

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, 2009 AND 2008

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MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

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, 2009 and 2008, 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 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 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, one dining hall, and two parking facilities.

The Authority has also participated in improvements made to State College facilities including parking lots, dining halls, student centers and athletic fields. The Authority is located in Boston, Massachusetts, and employs an Executive Director and 13 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 College, construction of the expansion to Pope and Scott Halls continued through the year, along with the final phase of renovations to the existing buildings. The expansion project has been completed during the summer of 2009 and will provide housing for an additional 302 students. The Authority also initiated the upgrade and renovation of the Great Hill Apartments, a two-year project that includes substantial improvements in interior finishes and fire safety for this 190-bed complex.

At Fitchburg State College, work continued on the construction of an additional building at Mara Village and renovations to the existing buildings in the complex. The new building opened in August 2009, providing housing for an additional 116 students. Fall 2009 will also mark the completion of the life safety upgrade to the existing Mara Village residence halls. The purchase of property previously leased by the Authority on Cedar Street, adjacent to the college, was also completed and renovation work has begun. Cedar Street provides housing for 26 students.

Highlights - continued

Residence Hall Construction and Renovation - continued

In August 2008, three co-generation units were placed in service at Massachusetts Maritime Academy. These units provide electricity for about one-third of the Cadet Housing complex. The waste heat from this process is captured to provide domestic hot water for the residence halls and dining facility.

At Salem State College, the Authority completed design and commenced construction of new on-campus housing capacity. Scheduled for completion in summer 2010, the new building will provide housing for an additional 525 students and a 13,000 square foot dining hall. The Authority initiated a two-year project to upgrade the fire and life safety systems in Bates Hall (to be completed August 2010). Work was also initiated on the installation of a 65kw Photo-Voltaic array on the roof of the existing residence hall at Central Campus.

At Worcester State College, the Authority completed design of and initiated construction for the expansion to Dowden Hall which will provide housing for 180 students upon opening in fall 2010. The scope of work includes modifications to the heating infrastructure serving the college's residence halls and upgrades to fire and life safety systems at the existing Dowden building. The replacement of the space heating and domestic hot water infrastructure and the life safety improvements were completed during the summer of 2009.

At Framingham State College, planning, design and pre-construction are underway in preparation for the construction of a new residence hall providing housing for 400 students beginning fall 2011. O'Connor Hall, which presently houses 250 students, will ultimately be transferred to the Commonwealth to be used by the college for academic and student support activities. Combined with the existing beds in O'Connor, the new hall will provide an additional 150 beds. To obtain sufficient land area for the new hall, in spring 2009, the Authority purchased residential properties adjacent to the college and began construction of a new parking facility to replace existing parking that will be dislocated. The parking project as well as dining expansion associated with the new capacity is described below under Student Activity Facilities.

Design and pre-construction activity continued for the new on-campus housing capacity at the Massachusetts College of Art and Design. This 490-bed residence hall is slated for opening fall 2012. In addition, the Authority completed planned facility renewal work at Smith Hall in August 2008.

In January 2009, the Authority completed an entrance addition at Berkshire Towers at the Massachusetts College of Liberal Arts. The addition provides an accessible building entrance and additional student function areas. In August 2009, the Authority completed planned facility renewal projects at Hoosac and Flagg Halls.

In August 2009, the Authority completed the next phase of multi-year renovation projects at Westfield State College including upgrades at Davis, Dickinson, Courtney and Scanlon Halls. The Authority has also initiated feasibility studies for additional on- and off-campus housing for the college.

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 Crimson Hall at Bridgewater State College as LEED Silver (Leadership in Energy and Environmental Design). The Massachusetts Chapter of the Associated Builders and Contractors recognized the renovation and expansion of the Cadet Housing at Massachusetts Maritime Academy with their Excellence in Construction Award. The project also received a Building Team Award from Building Design and Construction Magazine.

Student Activity Facilities

Renovations to the McCarthy College Center at Framingham State College continued.

Planning and feasibility analysis has been initiated for renovations to and expansions of the food service and dining areas in the McCarthy Center. This project will serve the expanded population of students in residence following the fall 2011 opening of the new residence hall.

Highlights - continued

Student Activity Facilities - continued

Also at Framingham, the Authority completed design and commenced construction of a new parking facility. The project entails an extension of an existing parking lot, with a new parking deck above the expanded lot. The project replicates the parking capacity that will be displaced by a planned new residence hall.

At Massachusetts College of Art and Design, the Authority initiated construction of improvements to the Kennedy Center. The project is scheduled for completion in fall 2009. The scope of work includes the relocation of the college bookstore and the expansion and improvement of the dining facility which will better accommodate the planned increase in on-campus residence capacity.

Finance and Administration

In February 2009, the Authority closed a \$128,570,000 issuance of Project Revenue Bonds, Series 2009A. The Authority received ratings of "A1" from Moody's and "A+" from Standard & Poor's. The following table lists the 2009A projects and respective bond issuance amounts:

<u>2009A Project Description:</u>	<u>Issuance Amount:</u>
New residence hall at Salem State College	\$67.0 million
Improvements and expansion to Dowden Hall at Worcester State College	\$20.3 million
Purchase land at Framingham State College	\$ 0.7 million
New parking facility at Framingham State College	\$ 5.9 million
First phase of improvements to Great Hill Apartments at Bridgewater State College	\$ 7.6 million
Improvements at the Kennedy Student Center at the Massachusetts College of Art and Design	\$10.9 million
Current phase (summer 2009) of the Authority's capital plan to conduct repairs to various System Projects at, Massachusetts College of Liberal Arts, and Westfield and Worcester State Colleges	\$16.2 million

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

For the year ended June 30, 2009, the Authority's operating revenues of \$36,983,342 exceeded its operating expenses of \$20,690,684 by \$16,292,658. Compared to Fiscal Year 2008, operating revenues increased approximately 8.45%, primarily due to increased revenue from residence halls and student facilities. Operating expenses increased approximately 7.74%, primarily due to a 7.56% increase in depreciation.

Total assets increased at June 30, 2009 to \$693,282,722 as compared to \$559,860,956 at June 30, 2008. The increase results from the completion of capital projects and an increase in investments following receipt of proceeds from the 2009A bond issue.

Payments for capital assets for the year ended June 30, 2009 were \$71,976,109 as compared to \$39,309,837 for the year ended June, 30, 2008. As of June 30, 2009, the majority of the 2008 bond issue projects were either completed or near completion and a number of 2009 bond issue projects were still in progress causing an increase in FY09 capital assets spending.

As of June 30, 2009, the Authority's reserve balances totaled \$69,724,275, including \$10,202,049 in Capital Improvement Reserve funds and \$57,557,906 in Debt Service Reserves and \$1,964,320 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 3-5 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 *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 Colleges 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 activity using the full accrual measurement focus and 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 in its government-wide financial statements.

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 6-25 of this report.

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 - Net Assets

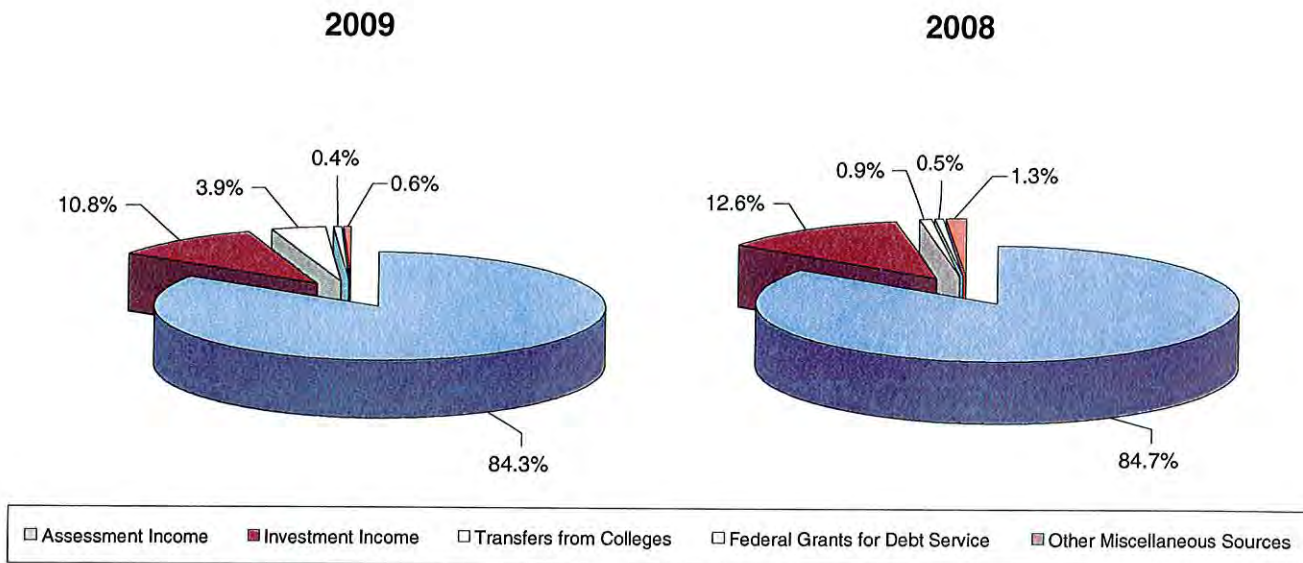
	Fiscal year ended June 30		\$ Change	% Change
	2009	2008		
Current assets	\$64,848,590	\$92,545,880	(\$27,697,290)	-29.9%
Capital assets, net	436,055,748	375,785,454	\$60,270,294	16.0%
Other noncurrent assets	<u>192,378,384</u>	<u>91,529,622</u>	<u>\$100,848,762</u>	110.2%
Total assets	<u>693,282,722</u>	<u>559,860,956</u>	<u>\$133,421,766</u>	23.8%
Current liabilities	47,078,668	28,580,490	\$18,498,178	64.7%
Noncurrent liabilities	<u>658,806,885</u>	<u>542,596,969</u>	<u>\$116,209,916</u>	21.4%
Total liabilities	<u>\$705,885,553</u>	<u>\$571,177,459</u>	<u>\$134,708,094</u>	23.6%
Net assets:				
Invested in capital assets, net of related debt	(30,567,499)	(39,228,780)	\$8,661,281	22.1%
Restricted	8,976	106,446	(\$97,470)	-91.6%
Unrestricted	<u>17,955,692</u>	<u>27,805,831</u>	<u>(\$9,850,139)</u>	-35.4%
Net assets	<u>(\$12,602,831)</u>	<u>(\$11,316,503)</u>	<u>(\$1,286,328)</u>	-11.4%

- Total assets at June 30, 2009 increased 23.8% as compared to the prior fiscal year end. This primarily reflects the net impact of funds held in cash or investments from the 2009 bond issue and the increase in net capital assets (reflecting capital improvements made during the year, net of depreciation). Investments increased by \$99,541,505 as compared to the prior year as a result of the 2009A project fund which is being invested in collateralized certificates of deposit. Cash and cash equivalents decreased by \$43,053,525 as compared to the prior year due to spending on the completion or near completion of most of the 2008A projects. The 2008A project funds are held in money market funds which are classified as cash and cash equivalents for financial statement purposes.
- The Authority had reserves for capital improvements, multi-purpose and operating, at June 30, 2009 in the amount of \$12,166,369. The Authority also had debt service reserves of \$57,557,906 at June 30, 2009. These amounts are included in cash and cash equivalents and investments in the statement of net assets at June 30, 2009.
- Total liabilities at June 30, 2009 increased 23.6% as compared with the prior fiscal year end. This results primarily from the combination of an increase in bonds payable and interagency payables. Bonds payable increased from \$551,854,722 at June 30, 2008 to \$669,587,174 at June 30, 2009, primarily due to the addition of 2009A debt service offset by payments of principal on bonds during Fiscal Year 2009. Interagency Payables increased from the prior year in an amount of \$11,231,450. This increase results from the proceeds of the 2009 bond issue for college owned student activity projects that are still under construction.
- A deficiency in net assets exists due to depreciation and interest expenses exceeding operating and nonoperating 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. rents, fees and charges). The change in net assets for the year ended June 30, 2009 excluding depreciation was an increase in net assets of \$17,328,501.

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 State Colleges. These contracts provide the revenue needed to fund annual debt service requirements associated with capital projects as well as reserve deposits, and to pay 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. The chart below compares operating revenue for Fiscal Year 2009 with Fiscal Year 2008.

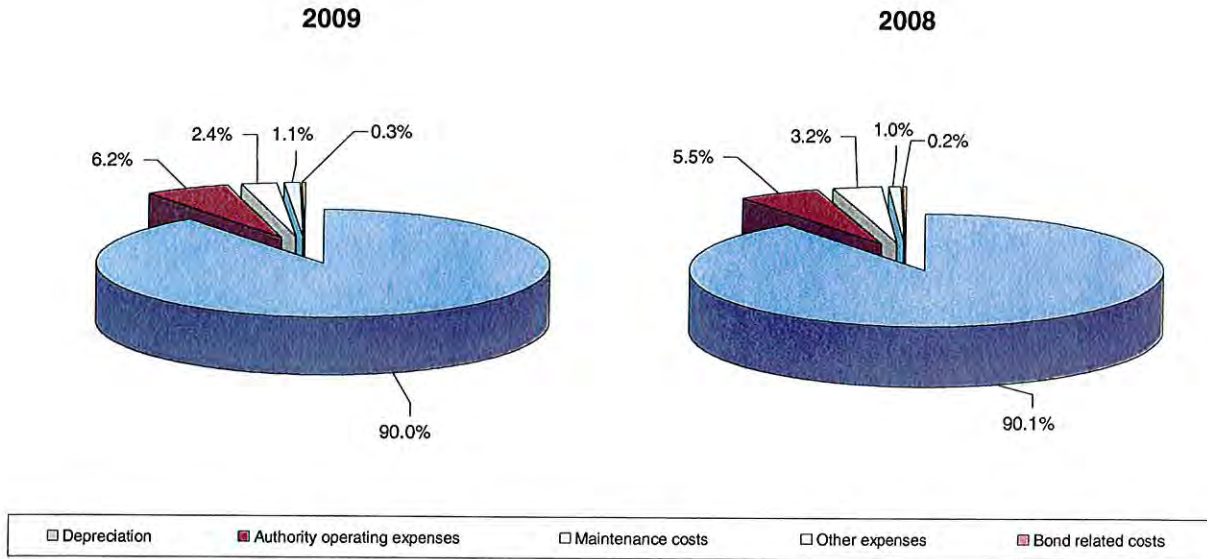
Summary of Total Revenue



Investment income consists primarily of interest and gains (losses) on all funds held by the Authority, in addition to a nonrecurring gain on an escrow restructuring transaction (see page viii). The share of revenue derived from investment income was 10.8% in Fiscal Year 2009 compared with 12.6% in Fiscal Year 2008. Transfers from colleges were higher than Fiscal Year 2008 reflecting higher college contributions for 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 2009, operating revenues were more than sufficient to cover operating expenses and debt service obligations.

Summary of Total Operating Expenses



Comparison of Operating and Non-operating Revenues and Expenses

	Fiscal year ended June 30		\$ Change	% Change
	2009	2008		
Total operating revenues	\$36,983,342	\$34,101,701	\$2,881,641	8.5%
Total operating expenses	<u>20,690,684</u>	<u>19,203,912</u>	<u>1,486,772</u>	7.7%
Operating income	16,292,658	14,897,789	1,394,869	9.4%
Nonoperating expenses, net	<u>(17,578,986)</u>	<u>(16,936,190)</u>	<u>(642,796)</u>	3.8%
Increase (decrease) in net assets	(1,286,328)	(2,038,401)	752,073	36.9%
Net assets - beginning of the year	<u>(\$11,316,503)</u>	<u>(\$9,278,102)</u>	<u>(2,038,401)</u>	-22.0%
Net assets - end of the year	<u>(\$12,602,831)</u>	<u>(\$11,316,503)</u>	<u>(\$1,286,328)</u>	-11.4%

- Operating revenues include all revenue sources except investment income, transfers from state colleges and capital grants. The 8.5% increase in revenue for Fiscal Year 2009 reflects an increase in rental rate 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 2009, 90% of the Authority's operating expense was for depreciation of \$18,614,829 as compared with \$17,306,821 (90.1%) in the prior fiscal year.

- Depreciation expense increased 7.6% compared to Fiscal Year 2008 due to the additional depreciable assets brought on line in Fiscal 2009. There were major renovations and repairs at Bridgewater State College (Great Hill Apartments, Miles-Dinardo Halls), Framingham State College (Larned, Peirce and Mann Halls), MCLA (Berkshire Towers and Flagg Townhouses) Mass Maritime Academy (Companies 1-6) and Westfield State College (Scanlon, Lammers, Courtney, Davis and Dickinson Halls).
- For Fiscal Year 2009, approximately 8.6% of the operating expenses paid were for maintenance/repairs and Authority operating expenses as compared to 8.7% in Fiscal Year 2008.
- Maintenance costs, comprised of capital improvement expenses (below the capitalization policy threshold), and property and liability insurance decreased from \$607,595 in 2008 to \$500,864 in 2009. Authority operating and other expenses increased from \$1,060,471 in 2008 to \$1,282,995 in 2009.
- 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 5.9% in fiscal year 2009 compared to fiscal year 2008. The increase is a result of a full year of interest expense on the 2008A bond issue and interest accrued for five months on the 2009A bond issue, net of amount capitalized. Investment income decreased by 6.7% in fiscal year 2009 compared to fiscal year 2008. Interest rates on both long-term and short-term investments were at a historic low in FY09 causing a large decrease in net investment income. However, this decrease was largely offset by an approximately \$2 million restructuring gain. The Authority restructured the escrow account related to the 1999-1 series bonds resulting in a restructuring gain of \$2,002,135.

Highlights - Statements of Cash Flows

	Fiscal year ended June 30	
	<u>2009</u>	<u>2008</u>
Cash received from operations	\$36,983,342	\$34,101,701
Cash expended for operations	<u>(2,012,914)</u>	<u>(1,758,413)</u>
Net cash provided by operations	34,970,428	32,343,288
Net cash provided by (used in) capital and related financing activities	17,292,139	15,753,155
Net cash provided by (used in) investing activities	<u>(95,316,092)</u>	<u>23,884,585</u>
Net increase (decrease) in cash and cash equivalents	(43,053,525)	71,981,028
Cash and cash equivalents, beginning of year	<u>97,242,660</u>	<u>25,261,632</u>
Cash and cash equivalents, end of year	<u>\$54,189,135</u>	<u>\$97,242,660</u>

- Cash and cash equivalents were \$54,189,135 at June 30, 2009 compared to \$97,242,660 at June 30, 2008. In fiscal year 2009, investing activities used \$95,316,092 in cash; operating activities provided \$34,970,428 in cash and capital and financing related activities provided cash of \$17,292,139, causing a net decrease in cash of \$43,053,525. Included in the beginning cash and cash equivalents balance is approximately \$68.5 million from the 2008A project fund. The entire 2008A project fund was invested in a money market fund which is considered cash and cash equivalents. The 2008A project fund balance is reduced to \$15.6 million at June 30, 2009. The reduction in the 2008A project fund is the main reason cash decreased from the prior year. At June 30, 2009, approximately \$12.7 million of the 2009A project fund is included with the cash and cash equivalents balance. The remaining 2009A project fund balance of \$84.5 million is held in investments so it is not included in the June 30, 2009 cash and cash equivalents balance noted above.

Highlights - Statements of Cash Flows - continued

- Net cash provided by operations exceeded the cash expended for operations. As noted above, the increased cash 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 expenses, maintenance expenses and other expenses in accordance with the approved budget.
- Net cash provided by capital and related financing activities was \$17,292,139 for Fiscal Year 2009 compared to net cash provided of \$15,753,155 for Fiscal Year 2008. Cash was provided primarily as a result of 2009A bond proceeds received offset by payments on all bonds and payments for capital assets.
- Net cash used in investing activities was \$95,316,092 for fiscal year 2009 compared to net cash provided of \$23,884,585 for fiscal year 2008. A large portion of the 2009A bond proceeds were invested causing a decrease in cash and increase in investments in fiscal year 2009. The cash provided in fiscal year 2008 was primarily due to selling investments related to the 2006A Project funds to use the cash for payment on capital assets.

Capital Assets and Debts of the Authority

The Authority's investment in capital assets as of June 30, 2009 amounted to \$436,055,748 net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), furnishings and equipment. Net capital assets increased during fiscal year 2009 by \$60,270,294. This increase was due to completed capital improvements described earlier in this report. During 2009:

- Construction in progress was recorded at \$70,458,160 as compared to \$23,787,719 in the prior fiscal year;
- Buildings and improvements were recorded at \$506,431,794 as compared to \$477,202,015 in the prior fiscal year; and
- Furnishings and equipment were recorded at \$31,116,002 as compared to \$28,973,049 in the prior fiscal year.

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 \$67,200,000 and \$47,300,000, respectively, as of June 30, 2009 and 2008.

The Authority carries debt in the form of bond obligations which, net of deferred losses on refundings, amounted to \$669,587,174 and \$551,854,722, as of June 30, 2009 and 2008, 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 "A1" rating from Moody's Investors Service and "A+" from Standard & Poor.

Interagency Payables increased to \$15,101,224 at June 30, 2009 from \$3,869,774 at June 30, 2008. These payables consist of unspent College contributions plus unspent bond proceeds and related bond amounts associated with capital projects on College-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 Colleges primarily draw students increased to 8.6% at June 30, 2009 as compared to 5.2% at June 30, 2008. This compares to a national rate of 9.5% in 2009 versus 5.5% in 2008.

Historically, in times of economic slow-down, the State Colleges 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 State College residence hall occupancy reports to the Authority and the Commonwealth's Board 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 2008/09 academic year 13,363 students were housed in residence halls or 104.5% of design occupancy. In the spring semester, 12,491 students were housed in residence halls, an occupancy rate of 99%. The average annual occupancy rate for the 2008/09 academic year was 102% as compared with 101% for the prior year.

RESIDENCE HALL OCCUPANCY TABLE

Academic Years

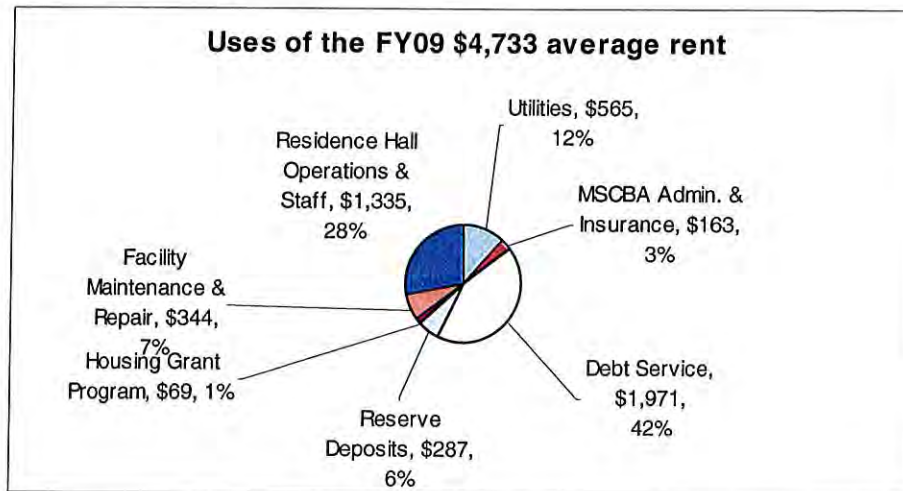
State College	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Bridgewater	107%	105%	105%	105%	105%	104%	103%	104%
Fitchburg	89%	95%	99%	100%	100%	102%	104%	103%
Framingham	99%	105%	102%	100%	100%	100%	99%	101%
Mass. College of Art	104%	100%	100%	99%	98%	101%	99%	100%
Mass. College of Liberal Arts	71%	81%	82%	88%	89%	95%	89%	88%
Mass. Maritime Academy	89%	93%	95%	96%	99%	103%	92%	94%
Salem	106%	105%	105%	100%	103%	101%	100%	104%
Westfield	107%	109%	106%	109%	106%	108%	107%	107%
Worcester	103%	100%	101%	96%	97%	101%	100%	102%
State College Average	97%	101%	101%	101%	100%	103%	101%	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 2009, the Authority has constructed 2,818 new beds, while maintaining occupancy rates of 100% or more of capacity.

Residence Hall Rent Rates

For the academic year 2008-2009 (Fiscal Year 2009), the average on-campus room rent was \$4,733 per bed (\$546 per month).

There are no Commonwealth appropriations for residence halls. Student rents fund the State Colleges' 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:



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 2009, the Authority committed approximately \$162 million in capital repairs, life safety and accessibility improvements, and infrastructure and furniture replacement for existing residence halls. During fiscal year 2009, the Authority completed significant capital improvement projects for residence halls at Massachusetts College of Art and Design, Massachusetts College of Liberal Arts, and the Massachusetts Maritime Academy and at the State Colleges 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, MassArt, and Salem. In addition, planning for new residence hall capacity was undertaken at MassArt, Salem, and Worcester.

New Construction Projects

Construction in progress at the end of fiscal years 2009 and 2008 was \$70,458,160 and \$23,787,719, respectively.

Projects underway include the following:

- Expansion and upgrade of Pope & Scott Halls at Bridgewater State College, Mara Village at Fitchburg State College, Dowden Hall at Worcester State College.
- Construction of new residence hall at Salem State College and planning and design for new residence halls at Framingham State College and Massachusetts College of Art and Design.

New Construction Projects - continued

- Renovations and repairs at Bridgewater State College (Great Hill Apartments), Fitchburg State College (Aubuchon, Cedar Street, Mara existing) Framingham State College (O'Connor Hall), Massachusetts College of Liberal Arts (Berkshire Towers, Hoosac Hall, and Flagg Townhouses), Salem State College (Peabody, Bates, Central Campus) and Westfield State College (Scanlon Hall).

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, 136 Lincoln Street, Boston, Massachusetts 02111.



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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, 2009 and 2008 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, 2009 and 2008, 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 29, 2009 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, 2009. 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 read in conjunction with this report in considering the results of our 2009 audit.

The Management's Discussion and Analysis (MD&A) on pages i to xii 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 29, 2009

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

STATEMENTS OF NET ASSETS (DEFICIENCY IN NET ASSETS)

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,213,672	\$ 13,562,574
Restricted cash and cash equivalents	19,294,568	77,672,111
Restricted investments, including amounts held by bond trustee	15,305,631	-
Accounts receivable, net	<u>2,034,719</u>	<u>1,311,195</u>
Total current assets	<u>64,848,590</u>	<u>92,545,880</u>
Noncurrent assets:		
Restricted cash and cash equivalents	6,680,895	6,007,975
Restricted investments, including amounts held by bond trustee	132,053,015	47,817,141
Accounts receivable, net	42,606,369	27,259,538
Capital assets, net	436,055,748	375,785,454
Deposit	-	175,000
Bond issuance costs, net	<u>11,038,105</u>	<u>10,269,968</u>
Total noncurrent assets	<u>628,434,132</u>	<u>467,315,076</u>
Total assets	<u>\$ 693,282,722</u>	<u>\$ 559,860,956</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,949,942	\$ 15,315,699
Accrued payroll	33,980	18,524
Interagency payables	11,909,111	1,791,554
Compensated absences	85,394	58,689
Current portion of bonds payable	<u>14,100,241</u>	<u>11,396,024</u>
Total current liabilities	<u>47,078,668</u>	<u>28,580,490</u>
Noncurrent liabilities:		
Accounts payable and accrued liabilities	66,392	-
Compensated absences	61,447	60,051
Interagency payables	3,192,113	2,078,220
Bonds payable, net of deferred loss	<u>655,486,933</u>	<u>540,458,698</u>
Total noncurrent liabilities	<u>658,806,885</u>	<u>542,596,969</u>
Total liabilities	<u>705,885,553</u>	<u>571,177,459</u>
Net Assets (Deficiency in Net Assets)		
Invested in capital assets, net of related debt	(30,567,499)	(39,228,780)
Restricted:		
Expendable:		
Capital projects	8,976	106,446
Unrestricted	<u>17,955,692</u>	<u>27,805,831</u>
Total net assets (deficiency in net assets)	<u>(12,602,831)</u>	<u>(11,316,503)</u>
Liabilities and Net Assets (Deficiency in Net Assets)	<u>\$ 693,282,722</u>	<u>\$ 559,860,956</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Income from contracts for financial assistance, management, and services	\$ 36,555,398	\$ 33,715,219
Federal grants for debt service	211,890	211,890
Other miscellaneous revenues	<u>216,054</u>	<u>174,592</u>
Total operating revenues	<u>36,983,342</u>	<u>34,101,701</u>
Operating expenses:		
Maintenance costs	500,864	607,595
Authority operating expenses	1,282,995	1,060,471
Depreciation	18,614,829	17,306,821
Bond related costs	67,804	47,522
Other expenses	<u>224,192</u>	<u>181,503</u>
Total operating expenses	<u>20,690,684</u>	<u>19,203,912</u>
Operating income	<u>16,292,658</u>	<u>14,897,789</u>
Nonoperating revenues (expenses):		
Net investment income	4,674,885	5,009,751
Interest expense	(23,972,819)	(22,637,553)
Transfers from State Colleges	1,684,693	347,388
Capital grants	<u>34,255</u>	<u>344,224</u>
Net nonoperating revenues (expenses)	<u>(17,578,986)</u>	<u>(16,936,190)</u>
Increase (decrease) in net assets	<u>(1,286,328)</u>	<u>(2,038,401)</u>
Net assets (deficiency in net assets), beginning of year	<u>(11,316,503)</u>	<u>(9,278,102)</u>
Net assets (deficiency in net assets), end of year	<u>(\$ 12,602,831)</u>	<u>(\$ 11,316,503)</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from contracts for financial assistance, management, and services	\$ 36,555,398	\$ 33,715,219
Federal grants for debt service	211,890	211,890
Other miscellaneous receipts	216,054	174,592
Payments for maintenance costs	(539,891)	(531,433)
Payments for Authority operating expenses	(1,239,438)	(1,046,618)
Payments for other expenses	(233,585)	(180,362)
Net cash provided by operating activities	<u>34,970,428</u>	<u>32,343,288</u>
Cash flows from capital and related financing activities:		
Proceeds from bond issuance	129,126,371	98,182,921
Repayment of loan payable	-	(4,000,000)
Payment of bond issuance costs	(1,130,468)	(1,786,009)
Payments for capital assets	(71,976,109)	(39,309,837)
Capital grants	34,255	344,224
Release from (payment to) escrow for deposit on capital assets	175,000	(175,000)
Collections of debt service receivables	2,239,544	2,170,975
Transfer of funds from State Colleges	1,684,693	347,388
Payments from funds held for others	(6,011,017)	(11,176,125)
Funds received and held for others	1,183,551	3,128,187
Principal paid on capital debt	(11,090,000)	(9,805,000)
Interest paid on capital debt	(26,943,681)	(22,168,569)
Net cash provided by (used in) capital and related financing activities	<u>17,292,139</u>	<u>15,753,155</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	143,677,770	263,713,338
Purchases of investments	(242,924,425)	(243,618,974)
Interest on investments	3,930,563	3,790,221
Net cash provided by (used in) investing activities	<u>(95,316,092)</u>	<u>23,884,585</u>
Net increase (decrease) in cash and cash equivalents	(43,053,525)	71,981,028
Cash and cash equivalents, beginning of year	<u>97,242,660</u>	<u>25,261,632</u>
Cash and cash equivalents, end of year	<u>\$ 54,189,135</u>	<u>\$ 97,242,660</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 16,292,658	\$ 14,897,789
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	18,614,829	17,306,821
Amortization of bond issuance costs, bond premium and deferred loss on refunding	58,411	48,663
Changes in assets and liabilities:		
Prepaid expenses	-	56,414
Accounts payable and accrued liabilities	(39,027)	5,390
Accrued payroll and compensated absences	<u>43,557</u>	<u>28,211</u>
Net cash provided by operating activities	<u>\$ 34,970,428</u>	<u>\$ 32,343,288</u>

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 AND 2008

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies - continued:

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.

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, 2009 and 2008.

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, 2009 and 2008, 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 12,700 students in 2009 and 12,630 students in 2008, 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies - continued:

Capital assets - continued:

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.

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 2009 and 2008, total interest costs were accounted for as follows:

	<u>2009</u>	<u>2008</u>
Total interest incurred	\$ 28,939,956	\$ 23,477,507
Less: capitalized portion of interest incurred	(4,967,137)	(839,954)
Interest expense	<u>\$ 23,972,819</u>	<u>\$ 22,637,553</u>
Capitalized portion of interest incurred	\$ 4,967,137	\$ 839,954
Less: interest income on unused funds from tax-exempt borrowings	(959,205)	(319,209)
Net capitalized interest	<u>\$ 4,007,932</u>	<u>\$ 520,745</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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies - continued:

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.

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 2008 financial statements to conform to the 2009 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, 2009, \$34,955,584 of the Authority's bank balances were exposed to custodial credit risk because they were uninsured and uncollateralized. These balances are primarily invested in the Fidelity Governmental Fund 57 and the First American Government Obligations Fund Class D as discussed further below.

The Authority has cash equivalent funds invested in mutual funds and certificates of deposit that are held at US Bank and Citizens Bank. The funds at US Bank are invested in the Fidelity Institutional Money Market Government Fund 57 and First American Government Obligations Fund Class D and have a fair value of \$31,083,307 and \$3,872,277, respectively, at June 30, 2009. 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

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

The First American Government Obligations Fund Class D invests primarily in high quality U.S. government securities, and repurchase agreements collateralized at more than 100%. The First American Government Obligations Fund Class D had a fund credit quality rating of AAAM as of June 30, 2009. The Fund's investment securities maintain a weighted average maturity of 44 days.

The funds at Citizens Bank are invested in Citizens Collateralized Certificates of Deposit and have a fair value of \$6,000,000 at June 30, 2009.

The Authority's investments are held at US Bank and Citizens Bank and are represented by the following at June 30, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Collateralized Certificates of Deposit	\$ 93,800,000	\$ 93,800,000	\$ -	\$ -
U.S. Agencies	44,771,967	45,199,620	44,093,177	44,835,653
U.S. Treasuries	<u>8,491,829</u>	<u>8,359,026</u>	<u>2,986,400</u>	<u>2,981,488</u>
	<u>\$147,063,796</u>	<u>\$ 147,358,646</u>	<u>\$ 47,079,577</u>	<u>\$ 47,817,141</u>

At June 30, 2009, the Authority's investments, investment maturities and credit quality ratings are as follows:

<u>Investment Maturities (in years)</u>						
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	<u>Credit Rating</u>
Collateralized Certificates of Deposit	\$ 93,800,000	\$ 93,800,000	\$ -	\$ -	-	-
Federal Home Loan Banks (FHLB) discount notes	12,906,252	12,906,252	-	-	-	AAA
Federal Home Loan Banks (FHLB) U.S. Govt Issues	4,309,699	502,345	3,012,810	794,544	-	AAA
Fannie Mae Corporation (FNMA) discount note	7,596,918	7,596,918	-	-	-	AAA
Federal Home Loan Mortgage Corp.(FHLMC) discount note	7,062,467	7,062,467	-	-	-	AAA
Federal Home Loan Mortgage Corp.(FHLMC) U.S. Govt Issues	11,331,630	-	-	11,331,630	-	AAA
Federal Farm Credit Banks (FFCB)	1,992,655	-	990,000	1,002,655	-	AAA
U.S. Government Securities-Treasury Bills	2,621,912	2,621,912	-	-	-	-
U.S. Government Securities-Treasury Bonds	<u>5,737,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,737,113</u>	AAA
Total	<u>\$147,358,646</u>	<u>\$ 124,489,894</u>	<u>\$4,002,810</u>	<u>\$ 13,128,829</u>	<u>\$ 5,737,113</u>	

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Debt service receivables	\$ 44,158,247	\$ 28,368,926
Interest receivable on investments	<u>482,841</u>	<u>201,807</u>
	<u>\$ 44,641,088</u>	<u>\$ 28,570,733</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 2009, additional accounts receivable, net of unearned interest income, totaling \$16,901,221 were recorded in connection with projects at two State Colleges. During fiscal 2008, additional accounts receivable, net of unearned interest income, totaling \$901,564 were recorded in connection with a project at a State College. 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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Total payments to be received	\$ 65,522,938	\$ 41,275,814
Less: unearned income	<u>(21,364,691)</u>	<u>(12,906,888)</u>
Net investment in renovation projects	<u>\$ 44,158,247</u>	<u>\$ 28,368,926</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

3. Accounts receivable - continued:

The following table sets forth the total payments to be received under these agreements as of June 30, 2009:

Year ending June 30:	
2010	\$ 3,566,087
2011	3,568,105
2012	3,568,520
2013	3,568,530
2014	3,574,272
Thereafter	<u>47,677,424</u>
Total	<u>\$ 65,522,938</u>

4. Capital assets:

Capital assets activity for the years ended June 30, 2009 and 2008 are as follows:

	2009			
	<u>Totals</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Reclassifications</u> <u>and</u> <u>Reductions</u>	<u>Totals</u> <u>June 30, 2009</u>
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>

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 year ended June 30, 2009.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

4. Capital assets - continued:

	2008			
	Totals June 30, 2007	Additions	Reclassifications and Reductions	Totals June 30, 2008
Land	\$ 2,504,688	\$ -	\$ -	\$ 2,504,688
Construction in progress	<u>21,545,687</u>	<u>33,953,642</u>	(31,711,610)	<u>23,787,719</u>
Total not being depreciated	<u>24,050,375</u>	<u>33,953,642</u>	(31,711,610)	<u>26,292,407</u>
Buildings and improvements	445,356,033	134,372	31,711,610	477,202,015
Furnishings and equipment	<u>23,856,852</u>	<u>5,116,197</u>	-	<u>28,973,049</u>
Total depreciable assets	<u>469,212,885</u>	<u>5,250,569</u>	31,711,610	<u>506,175,064</u>
Total capital assets	<u>493,263,260</u>	<u>39,204,211</u>	-	<u>532,467,471</u>
Less accumulated depreciation:				
Buildings and improvements	(133,110,637)	(15,751,447)	-	(148,862,084)
Furnishings and equipment	<u>(6,264,559)</u>	<u>(1,555,374)</u>	-	<u>(7,819,933)</u>
Total accumulated depreciation	<u>(139,375,196)</u>	<u>(17,306,821)</u>	-	<u>(156,682,017)</u>
Capital assets, net	<u>\$ 353,888,064</u>	<u>\$ 21,897,390</u>	<u>\$ -</u>	<u>\$ 375,785,454</u>

As of June 30, 2009 and 2008, capital assets with a cost of approximately \$31,200,000 and \$31,000,000 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 \$67,200,000 and \$47,300,000, respectively, as of June 30, 2009 and 2008.

5. Bond related items:

Bond issuance costs consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Gross costs	\$ 13,061,123	\$ 11,930,656
Less: accumulated amortization	<u>(2,023,018)</u>	<u>(1,660,688)</u>
Net	<u>\$ 11,038,105</u>	<u>\$ 10,269,968</u>

Amortization of bond issuance costs amounted to \$362,330 in fiscal 2009 and \$312,839 in fiscal 2008.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

5. Bond related items - continued:

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unamortized balance, beginning	\$ 23,495,070	\$ 21,850,184
Current year additions	556,371	2,512,921
Current year amortization	(929,329)	(868,035)
Unamortized balance, ending	<u>\$ 23,122,112</u>	<u>\$ 23,495,070</u>

Unamortized deferred losses on bond refundings are reflected as a deduction from bonds payable and consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unamortized balance, beginning	\$ 18,328,371	\$ 18,932,230
Current year amortization	(625,410)	(603,859)
Unamortized balance, ending	<u>\$ 17,702,961</u>	<u>\$ 18,328,371</u>

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Capital assets and construction payables	\$ 12,390,599	\$ 9,489,517
Accrued bond interest payable	7,062,459	5,204,043
Arbitrage payable- short term	71,467	-
Arbitrage payable- long term	66,392	-
Contractor payables for College owned assets	1,417,917	575,612
Authority operating and maintenance expenses	<u>7,500</u>	<u>46,527</u>
	<u>\$ 21,016,334</u>	<u>\$ 15,315,699</u>

7. Interagency payables:

Under the provisions of the 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

7. Interagency payables - continued:

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, 2009 and 2008, the Authority has an aggregate liability for Interagency payables of \$15,101,224 and \$3,869,774, respectively.

8. Bonds payable:

Bonds payable consisted of the following at June 30, 2009 and 2008:

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, 2009 and 2008, bonds payable amounted to \$30,810,181 and \$35,791,217, respectively, including premium. These bonds carry interest rates that range from 4% to 7.5%, and are payable annually on May 1 until 2016. 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 will be 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 bonds were issued under the provisions of a new 2003 Trust Agreement. As of June 30, 2009 and 2008, bonds payable amounted to \$101,854,684 and \$102,885,891, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

8. Bonds payable - continued:

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

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, 2009 and 2008, bonds payable amounted to \$115,463,968 and \$116,888,944, 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 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. Assets held in the trust accounts for the repayment of these bonds had an aggregate market value of \$127,179,852 at June 30, 2009. The unpaid principal amount plus accreted interest, as applicable, of the three Series of refunded bonds at June 30, 2009 totaled \$111,931,757.

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 \$17,647,906 and \$18,265,451 at June 30, 2009 and 2008, 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 will be used to pay a portion of the interest on the Series 2004-A 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 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, 2009 and 2008, the Series 2004-A Bonds payable amounted to \$60,051,293 and \$61,327,393, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

8. Bonds payable - continued:

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, 2009 and 2008, the Series 2004-B Bonds payable amounted to \$18,563,460 and \$18,667,656, 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 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 \$55,055 and \$62,920 at June 30, 2009 and 2008, 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 will be 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 future projects. As of June 30, 2009 and 2008, the Series 2005-A Bonds payable amounted to \$33,004,942 and \$34,402,880, 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.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

8. Bonds payable - continued:

2006 A Series Bonds, March 8, 2006 - continued:

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, 2009 and 2008, the Series 2006-A Bonds payable amounted to \$100,374,143 and \$102,063,958, 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.

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, 2009, and 2008, the Series 2008-A Bonds payable amounted to \$98,046,853 and \$98,155,154, 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.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

8. Bonds payable - continued:

2009 A Series Bonds, January 28, 2009 - continued:

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, 2009, the Series 2009-A Bonds payable amounted to \$129,120,611, including premium. These bonds carry interest rates that range from 3.0 to 5.75% and are payable annually on May 1 until 2049.

Amortization Tables for Bond Issues and Unamortized Premiums as of June 20, 2009:

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:			
2010	\$ 13,810,000	\$ 33,935,583	\$ 47,745,583
2011	15,620,000	31,493,996	47,113,996
2012	16,560,000	30,668,796	47,228,796
2013	18,020,000	29,770,046	47,790,046
2014	19,220,000	28,798,096	48,018,096
2015 - 2019	111,954,711	136,684,165	248,638,876
2020 - 2024	114,857,095	129,710,078	244,567,173
2025 - 2029	109,551,217	104,870,701	214,421,918
2030 - 2034	88,535,000	54,554,482	143,089,482
2035 - 2039	99,615,000	29,664,667	129,279,667
2040 - 2044	44,670,000	9,610,338	54,280,338
2045 - 2049	<u>11,755,000</u>	<u>2,057,575</u>	<u>13,812,575</u>
	<u>\$ 664,168,023</u>	<u>\$ 621,818,523</u>	<u>\$ 1,285,986,546</u>
Plus: Unamortized premium	<u>23,122,112</u>		
	687,290,135		
Less: Deferred loss on Refunding	(<u>17,702,961</u>)		
	<u>\$ 669,587,174</u>		

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

9. Long-term liabilities:

Long-term liabilities at June 30, 2009 and 2008 consisted of the following:

	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	551,854,722	129,126,371	(11,393,919)	669,587,174	14,100,241
Interagency payables	3,869,774	18,086,072	(6,854,622)	15,101,224	11,909,111
Other liabilities:					
Arbitrage payable	-	137,859	-	137,859	71,467
Compensated absences	118,740	28,101	-	146,841	85,394
Total long-term liabilities	\$ 555,843,236	\$ 147,378,403	\$ (18,248,541)	\$ 684,973,098	\$ 26,166,213

	2008				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Bonds payable	\$ 482,673,207	\$ 98,182,921	\$ (10,673,035)	\$ 570,183,093	\$ 12,013,569
Deferred loss on refunding	(18,932,230)	-	603,859	(18,328,371)	(617,545)
Total bonds payable	463,740,977	98,182,921	(10,069,176)	551,854,722	11,396,024
Interagency payables	10,389,726	4,017,473	(10,537,425)	3,869,774	1,791,554
Other liabilities:					
Compensated absences	89,428	29,312	-	118,740	58,689
Total long-term liabilities	\$ 474,220,131	\$ 102,229,706	\$ (20,606,601)	\$ 555,843,236	\$ 13,246,267

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:

	2009	2008
Restricted - expendable:		
DCAM/MSBA contract restricted for life safety and access improvements	\$ 8,976	\$ 106,446

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 and 2008, on a natural classification basis, are comprised of the following:

	<u>2009</u>	<u>2008</u>
Compensation	\$ 709,324	\$ 556,386
Supplies and services	1,366,531	1,340,705
Depreciation	<u>18,614,829</u>	<u>17,306,821</u>
	<u>\$ 20,690,684</u>	<u>\$ 19,203,912</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 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 \$96,931, \$96,931 and \$96,922 for the years ended June 30, 2009, 2008 and 2007, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2009, 2008 and 2007.

The Commonwealth 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

13. Retirement plan - continued:

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, 2009, 2008, and 2007, were \$92,077, \$60,133 and \$76,926, 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
(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

15. Supplemental cash flows information:

Schedule of noncash investing and financing activities:

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 gain on investment securities	<u>\$ 294,850</u>

2008

Acquisition of capital assets	\$ 39,204,211
Accounts payable thereon:	
Beginning of year	10,115,888
End of year	(9,489,517)
Net interest incurred and earned, capitalized in construction in progress	(520,745)
Payments for capital assets	<u>\$ 39,309,837</u>
Accounts receivable and Interagency payables related to State College capital projects on College owned property	<u>\$ 901,564</u>
Unearned interest income on accounts receivable related to State College capital projects on College owned property	<u>\$ 473,859</u>
Contractor accounts payable related to State College capital projects on College owned property	<u>\$ 575,612</u>
Unrealized gain on investment securities	<u>\$ 582,495</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2009 AND 2008

16. Subsequent events:

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 will be included as a component of non-operating revenue in the Authority's fiscal 2010 statement of revenues, expenses and changes in net assets.

On July 24, 2009, the Authority entered into a lease agreement with an unrelated third party for new office space of approximately 5,500 square feet located in Boston, Massachusetts. The lease provides for a minimum annual base rent of \$112,557 for the initial year of the lease agreement and increases to \$179,172 per year for year 8 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 is expected to commence on February 15, 2010. 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.

Future minimum rental payments under this operating lease agreement, assuming a rent commencement date of April 15, 2010, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2010	\$ 28,139
2011	136,906
2012	142,419
2013	151,607
2014	164,471
Later years	<u>985,909</u>
	<u>\$ 1,609,451</u>

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, 2009 and 2008 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 2009 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic 2009 financial statements and accordingly, we express no opinion on it.

Ercolini & Company LLP

September 29, 2009

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

Supplemental Statistical Information - Unaudited

Schedule of Net Assets (Deficiency) by Category

	<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>
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)
Restricted - expendable	8,896,485	5,346,405	3,036,958	930,636	363,076	330,731	106,446	8,976
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
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)

See independent auditor's report on supplemental information on page 26.

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

Supplemental Statistical Information - Unaudited

Changes in Net Assets

	<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>
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
Federal grants for debt service	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
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
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
Transfers from State Colleges	-	145,968	(446,726)	527,740	978,769	536,914	347,388	1,684,693
DCAM/MSBCA contract revenue	4,748,525	-	-	-	-	-	-	-
Capital grants	-	-	-	-	-	-	344,224	34,255
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
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
Operating Expenses								
Maintenance costs	(1,343,573)	(1,336,792)	(1,186,513)	(746,323)	(421,828)	(701,992)	(607,595)	(500,864)
Authority operating costs	(544,325)	(625,750)	(695,514)	(766,641)	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)
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)
Bond related costs	-	(256,735)	(473,268)	(354,127)	(130,156)	(124,902)	(47,522)	(67,804)
Other expenses	(573,673)	(14,840)	(85,079)	(73,389)	(164,687)	(239,798)	(181,503)	(224,192)
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)
Non-operating expense								
Interest expense	(9,450,580)	(10,035,486)	(10,502,678)	(14,888,848)	(18,635,760)	(19,159,171)	(22,637,553)	(23,972,819)
Total non-operating expense	(9,450,580)	(10,035,486)	(10,502,678)	(14,888,848)	(18,635,760)	(19,159,171)	(22,637,553)	(23,972,819)
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)
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)

See independent auditor's report on supplemental information on page 26.

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

Supplemental Statistical Information - Unaudited

Schedule of Revenue by College

<u>College</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>
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
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
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
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
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
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
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
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
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
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

See independent auditor's report on supplemental information on page 26.

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

Supplemental Statistical Information - Unaudited

Annual Rental Rates For Residence Facilities

<u>State College</u>	<u>2000</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>
Bridgewater	\$2,360-2,820	\$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
Fitchburg	\$2,340-2,485	\$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
Framingham	\$2,240-2,598	\$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
Mass. College of Art	\$4,145	\$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
Mass. College of Liberal Arts	\$2,350-2,410	\$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
Mass. Maritime Academy	\$7,215	\$7,260	\$7,362	\$7,530	\$7,684	\$7,886	\$7,098	\$7,366	\$4,100	\$4,668
Salem	\$2,310-2,690	\$2,388-2,690	\$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
Westfield	\$2,440-2,855	\$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
Worcester	\$2,810-2,985	\$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

See independent auditor's report on supplemental information on page 26.

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

Supplemental Statistical Information - Unaudited

Residence Hall Occupancy Table

<u>State College</u>	<u>2000</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>
Bridgewater	104%	106%	107%	105%	105%	105%	105%	104%	103%	104%
Fitchburg	65%	78%	89%	95%	99%	100%	100%	102%	104%	103%
Framingham	89%	93%	99%	105%	102%	100%	100%	100%	99%	101%
Mass. College of Art	101%	103%	104%	100%	100%	99%	98%	101%	99%	100%
Mass. College of Liberal Arts	58%	68%	71%	81%	82%	88%	89%	95%	89%	88%
Mass. Maritime Academy	80%	81%	89%	93%	95%	96%	99%	103%	92%	94%
Salem	99%	102%	106%	105%	105%	100%	103%	101%	100%	104%
Westfield	103%	103%	107%	109%	106%	109%	106%	108%	107%	107%
Worcester	100%	103%	103%	100%	101%	96%	97%	101%	100%	102%
State College Average	89%	93%	97%	101%	101%	101%	100%	103%	101%	102%

See independent auditor's report on supplemental information on page 26.

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, 2009, and have issued our report thereon, dated September 29, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Ercolini & Company LLP

September 29, 2009