

**Massachusetts State College Building Authority
(A Component Unit of the
Commonwealth of Massachusetts)**

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Reports**

June 30, 2015 and 2014

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

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Independent Auditor's Report

To the Board
Massachusetts State College Building Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Massachusetts State College Building Authority (the "Authority"), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 entity'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 entity'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, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 17 to the financial statements, in fiscal 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension benefit schedules on pages 4 to 13 and 49 to 50, respectively, 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 Supplementary 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 52 to 56 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 October 23, 2015, 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, and grant agreements and other matters for the year ended June 30, 2015. 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.



Boston, Massachusetts
October 23, 2015

Massachusetts State College Building Authority
(a component unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
For the Years Ended June 30, 2015, 2014 and 2013

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, 2015, 2014 and 2013, 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, construct and oversee the management of residence halls, dining commons, parking, athletic, cultural, and other student life activities primarily for the use (i) of one or more state colleges, students, staff and their dependents; (ii) for lease to or use by an organization or association, in any form, of students or others the activities of which are a part of the activities at one or more state colleges; or (iii) for lease to or use by any other entity the activities of which further the purposes of one or more of the 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, Massachusetts College of Art and Design, and Massachusetts Maritime Academy. 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.

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. As of June 30, 2015, approximately 16,458 students reside in the 55 residential complexes owned by the Authority. These facilities house over 40% of full-time undergraduate students and comprise about 4.4 million square feet of space 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 years 2014/15 and 2013/14, the number of students housed in on-campus housing owned by the Authority was 97.5% and 99.1% of design occupancy, respectively.

The following table shows average annual residence hall occupancy every other year from the 2000/01 through 2014/15 academic years and the average number of design occupancy beds for those periods.

Residence Halls Occupancy Table

State College	Academic Years							
	2000/01	2002/03	2004/05	2006/07	2008/09	2010/11	2012/13	2014/15
Bridgewater	106.0%	105.0%	105.0%	104.2%	104.5%	99.7%	98.9%	99.2%
Fitchburg	78.0%	95.0%	100.0%	101.7%	102.5%	103.8%	100.8%	103.1%
Framingham	93.0%	105.0%	100.0%	99.7%	101.0%	103.9%	100.3%	97.9%
Mass. College of Art & Design	103.0%	100.0%	99.0%	101.4%	99.8%	99.4%	99.3%	98.6%
Mass. College of Liberal Arts	68.0%	81.0%	88.0%	94.7%	87.9%	97.5%	91.1%	85.7%
Mass. Maritime Academy	81.0%	93.0%	96.0%	103.4%	94.3%	102.9%	107.9%	92.5%
Salem	102.0%	105.0%	100.0%	100.6%	104.2%	93.5%	106.7%	106.8%
Westfield	103.0%	109.0%	109.0%	108.3%	107.2%	104.3%	101.1%	98.3%
Worcester	103.0%	100.0%	96.0%	100.6%	102.0%	99.1%	101.9%	86.6%
Average Occupancy	93.0%	101.0%	99.0%	102.5%	101.8%	100.6%	101.0%	97.5%
Design Occupancy	10,097	10,585	11,141	12,255	12,968	14,138	15,290	16,458

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 was 4.7% at June 30, 2015 compared to 5.5% at June 30, 2014 and 7.0% at June 30, 2013. This compares to a national rate of 5.3% in 2015, 6.1% in 2014 and 7.6% in 2013, according to the U.S. Bureau of Labor Statistics.

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 economic environment.

In the last several fiscal years, the Authority issued bonds during periods of historically low rates to generate new money for construction projects and to refund certain bonds to achieve interest cost savings. The Authority continued to strive to offer affordable residence options for students. Student rent for academic year 2014/15 and 2013/14 on Authority residence facilities compared favorably to both regional private and other public institutions. In the fall of 2014, Authority rents were the sixth lowest compared to 37 private regional institutions and third lowest when compared to seven regional public institutions.

Financial Statements

The Authority's financial statements (pages 14-19 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, 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 state colleges and others for services rendered).

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

The 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 \$1.3 billion at June 30, 2014 to \$1.4 billion at June 30, 2015, primarily due to an increase in investments to Authority-owned residence halls and an increase in accounts receivable reflecting major renovation and construction projects on the college-owned student activity facilities. Sources of funds for these projects include bond funds and capital improvement reserves.
- For the year ended June 30, 2015, capital assets grew by \$59 million due primarily to the continuation, completion, and commencement of major construction projects on Authority-owned residence halls. As of June 30, 2015, the Authority had projects totaling \$26.6 million in process. Details of capital assets are provided on page 12.
- Fiscal year 2015 activity also included renovations and new construction projects on student activity facilities. Completed student activity facilities projects include improvements to the Maple Street Athletic Fields and the renovation of the 1812 House at Framingham State. Projects underway include the continuation of interior improvements and upgrades in Hammond Campus Center at Fitchburg State, and construction of a parking structure at Salem State. Operating Revenues increased \$6.6 million in fiscal year 2015 from fiscal year 2014 due to increased assessment revenues used to fund debt obligations, Authority operations, and deposits to capital reserves.
- In December 2014, the Authority issued \$91.4 million Series 2014B (Green Bonds) and \$10.1 million Series 2014C at a true interest cost of 3.7% and 3.2%, respectively. The Series 2014B was designated Green Bonds and provided funds for environmentally sustainable projects, including a new residence hall at Framingham State which is designed to meet, at a minimum, LEED certification of silver. The Series 2014C bonds financed renewal and adaption projects on existing residence halls and student activity projects at Framingham State.
- In December 2014, the Authority also issued \$36.1 million in Series 2014D Refunding Bonds which refunded bonds originally issued in 2005 and 2006 to generate net present value debt service savings of \$3.6 million or 9.0% of the refunded bonds.
- The Authority has implemented GASB 68, which requires the Authority to report the net pension liability which is the difference between the total pension liability and the value of the assets available in the pension plan's trust to pay pension benefits. The Commonwealth has calculated the Authority's proportionate share of the Commonwealth's net pension liability to be .0253% or \$1.9 million for fiscal year 2015 and .0264% or \$2.3 million for fiscal year 2014.

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 colleges 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.

Summary - Statements of Net Position at June 30, 2015, 2014 and 2013

	June 30,		
	2015	2014	2013
Current assets	\$ 158,099,142	\$ 111,395,181	\$ 106,897,415
Capital assets, net	897,680,190	838,679,462	751,957,559
Other noncurrent assets	324,224,428	362,245,675	329,714,958
Total assets	<u>1,380,003,760</u>	<u>1,312,320,318</u>	<u>1,188,569,932</u>
Deferred outflows of resources	<u>27,865,455</u>	<u>29,011,586</u>	<u>30,695,287</u>
Current liabilities	94,516,484	102,401,186	94,183,457
Noncurrent liabilities	1,341,892,109	1,263,075,483	1,147,325,860
Total liabilities	<u>1,436,408,593</u>	<u>1,365,476,669</u>	<u>1,241,509,317</u>
Deferred inflows of resources	<u>465,724</u>	-	-
Net position:			
Net investment in capital assets	(12,717,572)	(3,080,091)	405,186
Restricted	905,721	905,631	2,231,469
Unrestricted	<u>(17,193,251)</u>	<u>(21,970,305)</u>	<u>(24,880,753)</u>
Deficiency in net position	<u>\$ (29,005,102)</u>	<u>\$ (24,144,765)</u>	<u>\$ (22,244,098)</u>

- Total assets at June 30, 2015 increased 5.2% when compared to total assets at June 30, 2014. This primarily reflects continued additions to capital assets and increased receivables for the college-owned portions of the Series 2014B and C Bond issues. Cash and cash equivalents increased by \$6.6 million as a result of proceeds of the Series 2014B and C Bonds held as cash offset by continued spending of other project funds. Investments decreased by \$74 million as proceeds of the Series 2014B and 2014C Bond issues were primarily held as cash and equivalents offset by purchases and maturities of investments in the Series 2014A Bond funds. Accounts receivable increased by \$23.5 million as a result of the portion of Series 2014B and C Bonds issued to fund college-owned projects.
- Total assets at June 30, 2014 increased 10.4% when compared to total assets at June 30, 2013. This primarily reflects continued additions to capital assets and increased receivables for the college-owned portions of the Series 2014A Bond issue. Cash and cash equivalents increased by \$0.7 million as a result of proceeds of the Series 2014A Bonds held as cash offset by continued spending of other project funds. Investments decreased by \$9.4 million as a result of purchases and maturities of investments in the 2014A and 2012C Bond funds. The maturities of such investments were scheduled to meet the projected spending schedules of the residence halls under construction at Massachusetts Maritime Academy and Worcester and Salem State Universities. Accounts receivable increased by \$45.8 million as a result of the portion of Series 2014A Bonds issued to fund college-owned projects.
- Reserves for capital improvements, multi-purpose and operating purposes as of June 30, 2015 were \$25.3 million compared to \$26.4 million as of June 30, 2014. Debt service reserve funds totaled \$96.6 million as of June 30, 2015 compared to \$87.7 million as of June 30, 2014. These reserves are included in the Statements of Net Position in the cash and cash equivalents and investments categories.
- Reserves for capital improvements, multi-purpose and operating purposes as of June 30, 2014 were \$26.4 million compared to \$27.8 million as of June 30, 2013. Debt service reserve funds totaled \$87.8 million as of June 30, 2014 compared to \$79.9 million as of June 30, 2013. Capital assets are discussed on page 12.

- Total liabilities at June 30, 2015 increased 5.2% as compared to total liabilities at June 30, 2014, due to an increase in bonds payable. Bonds payable increased \$84.1 million to \$1.37 billion as a result of the issuance of Series 2014B, Series 2014C and Series 2014D Bonds offset by the payment of principal on outstanding bonds and defeasance of refunded bonds. In addition, in compliance with GASB 68, the Authority has recorded \$1.9 million and \$2.4 million in net pension liability as of June 30, 2015 and June 30, 2014, respectively. As of June 30, 2015 and June 30, 2014, the Authority had \$4.4 million and \$4.2 million, respectively, invested in the Pension Reserve Investment Trust Fund (see Note 2), the sole purpose of which is to provide for current and future pension liabilities of the Authority.
- Total liabilities at June 30, 2014 increased 9.8% as compared to total liabilities at June 30, 2013, due primarily to an increase in bonds payable and accounts payable. Bonds payable increased to \$1.3 billion at June 30, 2014 from \$1.2 billion at June 30, 2013 as a result of the issuance of Series 2014A 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 12 to 13.
- 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 net position at June 30, 2015 decreased by \$4.9 million at June 30, 2015 compared to the net position at June 30, 2014 due primarily to an increase in depreciation and interest expense. The net position at June 30, 2014 increased by \$0.4 million compared to the net position at June 30, 2013. 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 project costs and debt obligations. The Authority's investment in capital assets is reported net of related debt and depreciation (a non-cash operating expense). The change in net position for the year ended June 30, 2015 and 2014, respectively, excluding depreciation was an increase in net position of \$34 million and \$34.2 million before the restatement at June 30, 2014 due to implementation of GASB 68.

Statements of Revenues, Expenses and Changes in Net Position

Authority revenue is primarily derived from assessments of state college residence hall rents and student activity fees pursuant to the Contract, in which the BHE commits the state colleges 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.

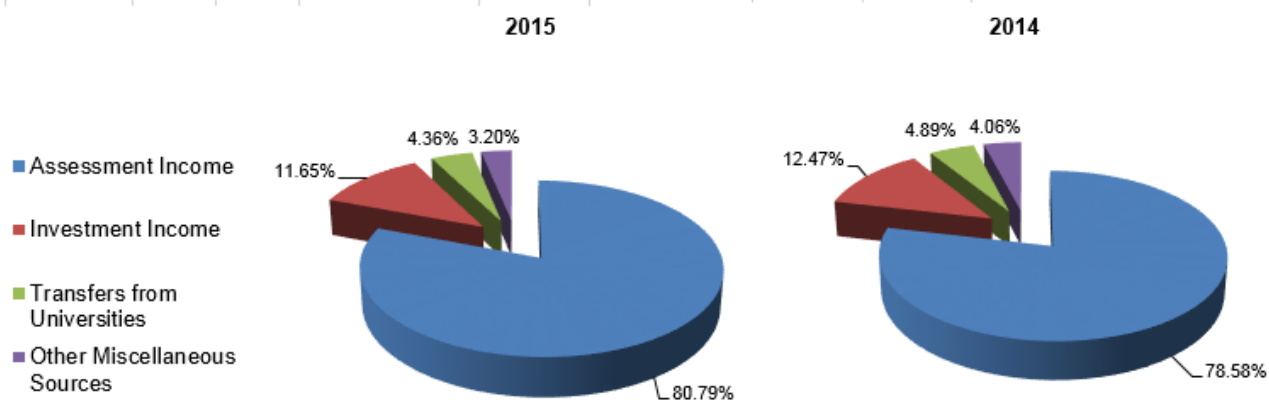
Summary - Operating and Non-Operating Revenues and Expense

	Fiscal year ended June 30		
	2015	2014	2013
Total operating revenues	\$ 74,813,069	\$ 68,251,998	\$ 59,688,197
Total operating expenses	42,435,206	36,500,936	32,672,238
Operating income	32,377,863	31,751,062	27,015,959
Nonoperating expenses, net	(37,238,200)	(31,301,250)	(33,437,717)
Increase (decrease) in net position	(4,860,337)	449,812	(6,421,758)
Net position - beginning of the year	(24,144,765)	(22,244,098)	(15,822,340)
Restatement	-	(2,350,479)	-
Net position - end of the year	\$ (29,005,102)	\$ (24,144,765)	\$ (22,244,098)

- Operating revenues grew from \$68.3 million at June 30, 2014 to \$74.8 million at June 30, 2015, due primarily to an increase in assessment revenues.
- Operating revenues grew from \$59.7 million at June 30, 2013 to \$68.3 million at June 30, 2014, due primarily to an 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, and interest subsidy from the U.S. Treasury relating to the Authority's outstanding Build America Bonds. The 19.0% increase in nonoperating expenses in fiscal 2015 is due to increased interest expense on outstanding bonds. The 6.4% decrease in fiscal year 2014 nonoperating expenses is primarily due to increased interest expense on outstanding bonds offset by an increase in investment income.

The charts below compare total revenue for fiscal year 2015 with fiscal year 2014.

Summary - Total Revenue Fiscal Years 2014 and 2013

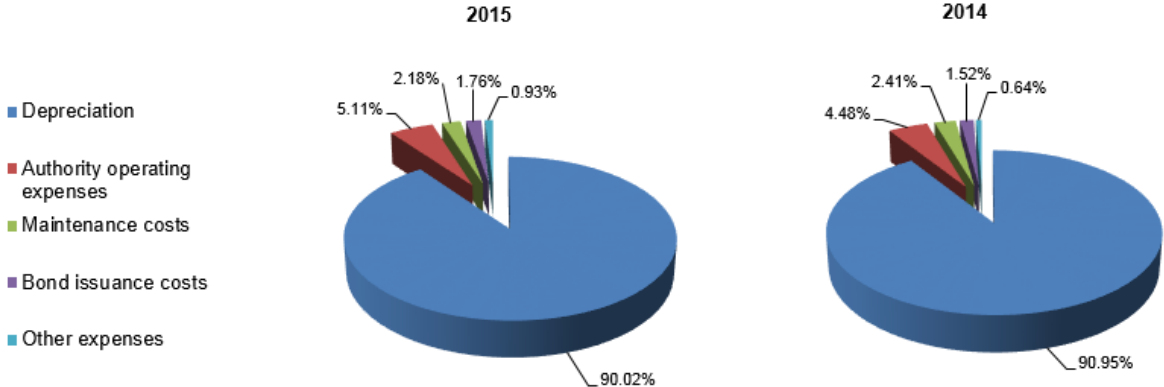


- Operating expenses include depreciation, maintenance and renewal and adaption to capital assets and operating expenses associated with Authority operations.
- In fiscal year 2015, depreciation expense was \$38.9 million as compared to \$33.7 million in fiscal year 2014. The increase in depreciation expense of \$5.2 million is due to the additional depreciable assets brought into use in fiscal year 2015, including major improvements and renewal and adaption at several campuses.
- In fiscal year 2014, depreciation expense was \$33.7 million as compared to \$29.9 million in fiscal year 2013. The increase in depreciation expense of \$3.8 million is due to the additional depreciable assets brought into use in fiscal year 2014, including major improvements and renewal and adaption at several campuses.

- In fiscal year 2015, maintenance costs increased by \$46,724 from fiscal year 2014 primarily due to increased property and liability insurance premium expenses. The Authority's other expenses increased \$715,248 due to increases to payroll and general legal services and consulting fees.
- In fiscal year 2014, maintenance costs increased by \$156,862 from fiscal year 2013 primarily due to increased property and liability insurance premium expenses. The Authority's other expenses decreased \$190,964 from fiscal year 2014 compared to 2013, due primarily to a decrease in general legal services and consulting fees.
- The primary components of net nonoperating revenues (expenses) are annual interest expense incurred on the Authority's debt obligations, less investment income used to offset debt service requirements. Interest expense increased by 9.7% in fiscal year 2015 compared to 2014 due primarily to increased interest costs associated with the Series 2014A Bonds offset by increased premium amortization associated with the Series 2014B and Series 2014C Bonds. Interest expense increased by 19% in fiscal year 2014 compared to 2013 due primarily to increased interest costs associated with the Series 2012B and 2012C Bonds offset by increased premium amortization associated with the Series 2014A Bonds. Net investment income was essentially unchanged in fiscal year 2015 when compared to fiscal year 2014. Net investment income increased from \$3.0 million in fiscal year 2013 to \$10.8 million in fiscal year 2014, due to unrealized gain on investments for fiscal year 2014 compared to a loss on investments for fiscal year 2013, and an increase on interest income earned on accounts receivables due from university-owned projects. Net nonoperating expenses for fiscal year 2015 were \$37.2 million compared to \$31.3 million for fiscal year 2014. The change results primarily from increased interest expense.
- Net nonoperating expenses for fiscal year 2014 were \$31.3 million compared to \$33.4 million for fiscal year 2013. The change results primarily from increased net investment income, 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 2015 with fiscal year 2014.

Summary - Total Expenses (excluding Interest Expense) Fiscal Years 2015 and 2014



Statements of Cash Flows

Authority cash in-flows are primarily generated from assessments received from the state 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.

Summary - Statements of Cash Flows

	Fiscal year ended June 30		
	2015	2014	2013
Cash received from operations	\$ 74,813,069	\$ 68,251,998	\$ 59,587,821
Cash expended for operations	(3,512,151)	(2,856,299)	(3,390,939)
Net cash provided by operations	71,300,918	65,395,699	56,196,882
Net cash provided by (used in) capital and related financing activities	(89,881,844)	(78,889,611)	(70,229,142)
Net cash provided by (used in) investing activities	77,525,095	14,229,051	29,014,317
Net increase (decrease) in cash and cash equivalents	58,944,169	735,139	14,982,057
Cash and cash equivalents, beginning of year	100,222,611	99,487,472	84,505,415
Cash and cash equivalents, end of year	\$ 159,166,780	\$ 100,222,611	\$ 99,487,472

- Cash and cash equivalents were \$159.2 million at June 30, 2015 compared to \$100.2 million at June 30, 2014. This \$59 million increase is due primarily to receipt of proceeds of the 2014B and 2014C Bonds which was offset by Refunding Bonds Series 2014D and invested in money market funds.
- Cash and cash equivalents were \$100.2 million at June 30, 2014 compared to \$99.5 million at June 30, 2013. This \$.7 million increase is due primarily to receipt of proceeds of the 2014A 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 exceed the cash expended for operations in fiscal year 2015. The \$6.4 million increase in cash received from assessments was a result of higher residence hall revenue and was offset by increased operating and other expenses.
- Net cash provided by operations exceeded the cash expended for operations in fiscal year 2014. The \$8.7 million increase in cash received from assessments was a result of higher residence hall revenue and was offset by decreased insurance premiums and legal fees for fiscal year 2014 compared to 2013.
- Net cash used in capital and related financing activities was \$89.9 million in fiscal year 2015 compared to \$78.9 million in fiscal year 2014. The net change between years is primarily attributable to an increase in proceeds from bond issuance offset by the issuance of Refunding Bonds Series 2014D, and a reduction in payments for capital assets offset by an increase in principal and interest paid on outstanding debt.
- Net cash used in capital and related financing activities was \$78.9 million in fiscal year 2014 compared to \$70.2 million in fiscal year 2013. The net change between years is primarily attributable to an increase in payments for principal and debt, a decrease in proceeds from bond issuance and a decrease of payments on University owned assets.
- Net cash provided by investing activities was \$77.5 million in fiscal year 2015 compared to \$14.2 million in fiscal year 2014. The increased fiscal year 2015 activity is due to reduction in the proceeds from sales and maturities of investments offset by a large reduction in the purchase of investments.
- Net cash provided by investing activities was \$14.2 million in fiscal year 2014 compared to net cash provided by investing activities of \$29 million in fiscal year 2013. The fiscal year 2014 activity is due primarily to the maturity of investments for the Series 2012C Bonds proceeds offset in part by the purchase of investments with the Series 2014A Bonds proceeds.

Capital Assets

The Authority's investment in capital assets as of June 30, 2015 was \$897.7 million net of accumulated depreciation compared to \$838.7 million as of June 30, 2014. Capital assets include land, buildings and improvements thereon, furnishings and equipment. Capital assets comprised approximately 65% of total assets at June 30, 2015 and 64% at June 30, 2014. During the years ended June 30, 2015 and 2014, the Authority had net additions to capital assets of \$97.9 million and \$120.4 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 \$26.6 million at June 30, 2015 compared to \$113.6 million at June 30, 2014. The \$87.0 million decrease in construction in progress was due primarily to the nearly completed new residence hall at Salem State University with an additional \$86.7 million capitalized at June 30, 2015. The buildings and improvements balance was \$1.2 billion at June 30, 2015 compared to \$983.5 million at June 30, 2014 and \$849.9 million at June 30, 2013. The \$133.6 million increase in buildings and improvements was due primarily to the new residence halls coming on line for Westfield and Bridgewater State Universities and the Massachusetts Maritime Academy.
- The furnishings and equipment balance was \$53 million at June 30, 2015 compared to \$48.5 million at June 30, 2014 and \$42.7 million at June 30, 2013. The \$4.5 million increase in furnishings and equipment in fiscal year 2015 was attributable to purchases across the state universities.
- Land was \$6.6 million at June 30, 2015, \$6.1 million at June 30, 2014 and \$4.2 million at June 30, 2013 reflecting the purchase of three parcels in Framingham. These purchases are part of a larger on-going project to purchase and develop surface parking and additional office space 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, 2015 and 2014, respectively, such commitments were approximately \$55.1 million and \$34.0 million.

Additions to university-owned facilities have no effect on the Authority's 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, other student activity facilities at the state colleges. Also, under certain circumstances, the Authority may provide financing for certain projects that are managed by the Commonwealth. 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 in full and on time. 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, 2015, the Authority had \$1.3 billion in principal amount of bonds outstanding compared to \$1.2 billion and \$1.1 billion at June 30, 2014 and 2013, respectively. The outstanding bond obligations carried unamortized premium balances of \$93.2, \$76.1 and \$68.3 million, respectively, as of

June 30, 2015, 2014 and 2013. The \$17.1 million increase in fiscal year 2015 is attributable to the issuance of \$91.4 million in Series 2014B Bonds, \$10.1 million in Series 2014C Bonds and \$36.1 million in Refunding Bonds Series 2014D and offset by principal payments made during the fiscal year and the defeasement of refunded bonds. All of the outstanding bonds carry fixed interest rates payable semi-annually on May and November 1st. For all state university program bonds, principal is payable annually on May 1st, with a final maturity of 2049. Principal is payable semi-annually on May 1 and November 1 for the Community College Bonds, Series 1. 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 years 2015, 2014 and 2013, a portion of the Authority's interest rate subsidy was reduced by 7.3% due to the federal government budgetary sequestration. The balance of the outstanding bonds is tax-exempt. \$7.8 million of the outstanding bonds are guaranteed by the Commonwealth with a final maturity of 2016.

The Authority's state university program bonds have credit ratings of Aa2 and AA from Moody's and Standard & Poor's, respectively. The Community College Program, Series 1 bonds are not rated.

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.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Statements of Net Position (Deficiency in Net Position)
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents	\$ 45,997,222	\$ 39,361,143
Restricted cash and cash equivalents	100,952,901	57,193,555
Restricted investments, including amounts held by trustee	-	5,070,033
Accounts receivable, net	10,463,395	9,128,737
Prepaid expenses	685,624	641,713
	<u>158,099,142</u>	<u>111,395,181</u>
Total current assets		
<u>Noncurrent assets</u>		
Restricted cash and cash equivalents	12,216,657	3,667,913
Restricted investments, including amounts held by trustee	89,873,961	158,577,181
Accounts receivable, net	222,133,810	200,000,581
Capital assets, net	897,680,190	838,679,462
	<u>1,221,904,618</u>	<u>1,200,925,137</u>
Total noncurrent assets		
Total assets	<u>1,380,003,760</u>	<u>1,312,320,318</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pensions	21,114	-
Deferred losses on refunding of debt	27,844,341	29,011,586
	<u>27,865,455</u>	<u>29,011,586</u>
Total deferred outflows of resources		

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Statements of Net Position (Deficiency in Net Position) - Continued
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
LIABILITIES		
<u>Current liabilities</u>		
Accounts payable and accrued liabilities	28,810,868	33,196,953
Accrued payroll	12,717	23,116
Interagency payables	23,930,315	34,812,976
Interagency loan payable	1,200,000	-
Compensated absences	105,388	84,554
Current portion of bonds payable	40,457,196	34,283,587
	<u>94,516,484</u>	<u>102,401,186</u>
Total current liabilities		
<u>Noncurrent liabilities</u>		
Accounts payable and accrued liabilities	262,254	211,182
Compensated absences	116,869	103,261
Interagency payables	10,117,698	8,774,515
Bonds payable, net of current portion	1,329,517,011	1,251,636,046
Net pension liability	1,878,277	2,350,479
	<u>1,341,892,109</u>	<u>1,263,075,483</u>
Total noncurrent liabilities		
Total liabilities	<u>1,436,408,593</u>	<u>1,365,476,669</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows for pensions	465,724	-
	<u>465,724</u>	<u>-</u>
Total deferred inflows of resources		
NET POSITION (DEFICIENCY IN NET POSITION)		
Net investment in capital assets	(12,717,572)	(3,080,091)
Restricted:		
Expendable:		
Capital projects	905,721	905,631
Unrestricted	(17,193,251)	(21,970,305)
	<u>(29,005,102)</u>	<u>(24,144,765)</u>
Total net position (deficiency in net position)	<u>\$ (29,005,102)</u>	<u>\$ (24,144,765)</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES</u>		
Income from contracts for financial assistance, management, and services	\$ 74,214,554	\$ 67,825,646
Other miscellaneous revenues	<u>598,515</u>	<u>426,352</u>
Total operating revenues	<u>74,813,069</u>	<u>68,251,998</u>
<u>OPERATING EXPENSES</u>		
Maintenance costs	939,566	892,842
Authority operating expenses	2,208,557	1,660,589
Depreciation	38,884,197	33,711,899
Other expenses	<u>402,886</u>	<u>235,606</u>
Total operating expenses	<u>42,435,206</u>	<u>36,500,936</u>
Operating income	<u>32,377,863</u>	<u>31,751,062</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Net investment income	10,702,249	10,763,298
Interest expense	(53,529,051)	(48,795,255)
Bond issuance costs	(761,121)	(564,385)
Net transfers to/from State Universities	4,009,535	4,221,388
Build America Bonds interest subsidy	2,189,322	2,161,590
Miscellaneous nonoperating revenue	<u>150,866</u>	<u>912,114</u>
Net nonoperating revenues (expenses)	<u>(37,238,200)</u>	<u>(31,301,250)</u>
INCREASE (DECREASE) IN NET POSITION	<u>(4,860,337)</u>	<u>449,812</u>
NET POSITION (DEFICIENCY IN NET POSITION), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	(24,144,765)	(22,244,098)
RESTATEMENT (NOTE 17)	<u>-</u>	<u>(2,350,479)</u>
NET POSITION (DEFICIENCY IN NET POSITION), BEGINNING OF YEAR, AS RESTATED	<u>(24,144,765)</u>	<u>(24,594,577)</u>
NET POSITION (DEFICIENCY IN NET POSITION), END OF YEAR	<u>\$ (29,005,102)</u>	<u>\$ (24,144,765)</u>

See Notes to Financial Statements.

Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts for financial assistance, management, and services	\$ 74,214,554	\$ 67,825,646
Other miscellaneous receipts	598,515	426,352
Payments for maintenance costs	(897,160)	(935,823)
Payments for operating expenses	(1,334,997)	(890,914)
Payments to employees	(877,108)	(793,956)
Payments for other expenses	(402,886)	(235,606)
	<u>71,300,918</u>	<u>65,395,699</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	159,719,227	145,221,862
Cash paid to bond trustee related to advanced refunding	(42,356,537)	-
Build America Bonds interest subsidy	2,188,638	2,190,999
Payments of bond issuance costs	(761,121)	(564,385)
Payments for capital assets	(99,959,200)	(114,398,067)
Miscellaneous receipts	150,866	912,114
Release from (payments to) escrow deposit on capital assets	-	200,000
Collections of debt service receivables	15,391,449	11,887,914
Transfer of funds from State Universities	4,009,535	4,221,388
Funds received for interagency loan payable	1,200,000	-
Payments from funds held for others	(45,911,925)	(53,674,284)
Funds received and held for others	5,062,272	3,181,693
Principal paid on capital debt	(30,449,959)	(24,825,000)
Interest paid on capital debt	(58,165,089)	(53,243,845)
	<u>(89,881,844)</u>	<u>(78,889,611)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	115,624,517	175,481,025
Purchases of investments	(41,860,343)	(164,496,420)
Interest on investments	3,760,921	3,244,446
	<u>77,525,095</u>	<u>14,229,051</u>
Net cash provided by (used in) investing activities	<u>77,525,095</u>	<u>14,229,051</u>
Net increase (decrease) in cash and cash equivalents	58,944,169	735,139
Cash and cash equivalents, beginning of year	<u>100,222,611</u>	<u>99,487,472</u>
Cash and cash equivalents, end of year	<u>\$ 159,166,780</u>	<u>\$ 100,222,611</u>

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Statements of Cash Flows - Continued
Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 32,377,863	\$ 31,751,062
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	38,884,197	33,711,899
Change in unfunded net pension liability	(27,592)	-
Changes in assets and liabilities:		
Prepaid expenses	(43,911)	(58,320)
Accounts payable and accrued liabilities	86,318	15,329
Accrued payroll and compensated absences	24,043	(24,271)
	<u>\$ 71,300,918</u>	<u>\$ 65,395,699</u>
Net cash provided by (used in) operating activities	<u>\$ 71,300,918</u>	<u>\$ 65,395,699</u>

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Statements of Cash Flows - Continued
Years Ended June 30, 2015 and 2014**

Supplemental cash flows information

Schedule of noncash investing, capital and financing activities

2015

Acquisition of capital assets	\$ 97,884,925
Accounts payable thereon:	
Beginning of year	17,644,901
End of year	(12,610,725)
Net interest incurred and earned, capitalized in construction in progress	(2,959,901)
 Payments for capital assets	 \$ 99,959,200
 Accounts receivable and Interagency payables related to State College capital projects on State College owned property	 \$ 31,749,837
 Unearned interest income on accounts receivable related to State College capital projects on State College owned property	 \$ 14,937,708
 Contractor accounts payable related to State College capital projects on State College owned property	 \$ 4,048,870
 Unrealized gain (loss) on investment securities	 \$ (9,079)

2014

Acquisition of capital assets	\$ 120,433,802
Accounts payable thereon:	
Beginning of year	15,221,483
End of year	(17,644,901)
Net interest incurred and earned, capitalized in construction in progress	(3,612,317)
 Payments for capital assets	 \$ 114,398,067
 Accounts receivable and Interagency payables related to State College capital projects on State College owned property	 \$ 51,774,504
 Unearned interest income on accounts receivable related to State College capital projects on State College owned property	 \$ 22,133,964
 Contractor accounts payable related to State College capital projects on State College owned property	 \$ 4,049,685
 Unrealized gain (loss) on investment securities	 \$ 1,623,011

See Notes to Financial Statements.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 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 Act defines State Colleges as the state universities and community college segment of the Commonwealth's public higher education system. 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 community colleges include Berkshire, Bristol, Bunker Hill, Cape Cod, Greenfield, Holyoke, Massachusetts Bay, Massasoit, Middlesex, Mount Wachusett, North Shore, Northern Essex, Quinsigamond, Roxbury and Springfield Technical (collectively, the "Community Colleges"). The Authority provides bond financing, design and construction management of new facilities, major renovations and capital repairs for its projects at the State Colleges. Annual obligations of the Authority include rent setting and oversight of 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 Colleges to meet the statutory and financial obligations related to the projects.

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

Basis of presentation

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

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

The Authority's policy for defining operating activities in the statements of revenues, expenses, and changes in net 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
June 30, 2015 and 2014**

Net position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three 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.
 - 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.

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, 2015 and 2014.

The Authority has no donor-restricted endowments.

The Authority is currently authorized by its Board and the statutes of the Commonwealth 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.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Notes to Financial Statements
June 30, 2015 and 2014**

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 an 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, 2015 and 2014, 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 16,500 students in 2015 and 15,700 students in 2014, some with dining facilities, at the State Universities.

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

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

Bond issuance costs

Bond issuance costs are expensed as incurred. During fiscal 2015 and 2014, the Authority incurred \$761,121 and \$564,385, respectively, of bond issuance costs.

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.

Pension plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System (MSERS) and additions to/deductions from MSERS's fiduciary net position have been determined on the same basis as they are reported by MSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Notes to Financial Statements
June 30, 2015 and 2014**

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.

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 2015 and 2014, total interest costs were accounted for as follows:

	2015	2014
Total interest incurred	\$ 58,778,751	\$ 54,334,211
Amortization of bond premium	(3,848,587)	(3,566,743)
Amortization of deferred loss	1,717,196	1,683,701
Less: capitalized portion of interest incurred	(3,118,309)	(3,655,914)
Interest expense	\$ 53,529,051	\$ 48,795,255
Capitalized portion of interest incurred	\$ 3,118,309	\$ 3,655,914
Less: interest income on unused funds from tax-exempt borrowings	(158,408)	(43,597)
Net capitalized interest	\$ 2,959,901	\$ 3,612,317

Income 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 2014 financial statements to conform to the 2015 presentation.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Notes to Financial Statements
June 30, 2015 and 2014**

Recently adopted accounting pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier application encouraged. The Authority adopted this standard in fiscal year 2015.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The Authority adopted this standard in fiscal year 2015.

The impact of implementing GASB Statements No. 68 and 71 on the Authority's financial statements is further discussed in Notes 12 and 17.

Note 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 is the risk that, in the event of a bank failure, the Authority's deposits and/or investments may not be returned to it. The Authority does not have a formal policy with respect to the custodial credit risk.

The Authority has two primary commercial banking relationships: Citizens Bank, N.A. ("Citizens") is the Authority's primary depository bank, 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

**Massachusetts State College Building Authority
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**Notes to Financial Statements
June 30, 2015 and 2014**

services and holds the collateral on behalf of and 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 \$40,948,472 and \$51,739,380 as of June 30, 2015 and 2014, 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, 2015 and 2014, the fair market value of the Authority's cash equivalent balances with U.S. Bank of \$118,568,122 and \$57,502,461, 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 fund was not rated for average credit quality at June 30, 2015 and June 30, 2014.

In addition to the commercial banking relationships, the Authority invests its retirement trust fund (Note 12) with the Massachusetts Pension Reserve Investment Trust ("PRIT"). PRIT consists of two investment funds, the Capital Fund and the Cash Fund. Each of these funds is managed, accounted for, and held separately by PRIT's custodian bank, Bank of New York ("BNY") Mellon. The Cash Fund consists of short-term investments, which are used to meet liquidity requirements. All Cash Fund earnings are reinvested. The Cash Fund maintains a stable net asset value of \$1.00 per unit. The Capital Fund is invested in the General Allocation Account, which invests in all asset classes of PRIT in accordance with its asset allocation plan and investment policy guidelines. The Capital Fund serves as the investment portfolio of PRIT and consists of the following investments at June 30, 2015 and 2014: General Allocation (holds units of other accounts), Domestic Equity, Core Fixed Income, Value-Added Fixed Income, International Equity, Emerging Markets, Real Estate, Timer/Natural Resources, Hedge Funds and Private Equity Investments. The funds held in the amount of \$4,390,439 and \$4,245,542 as of June 30, 2015 and 2014, respectively, with PRIT are intended to be used to fund the net pension liability. These funds were not rated for average credit quality at June 30, 2015 and 2014.

The Authority's investments are held at U.S. Bank, Citizens and PRIT and are represented by the following at June 30, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Government Agencies	\$ 55,197,958	\$ 56,584,117	\$ 66,032,459	\$ 67,312,461
Commercial paper	-	-	59,129,875	59,219,253
State taxable bonds	17,475,000	20,690,016	17,475,000	20,615,092
U.S. Treasuries	6,821,484	8,209,389	11,100,022	12,254,866
Mutual funds	4,535,333	4,390,439	4,056,592	4,245,542
	<u>\$ 84,029,775</u>	<u>\$ 89,873,961</u>	<u>\$ 157,793,948</u>	<u>\$ 163,647,214</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

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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.

At June 30, 2015, the Authority's investments in debt securities by contractual maturities and credit quality ratings, based on Moody's Investors Service, Inc., are as follows:

Investment Type	Fair Market Value	Investment Maturities (in years)				Credit Rating
		Less Than 1	1-5	6-10	Greater Than 10	
Fannie Mae Corporation (FNMA) discount notes	\$ 10,039,685	\$ 10,039,685	\$ -	\$ -	\$ -	Aaa
Federal Home Loan Banks (FHLB) U.S. Govt. Issues	2,756,729	2,756,729	-	-	-	Aaa
Strip Coupon Bonds – U.S. Govt. Issues	2,686,055	-	-	2,686,055	-	Aaa
Federal Home Loan Mortgage Corp. MTN (FHLMCMTN) U.S. Govt. Issues	14,582,126	2,109,675	12,472,451	-	-	Aaa
Federal Home Loan Mortgage Corp. (FHLMC) U.S. Govt. Issues	7,063,951	7,063,951	-	-	-	Aaa
Federal Farm Credit Banks (FFCB) U.S. Govt. Issues	11,855,460	2,003,300	1,999,620	7,852,540	-	Aaa
Federal Agri Mortgage Corp (FAMC) U.S. Govt. Issues	7,600,111	7,600,111	-	-	-	Aaa
Various Massachusetts ST Bonds	20,690,016	-	1,430,616	-	19,259,400	Aaa - Aa2
U.S. Government Securities - Treasury Notes	8,209,389	-	-	-	8,209,389	Aaa
Total	\$ 85,483,522	\$ 31,573,451	\$ 15,902,687	\$ 10,538,595	\$ 27,468,789	

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At June 30, 2014, the Authority's investments in debt securities by contractual maturities and credit quality ratings, based on Moody's Investors Service, Inc., are as follows:

Investment Type	Fair Market Value	Investment Maturities (in years)				Credit Rating
		Less Than 1	1-5	6-10	Greater Than 10	
Fannie Mae Corporation (FNMA) U.S. Govt. Issues	\$ 400,424	\$ 400,424	-	-	-	Aaa
Fannie Mae Corporation (FNMA) discount notes	17,644,696	17,644,696	-	-	-	Aaa
Federal Home Loan Banks (FHLB) U.S. Govt. Issues	12,731,218	9,920,338	2,810,880	-	-	Aaa
Strip Coupon Bonds – U.S. Govt. Issues	6,073,351	3,487,994	-	2,585,357	-	Aaa
Federal Home Loan Mortgage Corp. (FHLMC) U.S. Govt. Issues	16,635,513	1,827,466	14,808,047	-	-	Aaa
Federal Farm Credit Banks (FFCB) U.S. Govt. Issues	13,827,259	-	5,997,970	7,829,289	-	Aaa
Commercial Paper (Natixus & Societe Generale)	59,219,253	59,219,253	-	-	-	P-1
Various Massachusetts ST Bonds	20,615,092	-	1,461,901	-	19,153,191	Aaa - Aa2
U.S. Government Securities - Treasury Notes	412,100	412,100	-	-	-	Aaa
U.S. Government Securities - Treasury Notes	8,042,834	53,925	-	-	7,988,909	Aaa
U.S. Government Securities - Treasury Notes	3,799,932	3,799,932	-	-	-	Aaa
Total	\$ 159,401,672	\$ 96,766,128	\$ 25,078,798	\$ 10,414,646	\$ 27,142,100	

Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

The following Authority investments at June 30, 2015 are held by US Bank as custodian and, therefore, are subject to custodial credit risk as follows:

	<u>2015</u>
U.S. Government Agencies	\$ 56,584,117
State taxable bonds	20,690,016
U.S. Treasuries	8,209,389
	<u>85,483,522</u>
Less insured amounts	<u>500,000</u>
	<u>\$ 84,983,522</u>

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Note 3 - Accounts receivable

Accounts receivable include the following at June 30, 2015 and 2014:

	2015	2014
Debt service receivables	\$ 231,750,420	\$ 208,088,284
Interest receivable on investments	476,454	676,945
Other miscellaneous receivables	5,558	-
Build America Bonds interest subsidy receivable	364,773	364,089
	\$ 232,597,205	\$ 209,129,318

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 College with ownership of the underlying asset to also own any related improvements to these facilities. Under this policy, the Authority recognizes as accounts receivable the minimum payments, net of unearned interest income, to be received from the State Colleges. Conversely, the State Colleges recognize a corresponding liability to the Authority.

During fiscal 2015, accounts receivable, net of unearned interest income, totaling \$31,749,837 were recorded in connection with projects at four State Colleges. During fiscal 2014, accounts receivable, net of unearned interest income, totaling \$51,774,504 were recorded in connection with projects at six State Colleges. A corresponding Interagency payable was also recorded by the Authority in both years as discussed further in Note 6.

The components of the Authority's debt service receivables in these State College-owned projects as of June 30, 2015 and 2014 are as follows:

	2015	2014
Total payments to be received	\$ 317,291,194	\$ 287,364,595
Less: Unearned income	(85,540,774)	(79,276,311)
Net debt service receivables in State College-owned projects	\$ 231,750,420	\$ 208,088,284

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The following table sets forth the total payments to be received under these agreements as of June 30, 2015:

Year ending June 30:	
2016	\$ 17,607,021
2017	17,636,697
2018	17,767,769
2019	17,780,907
2020	17,791,387
2021 - 2025	90,464,685
2026 - 2030	84,339,892
2031 - 2035	41,247,461
2036 - 2040	8,369,625
2041 - 2044	<u>4,285,750</u>
Total	<u>\$ 317,291,194</u>

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Note 4 - Capital assets

Capital assets activity for the year ended June 30, 2015 as follows:

	2015			Totals June 30, 2015
	Totals June 30, 2014	Additions	Reclassifications And Reductions	
Land	\$ 6,096,569	\$ 454,966	\$ -	\$ 6,551,535
Construction in progress	113,569,731	92,155,667	(179,155,204)	26,570,194
Total not being depreciated	<u>119,666,300</u>	<u>92,610,633</u>	<u>(179,155,204)</u>	<u>33,121,729</u>
Buildings and improvements	983,459,959	827,786	179,155,204	1,163,442,949
Furnishings and equipment	48,512,098	4,446,506	-	52,958,604
Total depreciable assets	<u>1,031,972,057</u>	<u>5,274,292</u>	<u>179,155,204</u>	<u>1,216,401,553</u>
Total capital assets	<u>1,151,638,357</u>	<u>97,884,925</u>	<u>-</u>	<u>1,249,523,282</u>
Less accumulated depreciation:				
Buildings and improvements	(291,469,276)	(36,223,628)	-	(327,692,904)
Furnishings and equipment	<u>(21,489,619)</u>	<u>(2,660,569)</u>	<u>-</u>	<u>(24,150,188)</u>
Total accumulated depreciation	<u>(312,958,895)</u>	<u>(38,884,197)</u>	<u>-</u>	<u>(351,843,092)</u>
Capital assets, net	<u>\$ 838,679,462</u>	<u>\$ 59,000,728</u>	<u>\$ -</u>	<u>\$ 897,680,190</u>

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Capital assets activity for the year ended June 30, 2014 as follows:

	2014			Totals June 30, 2014
	Totals June 30, 2013	Additions	Reclassifications and Reductions	
Land	\$ 4,223,228	\$ 1,873,341	\$ -	\$ 6,096,569
Construction in progress	134,363,807	108,410,067	(129,204,143)	113,569,731
Total not being depreciated	<u>138,587,035</u>	<u>110,283,408</u>	<u>(129,204,143)</u>	<u>119,666,300</u>
Buildings and improvements	849,912,995	4,342,821	129,204,143	983,459,959
Furnishings and equipment	42,704,525	5,807,573	-	48,512,098
Total depreciable assets	<u>892,617,520</u>	<u>10,150,394</u>	<u>129,204,143</u>	<u>1,031,972,057</u>
Total capital assets	<u>1,031,204,555</u>	<u>120,433,802</u>	<u>-</u>	<u>1,151,638,357</u>
Less accumulated depreciation:				
Buildings and improvements	(260,603,048)	(30,866,228)	-	(291,469,276)
Furnishings and equipment	<u>(18,643,948)</u>	<u>(2,845,671)</u>	<u>-</u>	<u>(21,489,619)</u>
Total accumulated depreciation	<u>(279,246,996)</u>	<u>(33,711,899)</u>	<u>-</u>	<u>(312,958,895)</u>
Capital assets, net	<u>\$ 751,957,559</u>	<u>\$ 86,721,903</u>	<u>\$ -</u>	<u>\$ 838,679,462</u>

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During fiscal year 2015, the Authority acquired the real estate, personal property and improvements located at Worcester Road in Framingham, MA. This capital asset, with a cost basis of \$1,200,000 was acquired by the Authority with funds provided by Framingham State University. In fiscal year 2016, the Authority intends to issue a bond and use bond proceeds to repay Framingham State University. The interagency loan payable has no stated repayment terms.

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, 2015 and 2014.

As of June 30, 2015 and 2014, capital assets with a cost of approximately \$71,700,000 and \$71,500,000 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 \$55,100,000 and \$34,000,000 respectively, as of June 30, 2015 and 2014.

Note 5 - Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2015 and 2014:

	2015	2014
Capital assets and construction payables	\$ 12,610,725	\$ 17,644,901
Accrued bond interest payable	12,046,838	11,484,249
Arbitrage payable - long term	262,254	211,182
Contractor payables for State College owned assets	4,048,870	4,049,685
Authority operating and maintenance expenses	104,435	18,118
	\$ 29,073,122	\$ 33,408,135

Note 6 - Interagency payables

Under the provisions of the Community College Program Series 1, the State University Program Series 2014C, 2014B, 2014A, 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 Colleges on State College-owned property. The State Colleges are required to pay to the Authority the amount necessary to pay the applicable portion of the bond issuance costs and bond principal and interest payments when they become due. The Authority has recorded accounts receivable from the State Colleges reflecting its net debt service receivables in these capital projects as discussed further in Note 3. The unspent bond proceeds for the costs of these projects and related bond amounts are included in the Authority's financial statements under restricted cash and cash equivalents, and restricted investments.

Certain of the State Colleges may also be required to commit additional funding for the projects over and above the amounts provided from bond proceeds. Such amounts (the "State College contributions") received from the State Colleges are also included in restricted cash and cash

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equivalents, and restricted investments. The Authority has recorded corresponding Interagency payables to the State Colleges for the unspent State College contributions, and unspent bond proceeds and related bond amounts. As capital and construction costs relating to these projects are incurred and paid, restricted cash and cash equivalents, and restricted investments, and the corresponding Interagency payables are reduced.

As of June 30, 2015 and 2014, the Authority has an aggregate liability for Interagency payables of \$34,048,013 and \$43,587,491 respectively.

Interagency note payable

In conjunction with the Authority's acquisition of the real estate, personal property and improvements located at Worcester Road in Framingham, MA (Note 4), the Authority was advanced funds by Framingham State University in the amount of \$1,200,000. The advance is unsecured, non-interest bearing and has no formalized repayment terms.

As of June 30, 2015, the Authority has a liability for Interagency note payable of \$1,200,000.

Note 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 has created separate programs for the State Universities and the Community Colleges. 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 for the State University Program is rated Aa2 and AA by Moody's and Standard & Poors, respectively. The Authority's outstanding debt for the Community College Program is not rated.

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The following table summarizes the Authority's outstanding debt as of June 30, 2015:

	Issue Date	Par Amount	Interest Rates (%)	Due May 1,	Effective Interest Rates (%)*	Par Amount Outstanding	Unamortized Premiums	Total Bonds Payable
State University Program Bonds								
Commonwealth-Guaranteed Bonds								
Refunding Series 2004B	02/19/2004	\$ 15,125,000	6.4 - 7.0	2015 - 2016	7.30	\$ 7,795,000	\$ 2,813,285	\$ 10,608,285
Total Commonwealth-Guaranteed Bonds		<u>15,125,000</u>				<u>7,795,000</u>	<u>2,813,285</u>	<u>10,608,285</u>
Project Revenue Bonds								
Refunding Series 2003B	03/05/2003	117,513,022	2.0 - 5.5	2003 - 2039	3.83	100,213,021	5,261,086	105,474,107
Series 2006A	03/08/2006	98,025,000	3.5 - 5.0	2007 - 2041	3.99	2,555,000	401,586	2,956,586
Series 2008A	03/12/2008	95,670,000	3.0 - 5.0	2009 - 2038	4.95	87,930,000	1,902,047	89,832,047
Series 2009A	01/28/2009	128,570,000	3.0 - 5.75	2010 - 2049	5.22	119,370,000	467,673	119,837,673
Series 2009B	12/22/2009	82,085,000	2.0 - 5.0	2011 - 2040	4.80	76,675,000	2,974,422	79,649,422
Series 2009C, Build America Bonds	12/22/2009	66,410,000	4.58 - 5.93	2018 - 2040	5.74	66,410,000	-	66,410,000
Series 2010A	12/17/2010	12,120,000	3.0 - 5.0	2012 - 2018	4.54	5,575,000	422,275	5,997,275
Series 2010B, Build America Bonds	12/17/2010	47,880,000	4.89 - 6.54	2020 - 2040	6.12	47,880,000	-	47,880,000
Refunding Series 2011A	06/08/2011	51,610,000	2.0 - 5.0	2012 - 2025	5.00	45,170,000	5,579,903	50,749,903
Series 2012A	01/04/2012	154,345,000	3.0 - 5.0	2013 - 2041	4.77	151,095,000	11,742,694	162,837,694
Refunding Series 2012B	03/01/2012	149,275,000	3.0 - 5.0	2018 - 2043	4.69	149,275,000	20,830,713	170,105,713
Series 2012C	12/20/2012	153,840,000	2.0 - 5.0	2014 - 2042	3.28	147,975,000	8,173,276	156,148,276
Series 2014A	01/07/2014	130,875,000	2.0 - 5.0	2015 - 2048	4.82	129,445,000	10,851,415	140,296,415
Series 2014B	12/17/2014	91,375,000	3.0 - 5.0	2016 - 2044	4.74	91,375,000	14,951,874	106,326,874
Series 2014C	12/17/2014	10,065,000	3.0 - 5.0	2016 - 2034	4.65	10,065,000	1,735,613	11,800,613
Refunding Series 2014D	12/17/2014	36,110,000	1.0 - 5.0	2015 - 2041	4.61	35,065,000	5,078,324	40,143,324
Total Project Revenue Bonds		<u>1,425,768,022</u>				<u>1,266,073,021</u>	<u>90,372,901</u>	<u>1,356,445,922</u>
Total State University Program Bonds		<u>1,440,893,022</u>				<u>1,273,868,021</u>	<u>93,186,186</u>	<u>1,367,054,207</u>
Community College Program Bonds								
Series 1	03/06/2014	3,000,000	4.25	2015 - 2034	4.50	2,920,000	-	2,920,000
Total Community College Program Bonds		<u>3,000,000</u>				<u>2,920,000</u>	<u>-</u>	<u>2,920,000</u>
Total Bonds		<u>\$ 1,443,893,022</u>				<u>\$ 1,276,788,021</u>	<u>\$ 93,186,186</u>	<u>\$ 1,369,974,207</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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The following table summarizes the Authority's outstanding debt as of June 30, 2014:

	Issue Date	Par Amount	Interest Rates (%)	Due May 1,	Effective Interest Rates (%)*	Par Amount Outstanding	Unamortized Premiums	Total Bonds Payable
State University Program Bonds								
Commonwealth-Guaranteed Bonds								
Refunding Series 2004B	02/19/2004	\$ 15,125,000	6.4 - 7.0	2015 - 2016	6.71	\$ 15,125,000	\$ 2,917,480	\$ 18,042,480
Total Commonwealth-Guaranteed Bonds		<u>15,125,000</u>				<u>15,125,000</u>	<u>2,917,480</u>	<u>18,042,480</u>
Project Revenue Bonds								
Refunding Series 2003B	03/05/2003	117,513,022	2.0 - 5.5	2003 - 2039	3.55	101,848,021	5,481,063	107,329,084
Series 2005A	03/23/2005	36,875,000	3.0 - 5.0	2006 - 2017	4.00	5,285,000	69,565	5,354,565
Series 2006A	03/08/2006	98,025,000	3.5 - 5.0	2007 - 2041	4.81	39,800,000	1,879,188	41,679,188
Series 2008A	03/12/2008	95,670,000	3.0 - 5.0	2009 - 2038	4.93	89,315,000	1,985,348	91,300,348
Series 2009A	01/28/2009	128,570,000	3.0 - 5.75	2010 - 2049	5.19	121,825,000	481,496	122,306,496
Series 2009B	12/22/2009	82,085,000	2.0 - 5.0	2011 - 2040	4.79	77,970,000	3,094,197	81,064,197
Series 2009C, Build America Bonds	12/22/2009	66,410,000	4.58 - 5.93	2018 - 2040	5.74	66,410,000	-	66,410,000
Series 2010A	12/17/2010	12,120,000	3.0 - 5.0	2012 - 2018	4.44	7,295,000	571,265	7,866,265
Series 2010B, Build America Bonds	12/17/2010	47,880,000	4.89 - 6.54	2020 - 2040	6.12	47,880,000	-	47,880,000
Refunding Series 2011A	06/08/2011	51,610,000	2.0 - 5.0	2012 - 2025	4.97	49,190,000	6,146,055	55,336,055
Series 2012A	01/04/2012	154,345,000	3.0 - 5.0	2013 - 2041	4.77	152,520,000	12,197,250	164,717,250
Refunding Series 2012B	03/01/2012	149,275,000	3.0 - 5.0	2018 - 2043	4.69	149,275,000	21,579,122	170,854,122
Series 2012C	12/20/2012	153,840,000	2.0 - 5.0	2014 - 2042	3.34	152,245,000	8,477,870	160,722,870
Series 2014A	01/07/2014	130,875,000	2.0 - 5.0	2015 - 2048	4.75	130,875,000	11,181,713	142,056,713
Total Project Revenue Bonds		<u>1,325,093,022</u>				<u>1,191,733,021</u>	<u>73,144,132</u>	<u>1,264,877,153</u>
Total State University Program Bonds		<u>1,340,218,022</u>				<u>1,206,858,021</u>	<u>76,061,612</u>	<u>1,282,919,633</u>
Community College Program Bonds								
Series 1	03/06/2014	3,000,000	4.25	2015 - 2034	4.44	3,000,000	-	3,000,000
Total Community College Program Bonds		<u>3,000,000</u>				<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Total Bonds		<u>\$ 1,343,218,022</u>				<u>\$ 1,209,858,021</u>	<u>\$ 76,061,612</u>	<u>\$ 1,285,919,633</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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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>
2016	\$ 36,461,778	\$ 63,496,205	\$ 99,957,983
2017	35,538,683	60,564,255	96,102,938
2018	40,940,000	56,680,499	97,620,499
2019	38,709,248	59,474,239	98,183,487
2020	40,834,422	58,063,030	98,897,452
2021 - 2025	233,728,721	219,004,418	452,733,139
2026 - 2030	269,915,169	210,442,407	480,357,576
2031 - 2035	225,080,000	142,567,020	367,647,020
2036 - 2040	234,455,000	65,788,623	300,243,623
2041 - 2045	98,920,000	17,653,625	116,573,625
2046 - 2050	22,205,000	2,446,450	24,651,450
Total	1,276,788,021	<u>\$ 956,180,771</u>	<u>\$ 2,232,968,792</u>
Plus: Unamortized premiums	<u>93,186,186</u>		
	<u>\$ 1,369,974,207</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 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 \$7,865 and \$15,730 were unamortized as of June 30, 2015 and 2014, respectively.

Refunding 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 \$13,461,825 and \$14,223,602 were unamortized as of June 30, 2015 and 2014, respectively. In November 2011 and May 2010, the Authority exercised call options to fully redeem the remaining unpaid principal of the Series

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1999-1 and 2000-1 Bonds, respectively. As of June 30, 2015, the assets held in escrow for the repayment of the remaining Series 1999A Bonds have an aggregate market value of \$91,859,534 with an unpaid principal balance, plus accreted interest, of \$71,721,583.

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 \$1,866,566 and \$2,056,134 were unamortized as of June 30, 2015 and 2014, respectively. During 2014, the Authority exercised the call option to fully redeem the remaining unpaid principal of these bonds.

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 \$11,963,137 and \$12,716,120 were unamortized as of June 30, 2015 and 2014, respectively. As of June 30, 2015, the assets held in escrow for the repayment of the remaining Series 2006A Bonds have an aggregate market value of \$47,963,397 with an unpaid principal balance, plus accreted interest, of \$45,835,000. During 2015 and 2014, the Authority exercised the call options to fully redeem the remaining unpaid principal of the 2005A bonds and 2004A bonds, respectively.

The Refunding Series 2014D Bonds refunded portions of the Authority's Series 2005A and 2006A Bonds. These bonds were refinanced to achieve a total reduction of debt service at issuance of \$6,449,975 and a net present value economic savings at issuance of \$3,604,695. The refunding resulted in a deferred outflow of resources at issuance of \$549,953 of which \$544,948 was unamortized as of June 30, 2015. As of June 30, 2015, the assets held in escrow for the repayment of the remaining Series 2006A Bonds have an aggregate market value of \$36,457,745 with an unpaid principal balance, plus accreted interest, of \$26,845,000. During 2015, the Authority exercised the call option to fully redeem the remaining unpaid principal of the 2005A bonds.

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 funds received from this termination payment are being held in the Series 2005A Bonds Rebate Account. The 2014D Refunding Bonds refunded a portion of the Series 2005A Bonds which necessitated that a portion (\$1,069,938) of the original Series 2005A debt service reserve fund investment agreement be terminated. The funds received from this termination payment are being held in the Series 2005A Bonds Rebate Account.

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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, 2015 and 2014:

	2015	2014
Unamortized balance, beginning	\$ 76,061,612	\$ 68,281,493
Current year additions	22,169,228	11,346,862
Unamortized premium on bonds refunded	(1,196,107)	-
Current year amortization	(3,848,547)	(3,566,743)
Unamortized balance, ending	\$ 93,186,186	\$ 76,061,612

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, 2015 and 2014:

	2015	2014
Balance, beginning	\$ 29,011,586	\$ 30,695,287
Current year additions	549,953	-
Current year amortization	(1,717,198)	(1,683,701)
Balance, ending	\$ 27,844,341	\$ 29,011,586

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Note 8 - Long-term liabilities

Long-term liabilities at June 30, 2015 consisted of the following:

	2015				Current portion
	Beginning balance	Additions	Reductions	Ending balance	
Bonds payable, par	\$ 1,209,858,021	\$ 137,550,000	\$ (70,620,000)	\$ 1,276,788,021	\$ 36,461,778
Unamortized premiums	76,061,612	22,169,268	(5,044,694)	93,186,186	3,995,418
Total bonds payable	<u>1,285,919,633</u>	<u>159,719,268</u>	<u>(75,664,694)</u>	<u>1,369,974,207</u>	<u>40,457,196</u>
Interagency payables	43,587,491	36,667,889	(46,207,367)	34,048,013	23,930,315
Interagency loan payable	-	1,200,000		1,200,000	1,200,000
Net pension liability	2,350,479	-	(472,202)	1,878,277	-
Other liabilities:					
Arbitrage payable	211,182	51,072	-	262,254	-
Compensated absences	187,815	149,355	(114,913)	222,257	105,388
Total long-term liabilities	<u>\$ 1,332,256,600</u>	<u>\$ 197,787,584</u>	<u>\$ (122,459,176)</u>	<u>\$ 1,407,585,008</u>	<u>\$ 65,692,899</u>

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Long-term liabilities at June 30, 2014 consisted of the following:

	2014				Current portion
	Beginning balance	Additions	Reductions	Ending balance	
Bonds payable, par	\$ 1,100,808,021	\$ 133,875,000	\$ (24,825,000)	\$ 1,209,858,021	\$ 31,095,000
Unamortized premiums	68,281,493	11,346,862	(3,566,743)	76,061,612	3,188,587
Total bonds payable	<u>1,169,089,514</u>	<u>145,221,862</u>	<u>(28,391,743)</u>	<u>1,285,919,633</u>	<u>34,283,587</u>
Interagency payables	41,902,756	51,956,198	(50,271,463)	43,587,491	34,812,976
Net pension liability	2,350,479	-	-	2,350,479	-
Other liabilities:					
Arbitrage payable	260,571	-	(49,389)	211,182	-
Compensated absences	<u>177,645</u>	<u>97,918</u>	<u>(87,748)</u>	<u>187,815</u>	<u>84,554</u>
Total long-term liabilities	<u>\$ 1,213,780,965</u>	<u>\$ 197,275,978</u>	<u>\$ (78,800,343)</u>	<u>\$ 1,332,256,600</u>	<u>\$ 69,181,117</u>

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Note 9 - Net position

The net investment in capital assets of (\$12,717,572) at June 30, 2015, includes the effect of deferring the recognition of the losses on bond refundings. The \$27,844,341 balance of the deferred outflows of resources on refunding of debt at June 30, 2015 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:

	2015	2014
Restricted - expendable:		
DCAM/MSCBA contract restricted for life safety and access improvements and repositioning of O'Connor Hall	<u>\$ 905,721</u>	<u>\$ 905,631</u>

Note 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.

Note 11 - Operating expenses

The Authority's operating expenses for the years ended June 30, 2015 and 2014, on a natural classification basis, are comprised of the following:

	2015	2014
Compensation	\$ 901,151	\$ 771,238
Supplies and services	2,649,858	2,017,799
Depreciation	38,884,197	33,711,899
	<u>\$ 42,435,206</u>	<u>\$ 36,500,936</u>

Note 12 - Retirement plan

Substantially all of the Authority's full-time employees are covered by the Massachusetts State Employees' Retirement System ("MSERS"). MSERS, a public employee retirement system ("PERS"), is a cost-sharing multi-employer defined benefit plan that is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. 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.

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MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws ("MGL") establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MSERS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 to 1983	7% of regular compensation
1984 to June 30, 1996	8% of regular compensation
July 1, 1996 to present	9% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

For active Authority employees covered by MSERS, 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 \$101,546, \$97,745 and \$93,243 for the years ended June 30, 2015, 2014 and 2013, respectively, which equaled the required contributions each year. Annual covered payroll was approximately 100% of annual total payroll for the Authority in 2015, 2014 and 2013.

At June 30, 2015, the Authority reported a liability of \$1,878,277 for its proportionate share of the net pension liability as calculated by the Commonwealth of Massachusetts. At July 1, 2014, the Authority had a liability of \$2,350,479 for its proportionate share of the net pension liability (see Note 17). The net pension liability was measured as of January 1, 2014, and the State's total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on an effective contribution methodology which allocates total contributions amongst the employers in a consistent manner based on an employer's share of total covered payroll. At June 30, 2015, the Authority's

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proportion was 0.0253%, which was a decrease of 0.0011% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the Authority recognized pension expense of \$73,954. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 21,114	\$ -
Net difference between projected and actual earnings on pension plan investments	-	385,514
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	-
Changes in proportion from Commonwealth	-	80,210
Total	\$ 21,114	\$ 465,724

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (109,511)
2017	(109,511)
2018	(109,511)
2019	(109,511)
2020	(6,566)
Total	\$ (444,610)

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The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. This valuation used the following assumptions:

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - (i) Pre-retirement - reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct).
 - (ii) Post-retirement - reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct).
 - (iii) Disability - the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of MSERS are with the Pension Reserves Investment Trust ("PRIT") Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.00%	7.20%	7.70%
Core fixed income	13.00%	2.50%	2.00%
Hedge funds	10.00%	5.50%	4.75%
Private equity	10.00%	8.80%	9.00%
Real estate	10.00%	6.30%	6.00%
Value added fixed income	10.00%	6.30%	6.30%
Timber/natural resources	4.00%	5.00%	5.00%
Total	100.00%		

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Authority's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension

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plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

Measurement Year Ended	1% Decrease (7.0%)	Discount Rate (8.0%)	1% Increase (9.0%)
June 30, 2013	\$ 3,189,751	\$ 2,350,479	\$ 1,629,989
June 30, 2014	2,719,213	1,878,277	1,156,450

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth's financial statements.

Note 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.

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, 2015, 2014, and 2013, were \$111,110, \$111,347 and \$110,781, respectively, which equaled the required contributions each year. Required contributions include contributions for the total health plan costs for both active and retired employees.

Note 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

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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, 2015 and 2014, rent expense incurred, including additional costs for monthly storage and parking which are not provided under the terms of the lease agreement, amounted to \$189,923 and \$185,293, respectively.

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

<u>Year ending June 30:</u>	<u>Amount</u>
2016	\$ 173,118
2017	176,902
2018	184,470
2019	184,470
2020	<u>122,980</u>
	<u>\$ 841,940</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 in the accompanying statements of net position (deficiency in net position) amounts to approximately \$35,101,000 at both June 30, 2015 and 2014, with accumulated depreciation of \$3,510,026 and \$2,632,520 as of June 30, 2015 and 2014, 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.

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 in the accompanying statements of net position (deficiency in net position) amounts to approximately \$1,107,000 at both June 30, 2015 and 2014, with accumulated depreciation of \$110,568 and \$82,926 as of June 30, 2015 and 2014, respectively.

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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 \$25,086, respectively, during fiscal 2015 and \$3,214,270 and \$24,474, respectively, during fiscal 2014. 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 2015 and 2014 related to these lease agreements amounted to \$2,005,600 and \$1,949,500, respectively.

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

Year ending June 30:	MCPHS	Harvard Vanguard	Total
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
	\$ 6,344,648	\$ 55,374	\$ 6,400,022

Note 15 - Transfers from State Universities

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 years 2015 and 2014, the Authority received \$2,000,000, and \$2,500,000 respectively from Worcester in accordance with the agreement.

In addition, other transfers from State Universities received in the ordinary course of business totaled \$2,009,535 and \$1,721,388 for fiscal years 2015 and 2014, respectively.

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Note 16 - Miscellaneous nonoperating revenue

As a result of a bankruptcy claim arising from lost earnings due to the termination of several investment agreements, the Authority received \$150,866 and \$912,114 during fiscal years 2015 and 2014, respectively. The Authority recognized this partial settlement payment as miscellaneous nonoperating revenue in the accompanying 2015 and 2014 statements of revenues, expenses and changes in net position. Subsequent to year-end, the Authority has received approximately \$45,894 of additional funds related to this claim.

Note 17 - Restatement

In fiscal 2015, the Authority adopted the new accounting guidance of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The deficiency in net position, as of July 1, 2013, has been decreased by \$2,350,479 for the effect of retroactive application of the new standards. Information to restate deferred inflows and outflows as of July 1, 2013 is not available. The following financial statement line items for 2014 were affected by the adoption of this new standard:

	2014 (As Previously Reported)	2014 (As Restated)	Effect of Change
Statement of Net Position:			
Net pension liability	\$ -	\$ 2,350,479	\$ 2,350,479
Unrestricted net position	(19,619,826)	(21,970,305)	(2,350,479)

Supplementary Information

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**Schedule of the Authority's Proportionate Share of the Net Pension Liability
June 30, 2015**

	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset)	0.0253%	0.0264%
Authority's proportionate share of the net pension liability (asset)	\$ 1,878,277	\$ 2,350,479
Authority's covered-employee payroll	\$ 1,431,639	\$ 1,408,627
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	131.20%	166.86%
Plan fiduciary net position as a percentage of the total pension liability	76.32%	70.31%

* The amounts presented for each fiscal year were determined as of 6/30.

** This schedule is intended to present 10 years of data. Additional years will be presented when available.

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**Schedule of Authority Contributions
June 30, 2015**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 101,546	\$ 97,745
Contributions in relation to the contractually required contribution	<u>\$ (101,546)</u>	<u>\$ (97,745)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 1,431,639	\$ 1,408,627
Contributions as a percentage of covered-employee payroll	7.09%	6.94%

* This schedule is intended to present 10 years of data. Additional years will be presented when available.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

**Notes to Required Supplementary Information
June 30, 2015 and 2014**

Changes of assumptions

Amounts reported in 2015 reflect a change due to Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all member hired after April 1, 2012.

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

Statistical Information (Unaudited)

Schedule of Net Position (Deficiency) by Category

	<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>	<u>2014</u> (as restated)	<u>2015</u>
Net investment in capital assets	\$ (17,302,389)	\$ (15,522,125)	\$ (23,698,356)	\$ (11,777,270)	\$ (21,689,811)	\$ (3,693,773)	\$ 1,380,597	\$ 405,186	\$ (3,080,091)	\$ (12,717,572)
Restricted - expendable	363,076	330,731	106,446	8,976	2,555,116	1,897,286	2,415,383	2,231,469	905,631	905,721
Unrestricted	8,790,712	5,913,292	12,275,407	(834,537)	585,170	(17,664,638)	(19,618,320)	(24,880,753)	(21,970,305)	(17,193,251)
Total Net Position (Deficiency)	\$ (8,148,601)	\$ (9,278,102)	\$ (11,316,503)	\$ (12,602,831)	\$ (18,549,525)	\$ (19,461,125)	\$ (15,822,340)	\$ (22,244,098)	\$ (24,144,765)	\$ (29,005,102)

Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)

Statistical Information (Unaudited)

Changes in Net Position

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u> (as restated)	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Operating Revenue										
Income from assessments	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490	\$ 51,349,024	\$ 55,373,353	\$ 59,081,652	\$ 67,825,646	\$ 74,214,554
Federal grants for debt service	211,890	211,890	211,890	211,890	211,890	211,890	211,886	58,414	-	-
Other miscellaneous revenue	128,063	119,862	174,592	216,054	119,636	568,661	499,035	548,131	426,352	598,515
Total operating revenue	27,385,261	30,528,730	34,101,701	36,983,342	42,785,016	52,129,575	56,084,274	59,688,197	68,251,998	74,813,069
Non-Operating Revenue										
Net investment income	3,898,869	4,864,785	5,009,751	4,674,885	6,393,208	3,977,455	12,643,482	3,045,359	10,763,298	10,702,249
Transfers (to)/from State Universities	978,769	536,914	347,388	1,684,693	440,267	3,352,687	3,050,414	3,981,309	4,221,388	4,009,535
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	2,161,590	2,189,322
Gain (loss) on sale of assets	-	-	-	-	-	400,141	-	-	-	-
Miscellaneous nonoperating revenue	-	-	-	-	-	201,756	546,385	56,777	912,114	150,866
Capital grants	-	-	344,224	34,255	293,073	-	-	-	-	-
Total non-operating revenue	4,877,638	5,401,699	5,701,363	6,393,833	14,709,230	9,819,877	18,601,272	8,889,075	18,058,390	17,051,972
Total Revenue	32,262,899	35,930,429	39,803,064	43,377,175	57,494,246	61,949,452	74,685,546	68,577,272	86,310,388	91,865,041
Operating Expenses										
Maintenance costs	(421,828)	(701,992)	(607,595)	(500,864)	(535,276)	(668,168)	(740,425)	(735,970)	(892,842)	(939,566)
Authority operating costs	(882,143)	(1,012,269)	(1,060,471)	(1,282,995)	(1,392,357)	(1,483,170)	(1,481,186)	(1,621,486)	(1,660,589)	(2,208,557)
Depreciation	(14,577,806)	(15,821,798)	(17,306,821)	(18,614,829)	(20,854,040)	(24,968,701)	(28,603,149)	(29,888,212)	(33,711,899)	(38,884,197)
Other expenses	(164,687)	(239,798)	(181,503)	(224,192)	(583,365)	(162,258)	(294,516)	(426,570)	(235,606)	(402,886)
Total operating expenses	(16,046,464)	(17,775,857)	(19,156,390)	(20,622,880)	(23,365,038)	(27,282,297)	(31,119,276)	(32,672,238)	(36,500,936)	(42,435,206)
Non-operating expense										
Interest expense	(18,470,702)	(18,901,258)	(22,373,377)	(23,668,900)	(27,717,084)	(34,798,750)	(37,776,890)	(41,151,521)	(48,795,255)	(53,529,051)
Bond issuance costs	(295,214)	(382,815)	(311,698)	(371,723)	(402,289)	(780,005)	(2,150,595)	(1,175,271)	(564,385)	(761,121)
Total non-operating expense	(18,765,916)	(19,284,073)	(22,685,075)	(24,040,623)	(28,119,373)	(35,578,755)	(39,927,485)	(42,326,792)	(49,359,640)	(54,290,172)
Total Expenses	(34,812,380)	(37,059,930)	(41,841,465)	(44,663,503)	(51,484,411)	(62,861,052)	(71,046,761)	(74,999,030)	(85,860,576)	(96,725,378)
Increase (decrease) in net position	\$ (2,549,481)	\$ (1,129,501)	\$ (2,038,401)	\$ (1,286,328)	\$ 6,009,835	\$ (911,600)	\$ 3,638,785	\$ (6,421,758)	\$ 449,812	\$ (4,860,337)

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

Statistical Information (Unaudited)

Schedule of Revenue

<u>Institution</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>	<u>2014</u>	<u>2015</u>
Bridgewater	\$ 4,795,486	\$ 5,438,523	\$ 7,822,115	\$ 8,322,153	\$ 10,167,907	\$ 12,019,967	\$ 12,980,504	\$ 12,987,262	\$ 16,281,766	\$ 16,506,948
Fitchburg	2,636,155	2,877,521	2,777,823	3,114,788	4,318,236	4,705,990	4,902,735	5,127,026	5,376,040	5,641,136
Framingham	3,107,535	3,601,883	3,566,123	4,296,966	4,440,318	4,923,218	6,695,874	7,103,882	7,959,801	7,907,969
Mass. College of Art	2,053,837	2,085,066	2,093,382	2,123,909	2,166,434	2,203,147	2,170,707	5,906,206	6,087,404	6,158,757
Mass. College of Liberal Arts	1,327,074	1,480,142	1,540,548	1,607,082	2,225,289	2,397,236	2,742,973	2,609,247	2,592,005	2,664,203
Mass. Maritime Academy	1,470,468	1,753,164	2,604,399	3,076,898	3,376,425	3,545,353	3,710,356	4,110,844	4,194,537	6,929,788
Salem	3,975,228	4,401,671	4,415,071	4,411,494	4,972,018	9,128,481	9,407,195	8,451,618	9,542,570	9,657,655
Westfield	4,563,833	4,979,345	5,002,812	5,552,861	6,264,556	6,649,381	6,943,818	7,402,580	9,996,056	10,382,798
Worcester	3,115,692	3,579,663	3,892,946	4,049,247	4,522,307	5,776,251	5,819,191	5,382,987	5,795,467	8,365,299
Total	\$ 27,045,308	\$ 30,196,978	\$ 33,715,219	\$ 36,555,398	\$ 42,453,490	\$ 51,349,024	\$ 55,373,353	\$ 59,081,652	\$ 67,825,646	\$ 74,214,554

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

Statistical Information (Unaudited)

Room Rates of Residence Facilities

<u>Institution</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>	<u>2014</u>	<u>2015</u>
Bridgewater	\$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	\$6,540-7,740	\$6,740-7,840
Fitchburg	\$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	\$5,230-6,580	\$5,330-6,710
Framingham	\$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	\$6,085-8,830	\$6,380-9,060
Mass. College of Art	\$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	\$8,030-11,220	\$8,190-11,440
Mass. College of Liberal Arts	\$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	\$4,860-5,260	\$5,210-5,510
Mass. Maritime Academy	\$3,098	\$3,366	\$4,100	\$4,668	\$4,978	\$5,125	\$5,300	\$5,470	\$5,910	\$6,440
Salem	\$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	\$6,700-9,500	\$6,980-9,900
Westfield	\$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	\$5,250-7,500	\$5,510-8,350
Worcester	\$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	\$6,920-7,980	\$7,090-8,180

**Massachusetts State College Building Authority
(A Component Unit of the Commonwealth of Massachusetts)**

Statistical Information (Unaudited)

Occupancy as a Percentage of Design Capacity at Residence Facilities

<u>Institution</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>	<u>2014</u>	<u>2015</u>
Bridgewater	105%	104%	103%	104%	101%	100%	100%	99%	95%	99%
Fitchburg	100%	102%	104%	103%	105%	104%	100%	101%	100%	103%
Framingham	100%	100%	99%	101%	101%	104%	100%	100%	100%	98%
Mass. College of Art	98%	101%	99%	100%	100%	99%	100%	99%	99%	99%
Mass. College of Liberal Arts	89%	95%	89%	88%	94%	99%	94%	91%	86%	86%
Mass. Maritime Academy	99%	103%	92%	94%	100%	103%	106%	108%	111%	93%
Salem	103%	101%	100%	104%	106%	94%	102%	107%	106%	107%
Westfield	106%	108%	107%	107%	105%	104%	106%	101%	98%	98%
Worcester	97%	101%	100%	102%	102%	100%	103%	102%	101%	87%
State University Average	100%	103%	101%	102%	102%	101%	101%	101%	99%	98%

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 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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 23, 2015, which included an emphasis of matter paragraph as indicated on page 3.

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 entity'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Boston, Massachusetts
October 23, 2015