

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

REPORT ON AUDITS OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

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MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

(a component unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

For the Years Ended June 30, 2010 and 2009

Unaudited

The following discussion and analysis provides management's overview of the financial position of the Massachusetts State College Building Authority (the Authority) as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended. This analysis should be read in conjunction with the Authority's financial statements and notes thereto which are also presented in this document.

The Authority was created pursuant to Chapter 703 of the Acts of 1963 ("the Act") of the Commonwealth of Massachusetts (the "Commonwealth"), as amended, as a body politic and corporate and a public instrumentality for the general purpose of providing residence halls, dining commons, parking, athletic, cultural, and other student activity facilities primarily for use by students and staff of certain institutions of public higher education of the Commonwealth of Massachusetts and their dependents.¹ Such facilities may be provided in collaboration with and for joint use by other agencies, boards, commissions, or authorities of the Commonwealth. The campuses include Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design, and Massachusetts Maritime Academy.

The Authority is empowered, among other things, to acquire, construct, remove, demolish, add to, alter and do other work upon any building or structure and to provide and install furnishings, furniture, equipment and other facilities therein. The Act authorizes the Authority, among other things, to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes and to issue and sell its revenue bonds and notes therefore payable solely from its revenues. The projects of the Authority include 40 residence hall complexes, two dining halls, and two parking facilities.

The Authority has also participated in improvements made to campus facilities including parking lots, dining halls, student centers and athletic fields. The Authority is located in Boston, Massachusetts, and employs an Executive Director and 14 staff members. The nine Members of the Authority (the Board) oversee the operation of the Authority and are appointed by the Governor for 5-year terms. Three Members must also be members of the Board of Higher Education.

Highlights

Residence Hall Construction and Renovation

At Bridgewater State, the expansion of Pope and Scott Halls was completed and opened Fall 2009, providing housing for an additional 300 students. The Great Hill Apartment complex (constructed in 1978) renovation project has been completed. This two-year project included a reconfiguration from double to single bedrooms; new interior finishes, including bathroom fixture and kitchen counters, cabinets and equipment; new plumbing and electrical distribution; new fire alarm system; new windows; a fire suppression system; enclosure of the exterior stairs; and expanded accommodations for students with mobility limitations and sensory impairments. The Authority also initiated a solar installation at Crimson Hall and window replacement project at the Shea-Durgin complex. Given increased enrollment and demand for on-campus housing, a feasibility study for new housing capacity was initiated.

¹ Please note: On July 28, 2010, House Bill 4864 was signed by Governor Deval L. Patrick, creating the State University system. The system includes Bridgewater State University, Fitchburg State University, Framingham State University, Salem State University, Westfield State University, Worcester State University, Massachusetts College of Art and Design, Massachusetts College of Liberal Arts and Massachusetts Maritime Academy. This change takes effect October 26, 2010.

Highlights - continued

Residence Hall Construction and Renovation - continued

At Fitchburg State, Fall 2009 marked the completion of the new building in the Mara Village complex, providing housing for an additional 116 students, and life safety upgrades to the existing Mara Village buildings. In August 2010, the Authority completed three renovation projects: window replacement and full security upgrade to exterior doors at Aubuchon Hall; renovations to bathrooms at Mara Village and upgrades to the Mara Commons building; and improvements to the exteriors of the Cedar Street complex including roof replacement, exterior cleaning and painting, and site improvements.

At Framingham State, the Authority completed design and initiated construction of new on-campus housing capacity. Scheduled for completion in summer 2011, the new building will provide housing for an additional 410 students.

The Authority completed the design and initiated construction of new on-campus housing at the Massachusetts College of Art and Design. This 490-bed residence hall, scheduled to open Fall 2012, will include a 2,600 square foot health center.

At the Massachusetts College of Liberal Arts, a renewal project at the Flagg Townhouse complex was completed in August 2010. The scope of work included replacement of all windows and installation of fire alarm and emergency stair lighting. In addition, the transformer and switchgear for Berkshire Towers were replaced and relocated.

At Salem State, the Authority substantially completed Marsh Hall, which opened in August 2010, providing housing for an additional 525 students and a 13,000 square foot dining hall. In August 2010, the Authority completed sprinkler and fire protection upgrades in Bowditch and a two-year project to upgrade the fire and life safety systems in Bates Hall. Work was completed in August 2009 on the installation of a 65kw Photo-Voltaic array on the roof of Atlantic Hall, an existing residence hall at Central Campus. This project was funded with grant monies from the Massachusetts Technology Collaborative and proceeds from Clean Renewable Energy Bonds.

In August 2010, the Authority completed the next phase of multi-year renovations to Scanlon Hall at Westfield State; the scope of work included bathroom renovations and providing improved access throughout the building. Repairs to the exterior stairs at the Apartment Complex were also completed in August 2010. In conjunction with feasibility studies for new on- and off-campus housing, the Authority completed an assessment of all existing residence halls.

At Worcester State, the Authority completed construction of the expansion to Dowden Hall which opened in August 2010 and provides housing for 170 students. Improvements to the existing Dowden building were also completed including upgrades to fire and life safety systems, improvement of interior building finishes and replacement of windows. The hot water heating system for Dowden and the Chandler Village Complex was reconstructed utilizing a co-generation engine generating both heat and power. A solar installation project is underway at Wasylean Hall.

In addition to completing capital projects on time and on budget, the Authority continued to receive recognition for design quality and environmental sustainability. The United States Green Building Council certified Pope and Scott Halls at Bridgewater State and the Mara Village Expansion at Fitchburg State as LEED Silver (Leadership in Energy and Environmental Design). Marsh Hall at Salem State and Dowden Hall at Worcester State have been submitted for certification as LEED Gold.

Highlights - continued

Student Activity Facilities

At Bridgewater State, the Authority initiated a project to upgrade Swenson Field. The project includes removal and replacement of existing bleachers and pressbox; provision of new seating; and demolition and replacement of the existing running track and athletic fields.

In anticipation of increased future volume due to the opening of a new residence hall at Framingham State in 2011, the McCarthy Center dining space is being redesigned and the food service kitchen upgraded. The project includes reconfiguring a building entrance and replacing the roof.

At Massachusetts College of Art and Design, the Authority completed construction of improvements to and a small expansion of the Kennedy Center. The scope of work included the relocation of the campus bookstore and Student Development Offices, and the expansion and improvement of the dining facility to better accommodate the planned increase in on-campus residence capacity in 2012. The Kennedy Center project has been submitted for LEED Silver certification.

At Fitchburg State, planning and feasibility analysis has been initiated for improvements to the Hammond Student Center.

At the Massachusetts College of Liberal Arts, design was completed and construction initiated to replace the gymnasium floor in the Amsler Center. In addition, the Authority has signed a purchase and sale agreement for the Shapiro Building, a property which is adjacent to the campus, and initiated plans to modify the interior and remove part of the building footprint to provide parking.

The Authority completed a preliminary assessment of the existing student activity facilities at Salem State. During the upcoming fiscal year, it is anticipated that more detailed project descriptions, budgets, and schedules will be developed to implement some student activity projects.

Finance and Administration

In December 2009, the Authority closed a \$148,495,000 issuance of Project Revenue Bonds, Series 2009B and Project Revenue Bonds, Series 2009C. The Authority received upgraded ratings from both ratings agencies: Moody's Investors Service to "Aa3" and Standard & Poor's Financial Services to "AA-". (Subsequently, as part of its municipal ratings recalibration, Moody's assigned an "Aa2" rating to the Authority.) The 2009B series (\$82,085,000) was issued as traditional tax-exempt debt with an all-in cost of 4.595%. The 2009C series (\$66,410,000) was the Authority's first taxable bond issue and was issued as Federally taxable Build America Bonds (BABs) which receive a Federal subsidy equal to 35% of the interest cost. The all-in cost of the BABs (including subsidy) is 3.841%. The blended all-in cost of the 2009B/C issue is 4.262%. The ratings upgrades are estimated to have reduced credit spreads by 20 to 30 basis points for this issue, saving the Authority approximately \$6.3 million in interest cost over the life of this financing.

The Authority also maximized earnings on the debt service reserve funds associated with the 2009B/C bonds by purchasing Build America Bonds issued by the Commonwealth of Massachusetts. This investment earns 5.456% and will earn approximately \$3.6 million more over 30 years as compared to a 30-year U.S. Treasury which was returning 4.382% at the time these reserves were invested. Earnings on these reserve funds are used to offset debt service expenses. The following table lists the 2009B/C projects and respective bond issuance amounts:

Highlights - continued

Finance and Administration - continued

2009B/C Project Description	Issuance Amount
New residence hall at Massachusetts College of Art and Design	\$75.1 million
New residence hall at Framingham State	\$50.9 million
Improvements to Swenson Athletic Field at Bridgewater State	\$4.9 million
Purchase property and renovations at Massachusetts College of Liberal Arts	\$1.1 million
Improvements to the Athletic Facilities at Massachusetts College of Liberal Arts	\$0.5 million
Current phase (summer 2010) of the Authority's capital plan to conduct repairs to various System Projects at Bridgewater, Fitchburg, and Westfield State and Massachusetts College of Liberal Arts.	\$16.0 million

Due to a favorable bidding environment, the Authority was able to use project fund savings to advance some repair projects. For example, savings on the Marsh Hall project at Salem State were available to fund a phase of the upgrade to fire and life safety systems at Salem's Bates Hall.

The following highlights are discussed in more detail in the sections that follow this summary:

For the year ended June 30, 2010, the Authority's operating revenues of \$42,785,016 exceeded its operating expenses of \$23,417,198 by \$19,367,818. Compared to Fiscal Year 2009, operating revenues increased approximately 15.7%, primarily due to increased revenue from residence halls and student facilities. Operating expenses increased approximately 13.2%, primarily due to a 12.0% increase in depreciation.

Total assets increased at June 30, 2010 to \$834,616,300 as compared to \$693,282,722 at June 30, 2009. The increase results from the receipt of the 2009B/C bond proceeds that increased cash and investments.

Payments for capital assets for the year ended June 30, 2010 were \$92,299,498 as compared to \$71,976,109 for the year ended June, 30, 2009. This results from continued spending on projects from the 2009A bond issue and initial spending on projects of the 2009B/C bond issue. As of June 30, 2010, the majority of the 2009A bond issue projects were either completed or near completion and all of 2009B/C bond issue projects were still in progress.

As of June 30, 2010, the Authority's reserve balances totaled \$88,491,396, including \$14,919,269 in Capital Improvement Reserve funds, \$72,415,950 in Debt Service Reserves and \$1,156,177 in other reserves.

Overview of the Financial Statements

The Authority's financial statements comprise two primary components: (1) the financial statements and (2) the notes to the financial statements. Additionally, the financial statements focus on the Authority as a whole, rather than upon individual funds or activities.

The Financial Statements

The financial statements (pages 2-4 of this report) are designed to provide readers with a broad overview of the Authority's finances and are comprised of three basic statements.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Financial Statements - continued

The *statement of revenues, expenses, and changes in net assets* presents information showing how the Authority's net assets changed during the fiscal years presented. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from campuses and others for services rendered).

The *statement of cash flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., income from contracts for financial assistance, management and services) and disbursements (e.g., cash paid to employees, contractors, consultants, or vendors for services). The Governmental Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

The Massachusetts State College Building Authority reports its activity as a business type entity using the accrual basis of accounting. The Authority is a component unit of the Commonwealth of Massachusetts. Therefore, the results of the Authority's operations, its net assets and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report as a blended component unit.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the Authority has adopted as well as additional details of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 5-27 of the audited financials.

Financial Analysis

By far the largest portion of the Authority's net assets reflects its investment in capital assets (e.g., land, buildings, furniture, and equipment) less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In fiscal 2002, the Authority began depreciating its capital assets in accordance with GASB Statements 34 and 35. At that time, the Authority recorded initial accumulated depreciation of approximately \$81,450,000 representing the depreciation on its capital assets dating back to 1963. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets in accordance with guidelines established by the Commonwealth.

Highlights - Statements of Net Assets

	Fiscal year ended June 30		\$ Change	% Change
	2010	2009		
Current assets	\$ 101,609,716	\$ 64,848,590	\$ 36,761,126	56.7%
Capital assets, net	516,663,661	436,055,748	80,607,913	18.5%
Other noncurrent assets	216,342,923	192,378,384	23,964,539	12.5%
Total assets	<u>834,616,300</u>	<u>693,282,722</u>	<u>141,333,578</u>	20.4%
Current liabilities	47,083,433	47,078,668	4,765	0.0%
Noncurrent liabilities	794,125,863	658,806,885	135,318,978	20.5%
Total liabilities	<u>\$ 841,209,296</u>	<u>\$ 705,885,553</u>	<u>\$ 135,323,743</u>	19.2%
Net assets:				
Invested in capital assets, net of related debt	\$ (41,041,522)	\$ (30,567,499)	\$ (10,474,023)	-34.3%
Restricted	2,555,116	8,976	2,546,140	28366.1%
Unrestricted	31,893,410	17,955,692	13,937,718	77.6%
Net assets	<u>\$ (6,592,996)</u>	<u>\$ (12,602,831)</u>	<u>\$ 6,009,835</u>	47.7%

- Total assets at June 30, 2010 increased 20.4% as compared to the prior fiscal year end. This primarily reflects the net impact of funds held in cash or investments from the 2009B/C bond issue. The spending of 2009A and 2009B/C project funds increased net capital assets (reflecting capital improvements made during the year, net of depreciation). Investments increased by \$15,990,633 as compared to the prior year as a result of the 2009B/C project funds being invested in U.S. Agency Obligations offset by the maturity of 2009A project funds held in Certificates of Deposit. Cash and cash equivalents increased by \$38,466,760 as compared to the prior year due to proceeds from the 2009B/C bond issue offset by spending on the completion or near completion of most of the 2009A projects.
- The Authority had reserves for capital improvements, multi-purpose and operating, at June 30, 2010 in the amount of \$16,075,446. The Authority also had debt service reserves of \$72,415,950 at June 30, 2010. These amounts are included in cash and cash equivalents and investments in the statement of net assets at June 30, 2010.
- Total liabilities at June 30, 2010 increased 19.2% as compared with the prior fiscal year end. This results primarily from an increase in bonds payable. Bonds payable increased from \$669,587,174 at June 30, 2009 to \$807,555,230 at June 30, 2010, primarily due to the addition of 2009B/C debt service offset by payments of principal on bonds during Fiscal Year 2010. Interagency Payables decreased from the prior year in an amount of \$5,472,260. This net decrease results from continued spending of proceeds from the 2009A bond issue for campus owned student activity projects offset by proceeds from the 2009B/C bond issue for campus owned student activity projects still under construction.

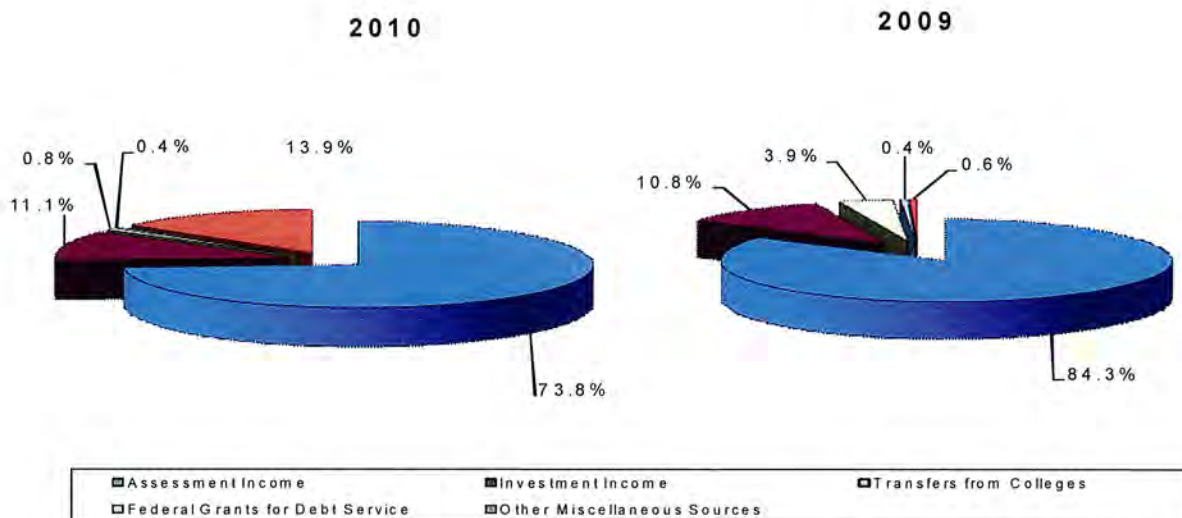
Highlights - Statements of Net Assets - continued

- A deficiency in net assets exists due to depreciation and interest expenses exceeding operating and non-operating revenues over time. The Authority's investment in its capital assets is reported net of related debt and depreciation (a non-cash operating expense); it should be noted that the funds needed to repay debt and to replace or renew capital assets are provided from operating revenues (e.g. rent, fees and charges). The change in net assets for the year ended June 30, 2010 excluding depreciation was an increase in net assets of \$26,863,875.
- For fiscal year 2010, there is a significant reduction in the deficiency in net assets. This is due primarily to a one-time capital appropriation transfer of \$6,881,873 and for a Build America Bond interest subsidy of \$700,809 associated with the 2009C bond issue.

Highlights - Revenues, Expenses and Changes in Net Assets

The Authority's revenue is primarily derived from assessment income (residence hall rents and student activity revenue) pursuant to contracts entered into with the various campuses. These contracts provide the revenue needed to fund annual debt service requirements associated with capital projects as well as reserve deposits, and insurance and Authority operating expenses. Other revenue sources include investment income on project funds and reserves, transfers from the colleges in support of capital projects, and federal grants for debt service. New items in fiscal year 2010 are a Build America Bond interest subsidy and a transfer of a state capital appropriation. The chart below compares total revenue for Fiscal Year 2010 with Fiscal Year 2009.

Summary of Total Revenue

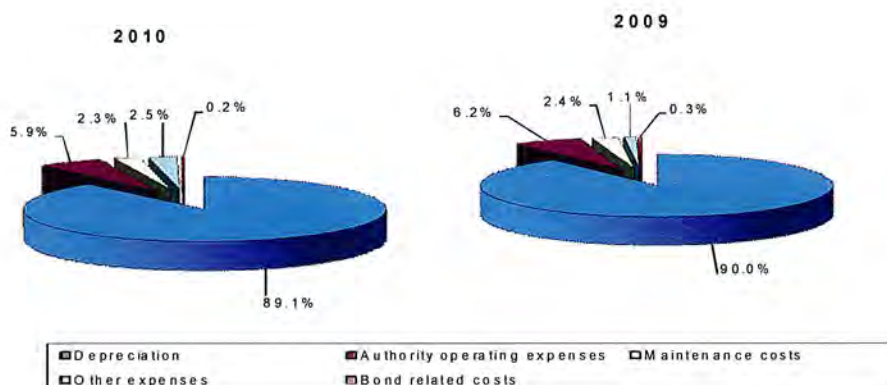


Investment income consists primarily of interest on construction funds and debt service reserves. The share of revenue derived from investment income was 11.1% in Fiscal Year 2010 compared with 10.8% in Fiscal Year 2009. However, included in the Fiscal Year 2009 investment income is an approximately \$2 million restructuring gain related to the 1999-1 series bonds. This prior year restructuring gain helped offset historically low investment rates in Fiscal Year 2009. Transfers from institutions were lower than Fiscal Year 2009 reflecting lower college contributions to Authority-owned facilities. The majority of the Authority's expenditures relate to capital assets (additions to assets plus depreciation) and repayment of revenue bonds issued to fund the additions to assets.

In Fiscal Year 2010, revenues were more than sufficient to cover operating expenses and debt service obligations. The chart below compares total expenses for Fiscal Year 2010 with Fiscal Year 2009.

Highlights - Revenues, Expenses and Changes in Net Assets - continued

Summary of Total Expenses



Comparison of Operating and Non-operating Revenues and Expenses

	Fiscal year ended June 30		\$ Change	% Change
	2010	2009		
Total operating revenues	\$ 42,785,016	\$ 36,983,342	\$ 5,801,674	15.7%
Total operating expenses	23,417,198	20,690,684	2,726,514	13.2%
Operating income	19,367,818	16,292,658	3,075,160	18.9%
Nonoperating expenses, net	(13,357,983)	(17,578,986)	4,221,003	24.0%
Increase (decrease) in net assets	6,009,835	(1,286,328)	7,296,163	567.2%
Net assets - beginning of the year	(12,602,831)	(11,316,503)	(1,286,328)	-11.4%
Net assets - end of the year	\$ (6,592,996)	\$ (12,602,831)	\$ 6,009,835	47.7%

- Operating revenues include all revenue sources except investment income, transfers from state colleges, Build America Bonds interest subsidy, and capital grants. The 15.7% increase in revenue for Fiscal Year 2010 reflects an increase in design occupancy and rental rates and continued strong occupancy for the residence halls as well as additional assessments for debt service associated with student activity projects.
- Operating expenses include depreciation, maintenance and repairs to capital assets and operating expenses associated with Authority operations. In Fiscal Year 2010, 89.1% of the Authority's operating expense was for depreciation of \$20,854,040, as compared with \$18,614,829 (90%) in the prior fiscal year. Also included is a one-time \$284,085 cost for work completed on a Commonwealth-owned student activity project at the Kennedy Campus Center, Massachusetts College of Art and Design. This project had been funded from proceeds of the Authority's 1999-1 bond issue but was managed by the Commonwealth's Department of Capital Asset Management (DCAM). DCAM had withheld final project invoice approval until Spring 2010. The Authority funded this payment from remaining proceeds and reserves related to MassArt projects.

Highlights - Revenues, Expenses and Changes in Net Assets - continued

Comparison of Operating and Non-operating Revenues and Expenses - continued

- Depreciation expense increased 12.0% compared to Fiscal Year 2009 due to the additional depreciable assets brought on line in Fiscal 2010. There were major additions, renovations, and repairs at Bridgewater State (Pope and Scott Halls), Fitchburg State (Mara Village), MCLA (Hoosac Hall and Flagg Townhouses) and Worcester State (Dowden Hall Expansion/Upgrade and Chandler Village).
- For Fiscal Year 2010, approximately 8.2% of the operating expenses paid for maintenance/repairs and Authority operating expenses, as compared to 8.6% in Fiscal Year 2009.
- Maintenance costs, comprised of capital improvement expenses (below the capitalization policy threshold) and property and liability insurance, increased from \$500,864 in 2009 to \$535,276 in 2010. Authority Operating expenses increased from \$1,282,995 in 2009 to \$1,392,357 in 2010.
- The primary components of net non-operating expenses are the gross annual interest expense incurred on the collective debt obligations of the Authority, less investment income used to offset debt service requirements. Interest expense increased by 17.1% in fiscal year 2010 compared to fiscal year 2009. The increase is a result of a full year of interest expense on the 2009A bond issue and interest accrued for seven months on the 2009B/C bond issue, net of amount capitalized. Net investment income increased by 36.8% in fiscal year 2010 compared to fiscal year 2009. A restructuring gain of \$2,002,135 in Fiscal Year 2009 relating to the 1999-1 series bonds helped to offset historically low long-term and short-term interest rates during that year. The Authority received a transfer of a state capital appropriation (see note 18 in the attached financial statements) in fiscal year 2010 of \$6,881,873. The Authority also received a Build America Bonds interest subsidy of \$700,809.

Highlights - Statements of Cash Flows

	Fiscal year ended June 30	
	2010	2009
Cash received from operations	\$ 42,885,113	\$ 36,983,342
Cash expended for operations	(2,470,718)	(2,012,914)
Net cash provided by operations	40,414,395	34,970,428
Net cash provided by (used) in capital and related financing activities	8,923,026	17,292,139
Net cash provided by (used in) investing activities	(10,870,661)	(95,316,092)
Net increase (decrease) in cash and cash equivalents	38,466,760	(43,053,525)
Cash and cash equivalents, beginning of year	54,189,135	97,242,660
Cash and cash equivalents, end of year	\$ 92,655,895	\$ 54,189,135

- Cash and cash equivalents were \$92,655,895 at June 30, 2010 compared to \$54,189,135 at June 30, 2009. This increase primarily relates to the 2009A and 2009B/C proceeds (\$30,430,007, \$13,014,885 and \$13,733,128, respectively, as of June 30, 2010). A portion of the 2009B/C bond proceeds were invested in money market funds which are considered cash equivalents. A large portion of the 2009A bond proceeds were invested in Certificates of Deposit in fiscal year 2009; these CDs came due during fiscal year 2010 and were converted to money market funds.

Highlights - Statements of Cash Flows - continued

- Net cash provided by operations exceeded the cash expended for operations. As noted above, the increase in cash received from operations results from higher residence hall and student activity revenue. The increase in cash expended for operations is primarily due to increases in Authority operating expenditures, maintenance expenses and other expenses in accordance with the approved budget.
- Net cash provided by capital and related financing activities was \$8,923,026 for Fiscal Year 2010 compared to net cash provided of \$17,292,139 for Fiscal Year 2009. Cash was provided primarily by 2009B/C bond proceeds and a one-time transfer of a state capital appropriation offset by payments on all bonds and payments for capital assets.
- Net cash used in investing activities was \$10,870,661 for Fiscal Year 2010 compared to net cash used of \$95,316,092 for Fiscal Year 2009. \$90,500,000 of 2009A bond proceeds that were invested in certificates of deposit in fiscal year 2009 were redeemed in fiscal year 2010 causing an increase in cash and cash equivalents and a decrease in investments.

Capital Assets and Debts of the Authority

The Authority's investment in capital assets as of June 30, 2010 amounted to \$516,663,661 net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), furnishings and equipment. Net capital assets increased during fiscal year 2010 by \$80,607,913. This increase was due to completed capital improvements described earlier in this report. During fiscal 2010:

- Construction in progress was recorded at \$104,448,807 as compared to \$70,458,160 the prior fiscal year;
- Buildings and improvements were recorded at \$571,713,398 as compared to \$506,431,794 the prior fiscal year;
- Furnishings and equipment were recorded at \$33,971,954 as compared to \$31,116,002 the prior fiscal year; and
- Land was recorded at \$2,680,388 as compared to \$3,346,638 the prior fiscal year reflecting the transfer of a parcel of land at Framingham State to the Commonwealth.

The Authority has entered into various purchase commitments with contractors for the purchase of equipment, construction of certain facilities and other improvements. The amounts under commitment were approximately \$75,800,000 and \$67,200,000, respectively, as of June 30, 2010 and 2009.

The Authority carries debt in the form of bond obligations which, net of deferred losses on refundings, amounted to \$807,555,230 and \$669,587,174, as of June 30, 2010 and 2009, respectively.

The Authority and the Commonwealth have entered into a contract providing that the Commonwealth will guarantee the payment of principal and interest on the 1994-A Bonds and 2004B Bonds. The Authority carries an underlying "Aa2" rating from Moody's Investors Service and "AA-" from Standard & Poor's Financial Services.

Interagency Payables decreased to \$9,628,964 at June 30, 2010 from \$15,101,224 at June 30, 2009. These payables consist of unspent campus contributions plus unspent bond proceeds and related bond amounts associated with capital projects on campus-owned property.

Economic Factors, Occupancy, and Residence Hall Rent Rates

Economic Factors

The seasonally adjusted unemployment rate for the Commonwealth of Massachusetts from which the State institutions primarily draw students increased to 9.0% at June 30, 2010 as compared to 8.6% at June 30, 2009. This compares to a national rate of 9.5% in both years.

Historically, in times of economic slow-down, the institutions which the Authority serves have experienced increases in their enrollments as high school graduates and unemployed and underemployed workers seek to update and upgrade their skills. The Authority cannot predict the extent to which enrollment may vary in this current environment.

Occupancy

Semi-annual residence hall occupancy reports to the Authority and the Commonwealth's Department of Higher Education certify the number of students housed in on-campus housing owned by the Massachusetts State College Building Authority. Occupancy reports show that during the fall semester of the 2009/10 academic year 13,751 students were housed in residence halls or 104.6% of design occupancy. In the spring semester, 13,107 students were housed in residence halls, an occupancy rate of 99%. The average annual occupancy rates are shown below.

RESIDENCE HALL OCCUPANCY TABLE

Institution	Academic Years									
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	
Bridgewater	107%	105%	105%	105%	105%	104%	103%	104%	101%	
Fitchburg	89%	95%	99%	100%	100%	102%	104%	103%	105%	
Framingham	99%	105%	102%	100%	100%	100%	99%	101%	101%	
Mass. College of Art	104%	100%	100%	99%	98%	101%	99%	100%	100%	
Mass. College of Liberal Arts	71%	81%	82%	88%	89%	95%	89%	88%	94%	
Mass. Maritime Academy	89%	93%	95%	96%	99%	103%	92%	94%	100%	
Salem	106%	105%	105%	100%	103%	101%	100%	104%	106%	
Westfield	107%	109%	106%	109%	106%	108%	107%	107%	105%	
Worcester	103%	100%	101%	96%	97%	101%	100%	102%	102%	
Average	97%	101%	101%	101%	100%	103%	101%	102%	102%	

The Authority attributes strong demand for on-campus housing to three factors: (1) increased attractiveness of housing due to the Authority's Strategic Capital Plan renewal investment, (2) the increase in the number of full-time undergraduate students who live more than 20 miles from campus, and (3) the high cost and limited supply of off-campus housing. From 2002 through 2010, the Authority has constructed 2,818 new beds, while maintaining occupancy rates of 100% or more of capacity. As noted earlier in this analysis, additional beds opened Fall 2010: 525 at Salem State and 170 at Worcester State.

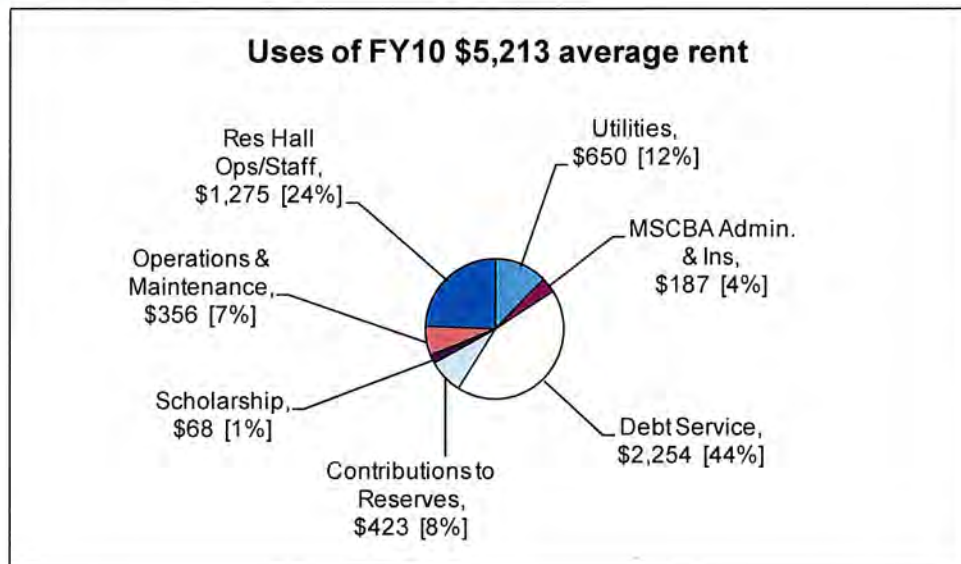
Residence Hall Rent Rates

For the academic year 2009-2010 (Fiscal Year 2010), the average on-campus room rent was \$5,213 per bed (\$579 per month).

There are no Commonwealth appropriations for residence halls. Student rents fund the State institutions costs of operating the residence halls and the Authority obligations, including debt service for capital projects. The chart below illustrates the uses of the average student rent:

Economic Factors, Occupancy, and Residence Hall Rent Rates - continued

Residence Hall Rent Rates - continued



Capital Reinvestment

In 1999, the Authority began a system-wide asset management analysis and capital reinvestment program. At that time, the 34 residence hall complexes (approximately 2.5 million square feet) were in poor to fair condition based on a Facility Condition Index (FCI) methodology (i.e., the ratio of deferred maintenance compared to current replacement value). From 2000 through 2010, the Authority committed approximately \$180 million in capital repairs, life safety and accessibility improvements, and infrastructure and furniture replacement for existing residence halls. During fiscal year 2010, the Authority completed significant capital improvement projects for residence halls at Massachusetts College of Art and Design and Massachusetts College of Liberal Arts and at Bridgewater, Fitchburg, Framingham, Salem, Worcester, and Westfield. Due to the reinvestment in physical plant, the Facility Condition Index for Authority facilities is now in the excellent range (the estimated cost of cumulative deferred maintenance projects is less than five percent of the current replacement value of these buildings). Further, student activity facility projects (parking and dining) were completed at Framingham and MassArt. In addition, construction of new residence hall capacity was initiated at Framingham and MassArt.

New Construction Projects

Construction in progress at the end of fiscal years 2010 and 2009 was \$104,448,807 and \$70,458,160, respectively.

Projects underway include the following:

- Construction of new residence halls at Framingham State and Massachusetts College of Art and Design.
- Initiation of feasibility and planning work for new capacity projects at Bridgewater State and Westfield State.
- Renovations and repairs at Bridgewater State (Shea-Durgin), Fitchburg State (Aubuchon, Cedar Street, and Mara existing), MCLA (Berkshire Towers, Hoosac Hall, and Flagg Townhouses), Salem State (Bowditch and Bates), and Westfield State (Scanlon and Apartments).

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Massachusetts State College Building Authority, 253 Summer Street, Suite 300, Boston, Massachusetts 02210.

INDEPENDENT AUDITOR'S REPORT

To the Board
Massachusetts State College Building Authority
Boston, Massachusetts

We have audited the accompanying financial statements of the business-type activities of Massachusetts State College Building Authority (a component unit of the Commonwealth of Massachusetts) (the Authority) as of and for the years ended June 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 2010 audit.

The Management's Discussion and Analysis (MD&A) on pages i to xiii is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ercolini & Company LLP

September 28, 2010

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

STATEMENTS OF NET ASSETS (DEFICIENCY IN NET ASSETS)

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 65,563,514	\$ 28,213,672
Restricted cash and cash equivalents	20,870,378	19,294,568
Restricted investments, including amounts held by bond trustee	11,983,504	15,305,631
Accounts receivable, net	<u>3,192,320</u>	<u>2,034,719</u>
Total current assets	<u>101,609,716</u>	<u>64,848,590</u>
Noncurrent assets:		
Restricted cash and cash equivalents	6,222,003	6,680,895
Restricted investments, including amounts held by bond trustee	151,365,775	132,053,015
Accounts receivable, net	46,782,366	42,606,369
Capital assets, net	516,663,661	436,055,748
Deposit	16,250	-
Bond issuance costs, net	<u>11,956,529</u>	<u>11,038,105</u>
Total noncurrent assets	<u>733,006,584</u>	<u>628,434,132</u>
Total assets	<u>\$ 834,616,300</u>	<u>\$ 693,282,722</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 23,716,612	\$ 20,949,942
Accrued payroll	44,003	33,980
Interagency payables	6,391,325	11,909,111
Compensated absences	93,541	85,394
Current portion of bonds payable	<u>16,837,952</u>	<u>14,100,241</u>
Total current liabilities	<u>47,083,433</u>	<u>47,078,668</u>
Noncurrent liabilities:		
Accounts payable and accrued liabilities	100,097	66,392
Compensated absences	70,849	61,447
Interagency payables	3,237,639	3,192,113
Bonds payable, net of deferred loss	<u>790,717,278</u>	<u>655,486,933</u>
Total noncurrent liabilities	<u>794,125,863</u>	<u>658,806,885</u>
Total liabilities	<u>841,209,296</u>	<u>705,885,553</u>
Net Assets (Deficiency in Net Assets)		
Invested in capital assets, net of related debt	(41,041,522)	(30,567,499)
Restricted:		
Expendable:		
Capital projects	2,555,116	8,976
Unrestricted	<u>31,893,410</u>	<u>17,955,692</u>
Total net assets (deficiency in net assets)	<u>(6,592,996)</u>	<u>(12,602,831)</u>
Liabilities and Net Assets (Deficiency in Net Assets)	<u>\$ 834,616,300</u>	<u>\$ 693,282,722</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Income from contracts for financial assistance, management, and services	\$ 42,453,490	\$ 36,555,398
Federal grants for debt service	211,890	211,890
Other miscellaneous revenues	<u>119,636</u>	<u>216,054</u>
Total operating revenues	<u>42,785,016</u>	<u>36,983,342</u>
Operating expenses:		
Maintenance costs	535,276	500,864
Authority operating expenses	1,392,357	1,282,995
Depreciation	20,854,040	18,614,829
Bond related costs	52,160	67,804
Other expenses	<u>583,365</u>	<u>224,192</u>
Total operating expenses	<u>23,417,198</u>	<u>20,690,684</u>
Operating income	<u>19,367,818</u>	<u>16,292,658</u>
Nonoperating revenues (expenses):		
Net investment income	6,393,208	4,674,885
Interest expense	(28,067,213)	(23,972,819)
Transfers from State Colleges	440,267	1,684,693
State capital appropriations transfer	6,881,873	-
Build America Bonds interest subsidy	700,809	-
Capital grants	<u>293,073</u>	<u>34,255</u>
Net nonoperating revenues (expenses)	<u>(13,357,983)</u>	<u>(17,578,986)</u>
Increase (decrease) in net assets	<u>6,009,835</u>	<u>(1,286,328)</u>
Net assets (deficiency in net assets), beginning of year	<u>(12,602,831)</u>	<u>(11,316,503)</u>
Net assets (deficiency in net assets), end of year	<u>(\$ 6,592,996)</u>	<u>(\$ 12,602,831)</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from contracts for financial assistance, management, and services	\$ 42,453,490	\$ 36,555,398
Federal grants for debt service	211,890	211,890
Other miscellaneous receipts	219,733	216,054
Payments for maintenance costs	(530,467)	(539,891)
Payments for Authority operating expenses	(1,364,785)	(1,239,438)
Payments for other expenses	<u>(575,466)</u>	<u>(233,585)</u>
Net cash provided by (used in) operating activities	<u>40,414,395</u>	<u>34,970,428</u>
Cash flows from capital and related financing activities:		
Proceeds from bond issuance	152,128,185	129,126,371
Build America Bonds interest subsidy	478,330	-
State capital appropriations transfer	6,881,873	-
Payment of bond issuance costs	(1,322,362)	(1,130,468)
Payments for capital assets	(92,299,498)	(71,976,109)
Capital grants	293,073	34,255
Release from (payment to) escrow for deposit on capital assets	(16,250)	175,000
Collections of debt service receivables	3,688,523	2,239,544
Transfer of funds from State Colleges	340,267	1,684,693
Payments from funds held for others	(13,407,123)	(6,011,017)
Funds received and held for others	2,678,595	1,183,551
Principal paid on capital debt	(13,810,000)	(11,090,000)
Interest paid on capital debt	<u>(36,710,587)</u>	<u>(26,943,681)</u>
Net cash provided by (used in) capital and related financing activities	<u>8,923,026</u>	<u>17,292,139</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	163,795,554	142,940,206
Purchases of investments	(177,994,050)	(242,924,425)
Interest on investments	<u>3,327,835</u>	<u>4,668,127</u>
Net cash provided by (used in) investing activities	<u>(10,870,661)</u>	<u>(95,316,092)</u>
Net increase (decrease) in cash and cash equivalents	38,466,760	(43,053,525)
Cash and cash equivalents, beginning of year	<u>54,189,135</u>	<u>97,242,660</u>
Cash and cash equivalents, end of year	<u>\$ 92,655,895</u>	<u>\$ 54,189,135</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,367,818	\$ 16,292,658
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,854,040	18,614,829
Loss on transfer of land to DCAM	6,250	-
Amortization of bond issuance costs, bond premium and deferred loss on refunding	53,809	58,411
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	104,906	(39,027)
Accrued payroll and compensated absences	<u>27,572</u>	<u>43,557</u>
Net cash provided by (used in) operating activities	<u>\$ 40,414,395</u>	<u>\$ 34,970,428</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of significant accounting policies:

Organization:

Massachusetts State College Building Authority (the Authority) was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth of Massachusetts (the State and the Commonwealth), as amended, as a body politic and corporate and a public instrumentality for the general purpose of providing dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth of Massachusetts and their dependents. Such facilities may be provided in collaboration with and for joint use by, other agencies, boards, commissions, or authorities of the Commonwealth. The state colleges include Bridgewater, Fitchburg, Framingham, Salem, Westfield and Worcester State Colleges, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design and Massachusetts Maritime Academy (collectively, the State Colleges). The Authority provides bond financing, design and construction management of new facilities, major renovations and capital repairs for its projects at the State Colleges. Annual obligations of the Authority include rent setting and oversight of College operating budgets. The Authority operates on the basis of Contracts for Financial Assistance, Management and Services with the Department of Higher Education (formerly the Board of Higher Education) of the Commonwealth (DHE), in which the DHE commits the Colleges to meet the statutory and financial obligations related to the projects.

The Authority is a component unit of the Commonwealth of Massachusetts. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the Authority had been operated as an independent organization. The Authority's financial statements are included in the Commonwealth's financial statements as a blended component unit.

Basis of presentation:

The accompanying financial statements have been prepared using the "economic resources measurement focus" and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority has determined that it functions as a Business Type Activity, as defined by GASB.

The Authority's policy for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the Authority's net investment income and interest expense.

The Authority has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

1. **Summary of significant accounting policies - continued:**

Net assets:

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following four net asset categories:

- **Invested in capital assets, net of related debt:**

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

- **Restricted - nonexpendable:**

Net assets subject to externally imposed conditions that the Authority must maintain them in perpetuity.

- **Restricted - expendable:**

Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Authority pursuant to those conditions or that expire by the passage of time.

- **Unrestricted:**

All other categories of net assets. Unrestricted net assets may be designated for specific purposes by action of the Authority's Board.

The Authority has adopted a policy of reviewing, on an individual basis, all restricted – expendable funds, for the purpose of determining the order in which restricted – expendable and unrestricted funds would be utilized.

In accordance with the requirements of the Authority Bond Indenture and the Commonwealth of Massachusetts, the Authority's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents:

The Authority considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of significant accounting policies - continued:

Investments:

Investments in marketable securities are stated at fair value. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets. There were no significant realized gains or losses on investments during the years ended June 30, 2010 and 2009.

The Authority has no donor-restricted endowments.

The Authority is currently authorized by its Board and the statutes of the Commonwealth of Massachusetts to invest funds of the Authority. The Authority's Retirement Trust was established outside of the Bond Indenture and is invested given the three objectives of safety, return on investment, and liquidity. The Board will support the investment of the Retirement Trust consistent with applicable law. The Board shall establish investment policy, but delegate to the Finance and Audit Committee of the Authority to direct the investment advisor.

Accounts receivable:

Accounts receivable are stated at the total amount of the future minimum payments to be received less unearned interest income. Interest income is recognized using the effective interest method. No allowance for doubtful accounts has been made as of June 30, 2010 and 2009, as management considers all amounts fully collectible.

Capital assets:

The accompanying financial statements include the transactions of all of the Authority's capital assets, which include residence halls for approximately 13,150 students in 2010 and 12,700 students in 2009, some with dining facilities, at the State Colleges.

Project costs include land acquisition, architectural and engineering services, construction, furnishings and equipment and related expenses for legal, accounting, and financial services. Such expenses have been incurred for the construction of new facilities and for capital improvements to existing facilities. Fire alarm system improvements, the installation of automatic sprinkler systems, the repair and replacement of roofs and windows, and improvements to make the facilities accessible for use by handicapped persons are examples of capital improvements to existing facilities undertaken by the Authority.

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition. In accordance with the Authority's capitalization policy, only those items with a total project cost of more than \$50,000, and all furniture, fixtures and equipment, are capitalized. Interest costs on debt related to capital assets is capitalized during the construction period. Authority capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

1. **Summary of significant accounting policies - continued:**

Bond related items:

Bond issuance costs and bond premiums are being amortized to expense on a straight-line basis over the terms of the related debt agreements. Deferred losses on bond refundings are being amortized to expense principally on the effective interest method over the terms of the old debt or new debt agreements, whichever are shorter.

Interest expense and capitalization:

The Authority capitalizes interest costs incurred during the construction period of qualifying property assets. The amount of interest costs capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings consists of all interest costs of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings from the date of the borrowing until the assets are ready for their intended use. During 2010 and 2009, total interest costs were accounted for as follows:

	<u>2010</u>	<u>2009</u>
Total interest incurred	\$ 36,151,551	\$ 28,939,956
Less: capitalized portion of interest incurred	(8,084,338)	(4,967,137)
Interest expense	<u>\$ 28,067,213</u>	<u>\$ 23,972,819</u>
Capitalized portion of interest incurred	\$ 8,084,338	\$ 4,967,137
Less: interest income on unused funds from tax-exempt borrowings	(1,303,587)	(959,205)
Net capitalized interest	<u>\$ 6,780,751</u>	<u>\$ 4,007,932</u>

Fringe benefits:

The Authority participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, and pension. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the Authority. Worker's compensation insurance is purchased as a separate policy within the Authority's insurance portfolio.

Compensated absences:

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned and unused by all eligible employees through June 30 of each year. The accrued sick leave balance represents 20% of amounts earned at the end of the fiscal year. Upon retirement, these employees are entitled to receive payment for this accrued balance.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of significant accounting policies - continued:

Tax Status:

The Authority is a component unit of the Commonwealth of Massachusetts and is therefore exempt from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

2. Cash and cash equivalents, and investments:

Credit risk

The Authority has a formal investment policy pursuant to which investments may be made in: (i) U.S. Government Treasuries, U.S. Government securities, and other obligations guaranteed by the U.S. Government or its agencies and instrumentalities; (ii) interest bearing time deposits or certificates of deposit, provided that such deposits or certificates shall be continuously and fully secured by obligations described in (i) above; and (iii) any of the securities described above which are subject to repurchase agreements, as defined. The Authority is also required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. The Authority's deposit and investment policies are generally consistent with those of the State Statutes.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of June 30, 2010, \$68,637,981 of the Authority's bank balances were exposed to custodial credit risk because they were uninsured and uncollateralized.

The Authority has cash equivalent funds invested in mutual funds that are held at US Bank. The funds at US Bank are invested in the Fidelity Institutional Money Market Government Fund 57 which has a fair value of \$68,637,981 and \$31,083,307 at June 30, 2010 and 2009, respectively. The Fidelity Institutional Money Market Government Fund 57 invests primarily in U.S. government securities, repurchase agreements, and may invest in reverse repurchase agreements guaranteed by U. S. Treasury obligations, while seeking to preserve the investment value of \$1 per share. The Fund's investment securities maintain a weighted average maturity of 60 days or less.

At June 30, 2009, the Authority had cash equivalents in the amount of \$3,872,277 at US Bank invested in First American Government Obligations Fund Class D which invests primarily in high quality U.S. government securities, and repurchase agreements collateralized at more than 100%. The Authority had fully divested these funds as of June 30, 2010. Additionally, at June 30, 2009, the Authority had cash equivalent funds at Citizens Bank invested in Citizens Collateralized Certificates of Deposit which had a fair value of \$6,000,000. No funds were invested at Citizens Bank in Citizens Certificates of Deposit as of June 30, 2010.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

2. Cash and cash equivalents, and investments - continued:

The Authority's investments are held at US Bank and Citizens Bank and are represented by the following at June 30, 2010 and 2009:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Agencies	\$ 142,440,808	\$ 143,424,280	\$ 44,771,967	\$ 45,199,620
State taxable bonds	12,000,000	12,730,080	-	-
U.S. Treasuries	6,821,484	7,194,919	8,491,829	8,359,026
Collateralized Certificates of Deposit	-	-	93,800,000	93,800,000
	<u>\$ 161,262,292</u>	<u>\$ 163,349,279</u>	<u>\$ 147,063,796</u>	<u>\$ 147,358,646</u>

At June 30, 2010, the Authority's investments, investment maturities and credit quality ratings are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Fannie Mae Corporation (FNMA) U.S. Govt. Issues	\$ 30,154,607	\$ 22,296,514	\$ 7,858,093	\$ -	-	AAA
Federal Home Loan Banks (FHLB) discount note	7,060,175	7,060,175	-	-	-	AAA
Federal Home Loan Banks (FHLB) U.S. Govt Issues	5,547,125	1,001,880	3,711,155	834,090	-	AAA
Fannie Mae Corporation (FNMA) discount notes	66,906,912	66,906,912	-	-	-	AAA
Federal Home Loan Mortgage Corp.(FHLMC) discount notes	2,450,774	2,450,774	-	-	-	AAA
Federal Home Loan Mortgage Corp.(FHLMC) U.S. Govt Issues	26,479,053	2,370,688	12,081,985	12,026,380	-	AAA
Federal Farm Credit Banks (FFCB)	4,825,634	-	4,307,193	518,441	-	AAA
Massachusetts ST Bonds	12,730,080	-	-	-	12,730,080	AA
U.S. Government Securities- Treasury Bonds	<u>7,194,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,194,919</u>	AAA
Total	<u>\$ 163,349,279</u>	<u>\$ 102,086,943</u>	<u>\$ 27,958,426</u>	<u>\$ 13,378,911</u>	<u>\$ 19,924,999</u>	

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

2. Cash and cash equivalents, and investments - continued:

The Authority classifies its restricted cash and cash equivalents, and investments between current and noncurrent classifications in the accompanying statements of net assets according to its plans for their use in liquidating associated liabilities. Investments with maturities of less than one year that are not required to be used to liquidate current liabilities are reflected as noncurrent assets in accordance with management's intention to reinvest the proceeds of those investments upon their maturity.

Investments held by bond trustee represent project funds, as well as debt service and reserve funds.

3. Accounts receivable:

Accounts receivable include the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Debt service receivables	\$ 48,811,467	\$ 44,158,247
Interest receivable on investments	940,740	482,841
Build America Bonds interest subsidy receivable	<u>222,479</u>	<u>-</u>
	<u>\$ 49,974,686</u>	<u>\$ 44,641,088</u>

The Authority anticipates that all of its interest receivable will be collected within a one-year time frame.

The Commonwealth of Massachusetts' policy for accounting for capital and renovation projects provides for the State College with ownership of the underlying asset to also own any related improvements to these facilities. Under this policy, the Authority recognizes as accounts receivable the minimum payments, net of unearned interest income, to be received from the Colleges. Conversely, the Colleges recognize a corresponding liability to the Authority.

During fiscal 2010, additional accounts receivable, net of unearned interest income, totaling \$6,222,819 were recorded in connection with projects at three State Colleges. During fiscal 2009, additional accounts receivable, net of unearned interest income, totaling \$16,901,221 were recorded in connection with projects at two State Colleges. A corresponding Interagency payable was also recorded by the Authority in both years as discussed further in Note 7.

The components of the Authority's investment in these renovation projects as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Total payments to be received	\$ 70,751,963	\$ 65,522,938
Less: unearned income	<u>(21,940,496)</u>	<u>(21,364,691)</u>
Net investment in renovation projects	<u>\$ 48,811,467</u>	<u>\$ 44,158,247</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

3. Accounts receivable - continued:

The following table sets forth the total payments to be received under these agreements as of June 30, 2010:

Year ending June 30:	
2011	\$ 4,088,346
2012	4,087,621
2013	4,087,637
2014	4,092,269
2015	4,077,189
Thereafter	<u>50,318,901</u>
Total	<u>\$ 70,751,963</u>

4. Capital assets:

Capital assets activity for the years ended June 30, 2010 and 2009 are as follows:

	2010			
Totals June 30, 2009	Additions	Reclassifications and Reductions	Totals June 30, 2010	
Land	\$ 3,346,638	\$ -	(\$ 666,250)	\$ 2,680,388
Construction in progress	<u>70,458,160</u>	<u>99,132,258</u>	<u>(65,141,611)</u>	<u>104,448,807</u>
Total not being depreciated	<u>73,804,798</u>	<u>99,132,258</u>	<u>(65,807,861)</u>	<u>107,129,195</u>
Buildings and improvements	506,431,794	139,993	65,141,611	571,713,398
Furnishings and equipment	<u>31,116,002</u>	<u>2,855,952</u>	<u>-</u>	<u>33,971,954</u>
Total depreciable assets	<u>537,547,796</u>	<u>2,995,945</u>	<u>65,141,611</u>	<u>605,685,352</u>
Total capital assets	<u>611,352,594</u>	<u>102,128,203</u>	<u>(666,250)</u>	<u>712,814,547</u>
Less accumulated depreciation:				
Buildings and improvements	(165,741,192)	(18,871,309)	-	(184,612,501)
Furnishings and equipment	<u>(9,555,654)</u>	<u>(1,982,731)</u>	<u>-</u>	<u>(11,538,385)</u>
Total accumulated depreciation	<u>(175,296,846)</u>	<u>(20,854,040)</u>	<u>-</u>	<u>(196,150,886)</u>
Capital assets, net	<u>\$ 436,055,748</u>	<u>\$ 81,274,163</u>	<u>(\$ 666,250)</u>	<u>\$ 516,663,661</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

4. Capital assets - continued:

	2009			
	Totals June 30, 2008	Additions	Reclassifications and Reductions	Totals June 30, 2009
Land	\$ 2,504,688	\$ 841,950	\$ -	\$ 3,346,638
Construction in progress	<u>23,787,719</u>	<u>74,530,727</u>	<u>(27,860,286)</u>	<u>70,458,160</u>
Total not being depreciated	<u>26,292,407</u>	<u>75,372,677</u>	<u>(27,860,286)</u>	<u>73,804,798</u>
Buildings and improvements	477,202,015	1,369,493	27,860,286	506,431,794
Furnishings and equipment	<u>28,973,049</u>	<u>2,142,953</u>	<u>-</u>	<u>31,116,002</u>
Total depreciable assets	<u>506,175,064</u>	<u>3,512,446</u>	<u>27,860,286</u>	<u>537,547,796</u>
Total capital assets	<u>532,467,471</u>	<u>78,885,123</u>	<u>-</u>	<u>611,352,594</u>
Less accumulated depreciation:				
Buildings and improvements	(148,862,084)	(16,879,108)		(165,741,192)
Furnishings and equipment	<u>(7,819,933)</u>	<u>(1,735,721)</u>	<u>-</u>	<u>(9,555,654)</u>
Total accumulated depreciation	<u>(156,682,017)</u>	<u>(18,614,829)</u>	<u>-</u>	<u>(175,296,846)</u>
Capital assets, net	<u>\$ 375,785,454</u>	<u>\$ 60,270,294</u>	<u>\$ -</u>	<u>\$ 436,055,748</u>

During 2010, the Authority transferred a parcel of land located on Adams Road in Framingham, MA to The Commonwealth of Massachusetts, acting through its Division of Capital Asset Management and Maintenance. This parcel of land, with a cost basis of \$666,250, is to be used by the Authority for construction of a new dormitory for Framingham State College. In accordance with the Authority's accounting policy for capital and renovation projects for the State Colleges with ownership of the underlying asset, an accounts receivable from Framingham State College was recorded in a net amount of \$705,526 which includes the land at a cost basis of \$660,000 and \$45,526 of debt service reserve funds from the associated bond issuance used to acquire the land. A loss of \$6,250 was realized upon the transfer of the land.

The Authority has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the Authority's financial statements for the years ended June 30, 2010 and 2009.

As of June 30, 2010 and 2009, capital assets with a cost of approximately \$31,800,000 and \$31,200,000, respectively, were fully depreciated and still in service.

The Authority has entered into various purchase commitments with contractors for the purchase of equipment, construction of certain facilities and other improvements. The amounts under commitment were approximately \$75,800,000 and \$67,200,000, respectively, as of June 30, 2010 and 2009.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

5. Bond related items:

Bond issuance costs consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross costs	\$ 14,383,485	\$ 13,061,123
Less: accumulated amortization	(2,426,956)	(2,023,018)
Net	<u>\$ 11,956,529</u>	<u>\$ 11,038,105</u>

Amortization of bond issuance costs amounted to \$403,938 in fiscal 2010 and \$362,330 in fiscal 2009.

Unamortized bond premiums are reflected as an addition to the outstanding principal balance of the bonds payable and consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unamortized balance, beginning	\$ 23,122,112	\$ 23,495,070
Current year additions	3,633,185	556,371
Current year amortization	(997,280)	(929,329)
Unamortized balance, ending	<u>\$ 25,758,017</u>	<u>\$ 23,122,112</u>

Unamortized deferred losses on bond refundings are reflected as a deduction from bonds payable and consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unamortized balance, beginning	\$ 17,702,961	\$ 18,328,371
Current year amortization	(647,151)	(625,410)
Unamortized balance, ending	<u>\$ 17,055,810</u>	<u>\$ 17,702,961</u>

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Capital assets and construction payables	\$ 15,438,553	\$ 12,390,599
Accrued bond interest payable	6,528,273	7,062,459
Arbitrage payable- short term	113,009	71,467
Arbitrage payable- long term	-	66,392
Contractor payables for College owned assets	1,624,468	1,417,917
Lease deposit (see Note 15)	100,097	-
Authority operating and maintenance expenses	<u>12,309</u>	<u>7,500</u>
	<u>\$ 23,816,709</u>	<u>\$ 21,016,334</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

7. Interagency payables:

Under the provisions of the 2009C, 2009B, 2009A, 2008A, 2006A, 2005A and 2003A bond agreements (see Note 8), a portion of the bond proceeds, together with certain earnings thereon, are being used to finance the costs of capital projects for certain of the State Colleges on College owned property. The State Colleges are required to pay to the Authority the amount necessary to pay the applicable portion of the bond issuance costs and bond principal and interest payments when they become due. The Authority has recorded accounts receivable from the State Colleges reflecting its net investment in these capital projects as discussed further in Note 3. The unspent bond proceeds for the costs of these projects and related bond amounts are included in the Authority's financial statements under restricted cash and cash equivalents, and restricted investments.

Certain of the State Colleges may also be required to commit additional funding for the projects over and above the amounts provided from bond proceeds. Such amounts (the College contributions) received from the State Colleges are also included in restricted cash and cash equivalents, and restricted investments. The Authority has recorded corresponding Interagency payables to the State Colleges for the unspent College contributions, and unspent bond proceeds and related bond amounts. As capital and construction costs relating to these projects are incurred and paid, restricted cash and cash equivalents, and restricted investments, and the corresponding Interagency payables are reduced.

As of June 30, 2010 and 2009, the Authority has an aggregate liability for Interagency payables of \$9,628,964 and \$15,101,224, respectively.

8. Bonds payable:

Bonds payable consisted of the following at June 30, 2010 and 2009:

1994-A Refunding Revenue Bonds, November 1, 1994:

In 1994, the Authority undertook a refinancing of its 1986 Series Bonds. The 1994 Refunding Revenue Bonds are obligations of the Authority payable solely from the funds provided under the provisions of the Enabling Act and the 1994 Trust Agreement. The Authority and the Commonwealth have entered into a contract providing that the Commonwealth will guarantee the payment of principal and interest on the 1994-A Bonds. Sources of revenue for these obligations are interest income, student rent, and HUD grant reimbursements. As of June 30, 2010 and 2009, bonds payable amounted to \$25,474,145 and \$30,810,181, respectively, including premium. These bonds carry interest rates that range from 4% to 7.5%, and are payable annually on May 1 until 2016. The effective interest rate for 2010 and 2009 amounted to 7.50% for both years. In February 2004, the Authority issued Series 2004-B Bonds, which refunded a portion of the 1994-A Bonds scheduled to mature on May 1, 2016 totaling \$15,150,000.

2003 A/B Series Bonds, March 5, 2003:

In March 2003, the Authority issued the Series 2003-A Project Bonds in the amount of \$105,490,000. The proceeds of the bonds, together with certain earnings thereon, were used to fund the construction of new residence halls at Salem State College and Worcester State College, improvements at Framingham State College, and the renovation of various system projects. Certain proceeds of the Series 2003-A Bonds were used to pay a portion of the interest on the Series 2003 Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

8. Bonds payable - continued:

2003 A/B Series Bonds, March 5, 2003 - continued:

bonds were issued under the provisions of a new 2003 Trust Agreement. As of June 30, 2010 and 2009, bonds payable amounted to \$100,578,477 and \$101,854,684, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.25%, and are payable annually on May 1 until 2043. The effective interest rate for 2010 and 2009 amounted to 4.98% and 4.96%, respectively.

In March 2003, the Authority also undertook a refinancing of its Project Revenue Bonds, Senior Series 1999-A, Series 1999-1 and Series 2000-1. The 2003-B Refunding Revenue Bonds in the amount of \$117,513,022 are obligations of the Authority payable solely from the funds provided under the provisions of the Enabling Act and the 2003 Trust Agreement. These bonds are not Commonwealth guaranteed. As of June 30, 2010 and 2009, bonds payable amounted to \$113,978,992 and \$115,463,968, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.5%, and are payable annually on May 1 until 2039. The effective interest rate for 2010 and 2009 amounted to 3.62% and 3.64%, respectively. The Authority was also required to enter into an Escrow Reinvestment Agreement for \$2,231,000 to be used to purchase U.S. Government Securities to be placed in the escrow accounts.

The Authority was required to deposit \$126,198,247 in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1999-A, Series 1999-1 and Series 2000-1 Bonds. As a result, all three Series are considered to be defeased and the liability for those bonds and the assets held to repay the debt have been removed from the Authority's records. In February 2009, the Authority restructured the escrow account related to the Series 1999-1 Bonds. As a result of the restructuring, the Authority recognized a net realized gain of \$2,002,135. This gain is included in net investment income in the accompanying 2009 statement of revenues, expenses and changes in net assets. In addition, as part of the escrow restructuring transaction, the Authority exercised a call option to fully redeem the Series 1999-1 Bonds in November 2011. Additionally, the Authority exercised a call option in May 2010 to fully redeem the Series 2000-1 Bonds for the remaining unpaid principal amount of \$20,235,000. Assets held in the trust account for the repayment of these bonds had an aggregate market value of \$112,073,162 at June 30, 2010. The unpaid principal amount plus accreted interest, as applicable, of the two remaining Series of refunded bonds at June 30, 2010 totaled \$93,796,963.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$21,535,590. This difference, reported in the accompanying financial statements as a deduction from the bonds payable, is being charged to expense at various dates through the year 2039 using the effective interest method. The Authority completed the advance refunding to reduce its debt service payments by \$1,769,263 and to obtain an economic gain of \$729,611. The unamortized balance of this deferred loss on bond refunding amounted to \$17,008,620 and \$17,647,906 at June 30, 2010 and 2009, respectively.

2004 A Series Bonds, January 15, 2004:

In January 2004, the Authority issued the Series 2004-A Project Bonds in the amount of \$61,505,000. The proceeds of the bonds, together with certain earnings thereon, were used to fund the construction of a new residence hall for Westfield State College, improvements to an existing parking lot at Salem State College and the repair and renovation of certain system projects. Certain proceeds of the Series 2004-A Bonds were used to pay a portion of the interest on the Series 2004-A Bonds during construction, to fund the debt

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

8. Bonds payable - continued:

2004 A Series Bonds, January 15, 2004 - continued:

service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2004 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects and any future projects. As of June 30, 2010 and 2009, the Series 2004-A Bonds payable amounted to \$58,690,193 and \$60,051,293, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2043. The effective interest rate for 2010 and 2009 amounted to 4.89% and 4.86%, respectively.

2004 B Series Bonds, February 12, 2004:

In February 2004, the Authority undertook a refinancing of a portion of its 1994 Refunding Revenue Bonds scheduled to mature on May 1, 2016. The 2004-B Bonds in the amount of \$15,125,000 were used to refund the Refunding Revenue Bonds and to pay the costs of issuance of the Series 2004-B Bonds, including a payment to Lehman Brothers Special Financing Inc. pursuant to an Option Agreement dated February 12, 1998 between the Authority and Lehman. In the Option Agreement, the Authority granted an option to Lehman to cause the Authority to issue Guaranteed Bonds under the Trust Agreement to refund the Refunding Bonds under certain circumstances, and the Series 2004-B Bonds are being issued pursuant to Lehman's exercise of that option. As of June 30, 2010 and 2009, the Series 2004-B Bonds payable amounted to \$18,459,264 and \$18,563,460, respectively, including premium. These bonds carry interest rates that range from 6.4% to 7.0%, and are payable annually on May 1, 2015 and May 1, 2016. The effective interest rate for 2010 and 2009 amounted to 6.71% for both years.

The refunding resulted in a difference between the reacquisition price of \$15,656,010 and the net carrying amount of the old debt of \$15,525,060 by \$130,950. This difference, reported in the accompanying financial statements as a deduction from the bonds payable, is being charged to expense at various dates through the year 2016 using the straight-line method. The unamortized balance of this deferred loss on bond refunding amounted to \$47,190 and \$55,055 at June 30, 2010 and 2009, respectively.

2005 A Series Bonds, March 23, 2005:

In March 2005, the Authority issued the Series 2005-A Project Bonds in the amount of \$36,875,000. The proceeds of the bonds, together with certain earnings thereon, were used to finance the costs of capital improvements for certain State Colleges, including renovations of a dining hall and athletic fields at Fitchburg State College, renovation of a campus center at Framingham State College, improvements to an athletic field at Salem State College and repairs and renovations of certain system projects. Certain proceeds of the Series 2005-A Bonds were used to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2005 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, and any

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

8. Bonds payable - continued:

2005 A Series Bonds, March 23, 2005 - continued:

future projects. As of June 30, 2010 and 2009, the Series 2005-A Bonds payable amounted to \$31,572,004 and \$33,004,942, respectively, including premium. These bonds carry interest rates that range from 3.0 to 5.0% and are payable annually on May 1 until 2026. The effective interest rate for 2010 and 2009 amounted to 4.24% and 4.20%, respectively.

2006 A Series Bonds, March 8, 2006:

In March 2006, the Authority issued the Series 2006-A Project Bonds in the amount of \$98,025,000. The proceeds of the bonds, together with certain earnings thereon, were used to finance the costs of capital improvements for certain State Colleges, including construction and expansion of residence halls at Bridgewater State College and the Massachusetts Maritime Academy, construction, renovation and improvement of dining, parking, athletic and other student life facilities at certain of the State Colleges and repairs and renovations of certain System Projects at certain of the State Colleges. Certain proceeds of the Series 2006-A Bonds will be used to fund the Debt Service Reserve Fund, to pay interest on the Series 2006-A Bonds during the construction period of certain 2006-A Projects and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2006 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, and any future projects. As of June 30, 2010 and 2009, the Series 2006-A Bonds payable amounted to \$98,524,328 and \$100,374,143, respectively, including premium. These bonds carry interest rates that range from 3.5 to 5.0% and are payable annually on May 1 until 2041. The effective interest rate for 2010 and 2009 amounted to 4.88% and 4.86%, respectively.

2008 A Series Bonds, March 12, 2008:

In March 2008, the Authority issued the Series 2008-A Project Bonds in the amount of \$95,670,000. The proceeds of the bonds, together with certain earnings thereon, will be used to finance the costs of capital improvements for certain State Colleges, including construction and expansion of residence halls at Bridgewater State College and Fitchburg State College, construction, renovation and improvement of dining and other student life facilities at certain of the State Colleges and repairs and renovations of certain System Projects at certain of the State Colleges. Certain proceeds of the Series 2008-A Bonds will be used to fund the Debt Service Reserve Fund, to pay interest on the Series 2008-A Bonds during the construction period of certain 2008-A Projects and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2008 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects and any future projects. As of June 30, 2010, and 2009, the Series 2008-A Bonds payable amounted to \$96,568,552 and \$98,046,853, respectively, including premium. These bonds carry interest rates that range from 3.0 to 5.0% and are payable annually on May 1 until 2038. The effective interest rate for 2010 and 2009 amounted to 4.83% and 4.82%, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

8. Bonds payable - continued:

2009 A Series Bonds, January 28, 2009:

In January 2009, the Authority issued the Series 2009-A Project Bonds in the amount of \$128,570,000. The proceeds of the bonds, together with certain earnings thereon, will be used to finance the costs of capital improvements for certain State Colleges, including construction and expansion of residence halls at Salem State College and Worcester State College, construction, renovation and improvement of dining and other student life facilities at certain of the State Colleges and repairs and renovations of certain System Projects at certain of the State Colleges. Certain proceeds of the Series 2009-A Bonds will be used to fund the Debt Service Reserve Fund, to pay interest on the Series 2009-A Bonds during the construction period of certain 2009-A Projects and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2009 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects and any future projects. As of June 30, 2010 and 2009, the Series 2009-A Bonds payable amounted to \$128,696,788 and \$129,120,611, respectively, including premium. These bonds carry interest rates that range from 3.0 to 5.75% and are payable annually on May 1 until 2049. The effective interest rate for 2010 and 2009 amounted to 5.12% and 5.20%, respectively.

2009 B/C Series Bonds, December 22, 2009:

In December 2009, the Authority issued the Series 2009-B Project Bonds in the amount of \$82,085,000. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of new residence halls at Framingham State College and the Massachusetts College of Art & Design, construction, renovation and improvement of student life facilities at certain of the State Colleges, and the renovation of various System Projects. Certain proceeds of the Series 2009-B Bonds will be used to pay a portion of the interest on the Series 2009-B Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2009 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-B Projects and any future projects. As of June 30, 2010, the Series 2009-B Bonds payable amounted to \$85,658,297, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2040. The effective interest rate for 2010 amounted to 4.56%.

In December 2009, the Authority issued the Series 2009-C Project Bonds in the amount of \$66,410,000. The Series 2009-C are federally taxable Build America Bonds (BABs), which provide for a 35% subsidy of the issuer's interest cost. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of the new residence hall at Framingham State College, construction, renovation and improvement of student life facilities at certain of the State Colleges, and the renovation of various System Projects. Certain proceeds of the Series 2009-C Bonds will be used to pay a portion of the interest on the

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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8. **Bonds payable - continued:**

2009 B/C Series Bonds, December 22, 2009 - continued:

Series 2009-C Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2009 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Colleges for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-C Projects and any future projects. As of June 30, 2010, the Series 2009-C Bonds payable amounted to \$66,410,000 (no premium). These bonds carry interest rates that range from 4.584% to 5.932%, and are payable annually on May 1 until 2040. The effective interest rate for 2010 amounted to 5.57%.

Amortization Tables for Bond Issues and Unamortized Premiums as of June 30, 2010:

The following table sets forth the amounts required for the payment of principal due on the Bonds, the interest on the Bonds, the total debt service on the Bonds and the total annual requirements for the Bonds to maturity:

	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
Year ending June 30:			
2011	\$ 16,450,000	\$ 39,169,626	\$ 55,619,626
2012	17,405,000	38,327,826	55,732,826
2013	19,320,000	37,412,176	56,732,176
2014	20,360,000	36,401,226	56,761,226
2015	22,290,000	35,300,439	57,590,439
2016 - 2020	122,809,133	173,229,516	296,038,649
2021 - 2025	132,938,721	159,883,112	292,821,833
2026 - 2030	135,105,169	122,176,904	257,282,073
2031 - 2035	129,725,000	68,629,766	198,354,766
2036 - 2040	135,830,000	32,425,440	168,255,440
2041 - 2045	36,965,000	7,320,675	44,285,675
2046 - 2049	<u>9,655,000</u>	<u>1,395,850</u>	<u>11,050,850</u>
	798,853,023	<u>\$ 751,672,556</u>	<u>\$ 1,550,525,579</u>
Plus: Unamortized premium	<u>25,758,017</u>		
	824,611,040		
Less: Deferred loss on Refunding	(17,055,810)		
	<u>\$ 807,555,230</u>		

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

9. Long-term liabilities:

Long-term liabilities at June 30, 2010 and 2009 consisted of the following:

	2010				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Bonds payable	\$ 687,290,135	\$ 152,128,185	\$ (14,807,280)	\$ 824,611,040	\$ 17,507,167
Deferred loss on refunding	(17,702,961)	-	647,151	(17,055,810)	(669,215)
Total bonds payable	<u>669,587,174</u>	<u>152,128,185</u>	<u>(14,160,129)</u>	<u>807,555,230</u>	<u>16,837,952</u>
Interagency payables	15,101,224	8,224,121	(13,696,381)	9,628,964	6,391,325
Other liabilities:					
Accounts payable and accrued liabilities	66,392	100,097	(66,392)	100,097	-
Arbitrage payable	137,859	59,566	(84,416)	113,009	113,009
Compensated absences	146,841	17,549	-	164,390	93,541
Total long-term liabilities	<u>\$ 685,039,490</u>	<u>\$ 160,529,518</u>	<u>\$ (28,007,318)</u>	<u>\$ 817,561,690</u>	<u>\$ 23,435,827</u>
	2009				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Bonds payable	\$ 570,183,093	\$ 129,126,371	\$ (12,019,329)	\$ 687,290,135	\$ 14,747,392
Deferred loss on refunding	(18,328,371)	-	625,410	(17,702,961)	(647,151)
Total bonds payable	<u>551,854,722</u>	<u>129,126,371</u>	<u>(11,393,919)</u>	<u>669,587,174</u>	<u>14,100,241</u>
Interagency payables	3,869,774	18,086,072	(6,854,622)	15,101,224	11,909,111
Other liabilities:					
Accounts payable and accrued liabilities	-	66,392	-	66,392	-
Arbitrage payable	-	137,859	-	137,859	71,467
Compensated absences	118,740	28,101	-	146,841	85,394
Total long-term liabilities	<u>\$ 555,843,236</u>	<u>\$ 147,444,795</u>	<u>\$ (18,248,541)</u>	<u>\$ 685,039,490</u>	<u>\$ 26,166,213</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

10. Restricted - net assets:

The Authority is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following:

	<u>2010</u>	<u>2009</u>
Restricted - expendable:		
DCAM/MSBCA contract restricted for life safety and access improvements and repositioning of O'Connor Hall (Note 18)	<u>\$ 2,555,116</u>	<u>\$ 8,976</u>

11. Contingencies:

Pending or threatened lawsuits against the Authority arise in the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, that would materially affect the Authority's financial position.

The Authority receives financial assistance from the U.S. Department of Housing and Urban Development in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Authority. In the opinion of management, such liabilities, if any, are not expected to materially affect the financial condition of the Authority.

12. Operating expenses:

The Authority's operating expenses for the years ended June 30, 2010 and 2009, on a natural classification basis, are comprised of the following:

	<u>2010</u>	<u>2009</u>
Compensation	\$ 779,090	\$ 709,324
Supplies and services	1,784,068	1,366,531
Depreciation	<u>20,854,040</u>	<u>18,614,829</u>
	<u>\$ 23,417,198</u>	<u>\$ 20,690,684</u>

13. Retirement plan:

The Authority's full-time employees are covered by the Massachusetts State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 32 of the General Laws of the Commonwealth of Massachusetts assigns the authority to establish and amend benefit provisions to the Massachusetts Legislature. For active Authority employees covered by SERS, the Authority is not required to make contributions to the Plan. For

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

13. Retirement plan - continued:

retired Authority employees, the Commonwealth computes the projected benefit obligation of the retired employee. The Authority is responsible to contribute any shortfall that exists as a result of this computation. The total amount paid by the Authority to the Massachusetts State Retirement Board amounted to \$89,249, \$96,931 and \$96,931 for the years ended June 30, 2010, 2009 and 2008, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2010, 2009 and 2008.

The Commonwealth does not issue separately audited financial statements for the Plan. The financial position and results of operations of the plan are incorporated into the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

All full-time staff are covered by and must participate in SERS. Benefits fully vest after 10 years of full-time employment. An employee may receive retirement benefits after 20 years of service, or after 10 years of service and having attained the age of 55.

Based on State statute, covered employees of the Authority contribute an amount ranging from 5% to 9% (depending on date of employment) of their eligible compensation to SERS. Employees hired after January 1, 1979, are required to contribute an additional 2% for the eligible compensation over \$30,000 per year. The Board of the Authority has voted to make actuarially determined contributions to a retirement trust fund.

14. Retiree health plan:

The Authority contributes to the Commonwealth of Massachusetts' Group Insurance Commission (GIC), which manages a cost-sharing multiple-employer defined benefit postemployment healthcare plan for the Commonwealth and other governments within the Commonwealth. GIC provides medical benefits to retired employees of participating governments. Chapter 32A of the General Laws of the Commonwealth of Massachusetts assigns the authority to establish and amend benefit provisions to the GIC board of commissioners. The GIC does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated into the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

Chapter 32A provides that contribution requirements of the plan members and the participating governments are established and may be amended by the GIC. Plan members or beneficiaries receiving benefits contribute anywhere from 0% to 20% depending on entry age.

Participating governments are contractually required to contribute at a rate assessed each year by GIC on a premium basis. The Authority's contributions to GIC for the years ended June 30, 2010, 2009, and 2008, were \$89,767, \$92,077 and \$60,133, respectively, which equaled the required contributions each year. Required contributions include contributions for the total health plan costs for both active and retired employees.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

15. Lease commitments and receivables:

On July 24, 2009, the Authority entered into a lease agreement with an unrelated third party for new office space located in Boston, Massachusetts. The lease was amended in January 2010 increasing the leased space to approximately 5,700 square feet. As amended, the lease provides for a minimum annual base rent of \$115,885 for the initial year of the lease agreement and increases to \$184,470 per year for year eight and each of the remaining two years thereafter in the lease term. The initial year base rent also reflects a two-month free rent period. The lease is for a term of 120 months and expires in February 2020. The Authority is also required to pay, as additional rent, its pro rata share of real estate tax and operating expense escalations, as specified in the lease agreement.

For the year ended June 30, 2010, rent expense incurred, including additional costs for monthly storage and parking which are not provided under the terms of the lease agreement, amounted to \$31,177.

Future minimum rental payments under this operating lease agreement are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2011	\$ 140,954
2012	146,630
2013	156,090
2014	169,334
2015	173,118
2016 - 2020	<u>841,940</u>
	<u>\$ 1,628,066</u>

On June 25, 2010, the Authority entered into a lease agreement with the Massachusetts College of Pharmacy and Health Sciences (MCPHS) for the purpose of leasing a portion of the dormitory residences of the new student residence hall at the Massachusetts College of Art and Design which is currently under construction and scheduled for occupancy in the beginning of the Fall 2012 academic semester. In accordance with the lease agreement, MCPHS deposited \$100,000 with the Authority in December 2009, which together with interest earned thereon, shall be credited towards the payment of MCPHS's first installment of annual rent. As of June 30, 2010, the deposit and interest earned thereon, in the amount of \$100,097 are included in noncurrent restricted cash and cash equivalents and noncurrent accounts payable and accrued liabilities in the accompanying 2010 statement of net assets (deficiency in net assets).

The lease agreement provides for an initial term of five academic years commencing on the later of August 15, 2012 and the date that the premises are substantially complete, and thereafter, at the option of MCPHS, may be extended for three additional, consecutive five year periods. The option to extend a term shall be exercised not less than one year prior to the expiration of the term then in effect. Annual rent for an academic year shall be due and payable in equal installments in September and February. Annual rent during the periods of extension provide for rent increases as defined in the lease agreement.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

15. Lease commitments and receivables - continued:

Future minimum rental payments under this operating lease agreement are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2011	\$ -
2012	-
2013	2,500,000
2014	2,500,000
2015	2,500,000
2016 - 2017	<u>5,200,000</u>
	<u>\$ 12,700,000</u>

16. Supplemental cash flows information:

Schedule of noncash investing and financing activities:

2010

Acquisition of capital assets	\$ 102,128,203
Accounts payable thereon:	
Beginning of year	12,390,599
End of year	(15,438,553)
Net interest incurred and earned, capitalized in construction in progress	(6,780,751)
Payments for capital assets	<u>\$ 92,299,498</u>
Transfer of land to DCAM	<u>\$ 666,250</u>
Accounts receivable and Interagency payables related to State College capital projects on College owned property	<u>\$ 6,222,819</u>
Unearned interest income on accounts receivable related to State College capital projects on College owned property	<u>\$ 2,694,729</u>
Contractor accounts payable related to State College capital projects on College owned property	<u>\$ 1,624,468</u>
Unrealized gain on investment securities	<u>\$ 1,792,137</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

16. Supplemental cash flows information - continued:

Schedule of noncash investing and financing activities - continued:

2009

Acquisition of capital assets	\$ 78,885,123
Accounts payable thereon:	
Beginning of year	9,489,517
End of year	(12,390,599)
Net interest incurred and earned, capitalized in construction in progress	(4,007,932)
Payments for capital assets	<u>\$ 71,976,109</u>
Accounts receivable and Interagency payables related to State College capital projects on College owned property	<u>\$ 16,901,221</u>
Unearned interest income on accounts receivable related to State College capital projects on College owned property	<u>\$ 9,585,447</u>
Contractor accounts payable related to State College capital projects on College owned property	<u>\$ 1,417,917</u>
Unrealized loss on investment securities	<u>\$ 442,714</u>

17. Deposit:

On March 30, 2010, the Authority entered into a Purchase and Sale Agreement to acquire the real estate, personal property and improvements at 333-341 Ashland Street in North Adams, Massachusetts for a contract sales price of \$310,000. In accordance with the Purchase and Sale Agreement, the Authority deposited \$16,250 in earnest money which is being held in escrow until closing. Management expects the closing to occur in fiscal 2011. Upon renovation of the property, the Authority intends to transfer the property to the Massachusetts College of Liberal Arts for use as a student activity facility.

18. State capital appropriations transfer:

In July, 2008, the Authority entered into a four party letter-agreement with the Commonwealth of Massachusetts' Division of Capital Asset Management (DCAM), the Department of Higher Education (DHE) and Framingham State College (FSC). The agreement calls for the repositioning of O'Connor Hall on the FSC Campus from its current use as a residence hall to an academic/faculty/student activity support facility by the beginning of the Fall 2011 academic semester. The expected cost of the renovations and the furnishings is \$2,400,000. The agreement also calls for funding in the amount of \$7,000,000 to be provided for costs toward the design and construction of a new residence hall on the FSC Campus. Funding for these projects will be provided by DCAM in the total amount of \$9,400,000. During July 2009, MSCBA received \$6,881,873, which represents a present value discounted amount of the initial \$7,000,000 due under the agreement for the new residence hall. Funds received by the Authority related to this agreement are included as a component of non-operating revenue in the Authority's fiscal 2010 statement of revenues, expenses and changes in net assets.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2010 AND 2009

19. Subsequent event:

On June 10, 2010, the Authority entered into a Purchase and Sale Agreement to sell its previously used office facilities located on Lincoln Street in Boston, Massachusetts to an unrelated party for a sales price of \$575,000. On July 27, 2010, the sale closed for a contract sales price of \$575,000. Proceeds received by the Authority, net of broker commissions and other adjustments, amounted to approximately \$540,000. The property had a cost basis of approximately \$491,000 and a net book value of approximately \$127,000, resulting in a gain on the sale of approximately \$413,000.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board
Massachusetts State College Building Authority
Boston, Massachusetts

Our report on our audits of the basic financial statements of the Massachusetts State College Building Authority for the years ended June 30, 2010 and 2009 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statistical section is presented for the purposes of additional analysis and is not a required part of the basic 2010 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic 2010 financial statements and accordingly, we express no opinion on it.

Ercolini & Company LLP

September 28, 2010

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Net Assets (Deficiency) by Category

	2002	2003	2004 (as restated)	2005	2006	2007	2008	2009	2010
Invested in capital assets, net of related debt	\$ (33,197,391)	\$ (27,292,678)	\$ (25,322,851)	\$ (13,976,826)	\$ (30,169,951)	\$ (28,139,209)	\$ (39,228,780)	\$ (30,567,499)	\$ (41,041,522)
Restricted - expendable	8,896,485	5,346,405	3,036,958	930,636	363,076	330,731	106,446	8,976	2,555,116
Unrestricted	22,737,878	18,194,516	19,239,245	7,447,070	21,658,274	18,530,376	27,805,831	17,955,692	31,893,410
Total Net Assets (Deficiency)	\$ (1,563,028)	\$ (3,751,757)	\$ (3,046,648)	\$ (5,599,120)	\$ (8,148,601)	\$ (9,278,102)	\$ (11,316,503)	\$ (12,602,831)	\$ (6,592,996)

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Supplemental Statistical Information - Unaudited

	<u>2002</u>	<u>2003</u>	<u>2004</u> (as restated)	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Changes in Net Assets									
Operating Revenue									
Income from assessments	\$ 12,580,947	\$ 14,492,876	\$ 19,732,282	\$ 22,919,644	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490
Federal grants for debt service	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890
Other miscellaneous revenue	17,572	18,831	45,593	62,811	128,063	119,862	174,592	216,054	119,636
Total operating revenue	12,810,409	14,723,597	19,989,765	23,194,345	27,385,261	30,528,730	34,101,701	36,983,342	42,785,016
Non-Operating Revenue									
Net investment income	4,015,781	2,087,665	1,922,229	2,826,980	3,898,869	4,864,785	5,009,751	4,674,885	6,393,208
Transfers from State Colleges	-	145,968	(446,726)	527,740	978,769	536,914	347,388	1,684,693	440,267
State capital appropriations	4,748,525	-	-	-	-	-	-	-	6,881,873
Build America Bonds interest subsidy	-	-	-	-	-	-	-	-	700,809
Capital grants	-	-	-	-	-	-	344,224	34,255	293,073
Total non-operating revenue	8,764,306	2,233,633	1,475,503	3,354,720	4,877,638	5,401,699	5,701,363	6,393,833	14,709,230
Total Revenue	21,574,715	16,957,230	21,465,268	26,549,065	32,262,899	35,930,429	39,803,064	43,377,175	57,494,246
Operating Expenses									
Maintenance costs	(1,343,573)	(1,336,792)	(1,186,513)	(746,323)	(421,828)	(701,992)	(607,595)	(500,864)	(535,276)
Authority operating costs	(544,325)	(625,750)	(695,514)	(766,641)	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)	(1,392,357)
Depreciation	(5,122,604)	(6,876,356)	(8,391,555)	(12,272,209)	(14,577,806)	(15,821,798)	(17,306,821)	(18,614,829)	(20,854,040)
Bond related costs	-	(256,735)	(473,268)	(354,127)	(130,156)	(124,902)	(47,522)	(67,804)	(52,160)
Other expenses	(573,673)	(14,840)	(85,079)	(73,389)	(164,687)	(239,798)	(181,503)	(224,192)	(583,365)
Total operating expenses	(7,584,175)	(9,110,473)	(10,831,929)	(14,212,689)	(16,176,620)	(17,900,759)	(19,203,912)	(20,690,684)	(23,417,198)
Non-operating expense									
Interest expense	(9,450,380)	(10,035,486)	(10,502,678)	(14,888,848)	(18,635,760)	(19,159,171)	(22,637,553)	(23,972,819)	(28,067,213)
Total non-operating expense	(9,450,380)	(10,035,486)	(10,502,678)	(14,888,848)	(18,635,760)	(19,159,171)	(22,637,553)	(23,972,819)	(28,067,213)
Total Expenses	(17,034,755)	(19,145,959)	(21,334,607)	(29,101,537)	(34,812,380)	(37,059,930)	(41,841,465)	(44,663,503)	(51,484,411)
Increase (decrease) in net assets	\$ 4,539,960	\$ (2,188,729)	\$ 130,661	\$ (2,552,472)	\$ (2,549,481)	\$ (1,129,501)	\$ (2,038,401)	\$ (1,286,328)	\$ 6,009,835

See independent auditor's report on supplemental information on page 28.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Revenue

<u>Institution</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (as restated)	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Bridgewater	\$ 2,628,580	\$ 3,161,417	\$ 4,457,535	\$ 4,482,867	\$ 4,795,486	\$ 5,438,523	\$ 7,822,115	\$ 8,322,153	\$ 10,167,907
Fitchburg	1,487,219	1,676,966	1,939,892	2,318,513	2,636,155	2,877,521	2,777,823	3,114,788	4,318,236
Framingham	1,651,135	1,674,230	2,849,386	2,539,490	3,107,535	3,601,883	3,566,123	4,296,966	4,440,318
Mass. College of Art	311,286	971,662	2,867,911	2,058,637	2,053,837	2,085,066	2,093,382	2,123,909	2,166,434
Mass. College of Liberal Arts	1,038,352	1,159,129	1,180,626	1,289,002	1,327,074	1,480,142	1,540,548	1,607,082	2,225,289
Mass. Maritime Academy	935,850	1,037,854	1,163,726	1,291,439	1,470,468	1,753,164	2,604,399	3,076,898	3,376,425
Salem	1,199,538	1,273,968	1,421,436	3,425,419	3,975,228	4,401,671	4,415,071	4,411,494	4,972,018
Westfield	2,299,794	2,447,706	2,563,974	2,744,803	4,563,833	4,979,345	5,002,812	5,552,861	6,264,556
Worcester	1,029,193	1,089,944	1,287,796	2,769,474	3,115,692	3,579,663	3,892,946	4,049,247	4,522,307
Total	\$ 12,580,947	\$ 14,492,876	\$ 19,732,282	\$ 22,919,644	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Supplemental Statistical Information - Unaudited

Room Rates of Residence Facilities

<u>Institution</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Bridgewater	\$2,408-2,876	\$2,516-3,005	\$2,650-4,600	\$2,784-4,600	\$3,002-4,808	\$3,192-4,954	\$3,560-5,138	\$4,350-6,400	\$5,100-6,656	\$5,640-6,962
Fitchburg	\$2,400-2,549	\$2,482-2,692	\$2,654-3,012	\$2,916-3,250	\$3,192-3,582	\$3,414-3,840	\$3,736-4,418	\$3,812-\$4,464	\$4,160-5,170	\$4,642-5,345
Framingham	\$2,285-2,650	\$2,388-2,769	\$2,590-2,992	\$2,808-3,290	\$3,074-3,800	\$3,504-4,336	\$3,846-4,736	\$4,034-4,974	\$4,382-5,382	\$4,755-5,755
Mass. College of Art	\$4,230	\$4,420	\$4,886-7,850	\$5,216-8,244	\$5,450-8,614	\$6,050-9,074	\$6,400-9,300	\$6,400-\$9,300	\$6,710-9,580	\$6,777-9,676
Mass. College of Liberal Arts	\$2,420-2,435	\$2,529-2,545	\$2,738-2,844	\$2,894-3,070	\$3,218-3,444	\$3,266-3,530	\$3,454-3,720	\$3,622-\$3,882	\$3,800-4,202	\$4,175-4,575
Mass. Maritime Academy	\$2,260	\$2,362	\$2,530	\$2,684	\$2,886	\$3,098	\$3,366	\$4,100	\$4,668	\$4,978
Salem	\$3,388-2,690	\$2,495-2,811	\$2,720-3,036	\$3,032-3,466	\$3,242-6,030	\$3,588-6,272	\$3,948-6,568	\$4,114-6,766	\$4,610-7,445	\$5,071-8,204
Westfield	\$2,490-2,920	\$2,602-3,044	\$2,746-3,352	\$2,884-3,502	\$3,034-3,828	\$3,264-5,750	\$3,386-5,930	\$3,588-5,990	\$3,984-6,230	\$4,303-6,516
Worcester	\$2,810-2,985	\$2,936-3,119	\$3,102-3,292	\$3,292-3,754	\$3,692-5,900	\$3,764-6,250	\$4,046-6,294	\$4,220-6,484	\$4,880-6,847	\$5,272-7,165

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Occupancy as a Percentage of Design Capacity at Residence Facilities

<u>Institution</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Bridgewater	106%	107%	105%	105%	105%	105%	104%	103%	104%	101%
Fitchburg	78%	89%	95%	99%	100%	100%	102%	104%	103%	105%
Framingham	93%	99%	105%	102%	100%	100%	100%	99%	101%	101%
Mass. College of Art	103%	104%	100%	100%	99%	98%	101%	99%	100%	100%
Mass. College of Liberal Arts	68%	71%	81%	82%	88%	89%	95%	89%	88%	94%
Mass. Maritime Academy	81%	89%	93%	95%	96%	99%	103%	92%	94%	100%
Salem	102%	106%	105%	105%	100%	103%	101%	100%	104%	106%
Westfield	103%	107%	109%	106%	109%	106%	108%	107%	107%	105%
Worcester	103%	103%	100%	101%	96%	97%	101%	100%	102%	102%
State College Average	93%	97%	101%	101%	101%	100%	103%	101%	102%	102%

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board
Massachusetts State College Building Authority
Boston, Massachusetts

We have audited the financial statements of Massachusetts State College Building Authority (a component unit of the Commonwealth of Massachusetts) (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon, dated September 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board, management, and others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Escolini & Company LLP

September 28, 2010