
Office of the State Comptroller
FY19 Comprehensive Annual Financial Report
(CAFR)

Howard Merkowitz

Deputy Comptroller

Fiscal 2019 Statutory Basis Financial Report (SBFR)

- The SBFR was issued on January 6, 2020 and was reviewed, not audited, by KPMG.
 - The SBFR is presented on a budgetary or statutory basis – cash receipts and expenditures, including two months accounts payable and receivable period; excludes trust funds and most activity of so-called business-type activities such as unemployment and the Institutions of Higher Education
 - The SBFR excludes “component units” such as Massachusetts School Building Authority (MSBA), some of the Massachusetts Department of Transportation (MassDOT) such as the MBTA and RTA’s, and Massachusetts Development Finance Agency (MassDevelopment)
 - SBFR determines whether the budget is balanced according to state finance law. Determines the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund

Fiscal 2019 Comprehensive Annual Financial Report (CAFR)

- The CAFR was issued on February 10, 2020 with an unmodified (clean) audit opinion and was submitted to the Government Finance Officers' Association (GFOA) for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. The FY18 CAFR represented the 29th consecutive year that the CAFR was awarded the certificate.
- The basic financial statements are presented on two bases of accounting; 1) fund perspective and 2) government-wide perspective
- Fund Perspective
 - Similar focus to the SBFR in terms of fund coverage, but also includes trust funds not covered in the SBFR, and the MSBA is incorporated into the statements as a blended component unit.
 - Purpose is to measure a government's ability to meet obligations from currently available resources
 - Uses a "modified accrual" basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP), and takes into account short-term accruals (due within one year). No long-term accruals for debt or capital assets, depreciation, or adjustment for pension or OPEB liabilities.

Fiscal 2019 Comprehensive Annual Financial Report (CAFR)

- CAFR Government-Wide Perspective
 - Treats government according to accounting rules similar to private business
 - Includes business-type activities such as Unemployment Insurance and the Institutions of Higher Education within the Commonwealth's net position (formerly net assets)
 - Full accrual accounting for long-term assets and liabilities, including long-term debt, pensions, OPEB, capital assets, and compensated absences
 - Includes, by discrete presentation, so-called "component units" such as MassDOT, Health Insurance Connector, and the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth

Net Pension and Other Post-Employment Benefits (OPEB) liability

- GASB Statement Nos. 68 and 75, implemented in FY15 and FY18, respectively, changed the requirements for reporting pension and OPEB liabilities for governmental entities. These Statements, No. 68 for pension and No. 75 for OPEB, require the presentation of the net pension and net OPEB liability on the government-wide Statement of Net Position.
- For reporting purposes GASB allows for these liabilities to be presented using a measurement date that is a year prior to the fiscal year end date. For FY19, these liabilities are measured as of June 30, 2018.
 - For FY19, the Commonwealth's net pension liability on a government-wide basis (including business-type activities) was approximately \$38.783 billion and the net OPEB liability was approximately \$14.243 billion

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Fund Perspective – Modified Accrual Basis)
Fiscal Year Ended June 30, 2019
(Amounts in thousands)**

	General Fund	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
Total revenues.....	\$42,843,978	\$5,652,747	\$996,421	\$10,842,311	\$60,335,457
Total other financing sources.....	2,013,116	—	223,340	7,203,937	9,440,393
Total expenditures.....	38,853,014	4,445,623	1,017,151	15,477,744	59,793,532
Total other financing uses.....	<u>3,649,662</u>	<u>1,206,850</u>	—	<u>2,852,915</u>	<u>7,709,427</u>
Net change in fund balances/(deficits).....	2,354,418	274	202,610	(284,411)	2,272,891
Fund balances at beginning of year.....	<u>3,515,792</u>	<u>1,184</u>	<u>1,403,401</u>	<u>1,917,067</u>	<u>6,838,444</u>
Fund balances at end of year.....	<u>\$5,870,210</u>	<u>\$1,458</u>	<u>\$1,606,011</u>	<u>\$1,633,656</u>	<u>\$9,111,335</u>

**Changes in Net Position Between June 30, 2019 and June 30, 2018
Government-Wide Perspective (Full Accrual Basis) (Amounts in thousands)**

	<u>Total Primary Government</u>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change, FY2019 to FY2018</u>
Revenues			
<u>Program Revenues:</u>			
Charges for services.....	\$16,041,421	\$15,515,762	\$525,659
Operating grants and contributions.....	17,230,011	17,162,714	67,297
Capital grants and contributions.....	178,118	259,203	(81,963)
<u>General Revenues:</u>			
Taxes.....	30,609,957	27,964,093	2,645,864
Other.....	<u>1,659,338</u>	<u>1,741,301</u>	<u>(81,963)</u>
Total Revenues.....	<u>65,718,845</u>	<u>62,643,073</u>	<u>3,075,772</u>
Expenses			
Medicaid.....	18,093,807	18,105,722	(11,915)
Direct local aid.....	6,089,548	5,900,634	188,914
Health and human services.....	8,662,012	8,298,704	363,308
Lottery.....	4,445,654	4,325,321	120,333
Higher education.....	5,345,669	5,283,861	61,808
Public safety and homeland security.....	3,006,893	2,757,266	249,627
Unemployment compensation.....	1,483,901	1,552,404	(68,503)
Other.....	<u>17,917,699</u>	<u>18,180,541</u>	<u>(262,842)</u>
Total Expenses.....	<u>65,045,183</u>	<u>64,404,453</u>	<u>640,730</u>
Excess/(deficiency).....	673,662	(1,761,380)	<u>\$2,435,042</u>
Net position/(deficit) – beginning.....	<u>(69,104,536)</u>	<u>(67,343,156)</u>	N/A
Net position/(deficit) – ending.....	<u>(\$68,430,874)</u>	<u>(\$69,104,536)</u>	N/A

Assets Owned by MassDOT and Higher Education But Largely Financed by the Commonwealth Offset Commonwealth's Net Deficit

Statement of Net Position, June 30, 2019 (Amounts in thousands)

	----- Primary Government -----			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Government Wide Total</u>	<u>Component Units</u>
Net investment in capital assets.....	\$(1,433,294)	\$3,868,576	\$2,435,282	\$31,196,402
Restricted for Unemployment Insurance, Debt, Capital, and Higher Education.....	1,270,844	2,271,721	3,542,565	4,106,076
Unrestricted (deficits).....	<u>(73,917,902)</u>	<u>(490,819)</u>	<u>(74,408,721)</u>	<u>(3,862,169)</u>
Total net position/(deficit).....	<u>\$(74,080,352)</u>	<u>\$5,649,478</u>	<u>\$(68,430,874)</u>	<u>\$31,440,309</u>

Major Reasons for Government-Wide Net Deficit in FY19 CAFR (\$68.431 Billion)

- Unfunded pension liability (\$33.004 billion, net of deferrals)
- Underfunded retiree health benefits (OPEB) (\$17.896 billion, net of deferrals)
- School Building Authority debt and grants payable (\$7.027 billion)
- Most of remainder is Commonwealth debt for road and bridge assets owned by MassDOT and for capital grants and expenditures for state authorities (e.g., Life Sciences Center) and cities and towns (e.g., Chapter 90 road and bridge grants, local housing authorities)

Significant Future GASB Standards

- The GASB has issued the following Standards which will be implemented in the following fiscal years:
 - Statement No. 84, *Fiduciary Activities*. This is effective for FY20 and requires the analysis of all Commonwealth funds and trust subfunds to determine proper financial reporting classification. This also requires, for the first time, the presentation of a Statement of Changes in Net Position for Custodial Funds (formerly Agency Funds) in the CAFR. The Comptroller's Office is currently analyzing all funds and trust subfunds to implement this Statement.
 - Statement No. 87, *Leases*. This is effective for FY21 and changes accounting and financial reporting requirements for leases. The Statement eliminates the concept of operating leases and instead accounts for all leases as capital financing arrangements. The Comptroller's Office is in the beginning stages of implementing this Standard.