

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, 2012 AND 2011



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MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

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Management's Discussion and Analysis

For the Years Ended June 30, 2012 and 2011

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, 2012 and 2011, and the results of its operations and cash flows for the years then ended. This management's discussion and analysis is unaudited and should be read in conjunction with the Authority's audited financial statements and notes, which are attached hereto.

Introduction

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 to finance, design, and construct residence halls, dining commons, parking, athletic, cultural, and other student activity facilities primarily for use by students, staff and their dependents of certain public institutions of higher education. Such facilities may be provided in collaboration with and for joint use by other agencies, boards, commissions, or authorities of the Commonwealth, including, under certain circumstances, the community colleges. The institutions are Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State Universities, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design ("MassArt"), and Massachusetts Maritime Academy.

Pursuant to a Contract for Financial Assistance, Management and Services between the Commonwealth acting by and through the Board of Higher Education (the Contract), the Authority annually sets and assesses rents and fees sufficient to provide for the payment of all costs of its facilities, including maintenance, operation, administration, reserves and to pay debt service on revenue bonds issued to finance its projects. The Authority receives no direct appropriation from the Commonwealth. Approximately 14,300 students reside in the 43 residential complexes owned by the Authority. These facilities house over 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.

The universities certify residence hall occupancy to the Authority and to the Commonwealth's Department of Higher Education on a semi-annual basis. For the academic year 2011/12, the number of students housed in on-campus housing owned by the Authority was 101.4% of design occupancy.

The following table shows average annual residence hall occupancy from the 2002/03 through 2011/12 academic years.

Residence Hall Occupancy Table

Institution	Academic Years									
	<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>	<u>2011/12</u>
Bridgewater	105.0%	105.0%	105.0%	105.0%	104.2%	102.8%	104.5%	100.9%	99.7%	99.6%
Fitchburg	95.0%	99.0%	100.0%	100.0%	101.7%	104.0%	102.5%	105.3%	103.8%	100.2%
Framingham	105.0%	102.0%	100.0%	100.0%	99.7%	98.9%	101.0%	101.0%	103.9%	99.8%
Mass. College of Art & Design	100.0%	100.0%	99.0%	98.0%	101.4%	99.1%	99.8%	99.9%	99.4%	99.6%
Mass. College of Liberal Arts	81.0%	82.0%	88.0%	89.0%	94.7%	89.1%	87.9%	94.3%	97.5%	93.8%
Mass. Maritime Academy	93.0%	95.0%	96.0%	99.0%	103.4%	92.4%	94.3%	100.0%	102.9%	106.0%
Salem	105.0%	105.0%	100.0%	103.0%	100.6%	99.8%	104.2%	105.6%	93.5%	102.3%
Westfield	109.0%	106.0%	109.0%	106.0%	108.3%	106.8%	107.2%	104.7%	104.3%	105.8%
Worcester	<u>100.0%</u>	<u>101.0%</u>	<u>96.0%</u>	<u>97.0%</u>	<u>100.6%</u>	<u>100.5%</u>	<u>102.0%</u>	<u>102.2%</u>	<u>99.1%</u>	<u>102.5%</u>
Average Actual Occupancy	101.0%	101.0%	99.0%	101.0%	102.5%	100.6%	101.8%	102.2%	100.6%	101.4%

As required by statute, the offices of the Authority are located in Boston, Massachusetts. The nine board members of the Authority are appointed by the Governor; three members must be appointive members of the Commonwealth's Board of Higher Education.

Economic Factors

The seasonally adjusted unemployment rate for the Commonwealth of Massachusetts from which the universities primarily draw students decreased to 6.0% at June 30, 2012 as compared to 7.6% at June 30, 2011. This compares to a national rate of 8.2% in 2012 and 9.2% in 2011.

Historically, in times of economic slow-down, the universities that 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.

In fiscal year 2012, the Authority was able to take advantage of a low interest rate environment to refund existing debt from multiple prior bond issuances while also issuing bonds to generate new money for continued construction projects. The Authority continued to strive to offer low cost residence options for students. Student rent for academic year 2011/12 on Authority residence halls compared favorably to both other regional private and public institutions. Authority rents were the sixth lowest compared to twenty-two private regional institutions and third lowest when compared to seven regional public institutions.

Financial Statements

The Authority's financial statements (pages 3-5 of this report) have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The *Statement of Net Position (Deficiency in Net Position)* presents assets and deferred outflows of resources, less liabilities and deferred inflows of resources (of which there are none), with the residual balance being reported as *net position*. Over time, increases or decreases in net position 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 Position* presents information showing how the Authority's net position changed during the fiscal year presented. All changes in net position 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 notes to the financial statements describe significant accounting policies adopted by the Authority and provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights

- Total assets of the Authority grew from \$889.5 million to over \$1.0 billion at June 30, 2012, primarily due to an increase in restricted investments reflecting the issuance and investment of the Series 2012A Bonds, an increase in accounts receivable reflecting the university-owned portions of the Series 2012A Bond issuance and an increase in capital assets reflecting increased Authority investment.
- Operating revenues grew \$4.0 million due to an increase in assessments received from universities.
- Capital assets grew by \$62.3 million due primarily to both the completion and commencement of major construction projects.
- Reserves for capital improvements, multi-purpose and operating purposes increased \$3.8 million and debt service reserve funds increased \$5.4 million.
- In November 2011, Standard & Poor's upgraded the Authority's bond rating to AA from AA-.
- In December 2011, the Authority issued \$154.3 million Series 2012A Bonds at a true interest cost of 4.13% to provide new money to finance new residence halls at Bridgewater and Westfield State Universities, improvements, renovations and repairs of student life facilities at Fitchburg, Salem and Westfield State Universities and at MassArt and repairs to

dormitories located at Bridgewater, Fitchburg and Westfield State Universities and Massachusetts College of Liberal Arts and Massachusetts Maritime Academy.

- In February 2012, the Authority issued \$149.3 million Series 2012B Refunding Bonds to partially refund \$156.5 million of Series 2003A, 2004A, 2005A and 2006A Bonds. The true interest cost of the refunding bonds was 3.57%. The Series 2012B Refunding Bonds resulted in present value savings of \$13.3 million which is 8.39% of the refunded bonds. Debt service savings are distributed to each campus consistent with their participation in the refunded bonds.
- In December 2011, the Authority determined that, in aggregate, the debt service reserve funds associated with outstanding bonds were more than sufficient to meet the debt service reserve fund requirement, obviating the need to fund an additional and separate debt service reserve fund for the Series 2012A Bonds and for the Series 2012B Refunding Bonds.
- In fiscal year 2012, the Authority completed and opened two new residence halls and a parking garage. The \$42.0 million residence hall at Framingham State University, North Hall, was opened in August 2011 and houses 410 students. The \$63.0 million residence hall at MassArt was opened in May 2012 and houses 493 students. A \$12.4 million, 840-car parking garage was completed in January 2012 at Bridgewater State University.
- In addition to the projects mentioned above, major repair, renovation, and new construction projects were started and/or completed at all nine state university campuses. Fourteen repair and renovation projects were completed at seven campuses in fiscal year 2012 totaling \$9.5 million. Furnishings and equipment were purchased at five campuses totaling \$3.1 million. Projects totaling \$43.0 million are underway and in process as of June 30, 2012 including new residence hall projects at Bridgewater and Westfield State Universities.
- Major repair, renovation, and new construction projects are also underway at university-owned student activity facilities. Completed projects include the redesign of a servery at the Kennedy Campus Center at MassArt, and the addition of 5,000 square feet to the Tim & Jeanne dining facility at Westfield State. Major projects underway include infrastructure and mechanical system upgrades at Hammond Campus Center at Fitchburg State, the design and construction of a 39,000 square foot addition to the O'Keefe Center at Salem State that will house a new fitness center, basketball courts, and lounge areas, and the design and construction of a renovated wellness center at the Ely Campus Center at Westfield State.

Financial Analysis

Statements of Net Position (Deficiency in Net Position)

The largest portion of the Authority's net position reflects its investment in capital assets (such as land, buildings, furniture and equipment) less related outstanding debt used to acquire those assets. These assets provide on-going services to the state universities and consequently they are not available to be used to liquidate liabilities. In fiscal year 2002, the Authority began depreciating its capital assets in accordance with GASB Statements 34 and 35. At that time, the initial accumulated depreciation of \$81.45 million represented 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 Position¹

	Fiscal year ended June 30		\$ Change	% Change
	<u>2012</u>	<u>2011</u> (as restated)		
Current assets	\$ 119,521,033	\$ 118,297,189	\$ 1,223,844	1.0%
Capital assets, net	657,341,390	595,028,276	62,313,114	10.5%
Other noncurrent assets	<u>280,598,687</u>	<u>176,182,870</u>	<u>104,415,817</u>	59.3%
Total assets	<u>1,057,461,110</u>	<u>889,508,335</u>	<u>167,952,775</u>	18.9%
Deferred outflow of resources	<u>32,352,432</u>	<u>19,011,433</u>	<u>13,340,999</u>	70.2%
Current liabilities	93,724,420	71,638,967	22,085,453	30.8%
Noncurrent liabilities	<u>1,011,911,462</u>	<u>856,341,926</u>	<u>155,569,536</u>	18.2%
Total liabilities	<u>1,105,635,882</u>	<u>927,980,893</u>	<u>177,654,989</u>	19.1%
Net position:				
Net investment in capital assets	1,380,597	(3,693,773)	5,074,370	137.4%
Restricted	2,415,383	1,897,286	518,097	27.3%
Unrestricted	<u>(19,618,320)</u>	<u>(17,664,638)</u>	<u>(1,953,682)</u>	11.1%
Net position	<u>\$ (15,822,340)</u>	<u>\$ (19,461,125)</u>	<u>\$ 3,638,785</u>	18.7%

- Total assets at June 30, 2012 increased 18.9% when compared to total assets at June 30, 2011. This primarily reflects the issuance of the Series 2012A Bonds, continued additions to capital assets and increased receivables for the university-owned portions of the Series 2012A Bond issue. Cash and cash equivalents decreased by \$37.0 million as a result of continued spending of project funds offset by the conversion to cash of matured investments held in the Series 2009B Bond project fund. Investments increased by \$109.8 million as a result of the investment of Series 2012A Bond proceeds offset by the maturities in the Series 2009B Bonds project fund referenced above. The maturities of such investments were scheduled to meet the projected spending of the residence hall at MassArt which opened in May 2012. Accounts receivable increased by \$32.9 million as a result of the Series 2012A Bonds issued to fund university-owned projects.
- Reserves for capital improvements, multi-purpose and operating purposes as of June 30, 2012 were \$24.1 million compared to \$20.3 million as of June 30, 2011. Debt service reserve funds totaled \$83.2 as of June 30, 2012 compared to \$77.8 million as of June 30, 2011, such increase reflecting unrealized gains in market value. These reserves are included in the Statements of Net Position in the cash and cash equivalents and investments categories.
- Capital assets are discussed on pages ix – x.

¹ 2011 figures restated due to early adoption of GASB 63 and 65, as discussed in footnotes 1 and 19 to the Audited Financial Statements.

- Total liabilities at June 30, 2012 increased 19.1% as compared to total liabilities at June 30, 2011, due primarily to an increase in bonds payable and interagency payables. Bonds payable increased to over \$1.0 billion at June 30, 2012 from \$871.2 million at June 30, 2011 as a result of the issuance of Series 2012A and 2012B Bonds offset by the payment of principal on outstanding bonds and the defeasance of certain bonds refunded. The \$15.6 million increase in interagency payables from June 30, 2011 to 2012 is due to the portions of the Series 2012A Bonds relating to university-owned assets offset by the continued spending of project funds derived from prior bond issues for university-owned assets.
- University-owned student activity facilities are not carried as capital assets of the Authority. Project funds associated with university-owned assets are carried as interagency payable liabilities of the Authority. Debt associated with university-owned facilities is carried as receivables due from the university. Interest payments received from the universities are recognized as investment income by the Authority.
- Debt administration is discussed on page xi.
- A deficiency in total net position exists due primarily to depreciation and interest expenses exceeding operating and non-operating revenues over a period of time. The deficiency at June 30, 2012 was \$3.6 million less than the deficiency at June 30, 2011, primarily reflecting the increase in unrealized gains on investments. The Authority's investment in capital assets is reported net of related debt and depreciation (a non-cash operating expense). Funds needed to repay debt and to replace or renew capital assets are provided from operating revenues, including rent, fees and charges. The change in net position for the year ended June 30, 2012 excluding depreciation was an increase in net position of \$32.2 million.

Statements of Revenues, Expenses and Changes in Net Position

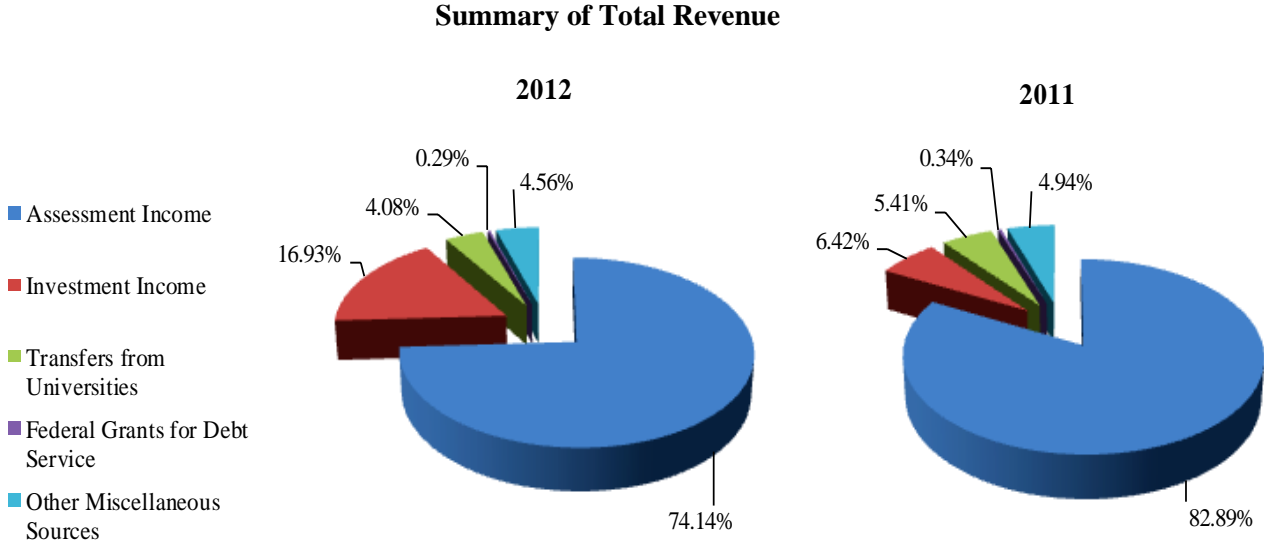
Authority revenue is primarily derived from assessments of university residence hall rents and student activity fees pursuant to the Contract. The assessments provide the revenue needed to fund annual debt service requirements associated with bonds issued to finance capital projects, reserve deposits, insurance premiums, and Authority operating expenses.

Comparison of Operating and Non-Operating Revenues and Expenses

	Fiscal year ended June 30			
	2012	2011 (as restated)	\$ Change	% Change
Total operating revenues	\$ 56,084,274	\$ 52,129,575	\$ 3,954,699	7.6%
Total operating expenses	<u>31,119,276</u>	<u>27,282,297</u>	<u>3,836,979</u>	14.1%
Operating income	24,964,998	24,847,278	117,720	0.5%
Nonoperating expenses, net	<u>(21,326,213)</u>	<u>(25,758,878)</u>	<u>4,432,665</u>	17.2%
Increase (decrease) in net position	3,638,785	(911,600)	4,550,385	499.2%
Net position - beginning of the year	<u>(19,461,125)</u>	<u>(18,549,525)</u>	<u>(911,600)</u>	-4.9%
Net position - end of the year	<u>\$ (15,822,340)</u>	<u>\$ (19,461,125)</u>	<u>\$ 3,638,785</u>	18.7%

- Operating revenues grew from \$52.1 million at June 30, 2011 to \$56.1 million at June 30, 2012, due primarily to a \$4.0 million increase in assessment revenues.
- Other revenue sources include investment income on project funds and reserves and transfers from universities in support of capital projects, a Federal grant for debt service, and interest subsidy from the U.S. Treasury relating to the Authority’s outstanding Build America Bonds. The 89% increase in non-operating revenue primarily reflects unrealized gains on investments as of June 30, 2012.

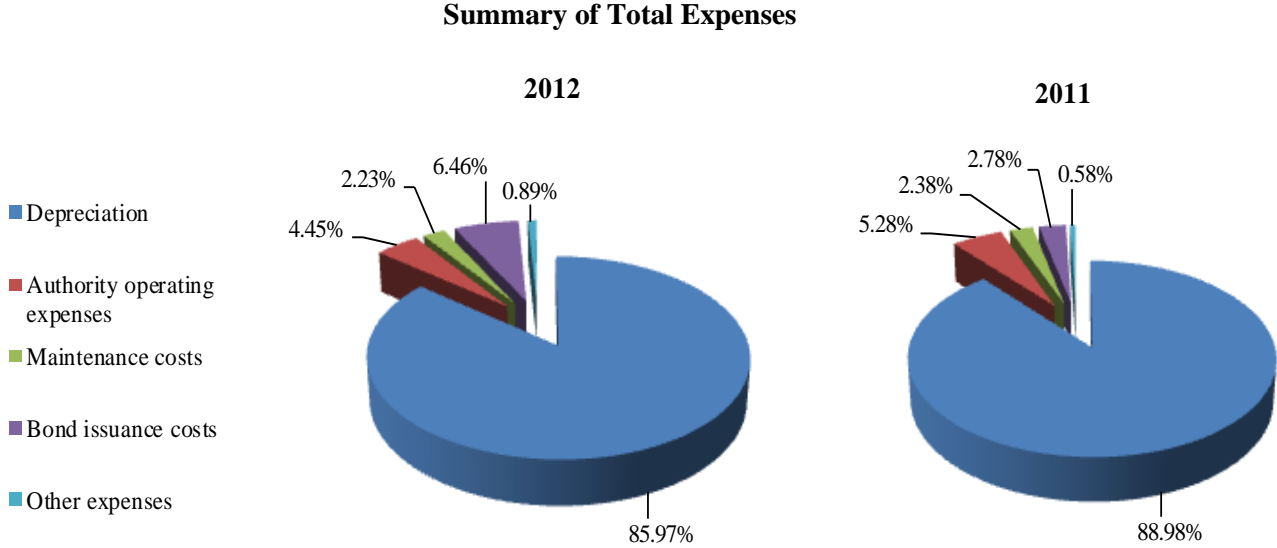
The charts below compare total revenue for fiscal year 2012 with fiscal year 2011.



- Operating expenses include depreciation, maintenance and repairs to capital assets and operating expenses associated with Authority operations.
- In fiscal year 2012, depreciation expense was \$28.6 million as compared to \$25 million in fiscal year 2011. The increase in depreciation expense of \$3.6 million is due to the additional depreciable assets brought into use in fiscal year 2012, including major renovations and repairs at several campuses and new capacity assets brought on line at Framingham and MassArt.
- Approximately 7% of fiscal year 2012 operating expenses were for maintenance costs and Authority operating expenses. Maintenance costs relate primarily to property and liability insurance premium expenses and the \$72,000 increase is due primarily to an increase in the amount of insured assets. The Authority’s operating expenses were essentially unchanged from fiscal year 2012 compared to 2011.

- The primary components of net non-operating revenues (expenses) are annual interest expense incurred on the Authority’s debt obligations, less investment income used to offset debt service requirements. Interest expense increased by 9% in fiscal year 2012 compared to 2011 due primarily to increased interest payments associated with the Series 2009C, 2010A, and 2010B Bonds offset by increased premium amortization associated with the Series 2010A, 2010B, 2011A, 2012A, and 2012B Bonds. Net investment income increased 218% from \$4 million in fiscal year 2011 to \$12.6 million in fiscal year 2012, due to unrealized gains on investments as of June 30, 2012.
- Net non-operating expenses at June 30, 2012 were \$21.3 million compared to \$25.8 million at June 30, 2011. The change results primarily from increased net investment income, Build America Bonds interest subsidies and receipt of a \$525,000 payment relating to the partial termination of a debt service reserve fund investment agreement relating to the issuance of the Series 2012B Refunding Bonds offset by increased interest expense on debt.

The charts below compare total expenses for fiscal year 2012 with fiscal year 2011.



Statements of Cash Flows

Authority cash in-flows are primarily generated from assessments received from the universities and proceeds from bond issuances. Cash out-flows are primarily from continued payments for additions to Authority capital assets, payments for additions to university-owned assets, and payment of principal and interest on Authority debt.

Highlights – Statements of Cash Flows

	Fiscal year ended June 30	
	2012	2011 (as restated)
Cash received from operations	\$ 56,084,385	\$ 52,129,743
Cash expended for operations	(2,470,984)	(2,317,570)
Net cash provided by operations	53,613,401	49,812,173
Net cash provided by (used) in capital and related financing activities	8,580,151	(93,351,760)
Net cash provided by (used in) investing activities	(99,240,088)	72,436,003
Net increase (decrease) in cash and cash equivalents	(37,046,536)	28,896,416
Cash and cash equivalents, beginning of year	121,552,311	92,655,895
Cash and cash equivalents, end of year	\$ 84,505,775	\$ 121,552,311

- Cash and cash equivalents were \$84.5 million at June 30, 2012 compared to \$121.5 million at June 30, 2011. This \$37 million decrease is due primarily to the purchase of investments in the Series 2012A Bonds project fund offset by increased assessments, project funding from universities for university-owned assets, and increased bond proceeds.
- Net cash provided by operations exceeded the cash expended for operations. The \$4.0 million increase in cash received from assessments was a result of higher residence hall and student activity revenue. The increase in cash expended for operations is primarily due to increases in insurance premiums and maintenance expenses at Authority owned assets.
- Net cash provided by capital and related financing activities was \$8.6 million in fiscal year 2012 compared to net cash used by capital and related financing activities of \$93.4 million in fiscal year 2011. The net change between years is primarily attributable to the \$102.7 million increase in proceeds from bond issuances net of cash paid to trustee for the Series 2012B Refunding Bonds and a \$10 million increase in funds received from universities. Increased payments from funds held for others of \$19.4 million reflects an increase in spending on university-owned assets offset in part by an increased collection of debt service receivables and decreased spending on Authority capital assets.
- Net cash used by investing activities was \$99.2 million in fiscal year 2012 compared to net cash provided by investing activities of \$72.4 million in fiscal year 2011 due primarily to investment of the Series 2012A Bonds project fund offset in part by maturities in other funds.

Capital Assets

The Authority's investment in capital assets as of June 30, 2012 was \$657.3 million net of accumulated depreciation compared to \$595.0 million as of June 30, 2011. Capital assets include land, buildings and improvements thereon, furnishings and equipment. Capital assets comprised approximately 62% of total assets as at June 30, 2012 compared to approximately 67% at June 30, 2011. The change in capital assets as a percent of total assets is attributable to

increased investments of \$109.8 million and increased accounts receivables of \$32.9 million. During the years ended June 30, 2012 and 2011, the Authority had additions to capital assets of \$90.9 million and \$103.5 million, respectively, in constructing new assets and improvements on assets already in service, inclusive of construction in progress. The major components of Capital Assets are presented below.

- Construction in progress represents the balance of additions to Authority assets for projects currently underway. The construction in progress balance was \$43.0 million at June 30, 2012 compared to \$93.5 million at June 30, 2011. The \$50.5 million decrease in construction in progress was due primarily to the change in classification to reflect completion of a \$42.0 million new residence hall at Framingham State University and a \$63.0 million 21-story residence tower at MassArt. New residence hall projects at Bridgewater and Westfield State are currently under construction with additions at June 30, 2012 of \$14.6 million and \$11.8 million, respectively.
- The buildings and improvements balance was \$819.0 million at June 30, 2012 compared to \$680.7 million at June 30, 2011. The \$138.3 increase in buildings and improvements was due primarily to the completion and change in classification of the two residence facilities listed above during 2012. In addition, a parking structure at East Campus totaling \$12.4 million and renovations to replace flooring and heating systems in Woodward Hall totaling \$3.0 million were both completed at Bridgewater State University. Bathroom upgrades and accessibility repairs totaling \$931,700 were completed in Cedar House at Fitchburg State University. Mechanical systems replacements and miscellaneous architectural upgrades totaling \$1.4 million were completed in Bates Hall at Salem State University. Window replacements and heating improvements totaling \$1.5 million were completed in Lammers Hall at Westfield State University. In addition, emergency lighting fixtures replacement at all Chandler Village apartments and carpeting replacement in Wasylean Hall totaling \$671,500 was completed at Worcester State University.
- The furnishings and equipment balance was \$40.8 million at June 30, 2012 compared to \$37.7 million at June 30, 2011. The \$3.1 million increase in furnishings and equipment was due primarily to purchases for the new residence facilities at Framingham and MassArt.
- Land was valued at \$3.8 million at June 30, 2012 compared to \$3.8 million at June 30, 2011 reflecting no activity relating to land acquisition or disposition in fiscal year 2012.

The Authority has entered into various commitments for the purchase of equipment, construction of certain facilities and other improvements relating to both Authority assets and university-owned assets. As of June 30, 2012 and 2011, respectively, such commitments were approximately \$43.0 million and \$52.0 million.

Additions to university-owned facilities have no effect on capital assets. Project funds associated with university-owned assets are held as interagency payable liabilities of the Authority. As university-owned asset project funds are spent the corresponding payable balances are reduced accordingly.

Debt Administration

The Act authorizes the Authority to issue bonds to finance the design and construction of residence halls, dining commons, parking, athletic, cultural, and other student activity facilities at the state universities. These bonds are special obligations of the Authority payable solely from revenues and certain pledged funds provided under the provisions of the Act, the Contract and the Trust Agreement between the Authority and trustee. Annually, the Authority collects assessments from each state university in amounts sufficient for the payment of, among other things, the debt service on the Authority's bonds. These assessments are primarily derived from the rents and fees on the Authority's facilities, and on university-owned facilities financed by the Authority, as annually set by the Authority. As additional security for the Authority's bonds, the Act and the Contract provide for an intercept of legislative appropriations to the state universities, if the Authority otherwise lacks sufficient funds to pay debt service. This intercept mechanism was clarified and streamlined by amendments to the Act in 2009 and 2011 and the Contract was amended to conform to the statutory changes.

As of June 30, 2012, the Authority had \$1.031 billion in outstanding bond obligations, net of unamortized premiums, compared to \$871.2 million at June 30, 2011. The \$159.8 million increase is attributable to the issuance of \$154.3 million in Series 2012A Bonds and \$149.3 million in Series 2012B Refunding Bonds which is offset by principal payments made during the fiscal year and the \$156.5 million in bonds defeased as a result of the refunding. All of the outstanding bonds carry fixed interest rates payable semi-annually on May and November 1st. Principal is payable annually on May 1st, with a final maturity of 2049. The Authority's outstanding debt has no associated interest rate exchange agreements. Of the amount outstanding, \$114.3 million are taxable Build America Bonds for which the Authority receives a 35% interest rate subsidy directly from the U.S. Treasury. The balance of the outstanding bonds is tax-exempt. \$28.3 million of the outstanding bonds are guaranteed by the Commonwealth with a final maturity of 2016, of which \$13.1 million have a senior lien to the remaining \$968.4 in parity debt.

The Authority's bonds have credit ratings of Aa2 and AA from Moody's and Standard & Poor's, respectively. In November 2011, Standard & Poor's upgraded the Authority to AA from AA-.

Requests for Information

The Authority's financial statements are designed to present readers with a general overview of the Authority's finances. Additional financial information, including official statements relating to the Authority's bonds, can be found on the Authority's website www.mscba.org. Questions concerning the financial statements 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, 2012 and 2011 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, 2012 and 2011, 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.

As discussed in Note 1 to the financial statements, in fiscal 2012, the Authority elected to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2012 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, 2012. 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 2012 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 38 through 42 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.

Ercolini & Company LLP

Boston, Massachusetts
October 2, 2012

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

STATEMENTS OF NET POSITION (DEFICIENCY IN NET POSITION)

JUNE 30, 2012 AND 2011

	<u>2012</u>	2011 (As restated)
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents	\$ 46,999,799	\$ 52,961,725
Restricted cash and cash equivalents	32,622,951	61,280,385
Restricted investments, including amounts held by bond trustee	35,375,185	-
Accounts receivable, net	<u>4,523,098</u>	<u>4,055,079</u>
Total current assets	<u>119,521,033</u>	<u>118,297,189</u>
<u>Noncurrent assets</u>		
Restricted cash and cash equivalents	4,882,665	7,310,201
Restricted investments, including amounts held by bond trustee	168,070,724	93,686,304
Accounts receivable, net	107,645,298	75,186,365
Capital assets, net	<u>657,341,390</u>	<u>595,028,276</u>
Total noncurrent assets	<u>937,940,077</u>	<u>771,211,146</u>
Total assets	<u>1,057,461,110</u>	<u>889,508,335</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred losses on refunding of debt	<u>32,352,432</u>	<u>19,011,433</u>
Total deferred outflows of resources	<u>32,352,432</u>	<u>19,011,433</u>
LIABILITIES		
<u>Current liabilities</u>		
Accounts payable and accrued liabilities	27,525,872	25,572,562
Accrued payroll	53,111	43,878
Interagency payables	41,155,315	24,799,324
Compensated absences	85,711	83,869
Current portion of bonds payable	<u>24,904,411</u>	<u>21,139,334</u>
Total current liabilities	<u>93,724,420</u>	<u>71,638,967</u>
<u>Noncurrent liabilities</u>		
Accounts payable and accrued liabilities	97,005	137,884
Compensated absences	78,314	78,877
Interagency payables	5,269,093	6,060,117
Bonds payable, net of current portion	<u>1,006,467,050</u>	<u>850,065,048</u>
Total noncurrent liabilities	<u>1,011,911,462</u>	<u>856,341,926</u>
Total liabilities	<u>1,105,635,882</u>	<u>927,980,893</u>
NET POSITION (DEFICIENCY IN NET POSITION)		
Net investment in capital assets	1,380,597	(3,693,773)
Restricted:		
Expendable:		
Capital projects	2,415,383	1,897,286
Unrestricted	<u>(19,618,320)</u>	<u>(17,664,638)</u>
Total net position (deficiency in net position)	<u>(\$ 15,822,340)</u>	<u>(\$ 19,461,125)</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 POSITION

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	2011 (As restated)
<u>OPERATING REVENUES</u>		
Income from contracts for financial assistance, management, and services	\$ 55,373,353	\$ 51,349,024
Federal grants for debt service	211,886	211,890
Other miscellaneous revenues	<u>499,035</u>	<u>568,661</u>
Total operating revenues	<u>56,084,274</u>	<u>52,129,575</u>
<u>OPERATING EXPENSES</u>		
Maintenance costs	740,425	668,168
Authority operating expenses	1,481,186	1,483,170
Depreciation	28,603,149	24,968,701
Other expenses	<u>294,516</u>	<u>162,258</u>
Total operating expenses	<u>31,119,276</u>	<u>27,282,297</u>
Operating income	<u>24,964,998</u>	<u>24,847,278</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Net investment income	12,643,482	3,977,455
Interest expense	(37,776,890)	(34,798,750)
Bond issuance costs	(2,150,595)	(780,005)
Transfers from State Universities	3,050,414	3,352,687
Build America Bonds interest subsidy	2,360,991	1,887,838
Gain (loss) on sale of capital assets	-	400,141
Miscellaneous nonoperating revenue	<u>546,385</u>	<u>201,756</u>
Net nonoperating revenues (expenses)	<u>(21,326,213)</u>	<u>(25,758,878)</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>	<u>3,638,785</u>	<u>(911,600)</u>
<u>NET POSITION (DEFICIENCY IN NET POSITION), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED FOR 2011</u>	<u>(19,461,125)</u>	<u>(6,592,996)</u>
<u>RESTATEMENT (NOTE 19)</u>	<u>-</u>	<u>(11,956,529)</u>
<u>NET POSITION (DEFICIENCY IN NET POSITION), BEGINNING OF YEAR, AS RESTATED</u>	<u>(19,461,125)</u>	<u>(18,549,525)</u>
<u>NET POSITION (DEFICIENCY IN NET POSITION), END OF YEAR</u>	<u>(\$ 15,822,340)</u>	<u>(\$ 19,461,125)</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u> (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts for financial assistance, management, and services	\$ 55,373,353	\$ 51,349,024
Federal grants for debt service	211,886	211,890
Other miscellaneous receipts	499,146	568,829
Payments for maintenance costs	(706,154)	(670,373)
Payments for operating expenses	(700,844)	(755,634)
Payments to employees	(769,830)	(729,305)
Payments for other expenses	<u>(294,516)</u>	<u>(162,258)</u>
Net cash provided by (used in) operating activities	<u>53,613,041</u>	<u>49,812,173</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	340,279,050	120,581,681
Cash paid to bond trustee related to advance refundings	(175,964,681)	(59,010,392)
Build America Bonds interest subsidy	2,360,991	1,716,819
Payments of bond issuance costs	(2,150,595)	(780,005)
Payments for capital assets	(89,912,459)	(99,147,555)
Proceeds from sale of assets	-	527,486
Miscellaneous receipts	546,385	201,756
Release from (payment to) escrow for deposit on capital assets	-	16,250
Collections of debt service receivables	6,139,842	4,473,638
Transfer of funds from State Universities	3,050,414	3,352,687
Payments from funds held for others	(31,763,491)	(12,333,571)
Funds received and held for others	14,005,758	4,018,190
Principal paid on capital debt	(19,400,000)	(16,449,998)
Interest paid on capital debt	<u>(38,611,063)</u>	<u>(40,518,746)</u>
Net cash provided by (used in) capital and related financing activities	<u>8,580,151</u>	<u>(93,351,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	133,423,710	145,507,595
Purchases of investments	(236,378,456)	(77,341,855)
Interest on investments	<u>3,714,658</u>	<u>4,270,263</u>
Net cash provided by (used in) investing activities	<u>(99,240,088)</u>	<u>72,436,003</u>
Net increase (decrease) in cash and cash equivalents	<u>(37,046,896)</u>	28,896,416
Cash and cash equivalents, beginning of year	<u>121,552,311</u>	<u>92,655,895</u>
Cash and cash equivalents, end of year	<u>\$ 84,505,415</u>	<u>\$ 121,552,311</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 24,964,998	\$ 24,847,278
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	28,603,149	24,968,701
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	34,382	(2,037)
Accrued payroll and compensated absences	<u>10,512</u>	<u>(1,769)</u>
Net cash provided by (used in) operating activities	<u>\$ 53,613,041</u>	<u>\$ 49,812,173</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, 2012 AND 2011

1. Summary of significant accounting policies

Organization

Massachusetts State College Building Authority (the Authority) was created pursuant to Chapter 703 of the Acts 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 residence hall operating budgets. The Authority operates on the basis of Contracts for Financial Assistance, Management and Services with the Board of Higher Education of the Commonwealth (BHE), in which the BHE 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 position 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, 2012 AND 2011

1. Summary of significant accounting policies - continued

Net position

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

- **Net investment in capital assets**

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

- **Restricted - nonexpendable**

Net position which is subject to externally imposed conditions that the Authority must maintain them in perpetuity.

- **Restricted - expendable**

Net position 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 position. Unrestricted net position 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 Trust Agreement and the Commonwealth of Massachusetts, the Authority's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Use of estimates

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Cash equivalents

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

Investments

Investments in marketable securities are stated at fair value. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets. There were no significant realized gains or losses on investments during the years ended June 30, 2012 and 2011.

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 Trust Agreement 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, 2012 and 2011, 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 14,340 students in 2012 and 13,930 students in 2011, 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Capital assets - continued

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

Bond issuance costs

Bond issuance costs are expensed as incurred pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. During fiscal 2012 and 2011, the Authority incurred \$2,150,595 and \$780,005, respectively, of bond issuance costs. Pursuant to the Authority's election to early implement the provisions of GASB Statement No. 65 in fiscal 2012, the Authority retroactively restated its net position (deficiency in net position) at July 1, 2010 in the amount of \$11,956,529 as further discussed in Note 19.

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. Bond premiums are amortized to interest expense on a straight-line basis over the terms of the related trust agreements. Deferred losses on bond refundings are amortized to interest expense principally on the effective interest method over the terms of the old trust or new trust agreements, whichever is shorter. During fiscal 2012 and 2011, total interest costs were accounted for as follows:

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Interest expense and capitalization - continued

	<u>2012</u>	<u>2011</u>
Total interest incurred	\$ 44,888,868	\$ 40,537,039
Amortization of bond premium	(2,422,331)	(1,166,103)
Amortization of deferred loss	1,006,582	682,531
Less: capitalized portion of interest incurred	(<u>5,696,229</u>)	(<u>5,254,717</u>)
Interest expense	<u>\$ 37,776,890</u>	<u>\$ 34,798,750</u>
Capitalized portion of interest incurred	\$ 5,696,229	\$ 5,254,717
Less: interest income on unused funds from tax-exempt borrowings	(<u>792,793</u>)	(<u>1,039,075</u>)
Net capitalized interest	<u>\$ 4,903,436</u>	<u>\$ 4,215,642</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.

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 2011 financial statements to conform to the 2012 presentation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Recent accounting pronouncements

Recently adopted accounting pronouncements

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 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 elected to early adopt the requirements of this Statement in fiscal 2012. Adoption of GASB Statement No. 60 by the Authority in fiscal 2012 had no 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. The Authority elected to early adopt the requirements of this Statement in fiscal 2012. As a result of the early adoption, the Authority has renamed the Statement of Net Assets to the Statement of Net Position (Deficiency in Net Position); reported deferred outflows of resources in a separate section following assets; and presented the Statement of Net Position (Deficiency in Net Position) in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources (of which there are none) to equal net position. The Statement has been applied retroactively by reclassifying the Statement of Net Position (Deficiency in Net Position) and balance sheet information for the year ended June 30, 2011.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that (i) reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources; or (ii) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. GASB Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012. The Authority elected to early adopt the requirements of this Statement in fiscal 2012. As a result of the early adoption, the Authority reclassified deferred losses on bond refundings from a decrease in bonds payable to deferred outflows of resources, expensed bond issuance costs instead of deferring and amortizing such costs to future periods, and retroactively restated the Authority's net position as of July 1, 2010 for the cumulative effect of applying this Statement, all as more fully described in Note 19.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Recent accounting pronouncements not yet adopted

In June, 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier application encouraged. The Authority is currently evaluating the impact of this GASB Statement on its fiscal year 2015 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; (iii) any of the securities described above which are subject to repurchase agreements, as defined; (iv) commercial paper rated in the highest rating category; and (v) obligations of state or local governments or authorities thereof rated in the two highest rating categories. 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, 2012, \$41,163,784 of the Authority's bank balances were exposed to custodial credit risk because they were uninsured and uncollateralized.

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 \$41,163,784 and \$90,592,149 at June 30, 2012 and 2011, 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

Custodial credit risk - continued

The Authority's investments are held at US Bank and Citizens Bank and are represented by the following at June 30, 2012 and 2011:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Agencies	\$ 77,854,937	\$ 79,970,208	\$ 68,212,053	\$ 68,877,527
Commercial paper	90,216,262	90,338,599	-	-
State taxable bonds	17,475,000	21,952,160	17,475,000	18,134,785
U.S. Treasuries	<u>9,119,369</u>	<u>11,184,942</u>	<u>6,821,484</u>	<u>6,673,992</u>
	<u>\$ 194,665,568</u>	<u>\$ 203,445,909</u>	<u>\$ 92,508,537</u>	<u>\$ 93,686,304</u>

At June 30, 2012, 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	\$ 7,230,466	\$ 5,212,675	\$ 2,017,791	\$ -	\$ -	Aaa
Fannie Mae Corporation (FNMA) discount note	7,599,187	7,599,187	-	-	-	Aaa
Federal Home Loan Banks (FHLB) U.S. Govt. Issues	12,750,279	4,433,312	8,316,967	-	-	Aaa
Federal Home Loan Banks (FHLB) discount notes	13,040,021	13,040,021	-	-	-	Aaa
Federal Home Loan Mortgage Corp. (FHLMC) U.S. Govt. Issues	25,107,579	11,825,511	-	13,282,068	-	Aaa
Federal Home Loan Mortgage Corp. (FHLMC) discount note	10,040,987	10,040,987	-	-	-	Aaa
Federal Farm Credit Banks (FFCB) U.S. Govt. Issues	4,201,689	1,200,919	3,000,770	-	-	Aaa
Commercial Paper (GE Cap. Corp.)	90,338,599	90,338,599	-	-	-	P-1 Aa1 -
Massachusetts ST Bonds U.S. Government Securities - Treasury Bonds	21,952,160	-	-	1,516,878	20,435,282	Aaa
	<u>11,184,942</u>	<u>2,298,799</u>	<u>-</u>	<u>-</u>	<u>8,886,143</u>	Aaa
Total	<u>\$203,445,909</u>	<u>\$ 145,990,010</u>	<u>\$ 13,335,528</u>	<u>\$ 14,798,946</u>	<u>\$ 29,321,425</u>	

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

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 position (deficiency in net position) 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Debt service receivables	\$ 111,188,170	\$ 78,078,251
Interest receivable on investments	586,728	769,695
Build America Bonds interest subsidy receivable	<u>393,498</u>	<u>393,498</u>
	<u>\$ 112,168,396</u>	<u>\$ 79,241,444</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 2012, accounts receivable, net of unearned interest income, totaling \$35,991,393 were recorded in connection with projects at five State Universities. During fiscal 2011, accounts receivable, net of unearned interest income, totaling \$31,325,875 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 2012 and 2011, the Authority made a miscellaneous adjustment of \$179,563 and \$67,723, respectively, to accounts receivable and unearned income that reflects interest savings due to the bond refundings in these years.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

3. Accounts receivable - continued

The components of the Authority's investment in these State University-owned projects as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Total payments to be received	\$ 161,358,745	\$ 114,733,418
Less: unearned income	<u>(50,170,575)</u>	<u>(36,655,167)</u>
 Net investment in State University-owned projects	 <u>\$ 111,188,170</u>	 <u>\$ 78,078,251</u>

The following table sets forth the total payments to be received under these agreements as of June 30, 2012:

Year ending June 30:	
2013	\$ 8,367,107
2014	8,494,396
2015	8,482,067
2016	8,486,673
2017	8,475,392
2018 - 2022	42,377,746
2023 - 2027	43,673,310
2028 - 2032	26,708,694
2033 - 2037	<u>6,293,360</u>
 Total	 <u>\$ 161,358,745</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

4. Capital assets

Capital assets activity for the years ended June 30, 2012 and 2011 are as follows:

	2012			
	Totals June 30, 2011	Additions	Reclassifications And Reductions	Totals June 30, 2012
Land	\$ 3,832,388	\$ -	\$ -	\$ 3,832,388
Construction in progress	<u>93,537,885</u>	<u>86,691,254</u>	<u>(137,213,020)</u>	<u>43,016,119</u>
Total not being depreciated	<u>97,370,273</u>	<u>86,691,254</u>	<u>(137,213,020)</u>	<u>46,848,507</u>
Buildings and improvements	680,671,878	1,162,886	137,213,020	819,047,784
Furnishings and equipment	<u>37,741,760</u>	<u>3,062,123</u>	<u>-</u>	<u>40,803,883</u>
Total depreciable assets	<u>718,413,638</u>	<u>4,225,009</u>	<u>137,213,020</u>	<u>859,851,667</u>
Total capital assets	<u>815,783,911</u>	<u>90,916,263</u>	<u>-</u>	<u>906,700,174</u>
Less accumulated depreciation:				
Buildings and improvements	(206,950,855)	(26,187,810)	<u>-</u>	(233,138,665)
Furnishings and equipment	<u>(13,804,780)</u>	<u>(2,415,339)</u>	<u>-</u>	<u>(16,220,119)</u>
Total accumulated depreciation	<u>(220,755,635)</u>	<u>(28,603,149)</u>	<u>-</u>	<u>(249,358,784)</u>
Capital assets, net	<u>\$ 595,028,276</u>	<u>\$ 62,313,114</u>	<u>\$ -</u>	<u>\$ 657,341,390</u>
	2011			
	Totals June 30, 2010	Additions	Reclassifications and Reductions	Totals June 30, 2011
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)	(22,702,306)	363,952	(206,950,855)
Furnishings and equipment	<u>(11,538,385)</u>	<u>(2,266,395)</u>	<u>-</u>	<u>(13,804,780)</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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

4. Capital assets - continued

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.

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, 2012 and 2011.

As of June 30, 2012 and 2011, capital assets with a cost of approximately \$46,700,000 and \$39,000,000, respectively, were fully depreciated and still in service.

The Authority has entered into various purchase commitments with contractors for the purchase of equipment, construction of certain facilities and other improvements. The amounts under commitment were approximately \$43,000,000 and \$52,000,000, respectively, as of June 30, 2012 and 2011.

5. Bond related items

Bond issuance costs incurred and expensed in fiscal 2012 and 2011 amounted to \$2,150,595 and \$780,005, respectively.

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unamortized balance, beginning	\$ 30,541,361	\$ 25,758,017
Current year additions	36,659,049	8,971,685
Unamortized premium on bonds refunded	(1,824,639)	(3,022,238)
Current year amortization	<u>(2,422,331)</u>	<u>(1,166,103)</u>
Unamortized balance, ending	<u>\$ 62,953,440</u>	<u>\$ 30,541,361</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Bond related items - continued

Deferred losses on bond refundings are reflected as a deferred outflows of resources in the accompanying statements of net position (deficiency in net position) and consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	2011 (As restated)
Balance, beginning	\$ 19,011,433	\$ 17,055,810
Current year additions	14,347,581	2,638,154
Current year amortization	<u>(1,006,582)</u>	<u>(682,531)</u>
Balance, ending	<u>\$ 32,352,432</u>	<u>\$ 19,011,433</u>

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	2011
Capital assets and construction payables	\$ 11,636,385	\$ 15,536,017
Accrued bond interest payable	10,303,940	6,621,956
Arbitrage payable - long term	97,005	37,619
Contractor payables for State University owned assets	5,440,796	3,404,485
Lease deposit (see Note 15)	100,376	100,265
Authority operating and maintenance expenses	<u>44,375</u>	<u>10,104</u>
	<u>\$ 27,622,877</u>	<u>\$ 25,710,446</u>

7. Interagency payables

Under the provisions of the 2012A, 2010A, 2010B, 2009C, 2009B, 2009A, 2008A, 2006A, 2005A and 2003A trust 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

7. Interagency payables - continued

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, 2012 and 2011, the Authority has an aggregate liability for Interagency payables of \$46,424,408 and \$30,859,441, respectively.

8. Bonds payable

Bonds payable consisted of the following at June 30, 2012 and 2011:

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, 2012 and 2011, bonds payable amounted to \$13,622,072 and \$19,753,109, 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 2012 and 2011 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, 2012 and 2011, bonds payable amounted to \$2,238,751 and \$65,785,650, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.25%, and are payable annually on May 1 until 2013. The effective interest rate for 2012 and 2011 amounted to 4.91% and 4.97%, 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 2012, the Authority issued Series 2012-B Refunding Bonds, which refunded a portion of the 2003-A Bonds scheduled to mature between May 1, 2026 and May 1, 2043 totaling \$63,225,000.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

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

June 30, 2012 and 2011, bonds payable amounted to \$110,809,040 and \$112,429,016, 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 2012 and 2011 amounted to 3.59% and 3.61%, 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 transaction, the Authority exercised a call option to fully redeem the Series 1999-1 Bonds in November 2011 for the remaining unpaid principal amount of \$38,845,000. 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 the Series 1999-A bonds had an aggregate market value of \$88,259,061 at June 30, 2012. The unpaid principal amount plus accreted interest of the remaining Series 1999-A of refunded bonds at June 30, 2012 totaled \$60,513,224.

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 deferred outflow of resources, 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 \$15,663,618 and \$16,347,270 at June 30, 2012 and 2011, 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, 2012 and 2011, the Series 2004-A Bonds payable amounted to \$4,363,196 and \$34,128,476, respectively, including premium. These bonds carry interest rates that range from 2.0% to 5.0%, and are payable annually on May 1 until 2014. The effective interest rate for 2012 and 2011 amounted to 4.83% and 4.88%, respectively. In June 2011, the Authority issued Series 2011-A Refunding Bonds, which refunded a portion of the 2004-A Bonds scheduled to

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

2004 A Series Bonds, January 15, 2004 - continued

mature between May 1, 2015 and May 1, 2023 totaling \$21,615,000. In March 2012, the Authority issued Series 2012-B Refunding Bonds, which refunded a portion of the 2004-A Bonds scheduled to mature between May 1, 2024 and May 1, 2043 totaling \$27,640,000.

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 Lehman's exercise of that option. As of June 30, 2012 and 2011, the Series 2004-B Bonds payable amounted to \$18,250,872 and \$18,355,068, 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 2012 and 2011 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 deferred outflow of resources, 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 \$31,460 and \$39,325 at June 30, 2012 and 2011, 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, 2012 and 2011, the Series 2005-A Bonds payable amounted to \$8,598,631 and \$30,094,066, respectively, including premium. These bonds carry interest rates that range from 3.0% to 5.0% and are payable annually on May 1 until 2017. The effective interest rate for 2012 and 2011 amounted to 4.31% and 4.28%, respectively. In March 2012, the Authority issued Series 2012-B Refunding Bonds, which refunded a portion of the 2005-A Bonds scheduled to mature between May 1, 2018 and May 1, 2026 totaling \$19,765,000.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

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 Series 2006-A Projects, and any future projects. As of June 30, 2012 and 2011, the Series 2006-A Bonds payable amounted to \$46,084,154 and \$96,569,513, 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 2012 and 2011 amounted to 4.91% and 4.89%, respectively. In March 2012, the Authority issued Series 2012-B Refunding Bonds, which refunded a portion of the 2006-A Bonds scheduled to mature between May 1, 2019 and May 1, 2031 totaling \$45,835,000.

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, 2012, and 2011, the Series 2008-A Bonds payable amounted to \$94,026,950 and \$95,325,251, 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 2012 and 2011 amounted to 4.88% and 4.86%, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

2009 A Series Bonds, January 28, 2009

In January 2009, the Authority issued the Series 2009-A Project Bonds in the amount of \$128,570,000. The proceeds of the bonds, together with certain earnings thereon, will be used to finance the costs of capital improvements for certain State 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, 2012 and 2011, the Series 2009-A Bonds payable amounted to \$125,659,142 and \$127,172,965, 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 2012 and 2011 amounted to 5.15% and 5.12%, respectively.

2009 B/C Series Bonds, December 22, 2009

In December 2009, the Authority issued the Series 2009-B Project Bonds in the amount of \$82,085,000. The proceeds of the bonds, together with certain earnings thereon, will be used to fund the construction of new residence halls at Framingham State 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, 2012 and 2011, the Series 2009-B Bonds payable amounted to \$83,743,747 and \$84,708,522, 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 2012 and 2011 amounted to 4.74% and 4.71%, 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

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

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, 2012 and 2011, 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 beginning in 2018 through 2040. The effective interest rate for 2012 and 2011 amounted to 5.74% for both years.

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 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, 2012 and 2011, bonds payable amounted to \$11,429,245 and \$13,138,235, respectively, 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 2012 and 2011 amounted to 4.07% and 4.03%, respectively.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

2010A/B Series Bonds, December 17, 2010 - continued

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, 2012 and 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 beginning in 2019 through 2040. The effective interest rate for 2012 and 2011 amounted to 6.12% and 6.09%, respectively.

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, 2012 and 2011, bonds payable amounted to \$58,453,359 and \$59,454,511, respectively, 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 2012 and 2011 amounted to 5.03% and 3.80%, respectively.

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 \$56,839,792 at June 30, 2012. The aggregate unpaid principal amount of the two remaining Series of refunded bonds at June 30, 2012 totaled \$53,350,000.

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 \$2,638,154 (as restated) between the reacquisition price of \$59,010,392 and the net carrying amount of the old debt of \$56,372,238 (as restated). This difference, reported in the accompanying financial statements as deferred outflow of resources, 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 bond refunding amounted to \$2,435,270 and \$2,624,838 (as restated) at June 30, 2012 and 2011, respectively.

2012A Series Bonds, December 11, 2011

In December 2011, the Authority issued \$154,345,000 Project Revenue Bonds Series 2012A (2012A Bonds), which closed on January 4, 2012 with an all-in cost of 4.13%. The proceeds of the 2012A Bonds, together with certain earnings thereon, will be used to pay a portion of the interest on the 2012A Bonds during construction, to pay costs of issuance and to finance new residence halls at Bridgewater and Westfield State Universities, construction, improvements, renovations and repairs of student life facilities at certain of the State Universities and the renovation of various System Projects. No proceeds of the 2012A

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

2012A Series Bonds, December 11, 2011 - continued

Bonds were required to be deposited in the debt service reserve fund. The 2012A Bonds are traditional tax-exempt bonds issued under the provisions of the Trust Agreement as amended, restated and supplemented to the date of issuance of the 2012A Bonds. The 2012A Bonds are special obligations of the Authority payable solely from the Revenues and Pledged Funds provided under the provisions of the Act, the Trust Agreement and the Contract, subject only to the senior pledge of Revenues relating to the Prior Bonds. The 2012A Bonds are not guaranteed by the Commonwealth. Principal on the 2012A Bonds is payable annually on May 1 beginning in 2013 through 2041 with interest rates ranging from 3% to 5%. As of June 30, 2012, there was \$167,451,362, including premium, Series 2012A Bonds outstanding. The effective interest rate for 2012 amounted to 4.72%.

2012B Series Bonds, February 2, 2012

In February 2012, the Authority issued \$149,275,000 Refunding Revenue Bonds Series 2012B (2012B Refunding Bonds), which closed on March 1, 2012 with an all-in cost of 3.57%. After paying costs of issuance, the proceeds and premium thereon of the 2012B Refunding Bonds together with \$1,800,000 from the partial termination of the Debt Service Reserve Fund Agreement relating to the refunded portion of the 2005A Bonds and certain debt service funds relating to the refunded bonds, was deposited in an irrevocable escrow account, which together with interest earnings thereon, will be sufficient to pay all future debt service payments on the refunded portions of 2003A Bonds, 2004A Bonds, the 2005A Bonds and the 2006A Bonds; such portions are considered defeased and accordingly the liability for the bonds payable and the assets held to repay the debt have been removed from the Authority's records. No proceeds of the 2012B Refunding Bonds were required to be deposited in the debt service reserve fund. The 2012B Refunding Bonds are traditional tax-exempt bonds issued under the provisions of the Trust Agreement as amended, restated and supplemented to the date of issuance of the 2012B Refunding Bonds. The 2012B Refunding Bonds are special obligations of the Authority payable solely from the Revenues and Pledged Funds provided under the provisions of the Act, the Trust Agreement and the Contract, subject only to the senior pledge of Revenues relating to the Prior Bonds. The 2012B Refunding Bonds are not guaranteed by the Commonwealth. Principal on the 2012B Refunding Bonds is payable annually on May 1 beginning in 2018 through 2043 with interest rates ranging from 3% to 5%. As of June 30, 2012, there was \$172,350,940, including premium, 2012B Refunding Bonds outstanding. The effective interest rate for 2012 amounted to 4.69%.

The 2012B Refunding Bonds resulted in overall reduced debt service of \$20,587,474 and an economic gain of \$13,285,676. The refunding resulted in a difference of \$14,347,581 between the reacquisition price of \$172,637,220 and the net carrying amount of the refunded bonds of \$158,289,639. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is annually charged to expense through the year 2043 using the effective interest method. As of June 30, 2012, the unamortized balance of the deferred loss due to the refunding was \$14,222,084.

The Authority was required to deposit \$175,964,681 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, Series 2004-A, Series 2005-A, and Series 2006-A Bonds. As a result, a portion of these bonds 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

2012B Series Bonds, February 2, 2012 - continued

records. Assets held in the trust account for repayment of these bonds had an aggregate market value of \$171,483,235 at June 30, 2012. The aggregate unpaid principal amount of the four remaining Series of refunded bonds at June 30, 2012 totaled \$156,465,000.

Debt service reserve fund investment agreements

In connection with the issuance of the Series 2003-A Bonds, Series 2005-A Bonds, Series 2006-A Bonds and Series 2008-A Bonds, the Authority entered into debt service reserve fund investment agreements. The agreements serve to provide for a guaranteed rate of return on the applicable debt service reserve funds to support the Authority's future debt service payments. The agreements provide for termination under certain circumstances as more fully described in the agreements. Termination of the agreements may generate a gain or loss to the Authority depending on the nature and circumstances of the termination. The 2012B Refunding Bonds refunded a portion of the Series 2005-A Bonds which necessitated that a portion (\$1,800,000) of the original Series 2005-A debt service reserve fund investment agreement be terminated. The terms of the agreement provided for a \$525,000 termination payment to be made to the Authority. The funds received from this termination payment are being held in the Series 2005-A Bonds Rebate Account. The Authority has recognized \$525,000 as miscellaneous nonoperating revenue for this termination payment in the accompanying 2012 statement of revenues, expenses and changes in net position (see Note 18).

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Bonds payable - continued

Amortization tables for bond issues and unamortized premiums as of June 30, 2012

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:			
2013	\$ 21,450,000	\$ 49,728,859	\$ 71,178,859
2014	23,230,000	46,264,406	69,494,406
2015	25,315,000	45,061,706	70,376,706
2016	29,256,780	45,644,960	74,901,740
2017	26,423,683	44,828,705	71,252,388
2018 - 2022	148,252,953	213,641,748	361,894,701
2023 - 2027	178,732,331	187,086,796	365,819,127
2028 - 2032	172,587,276	121,468,659	294,055,935
2033 - 2037	177,520,000	69,342,096	246,862,096
2038 - 2042	138,070,000	23,413,850	161,483,850
2043 - 2047	22,490,000	3,862,263	26,352,263
2048 - 2049	<u>5,089,998</u>	<u>433,788</u>	<u>5,523,786</u>
	968,418,021	<u>\$ 850,777,836</u>	<u>\$ 1,819,195,857</u>
Plus: unamortized premiums	<u>62,953,440</u>		
	<u>\$ 1,031,371,461</u>		

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

9. Long-term liabilities

Long-term liabilities at June 30, 2012 and 2011 consisted of the following:

	2012				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable	\$ 871,204,382	\$ 340,279,050	\$ (180,111,971)	\$ 1,031,371,461	\$ 24,904,411
Interagency payables	30,859,441	50,155,793	(34,590,826)	46,424,408	41,155,315
Other liabilities:					
Accounts payable and accrued liabilities	100,265	111	(100,376)	-	-
Arbitrage payable	37,619	59,386	-	97,005	-
Compensated absences	162,746	122,937	(121,658)	164,025	85,711
Total long-term liabilities	\$ 902,364,453	\$ 390,617,277	\$ (214,924,831)	\$ 1,078,056,899	\$ 66,145,437
	2011				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable	\$ 824,611,040	\$ 120,581,681	\$ (73,988,339)	\$ 871,204,382	\$ 21,139,334
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	\$ 834,617,500	\$ 156,092,461	\$ (88,345,508)	\$ 902,364,453	\$ 46,022,527

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

10. Net position

The net investment in capital assets of \$1,380,597 at June 30, 2012, includes the effect of deferring the recognition of the losses on bond refundings. The \$32,352,432 balance of the deferred outflows of resources at June 30, 2012 will be amortized to interest expense over the terms of the old trust or new trust agreements, whichever is shorter, which will decrease the unrestricted net position and increase the net investment in capital assets over those periods (see Note 8).

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>2012</u>	<u>2011</u>
Restricted - expendable:		
DCAM/MSCBA contract restricted for life safety and access improvements and repositioning of O'Connor Hall (Note 17)	<u>\$ 2,415,383</u>	<u>\$ 1,897,286</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, 2012 and 2011, on a natural classification basis, are comprised of the following:

	<u>2012</u>	<u>2011</u>
Compensation	\$ 782,682	\$ 729,800
Supplies and services	1,733,445	1,583,796
Depreciation	<u>28,603,149</u>	<u>24,968,701</u>
	<u>\$ 31,119,276</u>	<u>\$ 27,282,297</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 32 of the General Laws of the Commonwealth of Massachusetts assigns the authority to establish and amend benefit provisions to the Massachusetts Legislature. For active Authority employees covered by SERS, the Authority is not required to make contributions to the Plan. For retired Authority employees, the Commonwealth computes the projected benefit obligation of the retired employee. The Authority is responsible to contribute any shortfall that exists as a result of this computation. The total amount paid by the Authority to the Massachusetts State Retirement Board amounted to \$84,452, \$84,452 and \$89,249 for the years ended June 30, 2012, 2011 and 2010, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2012, 2011 and 2010.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

14. Retiree health plan - continued

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, 2012, 2011, and 2010, were \$100,615, \$113,318 and \$89,767, respectively, which equaled the required contributions each year. Required contributions include contributions for the total health plan costs for both active and retired employees.

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, 2012 and 2011, rent expense incurred, including additional costs for monthly storage and parking which are not provided under the terms of the lease agreement, amounted to \$153,395 and \$160,780, respectively.

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

<u>Year ending June 30:</u>	<u>Amount</u>
2013	\$ 156,090
2014	169,334
2015	173,118
2016	173,118
2017	176,902
2018 - 2020	<u>491,920</u>
	<u>\$ 1,340,482</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 was completed in May 2012. Occupancy of the leased space began in the Fall 2012 academic semester. The lease was amended as of May 9, 2012 to allow for, among other matters, additional bed spaces, revised extension terms and revised total rent payments. The cost of the portion of the property that will be leased to MCPHS amounts to approximately \$35,101,000 at June 30, 2012 and is included in buildings and improvements on the accompanying statements of net position (deficiency in net position). 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, 2012 and 2011, the deposit and interest earned thereon, in the amount of \$100,376 and \$100,265, respectively, are included in current restricted cash and cash equivalents and noncurrent restricted cash and

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

15. Lease commitments and receivables - continued

cash equivalents, respectively, and current accounts payable and accrued liabilities and noncurrent accounts payable and accrued liabilities, respectively, in the accompanying statements of net position (deficiency in net position).

The lease agreement provides for an initial term of five academic years for the original bed spaces and four academic years for the new bed spaces per the lease amendment. The lease commenced in August, 2012. The lease term for the original bed spaces may be extended for three additional, consecutive five year periods and the term of the new bed spaces may be extended for one additional one year period. 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.

On August 7, 2012, the Authority entered into a lease agreement with Harvard Vanguard Medical Associates, Inc. (Harvard Vanguard) to lease approximately 2,395 square feet of space at the Massachusetts College of Art and Design for the purpose of operating a student health services clinic. The cost of the property leased to Harvard Vanguard amounts to approximately \$1,107,000 at June 30, 2012, and is included in buildings and improvements on the accompanying statements of net position (deficiency in net position).

The lease agreement provides for an initial term of five years commencing in August 2012, and thereafter, at the option of Harvard Vanguard, may be extended for three additional, 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 shall be due in advance on the anniversary of the commencement date. Annual rent shall increase two and a half percent per year during the initial lease term and all extension periods.

Future minimum rental income under these operating lease agreements are as follows:

<u>Year ending June 30:</u>	<u>MCPHS</u>	<u>Harvard Vanguard</u>	<u>Total</u>
2013	\$ 2,812,486	\$ 20,956	\$ 2,833,443
2014	3,214,270	24,474	3,238,744
2015	3,214,270	25,086	3,239,356
2016	3,326,790	25,713	3,352,503
2017	2,692,858	26,356	2,719,214
Thereafter	<u>325,000</u>	<u>3,305</u>	<u>328,305</u>
	<u>\$ 15,585,674</u>	<u>\$ 125,891</u>	<u>\$ 15,711,565</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

16. Supplemental cash flows information

Schedule of noncash investing and financing activities

2012

Acquisition of capital assets	\$ 90,916,263
Accounts payable thereon:	
Beginning of year	15,536,017
End of year	(11,636,385)
Net interest incurred and earned, capitalized in construction in progress	(4,903,436)
Payments for capital assets	<u>\$ 89,912,459</u>
Accounts receivable and Interagency payables related to State University capital projects on State University owned property	<u>\$ 35,811,830</u>
Unearned interest income on accounts receivable related to State University capital projects on State University owned property	<u>\$ 16,794,697</u>
Contractor accounts payable related to State University capital projects on State University owned property	<u>\$ 5,440,796</u>
Unrealized gain on investment securities	<u>\$ 7,602,574</u>
Unamortized bond premium related to bonds refunded	<u>\$ 1,824,639</u>
Accrued interest related to bonds refunded	<u>\$ 2,536,436</u>
Interagency payables related to bonds refunded	<u>\$ 791,024</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

(a component unit of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

16. Supplemental cash flows information - continued

Schedule of noncash investing and financing activities - continued

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	(4,215,642)
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>
Unamortized bond premium related to bonds refunded	<u>\$ 3,022,238</u>

17. Transfers from State Universities

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, among other matters, 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 2015 academic semester. During fiscal 2012, the Authority received \$2,400,000 from DCAM on behalf of Framingham in accordance with the agreement. The agreement was amended during fiscal 2012 to provide for an additional \$400,000 to be received by the Authority directly from Framingham. This amount is currently expected to be received in fiscal 2013.

In addition, transfers from State Universities received in the ordinary course of business totaled \$650,414 and \$3,352,687 for fiscal years 2012 and 2011, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

18. Miscellaneous nonoperating revenue

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 nonoperating revenue in the accompanying 2011 statement of revenues, expenses and changes in net position. In fiscal 2012, the Authority received an additional settlement amount totaling \$21,385 which is included as miscellaneous nonoperating revenue in the accompanying 2012 statement of revenues, expenses and changes in net position.

As further discussed in Note 8, the Authority recorded \$525,000 of income in 2012 for the receipt of a termination payment associated with the termination of a portion of the original Series 2005-A debt service reserve fund investment agreement. The termination event resulted from the issuance of the 2012B Refunding Bonds which refunded a portion of the Series 2005-A Bonds. The Authority has recognized this termination payment as miscellaneous nonoperating revenue in the accompanying 2012 statement of revenues, expenses and changes in net position.

19. Restatement

In fiscal 2012, the Authority elected to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The deficiency in net position, as of July 1, 2010, has been increased by \$11,956,529 for the effect of retroactive application of the new standard. The following financial statement line items for 2011 were affected by the adoption of this new standard:

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

19. Restatement - continued

	2011 (As Previously <u>Reported</u>)	2011 (As Restated)	Effect of <u>Change</u>
Statement of Net Position:			
Bond issuance costs, net	\$ 11,899,974	\$ -	(\$ 11,899,974)
Deferred losses on refunding of debt	-	19,011,433	19,011,433
Current portion of bonds payable	20,228,927	21,139,334	910,407
Bonds payable, net of current portion	831,555,960	850,065,048	18,509,088
Net investment in capital assets	(3,285,711)	(3,693,773)	(408,062)
Unrestricted net position	(5,764,664)	(17,664,638)	(11,899,974)

**Statement of Revenues, Expenses, and
Changes in Net Position:**

Bond related costs (after reclassification)	433,989	-	(433,989)
Bond issuance costs	-	780,005	780,005
Other expenses	156,767	162,258	5,491
Decrease in net position	(560,093)	(911,600)	(351,507)

Statement of Cash Flows:

**Reconciliation of operating income to net cash
provided by (used in) operating activities:**

Operating income	24,902,352	24,847,278	(55,074)
Amortization of bond issuance costs, bond premium and deferred losses on refunding of debt	(55,074)	-	55,074

SUPPLEMENTAL INFORMATION

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

Supplemental Statistical Information - Unaudited

Schedule of Net Position (Deficiency) by Category

	<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> (as restated)	<u>2011</u> (as restated)	<u>2012</u>
Net investment in capital assets	\$ (27,292,678)	\$ (14,999,056)	\$ (3,043,100)	\$ (17,302,389)	\$ (15,522,125)	\$ (23,698,356)	\$ (11,777,270)	\$ (21,689,811)	\$ (3,693,773)	\$ 1,380,597
Restricted - expendable	5,346,405	3,036,958	930,636	363,076	330,731	106,446	8,976	2,555,116	1,897,286	2,415,383
Unrestricted	18,194,516	8,915,450	(3,486,656)	8,790,712	5,913,292	12,275,407	(834,537)	585,170	(17,664,638)	(19,618,320)
Total Net Position (Deficiency)	\$ (3,751,757)	\$ (3,046,648)	\$ (5,599,120)	\$ (8,148,601)	\$ (9,278,102)	\$ (11,316,503)	\$ (12,602,831)	\$ (18,549,525)	\$ (19,461,125)	\$ (15,822,340)

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

Supplemental Statistical Information - Unaudited

Changes in Net Position

	<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> (as restated)	<u>2012</u>
<u>Operating Revenue</u>										
Income from assessments	\$ 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	\$ 55,373,353
Federal grants for debt service	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,886
Other miscellaneous revenue	18,831	45,593	62,811	128,063	119,862	174,592	216,054	119,636	568,661	499,035
Total operating revenue	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	56,084,274
<u>Non-Operating Revenue</u>										
Net investment income	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	12,643,482
Transfers from State Universities	145,968	(446,726)	527,740	978,769	536,914	347,388	1,684,693	440,267	3,352,687	3,050,414
State capital appropriations	-	-	-	-	-	-	-	6,881,873	-	-
Build America Bonds interest subsidy	-	-	-	-	-	-	-	700,809	1,887,838	2,360,991
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-	400,141	-
Miscellaneous nonoperating revenue	-	-	-	-	-	-	-	-	201,756	546,385
Capital grants	-	-	-	-	-	344,224	34,255	293,073	-	-
Total non-operating revenue	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	18,601,272
Total Revenue	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	74,685,546
<u>Operating Expenses</u>										
Maintenance costs	(1,336,792)	(1,186,513)	(746,323)	(421,828)	(701,992)	(607,595)	(500,864)	(535,276)	(668,168)	(740,425)
Authority operating costs	(625,750)	(695,514)	(766,641)	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)	(1,392,357)	(1,483,170)	(1,481,186)
Depreciation	(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)	(28,603,149)
Other expenses	(14,840)	(85,079)	(73,389)	(164,687)	(239,798)	(181,503)	(224,192)	(583,365)	(162,258)	(294,516)
Total operating expenses	(8,853,738)	(10,358,661)	(13,858,562)	(16,046,464)	(17,775,857)	(19,156,390)	(20,622,880)	(23,365,038)	(27,282,297)	(31,119,276)
<u>Non-operating expense</u>										
Interest expense	(10,156,390)	(10,573,290)	(14,829,322)	(18,470,702)	(18,901,258)	(22,373,377)	(23,668,900)	(27,717,084)	(34,798,750)	(37,776,890)
Bond issuance costs	(135,831)	(402,656)	(413,653)	(295,214)	(382,815)	(311,698)	(371,723)	(402,289)	(780,005)	(2,150,595)
Total non-operating expense	(10,292,221)	(10,975,946)	(15,242,975)	(18,765,916)	(19,284,073)	(22,685,075)	(24,040,623)	(28,119,373)	(35,578,755)	(39,927,485)
Total Expenses	(19,145,959)	(21,334,607)	(29,101,537)	(34,812,380)	(37,059,930)	(41,841,465)	(44,663,503)	(51,484,411)	(62,861,052)	(71,046,761)
Increase (decrease) in net position	\$ (2,188,729)	\$ 130,661	\$ (2,552,472)	\$ (2,549,481)	\$ (1,129,501)	\$ (2,038,401)	\$ (1,286,328)	\$ 6,009,835	\$ (911,600)	\$ 3,638,785

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

Supplemental Statistical Information - Unaudited

Schedule of Revenue

<u>Institution</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>2012</u>
Bridgewater	\$ 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	\$ 12,980,504
Fitchburg	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	4,902,735
Framingham	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	6,695,874
Mass. College of Art	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	2,170,707
Mass. College of Liberal Arts	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	2,742,973
Mass. Maritime Academy	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	3,710,356
Salem	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	9,407,195
Westfield	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	6,943,818
Worcester	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	5,819,191
Total	\$ 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	\$ 55,373,353

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>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>	<u>2012</u>
Bridgewater	\$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	\$6,100-7,310
Fitchburg	\$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	\$4,930-6,204
Framingham	\$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	\$5,495-8,250
Mass. College of Art	\$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	\$7,610-10,640
Mass. College of Liberal Arts	\$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	\$4,530-5,050
Mass. Maritime Academy	\$2,530	\$2,684	\$2,886	\$3,098	\$3,366	\$4,100	\$4,668	\$4,978	\$5,125	\$5,300
Salem	\$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	\$6,150-9,350
Westfield	\$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	\$4,800-7,100
Worcester	\$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	\$6,580-7,800

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>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>	<u>2012</u>
Bridgewater	105%	105%	105%	105%	104%	103%	104%	101%	100%	100%
Fitchburg	95%	99%	100%	100%	102%	104%	103%	105%	104%	100%
Framingham	105%	102%	100%	100%	100%	99%	101%	101%	104%	100%
Mass. College of Art	100%	100%	99%	98%	101%	99%	100%	100%	99%	100%
Mass. College of Liberal Arts	81%	82%	88%	89%	95%	89%	88%	94%	99%	94%
Mass. Maritime Academy	93%	95%	96%	99%	103%	92%	94%	100%	103%	106%
Salem	105%	105%	100%	103%	101%	100%	104%	106%	94%	102%
Westfield	109%	106%	109%	106%	108%	107%	107%	105%	104%	106%
Worcester	100%	101%	96%	97%	101%	100%	102%	102%	100%	103%
State University Average	101%	101%	101%	100%	103%	101%	102%	102%	101%	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, 2012, and have issued our report thereon, dated October 2, 2012. 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

Management of Massachusetts State College Building Authority is responsible for establishing and maintaining effective 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

October 2, 2012