

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, 2013 AND 2012



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MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

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Management's Discussion and Analysis

For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012, 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 facilities, dining commons, parking, athletic, cultural, and other student activity facilities primarily for use by students, staff and their dependents of state colleges. Such facilities may be provided in collaboration with and for joint use by other agencies, boards, commissions, or authorities of the Commonwealth. The Act was amended in 2010 to change the definition of state college to "any of the public institutions of higher education in the state university segment or the community college segment". The state university segment of the public institutions of higher education includes the following institutions: Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State Universities, Massachusetts College of Liberal Arts (MCLA), Massachusetts College of Art and Design (MassArt), and Massachusetts Maritime Academy (Mass Maritime). The community college segment includes the following institutions: Berkshire, Bristol, Bunker Hill, Cape Cod, Greenfield, Holyoke, Massachusetts Bay, Massasoit, Middlesex, Mount Wachusett, North Shore, Northern Essex, Quinsigamond, Roxbury, and Springfield Technical Community Colleges. As of June 30, 2013, the Authority has not financed or managed any project for any of the 15 community colleges.

Pursuant to the Act and a Contract for Financial Assistance, Management and Services between the Commonwealth acting by and through the Board of Higher Education (BHE) (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 15,000 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 4.3 million square feet of space in approximately 96 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 2012/13, the

number of students housed in on-campus housing owned by the Authority was 101% of design occupancy.

The following table shows average annual residence hall occupancy every other year from the 2000/01 through 2012/13 academic years (and includes 2011/12 academic year).

Residence Halls Occupancy Table

Institution	Academic Years							
	<u>2000/01</u>	<u>2002/03</u>	<u>2004/05</u>	<u>2006/07</u>	<u>2008/09</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
Bridgewater	106.0%	105.0%	105.0%	104.2%	104.5%	99.7%	99.6%	98.9%
Fitchburg	78.0%	95.0%	100.0%	101.7%	102.5%	103.8%	100.2%	100.8%
Framingham	93.0%	105.0%	100.0%	99.7%	101.0%	103.9%	99.8%	100.3%
Mass. College of Art & Design	103.0%	100.0%	99.0%	101.4%	99.8%	99.4%	99.6%	99.3%
Mass. College of Liberal Arts	68.0%	81.0%	88.0%	94.7%	87.9%	97.5%	93.8%	91.1%
Mass. Maritime Academy	81.0%	93.0%	96.0%	103.4%	94.3%	102.9%	106.0%	107.9%
Salem	102.0%	105.0%	100.0%	100.6%	104.2%	93.5%	102.3%	106.7%
Westfield	103.0%	109.0%	109.0%	108.3%	107.2%	104.3%	105.8%	101.1%
Worcester	<u>103.0%</u>	<u>100.0%</u>	<u>96.0%</u>	<u>100.6%</u>	<u>102.0%</u>	<u>99.1%</u>	<u>102.5%</u>	<u>101.9%</u>
Average Occupancy	93.0%	101.0%	99.0%	102.5%	101.8%	100.6%	101.4%	101.0%

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 state colleges primarily draw students increased to 7.0% at June 30, 2013 as compared to 6.0% at June 30, 2012. This compares to a national rate of 7.6% in 2013 and 8.2% in 2012.

Historically, in times of economic uncertainty, the state colleges that the Authority serves experience 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 the current environment.

In fiscal year 2013, the Authority issued bonds at historically low rates to generate new money for construction projects. The Authority continued to strive to offer affordable residence options for students. Student rent for academic year 2012/13 on Authority residence facilities compared favorably to both regional private and other public institutions. Authority rents were the sixth lowest compared to 22 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 (deficiency in 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 \$1.0 billion to \$1.2 billion at June 30, 2013, primarily due to an increase in investments to Authority-owned residence halls and an increase in accounts receivable reflecting major renovation and new construction projects on the university-owned student activity facilities. Sources of funds for these projects include bond funds and capital improvement reserve funds.
- Capital assets grew by \$94.6 million due primarily to the continuation, completion, and commencement of major construction projects on Authority-owned residence halls. As of June 30, 2013, the Authority had projects totaling \$134.4 million underway and in process attributable primarily to new residence halls under construction at Bridgewater, Westfield, and Worcester State Universities. The Authority completed projects for each of the nine state universities totaling \$30.9 million. Details of capital assets are provided on pages x - xi.

- Fiscal year 2013 activity also included major renovations and new construction projects on university-owned student activity facilities. Completed student activity facilities projects include mechanical system, roofing and infrastructure upgrades at Hammond Campus Center at Fitchburg State, the reconstruction of a portion of the Kennedy Campus Center and Public Safety Department relocation at MassArt, and the construction of a wellness center and renovations to the Ely Campus Center at Westfield State. Major projects underway include the continuation of interior improvements and upgrades in Hammond Campus Center at Fitchburg State, an upgrade and expansion of the dining areas in the McCarthy Campus Center at Framingham State, upgrades and improvements to the wastewater treatment facility at Mass Maritime, and 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.
- Operating Revenues increased \$3.6 million in fiscal year 2013 from fiscal year 2012 due to increased assessment revenues used to fund debt obligations, Authority operations, and deposits to capital reserves.
- In December 2012, the Authority issued \$153.8 million Series 2012C Bonds at a true interest cost of 2.69% to provide new money to finance new residential capacity at Mass Maritime, a new residence hall and dining facility at Worcester State University, improvements to student activity facilities at Bridgewater, Fitchburg, Framingham and Worcester State Universities, and MCLA and Mass Maritime and renewal and adaption of residence halls at Bridgewater, Fitchburg and Westfield State Universities and Mass Maritime.

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 Position

	Fiscal year ended June 30			
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Current assets	\$ 106,897,415	\$ 119,521,033	\$ (12,623,618)	(10.6%)
Capital assets, net	751,957,559	657,341,390	94,616,169	14.4%
Other noncurrent assets	<u>329,714,958</u>	<u>280,598,687</u>	<u>49,116,271</u>	17.5%
Total assets	<u>1,188,569,932</u>	<u>1,057,461,110</u>	<u>131,108,822</u>	12.4%
Deferred outflows of resources	<u>30,695,287</u>	<u>32,352,432</u>	<u>(1,657,145)</u>	(5.1%)
Current liabilities	94,183,457	93,724,420	459,037	0.5%
Noncurrent liabilities	<u>1,147,325,860</u>	<u>1,011,911,462</u>	<u>135,414,398</u>	13.4%
Total liabilities	<u>1,241,509,317</u>	<u>1,105,635,882</u>	<u>135,873,435</u>	12.3%
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	0.0%
Net position:				
Net investment in capital assets	405,186	1,380,597	(975,411)	70.7%
Restricted	2,231,469	2,415,383	(183,914)	(7.6%)
Unrestricted	<u>(24,880,753)</u>	<u>(19,618,320)</u>	<u>(5,262,433)</u>	26.8%
Deficiency in net position	<u>\$ (22,244,098)</u>	<u>\$ (15,822,340)</u>	<u>\$ (6,421,758)</u>	(40.6%)

- Total assets at June 30, 2013 increased 12.4% when compared to total assets at June 30, 2012. This primarily reflects continued additions to capital assets and increased receivables for the university-owned portions of the Series 2012C Bond issue. Cash and cash equivalents increased by \$15.0 million as a result of proceeds of the Series 2012A and 2012C Bonds held as cash offset by continued spending of other project funds. Investments decreased by \$30.4 million as a result of purchases and maturities of investments in the Series 2012A and 2012C Bond funds along with unrealized losses on market valuations. The maturities of such investments were scheduled to meet the projected spending schedules of the residence halls under construction at Bridgewater and Westfield State Universities. Accounts receivable increased by \$51.2 million as a result of the portion of Series 2012C Bonds issued to fund university-owned projects. The increase to accounts receivable was net of a transfer of a \$1.4 million Authority-owned capital asset at MCLA to the Commonwealth, acting by and through the Division of Capital Asset Management.
- Reserves for capital improvements, multi-purpose and operating purposes as of June 30, 2013 were \$27.8 million compared to \$24.1 million as of June 30, 2012. Debt service reserve funds totaled \$79.9 as of June 30, 2013 compared to \$83.2 million as of June 30, 2012, such decrease reflecting unrealized losses 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 x - xi.

- Total liabilities at June 30, 2013 increased 12.3% as compared to total liabilities at June 30, 2012, due primarily to an increase in bonds payable and accrued accounts payable. Bonds payable increased to \$1.2 billion at June 30, 2013 from \$1.0 billion at June 30, 2012 as a result of the issuance of Series 2012C Bonds offset by the payment of principal on outstanding bonds.
- 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 pages xi - xii.
- 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, 2013 was \$6.4 million more than the deficiency at June 30, 2012, primarily reflecting an increase in unrealized losses on investments of \$4.5 million. Pursuant to the Authority's investment policy, the Authority invests in highly rated securities with the intent to preserve the principal investment. These investments are subject to fluctuations in market value from year to year, but the Authority's intent is to hold these investments to maturity for use in paying debt obligations. 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, 2013 excluding depreciation was an increase in net position of \$23.5 million.

Statements of Revenues, Expenses and Changes in Net Position

Authority revenue is primarily derived from assessments of state university residence hall rents and student activity fees pursuant to the Contract, in which the BHE commits the state universities to meet the statutory and financial obligations related to the projects. 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.

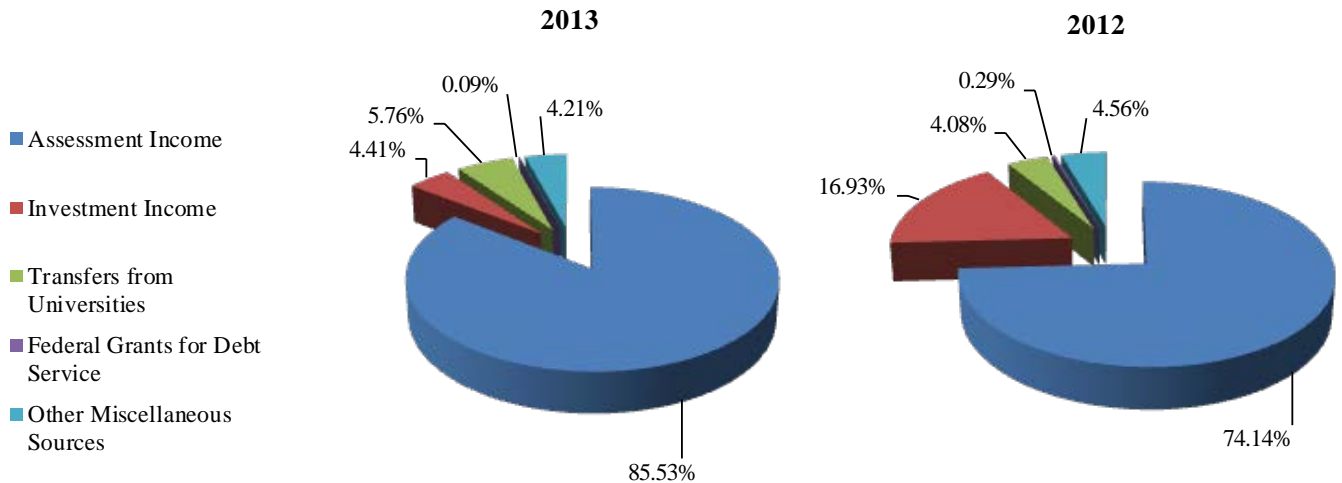
Comparison of Operating and Non-Operating Revenues and Expenses

	Fiscal year ended June 30			
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Total operating revenues	\$ 59,688,197	\$ 56,084,274	\$ 3,603,923	6.4%
Total operating expenses	<u>32,672,238</u>	<u>31,119,276</u>	<u>1,552,962</u>	5.0%
Operating income	27,015,959	24,964,998	2,050,961	8.2%
Nonoperating expenses, net	<u>(33,437,717)</u>	<u>(21,326,213)</u>	<u>(12,111,504)</u>	56.8%
Increase (decrease) in net position	(6,421,758)	3,638,785	(10,060,543)	(276.5%)
Net position - beginning of the year	<u>(15,822,340)</u>	<u>(19,461,125)</u>	<u>3,638,785</u>	18.7%
Net position - end of the year	<u>\$ (22,244,098)</u>	<u>\$ (15,822,340)</u>	<u>\$ (6,421,758)</u>	(40.6%)

- Operating revenues grew from \$56.1 million at June 30, 2012 to \$59.7 million at June 30, 2013, due primarily to a \$3.6 million increase in assessment revenues.
- Other revenue sources include investment income on project funds and reserves and transfers from state universities in support of capital projects, a Federal grant for debt service ending in fiscal year 2013, and interest subsidy from the U.S. Treasury relating to the Authority's outstanding Build America Bonds. The 56.8% increase in non-operating expenses primarily reflects unrealized losses on investments as of June 30, 2013 and increased interest expense on outstanding bonds.

The charts below compare total revenue for fiscal year 2013 with fiscal year 2012.

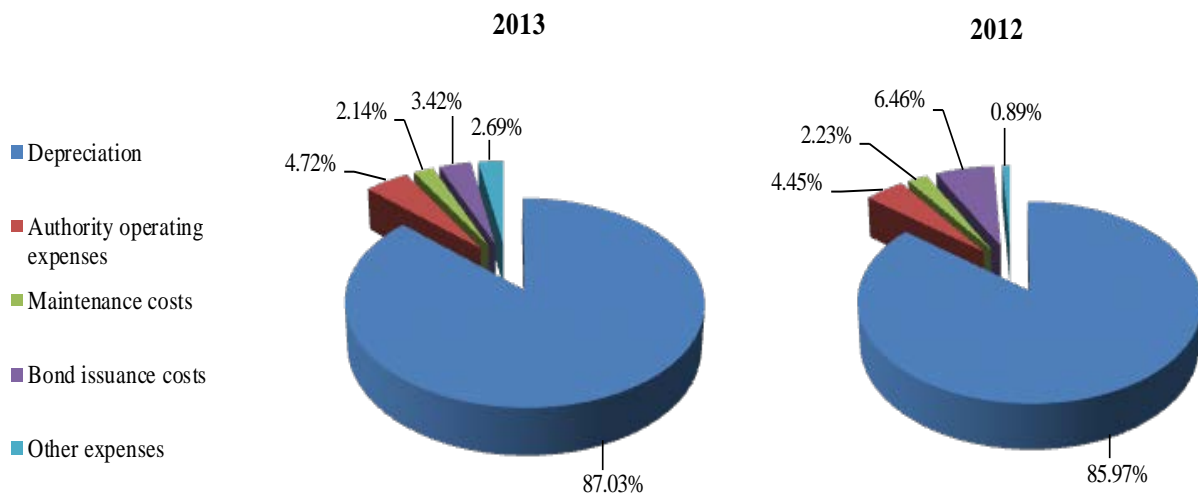
Summary of Total Revenue



- Operating expenses include depreciation, maintenance and renewal and adaption to capital assets and operating expenses associated with Authority operations.
- In fiscal year 2013, depreciation expense was \$29.9 million as compared to \$28.6 million in fiscal year 2012. The increase in depreciation expense of \$1.3 million is due to the additional depreciable assets brought into use in fiscal year 2013, including major improvements and renewal and adaption at several campuses.
- Approximately 7% of fiscal year 2013 operating expenses were for maintenance costs and Authority operating expenses, including property and liability insurance premium expenses. The Authority's operating expenses increased \$140,300 from fiscal year 2013 compared to 2012, due primarily to an increase in general legal services.
- 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 8.9% in fiscal year 2013 compared to 2012 due primarily to increased interest payments associated with the Series 2009B and 2012A Bonds offset by increased premium amortization associated with the Series 2012A, 2012B, and 2012C Bonds. Net investment income decreased from \$12.6 million in fiscal year 2012 to \$3.0 million in fiscal year 2013, due to unrealized losses on investments as of June 30, 2013.
- Net non-operating expenses at June 30, 2013 were \$33.4 million compared to \$21.3 million at June 30, 2012. The change results primarily from decreased net investment income, a capital asset transfer to the Commonwealth, and increased interest expense on debt offset by decreased bond issuance expense and increased transfers from state universities.

The charts below compare total expenses, excluding interest expense, for fiscal year 2013 with fiscal year 2012.

Summary of Expenses (excluding Interest Expense)



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

	<u>Fiscal year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Cash received from operations	\$ 59,587,821	\$ 56,084,385
Cash expended for operations	<u>(3,390,939)</u>	<u>(2,471,344)</u>
Net cash provided by operations	56,196,882	53,613,041
Net cash provided by (used) in capital and related financing activities	(70,229,142)	8,580,151
Net cash provided by (used in) investing activities	<u>29,014,317</u>	<u>(99,240,088)</u>
Net increase (decrease) in cash and cash equivalents	14,982,057	(37,046,896)
Cash and cash equivalents, beginning of year	<u>84,505,415</u>	<u>121,552,311</u>
Cash and cash equivalents, end of year	<u>\$ 99,487,472</u>	<u>\$ 84,505,415</u>

- Cash and cash equivalents were \$99.5 million at June 30, 2013 compared to \$84.5 million at June 30, 2012. This \$15.0 million increase is due primarily to receipt of proceeds of the 2012C Bonds, the net cash provided by the purchase and maturity of certain project fund investments, and funds held for the benefit of the state universities offset by payments for capital assets of the Authority and state universities.
- Net cash provided by operations exceeded the cash expended for operations. The \$3.7 million increase in cash received from assessments was a result of higher residence facility revenue. The increase in cash expended for operations is primarily due to insurance premiums for fiscal year 2014 prepaid in 2013, and increased payments for miscellaneous expenses.
- Net cash used in capital and related financing activities was \$70.2 million in fiscal year 2013 compared to net cash provided by capital and related financing activities of \$8.6 million in fiscal year 2012. The net change between years is primarily attributable to increased payments for both Authority and University-owned assets which increased by \$26.9 and \$36.6 million, respectively.
- Net cash provided by investing activities was \$29.0 million in fiscal year 2013 compared to net cash used in investing activities of \$99.2 million in fiscal year 2012 due primarily to the maturity of investments for the Series 2012A Bonds proceeds offset in part by the purchase of investments with the Series 2012C Bonds proceeds.

Capital Assets

The Authority's investment in capital assets as of June 30, 2013 was \$752.0 million net of accumulated depreciation compared to \$657.3 million as of June 30, 2012. Capital assets include land, buildings and improvements thereon, furnishings and equipment. Capital assets comprised approximately 63% of total assets at June 30, 2013 compared to approximately 62% at June 30, 2012. During the years ended June 30, 2013 and 2012, the Authority had net additions to capital assets of \$124.5 million and \$90.9 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 \$134.4 million at June 30, 2013 compared to \$43.0 million at June 30, 2012. The \$91.4 million increase in construction in progress was due primarily to the nearly completed new residence halls at Bridgewater and Westfield State Universities with additions at June 30, 2013 of \$59.3 million and \$48.1 million, respectively.
- The buildings and improvements balance was \$849.9 million at June 30, 2013 compared to \$819.0 million at June 30, 2012. The \$30.9 million increase in buildings and improvements was due primarily to the completion and change in classification of several repair and renewal projects from construction in progress during fiscal year 2013. These projects included improvements to bathrooms, student rooms, and waterproofing totaling \$2.1 million in Shea Durgin Hall and roof replacement at Miles DiNardo Hall totaling \$1.34 million both at Bridgewater State University. Major building component and system upgrades totaling \$5.1 million were completed in Aubuchon Hall at Fitchburg State University. Conversions to academic and administrative functions, and relocation of a Planetarium totaling \$3.9 million were completed in O'Connor Hall at Framingham State University. The addition of 27 new student beds, improvements to lounges and other public space, and improvements to accessibility totaling \$7.4 million were completed in Hoosac Hall at the MCLA. Bathroom improvements totaling \$1.6 million were completed in Company 5 at Mass Maritime. In addition, exterior upgrades and new security access totaling \$3.7 million were completed in the Apartments at Westfield State University. In addition, capital improvement reserves were used to complete a \$633,000 HVAC project at Dowden Hall and \$895,000 boilers and lighting projects at Peabody Hall at Worcester and Salem State Universities, respectively.
- The furnishings and equipment balance was \$42.7 million at June 30, 2013 compared to \$40.8 million at June 30, 2012. The \$1.9 million increase in furnishings and equipment was attributable to purchases across the system.
- Land was valued at \$4.2 million at June 30, 2013 compared to \$3.8 million at June 30, 2012 reflecting the purchase of two parcels in Framingham. These purchases are part of a larger on-going project to purchase and develop surface parking at Framingham State University.

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, 2013 and 2012, respectively, such commitments were approximately \$69.5 million and \$43.0 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 facilities, dining commons, parking, athletic, cultural, and other student activity facilities at the state colleges. 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 college 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 colleges, 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, 2013, the Authority had \$1.1 billion in par outstanding bonds compared to \$968.4 million at June 30, 2012. These bond obligations also carried unamortized premium balances of \$68.3 and \$63.0 million, respectively as of June 30, 2013 and 2012. The \$137.7 million increase is attributable to the issuance of \$153.8 million in Series 2012C Bonds and offset by principal payments made during the fiscal year. 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. In fiscal year 2013, a portion of the Authority's interest rate subsidy was reduced due to sequestration. The balance of the outstanding bonds is tax-exempt. \$22.0 million of the par outstanding bonds are guaranteed by the Commonwealth with a final maturity of 2016, of which \$6.8 million have a senior lien to the remaining \$1.1 billion 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

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xii 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 operational, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The statistical section contained on pages 30 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, 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, 2013. 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* in considering the Authority's internal control over financial reporting and compliance.

Ercolini & Company LLP

Boston, Massachusetts
September 24, 2013

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

STATEMENTS OF NET POSITION (DEFICIENCY IN NET POSITION)

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents	\$ 38,480,098	\$ 46,999,799
Restricted cash and cash equivalents	54,732,239	32,622,951
Restricted investments, including amounts held by bond trustee	6,082,762	35,375,185
Accounts receivable, net	7,018,923	4,523,098
Prepaid expenses	<u>583,393</u>	<u>-</u>
Total current assets	<u>106,897,415</u>	<u>119,521,033</u>
<u>Noncurrent assets</u>		
Restricted cash and cash equivalents	6,275,135	4,882,665
Restricted investments, including amounts held by bond trustee	166,926,046	168,070,724
Accounts receivable, net	156,313,777	107,645,298
Capital assets, net	751,957,559	657,341,390
Deposit	<u>200,000</u>	<u>-</u>
Total noncurrent assets	<u>1,081,672,517</u>	<u>937,940,077</u>
Total assets	<u>1,188,569,932</u>	<u>1,057,461,110</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred losses on refunding of debt	<u>30,695,287</u>	<u>32,352,432</u>
Total deferred outflows of resources	<u>30,695,287</u>	<u>32,352,432</u>
LIABILITIES		
<u>Current liabilities</u>		
Accounts payable and accrued liabilities	30,021,274	27,525,872
Accrued payroll	57,557	53,111
Interagency payables	35,790,287	41,155,315
Compensated absences	87,748	85,711
Current portion of bonds payable	<u>28,226,591</u>	<u>24,904,411</u>
Total current liabilities	<u>94,183,457</u>	<u>93,724,420</u>
<u>Noncurrent liabilities</u>		
Accounts payable and accrued liabilities	260,571	97,005
Compensated absences	89,897	78,314
Interagency payables	6,112,469	5,269,093
Bonds payable, net of current portion	<u>1,140,862,923</u>	<u>1,006,467,050</u>
Total noncurrent liabilities	<u>1,147,325,860</u>	<u>1,011,911,462</u>
Total liabilities	<u>1,241,509,317</u>	<u>1,105,635,882</u>
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources	<u>-</u>	<u>-</u>
NET POSITION (DEFICIENCY IN NET POSITION)		
Net investment in capital assets	405,186	1,380,597
Restricted:		
Expendable:		
Capital projects	2,231,469	2,415,383
Unrestricted	<u>(24,880,753)</u>	<u>(19,618,320)</u>
Total net position (deficiency in net position)	<u>(\$ 22,244,098)</u>	<u>(\$ 15,822,340)</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Income from contracts for financial assistance, management, and services	\$ 59,081,652	\$ 55,373,353
Federal grants for debt service	58,414	211,886
Other miscellaneous revenues	<u>548,131</u>	<u>499,035</u>
Total operating revenues	<u>59,688,197</u>	<u>56,084,274</u>
<u>OPERATING EXPENSES</u>		
Maintenance costs	735,970	740,425
Authority operating expenses	1,621,486	1,481,186
Depreciation	29,888,212	28,603,149
Other expenses	<u>426,570</u>	<u>294,516</u>
Total operating expenses	<u>32,672,238</u>	<u>31,119,276</u>
Operating income	<u>27,015,959</u>	<u>24,964,998</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Net investment income	3,045,359	12,643,482
Interest expense	(41,151,521)	(37,776,890)
Bond issuance costs	(1,175,271)	(2,150,595)
Net transfers (to)/from State Universities	3,981,309	3,050,414
Net transfers (to)/from DCAM	(497,294)	-
Build America Bonds interest subsidy	2,302,924	2,360,991
Miscellaneous nonoperating revenue	<u>56,777</u>	<u>546,385</u>
Net nonoperating revenues (expenses)	<u>(33,437,717)</u>	<u>(21,326,213)</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>	<u>(6,421,758)</u>	<u>3,638,785</u>
<u>NET POSITION (DEFICIENCY IN NET POSITION), BEGINNING OF YEAR</u>	<u>(15,822,340)</u>	<u>(19,461,125)</u>
<u>NET POSITION (DEFICIENCY IN NET POSITION), END OF YEAR</u>	<u>(\$ 22,244,098)</u>	<u>(\$ 15,822,340)</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts for financial assistance, management, and services	\$ 59,081,652	\$ 55,373,353
Federal grants for debt service	58,414	211,886
Other miscellaneous receipts	447,755	499,146
Payments for maintenance costs	(1,360,949)	(706,154)
Payments for operating expenses	(894,986)	(700,844)
Payments to employees	(708,434)	(769,830)
Payments for other expenses	(426,570)	(294,516)
Net cash provided by (used in) operating activities	<u>56,196,882</u>	<u>53,613,041</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	162,774,761	340,279,050
Cash paid to bond trustee related to advance refundings	-	(175,964,681)
Build America Bonds interest subsidy	2,302,924	2,360,991
Payments of bond issuance costs	(1,175,271)	(2,150,595)
Payments for capital assets	(116,854,913)	(89,912,459)
Miscellaneous receipts	56,777	546,385
Release from (payment to) escrow for deposit on capital assets	(200,000)	-
Collections of debt service receivables	8,417,939	6,139,842
Transfer of funds from State Universities	3,981,309	3,050,414
Payments from funds held for others	(68,409,449)	(31,763,491)
Funds received and held for others	8,967,539	14,005,758
Principal paid on capital debt	(21,450,000)	(19,400,000)
Interest paid on capital debt	(48,640,758)	(38,611,063)
Net cash provided by (used in) capital and related financing activities	<u>(70,229,142)</u>	<u>8,580,151</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	230,397,641	133,423,710
Purchases of investments	(204,509,321)	(236,378,456)
Interest on investments	3,125,997	3,714,658
Net cash provided by (used in) investing activities	<u>29,014,317</u>	<u>(99,240,088)</u>
Net increase (decrease) in cash and cash equivalents	14,982,057	(37,046,896)
Cash and cash equivalents, beginning of year	<u>84,505,415</u>	<u>121,552,311</u>
Cash and cash equivalents, end of year	<u>\$ 99,487,472</u>	<u>\$ 84,505,415</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 27,015,959	\$ 24,964,998
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	29,888,212	28,603,149
Changes in assets and liabilities:		
Prepaid expenses	(583,393)	-
Accounts payable and accrued liabilities	(141,962)	34,382
Accrued payroll and compensated absences	18,066	10,512
Net cash provided by (used in) operating activities	<u>\$ 56,196,882</u>	<u>\$ 53,613,041</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, 2013 AND 2012

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 or the Commonwealth), as amended (the Act), as a body politic and corporate and a public instrumentality for the general purpose of providing dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth of Massachusetts and their dependents. Such facilities may be provided in collaboration with and for joint use by, other agencies, boards, commissions, or authorities of the Commonwealth. The state 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 a Contract 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 Act was amended in 2010 to change the definition of state college to “any of the public institutions of higher education in the state university segment or the community college segment.” As of June 30, 2013, the Authority has not financed nor managed any project for any of the 15 community colleges.

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, 2013 AND 2012

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, which are 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 use is subject to externally imposed conditions that the Authority must maintain them in perpetuity.

- **Restricted - expendable**

Net position which 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 Act, 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, 2013 AND 2012

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, 2013 and 2012.

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, 2013 and 2012, 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 14,860 students in 2013 and 14,340 students in 2012, 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, 2013 AND 2012

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. During fiscal 2013 and 2012, the Authority incurred \$1,175,271 and \$2,150,595, respectively, of bond issuance costs.

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 bonds. 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 2013 and 2012, total interest costs were accounted for as follows:

	<u>2013</u>	<u>2012</u>
Total interest incurred	\$ 48,844,879	\$ 44,888,868
Amortization of bond premium	(3,606,708)	(2,422,331)
Amortization of deferred loss	1,657,145	1,006,582
Less: capitalized portion of interest incurred	<u>(5,743,795)</u>	<u>(5,696,229)</u>
Interest expense	<u>\$ 41,151,521</u>	<u>\$ 37,776,890</u>
Capitalized portion of interest incurred	\$ 5,743,795	\$ 5,696,229
Less: interest income on unused funds from tax-exempt borrowings	<u>(199,114)</u>	<u>(792,793)</u>
Net capitalized interest	<u>\$ 5,544,681</u>	<u>\$ 4,903,436</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

1. Summary of significant accounting policies - continued

Fringe benefits

The Authority participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, and pension for which it is billed by the Commonwealth. 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 these accrued balances.

Tax status

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

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Recent accounting pronouncements

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 which is to improve accounting and financial reporting by state and local governments for pensions by requiring 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

1. Summary of significant accounting policies - continued

Recent accounting pronouncements - continued

Recent accounting pronouncements not yet adopted - continued

In April, 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the primary objective of which is to improve the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Statement enhances comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees and enhances the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also augments the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The requirements of GASB Statement No. 70 are effective for financial statements for fiscal years beginning after June 15, 2013 with earlier application encouraged. The Authority does not believe that its adoption of this statement in fiscal 2014 will have a material impact on the Authority's financial statements.

2. Cash and cash equivalents, and investments

Credit risk

Credit risk includes the risk that securities that the Authority has invested in will default.

The Authority's Trust Agreement stipulates that only certain highly rated securities are eligible investments. The Authority has a formal investment policy consistent with the Trust Agreement in which permissible investment obligations include: (i) certain direct or agency obligations which are unconditionally guaranteed by the United States of America; (ii) certain interest bearing instruments issued by a banking institution with a long-term unsecured debt rating in one of the two highest long-term rating categories, (iii) commercial paper rated in the highest rating category; and (iv) 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 has two primary banking relationships: RBS Citizens, N.A. (Citizens) is the Authority's primary depository bank and U.S. Bank National Association (U.S. Bank) is the Authority's trustee bank and holds all bond and related funds pursuant to the Trust Agreement. The Authority is party to a third party custodian agreement in which Citizens provides the Authority with collateral equal to the Authority's uninsured deposits and the custodian provides safekeeping services and holds the collateral on behalf of and

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

2. Cash and cash equivalents, and investments - continued

Custodial credit risk - continued

for the benefit of the Authority. Pursuant to the agreement, eligible collateral is limited to only those obligations which are guaranteed as to the payment of principal and interest by the United States of America. All of the Authority's bank balances held by Citizens of \$55,117,922 and \$59,331,897 as of June 30, 2013 and 2012, respectively, were secured and fully collateralized pursuant to this agreement.

The Authority does not have a formal deposit policy for custodial credit risk with U.S. Bank. As of June 30, 2013 and 2012, respectively, the fair market value of the Authority's cash equivalent balances with U.S. Bank of \$58,381,080 and \$41,163,784, respectively, were exposed to custodial credit risk because they were uninsured and uncollateralized. The funds at U.S. Bank were invested in Fidelity Institutional Money Market Government Fund 57 (the Fund 57) which invests primarily in U.S. government securities, repurchase agreements, and may invest in reverse repurchase agreements guaranteed by U.S. Treasury obligations. The Fund 57 seeks to preserve the investment value of \$1 per share and the investment securities maintain a weighted average maturity of 60 days or less.

The Authority's investments are held at U.S. Bank and Citizens and are represented by the following at June 30, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Agencies	\$ 61,604,762	\$ 62,939,792	\$ 77,854,937	\$ 79,970,208
Commercial paper	65,464,241	65,515,978	90,216,262	90,338,599
State taxable bonds	17,475,000	19,404,207	17,475,000	21,952,160
U.S. Treasuries	<u>24,234,551</u>	<u>25,148,831</u>	<u>9,119,369</u>	<u>11,184,942</u>
	<u>\$ 168,778,554</u>	<u>\$ 173,008,808</u>	<u>\$ 194,665,568</u>	<u>\$ 203,445,909</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

2. Cash and cash equivalents, and investments - continued

Custodial credit risk - continued

At June 30, 2013, 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	\$ 4,961,485	\$ 4,550,132	\$ 411,353	\$ -	\$ -	Aaa
Fannie Mae Corporation (FNMA) discount notes	17,642,468	17,642,468	-	-	-	Aaa
Federal Home Loan Banks (FHLB) U.S. Govt. Issues	11,741,672	6,964,829	4,776,843	-	-	Aaa
Federal Home Loan Banks (FHLB) discount notes	8,088,765	8,088,765	-	-	-	Aaa
Federal Home Loan Mortgage Corp. (FHLMC) U.S. Govt. Issues	14,555,142	-	2,753,701	11,801,441	-	Aaa
Federal Farm Credit Banks (FFCB) U.S. Govt. Issues	5,950,260	-	5,950,260	-	-	Aaa
Commercial Paper (GE Cap. Corp.)	65,515,978	65,515,978	-	-	-	P-1 Aaa -
Massachusetts ST Bonds	19,404,207	-	-	1,445,308	17,958,899	Aa2
U.S. Government Securities - Treasury Notes	15,927,104	15,506,439	420,665	-	-	Aaa
U.S. Government Securities - Treasury Bonds	<u>9,221,727</u>	<u>1,400,000</u>	<u>-</u>	<u>-</u>	<u>7,821,727</u>	Aaa
Total	<u>\$173,008,808</u>	<u>\$ 119,668,611</u>	<u>\$ 14,312,822</u>	<u>\$ 13,246,749</u>	<u>\$ 25,780,626</u>	

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 certain reserve funds.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

3. Accounts receivable

Accounts receivable include the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Debt service receivables	\$ 162,243,065	\$ 111,188,170
Interest receivable on investments	696,137	586,728
Build America Bonds interest subsidy receivable	<u>393,498</u>	<u>393,498</u>
	<u>\$ 163,332,700</u>	<u>\$ 112,168,396</u>

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

The Commonwealth's 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 2013, accounts receivable, net of unearned interest income, totaling \$54,914,986 were recorded in connection with projects at six State Universities and a capital asset transfer to the Commonwealth (see Note 4). During fiscal 2012, accounts receivable, net of unearned interest income, totaling \$35,991,393 were recorded in connection with projects at five State Universities. A corresponding Interagency payable was also recorded by the Authority in both years as discussed further in Note 6.

Additionally, during 2012, the Authority made a miscellaneous adjustment of \$179,563, to accounts receivable and unearned income that reflects interest savings due to the bond refunding in that year.

The components of the Authority's investment in these State University-owned projects as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Total payments to be received	\$ 225,335,835	\$ 161,358,745
Less: unearned income	<u>(63,092,770)</u>	<u>(50,170,575)</u>
Net investment in State University-owned projects	<u>\$ 162,243,065</u>	<u>\$ 111,188,170</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

3. Accounts receivable - continued

The following table sets forth the total payments to be received under these agreements as of June 30, 2013:

Year ending June 30:	
2014	\$ 11,879,706
2015	11,860,891
2016	11,866,868
2017	11,861,114
2018	11,786,187
2019 - 2023	59,283,564
2024 - 2028	59,761,124
2029 - 2033	35,635,628
2034 - 2038	8,247,728
2039 - 2042	<u>3,153,025</u>
 Total	 <u>\$ 225,335,835</u>

4. Capital assets

Capital assets activity for the years ended June 30, 2013 and 2012 are as follows:

	2013			
	Totals		Reclassifications	
	June 30, 2012	Additions	And Reductions	Totals
				June 30, 2013
Land	\$ 3,832,388	\$ 390,840	\$ -	\$ 4,223,228
Construction in progress	<u>43,016,119</u>	<u>119,412,874</u>	<u>(28,065,186)</u>	<u>134,363,807</u>
Total not being depreciated	<u>46,848,507</u>	<u>119,803,714</u>	<u>(28,065,186)</u>	<u>138,587,035</u>
Buildings and improvements	819,047,784	4,280,336	26,584,875	849,912,995
Furnishings and equipment	<u>40,803,883</u>	<u>1,900,642</u>	<u>-</u>	<u>42,704,525</u>
Total depreciable assets	<u>859,851,667</u>	<u>6,180,978</u>	<u>26,584,875</u>	<u>892,617,520</u>
Total capital assets	<u>906,700,174</u>	<u>125,984,692</u>	<u>(1,480,311)</u>	<u>1,031,204,555</u>
Less accumulated depreciation:				
Buildings and improvements	(233,138,665)	(27,464,383)	-	(260,603,048)
Furnishings and equipment	<u>(16,220,119)</u>	<u>(2,423,829)</u>	<u>-</u>	<u>(18,643,948)</u>
Total accumulated depreciation	<u>(249,358,784)</u>	<u>(29,888,212)</u>	<u>-</u>	<u>(279,246,996)</u>
Capital assets, net	<u>\$ 657,341,390</u>	<u>\$ 96,096,480</u>	<u>\$ (1,480,311)</u>	<u>\$ 751,957,559</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

4. Capital assets - continued

	2012			
	Totals <u>June 30, 2011</u>	<u>Additions</u>	Reclassifications and <u>Reductions</u>	Totals <u>June 30, 2012</u>
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>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>906,700,174</u>
Less accumulated depreciation:				
Buildings and improvements	(206,950,855)	(26,187,810)	-	(233,138,665)
Furnishings and equipment	(<u>13,804,780</u>)	(<u>2,415,339</u>)	-	(<u>16,220,119</u>)
Total accumulated depreciation	(<u>220,755,635</u>)	(<u>28,603,149</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>

During 2013, the Authority transferred the real estate, personal property and improvements located at Ashland Street in North Adams, MA to The Commonwealth of Massachusetts, acting through its Division of Capital Asset Management (DCAM). This capital asset, with a cost basis of \$1,480,311 was acquired and renovated by the Authority with the intended use of an administrative office building for the Massachusetts College of Liberal Arts. In accordance with the Authority's accounting policy for capital and renovation projects for the State Universities with ownership of the underlying asset, an accounts receivable from Massachusetts College of Liberal Arts was recorded in a net amount of \$1,024,485 as well as an interagency payable to record the remaining funds held by the Authority on behalf of the University in the amount of \$41,468. A noncash transfer of \$497,294 was recognized upon the transfer of the capital asset.

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, 2013 and 2012.

As of June 30, 2013 and 2012, capital assets with a cost of approximately \$63,800,000 and \$46,700,000, 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 \$69,500,000 and \$43,000,000, respectively, as of June 30, 2013 and 2012.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Capital assets and construction payables	\$ 15,221,483	\$ 11,636,385
Accrued bond interest payable	10,344,495	10,303,940
Arbitrage payable - long term	260,571	97,005
Contractor payables for State University owned assets	4,452,507	5,440,796
Lease deposit (see Note 14)	-	100,376
Authority operating and maintenance expenses	<u>2,789</u>	<u>44,375</u>
	<u>\$ 30,281,845</u>	<u>\$ 27,622,877</u>

6. Interagency payables

Under the provisions of the 2012C, 2012A, 2010A, 2010B, 2009C, 2009B, 2009A, 2008A, 2006A, 2005A and 2003A Trust Agreements (see Note 7), a portion of the bond proceeds, together with certain earnings thereon, are being or have been used to finance the costs of capital projects for certain of the State Universities on State University-owned property. The State Universities are required to pay to the Authority the amount necessary to pay the applicable portion of the bond issuance costs and bond principal and interest payments when they become due. The Authority has recorded accounts receivable from the State Universities reflecting its net investment in these capital projects as discussed further in Note 3. The unspent bond proceeds for the costs of these projects and related bond amounts are included in the Authority's financial statements under restricted cash and cash equivalents, and restricted investments.

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

As of June 30, 2013 and 2012, the Authority has an aggregate liability for Interagency payables of \$41,902,756 and \$46,424,408, respectively.

7. Bonds payable

The Authority issues debt to finance the design and construction of new facilities, major renovations and capital repairs for its projects at state colleges, pursuant to the Act. The Authority's outstanding debt is secured by either (i) a guarantee by the Commonwealth of Massachusetts to pay principal and interest, or (ii) revenues received by the Authority from state colleges relating to Authority projects and other pledged funds. Interest on the Authority's debt is payable on May 1 and November 1 and principal is due annually on May 1. The Authority's outstanding debt is rated Aa2 and AA by Moody's and Standard & Poors, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

7. Bonds payable - continued:

The following table summarizes the Authority's outstanding debt as of June 30, 2013:

	Issue Date	Par Amount	Interest Rates (%)	Due May 1,	Effective Interest Rates (%)*	Par Amount Outstanding	Unamortized Premiums	Total Bonds Payable
Commonwealth-Guaranteed Bonds								
Refunding Series 1994A (first lien)	November 9, 1994	\$ 89,315,000	4.0 - 7.5	1995 - 2016	7.50	\$ 6,824,999	\$ 226,037	\$ 7,051,036
Refunding Series 2004B	February 19, 2004	<u>15,125,000</u>	6.4 - 7.0	2015 - 2016	6.71	<u>15,125,000</u>	<u>3,021,676</u>	<u>18,146,676</u>
Total Commonwealth-Guaranteed Bonds		<u>104,440,000</u>				<u>21,949,999</u>	<u>3,247,713</u>	<u>25,197,712</u>
Project Revenue Bonds								
Refunding Series 2003B	March 5, 2003	117,513,022	2.0 - 5.5	2003 - 2039	3.57	103,408,022	5,701,042	109,109,064
Series 2004A	January 22, 2004	61,505,000	2.0 - 5.0	2005 - 2043	4.33	1,865,000	317,266	2,182,266
Series 2005A	March 23, 2005	36,875,000	3.0 - 5.0	2006 - 2017	4.00	6,920,000	94,098	7,014,098
Series 2006A	March 8, 2006	98,025,000	3.5 - 5.0	2007 - 2041	4.81	42,010,000	1,949,171	43,959,171
Series 2008A	March 12, 2008	95,670,000	3.0 - 5.0	2009 - 2038	4.90	90,625,000	2,068,649	92,693,649
Series 2009A	January 28, 2009	128,570,000	3.0 - 5.75	2010 - 2049	5.17	123,565,000	495,319	124,060,319
Series 2009B	December 22, 2009	82,085,000	2.0 - 5.0	2011 - 2040	4.77	79,110,000	3,213,972	82,323,972
Series 2009C, Build America Bonds	December 22, 2009	66,410,000	4.58 - 5.93	2018 - 2040	5.74	66,410,000	-	66,410,000
Series 2010A	December 17, 2010	12,120,000	3.0 - 5.0	2012 - 2018	4.24	8,950,000	720,255	9,670,255
Series 2010B, Build America Bonds	December 17, 2010	47,880,000	4.89 - 6.54	2020 - 2040	6.12	47,880,000	-	47,880,000
Refunding Series 2011A	June 8, 2011	51,610,000	2.0 - 5.0	2012 - 2025	4.96	51,175,000	6,712,207	57,887,207
Series 2012A	January 4, 2012	154,345,000	3.0 - 5.0	2013 - 2041	4.15	153,825,000	12,651,806	166,476,806
Refunding Series 2012B	March 1, 2012	149,275,000	3.0 - 5.0	2018 - 2043	4.69	149,275,000	22,327,531	171,602,531
Series 2012C	December 20, 2012	<u>153,840,000</u>	2.0 - 5.0	2014 - 2042	3.42	<u>153,840,000</u>	<u>8,782,464</u>	<u>162,622,464</u>
Total Project Revenue Bonds		<u>1,255,723,022</u>				<u>1,078,858,022</u>	<u>65,033,780</u>	<u>1,143,891,802</u>
Total Commonwealth-Guaranteed & Project Revenue Bonds		<u>\$ 1,360,163,022</u>				<u>\$ 1,100,808,021</u>	<u>\$ 68,281,493</u>	<u>\$ 1,169,089,514</u>

* Effective Interest Rates are calculated by dividing total interest paid during the year by the average outstanding balance of bonds payable.

The following table summarizes the Authority's outstanding debt as of June 30, 2012:

	Issue Date	Par Amount	Interest Rates (%)	Due May 1,	Effective Interest Rates (%)*	Par Amount Outstanding	Unamortized Premiums	Total Bonds Payable
Commonwealth-Guaranteed Bonds								
Refunding Series 1994A (first lien)	November 9, 1994	\$ 89,315,000	4.0 - 7.5	1995 - 2016	7.50	\$ 13,169,999	\$ 452,073	\$ 13,622,072
Refunding Series 2004B	February 19, 2004	<u>15,125,000</u>	6.4 - 7.0	2015 - 2016	6.71	<u>15,125,000</u>	<u>3,125,872</u>	<u>18,250,872</u>
Total Commonwealth-Guaranteed Bonds		<u>104,440,000</u>				<u>28,294,999</u>	<u>3,577,945</u>	<u>31,872,944</u>
Project Revenue Bonds								
Series 2003A	March 5, 2003	105,490,000	2.0 - 5.25	2005 - 2013	4.91	1,945,000	293,751	2,238,751
Refunding Series 2003B	March 5, 2003	117,513,022	2.0 - 5.5	2003 - 2039	3.59	104,888,022	5,921,018	110,809,040
Series 2004A	January 22, 2004	61,505,000	2.0 - 5.0	2005 - 2043	4.83	3,665,000	698,196	4,363,196
Series 2005A	March 23, 2005	36,875,000	3.0 - 5.0	2006 - 2017	4.31	8,480,000	118,631	8,598,631
Series 2006A	March 8, 2006	98,025,000	3.5 - 5.0	2007 - 2041	4.91	44,065,000	2,019,154	46,084,154
Series 2008A	March 12, 2008	95,670,000	3.0 - 5.0	2009 - 2038	4.88	91,875,000	2,151,950	94,026,950
Series 2009A	January 28, 2009	128,570,000	3.0 - 5.75	2010 - 2049	5.15	125,150,000	509,142	125,659,142
Series 2009B	December 22, 2009	82,085,000	2.0 - 5.0	2011 - 2040	4.74	80,410,000	3,333,747	83,743,747
Series 2009C, Build America Bonds	December 22, 2009	66,410,000	4.58 - 5.93	2018 - 2040	5.74	66,410,000	-	66,410,000
Series 2010A	December 17, 2010	12,120,000	3.0 - 5.0	2012 - 2018	4.07	10,560,000	869,245	11,429,245
Series 2010B, Build America Bonds	December 17, 2010	47,880,000	4.89 - 6.54	2020 - 2040	6.12	47,880,000	-	47,880,000
Refunding Series 2011A	June 8, 2011	51,610,000	2.0 - 5.0	2012 - 2025	5.03	51,175,000	7,278,359	58,453,359
Series 2012A	January 4, 2012	154,345,000	3.0 - 5.0	2013 - 2041	4.72	154,345,000	13,106,362	167,451,362
Refunding Series 2012B	March 1, 2012	<u>149,275,000</u>	3.0 - 5.0	2018 - 2043	4.69	<u>149,275,000</u>	<u>23,075,940</u>	<u>172,350,940</u>
Total Project Revenue Bonds		<u>1,207,373,022</u>				<u>940,123,022</u>	<u>59,375,495</u>	<u>999,498,517</u>
Total Commonwealth-Guaranteed & Project Revenue Bonds		<u>\$ 1,311,813,022</u>				<u>\$ 968,418,021</u>	<u>\$ 62,953,440</u>	<u>\$ 1,031,371,461</u>

* Effective Interest Rates are calculated by dividing total interest paid during the year by the average outstanding balance of bonds payable.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

7. Bonds payable - continued

The following table is the amortization schedule for the Authority's long-term debt:

<u>Year Ending June 30:</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2014	\$ 24,825,000	\$ 53,194,735	\$ 78,019,735
2015	29,585,000	50,063,256	79,648,256
2016	33,736,780	50,433,010	84,169,790
2017	31,088,683	49,437,555	80,526,238
2018	35,060,000	45,669,368	80,729,368
2019 - 2023	181,433,158	231,559,036	412,992,194
2024 - 2028	216,534,400	195,707,991	412,242,391
2029 - 2033	197,100,000	112,492,366	309,592,366
2034 - 2038	206,810,000	65,014,902	271,824,902
2039 - 2043	130,890,000	18,093,211	148,983,211
2044 - 2048	11,130,000	2,684,088	13,814,088
2049	<u>2,615,000</u>	<u>147,238</u>	<u>2,762,238</u>
Total	1,100,808,021	<u>\$ 874,496,756</u>	<u>\$ 1,975,304,777</u>
Plus: Unamortized premiums	<u>68,281,493</u>		
	<u>\$ 1,169,089,514</u>		

Defeasance of Debt

From time to time, the Authority issues refunding bonds to defease outstanding bonds. The proceeds of the refunding bonds are placed in irrevocable trusts to provide for all future debt service on the refunded or defeased bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the accompanying financial statements. The differences between the reacquisition prices and net carrying amount of the bonds defeased with refunding debt are reported in the accompanying statements of net position (deficiency in net position) as deferred outflows of resources and charged annually to interest expense over the shorter of the remaining life of the refunded or refunding bonds principally using the effective interest method.

Commonwealth-Guaranteed Bonds

The Refunding Series 1994A Bonds refunded the Authority's Commonwealth guaranteed Series 1986 Bonds.

The Refunding Series 2004B Bonds refunded a portion of the Authority's Commonwealth guaranteed Series 1994A Bonds. These bonds were refinanced pursuant to an Option Agreement dated February 12, 1998 between the Authority and Lehman Brothers Special Financing, Inc. which gave Lehman the option, under certain circumstances, to cause the Authority to issue Commonwealth guaranteed bonds to refund the Series 1994A Bonds. The refunding resulted in a deferred outflow of resources at issuance of \$130,950 of which \$23,595 and \$31,460 were unamortized as of June 30, 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

7. Bonds payable - continued

Project Revenue Bonds

The Refunding Series 2003B Bonds refunded the Authority's Series 1999A, 1999-1, and 2000-1 Bonds. These bonds were refinanced to achieve a total reduction of debt service at issuance of \$1,769,263 and a present value economic gain at issuance of \$729,611. The refunding resulted in a deferred outflow of resources at issuance of \$21,535,590 of which \$14,956,887 and \$15,663,618 were unamortized as of June 30, 2013 and 2012, respectively. In November 2011 and May 2010, the Authority exercised call options to fully redeem the remaining unpaid principal of the Series 1999-1 and 2000-1 Bonds, respectively. As of June 30, 2013, the assets held in escrow for the repayment of the remaining Series 1999A Bonds have an aggregate market value of \$85,368,351 with an unpaid principal balance, plus accreted interest, of \$64,039,693.

The Refunding Series 2011A Bonds refunded portions of the Authority's Series 2003A and 2004A Bonds. These bonds were refinanced to achieve a total reduction of debt service at issuance of \$3,518,799 and a present value economic gain at issuance of \$2,822,354. The refunding resulted in a deferred outflow of resources at issuance of \$2,638,154 of which \$2,245,703 and \$2,435,270 were unamortized as of June 30, 2013 and 2012, respectively. As of June 30, 2013, the assets held in escrow for the repayment of the remaining Series 2003A and 2004A Bonds have an aggregate market value of \$22,596,261 with an unpaid principal balance, plus accreted interest, of \$21,615,000.

The Refunding Series 2012B Bonds refunded portions of the Authority's Series 2003A, 2004A, 2005A, and 2006A Bonds. These bonds were refinanced to achieve a total reduction of debt service at issuance of \$20,587,474 and a present value economic gain at issuance of \$13,285,676. The refunding resulted in a deferred outflow of resources at issuance of \$14,347,581 of which \$13,469,102 and \$14,222,084 were unamortized as of June 30, 2013 and 2012, respectively. As of June 30, 2013, the assets held in escrow for the repayment of the remaining Series 2003A, 2004A, 2005A, and 2006A Bonds have an aggregate market value of \$101,890,314 with an unpaid principal balance, plus accreted interest, of \$93,240,000.

Debt service reserve fund investment agreements

In connection with the issuance of the Series 2003A Bonds, Series 2005A Bonds, Series 2006A Bonds and Series 2008A Bonds, the Authority entered into debt service reserve fund investment agreements which 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 2005A Bonds which necessitated that a portion (\$1,800,000) of the original Series 2005A 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 2005A Bonds Rebate Account. The Authority 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, 2013 AND 2012

7. Bonds payable - continued

Debt service reserve fund investment agreements - continued

Unamortized bond premiums are reflected as an addition to the outstanding principal balance of the bonds payable and consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unamortized balance, beginning	\$ 62,953,440	\$ 30,541,361
Current year additions	8,934,761	36,659,049
Unamortized premium on bonds refunded	-	(1,824,639)
Current year amortization	<u>(3,606,708)</u>	<u>(2,422,331)</u>
Unamortized balance, ending	<u>\$ 68,281,493</u>	<u>\$ 62,953,440</u>

Deferred losses on bond refundings are reflected as deferred outflows of resources in the accompanying statements of net position (deficiency in net position) and consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	2012
Balance, beginning	\$ 32,352,432	\$ 19,011,433
Current year additions	-	14,347,581
Current year amortization	<u>(1,657,145)</u>	<u>(1,006,582)</u>
Balance, ending	<u>\$ 30,695,287</u>	<u>\$ 32,352,432</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

8. Long-term liabilities

Long-term liabilities at June 30, 2013 and 2012 consisted of the following:

	2013				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable, par	\$ 968,418,021	\$ 153,840,000	\$ (21,450,000)	\$ 1,100,808,021	\$ 24,825,000
Unamortized premiums	62,953,440	8,934,761	(3,606,708)	68,281,493	3,401,591
Total bonds payable	<u>1,031,371,461</u>	<u>162,774,761</u>	<u>(25,056,708)</u>	<u>1,169,089,514</u>	<u>28,226,591</u>
Interagency payables	46,424,408	62,858,041	(67,379,693)	41,902,756	35,790,287
Other liabilities:					
Arbitrage payable	97,005	163,566	-	260,571	-
Compensated absences	<u>164,025</u>	<u>130,387</u>	<u>(116,767)</u>	<u>177,645</u>	<u>87,748</u>
Total long-term liabilities	<u>\$ 1,078,056,899</u>	<u>\$ 225,926,755</u>	<u>\$ (92,553,168)</u>	<u>\$ 1,211,430,486</u>	<u>\$ 64,104,626</u>
	2012				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable, par	\$ 840,663,021	\$ 303,620,000	\$ (175,865,000)	\$ 968,418,021	\$ 21,450,000
Unamortized premiums	30,541,361	36,659,049	(4,246,970)	62,953,440	3,454,411
Total bonds payable	<u>871,204,382</u>	<u>340,279,049</u>	<u>(180,111,970)</u>	<u>1,031,371,461</u>	<u>24,904,411</u>
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	<u>162,746</u>	<u>122,937</u>	<u>(121,658)</u>	<u>164,025</u>	<u>85,711</u>
Total long-term liabilities	<u>\$ 902,364,453</u>	<u>\$ 390,617,276</u>	<u>\$ (214,924,830)</u>	<u>\$ 1,078,056,899</u>	<u>\$ 66,145,437</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

9. Net position

The net investment in capital assets of \$405,186 at June 30, 2013, includes the effect of deferring the recognition of the losses on bond refundings. The \$30,695,287 balance of the deferred outflows of resources at June 30, 2013 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 7).

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>2013</u>	<u>2012</u>
Restricted - expendable:		
DCAM/MSCBA contract restricted for life safety and access improvements and repositioning of O'Connor Hall	<u>\$ 2,231,469</u>	<u>\$ 2,415,383</u>

10. 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.

Through fiscal 2013, the Authority received 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.

11. Operating expenses

The Authority's operating expenses for the years ended June 30, 2013 and 2012, on a natural classification basis, are comprised of the following:

	<u>2013</u>	<u>2012</u>
Compensation	\$ 727,813	\$ 782,682
Supplies and services	2,056,213	1,733,445
Depreciation	<u>29,888,212</u>	<u>28,603,149</u>
	<u>\$ 32,672,238</u>	<u>\$ 31,119,276</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

12. Retirement plan

The Authority's full-time employees are covered by the Massachusetts State Employees' Retirement System (SERS and the Plan). 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 \$93,243, \$84,452 and \$84,452 for the years ended June 30, 2013, 2012 and 2011, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2013, 2012 and 2011.

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.

13. Retiree health plan

The Authority contributes to the Commonwealth's 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, 2013 AND 2012

13. 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, 2013, 2012, and 2011, were \$110,781, \$100,615 and \$113,318, respectively, which equaled the required contributions each year. Required contributions include contributions for the total health plan costs for both active and retired employees.

14. 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, 2013 and 2012, rent expense incurred, including additional costs for monthly storage and parking which are not provided under the terms of the lease agreement, amounted to \$167,122 and \$153,395, respectively.

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

<u>Year ending June 30:</u>	<u>Amount</u>
2014	\$ 169,334
2015	173,118
2016	173,118
2017	176,902
2018	184,470
2019 - 2020	<u>307,450</u>
	<u>\$ 1,184,392</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 (MCAD) 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 is leased to MCPHS and included in buildings and improvements on the accompanying statements of net position (deficiency in net position) amounts to approximately \$35,101,000 at both June 30, 2013 and 2012, with accumulated depreciation of \$1,755,013 and \$877,506 as of June 30, 2013 and 2012, respectively. In accordance with the lease agreement, MCPHS deposited \$100,000 with the Authority in December 2009, which together with interest earned thereon, in the amount of \$100,391, was credited towards the payment of MCPHS's first installment of annual rent during fiscal 2013. As of June 30, 2012, the deposit and

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

14. Lease commitments and receivables - continued

interest earned thereon, in the amount of \$100,376, was included in current restricted cash and cash equivalents and current accounts payable and accrued liabilities 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 MCAD for the purpose of operating a student health services clinic. The cost of the property leased to Harvard Vanguard and included in buildings and improvements on the accompanying statements of net position (deficiency in net position) amounts to approximately \$1,107,000 at both June 30, 2013 and 2012, with accumulated depreciation of \$55,284 and \$27,642 as of June 30, 2013 and 2012, respectively.

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.

The Authority has entered into an agreement with MCAD whereby the MCPHS and Harvard Vanguard lease payments will be made on a semiannual basis directly to MCAD, as payment of rent, and held in MCAD's residence hall trust fund and shall be used by MCAD for the operation of the leased property in a similar manner in which residence hall fees are used by the University and the Authority. In accordance with the lease agreement MCPHS and Vanguard paid MCAD \$3,214,270 and \$24,474, respectively, during fiscal 2013. The Authority assesses annual obligations to MCAD, which include the pro rata share of the building occupied by MCPHS and Harvard Vanguard, on the same debt assessment basis the Authority uses for their other residence halls. The annual assessment included in income from contracts for financial assistance, management, and services in the accompanying statements of revenues, expenses and changes in net position for fiscal 2013 related to these lease agreements amounted to \$1,969,500.

Future minimum rental income to be remitted to MCAD under these operating lease agreements are as follows:

<u>Year ending June 30:</u>	<u>MCPHS</u>	<u>Harvard Vanguard</u>	<u>Total</u>
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
2018	325,000	3,305	328,305
	<u>\$ 12,773,188</u>	<u>\$ 104,934</u>	<u>\$ 12,878,122</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

15. Supplemental cash flows information

Schedule of noncash investing and financing activities

2013

Acquisition of capital assets	\$ 125,984,692
Accounts payable thereon:	
Beginning of year	11,636,385
End of year	(15,221,483)
Net interest incurred and earned, capitalized in construction in progress	(5,544,681)
Payments for capital assets	<u>\$ 116,854,913</u>
Transfer of capital asset to DCAM	<u>\$ 1,480,311</u>
Accounts receivable and Interagency payables related to State University capital projects on State University owned property	<u>\$ 54,914,986</u>
Unearned interest income on accounts receivable related to State University capital projects on State University owned property	<u>\$ 17,488,249</u>
Contractor accounts payable related to State University capital projects on State University owned property	<u>\$ 4,452,507</u>
Unrealized gain (loss) on investment securities	<u>(\$ 4,550,087)</u>

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

15. Supplemental cash flows information - continued

Schedule of noncash investing and financing activities - continued

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 gains (loss) 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>

16. Deposit

On March 1, 2013, the Authority entered into a Purchase and Sale Agreement to acquire the real estate, personal property and improvements at 31, 35 and 37 Salem End Road, 75 and 89 Maynard Road, and 1060 Worcester Road, all in Framingham, Massachusetts, for a contract sales price of \$6,600,000. In accordance with the Purchase and Sale Agreement, the Authority deposited \$200,000 in earnest money which is being held in escrow until closing. Management expects the closing to occur on September 30, 2013.

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

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2013 AND 2012

17. Transfers from State Universities - continued

\$400,000 to be received by the Authority directly from Framingham in fiscal 2013. The Authority determined during fiscal 2013 that the additional \$400,000 of funding to be received directly from Framingham was no longer needed and accordingly, no additional funds related to this agreement were collected.

In March, 2013, the Authority entered into a funding agreement with Worcester State University (Worcester) related to the Authority's issuance of its Project Revenue Bonds, Series 2012C for the purpose, in part, of constructing a new dormitory, including a dining facility on Worcester's campus (Sheehan Hall). The agreement, among other matters, identifies Worcester's desire to increase the capacity of the dining facility in Sheehan Hall to meet the needs of the entire campus. As such, Worcester has agreed to provide supplemental funding up to a maximum amount of \$7,000,000 to fund the costs of such increase in capacity. During fiscal 2013, the Authority received \$2,500,000 from Worcester in accordance with the agreement. The agreement calls for an additional \$2,500,000 of funding to be paid by Worcester in fiscal 2014 and the final funding portion of \$2,000,000 to be received by the Authority from Worcester in fiscal 2015.

In addition, transfers from State Universities received in the ordinary course of business totaled \$1,481,309 and \$650,414 for fiscal years 2013 and 2012, respectively.

18. Miscellaneous nonoperating revenue

As further discussed in Note 7, 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 2005A 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 2005A Bonds. The Authority recognized this termination payment as miscellaneous nonoperating revenue in the accompanying 2012 statement of revenues, expenses and changes in net position.

SUPPLEMENTAL INFORMATION

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Supplemental Statistical Information - Unaudited

Schedule of Net Position (Deficiency) by Category

	<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>	<u>2013</u>
Net investment in capital assets	\$ (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	\$ 405,186
Restricted - expendable	3,036,958	930,636	363,076	330,731	106,446	8,976	2,555,116	1,897,286	2,415,383	2,231,469
Unrestricted	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)	(24,880,753)
Total Net Position (Deficiency)	\$ (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)	\$ (22,244,098)

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Supplemental Statistical Information - Unaudited

Changes in Net Position

	<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>	<u>2013</u>
Operating Revenue										
Income from assessments	\$ 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	\$ 59,081,652
Federal grants for debt service	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,890	211,886	58,414
Other miscellaneous revenue	45,593	62,811	128,063	119,862	174,592	216,054	119,636	568,661	499,035	548,131
Total operating revenue	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	59,688,197
Non-Operating Revenue										
Net investment income	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	3,045,359
Transfers (to)/from State Universities	(446,726)	527,740	978,769	536,914	347,388	1,684,693	440,267	3,352,687	3,050,414	3,981,309
Transfers (to)/from DCAM	-	-	-	-	-	-	-	-	-	(497,294)
State capital appropriations	-	-	-	-	-	-	6,881,873	-	-	-
Build America Bonds interest subsidy	-	-	-	-	-	-	700,809	1,887,838	2,360,991	2,302,924
Gain (loss) on sale of assets	-	-	-	-	-	-	-	400,141	-	-
Miscellaneous nonoperating revenue	-	-	-	-	-	-	-	201,756	546,385	56,777
Capital grants	-	-	-	-	344,224	34,255	293,073	-	-	-
Total non-operating revenue	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	8,889,075
Total Revenue	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	68,577,272
Operating Expenses										
Maintenance costs	(1,186,513)	(746,323)	(421,828)	(701,992)	(607,595)	(500,864)	(535,276)	(668,168)	(740,425)	(735,970)
Authority operating costs	(695,514)	(766,641)	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)	(1,392,357)	(1,483,170)	(1,481,186)	(1,621,486)
Depreciation	(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)	(29,888,212)
Other expenses	(85,079)	(73,389)	(164,687)	(239,798)	(181,503)	(224,192)	(583,365)	(162,258)	(294,516)	(426,570)
Total operating expenses	(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)	(32,672,238)
Non-operating expense										
Interest expense	(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)	(41,151,521)
Bond issuance costs	(402,656)	(413,653)	(295,214)	(382,815)	(311,698)	(371,723)	(402,289)	(780,005)	(2,150,595)	(1,175,271)
Total non-operating expense	(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)	(42,326,792)
Total Expenses	(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)	(74,999,030)
Increase (decrease) in net position	\$ 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	\$ (6,421,758)

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Supplemental Statistical Information - Unaudited

Schedule of Revenue

<u>Institution</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>	<u>2013</u>
Bridgewater	\$ 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	\$ 12,987,262
Fitchburg	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	5,127,026
Framingham	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	7,103,882
Mass. College of Art	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	5,906,206
Mass. College of Liberal Arts	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	2,609,247
Mass. Maritime Academy	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	4,110,844
Salem	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	8,451,618
Westfield	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	7,402,580
Worcester	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	5,382,987
Total	\$ 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	\$ 59,081,652

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
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Supplemental Statistical Information - Unaudited

Room Rates of Residence Facilities

<u>Institution</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>	<u>2013</u>
Bridgewater	\$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	\$6,300-7,460
Fitchburg	\$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	\$5,100-6,420
Framingham	\$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	\$5,885-8,630
Mass. College of Art	\$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	\$7,876-11,000
Mass. College of Liberal Arts	\$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	\$4,740-5,140
Mass. Maritime Academy	\$2,684	\$2,886	\$3,098	\$3,366	\$4,100	\$4,668	\$4,978	\$5,125	\$5,300	\$5,470
Salem	\$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	\$6,570-9,320
Westfield	\$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	\$4,950-7,350
Worcester	\$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	\$6,750-7,800

**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>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>	<u>2013</u>
Bridgewater	105%	105%	105%	104%	103%	104%	101%	100%	100%	99%
Fitchburg	99%	100%	100%	102%	104%	103%	105%	104%	100%	101%
Framingham	102%	100%	100%	100%	99%	101%	101%	104%	100%	100%
Mass. College of Art	100%	99%	98%	101%	99%	100%	100%	99%	100%	99%
Mass. College of Liberal Arts	82%	88%	89%	95%	89%	88%	94%	99%	94%	91%
Mass. Maritime Academy	95%	96%	99%	103%	92%	94%	100%	103%	106%	108%
Salem	105%	100%	103%	101%	100%	104%	106%	94%	102%	107%
Westfield	106%	109%	106%	108%	107%	107%	105%	104%	106%	101%
Worcester	101%	96%	97%	101%	100%	102%	102%	100%	103%	102%
State University Average	101%	101%	100%	103%	101%	102%	102%	101%	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, in accordance with the 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, the financial statements of the business-type activities of the Massachusetts State College Building Authority (a component unit of the Commonwealth of Massachusetts) (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ercolini & Company LLP

Boston, Massachusetts
September 24, 2013