1	35	0.1
188	0.5	166	0.5	186	0.6	189	0.7	121	0.5
4,381	11.5	3,829	11.8	3,638	12.0	3,497	13.0	3,241	13.3
398	1.0	324	1.0	414	1.4	413	1.5	382	1.6
4,717	12.4	4,405	13.6	4,047	13.3	3,677	13.6	3,351	13.7
47	0.1	73	0.2	102	0.3	181	0.7	116	0.5
2,469	6.5	2,602	8.0	2,532	8.3	2,051	7.6	1,673	6.8
1,237	3.3	1,212	3.7	1,215	4.0	1,278	4.7	1,192	4.9
-	-	499	1.5	862	2.8	723	2.7	-	-
10,073	26.5	6,193	19.1	4,883	16.1	3,311	12.3	2,753	11.3
<u>\$ 38,022</u>	<u>100.0</u>	<u>\$ 32,462</u>	<u>100.0</u>	<u>\$ 30,417</u>	<u>100.0</u>	<u>\$ 26,987</u>	<u>100.0</u>	<u>\$ 24,441</u>	<u>100.0</u>

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2004	2003	2002	2001
<b>Total personal income.....</b>	<b>\$ 270,145</b>	<b>\$ 253,528</b>	<b>\$ 249,889</b>	<b>\$ 249,243</b>
Farm earnings.....	115	111	97	107
Nonfarm earnings.....	218,260	203,659	199,402	201,162
<b>Private earnings.....</b>	<b>192,668</b>	<b>180,248</b>	<b>176,504</b>	<b>179,116</b>
Agricultural services, forestry, fishing.....	489	437	410	400
Mining.....	326	332	298	360
Construction.....	12,303	11,808	11,779	11,463
<b>Manufacturing.....</b>	<b>25,807</b>	<b>25,616</b>	<b>25,519</b>	<b>26,675</b>
Durable goods.....	18,614	18,192	18,346	19,685
Nondurable goods.....	7,193	7,424	7,173	6,989
Transportation and utilities.....	5,463	5,206	5,140	5,238
Wholesale trade.....	11,516	10,931	10,350	10,806
Retail trade.....	12,614	12,047	11,660	11,358
Services.....	124,152	113,871	111,346	112,815
<b>Government.....</b>	<b>25,592</b>	<b>23,411</b>	<b>22,898</b>	<b>22,046</b>
Federal, civilian.....	4,600	4,223	4,171	4,023
Military.....	931	661	597	562
State and local.....	20,061	18,527	18,130	17,461
Highest Income Tax Rate.....	5.3%	5.3%	5.3%	5.6%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue

2000	1999	1998	1997	1996	1995
\$ 240,209	\$ 216,221	\$ 203,987	\$ 189,885	\$ 178,797	\$ 168,623
116	106	107	169	169	148
195,723	175,021	161,510	149,449	140,371	132,142
<b>174,388</b>	<b>154,549</b>	<b>142,198</b>	<b>130,778</b>	<b>122,290</b>	<b>114,783</b>
960	871	769	711	643	600
141	136	110	93	75	75
10,097	8,886	7,839	6,889	6,252	5,810
<b>31,272</b>	<b>27,798</b>	<b>26,378</b>	<b>25,267</b>	<b>24,027</b>	<b>23,325</b>
21,622	18,777	17,749	17,033	16,202	15,715
9,649	9,021	8,629	8,234	7,825	7,611
9,506	8,542	7,952	7,491	7,346	7,057
13,411	12,378	11,031	9,957	9,329	8,771
15,308	14,231	13,397	12,393	12,040	11,324
93,694	81,706	74,721	67,976	62,580	57,821
<b>21,335</b>	<b>20,472</b>	<b>19,312</b>	<b>18,671</b>	<b>18,081</b>	<b>17,358</b>
3,894	3,766	3,545	3,547	3,463	3,438
556	534	532	543	575	607
16,885	16,172	15,235	14,582	14,043	13,313
5.85%	5.95%	5.95%	5.95%	5.95%	5.95%

**Commonwealth of Massachusetts  
Personal Income Tax Filers and Liability by Income Level  
Calendar (Tax) Years 2003 and 1994**

(Amounts, except income level are in thousands)

<b><u>Calendar Year 2003 (or Fiscal Year 2004)</u></b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	405,104	12%	\$ 4,416,981	55%
\$75,001 - \$100,000	266,179	8%	1,008,220	13%
\$50,001 - \$75,000	450,676	14%	1,164,688	14%
\$25,001 - \$50,000	807,287	25%	1,127,217	14%
\$10,001 - \$25,000	674,895	21%	317,698	4%
\$10,000 and lower	<u>681,768</u>	<u>21%</u>	<u>25,383</u>	<u>0%</u>
 Total	 <u>3,285,909</u>	 <u>100%</u>	 <u>\$ 8,060,187</u>	 <u>100%</u>

<b><u>Calendar Year 1994 (or Fiscal Year 1995)</u></b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	145,702	5%	\$ 1,859,871	34%
\$75,001 - \$100,000	144,394	5%	657,647	12%
\$50,001 - \$75,000	354,128	13%	1,096,024	20%
\$25,001 - \$50,000	748,402	26%	1,295,258	24%
\$10,001 - \$25,000	748,066	26%	500,032	9%
\$10,000 and lower	<u>686,178</u>	<u>24%</u>	<u>28,302</u>	<u>1%</u>
 Total	 <u>2,826,870</u>	 <u>100%</u>	 <u>\$ 5,437,134</u>	 <u>100%</u>

Source: Massachusetts Department of Revenue - data is from last closed tax years.

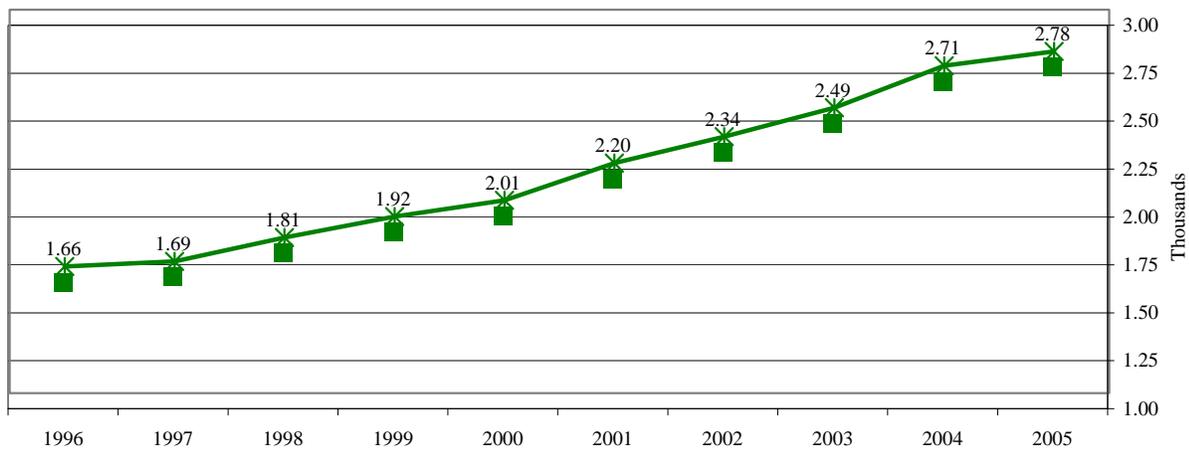
## Ten-Year Schedule Of Per Capita General Long-Term Bonded Debt

(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population <sup>(1)</sup>	Total long- term bonds and notes payable	Per capita long-term debt
2005	6,417	\$ 17,856,799	\$ 2.78
2004	6,420	17,382,172	2.71
2003	6,413	15,962,506	2.49
2002	6,395	14,955,135	2.34
2001	6,362	13,999,454	2.20
2000	6,175	12,383,101	2.01
1999	6,144	11,808,461	1.92
1998	6,115	11,078,603	1.81
1997	6,085	10,271,294	1.69
1996	6,062	10,065,578	1.66

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)*

**Per Capita Direct Commonwealth Debt 1996 - 2005**  
(thousands)



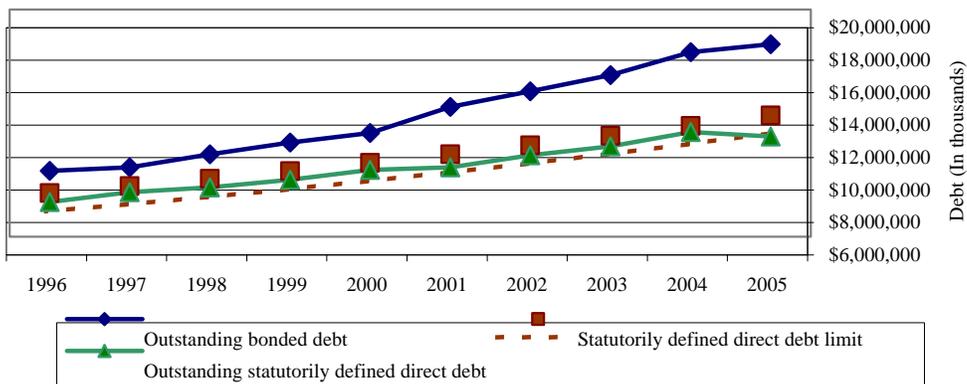
## Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2005	2004	2003	2002
Balance as of June 30.....	\$ 17,856,799	\$ 17,382,172	\$ 15,962,506	\$ 14,955,135
Less amounts excluded by statute:				
Central artery project bonds principal.....	(1,336,741)	(1,066,638)	(1,386,869)	(838,193)
Chapter 5 of the Acts of 1992 bonds principal.....	-	-	(10,600)	(22,043)
County debt assumed.....	(600)	(675)	(855)	(1,115)
Premium / (Discount) and issuance costs.....	70,937	1,120	(68,718)	(181,910)
Fiscal recovery bonds principal.....	-	-	-	-
Grant anticipation notes (GANs) principal (1).....	(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)
School Modernization and Reconstruction Trust bonds principal.....	(500,000)	-	-	-
Convention Center bonds principal.....	(693,400)	-	-	-
MBTA forward funding bonds principal.....	(511,546)	(601,027)	(680,869)	(625,000)
Special obligation bonds principal (1).....	(792,148)	(1,347,882)	(748,124)	(772,812)
Outstanding statutorily defined direct debt.....	\$ 12,185,286	\$ 12,459,055	\$ 11,566,472	\$ 11,014,062
Statutorily defined direct debt limit.....	\$ 13,463,535	\$ 12,822,414	\$ 12,211,823	\$ 11,630,307
Debt margin (Debt limit less direct debt).....	\$ 1,278,249	\$ 363,359	\$ 645,352	\$ 616,245
Debt margin as a percentage of direct debt limit.....	9.49%	2.83%	5.28%	5.30%

(1) Inclusive of Crossover Refunding Amounts

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
1996 - 2005**



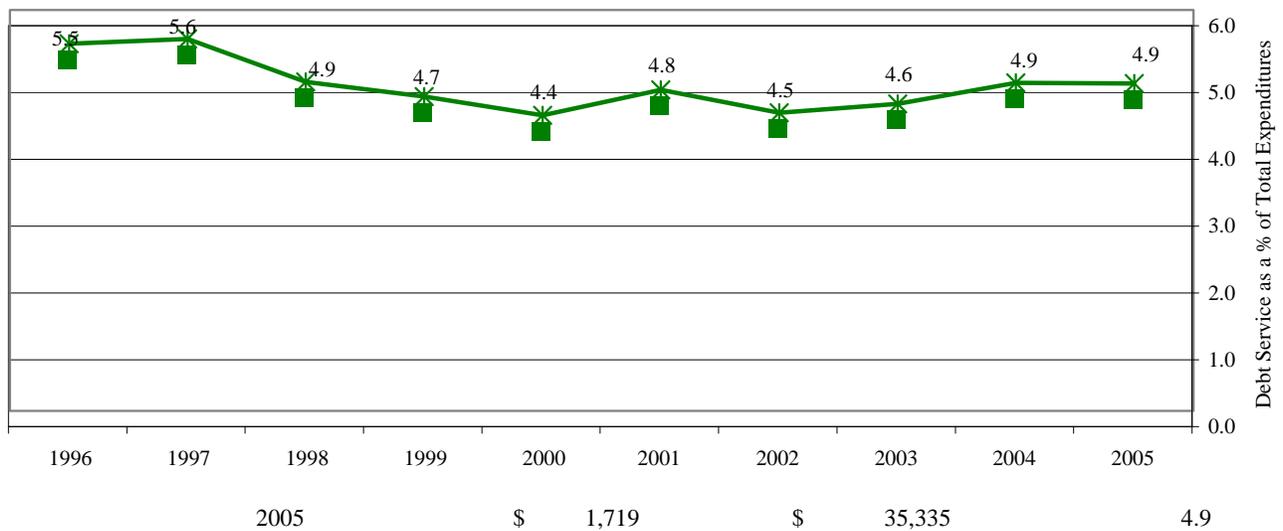
2001	2000	1999	1998	1997	1996
\$ 13,999,454	\$ 12,383,101	\$ 11,808,461	\$ 11,078,603	\$ 10,271,294	\$ 10,065,578
(999,995)	-	-	-	-	-
(71,054)	(114,761)	(130,069)	(144,509)	(144,509)	(229,665)
(1,375)	(2,105)	(2,345)	(1,525)	-	-
(282,829)	(358,938)	(677,326)	(702,014)	(735,393)	(811,978)
-	-	-	-	(126,470)	(356,850)
(1,500,000)	(899,991)	(899,991)	(580,557)	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(325,000)	(325,000)	-	-	-	-
(539,242)	(561,335)	(582,410)	(602,531)	(512,589)	(526,980)
<u>\$ 10,279,959</u>	<u>\$ 10,120,971</u>	<u>\$ 9,516,320</u>	<u>\$ 9,047,467</u>	<u>\$ 8,752,333</u>	<u>\$ 8,140,106</u>
<u>\$ 11,076,483</u>	<u>\$ 10,549,032</u>	<u>\$ 10,046,697</u>	<u>\$ 9,568,283</u>	<u>\$ 9,112,650</u>	<u>\$ 8,678,715</u>
<u>\$ 796,524</u>	<u>\$ 428,061</u>	<u>\$ 530,377</u>	<u>\$ 520,816</u>	<u>\$ 360,317</u>	<u>\$ 538,609</u>
<u>7.19%</u>	<u>4.06%</u>	<u>5.28%</u>	<u>5.44%</u>	<u>3.95%</u>	<u>6.21%</u>

**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures  
For General Bonded Debt To Total Expenditures - Fund Perspective  
All Governmental Fund Types**

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total expenditures	Ratio
2005	\$ 1,719	\$ 35,335	4.9
2004	1,605	32,687	4.9
2003	1,467	31,915	4.6
2002	1,382	30,987	4.5
2001	1,408	29,302	4.8
2000	1,237	27,949	4.4
1999	1,212	25,772	4.7
1998	1,215	24,672	4.9
1997	1,278	22,953	5.6
1996	1,192	21,688	5.5
1995	1,234	21,051	5.9

**Debt Service to Total Expenditures Ratio 1996 - 2005**



## Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

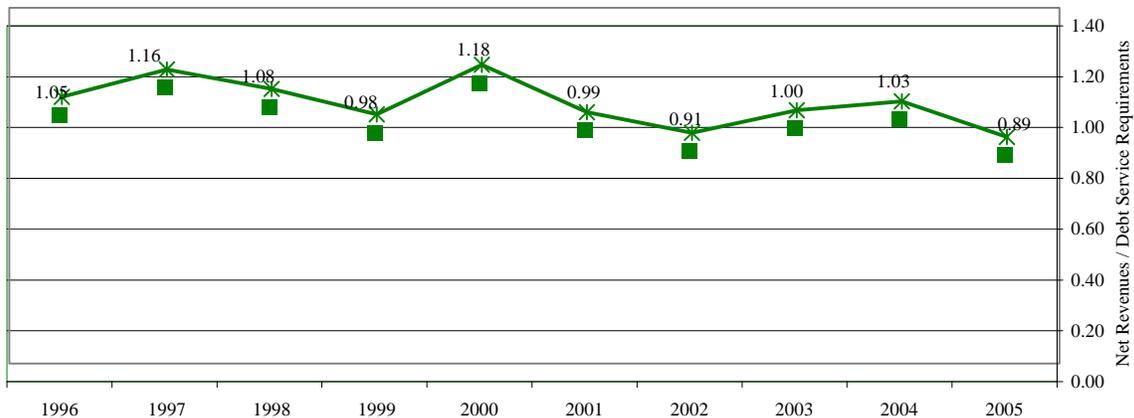
Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio
2005	\$ 648,282	\$ 727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08
1997	328,608	283,975	1.16
1996	288,599	275,068	1.05
1995	272,308	232,473	1.17

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 1996 - 2005



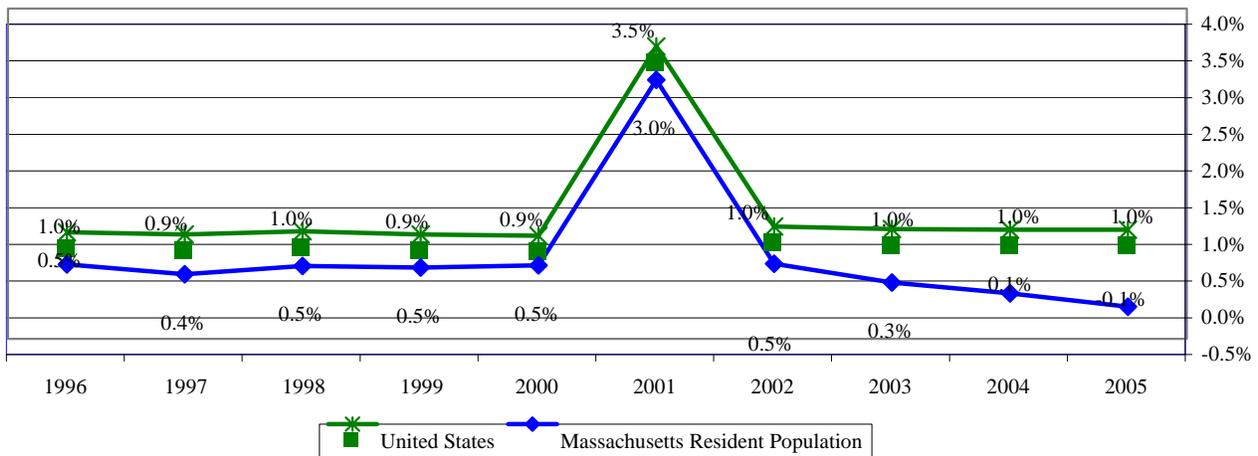
## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2005	293,655	1.0%	6,417	-0.1%	2.2%
2004	290,789	1.0%	6,420	0.1%	2.2%
2003	287,941	1.0%	6,413	0.3%	2.2%
2002	285,102	1.0%	6,395	0.5%	2.2%
2001	282,192	3.5%	6,362	3.0%	2.3%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%
1998	267,784	1.0%	6,115	0.5%	2.3%
1997	265,229	0.9%	6,085	0.4%	2.3%
1996	262,803	1.0%	6,062	0.5%	2.3%
1995	260,327	1.0%	6,031	0.3%	2.3%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.). FY01 reflects census 2000 data.

**Massachusetts and United States Estimated Year- to- Year Population Change  
1996 - 2005**

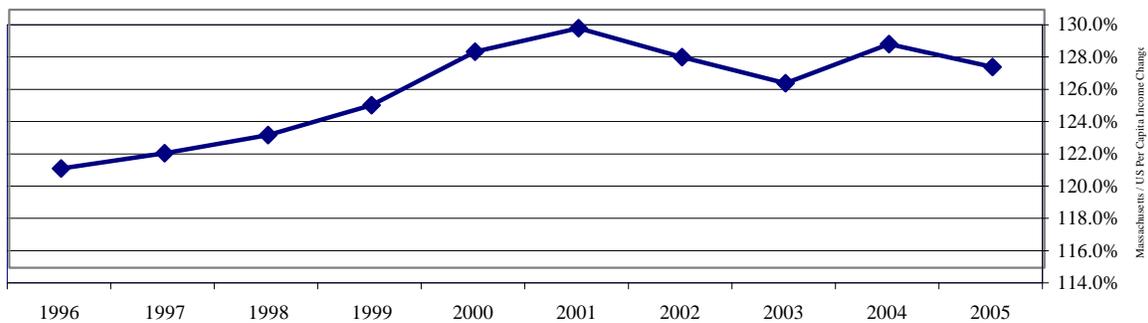


## Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2005	\$ 34,823	6.5%	\$ 44,035	5.3%	126.5%
2004	32,705	4.6%	41,820	6.6%	127.9%
2003	31,271	2.4%	39,226	1.1%	125.4%
2002	30,534	1.3%	38,795	-0.1%	127.1%
2001	30,129	2.7%	38,824	3.9%	128.9%
2000	29,341	3.8%	37,377	6.5%	127.4%
1999	28,278	3.5%	35,087	5.1%	124.1%
1998	27,322	5.6%	33,394	6.6%	122.2%
1997	25,874	5.0%	31,332	5.8%	121.1%
1996	24,651	4.6%	29,618	5.6%	120.1%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2005 of June 30, 2005. 2002 restated by BEA. (1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change  
1996 - 2005**



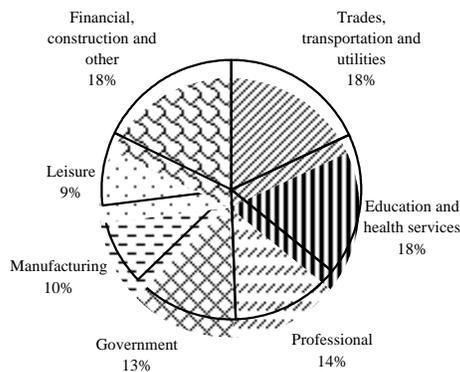
## Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2005

(Amounts in thousands)

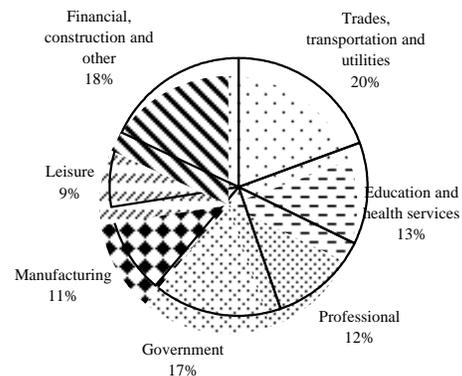
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	312	9.7%	14,270	10.7%	91.2%
Non-manufacturing:					
Construction	144	4.5%	7,237	5.4%	82.8%
Transportation, wholesale and retail trade, warehousing and public utilities	576	18.0%	25,834	19.3%	92.9%
Education and health services	586	18.3%	17,327	13.0%	140.9%
Financial activities	221	6.9%	8,202	6.1%	112.0%
Information activities	84	2.6%	3,152	2.4%	111.4%
Leisure and hospitality services	298	9.3%	12,742	9.5%	97.4%
Professional and business services	460	14.3%	16,909	12.7%	113.2%
Other services	116	3.6%	6,110	4.6%	79.3%
Federal, state and local government	409	12.8%	21,754	16.3%	78.3%
<b>Total Non-manufacturing</b>	<b><u>2,893</u></b>	<b><u>90.3%</u></b>	<b><u>119,267</u></b>	<b><u>89.3%</u></b>	<b><u>101.1%</u></b>
<b>Total</b>	<b><u>3,206</u></b>	<b><u>100.0%</u></b>	<b><u>133,537</u></b>	<b><u>100.0%</u></b>	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, August 2005 for June 2005.

**Massachusetts Employment by Industry  
June 2005**



**United States Employment by Industry  
June 2005**



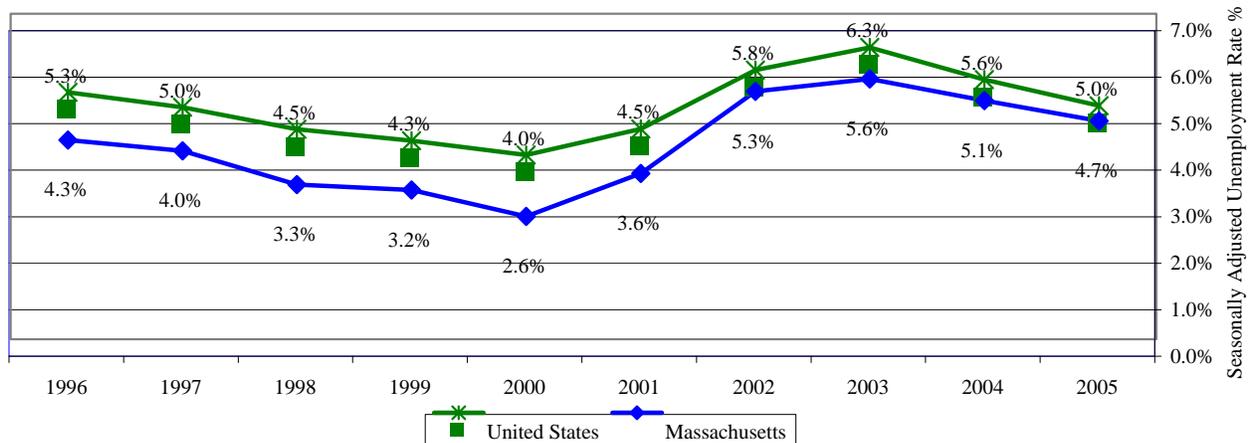
## Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2005	3,367	158	4.7%	149,123	7,486	5.0%	93.6%
2004	3,394	174	5.1%	147,386	8,228	5.6%	92.0%
2003	3,447	193	5.6%	147,003	9,228	6.3%	89.2%
2002	3,488	186	5.3%	144,802	8,379	5.8%	92.1%
2001	3,389	121	3.6%	143,361	6,480	4.5%	78.9%
2000	3,313	87	2.6%	142,591	5,651	4.0%	66.6%
1999	3,286	105	3.2%	139,329	5,951	4.3%	75.1%
1998	3,271	109	3.3%	137,455	6,212	4.5%	73.7%
1997	3,268	132	4.0%	136,211	6,799	5.0%	81.1%
1996	3,167	136	4.3%	133,697	7,095	5.3%	80.7%

Source: - Federal Bureau of Labor Statistics, September 2005. Amounts and rates previous from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.

**Massachusetts and United States Unemployment Rates  
Seasonally Adjusted June 1996 - June 2005**



**Largest Private Sector Massachusetts Employers**  
(Alphabetical Order)

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>
Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital
Big Y Foods, Inc.	Springfield	Supermarket
Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals
Friendly Ice Cream Corporation	Wilbraham	Restaurants
General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University
New England Medical Center	Boston	Hospital
President and Fellows of Harvard College	Boston	University
Raytheon Company	Lexington	Electronics / Defense
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University
UMASS Memorial Medical Center, Inc.	Worcester	Hospital
Verizon New England, Inc.	Boston	Telecommunications

*Sources: - Massachusetts Department of Employment and Training - March 2005 survey. In addition, Home Depot USA, Inc., S&S Credit Company, Inc., The May Department Stores Company, 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. May Department Stores Company announced plans to merge with Federated Department Stores, Inc., during 2005.*

## Standard and Poors 500 Companies Headquartered in Massachusetts

Company	Stock		Product or Service	Worldwide Employees	Latest Audited Revenues (\$Millions)	Fortune 500 Rank	
	Symbol	Headquarters				2005	2004
Raytheon Company (New)	RTN	Lexington	Aerospace & Defense	79,400	\$ 20,245	103	107
TJX Companies Inc.	TJX	Framingham	Apparel Retail	113,000	14,914	103	148
Staples Inc.	SPLS	Framingham	Specialty Stores	65,078	14,448	146	152
Gillette Co. <sup>(1)</sup>	G	Boston	Personal Products	28,700	10,477	215	215
EMC Corporation	EMC	Hopkinton	Computer Storage & Peripherals	22,700	8,230	266	299
State Street Bank and Trust Company	STT	Boston	Diversified Financial Services	19,668	5,861	341	330
Boston Scientific	BSX	Natick	Health Care Equipment	17,500	5,624	352	478
Reebok International	RBK	Canton	Footwear	9,102	3,785	483	477
Thermo Electron	ADI	Norwood	Semiconductors	8,900	2,634	-	-
Analog Devices	TMO	Waltham	Electronic Equipment & Instruments	9,900	2,325	-	-
PerkinElmer, Inc.	BIIB	Cambridge	Biotechnology	4,266	2,212	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	6,200	1,792	-	-
Waters Corporation	PKI	Wellesley	Electronic Equipment & Instruments	10,000	1,691	-	-
Millipore Corp.	WAT	Milford	Electronic Equipment & Instruments	4,199	1,105	-	-
Biogen IDEC Inc.	MIL	Bedford	Electronic Equipment & Instruments	4,500	883	-	-
Parametric Technology	PMTC	Needham	Application Software	3,042	660	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , the Boston Globe (May 17,2005 section F) and Fortune Magazine (from fortune.com). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club are part of the Fortune 500, but are not part of the Standard & Poors 500.

(1) Gillette Co. was merged with Proctor and Gamble in July 2005. Therefore, the company will not be listed in FY2006.

**Full Time Equivalent Employees  
By Function / Program  
Last Ten Years**

Functions / Programs	2005	2004	2003	2002
General Government.....	5,750	5,449	5,644	5,724
Judiciary.....	7,467	7,099	7,198	7,393
Environmental and recreation.....	2,744	2,612	2,814	2,949
Health and human services.....	22,855	22,229	23,087	23,269
Transportation and construction....	2,759	1,794	1,843	1,820
Education.....	587	569	579	545
Public safety.....	13,152	13,578	13,964	14,446
Consumer.....	2,299	2,300	2,322	2,382
Higher Education:				
University of Massachusetts.....	12,807	12,356	12,513	11,821
State colleges.....	4,224	3,914	3,957	3,812
Community colleges.....	4,523	4,219	4,408	4,340
<b>Totals.....</b>	<b>79,167</b>	<b>76,120</b>	<b>78,328</b>	<b>78,501</b>
<b>Percentage Change .....</b>	<b>4%</b>	<b>-3%</b>	<b>0%</b>	<b>-6%</b>

Source: Office of the State Comptroller, FY 2001 to FY 2005, University of Massachusetts reported by the University.

"Education" includes the Board of Higher Education. For FY2005, Transportation and Construction includes the Registry of Motor Vehicles (formerly Public Safety.) Measurement date is the closest pay period end to June 30. FTE's are rounded. Higher education FTE's exclude part time contractors paid from campus - based systems.

2001	2000	1999	1998	1997	1996	Change - 2005 from 1996
6,261	6,286	6,034	5,853	5,758	5,442	6%
8,159	8,054	7,836	7,313	6,790	6,305	18%
3,161	3,147	3,100	3,001	2,986	2,961	-7%
25,143	25,215	24,899	24,817	24,818	25,057	-9%
2,094	2,171	2,223	2,283	2,279	2,350	17%
530	516	491	471	442	488	20%
14,752	14,430	13,703	11,784	10,835	10,712	23%
2,468	2,504	2,506	2,504	2,583	2,663	-14%
12,572	12,010	12,467	13,996	13,687	13,308	-4%
4,026	3,981	3,914	3,883	3,824	3,737	13%
4,720	4,580	4,470	4,268	4,102	4,005	13%
<b>83,886</b>	<b>82,894</b>	<b>81,642</b>	<b>80,172</b>	<b>78,104</b>	<b>77,028</b>	<b>3%</b>
<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>	<b>1%</b>		

**Massachusetts Road Inventory  
Calendar Year End, Lane Miles by Type  
Last Nine Calendar Years**

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%
1999	3,182	13,509	10,935	42,207	69,833	0.20%	68.7%	31.3%
1998	3,173	13,536	10,935	42,049	69,694	0.75%	68.8%	31.2%
1997	3,173	13,515	10,929	41,560	69,178	1.02%	68.7%	31.3%
1996	3,172	13,495	10,941	40,874	68,481	-	68.7%	31.3%

*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports. Exclusive of shoulders. 2003 was not updated from 2002. 2005's annual survey is expected to be released in January 2006. 1995 and before is unavailable, but is not expected to be materially different from 1996 and forward.*

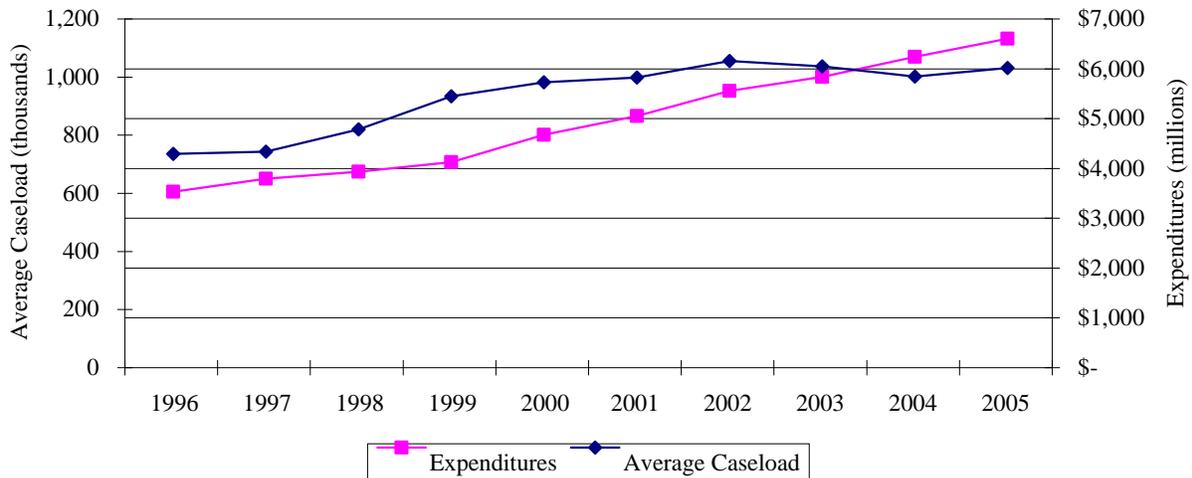
## Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective - Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2005	981	\$ 6,312	\$ 6,434
2004	952	5,946	6,246
2003	987	5,542	5,617
2002	1,005	5,261	5,236
2001	948	4,761	5,020
2000	931	4,381	4,703
1999	883	3,829	4,336
1998	770	3,638	4,728
1997	693	3,497	5,050
1996	685	3,241	4,728

Source: Executive Office for Health and Human Services.

### Average Annual Caseload and Medicaid Expenditures 1996 - 2005



**Massachusetts Real Property Owned and Leased  
Annual Inventory, Acreage, Improvements and Square Footage  
Last Ten Years**

Functions / Programs	Survey Year 2005	Survey Year 2004	Survey Year 2003	Survey Year 2002	Survey Year 2001
<b>General Government:</b>					
Total Acreage	2,772	2,486	3,137	3,750	4,142
Number of Improvements	300	306	263	352	469
Gross square footage	8,429,827	8,315,791	8,428,905	10,124,543	12,346,526
<b>Judiciary:</b>					
Total Acreage	117	114	113	113	113
Number of Improvements	68	68	68	68	62
Gross square footage	4,884,206	4,884,206	4,952,821	4,887,321	4,582,299
<b>Environmental and recreation:</b>					
Total Acreage	558,347	552,857	539,437	511,732	494,093
Number of Improvements	2,168	1,916	1,903	2,042	1,727
Gross square footage	7,039,038	6,677,076	6,601,985	6,965,507	7,101,935
<b>Economic development:</b>					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	5
Gross square footage	76,812	76,812	76,812	76,812	47,500
<b>Health and Human Services:</b>					
Total Acreage	7,311	7,284	7,561	7,784	7,779
Number of Improvements	992	997	1,068	1,110	854
Gross square footage	12,251,382	12,493,551	13,339,508	13,669,358	12,446,222
<b>Transportation and construction:</b>					
Total Acreage	7,175	7,513	7,736	7,484	7,562
Number of Improvements	908	909	909	965	1,019
Gross square footage	4,812,965	4,821,599	4,823,279	4,954,627	4,989,788
<b>Education:</b>					
Total Acreage	233	234	233	-	-
Number of Improvements	43	44	43	-	-
Gross square footage	272,352	272,352	272,352	-	-
<b>Public Safety:</b>					
Total Acreage	17,515	17,454	17,485	17,391	17,366
Number of Improvements	1,038	1,037	1,069	1,113	584
Gross square footage	13,137,177	13,131,414	13,563,676	13,630,934	7,876,300
<b>Higher Education:</b>					
Total Acreage	7,138	7,163	7,169	7,353	6,929
Number of Improvements	941	939	935	990	721
Gross square footage	30,997,427	30,728,820	30,267,370	30,975,993	26,420,404
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage</b>	<b>600,609</b>	<b>595,107</b>	<b>582,873</b>	<b>555,609</b>	<b>537,985</b>
<b>Number of Improvements</b>	<b>6,464</b>	<b>6,222</b>	<b>6,264</b>	<b>6,646</b>	<b>5,441</b>
<b>Gross square footage</b>	<b>81,901,186</b>	<b>81,401,621</b>	<b>82,326,708</b>	<b>85,285,095</b>	<b>75,810,974</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage</b>	<b>0.9%</b>	<b>2.1%</b>	<b>4.9%</b>	<b>3.3%</b>	<b>2.2%</b>
<b>Improvements</b>	<b>3.9%</b>	<b>-0.7%</b>	<b>-5.7%</b>	<b>22.1%</b>	<b>0.2%</b>
<b>Gross square footage</b>	<b>0.6%</b>	<b>-1.1%</b>	<b>-3.5%</b>	<b>12.5%</b>	<b>-2.7%</b>

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due

Survey Year 2000	Survey Year 1999	Survey Year 1998	Survey Year 1997	Survey Year 1996
3,476	3,289	3,860	3,874	3,151
395	387	459	458	359
8,802,821	7,998,555	10,295,460	10,226,361	8,169,955
109	76	69	40	40
57	57	38	35	25
4,082,355	4,178,621	2,579,591	2,366,581	1,483,048
482,854	472,313	455,770	449,005	423,514
1,713	1,723	1,728	1,719	1,709
6,933,956	6,937,756	6,932,602	6,905,230	6,805,183
1	1	1	1	1
6	6	6	6	6
57,500	57,500	57,500	57,500	57,500
8,028	8,017	7,995	8,286	9,067
877	877	872	872	966
12,839,042	12,839,042	12,780,974	12,785,089	13,202,838
7,603	7,630	7,531	7,503	8,629
1,026	1,026	1,026	1,024	1,041
5,149,089	5,149,089	5,148,489	5,148,489	6,579,598
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
17,371	17,171	17,143	17,305	17,337
598	579	655	640	614
11,165,654	7,811,970	8,108,448	7,807,787	7,753,546
6,920	6,871	6,855	6,805	6,805
759	754	754	747	748
28,923,271	28,881,383	28,881,383	28,592,524	28,485,083
<b>526,363</b>	<b>515,368</b>	<b>499,226</b>	<b>492,820</b>	<b>468,545</b>
<b>5,431</b>	<b>5,409</b>	<b>5,538</b>	<b>5,501</b>	<b>5,468</b>
<b>77,953,688</b>	<b>73,853,916</b>	<b>74,784,447</b>	<b>73,889,561</b>	<b>72,536,751</b>
<b>2.1%</b>	<b>3.2%</b>	<b>1.3%</b>	<b>5.2%</b>	<b>0.8%</b>
<b>0.4%</b>	<b>-2.3%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>-4.0%</b>
<b>5.6%</b>	<b>-1.2%</b>	<b>1.2%</b>	<b>1.9%</b>	<b>-2.0%</b>

to the absorption of county properties.

**Massachusetts Public Higher Education  
Enrollment and Degrees Conferred  
Last Eight Academic Years (Enrollment), Last Ten Years (Degrees)**

Academic Year	Fall 2004	Fall 2003	Fall 2002	Fall 2001	Fall 2000
<b><u>ENROLLMENT</u></b>					
<b><u>University System</u></b>					
Undergraduate.....	37,598	37,904	37,762	37,961	37,101
Graduate.....	8,494	8,494	8,334	8,223	8,139
<b>System Enrollment.....</b>	<b>46,093</b>	<b>46,398</b>	<b>46,097</b>	<b>46,184</b>	<b>45,240</b>
<b><u>State College System</u></b>					
Undergraduate.....	29,267	28,634	28,172	27,451	26,791
Graduate.....	4,325	4,236	4,056	3,709	3,860
<b>System Enrollment.....</b>	<b>33,592</b>	<b>32,869</b>	<b>32,229</b>	<b>31,160</b>	<b>30,651</b>
<b><u>Community College System</u></b>					
Undergraduate.....	48,894	49,060	47,936	46,260	44,098
<b>Total All Systems - Enrollment...</b>	<b>128,579</b>	<b>128,327</b>	<b>126,262</b>	<b>123,604</b>	<b>119,988</b>
	2005	2004	2003	2002	2001
<b><u>DEGREES CONFERRED</u></b>					
<b><u>University System</u></b>					
Certificates.....	167	150	146	196	151
Associate's.....	95	119	106	111	110
Bachelors.....	8,205	7,764	7,645	7,525	7,489
Masters.....	2,588	2,467	2,311	2,165	2,332
Doctoral.....	389	407	322	358	337
<b>Total Degrees.....</b>	<b>11,444</b>	<b>10,907</b>	<b>10,530</b>	<b>10,355</b>	<b>10,419</b>
<b><u>State College System</u></b>					
Certificates.....	540	490	535	313	251
Bachelors.....	5,549	5,525	5,545	5,096	5,166
Masters.....	2,048	2,157	2,053	1,881	1,659
<b>Total Degrees.....</b>	<b>8,137</b>	<b>8,172</b>	<b>8,133</b>	<b>7,290</b>	<b>7,076</b>
<b><u>Community College System</u></b>					
Certificates.....	2,278	2,281	1,947	1,930	1,941
Associate's.....	7,993	7,670	7,184	6,939	6,958
<b>Total Degrees.....</b>	<b>10,271</b>	<b>9,951</b>	<b>9,131</b>	<b>8,869</b>	<b>8,899</b>
<b>Total All Systems - Degrees.....</b>	<b>29,852</b>	<b>29,030</b>	<b>27,794</b>	<b>26,514</b>	<b>26,394</b>

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

<u>Fall 1999</u>	<u>Fall 1998</u>	<u>Fall 1997</u>	<u>Change - 2004 from 1997</u>		
37,093	35,759	35,605	5.6%		
<u>8,405</u>	<u>8,562</u>	<u>8,490</u>	<u>0.1%</u>		
<b>45,498</b>	<b>44,321</b>	<b>44,095</b>	<b>4.5%</b>		
27,058	28,157	28,329	3.3%		
<u>3,415</u>	<u>3,516</u>	<u>2,934</u>	<u>47.4%</u>		
<b>30,473</b>	<b>31,672</b>	<b>31,264</b>	<b>7.4%</b>		
43,094	41,490	38,441	27.2%		
<b>119,065</b>	<b>117,484</b>	<b>113,799</b>	<b>13.0%</b>		
<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>Change - 2005 from 1996</u>
220	182	212	208	146	14.4%
124	109	151	153	136	-30.1%
7,371	6,860	7,353	7,128	7,098	15.6%
2,368	2,180	2,277	2,358	2,033	27.3%
<u>349</u>	<u>333</u>	<u>366</u>	<u>357</u>	<u>432</u>	<u>-10.0%</u>
<b>10,432</b>	<b>9,664</b>	<b>10,359</b>	<b>10,204</b>	<b>9,845</b>	<b>16.2%</b>
356	302	278	274	183	195.1%
5,374	5,298	5,285	5,175	5,225	6.2%
<u>1,593</u>	<u>1,529</u>	<u>1,430</u>	<u>1,181</u>	<u>1,082</u>	<u>89.3%</u>
<b>7,323</b>	<b>7,129</b>	<b>6,993</b>	<b>6,630</b>	<b>6,490</b>	<b>25.4%</b>
1,764	1,819	1,841	1,635	1,490	52.9%
<u>6,914</u>	<u>6,762</u>	<u>6,949</u>	<u>7,055</u>	<u>7,278</u>	<u>9.8%</u>
<b>8,678</b>	<b>8,581</b>	<b>8,790</b>	<b>8,690</b>	<b>8,768</b>	<b>17.1%</b>
<b>26,433</b>	<b>25,374</b>	<b>26,142</b>	<b>25,524</b>	<b>25,103</b>	<b>18.9%</b>

## Calculation of Transfers: Stabilization Fund

June 30, 2005  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 106 of the Acts of 2005 which superceded certain parts of the 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.

<b>Part 1:</b> Undesignated fund balance / (deficit) in the operating Funds, unless specifically exempted by General Laws:	
General Fund .....	\$ 2,258,719
Highway Fund .....	(850,568)
Workforce Training Fund .....	(4,936)
Division of Energy Resources Credit Trust Fund .....	-
Massachusetts Tourism Fund .....	10,455
Children's and Seniors' Health Care Assistance Fund .....	(245,914)
<u>Consolidated undesignated fund balance / (deficit) in the operating Funds.....</u>	<u>1,167,756</u>
Less: Amount carried forward to fiscal year 2006 - 0.5% of FY2005 total tax revenue per Schedule A.....	85,959
Less: Amount to be deposited in the Stabilization Fund -0.5% of FY2005 total tax revenue per Schedule A...	85,959
<b>Net consolidated net surplus / (deficit) to be deposited into the Stabilization Fund per Chapter 26 of the Acts of 2003, Section 164 .....</b>	<b><u>\$ 995,838</u></b>
<b>Part 2:</b> Transfers to the Stabilization Fund per Section 18 of Chapter 106 of the Acts of 2005:	
From the General Fund .....	\$ 680,545
From the Highway Fund .....	-
From the Workforce Training Fund .....	-
From the Federal Medicaid Assistance Percentage Escrow Fund .....	-
From the Division of Energy Resources Credit Trust Fund .....	-
From the Massachusetts Tourism Fund .....	10,455
From the Children's and Seniors' Health Care Assistance Fund .....	-
<u>Total transfers to the Stabilization Fund .....</u>	<u>\$ 691,000</u>
<b>Part 3:</b> Status of consolidated net surplus after Stabilization Fund transfers - Undesignated Fund Balance / (deficit):	
General Fund .....	\$ 1,406,256
Highway Fund .....	(850,568)
Workforce Training Fund .....	(4,936)
Federal Medicaid Assistance Percentage Escrow Fund .....	-
Division of Energy Resources Credit Trust Fund .....	-
Massachusetts Tourism Fund .....	-
Children's and Seniors' Health Care Assistance Fund .....	-
<u>Consolidated net surplus after the annual transfer.....</u>	<u>\$ 304,838</u>
<b>Part 4:</b> Transfer to Transitional Escrow Fund:	
Excess to be transferred from the remaining consolidated net surplus.....	<u>\$ 304,838</u>
<b>Part 5:</b> Fiscal 2005 Stabilization Fund activity:	
Reserved for Stabilization - Balance as of June 30, 2004 .....	\$ 1,137,320
Consolidated net surplus pursuant to Part 2, above.....	691,000
Plus: Interest income, certain tax revenues and recoveries .....	21,356
Plus: 0.5% of FY2005 total tax revenue per Part 1, above .....	85,959
<u>Subtotal .....</u>	<u>1,935,635</u>
Add: Temporary Holding Fund transfer.....	\$ 135,991
Less: Transfers to the General Fund.....	(343,271)
<u>Subtotal, transfers and appropriations from the Stabilization Fund.....</u>	<u>(207,280)</u>
Net transfers and appropriations from the Stabilization Fund during FY 2005.....	<u>(207,280)</u>
<b>Reserved for Stabilization Fund - balance as of June 30, 2005 .....</b>	<b><u>\$ 1,728,355</u></b>

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2005  
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 1,728,355
Allowable Stabilization Fund balance (per Schedule B).....	<u>3,656,015</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u><u>\$ -</u></u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,728,355
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u><u>\$ 1,728,355</u></u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance.....	\$ -
Transfers from Stabilization Fund.....	<u>-</u>
Tax Reduction Fund balance after transfers.....	<u><u>\$ -</u></u>

# MASSACHUSETTS GENERAL INFORMATION

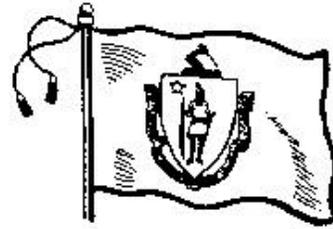
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,416,505

**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."

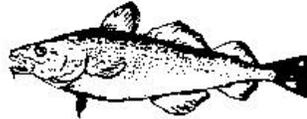
The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

**The State Flower**



**The Mayflower**

**The State Fish**



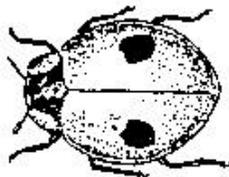
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**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

## Revolutionary Timeline

- 1630**  
Puritans establish the town of Boston.
- 1670**  
The first Old South Meeting House, a two-story cedar hall, is built.
- 1761**  
James Otis speaks against the Writs of Assistance at the Old State House.
- 1764**  
The Sugar Act taxation and Currency Act infuriate Colonists.
- 1765**  
The Stamp Act taxation sparks rioting in Boston.
- 1768**  
September 18 – British garrison troops in Boston.
- 1770**  
March 5 – The Boston Massacre leaves five dead. British uphold the Tea Act.
- 1773**  
December 16 – The Boston Tea Party prompts the Intolerable Acts as punishment.
- 1775**  
April 18 – Paul Revere and William Dawes, Jr., ride from Boston to alert the countryside that British troops are headed to Lexington.
- 1775**  
April 19 – The British retreat to Boston after the Battles of Lexington and Concord.
- 1775**  
June 17 – The Battle of Bunker Hill leaves heavy casualties.
- 1776**  
March 17 – Washington liberates Boston. British evacuate with troops and local Tories.
- 1776**  
July 18 – Declaration of Independence is read from the Old State House balcony.
- 1788**  
June 21 – The Constitution is ratified.
- 1789**  
George Washington makes triumphal visit to Boston as first President.
- 1795**  
Construction begins for the new State House.
- 1797**  
USS Constitution is launched.
- 1809**  
The Park Street Church is built.
- 1822**  
Boston is incorporated as a city.
- 1829**  
July 4 – William Lloyd Garrison speaks against slavery at the Park Street Church.
- 1843**  
June 17 – Bunker Hill Monument is dedicated.
- 1863**  
The 54th Regiment marches to the Civil War under Colonel Robert Gould Shaw.



**Statue of Samuel Adams**



*Photograph by Steve Dunwell*

This bird's eye view of Boston, taken by Steve Dunwell, shows some of the sites on the Freedom Trail, including the Bunker Hill Monument and the USS Constitution.

Steve Dunwell has been photographing his home state of Massachusetts for over 20 years. "Massachusetts, more than most American places, rewards the viewer with a rich tapestry of geography, landscape and history in a small area. While other states have higher mountains, broader vistas, larger cities and rockier coastlines, none has the tightly woven fabric of our unique land between Cape Cod and the Berkshires," Steve said about Massachusetts. "What it lacks in grandeur, it makes up for in meaning. Favored by a comfortable landscape, graced with natural harbors, then anointed by early colonial preference, this became a place of unique historical moment. To know Massachusetts is to truly understand America's origins."

While Steve is perhaps best known as an interpreter of the New England social landscape, he has also covered wide-ranging assignments throughout America and in more than 30 nations on five continents. His work has been published in numerous books and magazines, and exhibited in one-man shows in New York City and Boston.

His work can be viewed on the website: [backbaypress.com](http://backbaypress.com).