

ANNUAL REPORT

FISCAL YEAR 2011

**MASSACHUSETTS
STATE COLLEGE BUILDING AUTHORITY**



ANNUAL REPORT

FISCAL YEAR 2011

FOR THE PERIOD
JULY 1, 2010 THROUGH JUNE 30, 2011

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

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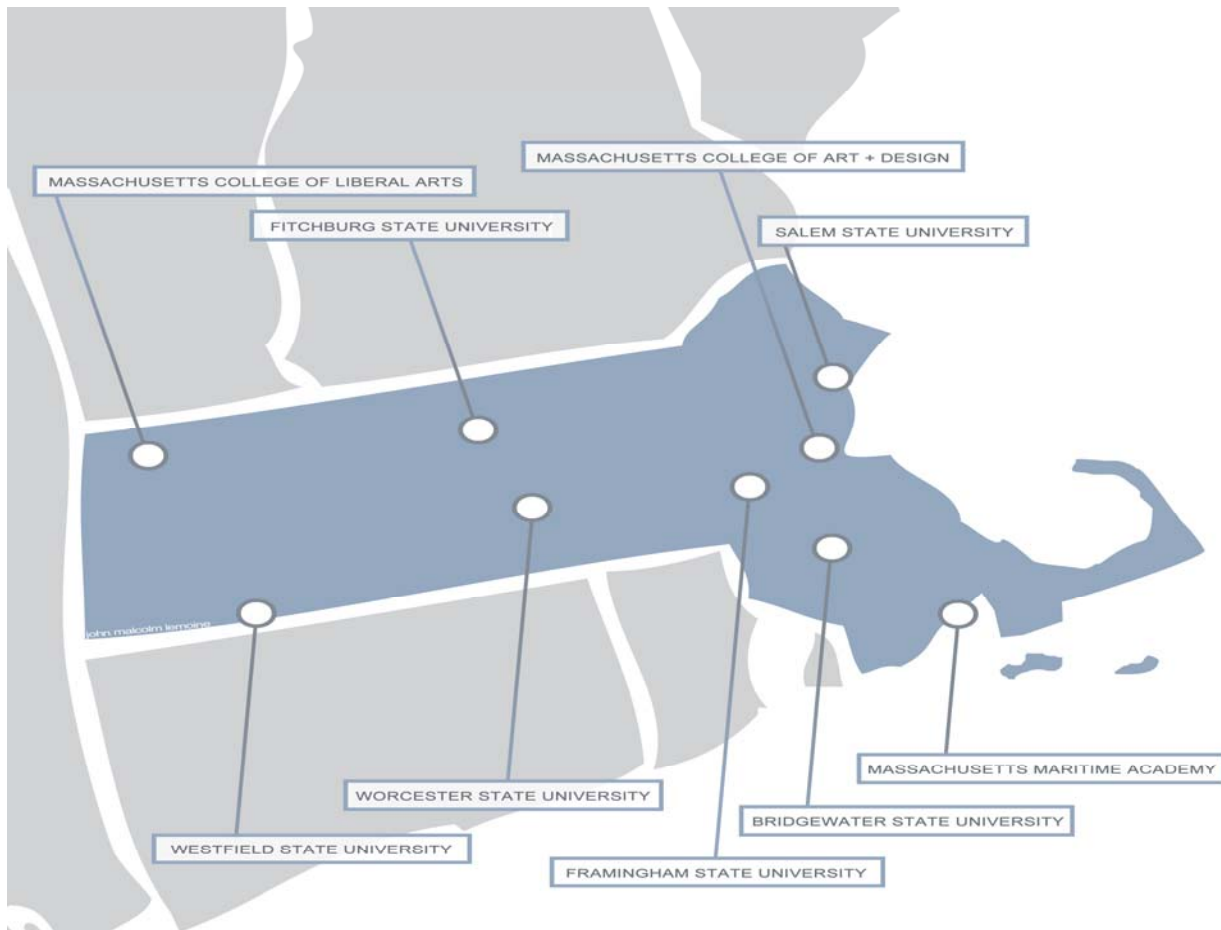
DECEMBER 31, 2011

FISCAL YEAR 2011
ANNUAL REPORT
OF THE
MASSACHUSETTS
STATE COLLEGE BUILDING AUTHORITY

BACKGROUND

The Massachusetts State College Building Authority (the Authority) is a public instrumentality of the Commonwealth charged with financing, designing, constructing, and overseeing the management of revenue-financed facilities – housing, dining, athletic, parking, and other student activity facilities – for the state universities: Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State Universities, Massachusetts College of Art and Design, Massachusetts College of Liberal Arts, and Massachusetts Maritime Academy.

Approximately 13,900 students reside in the 42 residential complexes owned by the Authority; these facilities house one-third of full-time undergraduate students and comprise about 3.7 million square feet of space in approximately 95 separate structures on the nine state university campuses:



HISTORY AND PURPOSE

The institutions now known as the Massachusetts state universities were established in the mid-nineteenth century, essentially to train teachers for the emerging system of public education in America. Students generally commuted to what were at the time two-year institutions. By the mid-twentieth century, these institutions had evolved into more broadly-based, comprehensive, four-year baccalaureate degree-granting universities. The surge in population following World War II, coupled with the greater role that college education played in the post-war economy, contributed to substantial growth in enrollment in higher education. These combined trends greatly increased the demand for campus housing and the attendant dining and student activity facilities on college campuses in Massachusetts and throughout the country. Further, on-campus housing tends to improve the ability of the universities to recruit and to retain students. Students who live on campus tend to persist towards graduation faster than those students who have not had this opportunity.

The Authority was established by the Legislature in 1963 to finance, design, and construct residential, dining, parking, athletic, cultural, healthcare, and other revenue-producing facilities for the Massachusetts state universities. Total enrollment continues to increase at the state universities. This, combined with the need to house a larger percentage of students on campus, to recruit from a larger geographic area, and to improve student activity facilities (dining, retail, athletic, and parking) creates an even greater demand for the services provided by the Authority today.

FUNDING

The Authority receives no appropriation from the Commonwealth. All revenues to support facility design, construction, and operation are derived from the rents and fees paid by students for the use of these facilities and services. In 1998, legislation was enacted to permit the Authority to issue revenue bonds without the general obligation guarantee of the Commonwealth; this has provided the Authority with the ability to issue bonds based upon its need for funding and the availability of revenue, without awaiting available capacity in Commonwealth-issued debt. The Authority is rated Aa2 by Moody's Investors Services and AA- by Standard & Poor's Ratings Services¹. A listing of the bond ratings of Massachusetts higher education institutions is located in Appendix A.

PROJECT DELIVERY

In 1999 and 2004, legislation was enacted to permit the Authority to utilize an alternate means of procurement for design and construction management services to improve the quality and to reduce the time and cost of delivering new and renovated facilities. The design and construction procurement methodology of the Authority is considered exemplary in the public sector in its ability to provide high-quality, cost-effective facilities in critical timeframes while providing for the public solicitation of architectural design and construction management services and for the public bidding of trade contractor work.

¹ In December 2011, Standard & Poor's upgraded the Authority to AA.

MAJOR ACCOMPLISHMENTS

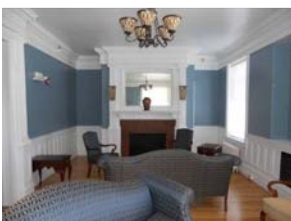
For fiscal year 2011, significant Authority accomplishments included the following:

Residence Hall Construction and Renovation

1. Opened Marsh Hall, a new 525 bed residence hall and 325 seat dining facility at Salem State.
2. Opened newly renovated Great Hill Apartments at Bridgewater State.
3. Implemented facility renewal projects in nine residence hall complexes consisting of window replacements, fire alarm and life safety upgrades, bathroom renovations, and access improvements.
4. Installed 103 kW photovoltaic array at Crimson Hall at Bridgewater State and a 40 kW array at Wasylean Hall at Worcester State.
5. Opened the expanded and renovated Dowden Hall at Worcester State.
6. Acquired property adjacent to the Massachusetts Maritime Academy to be used for conference facilities and cadet housing.

Student Activity Facilities

1. Completed upgrades to Swenson Field at Bridgewater State including new synthetic turf, new nine-lane running track, bleachers, and press box.
2. Completed renovations at the McCarthy Center at Framingham State including a new food service outlet.
3. Expanded dining capacity at the Kennedy Campus Center at Massachusetts College of Art and Design with the addition of a new glass façade along Longwood Ave, new finishes in seating area, and expansion and renovations of the second floor Student Affairs offices.
4. Acquired property on Ashland Street in North Adams to be utilized for parking and relocation of the facilities department serving the Massachusetts College of Liberal Arts.



CEDAR HOUSE
FITCHBURG STATE UNIVERSITY

The following tables list projects that were substantially complete in fiscal 2011 and are underway during fiscal 2012:

PROJECTS COMPLETED – FY 2011

Campus	Building	Description	Budget
Bridgewater	Great Hill Apartments	Life Safety, Energy and Modernization – Phase II	5,750,000
	Shea Durgin Halls	Window Replacement	2,296,838
	Swenson Field	Synthetic Turf and Facility Upgrade	5,396,533
Fitchburg	Cedar House	Roof Replacement and Landscape Improvements	363,963
	Aubuchon Hall	Window Replacement – Common Areas	1,300,000
	Mara Village	Bathroom Renovations & Common Building Renovation	1,837,276
Framingham	McCarthy Center	Food Service Dining Renovations	3,354,572
MassArt	Kennedy Campus Center	Dining Hall and Student Affairs Expansion and Renovation	8,666,764
MCLA	Flagg Townhouses	Fire Alarm and Window Replacement	2,323,902
	Ashland Street	Property Acquisition	738,897
	Berkshire Towers	Switchgear & Transformer Replacement	718,588
Mass Maritime	Beachmoor	Property Acquisition and New Housing Capacity	1,708,658
Salem	Bates Apartments	Fire Safety Upgrades –Phase II	2,471,537
	Peabody & Bowdich Halls	Life Safety and Security Upgrades	979,154
	Marsh Hall	Construction of New 525 Bed Residence Hall and Dining Hall	54,929,058
Westfield	Scanlon Hall	Access Improvements/Bathroom Renovations – Phase II	5,075,334
Worcester	Dowden Hall	Life Safety and Modernization	4,404,557
TOTAL			\$ 102,315,631

PROJECTS UNDERWAY – FY 2012

Campus	Building	Description	Budget
Bridgewater	New Residence Hall	New Residence Hall - 500 New Beds	63,000,000
	Crimson Hall	Solar Power - Crimson Hall	n/a
	Woodward Hall	New Heating System, Fire Alarm and Flooring	3,423,247
	Parking Structure	East Campus Parking Structure	14,239,388
Fitchburg	Hammond Center	Campus Center Renovation	18,701,995
	Cedar House	Bathroom and Common Area Renovations	1,350,000
Framingham	North Hall	Construction of New 400 Bed Residence Hall	49,844,710
	O'Connor Hall	Repositioning - Planetarium	3,100,000
MassArt	New Residence Hall	Construction of New 482 Bed Residence Hall	62,800,000
	Paine & Bakalar Galleries	Gallery Renovation and Addition Study	100,000
	Smith Hall	Generator Replacement	620,201
	Kennedy Campus Center	Servery Upgrades	2,098,000
MCLA	Amsler Center	Gym Floor Replacement	785,825
	Ashland Street	Property Acquisition and Renovation	1,733,000
	Hoosac Hall	Bathroom Renovations	5,567,000
Salem	O'Keefe Center	Fitness and Recreation Center	15,000,000
	Bates Hall	Boiler Replacement and Finishes	1,763,632
Westfield	New Residence Hall	University Hall - 410 New Beds	50,000,000
	Tim & Jeanne's	Dining Commons Expansion	5,850,000
	Lammers	Window Replacement	2,000,000
	Ely Campus Center	Wellness Center Construction and Renovations	12,000,000
Worcester	Wasylean Hall	Solar Power	n/a
	Dowden, Chandler, Wesleyan	Floor Finishes and HVAC Improvements	820,000
TOTAL			\$ 314,796,998



NORTH HALL
FRAMINGHAM STATE UNIVERSITY

STATE OF THE SYSTEM

Overview

The Authority develops and manages two different types of projects: System projects and Campus projects. System projects are those facilities that were financed with pooled debt – guaranteed by the Commonwealth – prior to 1999. There are 82 System buildings that comprise 2.5 million gross square feet of building space and house 10,500 students; these buildings were constructed over a period of 100 years, the oldest having been completed in 1906. The System buildings have pooled replacement reserves. By contrast, each Campus project is funded by revenue bonds that are guaranteed by pledged rent and fees; these bonds are not guaranteed by the Commonwealth. There are 13 Campus projects, constructed since 2000, which comprise 1.2 million gross square feet and house 3,400 students. Each Campus project has a separate, dedicated replacement reserve. Over the years, the Authority has dramatically reduced the deferred maintenance in all facilities and has renovated buildings to meet the changing needs of students and the changing requirements of building codes and standards (e.g., life safety, accessibility, energy conservation). The condition of the residential facilities of the Authority has resulted in improved desirability of on-campus housing, as demonstrated in part through increased occupancy over the past several years. The predictable schedule, quality, and funding of facility improvement projects reduces the likelihood of substantial unanticipated projects and their associated inconvenience and expense.

Financial Performance

The financial performance of Authority projects is strong and improving. For fiscal 2011, Authority projects generated total revenue of \$93.1 million, of which \$46.8 million was used to pay debt service. To cover the Authority's assessments and the annual expense of operating the residence halls, the universities collect rents and fees from students in accordance with the annual Rent Certificate prepared by the Authority and approved by the Massachusetts Board of Higher Education. The Authority's audited financial statements for fiscal year 2011 are included as Appendix B.

The financial strength of the Authority is further enhanced by a series of reserves and trust funds. The college assessments fund annual debt service requirements, Authority operating expenses, insurance, and deposits to reserves. During this fiscal year, \$4.5 million was deposited into the System Capital Improvement Reserve from rent revenues; this reserve is managed by the Authority and is used to fund the repair and renewal requirements of the System projects. At the end of the fiscal year, the balance available in the reserve was \$14.5 million. A growing percentage of the effective gross income of Campus projects is deposited into the replacement reserve for each new building project. At the close of the fiscal year, these funds totaled \$2.6 million, and are used specifically to fund the renewal requirements of Campus projects.

Economic Impact

The impact of the Authority and of its projects on the Massachusetts economy is substantial. The following table illustrates the dollar value of the direct expenditure of the Authority for personnel, purchasing, construction, and debt service/bond issuance expenses for the last two years:

ECONOMIC IMPACT OF THE AUTHORITY AND ITS PROJECTS (in \$1,000,000)

Expense Type	FY 2010	FY 2011	Employment¹
Authority Operations & Administration	\$1.4	\$1.5	14
Campus Construction & Maintenance	107.5	113.0	565
Bond Issuance & Debt Service	51.8	57.8	
Total	\$160.7	\$172.3	579

¹ NOTE: The Authority employs a staff of 14 at its offices in Boston. Construction industry guidelines indicate that at current prevailing wage rates, every million dollars of construction could result in the employment of approximately 5 workers for a full year.

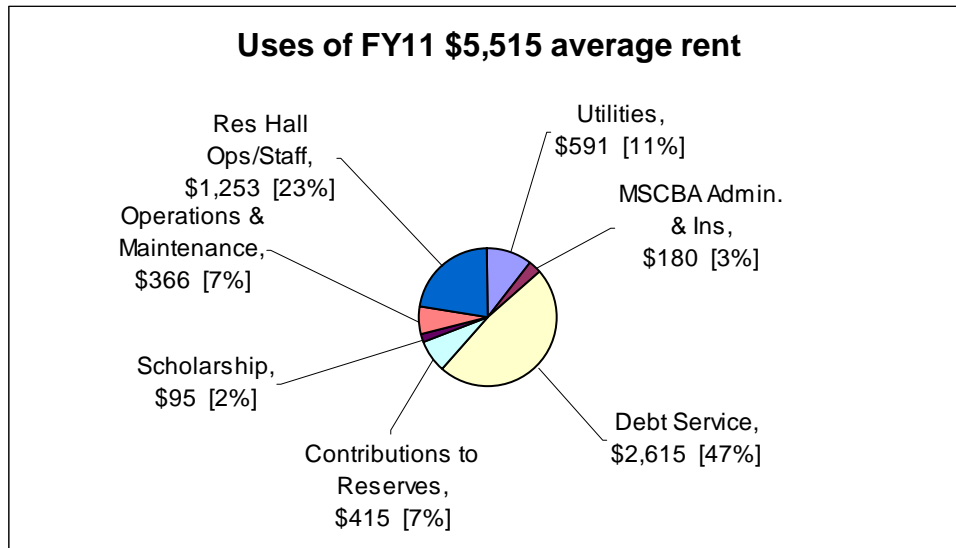


**MARSH HALL
SALEM STATE UNIVERSITY**

Rents and Fees

For the 2010-2011 academic year (fiscal 2011), the average on-campus room rent was \$5,515 per bed (\$613 per month). To ensure affordability and full occupancy, Authority room rents are typically maintained at or below the off-campus market rental rates in the locality served by the campus. Regular modest increases in room rents permit the Authority to fund increases in operating expenses (salaries and utilities) and a regular program of facility renewal and renovation (debt service expense and deposits in the Capital Improvement Reserve). The following chart illustrates the uses of the average rent charged for fiscal 2011:

USES OF THE AVERAGE RENT



Bond Capacity

In 1998, the Legislature empowered the Authority to issue revenue bonds that are not guaranteed by the Commonwealth. Each bond issue is guaranteed by the rents and fees pledged by the universities and paid by the students who benefit from these projects. As detailed in the following chart, some \$844.1 million in bonds has been issued. Principally, the projects funded with the bond proceeds are new residence halls or student activity facilities: \$540.5 million [MSCBA PROJECTS]. Just under half of this amount, \$216.6 million, has been invested in the renewal or renovation of residence halls [MSCBA REPAIR]. The balance of the bonds issued, \$87.0 million, has been directed towards the repair and improvement of Commonwealth-owned facilities [MA FACILITIES]; this work includes the renovation and expansion of dining facilities and student centers, the rehabilitation of athletic fields, and the improvement of parking lots. The following table lists the use of the bond proceeds, including cost of issuance [COI] and debt service reserve funds [DSRF] (net of premiums or discounts):

USE OF BOND PROCEEDS (in \$1,000,000)

Campus	MSCBA Repair	MSCBA Projects	MA Facilities	Total
Bridgewater State	\$41.5	\$111.4	\$6.2	\$159.1
Fitchburg State	28.1	17.5	21.0	66.6
Framingham State	39.2	45.4	27.1	111.7
MA College of Art & Design	1.3	89.8	12.0	103.1
MA College of Liberal Arts	18.6	0.0	1.8	20.4
MA Maritime Academy	17.6	17.4	0.0	35.0
Salem State	11.3	96.0	8.4	115.7
Westfield State	30.0	32.0	4.0	66.0
Worcester State	10.6	55.8	0.0	66.4
Project Fund Subtotal	\$198.2	\$465.3	\$80.5	\$744.0
COI, DSRF less premium	18.4	75.2	6.5	100.1
Total Bonds Issued (1999-2010A,B)	\$216.6	\$540.5	\$87.0	\$844.1

Facility Renewal

The Authority has developed a comprehensive facility renewal program to ensure that the recurring need for reinvestment occurs on a predictable schedule that is coordinated with the availability of funds necessary to implement this work. Typically, renewal projects include work that is performed on a regular cycle to maintain an existing building in its present configuration for its current use. The *Facility Renewal Plan* includes a schedule of the anticipated useful life of each major building component and system and the date and amount of the next required investment. The plan is revised annually to incorporate recently-completed work, to validate the projected schedule for future work, and to update the unit prices for each building assembly that is scheduled for future replacement.

One measure of facility condition is the Facility Condition Index, a higher education industry standard that is the ratio of the value of Deferred Maintenance divided by the Current Replacement Value of the facility [FCI = DM/CRV]. Due to steady reinvestment in existing facilities (System Projects) the FCI for the Authority has steadily improved over the past several years:

FACILITY CONDITION INDEX

	2000	2002	2004	2006	2008	2009	2010	2011
Deferred Maintenance (\$m)	61.1	49.3	25.2	14.6	8.9	8.1	8.4	10.9
Current Replacement Value (\$m)	274	293	330	374	420	431	464	471
Facility Condition Index	22.3%	16.8%	7.6%	3.9%	2.1%	1.9%	1.8%	2.3%

College Enrollment

Enrollment at the state universities continues to increase. The following chart illustrates the enrollment of full time undergraduate students at each state university:

STATE UNIVERSITY ENROLLMENT (Fall Data)

Campus	2002	2004	2006	2008	2010
Bridgewater State	6,965	7,399	7,471	8,117	8,911
Fitchburg State	3,311	3,622	3,903	4,421	4,503
Framingham State	4,219	4,207	4,169	4,237	4,288
MA College of Art & Design	1,366	1,482	1,543	1,803	1,956
MA College of Liberal Arts	1,539	1,592	1,765	1,589	1,715
MA Maritime Academy	953	984	1,092	1,221	1,297
Salem State	5,844	6,422	7,224	7,279	7,438
Westfield State	4,186	4,090	4,630	4,863	5,174
Worcester State	3,846	3,794	3,939	4,004	4,350
Total	32,229	33,592	35,736	37,535	39,630

Residence Hall Occupancy

Occupancy in the residence halls on each campus is strong and growing. As shown on the following table, occupancy at several of the state universities was over 100%:

RESIDENCE HALL OCCUPANCY (Annual Data)

Campus	1998	2000	2002	2004	2006	2008	2010	2011
Bridgewater State	106%	104%	107%	105%	105%	103%	101%	100%
Fitchburg State	71%	65%	89%	99%	100%	104%	105%	104%
Framingham State	83%	89%	99%	102%	100%	99%	101%	104%
MA College of Art & Design	103%	101%	104%	100%	98%	99%	100%	99%
MA College of Liberal Arts	63%	58%	71%	82%	89%	89%	94%	98%
MA Maritime Academy	75%	80%	89%	95%	99%	92%	100%	103%
Salem State	99%	99%	106%	105%	103%	100%	106%	93%
Westfield State	96%	103%	107%	106%	106%	107%	105%	104%
Worcester State	91%	100%	103%	101%	97%	100%	102%	99%
Average	87%	89%	97%	101%	101%	101%	102%	101%

Housing Financial Aid

The Authority makes a concerted effort to maintain rent levels at or below comparable rents in the market served by each campus. By statute, the fees, rents, and charges assessed by the Authority must provide sufficient revenue to pay the cost of project debt service; maintenance, repair, and operations; and reserves. There is a range of types and costs of Authority projects, to appeal to a range of student interests and resources. To further improve the affordability of its projects, the Authority established a housing financial aid program in 2005. In fiscal 2011, this program provided one-and-one-half million dollars that is redistributed by the financial aid offices of the nine state universities to complement the financial aid package for residential students. In fiscal 2011, 9.7% of students received 20.1% of their housing costs through this program.

Strategic Planning

Every other year, the Authority prepares an update to its *Strategic Plan* to determine the long term demand for student housing facilities at the nine state university campuses. This plan considers the latest available enrollment data and projections prepared by the Department of Higher Education. The plan recommends the provision of residence hall capacity to house up to an average of fifty percent of the full time undergraduate students in the state university system; this would provide, on average, capacity for two years of housing during a students' four-year undergraduate experience. Overall, system enrollments are at or above projected levels. Individual universities vary, but several show distinct five- and ten-year trends for enrollment increases above projections. In addition to a greater number of total students, the percentage of full time undergraduate students – the students most likely to avail themselves of housing opportunities – increased from 55% to 65% of total headcount since 2000. Further, despite an increase of 3,513 new beds from 2000 to 2011, system-wide occupancy in fall 2010 was 103.6% of design occupancy. The Authority will continue to update its *Strategic Plan* on a biennial basis to ensure that demand is sufficient for future projects and to effectively manage occupancy of existing facilities.



NORTH HALL
FRAMINGHAM STATE UNIVERSITY

COMMONWEALTH OF MASSACHUSETTS

Deval L. Patrick, Governor

Timothy P. Murray, Lieutenant Governor

AUTHORITY MEMBERS AND OFFICERS

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Peter Alcock, Vice-Chairman

Kenneth Wissman, Secretary/Treasurer

Mary-Elizabeth Beach

Brian Q. Corridan

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John Scribner Jr.

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CERTIFIED PUBLIC ACCOUNTANTS

Ercolini and Company, LLP

BOND COUNSEL

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC

As of June 30, 2011

APPENDIX A
 Moody's Investors Service
 Massachusetts College and University
 Ratings

Institution	Rating
Amherst College	Aaa
Babson College	A3
Bentley College	A3
Berklee College of Music	A2
Boston College	Aa3
Boston University	A2
Brandeis University	A1
Clark University	A2
College of the Holy Cross	Aa3
Emmanuel College	Baa1
Franklin W. Olin College of Engineering	A1
Hampshire College	Baa2
Harvard University	Aaa
Lasell College	Ba1
MA College of Pharmacy and Health Sciences	A3
Massachusetts Institute of Technology	Aaa
Massachusetts State College Building Authority	Aa2
Merrimack College	Baa3
Mount Holyoke College	Aa3
New England Conservatory	Baa1
Northeastern University	A2
Simmons College	Baa1
Smith College	Aa1
Springfield College	Baa1
Stonehill College	A2
Suffolk University	Baa2
Tufts University	Aa2
University of Massachusetts Building Authority	Aa2
Wellesley College	Aaa
Wentworth Institute of Technology	Baa1
Wheaton College	A2
Williams College	Aa1
Worcester Polytechnic Institute	A1

APPENDIX B

FY 2011 Audited Financial Statements

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, 2011 AND 2010



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, 2011 AND 2010

TABLE OF CONTENTS

	<u>Page</u>
Management's Discussion and Analysis (Unaudited)	i - xi
Independent auditor's report	1 - 2
Statements of net assets (deficiency in net assets)	3
Statements of revenues, expenses, and changes in net assets	4
Statements of cash flows	5
Notes to financial statements	6 - 31
Supplemental information:	
Statistical section (Unaudited)	32 - 36
Independent auditor's report on internal control over financial reporting and on compliance and other matters	37 - 38

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
(a component unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

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, 2011 and 2010, and the results of its operations and cash flows for the years then ended. This analysis should be read in conjunction with the Authority's financial statements and notes thereto which are also presented in this document.

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

The Authority is empowered, among other things, to acquire, construct, remove, demolish, add to, alter and do other work upon any building or structure and to provide and install furnishings, furniture, equipment and other facilities therein. The Act authorizes the Authority, among other things, to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes and to issue and sell its revenue bonds and notes therefore payable solely from its revenues. The projects of the Authority include 42 residence hall complexes, two dining halls, and three parking facilities.

The Authority also has participated in improvements made to campus facilities including parking lots, dining halls, student centers and athletic fields. The Authority is located in Boston, Massachusetts, and employs an Executive Director and 12 staff members. The nine Members of the Authority (the Board) oversee the operation of the Authority and are appointed by the Governor to staggered 5-year terms; three Members must also be members of the Board of Higher Education. Irrespective of the term of appointment or reappointment, Members continue to serve until they are replaced.

Highlights

Residence Hall Construction and Renovation

At Bridgewater State, the Authority completed a solar panel installation at Crimson Hall, renovations at Great Hill Apartments and Shea-Durgin Hall, floor repairs at Woodward Hall, and furniture replacement at Miles-Dinardo Halls. A new housing capacity study was completed and schematic design is underway for a new 500-bed residence hall, set to open Fall 2013. Summer 2011 renovations at Woodward Hall commenced and consist of replacing the heating system, upgrading the fire alarm system, and replacing exterior wood window sills.

At Fitchburg State, the Authority completed three renovation projects: window replacement and security upgrade to exterior doors at Aubuchon Hall; renovations to bathrooms at Mara Village and upgrades to the Mara Commons building; and improvements to the exteriors of the Cedar House complex including roof replacement, exterior cleaning and painting, and site improvements. Summer 2011 renovations to Cedar House commenced and will include: kitchen and bathroom renovations, accessibility improvements, and interior finish restorations. Renovations to the Townhouse Apartment Complex and Aubuchon Hall are under review.

At Framingham State, the Authority substantially completed construction of a new residence hall, North Hall, which opened August 2011 and provides housing for 410 students.

At the Massachusetts College of Art and Design, the Authority continued construction of a new residence hall, scheduled to open Spring 2012. This 490-bed residence hall will include a 2,600 square foot health center. Renovations of Smith Hall continue Summer 2011 and will include the installation of a new emergency generator on the roof to replace the existing stand-by generator in the basement. In addition, the workrooms in the Artists' Residence were reconfigured to include student lounges on the upper levels and a domestic water heater was replaced.

At the Massachusetts College of Liberal Arts, the Authority completed three renovation projects: replacement of all windows and installation of fire alarm and emergency stair lighting at the Flagg Townhouse complex and replacement and relocation of the transformer and switchgear at Berkshire Towers. Renovations on Hoosac Hall continue through Summer 2012 and include replacement of bathrooms on all levels, replacement of corridor ceilings, lighting and flooring on levels 2 through 6, a new entrance, and reconfiguration of the first floor to add 27 additional beds.

At the Massachusetts Maritime Academy, the Authority executed the purchase of the contiguous Beachmoor Inn, adding an additional 20-beds and providing a new venue for conferences and events.

At Salem State, the Authority completed a new residence hall, Marsh Hall, in August 2010, providing housing for an additional 525 students and a 13,000 square foot dining hall. In addition, the Authority completed installation of the Solar Thermal panels at Marsh Hall. The Authority completed sprinkler and fire protection upgrades in Bowditch Hall and upgrades to the life safety systems in Bates Hall. In addition, replacement of all boilers, hot water heaters, and dehumidifiers in all remaining Bates Hall buildings (B,D,E,F & Common) began Summer 2011.

At Westfield State, the Authority completed repairs to the exterior stairs at the Apartment complex, and completed renovations to the bathrooms and improved building access at Scanlon Hall. In addition, all windows and interior window trim throughout Lammers Hall will be replaced beginning Summer 2011. Given increased enrollment and demand for on-campus housing, a feasibility study for new housing capacity was completed and schematic design is underway for a new 400-bed residence hall, scheduled to open Fall 2013.

At Worcester State, the Authority completed renovations and construction of the expansion to Dowden Hall providing housing for 170 students. A solar installation project at Wasylean Hall was completed in August 2011. In addition, Summer 2011 renovations at Chandler Village and Wasylean Hall began and include installation of emergency light fixtures, replacement of common area carpeting, and some bedroom furniture. A feasibility study for new housing was initiated and continues in Summer 2011.

In addition to completing capital projects on time and on budget, the Authority continues to strive for design quality and environmental sustainability. North Hall at Framingham State and the New Residence Hall at MassArt have been submitted for certification as LEED Silver (Leadership in Energy and Environmental Design). Marsh Hall at Salem State and Dowden Hall at Worcester State have been submitted for certification as LEED Gold.

Student Activity Facilities

At Bridgewater State, the Authority completed upgrades to Swenson Field, which included: removal and replacement of existing bleachers and press box; new seating capacity; and demolition and replacement of the existing running track and athletic fields. In fiscal 2011, the Authority initiated construction of a new 840-space parking structure on East Campus on Great Hill Drive, scheduled for completion January 2012.

At Framingham State, the Authority began renovations and repairs of O'Connor Hall, with eventual conversion to University use. The conversion will be phased in over more than one summer and will eventually include the relocation of the University's Planetarium, an elevator serving all levels, and conversion of all floors to office use.

At Fitchburg State, planning and feasibility analysis for improvements to the Hammond Student Center continued through fiscal 2011. Phase I of construction and improvements began Spring 2011 and includes: a new atrium addition, lobby renovations, upgrades to the server, a new café, renovations to the student lounge, new meeting rooms and offices, new and renovated accessible restrooms, a new chiller and cooling tower, new air handling equipment and mechanical, electrical and plumbing distribution to the renovated spaces, and landscaping and site work which reconfigure the front entry plaza. This work will continue through July 2012. The Hammond Student Center project has been submitted for LEED certification.

At Massachusetts College of Art and Design, the Authority began reconstruction to the Kennedy Campus Center Dining Servery. The project was completed August 2011. The Kennedy Center project has been certified LEED Silver.

At the Massachusetts College of Liberal Arts, construction continued to replace the gymnasium floor in the Amsler Center. In addition, upgrades to the Shapiro building on Ashland Street began and include the removal of approximately one third of the building footprint loading dock area to allow for the construction of a parking area adjacent to the building.

At Westfield State, the Authority began Phase 1 of a project that will add approximately 5,000 square feet of new space to Tim and Jeanne’s Dining Center to provide additional seating and other student activity space; construction began Summer 2011.

Finance and Administration

In December 2010, the Authority closed a \$60,000,000 issuance of Project Revenue Bonds, Series 2010A/B. The Authority received ratings from: Moody’s Investors Service of “Aa2” and Standard & Poor’s Financial Services of “AA-“. The 2010A series (\$12,120,000) was issued as traditional tax-exempt debt with an all-in cost of 2.477%. The 2010B series (\$47,880,000) was the Authority’s second taxable bond issue and was issued as Federally taxable Build America Bonds (BABs) which receive a Federal subsidy equal to 35% of the interest cost. The all-in cost of the BABs (including subsidy) is 4.136%. The blended all-in cost of the 2010A/B issue is 3.99%.

The Authority also maximized earnings on the debt service reserve funds associated with the 2010A/B bonds by purchasing Build America Bonds issued by the Commonwealth of Massachusetts. These investments earn 4.285%, 5.631% and 5.731% and will earn approximately \$1.7 million more over 30 years as compared to a 30-year U.S. Treasury. Earnings on these reserve funds are used to offset debt service expenses.

The following table lists the 2010A/B projects and respective bond issuance amounts:

2010A/B Project Description	Issuance Amount
East Campus garage at Bridgewater State	\$13.7 million
Hammond Campus Center renovation at Fitchburg State	\$15.5 million
Purchase of Beachmoor Inn at Massachusetts Maritime Academy	\$1.7 million
Modernization and expansion of Hemenway Science Center at Framingham State	\$11.1 million
Expansion of Tim and Jeanne Dining Center at Westfield State	\$4.3 million
Current phase (summer 2011) of the Authority’s capital plan to conduct repairs to various System Projects at Bridgewater, Fitchburg, and Westfield State and Massachusetts College of Liberal Arts.	\$13.7 million
Total	\$60.0 million

In May 2011, the Authority undertook a refinancing of a portion of its 2003A and 2004A Project Revenue Bonds. The 2011A Bonds refunded \$53,350,000 of outstanding debt generating total present value savings of \$2,822,354 with over 5.290% of refunded par, the lowest cost financing for the Authority to-date.

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

For the year ended June 30, 2011, the Authority's operating revenues of \$52,129,575 exceeded its operating expenses of \$27,227,223 by \$24,902,352. Compared to Fiscal Year 2010, operating revenues increased approximately 21.8%, primarily due to increased revenue from residence halls and student facilities. Operating expenses increased approximately 16.3%, primarily due to a 19.7% increase in depreciation.

Total assets increased at June 30, 2011 to \$901,408,309 as compared to \$834,616,300 at June 30, 2010. The increase results from the receipt of the 2010A/B bond proceeds, continued additions to Capital Assets and increased receivables for University-owned portions of the 2010A/B bond issue.

Payments for capital assets for the year ended June 30, 2011 were \$99,147,555 as compared to \$92,299,498 for the year ended June 30, 2010; this results from continued spending on projects from the 2009A and 2009B/C bond issues and initial spending on projects of the 2010A/B bond issue. As of June 30, 2011, the majority of the 2009A and 2009B/C bond issue projects were either completed or near completion and the majority of the 2010A/B bond issue projects were still in progress.

As of June 30, 2011, the Authority's reserve balances totaled \$98,014,628, including \$18,435,696 in Capital Improvement Reserve funds, \$77,764,342 in Debt Service Reserves and \$1,814,590 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 Universities and others for services rendered).

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the

Authority has adopted as well as additional details of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 6-31 of the audited financials.

Financial Analysis

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

Highlights – Statements of Net Assets

	Fiscal year ended June 30		<u>\$ Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
Current assets	\$118,297,189	\$101,609,716	\$16,687,473	16.4%
Capital assets, net	595,028,276	516,663,661	78,364,615	15.2%
Other noncurrent assets	<u>188,082,844</u>	<u>216,342,923</u>	<u>(28,260,079)</u>	-13.1%
Total assets	<u>901,408,309</u>	<u>834,616,300</u>	<u>66,792,009</u>	8.0%
Current liabilities	70,728,560	47,083,433	23,645,127	50.2%
Noncurrent liabilities	<u>837,832,838</u>	<u>794,125,863</u>	<u>43,706,975</u>	5.5%
Total liabilities	<u>\$908,561,398</u>	<u>\$841,209,296</u>	<u>\$67,352,102</u>	8.0%
Net assets:				
Invested in capital assets, net of related debt	(22,524,180)	(41,041,522)	18,517,342	45.1%
Restricted	1,897,286	2,555,116	(657,830)	-25.7%
Unrestricted	<u>13,473,805</u>	<u>31,893,410</u>	<u>(18,419,605)</u>	-57.8%
Net assets	<u>(\$7,153,089)</u>	<u>(\$6,592,996)</u>	<u>(\$560,093)</u>	-8.5%

- Total assets at June 30, 2011 increased 8.0% as compared to the prior fiscal year end. This primarily reflects the net impact of funds from the 2010A/B bond issue, continued additions to Capital Assets and increased receivables for University-owned portions of the 2010A/B bond issue. The spending of 2009B/C and 2010A/B project funds increased net capital assets (reflecting capital improvements made during the year, net of depreciation). Investments decreased by \$69,662,975 as compared to the prior year as a result of the maturity of 2009B/C project funds invested in U.S. Agency Obligations. Cash and cash equivalents increased by \$28,896,416 as compared to the prior year primarily due to proceeds from the 2010A/B bond issue, increased transfers from Universities, proceeds from the sale of Lincoln Street condominium, and a settlement with Bank of America. Accounts receivables increased from the prior year due to new 2010A/B bonds issued to fund University-owned projects.
- The Authority had reserves for capital improvements, multi-purpose and operating, at June 30, 2011 in the amount of \$20,250,286 as compared to \$16,075,446 at June 30, 2010. The Authority also had debt service reserves of \$77,764,342 at June 30, 2011 as compared to \$72,415,950 at June 30, 2010. These

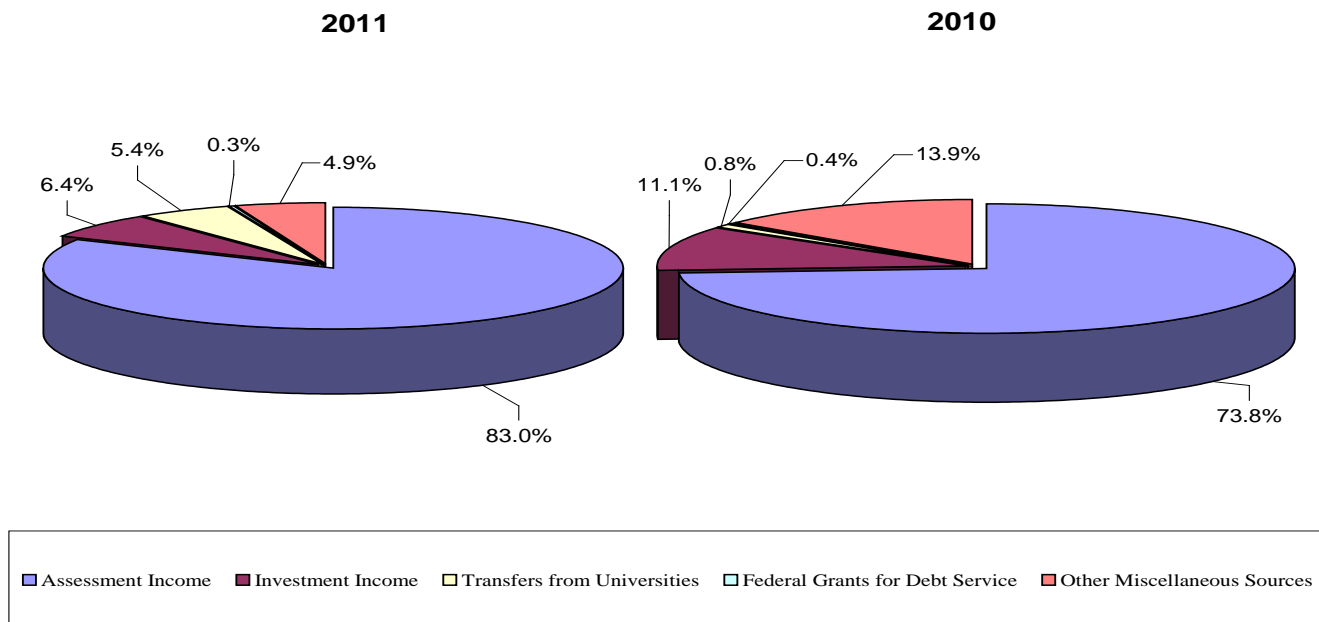
amounts are included in cash and cash equivalents and investments in the statement of net assets at June 30, 2011.

- Total liabilities at June 30, 2011 increased 8.0% as compared with the prior fiscal year end. This results primarily from an increase in bonds payable and interagency payables. Bonds payable increased from \$807,555,230 at June 30, 2010 to \$851,784,887 at June 30, 2011, primarily due to the addition of 2010A/B debt service offset by payments of principal on bonds during Fiscal Year 2011. Interagency Payables increased from the prior year in an amount of \$21,230,477. This net increase results from the proceeds from the 2010A/B bond issue for university owned student activity projects still under construction along with proceeds from the 2009B/C bond issue for university owned student activity projects still under construction.
- A deficiency in net assets exists due to depreciation and interest expenses exceeding operating and non-operating revenues over time. The Authority's investment in its capital assets is reported net of related debt and depreciation (a non-cash operating expense); it should be noted that the funds needed to repay debt and to replace or renew capital assets are provided from operating revenues (e.g. rent, fees and charges). The change in net assets for the year ended June 30, 2011 excluding depreciation was an increase in net assets of \$24,408,608.

Highlights – Revenues, Expenses and Changes in Net Assets

The Authority's revenue is primarily derived from assessment income (residence hall rents and student activity fees) pursuant to contracts entered into with the State Universities. These contracts provide the revenue needed to fund annual debt service requirements associated with capital projects as well as reserve deposits, insurance, and Authority operating expenses. Other revenue sources include investment income on project funds and reserves, transfers from the universities in support of capital projects, and Federal grants for debt service. New items in fiscal year 2011 are the Build America Bonds interest subsidy for the 2010A/B bonds. The chart below compares total revenue for Fiscal Year 2011 with Fiscal Year 2010.

Summary of Total Revenue

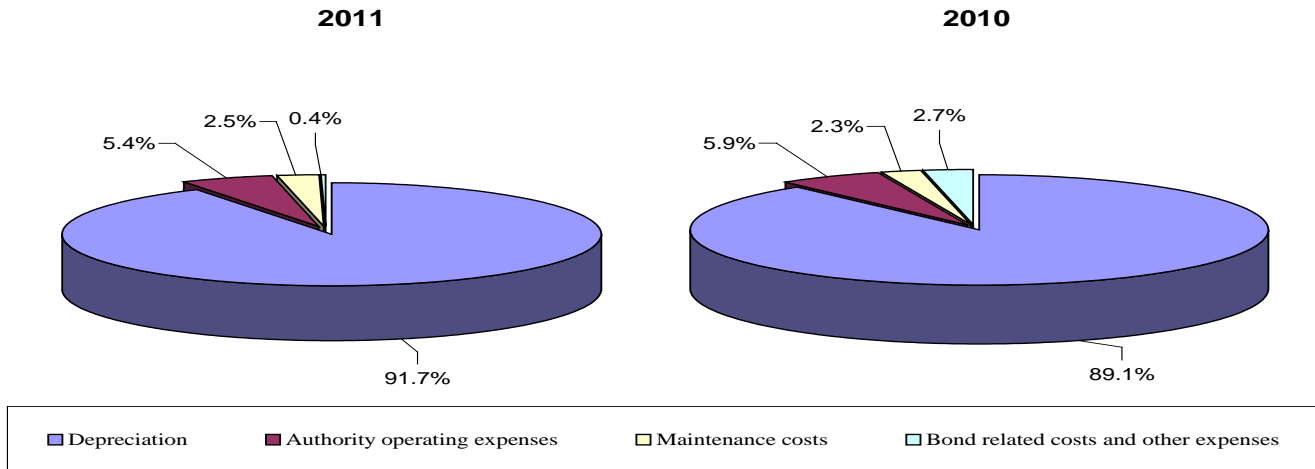


Investment income consists primarily of interest on construction funds and on debt service reserves. The share of revenue derived from investment income was 6.4% in Fiscal Year 2011 compared with 11.1% in Fiscal Year

2010. Transfers from universities were higher than Fiscal Year 2010 reflecting higher university contributions to Authority-owned facilities. The majority of the Authority's expenditures relate to capital assets (additions to assets plus depreciation) and repayment of revenue bonds issued to fund the additions to assets.

In Fiscal Year 2011, revenues were more than sufficient to cover operating expenses and debt service obligations. The chart below compares total expenses for Fiscal Year 2011 with Fiscal Year 2010.

Summary of Total Expenses



Comparison of Operating and Non-operating Revenues and Expenses

	Fiscal year ended June 30		\$ Change	% Change
	2011	2010		
Total operating revenues	\$52,129,575	\$42,785,016	\$9,344,559	21.8%
Total operating expenses	<u>27,227,223</u>	<u>23,417,198</u>	<u>3,810,025</u>	16.3%
Operating income	24,902,352	19,367,818	5,534,534	28.6%
Nonoperating expenses, net	<u>(25,462,445)</u>	<u>(13,357,983)</u>	<u>(12,104,462)</u>	90.6%
Increase (decrease) in net assets	(560,093)	6,009,835	(6,569,928)	-109.3%
Net assets - beginning of the year	<u>(6,592,996)</u>	<u>(12,602,831)</u>	<u>6,009,835</u>	47.7%
Net assets - end of the year	<u><u>(\$7,153,089)</u></u>	<u><u>(\$6,592,996)</u></u>	<u><u>(\$560,093)</u></u>	-8.5%

- Operating revenues include all revenue sources except investment income, transfers from state universities, capital grants, Build America Bond subsidies, gain on the sale of Lincoln Street, and the Bank of America settlement. The 21.8% increase in revenue for Fiscal Year 2011 reflects an increase in design occupancy and rental rates and continued strong occupancy for the residence halls as well as additional assessments for debt service associated with student activity projects.
- Operating expenses include depreciation, maintenance and repairs to capital assets and operating expenses associated with Authority operations. In Fiscal Year 2011, 91.7% of the Authority's operating

expense was for depreciation of \$24,968,701, as compared with \$20,854,040 (89.1%) in the prior fiscal year.

- Depreciation expense increased 19.7% compared to Fiscal Year 2010 due to the additional depreciable assets brought on line in Fiscal 2011. There were major renovations, and repairs at Bridgewater State (Great Hill and Pope/Scott), Fitchburg State (Aubuchon/Mara and Cedar House), MCLA (Berkshire Towers), Salem (Bates), Westfield (Scanlon), and Worcester (Dowden). New capacity assets were brought on line at MMA (Beachmoor) and Salem (Marsh).
- For Fiscal Year 2011, approximately 7.9% of the operating expenses paid for maintenance/repairs and Authority operating expenses, as compared to 8.2% in Fiscal Year 2010.
- Maintenance costs, comprised of capital improvement expenses (below the capitalization policy threshold) and property and liability insurance, increased from \$535,276 in 2010 to \$668,168 in 2011. Authority Operating expenses increased from \$1,392,357 in 2010 to \$1,483,170 in 2011.
- 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 25.71% in fiscal year 2011 compared to fiscal year 2010. The increase is a result of increased interest expense of the 2009A bond issue, the first full year of interest expense on the 2009B/C bond issue net of amount capitalized and interest accrued for seven months on the 2010A/B bond issue. Net investment income decreased by 37.79% in fiscal year 2011 compared to fiscal year 2010. The Authority also earned Build America Bonds interest subsidies of \$1,887,838 in fiscal 2011 as compared to \$700,809 in fiscal 2010.
- Net nonoperating expenses at June 30, 2011 were \$25,462,445 as compared to \$13,357,983 at June 30, 2010. The change results primarily from increased interest expense for bonds issued in fiscal 2010, higher transfers from the Universities, new Build America Bonds interest subsidies, and a combination of several non-recurring events; a state appropriations transfer in fiscal 2010 in the amount of \$6,881,873 and the sale of property and a settlement in 2011 of \$400,141 and \$201,756, respectively. In addition, fiscal 2011 net investment income is lower than the prior year primarily due to unrealized gains on investment securities in the prior year as compared to unrealized losses in the current year.

Highlights - Statements of Cash Flows

	<u>Fiscal year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Cash received from operations	\$52,129,743	\$42,885,113
Cash expended for operations	<u>(2,317,570)</u>	<u>(2,470,718)</u>
Net cash provided by operations	49,812,173	40,414,395
Net cash provided by (used) in capital and related financing activities	(93,351,760)	8,923,026
Net cash provided by (used in) investing activities	<u>72,436,003</u>	<u>(10,870,661)</u>
Net increase (decrease) in cash and cash equivalents	28,896,416	38,466,760
Cash and cash equivalents, beginning of year	92,655,895	54,189,135
Cash and cash equivalents, end of year	<u>\$121,552,311</u>	<u>\$92,655,895</u>

- Cash and cash equivalents were \$121,552,311 at June 30, 2011 compared to \$92,655,895 at June 30, 2010. This increase primarily relates to the unspent 2010A/B bond proceeds (\$11,213,579 and \$37,073,713 respectively as of June 30, 2011).
- Net cash provided by operations exceeded the cash expended for operations. As noted above, the increase in cash received from operations results from higher residence hall and student activity revenue. The increase in cash expended for operations is primarily due to increases in Authority insurance and operating expenditures, maintenance expenses and other expenses in accordance with the approved budget.
- Net cash used by capital and related financing activities was \$93,351,760 for Fiscal Year 2011 compared to net cash provided of \$8,923,026 for Fiscal Year 2010. Cash was used primarily by the 2011A advanced bond refunding.
- Net cash provided by investing activities was \$72,436,003 for Fiscal Year 2011 compared to net cash used of \$10,870,661 for Fiscal Year 2010. Purchases of investments in fiscal 2011 were significantly less than in fiscal 2010 due to the amount of bond proceeds (project, capitalized interest and debt service reserve funds) invested in each year: 2009B/C-related investments totaled \$107.5 million as compared to the 2010A/B investments of \$5.5 million. The 2010A/B bond issue was significantly smaller than 2009B/C and did not include any capitalized interest for new residence halls; project fund proceeds are scheduled for expenditure over a much shorter time period and have been retained in cash. This decrease in purchase of investments was offset in part by lower sales and maturities of investments in fiscal 2011 as compared to fiscal 2010. In fiscal 2010, more project fund investments were converted to cash for expenditure on projects.

Capital Assets and Debts of the Authority

The Authority's investment in capital assets as of June 30, 2011 amounted to \$595,028,276 net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), furnishings and equipment. Net capital assets increased during fiscal year 2011 by \$78,364,615. This increase was due to completed capital improvements described earlier in this report. During 2011:

- Construction in progress was recorded at \$93,537,885 as compared to \$104,448,807 the prior fiscal year;
- Buildings and improvements were recorded at \$680,671,878 as compared to \$571,713,398 the prior fiscal year reflecting all major additions offset by the sale of Lincoln Street; and
- Furnishings and equipment were recorded at \$37,741,760 as compared to \$33,971,954 the prior fiscal year; and
- Land was recorded at \$3,832,388 as compared to \$2,680,388 the prior fiscal year reflecting the purchase of Beachmoor at MassMaritime.

The Authority has entered into various commitments for the purchase of equipment, construction of certain facilities and other improvements. The amounts under commitment were approximately \$52,000,000 and \$75,800,000, respectively, as of June 30, 2011 and 2010.

The Authority carries debt in the form of bond obligations which, net of deferred losses on refundings, amounted to \$851,784,887 and \$807,555,230, as of June 30, 2011 and 2010, respectively.

Interagency Payables increased to \$30,859,441 at June 30, 2011 from \$9,628,964 at June 30, 2010. These payables consist of unspent University contributions plus unspent bond proceeds and related bond amounts associated with capital projects on University-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 Universities primarily draw students decreased to 7.6% at June 30, 2011 as compared to 9.0% at June 30, 2010. This compares to a national rate of 9.2% in 2011 and 9.5% in 2010.

Historically, in times of economic slow-down, the State Universities 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 University residence hall occupancy reports to the Authority and the Commonwealth's Department of Higher Education certify the number of students housed in on-campus housing owned by the Massachusetts State College Building Authority. Occupancy reports show that during the fall semester of the 2010/11 academic year 14,426 students were housed in residence halls or 103.6% of design occupancy. In the spring semester, 13,610 students were housed in residence halls, an occupancy rate of 97.7%. The average annual occupancy rates are shown below.

RESIDENCE HALL OCCUPANCY TABLE

Academic Years

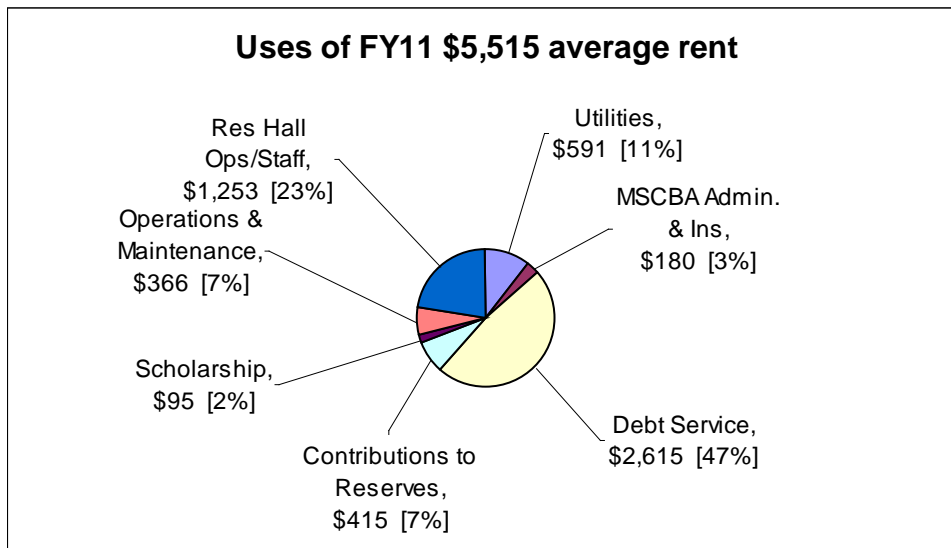
Institution	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Bridgewater	107%	105%	105%	105%	105%	104%	103%	104%	101%	100%
Fitchburg	89%	95%	99%	100%	100%	102%	104%	103%	105%	104%
Framingham	99%	105%	102%	100%	100%	100%	99%	101%	101%	104%
Mass. College of Art & Design	104%	100%	100%	99%	98%	101%	99%	100%	100%	99%
Mass. College of Liberal Arts	71%	81%	82%	88%	89%	95%	89%	88%	94%	99%
Mass. Maritime Academy	89%	93%	95%	96%	99%	103%	92%	94%	100%	103%
Salem	106%	105%	105%	100%	103%	101%	100%	104%	106%	94%
Westfield	107%	109%	106%	109%	106%	108%	107%	107%	105%	104%
Worcester	103%	100%	101%	96%	97%	101%	100%	102%	102%	100%
Average	97%	101%	101%	101%	100%	103%	101%	102%	102%	101%

The Authority attributes strong demand for on-campus housing to three factors: (1) the increase in the number of full-time undergraduate students who desire to live on campus (2) increased attractiveness of housing due to the Authority's Strategic Capital Plan renewal investment, and (3) the high cost and limited supply of off-campus housing. From 2002 through 2011, the Authority has constructed 3,513 new beds, while maintaining occupancy rates of 100% or more of capacity. As noted earlier in this analysis, additional beds are scheduled to open Fall 2011, 410 at Framingham State and Spring 2012, 490 at MassArt.

Residence Hall Rent Rates

For the academic year 2010-2011 (Fiscal Year 2011), the average on-campus room rent was \$5,515 per bed (\$613 per month).

There are no Commonwealth appropriations for residence halls. Student rents fund the 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 2011, the Authority committed approximately \$194 million in capital repairs, life safety and accessibility improvements, and infrastructure and furniture replacement for existing residence halls. During fiscal year 2011, the Authority completed significant capital improvement projects for residence halls at Massachusetts College of Art and Design and Massachusetts College of Liberal Arts and at the State Universities 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 (academic, athletic, and dining) were completed at Framingham, Fitchburg, MassArt, MCLA, and Westfield. In addition, construction of new residence hall capacity was completed at Framingham and continued at MassArt.

New Construction Projects

Construction in progress at the end of fiscal years 2011 and 2010 was \$93,537,885 and \$104,448,807, respectively.

Projects underway include the following:

- Construction of a new residence hall at Massachusetts College of Art and Design.
- Schematic design for new capacity projects at Bridgewater State and Westfield State.
- Renovations and repairs at Bridgewater State (Woodward), Fitchburg State (Aubuchon and Cedar House), MassArt (Smith), MCLA (Hoosac), Salem State (Bates), Westfield State (Lammers), and Worcester State (Chandler Village, Dowden, and Wasylean).

Requests for Information

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

INDEPENDENT AUDITOR'S REPORT

To the Board
Massachusetts State College Building Authority
Boston, Massachusetts

We have audited the accompanying financial statements of the business-type activities of Massachusetts State College Building Authority (a component unit of the Commonwealth of Massachusetts) (the Authority) as of and for the years ended June 30, 2011 and 2010 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, 2011 and 2010, 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 20, 2011 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, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 2011 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statistical section contained on pages 32 through 36 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Ercoleini & Company LLP

Boston, Massachusetts
September 20, 2011

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

STATEMENTS OF NET ASSETS (DEFICIENCY IN NET ASSETS)

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,961,725	\$ 65,563,514
Restricted cash and cash equivalents	61,280,385	20,870,378
Restricted investments, including amounts held by bond trustee	-	11,983,504
Accounts receivable, net	<u>4,055,079</u>	<u>3,192,320</u>
Total current assets	<u>118,297,189</u>	<u>101,609,716</u>
Noncurrent assets:		
Restricted cash and cash equivalents	7,310,201	6,222,003
Restricted investments, including amounts held by bond trustee	93,686,304	151,365,775
Accounts receivable, net	75,186,365	46,782,366
Capital assets, net	595,028,276	516,663,661
Deposit	-	16,250
Bond issuance costs, net	<u>11,899,974</u>	<u>11,956,529</u>
Total noncurrent assets	<u>783,111,120</u>	<u>733,006,584</u>
Total assets	<u>\$ 901,408,309</u>	<u>\$ 834,616,300</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,572,562	\$ 23,716,612
Accrued payroll	43,878	44,003
Interagency payables	24,799,324	6,391,325
Compensated absences	83,869	93,541
Current portion of bonds payable, net of deferred loss	<u>20,228,927</u>	<u>16,837,952</u>
Total current liabilities	<u>70,728,560</u>	<u>47,083,433</u>
Noncurrent liabilities:		
Accounts payable and accrued liabilities	137,884	100,097
Compensated absences	78,877	70,849
Interagency payables	6,060,117	3,237,639
Bonds payable, net of deferred loss	<u>831,555,960</u>	<u>790,717,278</u>
Total noncurrent liabilities	<u>837,832,838</u>	<u>794,125,863</u>
Total liabilities	<u>908,561,398</u>	<u>841,209,296</u>
Net Assets (Deficiency in Net Assets)		
Invested in capital assets, net of related debt	(22,524,180)	(41,041,522)
Restricted:		
Expendable:		
Capital projects	1,897,286	2,555,116
Unrestricted	<u>13,473,805</u>	<u>31,893,410</u>
Total net assets (deficiency in net assets)	<u>(7,153,089)</u>	<u>(6,592,996)</u>
Liabilities and Net Assets (Deficiency in Net Assets)	<u>\$ 901,408,309</u>	<u>\$ 834,616,300</u>

See notes to financial statements.

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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Income from contracts for financial assistance, management, and services	\$ 51,349,024	\$ 42,453,490
Federal grants for debt service	211,890	211,890
Other miscellaneous revenues	<u>568,661</u>	<u>119,636</u>
Total operating revenues	<u>52,129,575</u>	<u>42,785,016</u>
Operating expenses:		
Maintenance costs	668,168	535,276
Authority operating expenses	1,483,170	1,392,357
Depreciation	24,968,701	20,854,040
Bond related costs and other expenses	<u>107,184</u>	<u>635,525</u>
Total operating expenses	<u>27,227,223</u>	<u>23,417,198</u>
Operating income	<u>24,902,352</u>	<u>19,367,818</u>
Nonoperating revenues (expenses):		
Net investment income	3,977,455	6,393,208
Interest expense	(35,282,322)	(28,067,213)
Transfers from State Universities	3,352,687	440,267
State capital appropriations transfer	-	6,881,873
Build America Bonds interest subsidy	1,887,838	700,809
Gain (loss) on sale of capital assets	400,141	-
Miscellaneous nonoperating revenue	201,756	-
Capital grants	<u>-</u>	<u>293,073</u>
Net nonoperating revenues (expenses)	<u>(25,462,445)</u>	<u>(13,357,983)</u>
Increase (decrease) in net assets	<u>(560,093)</u>	<u>6,009,835</u>
Net assets (deficiency in net assets), beginning of year	<u>(6,592,996)</u>	<u>(12,602,831)</u>
Net assets (deficiency in net assets), end of year	<u>(\$ 7,153,089)</u>	<u>(\$ 6,592,996)</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from contracts for financial assistance, management, and services	\$ 51,349,024	\$ 42,453,490
Federal grants for debt service	211,890	211,890
Other miscellaneous receipts	568,829	219,733
Payments for maintenance costs	(670,373)	(530,467)
Payments for operating expenses	(1,484,939)	(1,364,785)
Payments for other expenses	(162,258)	(575,466)
Net cash provided by (used in) operating activities	<u>49,812,173</u>	<u>40,414,395</u>
Cash flows from capital and related financing activities:		
Proceeds from bond issuance	120,581,681	152,128,185
Cash paid to bond trustee related to advance refundings	(59,010,392)	-
Build America Bonds interest subsidy	1,716,819	478,330
State capital appropriations transfer	-	6,881,873
Payment of bond issuance costs	(780,005)	(1,322,362)
Payments for capital assets	(99,147,555)	(92,299,498)
Proceeds from sale of assets	527,486	-
Miscellaneous receipts	201,756	-
Capital grants	-	293,073
Release from (payment to) escrow for deposit on capital assets	16,250	(16,250)
Collections of debt service receivables	4,473,638	3,688,523
Transfer of funds from State Universities	3,352,687	340,267
Payments from funds held for others	(12,333,571)	(13,407,123)
Funds received and held for others	4,018,190	2,678,595
Principal paid on capital debt	(16,449,998)	(13,810,000)
Interest paid on capital debt	(40,518,746)	(36,710,587)
Net cash provided by (used in) capital and related financing activities	<u>(93,351,760)</u>	<u>8,923,026</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	142,805,470	163,795,554
Purchases of investments	(74,051,715)	(177,994,050)
Interest on investments	3,682,248	3,327,835
Net cash provided by (used in) investing activities	<u>72,436,003</u>	<u>(10,870,661)</u>
Net increase (decrease) in cash and cash equivalents	28,896,416	38,466,760
Cash and cash equivalents, beginning of year	<u>92,655,895</u>	<u>54,189,135</u>
Cash and cash equivalents, end of year	<u>\$ 121,552,311</u>	<u>\$ 92,655,895</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 24,902,352	\$ 19,367,818
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	24,968,701	20,854,040
Loss on transfer of land to DCAM	-	6,250
Amortization of bond issuance costs, bond premium and deferred loss on refunding	(55,074)	53,809
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	(2,037)	104,906
Accrued payroll and compensated absences	(1,769)	27,572
Net cash provided by (used in) operating activities	<u>\$ 49,812,173</u>	<u>\$ 40,414,395</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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 universities 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 universities include Bridgewater, Fitchburg, Framingham, Salem, Westfield and Worcester State Universities, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design and Massachusetts Maritime Academy (collectively, the State Universities). The Authority provides bond financing, design and construction management of new facilities, major renovations and capital repairs for its projects at the State Universities. Annual obligations of the Authority include rent setting and oversight of State University 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 State Universities 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Net assets:

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

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

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

- **Restricted - nonexpendable:**

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

- **Restricted - expendable:**

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

- **Unrestricted:**

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

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

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

Use of estimates:

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

Cash equivalents:

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Investments:

Investments in marketable securities are stated at fair value. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets. There were no significant realized gains or losses on investments during the years ended June 30, 2011 and 2010.

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, 2011 and 2010, as management considers all amounts fully collectible.

Capital assets:

The accompanying financial statements include the transactions of all of the Authority's capital assets, which include residence halls for approximately 13,930 students in 2011 and 13,150 students in 2010, some with dining facilities, at the State Universities.

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Bond related items:

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

Interest expense and capitalization:

The Authority capitalizes interest costs incurred during the construction period of qualifying property assets. The amount of interest costs capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings consists of all interest costs of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings from the date of the borrowing until the assets are ready for their intended use. During 2011 and 2010, total interest costs were accounted for as follows:

	<u>2011</u>	<u>2010</u>
Total interest incurred	\$ 40,537,039	\$ 36,151,551
Less: capitalized portion of interest incurred	(5,254,717)	(8,084,338)
Interest expense	<u>\$ 35,282,322</u>	<u>\$ 28,067,213</u>
Capitalized portion of interest incurred	\$ 5,254,717	\$ 8,084,338
Less: interest income on unused funds from tax-exempt borrowings	(1,039,075)	(1,303,587)
Net capitalized interest	<u>\$ 4,215,642</u>	<u>\$ 6,780,751</u>

Fringe benefits:

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

Compensated absences:

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Tax status:

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

Reclassifications:

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Recent accounting pronouncements:

Recently adopted accounting pronouncements -

In June, 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 59, *Financial Instruments Omnibus*. GASB Statement No. 59 updates and clarifies existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. GASB Statement No. 59, among other items, amends GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to provide that interest rate risk information should be disclosed only for debt investment pools such as bond mutual funds and certain external bond investment pools and not for mutual funds and external investment pools that hold a mix of debt and equity investments. GASB Statement No. 59 is effective for periods beginning after June 15, 2010. Adoption of GASB Statement No. 59 by the Authority in fiscal 2011 had no material impact on the Authority's financial statements.

In December, 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) Financial Accounting Standards Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures. GASB Statement No. 62 also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011 with earlier application encouraged. The Authority elected to early adopt the requirements of this Statement in fiscal 2011. The adoption of GASB Statement No. 62 did not have a material impact on the Authority's financial statements.

Recent accounting pronouncements not yet adopted -

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses the accounting, financial reporting and disclosure related to service concession arrangements. A service concession arrangement is an

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Recent accounting pronouncements - continued:

Recent accounting pronouncements not yet adopted - continued -

arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. GASB Statement No. 60 is effective for financial statements for periods beginning after December 15, 2011. The Authority does not believe that its adoption of this Statement in fiscal 2013 will have a material impact on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources (consumption of net assets that is applicable to a future reporting period) and deferred inflows of resources (acquisition of net assets that is applicable to a future reporting period) and distinguishes them from assets and liabilities. GASB Statement No. 63 also renames *net assets* to *net position* as the residual measure of the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources within a statement of financial position. GASB Statement No. 63 is effective for financial statements for periods beginning after December 15, 2011. Other than renaming the *Statement of Net Assets* to the *Statement of Net Position* and renaming and reformatting certain line items within the Statement of Net Position, the Authority does not believe that its adoption of this Statement in fiscal 2013 will have a material impact on the Authority's financial statements.

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, 2011, \$90,592,149 of the Authority's bank balances were exposed to custodial credit risk because they were uninsured and uncollateralized.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

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

Custodial credit risk - continued

The Authority has cash equivalents invested in mutual funds that are held at US Bank. The funds at US Bank are invested in the Fidelity Institutional Money Market Government Fund 57 which has a fair value of \$90,592,149 and \$68,637,981 at June 30, 2011 and 2010, respectively. The Fidelity Institutional Money Market Government Fund 57 invests primarily in U.S. government securities, repurchase agreements, and may invest in reverse repurchase agreements guaranteed by U. S. Treasury obligations, while seeking to preserve the investment value of \$1 per share. The Fund's investment securities maintain a weighted average maturity of 60 days or less.

The Authority's investments are held at US Bank and Citizens Bank and are represented by the following at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Agencies	\$ 68,212,053	\$ 68,877,527	\$ 142,440,808	\$ 143,424,280
State taxable bonds	17,475,000	18,134,785	12,000,000	12,730,080
U.S. Treasuries	<u>6,821,484</u>	<u>6,673,992</u>	<u>6,821,484</u>	<u>7,194,919</u>
	<u>\$ 92,508,537</u>	<u>\$ 93,686,304</u>	<u>\$ 161,262,292</u>	<u>\$ 163,349,279</u>

At June 30, 2011, the Authority's investments, investment maturities and credit quality ratings, based on Moody's Investors Service, Inc. ratings, are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Fannie Mae Corporation (FNMA) U.S. Govt. Issues	\$ 7,723,672	\$ 7,723,672	\$ -	\$ -	\$ -	AAA
Federal Home Loan Banks (FHLB) discount note	7,062,223	7,062,223	-	-	-	AAA
Federal Home Loan Banks (FHLB) U.S. Govt. Issues	7,428,783	-	5,426,373	2,002,410	-	AAA
Fannie Mae Corporation (FNMA) discount notes	20,509,495	20,509,495	-	-	-	AAA
Federal Home Loan Mortgage Corp.(FHLMC) U.S. Govt. Issues	23,853,208	11,665,695	-	12,187,513	-	AAA
Federal Farm Credit Banks (FFCB)	2,300,146	-	2,300,146	-	-	AAA
Massachusetts ST Bonds	18,134,785	-	-	1,393,075	16,741,710	AA
U.S. Government Securities - Treasury Bonds	<u>6,673,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,673,992</u>	AAA
Total	<u>\$ 93,686,304</u>	<u>\$ 46,961,085</u>	<u>\$ 7,726,519</u>	<u>\$ 15,582,998</u>	<u>\$ 23,415,702</u>	

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

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

Custodial credit risk - 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 the bond trustee represent project funds, as well as debt service and reserve funds.

3. Accounts receivable:

Accounts receivable include the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Debt service receivables	\$ 78,078,251	\$ 48,811,467
Interest receivable on investments	769,695	940,740
Build America Bonds interest subsidy receivable	<u>393,498</u>	<u>222,479</u>
	<u>\$ 79,241,444</u>	<u>\$ 49,974,686</u>

The Authority anticipates that all of its interest receivables 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 University 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 State Universities. Conversely, the State Universities recognize a corresponding liability to the Authority.

During fiscal 2011, accounts receivable, net of unearned interest income, totaling \$31,325,875 were recorded in connection with projects at three State Universities. During fiscal 2010, accounts receivable, net of unearned interest income, totaling \$6,222,819 were recorded in connection with projects at three State Universities. A corresponding Interagency payable was also recorded by the Authority in both years as discussed further in Note 7.

Additionally, during fiscal 2011, the Authority made a miscellaneous adjustment of \$67,723 to accounts receivable and unearned income that reflects interest savings due to the current year bond refunding.

The components of the Authority's investment in these renovation projects as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Total payments to be received	\$ 114,733,418	\$ 70,751,963
Less: unearned income	<u>(36,655,167)</u>	<u>(21,940,496)</u>
Net investment in renovation projects	<u>\$ 78,078,251</u>	<u>\$ 48,811,467</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

3. Accounts receivable - continued:

The following table sets forth the total payments to be received under these agreements as of June 30, 2011:

Year ending June 30:	
2012	\$ 5,981,178
2013	5,981,843
2014	5,986,446
2015	5,971,367
2016	5,985,725
2017 - 2021	29,856,373
2022 - 2026	32,052,101
2027 - 2031	19,676,026
2032 - 2036	<u>3,242,359</u>
Total	<u>\$ 114,733,418</u>

4. Capital assets:

Capital assets activity for the years ended June 30, 2011 and 2010 are as follows:

	2011			
	<u>Totals June 30, 2010</u>	<u>Additions</u>	<u>Reclassifications and Reductions</u>	<u>Totals June 30, 2011</u>
Land	\$ 2,680,388	\$ 1,152,000	\$ -	\$ 3,832,388
Construction in progress	<u>104,448,807</u>	<u>94,132,526</u>	<u>(105,043,448)</u>	<u>93,537,885</u>
Total not being depreciated	<u>107,129,195</u>	<u>95,284,526</u>	<u>(105,043,448)</u>	<u>97,370,273</u>
Buildings and improvements	571,713,398	4,406,329	104,552,151	680,671,878
Furnishings and equipment	<u>33,971,954</u>	<u>3,769,806</u>	<u>-</u>	<u>37,741,760</u>
Total depreciable assets	<u>605,685,352</u>	<u>8,176,135</u>	<u>104,552,151</u>	<u>718,413,638</u>
Total capital assets	<u>712,814,547</u>	<u>103,460,661</u>	<u>(491,297)</u>	<u>815,783,911</u>
Less accumulated depreciation:				
Buildings and improvements	(184,612,501)	(23,079,286)	363,952	(207,327,835)
Furnishings and equipment	<u>(11,538,385)</u>	<u>(1,889,415)</u>	<u>-</u>	<u>(13,427,800)</u>
Total accumulated depreciation	<u>(196,150,886)</u>	<u>(24,968,701)</u>	<u>363,952</u>	<u>(220,755,635)</u>
Capital assets, net	<u>\$ 516,663,661</u>	<u>\$ 78,491,960</u>	<u>(\$ 127,345)</u>	<u>\$ 595,028,276</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

4. Capital assets - continued:

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

On June 10, 2010, the Authority entered into a Purchase and Sale Agreement to sell its previously used office facilities located on Lincoln Street in Boston, Massachusetts to an unrelated party for a sales price of \$575,000. On July 27, 2010, the sale closed for a contract sales price of \$575,000. Proceeds received by the Authority, net of broker commissions, legal costs and other adjustments, amounted to \$527,486. The property had a cost basis of \$491,297 and a net book value of \$127,345, resulting in a gain on the sale of \$400,141.

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

The Authority has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the Authority's financial statements for the years ended June 30, 2011 and 2010.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

4. Capital assets - continued:

As of June 30, 2011 and 2010, capital assets with a cost of approximately \$39,000,000 and \$31,800,000, 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 \$52,000,000 and \$75,800,000, respectively, as of June 30, 2011 and 2010.

5. Bond related items:

Bond issuance costs consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Gross costs	\$ 14,280,804	\$ 14,383,485
Less: accumulated amortization	(2,380,830)	(2,426,956)
Net	<u>\$ 11,899,974</u>	<u>\$ 11,956,529</u>

Amortization of bond issuance costs amounted to \$428,498 in fiscal 2011 and \$403,938 in fiscal 2010. Due to a bond refunding during fiscal 2011, bond issuance costs of \$882,686 and related accumulated amortization of \$474,624 were reclassified as part of the loss on refunding as discussed further in Note 8.

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unamortized balance, beginning	\$ 25,758,017	\$ 23,122,112
Current year additions	8,971,685	3,633,185
Unamortized premium on bonds refunded	(3,022,238)	-
Current year amortization	(1,166,103)	(997,280)
Unamortized balance, ending	<u>\$ 30,541,361</u>	<u>\$ 25,758,017</u>

Unamortized deferred losses on bond refundings are reflected as a deduction from bonds payable and consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unamortized balance, beginning	\$ 17,055,810	\$ 17,702,961
Current year additions	3,046,216	-
Current year amortization	(682,531)	(647,151)
Unamortized balance, ending	<u>\$ 19,419,495</u>	<u>\$ 17,055,810</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Capital assets and construction payables	\$ 15,536,017	\$ 15,438,553
Accrued bond interest payable	6,621,956	6,528,273
Arbitrage payable - short term	-	113,009
Arbitrage payable - long term	37,619	-
Contractor payables for State University owned assets	3,404,485	1,624,468
Lease deposit (see Note 15)	100,265	100,097
Authority operating and maintenance expenses	<u>10,104</u>	<u>12,309</u>
	<u>\$ 25,710,446</u>	<u>\$ 23,816,709</u>

7. Interagency payables:

Under the provisions of the 2010A, 2010B, 2009C, 2009B, 2009A, 2008A, 2006A, 2005A and 2003A bond agreements (see Note 8), a portion of the bond proceeds, together with certain earnings thereon, are being used to finance the costs of capital projects for certain of the State Universities on State University owned property. The State Universities are required to pay to the Authority the amount necessary to pay the applicable portion of the bond issuance costs and bond principal and interest payments when they become due. The Authority has recorded accounts receivable from the State Universities 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 Universities may also be required to commit additional funding for the projects over and above the amounts provided from bond proceeds. Such amounts (the State University contributions) received from the State Universities are also included in restricted cash and cash equivalents, and restricted investments. The Authority has recorded corresponding Interagency payables to the State Universities for the unspent State University 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, 2011 and 2010, the Authority has an aggregate liability for Interagency payables of \$30,859,441 and \$9,628,964, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable:

Bonds payable consisted of the following at June 30, 2011 and 2010:

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, 2011 and 2010, bonds payable amounted to \$19,753,109 and \$25,474,145, respectively, including premium. These bonds carry interest rates that range from 4% to 7.5%, and are payable annually on May 1 until 2016. The effective interest rate for 2011 and 2010 amounted to 7.50% for both years. In February 2004, the Authority issued Series 2004-B Bonds, which refunded a portion of the 1994-A Bonds scheduled to mature on May 1, 2016 totaling \$15,150,000.

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

In March 2003, the Authority issued the Series 2003-A Project Bonds in the amount of \$105,490,000. The proceeds of the bonds, together with certain earnings thereon, were used to fund the construction of new residence halls at Salem State University and Worcester State University, improvements at Framingham State University, and the renovation of various system projects. Certain proceeds of the Series 2003-A Bonds were used to pay a portion of the interest on the Series 2003 Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2003 Trust Agreement. As of June 30, 2011 and 2010, bonds payable amounted to \$65,785,650 and \$100,578,477, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.25%, and are payable annually on May 1 until 2043. The effective interest rate for 2011 and 2010 amounted to 4.97% and 4.98%, respectively. In June 2011, the Authority issued Series 2011-A Refunding Bonds, which refunded a portion of the 2003-A Bonds scheduled to mature between May 1, 2014 and May 1, 2025 totaling \$31,735,000.

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, 2011 and 2010, bonds payable amounted to \$112,429,016 and \$113,978,992, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.5%, and are payable annually on May 1 until 2039. The effective interest rate for 2011 and 2010 amounted to 3.61% and 3.62%, respectively. The Authority was also required to enter into an Escrow Reinvestment Agreement for \$2,231,000 to be used to purchase U.S. Government Securities to be placed in the escrow accounts.

The Authority was required to deposit \$126,198,247 in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1999-A, Series 1999-1 and Series 2000-1 Bonds. As a result, all three Series are considered to be defeased and the liability for those bonds and the assets held to repay the debt have been removed from the Authority's records. In February 2009, the Authority restructured the escrow account related to the Series 1999-1 Bonds. As part of the escrow restructuring

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

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

transaction, the Authority exercised a call option to fully redeem the Series 1999-1 Bonds in November 2011. Additionally, the Authority exercised a call option in May 2010 to fully redeem the Series 2000-1 Bonds for the remaining unpaid principal amount of \$20,235,000. Assets held in the trust account for the repayment of these bonds had an aggregate market value of \$111,432,843 at June 30, 2011. The unpaid principal amount plus accreted interest, as applicable, of the two remaining Series of refunded bonds at June 30, 2011 totaled \$96,025,835.

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 \$16,347,270 and \$17,008,620 at June 30, 2011 and 2010, 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 University, improvements to an existing parking lot at Salem State University and the repair and renovation of certain system projects. Certain proceeds of the Series 2004-A Bonds were used to pay a portion of the interest on the Series 2004-A Bonds during construction, to fund the debt 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 Universities 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, 2011 and 2010, the Series 2004-A Bonds payable amounted to \$34,128,476 and \$58,690,193, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2043. The effective interest rate for 2011 and 2010 amounted to 4.88% and 4.89%, respectively. In June 2011, the Authority issued Series 2011-A Refunding Bonds, which refunded a portion of the 2004-A Bonds scheduled to mature between May 1, 2015 and May 1, 2023 totaling \$21,615,000.

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

2004 B Series Bonds, February 12, 2004 - continued:

Lehman's exercise of that option. As of June 30, 2011 and 2010, the Series 2004-B Bonds payable amounted to \$18,355,068 and \$18,459,264, respectively, including premium. These bonds carry interest rates that range from 6.4% to 7.0%, and are payable annually on May 1, 2015 and May 1, 2016. The effective interest rate for 2011 and 2010 amounted to 6.71% for both years.

The refunding resulted in a difference between the reacquisition price of \$15,656,010 and the net carrying amount of the old debt of \$15,525,060 by \$130,950. This difference, reported in the accompanying financial statements as a deduction from the bonds payable, is being charged to expense at various dates through the year 2016 using the straight-line method. The unamortized balance of this deferred loss on bond refunding amounted to \$39,325 and \$47,190 at June 30, 2011 and 2010, 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 Universities, including renovations of a dining hall and athletic fields at Fitchburg State University, renovation of a campus center at Framingham State University, improvements to an athletic field at Salem State University and repairs and renovations of certain system projects. Certain proceeds of the Series 2005-A Bonds were used to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2005 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities 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, 2011 and 2010, the Series 2005-A Bonds payable amounted to \$30,094,066 and \$31,572,004, respectively, including premium. These bonds carry interest rates that range from 3.0 to 5.0% and are payable annually on May 1 until 2026. The effective interest rate for 2011 and 2010 amounted to 4.28% and 4.24%, respectively.

2006 A Series Bonds, March 8, 2006:

In March 2006, the Authority issued the Series 2006-A Project Bonds in the amount of \$98,025,000. The proceeds of the bonds, together with certain earnings thereon, were used to finance the costs of capital improvements for certain State Universities, including construction and expansion of residence halls at Bridgewater State University and the Massachusetts Maritime Academy, construction, renovation and improvement of dining, parking, athletic and other student life facilities at certain of the State Universities and repairs and renovations of certain System Projects at certain of the State Universities. Certain proceeds of the Series 2006-A Bonds will be used to fund the Debt Service Reserve Fund, to pay interest on the Series 2006-A Bonds during the construction period of certain 2006-A Projects and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2006 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities 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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

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

Series 2006-A Projects, and any future projects. As of June 30, 2011 and 2010, the Series 2006-A Bonds payable amounted to \$96,569,513 and \$98,524,328, respectively, including premium. These bonds carry interest rates that range from 3.5 to 5.0% and are payable annually on May 1 until 2041. The effective interest rate for 2011 and 2010 amounted to 4.89% and 4.88%, respectively.

2008 A Series Bonds, March 12, 2008:

In March 2008, the Authority issued the Series 2008-A Project Bonds in the amount of \$95,670,000. The proceeds of the bonds, together with certain earnings thereon, will be used to finance the costs of capital improvements for certain State Universities, including construction and expansion of residence halls at Bridgewater State University and Fitchburg State University, construction, renovation and improvement of dining and other student life facilities at certain of the State Universities and repairs and renovations of certain System Projects at certain of the State Universities. 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 Universities 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, 2011, and 2010, the Series 2008-A Bonds payable amounted to \$95,325,251 and \$96,568,552, respectively, including premium. These bonds carry interest rates that range from 3.0 to 5.0% and are payable annually on May 1 until 2038. The effective interest rate for 2011 and 2010 amounted to 4.86% and 4.83%, respectively.

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 Universities, including construction and expansion of residence halls at Salem State University and Worcester State University, construction, renovation and improvement of dining and other student life facilities at certain of the State Universities and repairs and renovations of certain System Projects at certain of the State Universities. 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 Universities for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects and any future projects. As of June 30, 2011 and 2010, the Series 2009-A Bonds payable amounted to \$127,172,965 and \$128,696,788, respectively, including premium. These bonds carry interest rates that range from 3.0% to 5.75% and are payable annually on May 1 until 2049. The effective interest rate for 2011 and 2010 amounted to 5.12% for both years.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

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

In December 2009, the Authority issued the Series 2009-B Project Bonds in the amount of \$82,085,000. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of new residence halls at Framingham State University and the Massachusetts College of Art & Design, construction, renovation and improvement of student life facilities at certain of the State Universities, and the renovation of various System Projects. Certain proceeds of the Series 2009-B Bonds will be used to pay a portion of the interest on the Series 2009-B Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2009 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-B Projects and any future projects. As of June 30, 2011 and 2010, the Series 2009-B Bonds payable amounted to \$84,708,522 and \$85,658,297, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2040. The effective interest rate for 2011 and 2010 amounted to 4.71% and 4.56%, respectively.

In December 2009, the Authority issued the Series 2009-C Project Bonds in the amount of \$66,410,000. The Series 2009-C are federally taxable Build America Bonds (BABs), which provide for a 35% subsidy of the issuer's interest cost. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of the new residence hall at Framingham State University, construction, renovation and improvement of student life facilities at certain of the State Universities, and the renovation of various System Projects. Certain proceeds of the Series 2009-C Bonds will be used to pay a portion of the interest on the Series 2009-C Bonds during construction, to fund the debt service reserve fund and to pay costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2009 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 Bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-C Projects and any future projects. As of June 30, 2011 and 2010, the Series 2009-C Bonds payable amounted to \$66,410,000 (no premium). These bonds carry interest rates that range from 4.584% to 5.932%, and are payable annually on May 1 until 2040. The effective interest rate for 2011 and 2010 amounted to 5.74% and 5.57%, respectively.

2010A/B Series Bonds, December 17, 2010:

In December 2010, the Authority issued the Series 2010-A Project Bonds in the amount of \$12,120,000. The Series 2010-A bonds were issued as traditional tax-exempt bonds with an all-in cost to the Authority of 2.477%. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of a parking facility at Bridgewater State University, renovation and improvement of certain student life facilities, and repairs and renovations of certain System Projects at certain State Universities. Certain proceeds of the Series 2010-A Bonds will be used to fund the debt service reserve fund and to pay

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

costs of issuance. These bonds are not Commonwealth guaranteed. The bonds were issued under the provisions of a new 2010 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-B Projects, the Series 2009-C Projects, the Series 2010-A Projects and any future projects. As of June 30, 2011, bonds payable amounted to \$13,138,235, including premium. These bonds carry interest rates that range from 3.0% to 5.0%, and are payable annually on May 1 until 2018. The effective interest rate for 2011 amounted to 4.03%.

In December 2010, the Authority also issued the Series 2010-B Project Bonds in the amount of \$47,880,000 with an all-in cost to the Authority, including the federal interest subsidy, of 4.136%. The Series 2010-B are federally taxable Build America Bonds (BABs), which provide for a 35% subsidy of the issuer's interest cost. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of a parking facility at Bridgewater State University, construction of a student life facility at Framingham State University, renovation and improvement of certain student life facilities, and repairs and renovations of certain System Projects at certain State Universities. Certain proceeds of the Series 2010-B 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 2010 Trust Agreement, and are secured by revenues derived from fees, rents, rates, and other charges imposed by the Authority on State Universities for the use and occupancy of the projects initially financed with the prior bonds and projects financed with bonds that are refunded with a portion of the proceeds of the Series 2003 bonds, the 2003-A Projects, the Series 2004-A Projects, the Series 2005-A Projects, the Series 2006-A Projects, the Series 2008-A Projects, the Series 2009-A Projects, the Series 2009-B Projects, the Series 2009-C Projects, the Series 2010-A Projects, the Series 2010-B Projects and any future projects. As of June 30, 2011, bonds payable amounted to \$47,880,000 (no premium). These bonds carry interest rates that range from 4.888% to 6.54%, and are payable annually on May 1 until 2040. The effective interest rate for 2011 amounted to 6.09%.

2011A Series Bonds, May 25, 2011:

In June 2011, the Authority undertook a refinancing of a portion of its 2003-A and 2004-A Project Revenue Bonds both scheduled to mature at various dates through May 1, 2043. The 2011-A Refunding Revenue Bonds in the amount of \$51,610,000 are obligations of the Authority payable solely from the funds provided under the provisions of the Enabling Act and the new 2011 Trust Agreement. These bonds are not Commonwealth guaranteed. As of June 30, 2011, bonds payable amounted to \$59,454,511, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2025. The effective interest rate for 2011 amounted to 3.80%.

The Authority was required to deposit \$59,010,392 in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the Series 2003-A and Series 2004-A Bonds. As a result, a portion of both 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. Assets held in the trust account for repayment of these bonds had an aggregate market value of \$59,006,630 at June 30, 2011. The aggregate unpaid principal amount of the two remaining Series of refunded bonds at June 30, 2011 totaled \$53,350,000.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Bonds payable - continued:

2011A Series Bonds, May 25, 2011 - continued:

The Authority completed the advance refunding to reduce its debt service payments by \$3,518,799 and to obtain an economic gain of \$2,822,354. The advance refunding resulted in a difference of \$3,046,216 between the reacquisition price of \$59,010,392 and the net carrying amount of the old debt of \$55,964,176. 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 2025 using the straight line method. The unamortized balance of this deferred loss on the bond refunding amounted to \$3,032,900 at June 30, 2011.

Amortization tables for bond issues and unamortized premiums as of June 30, 2011:

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:			
2012	\$ 19,400,000	\$ 41,309,408	\$ 60,709,408
2013	20,930,000	40,600,095	61,530,095
2014	21,925,000	39,540,845	61,465,845
2015	23,890,000	38,403,395	62,293,395
2016	27,771,780	39,057,899	66,829,679
2017 - 2021	130,820,073	185,174,743	315,994,816
2022 - 2026	150,683,264	166,239,053	316,922,317
2027 - 2031	147,677,906	115,570,564	263,248,470
2032 - 2036	141,380,000	63,870,667	205,250,667
2037 - 2041	119,865,000	25,839,409	145,704,409
2042 - 2046	28,885,000	5,413,075	34,298,075
2047 - 2049	<u>7,434,998</u>	<u>852,338</u>	<u>8,287,336</u>
	840,663,021	<u>\$ 761,871,491</u>	<u>\$ 1,602,534,512</u>
Plus: unamortized premium	<u>30,541,361</u>		
	871,204,382		
Less: deferred loss on refunding	(<u>19,419,495</u>)		
	<u>\$ 851,784,887</u>		

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

9. Long-term liabilities:

Long-term liabilities at June 30, 2011 and 2010 consisted of the following:

	2011				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Bonds payable	\$ 824,611,040	\$ 120,581,681	\$ (73,988,339)	\$ 871,204,382	\$ 21,139,334
Deferred loss on refunding	(17,055,810)	(3,046,216)	682,531	(19,419,495)	(910,407)
Total bonds payable	807,555,230	117,535,465	(73,305,808)	851,784,887	20,228,927
Interagency payables	9,628,964	35,344,065	(14,113,588)	30,859,441	24,799,324
Other liabilities:					
Accounts payable and accrued liabilities	100,097	168	-	100,265	-
Arbitrage payable	113,009	54,623	(130,013)	37,619	-
Compensated absences	164,390	111,924	(113,568)	162,746	83,869
Total long-term liabilities	\$ 817,561,690	\$ 153,046,245	\$ (87,662,977)	\$ 882,944,958	\$ 45,112,120
	2010				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Bonds payable	\$ 687,290,135	\$ 152,128,185	\$ (14,807,280)	\$ 824,611,040	\$ 17,507,167
Deferred loss on refunding	(17,702,961)	-	647,151	(17,055,810)	(669,215)
Total bonds payable	669,587,174	152,128,185	(14,160,129)	807,555,230	16,837,952
Interagency payables	15,101,224	8,224,121	(13,696,381)	9,628,964	6,391,325
Other liabilities:					
Accounts payable and accrued liabilities	66,392	100,097	(66,392)	100,097	-
Arbitrage payable	137,859	59,566	(84,416)	113,009	113,009
Compensated absences	146,841	113,917	(96,368)	164,390	93,541
Total long-term liabilities	\$ 685,039,490	\$ 160,625,886	\$ (28,103,686)	\$ 817,561,690	\$ 23,435,827

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

10. Restricted - net assets:

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

	<u>2011</u>	<u>2010</u>
Restricted - expendable:		
DCAM/MSCBA contract restricted for life safety and access improvements and repositioning of O'Connor Hall (Note 17)	<u>\$ 1,897,286</u>	<u>\$ 2,555,116</u>

11. Contingencies:

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

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

12. Operating expenses:

The Authority's operating expenses for the years ended June 30, 2011 and 2010, on a natural classification basis, are comprised of the following:

	<u>2011</u>	<u>2010</u>
Compensation	\$ 729,800	\$ 779,090
Supplies and services	1,528,722	1,784,068
Depreciation	<u>24,968,701</u>	<u>20,854,040</u>
	<u>\$ 27,227,223</u>	<u>\$ 23,417,198</u>

13. Retirement plan:

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Retirement plan - continued:

retired Authority employees, the Commonwealth computes the projected benefit obligation of the retired employee. The Authority is responsible to contribute any shortfall that exists as a result of this computation. The total amount paid by the Authority to the Massachusetts State Retirement Board amounted to \$84,452, \$89,249 and \$96,931 for the years ended June 30, 2011, 2010 and 2009, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2011, 2010 and 2009.

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

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

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

14. Retiree health plan:

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

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

Participating governments are contractually required to contribute at a rate assessed each year by GIC on a premium basis. The Authority's contributions to GIC for the years ended June 30, 2011, 2010, and 2009, were \$113,318, \$89,767 and \$92,077, 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, 2011 AND 2010

15. Lease commitments and receivables:

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

For the years ended June 30, 2011 and 2010, rent expense incurred, including additional costs for monthly storage and parking which are not provided under the terms of the lease agreement, amounted to \$160,780 and \$31,177, respectively.

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

<u>Year ending June 30:</u>	<u>Amount</u>
2012	\$ 146,630
2013	156,090
2014	169,334
2015	173,118
2016	173,118
2017 - 2020	<u>668,822</u>
	<u>\$ 1,487,112</u>

On June 25, 2010, the Authority entered into a lease agreement with the Massachusetts College of Pharmacy and Health Sciences (MCPHS) for the purpose of leasing a portion of the dormitory residences of the new student residence hall at the Massachusetts College of Art and Design which is currently under construction and scheduled for occupancy in the beginning of the Fall 2012 academic semester. The cost of the portion of the property that will be leased to MCPHS amounts to approximately \$14,340,000 and \$2,440,000 at June 30, 2011 and 2010, respectively, and is included in construction in progress on the accompanying statements of net assets. In accordance with the lease agreement, MCPHS deposited \$100,000 with the Authority in December 2009, which together with interest earned thereon, shall be credited towards the payment of MCPHS's first installment of annual rent. As of June 30, 2011 and 2010, the deposit and interest earned thereon, in the amount of \$100,265 and \$100,097, respectively, are included in noncurrent restricted cash and cash equivalents and noncurrent accounts payable and accrued liabilities in the accompanying 2011 and 2010 statements of net assets (deficiency in net assets).

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

15. Lease commitments and receivables - continued:

Future minimum rentals receivable under this operating lease agreement are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2012	\$ -
2013	2,500,000
2014	2,500,000
2015	2,500,000
2016	2,600,000
2017	<u>2,600,000</u>
	<u>\$ 12,700,000</u>

16. Supplemental cash flows information:

Schedule of noncash investing and financing activities:

2011

Acquisition of capital assets	\$ 103,460,661
Accounts payable thereon:	
Beginning of year	15,438,553
End of year	(15,536,017)
Net interest incurred and earned, capitalized in construction in progress	<u>(4,215,642)</u>
Payments for capital assets	<u>\$ 99,147,555</u>
Accounts receivable and Interagency payables related to State University capital projects on State University owned property	<u>\$ 31,258,152</u>
Unearned interest income on accounts receivable related to State University capital projects on State University owned property	<u>\$ 17,196,941</u>
Contractor accounts payable related to State University capital projects on State University owned property	<u>\$ 3,404,485</u>
Unrealized loss on investment securities	<u>\$ 909,220</u>
Net bond issue costs related to bonds refunded	<u>\$ 408,062</u>
Unamortized bond premium related to bonds refunded	<u>\$ 3,022,238</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

16. Supplemental cash flows information - continued:

Schedule of noncash investing and financing activities - continued:

2010

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

17. State capital appropriations transfer:

In July, 2008, the Authority entered into a four party letter-agreement with the Commonwealth of Massachusetts' Division of Capital Asset Management (DCAM), the Department of Higher Education (DHE) and Framingham State University (Framingham). The agreement calls for the repositioning of O'Connor Hall on the Framingham 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 Framingham 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 represented a present value discounted amount of the initial \$7,000,000 due under the agreement for the new residence hall. Funds received by the Authority related to this agreement are included as a component of nonoperating revenue in the Authority's fiscal 2010 statement of revenues, expenses and changes in net assets. In fiscal 2011, there were no such funds received by the Authority related to this agreement.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

18. Bank of America settlement:

On December 10, 2010, the Authority was notified that as a result of a claim settlement agreement, Bank of America Securities LLC (BoA) would be remitting a payment to the Authority in the amount of \$201,756 for a settlement relating to the Master Repo Agreement with BoA for the 1999-1 and 1999-A Construction Fund and Capitalized Interest Fund. The matter involved BoA's role in certain improper bidding practices during a time period in which the Authority's repo was bid out. After conferring with bond counsel, the Authority will use the funds for capital renewal work on campuses which participated in the 1999-1 and 1999-A bond issues. The settlement reflects the earnings that would have been earned had the improper bidding practices by BoA not occurred. The settlement proceeds are reported as miscellaneous revenue in the accompanying 2011 statement of revenues, expenses and changes in net assets. The full amount of the settlement was received in December 2010.

SUPPLEMENTAL INFORMATION

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>	<u>2010</u>	<u>2011</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)	\$ (41,041,522)	\$ (22,524,180)
Restricted - expendable	8,896,485	5,346,405	3,036,958	930,636	363,076	330,731	106,446	8,976	2,555,116	1,897,286
Unrestricted	22,737,878	18,194,516	19,239,245	7,447,070	21,658,274	18,530,376	27,805,831	17,955,692	31,893,410	13,473,805
Total Net Assets (Deficiency)	\$ (1,563,028)	\$ (3,751,757)	\$ (3,046,648)	\$ (5,599,120)	\$ (8,148,601)	\$ (9,278,102)	\$ (11,316,503)	\$ (12,602,831)	\$ (6,592,996)	\$ (7,153,089)

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>	<u>2010</u>	<u>2011</u>
<u>Operating Revenue</u>										
Income from assessments	\$ 12,580,947	\$ 14,492,876	\$ 19,732,282	\$ 22,919,644	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490	\$ 51,349,024
Federal grants for debt service	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890
Other miscellaneous revenue	17,572	18,831	45,593	62,811	128,063	119,862	174,592	216,054	119,636	568,661
Total operating revenue	12,810,409	14,723,597	19,989,765	23,194,345	27,385,261	30,528,730	34,101,701	36,983,342	42,785,016	52,129,575
<u>Non-Operating Revenue</u>										
Net investment income	4,015,781	2,087,665	1,922,229	2,826,980	3,898,869	4,864,785	5,009,751	4,674,885	6,393,208	3,977,455
Transfers from State Universities	-	145,968	(446,726)	527,740	978,769	536,914	347,388	1,684,693	440,267	3,352,687
State capital appropriations	4,748,525	-	-	-	-	-	-	-	6,881,873	-
Build America Bonds interest subsidy	-	-	-	-	-	-	-	-	700,809	1,887,838
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-	-	400,141
Miscellaneous nonoperating revenue	-	-	-	-	-	-	-	-	-	201,756
Capital grants	-	-	-	-	-	-	344,224	34,255	293,073	-
Total non-operating revenue	8,764,306	2,233,633	1,475,503	3,354,720	4,877,638	5,401,699	5,701,363	6,393,833	14,709,230	9,819,877
Total Revenue	21,574,715	16,957,230	21,465,268	26,549,065	32,262,899	35,930,429	39,803,064	43,377,175	57,494,246	61,949,452
<u>Operating Expenses</u>										
Maintenance costs	(1,343,573)	(1,336,792)	(1,186,513)	(746,323)	(421,828)	(701,992)	(607,595)	(500,864)	(535,276)	(668,168)
Authority operating costs	(544,325)	(625,750)	(695,514)	(766,641)	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)	(1,392,357)	(1,483,170)
Depreciation	(5,122,604)	(6,876,356)	(8,391,555)	(12,272,209)	(14,577,806)	(15,821,798)	(17,306,821)	(18,614,829)	(20,854,040)	(24,968,701)
Bond related costs	-	(256,735)	(473,268)	(354,127)	(130,156)	(124,902)	(47,522)	(67,804)	(52,160)	49,576
Other expenses	(573,673)	(14,840)	(85,079)	(73,389)	(164,687)	(239,798)	(181,503)	(224,192)	(583,365)	(156,760)
Total operating expenses	(7,584,175)	(9,110,473)	(10,831,929)	(14,212,689)	(16,176,620)	(17,900,759)	(19,203,912)	(20,690,684)	(23,417,198)	(27,227,223)
<u>Non-operating expense</u>										
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)	(28,067,213)	(35,282,322)
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)	(28,067,213)	(35,282,322)
Total Expenses	(17,034,755)	(19,145,959)	(21,334,607)	(29,101,537)	(34,812,380)	(37,059,930)	(41,841,465)	(44,663,503)	(51,484,411)	(62,509,545)
Increase (decrease) in net assets	\$ 4,539,960	\$ (2,188,729)	\$ 130,661	\$ (2,552,472)	\$ (2,549,481)	\$ (1,129,501)	\$ (2,038,401)	\$ (1,286,328)	\$ 6,009,835	\$ (560,093)

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

Supplemental Statistical Information - Unaudited

Schedule of Revenue

<u>Institution</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (as restated)	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bridgewater	\$ 2,628,580	\$ 3,161,417	\$ 4,457,535	\$ 4,482,867	\$ 4,795,486	\$ 5,438,523	\$ 7,822,115	\$ 8,322,153	\$ 10,167,907	\$ 12,019,967
Fitchburg	1,487,219	1,676,966	1,939,892	2,318,513	2,636,155	2,877,521	2,777,823	3,114,788	4,318,236	4,705,990
Framingham	1,651,135	1,674,230	2,849,386	2,539,490	3,107,535	3,601,883	3,566,123	4,296,966	4,440,318	4,923,218
Mass. College of Art	311,286	971,662	2,867,911	2,058,637	2,053,837	2,085,066	2,093,382	2,123,909	2,166,434	2,203,147
Mass. College of Liberal Arts	1,038,352	1,159,129	1,180,626	1,289,002	1,327,074	1,480,142	1,540,548	1,607,082	2,225,289	2,397,236
Mass. Maritime Academy	935,850	1,037,854	1,163,726	1,291,439	1,470,468	1,753,164	2,604,399	3,076,898	3,376,425	3,545,353
Salem	1,199,538	1,273,968	1,421,436	3,425,419	3,975,228	4,401,671	4,415,071	4,411,494	4,972,018	9,128,481
Westfield	2,299,794	2,447,706	2,563,974	2,744,803	4,563,833	4,979,345	5,002,812	5,552,861	6,264,556	6,649,381
Worcester	1,029,193	1,089,944	1,287,796	2,769,474	3,115,692	3,579,663	3,892,946	4,049,247	4,522,307	5,776,251
Total	\$ 12,580,947	\$ 14,492,876	\$ 19,732,282	\$ 22,919,644	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490	\$ 51,349,024

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

Supplemental Statistical Information - Unaudited

Room Rates of Residence Facilities

<u>Institution</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bridgewater	\$2,516-3,005	\$2,650-4,600	\$2,784-4,600	\$3,002-4,808	\$3,192-4,954	\$3,560-5,138	\$4,350-6,400	\$5,100-6,656	\$5,640-6,962	\$5,800-7,100
Fitchburg	\$2,482-2,692	\$2,654-3,012	\$2,916-3,250	\$3,192-3,582	\$3,414-3,840	\$3,736-4,418	\$3,812-\$4,464	\$4,160-5,170	\$4,642-5,345	\$4,782-6,000
Framingham	\$2,388-2,769	\$2,590-2,992	\$2,808-3,290	\$3,074-3,800	\$3,504-4,336	\$3,846-4,736	\$4,034-4,974	\$4,382-5,382	\$4,755-5,755	\$5,105-6,105
Mass. College of Art	\$4,420	\$4,886-7,850	\$5,216-8,244	\$5,450-8,614	\$6,050-9,074	\$6,400-9,300	\$6,400-\$9,300	\$6,710-9,580	\$6,777-9,676	\$7,350-10,280
Mass. College of Liberal Arts	\$2,529-2,545	\$2,738-2,844	\$2,894-3,070	\$3,218-3,444	\$3,266-3,530	\$3,454-3,720	\$3,622-\$3,882	\$3,800-4,202	\$4,175-4,575	\$4,375-4,875
Mass. Maritime Academy	\$2,362	\$2,530	\$2,684	\$2,886	\$3,098	\$3,366	\$4,100	\$4,668	\$4,978	\$5,125
Salem	\$2,495-2,811	\$2,720-3,036	\$3,032-3,466	\$3,242-6,030	\$3,588-6,272	\$3,948-6,568	\$4,114-6,766	\$4,610-7,445	\$5,071-8,204	\$5,730-9,110
Westfield	\$2,602-3,044	\$2,746-3,352	\$2,884-3,502	\$3,034-3,828	\$3,264-5,750	\$3,386-5,930	\$3,588-5,990	\$3,984-6,230	\$4,303-6,516	\$4,650-6,800
Worcester	\$2,936-3,119	\$3,102-3,292	\$3,292-3,754	\$3,692-5,900	\$3,764-6,250	\$4,046-6,294	\$4,220-6,484	\$4,880-6,847	\$5,272-7,165	\$6,150-7,487

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

Supplemental Statistical Information - Unaudited

Occupancy as a Percentage of Design Capacity at Residence Facilities

<u>Institution</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bridgewater	107%	105%	105%	105%	105%	104%	103%	104%	101%	100%
Fitchburg	89%	95%	99%	100%	100%	102%	104%	103%	105%	104%
Framingham	99%	105%	102%	100%	100%	100%	99%	101%	101%	104%
Mass. College of Art	104%	100%	100%	99%	98%	101%	99%	100%	100%	99%
Mass. College of Liberal Arts	71%	81%	82%	88%	89%	95%	89%	88%	94%	99%
Mass. Maritime Academy	89%	93%	95%	96%	99%	103%	92%	94%	100%	103%
Salem	106%	105%	105%	100%	103%	101%	100%	104%	106%	94%
Westfield	107%	109%	106%	109%	106%	108%	107%	107%	105%	104%
Worcester	103%	100%	101%	96%	97%	101%	100%	102%	102%	100%
State University Average	97%	101%	101%	101%	100%	103%	101%	102%	102%	101%

**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, 2011, and have issued our report thereon, dated September 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Ercolini & Company LLP

Boston, Massachusetts
September 20, 2011