

Financial Statements and Report of Independent Certified
Public Accountants

**University of Massachusetts Building Authority
(A Component Unit of the University of
Massachusetts)**

June 30, 2012 and 2011

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Report of Independent Certified Public Accountants

To the Members
University of Massachusetts Building Authority
Boston, Massachusetts

We have audited the accompanying financial statements of the University of Massachusetts Building Authority (the "Authority"), a component unit of the University of Massachusetts, as of and for the years ended June 30, 2012 and 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") included on pages 3 through 9 be presented to supplement the basic financial statements. Such supplementary information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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 MD&A information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Boston, Massachusetts
December 27, 2012

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY (A Component Unit of the University of Massachusetts)

Management's Discussion and Analysis
June 30, 2011 and 2010

This section of the annual financial statements of the University of Massachusetts Building Authority (the "Authority") presents a discussion and analysis of the Authority's financial activity for the fiscal years ended June 30, 2012 and 2011. This discussion has been prepared by management and should be read in conjunction with, and is qualified in its entirety by, the Authority's financial statements and related note disclosures.

INTRODUCTION

The Authority is an independent body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"), which was created by Chapter 773 of the Acts of 1960 of the Commonwealth, as amended (the "Enabling Act"). The Authority was created with the general purposes of providing dormitories, dining commons and other buildings and structures for use by the University of Massachusetts (the "University"), its students, staff and their dependents and other entities associated with the University as specified in the Enabling Act, as requested by authority of the Trustees of the University (the "Trustees").

The Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct, remodel and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Enabling Act authorizes the Authority to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes which are payable solely from its revenues. The Authority's assets and projects are located on all five campuses of the University. The 11 members of the Authority are appointed by the Governor. Five of the members must be Trustees. Two of the other members must be graduates of the University. Non-trustee members serve terms of approximately six years. Trustee members serve as long as they are Trustees. Members whose terms expire continue as members until they are reappointed or replaced.

FINANCIAL HIGHLIGHTS

- Net assets of the Authority continued to grow, reaching \$502.5 million in fiscal 2012 and \$396.2 million in fiscal 2011.
- Capital spending totaled \$439 million in fiscal 2012 which represents a \$183 million increase over fiscal 2011. A majority of the capital spending relates to investments in new buildings, which include a new dormitory for Amherst's Commonwealth Honors College, Lowell's Emerging Technology and Innovation Center ("ETIC") and the Worcester Campus's Albie Sherman Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements comprise two primary components: 1) the financial statements and 2) the notes to the financial statements.

The Financial Statements

The accompanying financial statements are designed to provide readers with a broad overview of the Authority's finances and are comprised of three basic statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Management's Discussion and Analysis - Continued
June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information that shows how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payments to vendors after year-end for services prior to year-end).

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) and disbursements (e.g., cash paid to vendors for services).

The financial statements can be found on pages 10 to 13 of this report.

The Authority's financial statements report its activities as business-type, in accordance with generally accepted accounting principles in the United States for government entities, using the economic resources measurement focus, and the full accrual basis of accounting.

The Authority is a blended component unit of the University. Therefore, the results of the Authority's operations, its net assets, and its cash flows are included in the University's financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding the accounting policies the Authority has adopted as well as additional details of certain amounts contained in the financial statements.

The notes to the financial statements can be found on pages 14 to 35 of this report.

Financial Analysis

As noted earlier, over time net assets may serve as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$502.5 million at the close of the most recent fiscal year.

A portion of the Authority's net assets reflects its investment in capital assets (e.g. buildings, equipment and furnishings) less any related debt used to acquire those assets that is still outstanding for the most recent fiscal year. The Authority uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority's primary sources of funds needed to repay the debt are receipts related to the Authority's financial contracts with the University.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Management's Discussion and Analysis - Continued
June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

University of Massachusetts Building Authority's Net Assets (in thousands):

	June 30, 2012	June 30, 2011	June 30, 2010
Current assets	\$ 31,134	\$ 40,375	\$ 29,169
Non-current assets	2,555,372	2,418,446	1,857,282
Total assets	<u>2,586,506</u>	<u>2,458,821</u>	<u>1,886,451</u>
Current liabilities	479,064	222,617	198,357
Non-current liabilities	1,604,946	1,839,990	1,355,539
Total liabilities	<u>2,084,010</u>	<u>2,062,607</u>	<u>1,553,896</u>
Net assets:			
Invested in capital assets, net of related debts	472,753	341,579	210,636
Restricted	38,790	36,984	105,034
Unrestricted	<u>(9,046)</u>	<u>17,651</u>	<u>16,885</u>
Total net assets	<u>\$ 502,497</u>	<u>\$ 396,214</u>	<u>\$ 332,555</u>

Current assets decreased at fiscal year-end 2012 versus 2011 primarily due to payments related to the timing of accounts receivable, interest receivable, and prepaid expenses, as well as, a \$3.2 million decrease in current investments. Current assets increased from fiscal 2010 to 2011 as the Authority recorded several large receivables at year end. The largest increases related to grant funding for the Authority's Life Sciences project in Worcester and the amounts due for interest subsidy on the Authority's Build America Bonds from the Federal Government.

Non-current assets continued to increase in fiscal 2012 due to work on existing projects as capital assets, net of depreciation, totaled over \$1.6 billion. Furthermore, at year end, the Authority had an effective hedging relationship related to its outstanding interest rate swap agreements ("swaps"). In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"), the Authority was therefore able to defer the related changes in fair value as a deferred outflow at year-end. Deferred outflows totaled \$75.6 million and \$19.5 million at the end of fiscal years 2012 and 2011, respectively.

Current liabilities continued to increase in fiscal 2012 due to two liquidity facilities that will expire in April 2013. These liquidity facilities support the 2008-1 and 2008-A variable rate bonds in the event they cannot be remarketed. In accordance with GASB these bonds must be classified as short term in the current year. Current liabilities increased from fiscal 2010 to fiscal 2011 as the Authority classified the 2011-2 Window bonds as current. The Window bonds are variable rate bonds that allow the bondholder to put the bonds back to the Authority where the Authority has 210 days from the put date to fund the put. Window bonds do not have an outside liquidity vehicle and therefore the bonds are classified as current obligations. Consistent with prior years, the Authority expects to redeem its Window bonds on their original schedule which calls for principal reductions each year through 2034.

Non-current liabilities decreased \$235 million due primarily to the reclassification of long term callable debt discussed above. Non-current liabilities increased from fiscal 2010 to fiscal 2011 due to new bond issues and the accrual of the swap valuation liability required by GASB 53.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Restricted net assets primarily relate to assets restricted to capital projects and debt service. Capital project restricted net assets are funds primarily provided by debt financing for the completion of University projects. Debt service restricted net assets are funds primarily provided as additional collateral to the bond holders (e.g. debt service reserve funds).

Unrestricted net assets are those that are not subject to restrictions, or for which restrictions have expired.

During fiscal year 2012 the Authority was involved in several large construction projects for the University. As funds are spent on the projects, the nature of the net asset related to these funds change from restricted to invested in capital assets. Net assets invested in capital assets and restricted net assets increased in the current year given the significant increase in capital spending. Unrestricted net assets decreased in fiscal 2012 due to the decrease in investment balances as more funding was expended to capital projects.

During fiscal 2011 and 2010 the Authority was involved in several large construction projects for the University. As funds were spent on the projects, the nature of the net asset related to these funds changed from restricted to invested in capital assets. This is shown in the substantial increase in that category of net assets in those years. Restricted net assets increased in fiscal 2010 due to the restricted funds created by the new bond issues.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Management's Discussion and Analysis - Continued
June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

University of Massachusetts Building Authority's Changes in Net Assets (in thousands)

	For the year ended June 30, 2012	For the year ended June 30, 2011	For the year ended June 30, 2010
Operating revenues:			
Financing income and fees for services	\$ 128,825	\$ 103,053	\$ 93,339
Interest income and interest subsidies	19,795	19,434	11,252
Grants from HUD and other revenues	14	76	86
Total operating revenues	<u>148,634</u>	<u>122,563</u>	<u>104,677</u>
Operating expenses:			
Facilities operating and remediation costs	4,508	4,215	4,883
Interest expense	48,028	46,435	39,330
Depreciation and amortization	45,210	41,007	35,332
General and administrative expenses	1,758	1,627	1,696
Total operating expenses	<u>99,504</u>	<u>93,284</u>	<u>81,241</u>
Net operating income	<u>49,130</u>	<u>29,279</u>	<u>23,436</u>
Total non-operating income (expenses)	<u>19,000</u>	<u>(4,256)</u>	<u>(9)</u>
Total capital contributions	<u>38,152</u>	<u>38,636</u>	<u>48,907</u>
Change in net assets	106,282	63,659	72,334
Net assets at the beginning of the year	<u>396,214</u>	<u>332,555</u>	<u>260,221</u>
Net assets at the end of the year	<u>\$ 502,496</u>	<u>\$ 396,214</u>	<u>\$ 332,555</u>

Financing income and fees for services are primarily related to contracts the Authority has with the University. The amounts fluctuate based on the debt service requirements of the Authority bonds in any particular year. Revenue increased in the current year to cover a full year of interest costs on the issues that originated in fiscal 2011.

Interest income experienced a modest decrease in fiscal 2012 given lower investment balances. A \$418 million reduction in the balance of investments at year-end compared to the prior year was primarily driven by increased construction at the Worcester, Amherst and Lowell Campuses for the Sherman Center, Commonwealth Honors, and ETIC Projects. Investment returns remain nominally low given the low market interest rates earned on the fixed income securities that the Authority invests in.

Since 2010, the Authority recorded revenue associated with the interest rate subsidy provided by the United States Government related to the Authority's issuance of bonds under the Build America Bond ("BAB") program. Under the program, the Government provides a direct 35% subsidy of the interest rate paid to bondholders. The interest paid to bondholders is based on the taxable, rather than the tax-exempt, debt market and the interest received by the bondholders is fully taxable to them. A full year subsidy on the 2010-2 BAB - issued in fiscal 2011 - balanced off the decrease in investment returns discussed in the preceding paragraph, to yield a slight net increase of \$361 thousand to 'interest income and interest subsidies' shown in the schedule above, from fiscal 2011 to fiscal 2012. The Authority recorded a substantial reduction in the market values of its investments during fiscal 2010. This was primarily driven by the investments related to the new bond issues.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY

(A Component Unit of the University of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Those investments were generally bought at significant premiums due to the low interest rate environment. As these investments get closer to their maturity date the market value moves toward par, generating market losses.

Facility operating costs primarily reflect the operating costs of the UMass Club, certain operating costs of the Authority, rental expenses and expenses paid by the Authority out of reserves for maintenance of Authority owned buildings. Costs increased compared to the prior year with increases in capital projects related to the club as well as escalating rental costs.

Interest expense represents interest paid to the holders of Authority issued debt. Expenses increased in the current year as a full year of expense was recorded on the fiscal 2011 issues. (See page 24 to page 26 for fiscal 2011 issues)

In both fiscal 2012 and 2011, depreciation expense increased as additional new capital assets were placed into service during those years.

Non-operating income of \$19 million includes a \$22.8 million state appropriation from the Commonwealth to fund the construction of the ETIC project at the Lowell campus - the state has agreed to cover \$35 million in total for the construction and maintenance of the facility. Furthermore, \$3.8 million for the construction of a high speed computing center in Holyoke was transferred from the Authority to the University.

Capital contributions represent certain grants and gifts provided to the Authority for capital construction at the five campuses. During fiscal 2010, the Authority began receiving payments under a \$90 million funding agreement with the Massachusetts Life Sciences Center for the Sherman Center Project on the Worcester campus. The amount of this grant recorded as revenue in 2012 and 2011 was \$34 million and \$25 million, respectively. To date, \$73 million of the \$90 million has been spent towards the project. Furthermore, in fiscal 2012, the Authority received a grant of \$420 thousand from the Commonwealth of Massachusetts for a bio-processing facility at the Dartmouth campus, compared to \$100 thousand in fiscal 2011. The University granted the Authority \$2.7 million in fiscal 2012 as a pass through for the building of projects funded by the Edward M. Kennedy (EMK) Institute, similar grants were made in the prior year totaling \$12.7 million.

CAPITAL ASSETS AND DEBT OF THE AUTHORITY

The Authority's investment in capital assets as of June 30, 2012 amounts to \$1.67 billion, net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, furnishings and equipment. Net capital assets increased by \$425 million or 34% in fiscal 2012. This increase was primarily due to capital improvements and construction in progress outpacing depreciation expenses as follows:

- Improvements increased by \$47 million, net of accumulated depreciation, in fiscal 2012. The increases were primarily due to renovations of existing buildings on the Amherst, Boston and Lowell campuses.
- Construction in progress increased \$398 million in fiscal 2012 as the Authority continued to invest in new construction on the campuses of the University.
- Buildings decreased by \$12 million in fiscal 2012 as depreciation expense offset new investments.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY

(A Component Unit of the University of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2012 and 2011

CAPITAL ASSETS AND DEBTS OF THE AUTHORITY - Continued

The Authority's investment in capital assets as of June 30, 2011 amounted to \$1.2 billion net of accumulated depreciation. Net capital assets increased during the year by \$242.8 million or 24% in fiscal 2011. This increase was due to capital improvements and construction in progress outpacing depreciation expenses as follows:

- Buildings and improvements increased by \$70.2 million, net of accumulated depreciation, in fiscal 2011. The increases were primarily due to renovations of existing buildings on the Amherst, Boston and Lowell campuses.
- Construction in progress increased \$174.1 million in fiscal 2011 as the Authority continued to invest in new construction on all of the campuses of the University.
- Furnishings and equipment decreased by \$3.1 million in fiscal 2011 as depreciation expense offset new investments.

The Authority carries debt in the form of bond obligations. This debt was approximately \$1.9 billion at June 30, 2012 and 2011, respectively. There was a small decrease in the amounts outstanding related to normal bond amortization. Additionally, the Authority records a liability to the U.S. Treasury related to rebate of interest earned on bond proceeds in excess of the allowable or arbitrage yield. The liability at June 30, 2012 and 2011 was \$0 and \$14,000, respectively. The Authority made cash payments for rebate liability to the Internal Revenue Service of \$16,000 during fiscal year 2012. Debt totaled \$1.9 billion and \$1.4 billion at June 30, 2011 and 2010, respectively. The increase in the amounts outstanding relates to six new bond obligations issued by the Authority during those years. These new issues generated \$1.1 billion in project funds covering projects on all five campuses of the University.

THE UNIVERSITY OF MASSACHUSETTS CLUB

The Authority operates the University of Massachusetts Club (the "Club"). The Club is a private club open to membership for alumni, faculty, staff and friends of the University and is located on the 33rd floor of 225 Franklin Street in downtown Boston, Massachusetts. The Club is managed by UMass Club Management, LLC, a wholly owned subsidiary of ClubCorp USA, a nationally known business club management company. More information can be found on the Club's web site, www.umassclub.com.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in them. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, University of Massachusetts Building Authority, 225 Franklin Street, 12th Floor, Boston, Massachusetts 02110. Additional information on the Authority can be found on its web site, www.umassba.net.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)
Statements of Net Assets
June 30, 2012 and 2011

Assets and Deferred Outflows	2012	2011
Current assets		
Cash and cash equivalents (Notes B and C)	\$ 12,843,014	\$ 14,853,603
Investments (Notes B and C)	-	3,222,985
Accounts receivable, net of allowance of \$8,300 and \$53,800, respectively	126,398	232,197
Intergovernmental receivables:		
Massachusetts Life Sciences Center	13,335,256	14,178,459
United States Government	2,308,972	2,359,428
University of Massachusetts	624,830	573,094
Commonwealth of Massachusetts	-	100,000
Interest receivable	401,237	1,960,666
Prepaid expenses and other current assets	1,494,763	2,894,861
Total current assets	<u>31,134,470</u>	<u>40,375,293</u>
Non-current assets and deferred outflows		
Restricted		
Cash and cash equivalents (Notes B and C)	562,416,042	491,290,527
Investments (Notes B and C)	230,065,046	644,367,525
Capital assets, net of accumulated depreciation (Note D)	1,667,355,953	1,242,401,753
Bond issuance costs, net of amortization of \$1,681,744, and \$787,200, respectively	19,762,206	20,656,750
Deferred outflow of resources (Note E)	75,634,211	19,509,570
Other assets	138,513	219,826
Total non-current assets and deferred outflows	<u>2,555,371,971</u>	<u>2,418,445,951</u>
Total assets and deferred outflows	<u>\$ 2,586,506,441</u>	<u>\$ 2,458,821,244</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 58,327,690	\$ 39,677,221
Retainage payable to contractors	18,570,686	6,402,181
Bonds payable, current portion (Note E)	385,244,999	159,065,000
Accrued bond interest payable	15,493,534	15,642,706
Other liabilities	1,427,107	1,829,773
Total current liabilities	<u>479,064,016</u>	<u>222,616,881</u>
Non-current liabilities		
Bonds payable, net of current portion, unamortized bond premium and deferred amount from refundings (Note E)	1,498,835,669	1,788,634,310
Derivative instruments - interest rate swap agreements	106,110,053	51,342,142
U.S. Treasury rebate payable	-	13,678
Total non-current liabilities	<u>1,604,945,722</u>	<u>1,839,990,130</u>
Total liabilities	<u>2,084,009,738</u>	<u>2,062,607,011</u>
Invested in capital assets, net of related debt	472,753,052	341,579,234
Restricted for:		
Capital projects	40,271,874	39,932,955
Debt service	(1,482,101)	(2,948,558)
Unrestricted	<u>(9,046,122)</u>	<u>17,650,602</u>
Total net assets	<u>\$ 502,496,703</u>	<u>\$ 396,214,233</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Financing income and fees for services	\$ 128,824,864	\$ 103,053,211
Interest income	4,589,816	7,670,389
Interest subsidy -United States Government	13,853,829	10,940,801
Realized and unrealized gains and losses on investments, net	1,350,655	822,442
HUD grant and other income	14,842	75,684
	<u>148,634,006</u>	<u>122,562,527</u>
Operating expenses:		
Facility operating costs	4,507,970	4,214,641
Interest expense	48,027,683	46,434,965
Depreciation and amortization	45,209,647	41,007,475
Insurance	805,397	1,010,512
Professional fees	885,762	535,461
Office, administration and miscellaneous	67,782	80,716
	<u>99,504,241</u>	<u>93,283,770</u>
Net operating income	<u>49,129,765</u>	<u>29,278,757</u>
Non-operating revenues (expenses):		
State Appropriations	22,882,750	-
Grant to University of Massachusetts	(3,880,000)	(4,670,623)
U.S. Treasury rebate	(2,269)	415,016
	<u>19,000,481</u>	<u>(4,255,607)</u>
Capital contributions:		
University of Massachusetts (Note G)	2,700,331	12,734,221
Massachusetts Life Sciences Center	35,032,405	25,801,652
Commonwealth of Massachusetts	419,488	100,000
	<u>38,152,224</u>	<u>38,635,873</u>
Change in net assets	<u>106,282,470</u>	<u>63,659,023</u>
Net assets at beginning of year	<u>396,214,233</u>	<u>332,555,210</u>
Net assets at end of year	<u>\$ 502,496,703</u>	<u>\$ 396,214,233</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from financing income, fees for services and other income	\$ 128,930,263	\$ 103,007,998
Cash from U.S. Government	13,904,285	9,690,250
Cash from investments	6,149,245	8,425,266
Payments to bondholders for interest	(52,082,500)	(45,359,828)
Payments to vendors and suppliers	(5,106,959)	(6,721,458)
Payments of salaries and benefits	(1,723,239)	(1,651,800)
Net cash provided by operating activities	<u>90,071,095</u>	<u>67,390,428</u>
Cash flows from capital and related financing activities		
Capital asset expenditures	(438,679,352)	(255,811,185)
Repayment of line of credit obligations	-	(2,524,780)
Repayment of bond principal	(58,190,000)	(281,325,000)
Bond issuance expenses paid	(23,508)	(10,971,478)
Proceeds from state appropriation	22,882,750	-
Proceeds from capital contributions	36,357,823	27,647,137
Proceeds from bond obligations	-	814,877,363
Proceeds from line of credit obligation	-	2,123,993
Net cash (used for) provided by capital and related financing activities	<u>(437,652,287)</u>	<u>294,016,050</u>
Cash flows from non-capital financing activities		
Grant payments to University of Massachusetts	(3,880,000)	(4,670,623)
Net cash flows used for non-capital financing activities	<u>(3,880,000)</u>	<u>(4,670,623)</u>
Cash flows from investing activities		
Purchase of investments	(269,525,435)	(853,847,187)
Proceeds from sale of investments	690,117,501	642,097,357
Payment of U.S. Treasury rebate	(15,948)	(123,105)
Net cash provided by (used for) investing activities	<u>420,576,118</u>	<u>(211,872,935)</u>
Net increase in cash and cash equivalents	<u>69,114,926</u>	<u>144,862,920</u>
Cash and cash equivalents - beginning of year	506,144,130	361,281,210
Cash and cash equivalents - end of year	<u>\$ 575,259,056</u>	<u>\$ 506,144,130</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**(A Component of the University of Massachusetts)**

Statements of Cash Flows - Continued

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	\$ 49,129,765	\$ 29,278,757
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	39,753,806	36,012,056
Unrealized gain from investments	(1,205,323)	(822,442)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Interest receivable	1,559,429	754,877
Prepaid expenses and other current assets	1,400,098	93,006
Accounts receivable, net	105,799	(34,482)
Accounts receivable - US Government	50,456	(1,326,235)
Other assets	81,313	(10,731)
Increase (decrease) in:		
Accounts payable - non-construction related	(252,408)	(476,427)
Accrued bond interest payable	(149,172)	4,200,168
Other liabilities	(402,668)	(278,119)
Net cash provided by operating activities	<u>\$ 90,071,095</u>	<u>\$ 67,390,428</u>
Supplemental disclosure of cash flow information		
Non-cash capital and related financing activities:		
Capital assets acquired and included in accounts and retainage payable	\$ 78,803,749	\$ 45,863,736

The accompanying notes are an integral part of these financial statements.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)**

Notes to Financial Statements
June 30, 2012 and 2011

NOTE A – OPERATIONS OF THE AUTHORITY

The University of Massachusetts Building Authority (the “Authority” or “UMBA”) is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”) and was created by Chapter 773 of the Acts of 1960 of the Commonwealth, as amended (the “Enabling Act”). The purposes of the Authority are to provide dormitories, dining commons and other buildings and structures for use by the University of Massachusetts (the “University”), its students, staff and their dependents and other entities associated with the University as requested by authority of the Trustees of the University (the “Trustees”).

The Enabling Act provides that the Authority shall have eleven members, five of whom shall also be trustees of the University. Members of the Authority are appointed by the Governor of the Commonwealth. Non-trustee members serve terms of approximately six years while trustee members serve until they are no longer trustees of the University. Members whose terms have expired continue to be members until reappointed or replaced.

The major functions of the Authority include the issuance of bonds to finance projects requested by the Trustees; the planning and construction or renovations related to those projects; the setting and collection of fees, rents, rates and other charges related to such projects; debt service administration; and maintenance and repair of its projects. In conjunction with its financings, the Authority has entered into contracts with the Commonwealth, acting by and through the Trustees, with respect to its projects that provide for payments for debt service and other costs of the financings as well as the operating costs of the Authority and its projects.

As stated in the Enabling Act, the Authority may sell bonds and notes, in either a public or private sale, at a price and with such terms as it may determine are in the best interest of the Authority, provided that the bonds of each issue mature no later than fifty years from their date and the sale and terms thereof have been approved by the Treasurer and Receiver-General and the Secretary of Administration and Finance of the Commonwealth or their designees.

The Authority is an agency of the Commonwealth and is exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Authority’s financial statements are included in the University’s financial statements as a blended component unit.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described below.

Basis of Accounting

The Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, the Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses result primarily from providing, operating and maintaining Authority facilities for use by the University. The principal sources of operating revenues include financing income, which represents amounts needed for debt service and related expenses received from the University, income on investments held for capital construction and debt service requirements, and fees charged to the University for services. Operating expenses for the Authority include the interest expense on bonds, facility operating costs, depreciation of capital assets, professional fees and other administrative costs. All revenues and expenses not categorized as operating revenues and expenses are reported as non-operating.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of when the related cash flow takes place.

Restricted Assets

Certain proceeds of the Authority's bonds, as well as, certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by bond trust agreements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**(A Component Unit of the University of Massachusetts)**

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following sets forth the cash and cash equivalent and investment balances in restricted funds as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Capital projects fund	\$ 556,031,659	\$ 486,237,965
Debt service fund	<u>6,384,383</u>	<u>5,052,562</u>
Total restricted cash and cash equivalents	<u>\$ 562,416,042</u>	<u>\$ 491,290,527</u>
Investments		
Capital projects fund	\$ 224,746,990	\$ 639,049,469
Debt service fund	<u>5,318,056</u>	<u>5,318,056</u>
Total restricted investments	<u>\$ 230,065,046</u>	<u>\$ 644,367,525</u>

Capital Assets and Depreciation

Property, Plant and Equipment are stated at cost on the date of acquisition, or at the fair market if contributed. Construction in progress is included as a capital asset. Construction in progress is stated at cost, which includes direct construction costs and other expenditures related to construction including capitalized interest, if any. All construction costs related to projects which are not yet completed are charged to construction in progress until such time as the projects are completed and placed in operation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets from the date the property is placed in operation. Land is not depreciated. The useful lives applicable to the Authority are as follows:

Buildings	20 to 50 years
Building and leasehold improvements	3 to 20 years
Equipment	4 to 10 years
Furnishings	3 to 10 years

Capitalized Interest

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. Interest capitalized during the years ended June 30, 2012 and 2011 totaled approximately \$41,433,700 and \$35,154,000, respectively, net of interest income of \$1,778,600 and \$6,262,100, respectively.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and cash equivalents include cash balances maintained in checking accounts, overnight repurchase agreements and amounts held in permitted money market mutual funds.

Contracts with the University

The Authority has entered into various contracts with the University, acting by and through the Trustees, related to the management of certain Authority projects and the payment to the Authority of certain fees and operating costs. The Authority fixes fees, rents, rates and other charges for the use of its projects in amounts sufficient to provide for the debt service and other payments related to the Authority's obligations and for the Authority's operating expenses. These contracts generally call for the Trustees to bill and collect all revenue derived from the projects and remit to the Authority or to the trustee under the Authority's trust agreements (the Bond Trustee) funds sufficient to cover debt service on its bonds and its costs of operations and financial obligations with respect to the projects.

Investments

Investments in marketable securities are stated at fair value.

Investments in repurchase agreements are non-participating interest earning investment contracts and are recorded at cost. These repurchase agreements are secured by cash or investments with a fair market value between 100% and 105% of the repurchase price, depending on the type of asset used as security and the specific repurchase agreement. These repurchase agreements can be redeemed at any time for the repurchase price provided the redemption proceeds are used for a purpose permitted by the respective repurchase agreement.

Realized and unrealized gains (losses) on investments include the net changes in the fair value of investments.

Net Assets

Net assets are reported in three categories:

Invested in capital assets, net of related debt – This category consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets – This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This category consists of net assets which do not meet the definition of the two preceding categories.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Grants and Capital Contributions

Capital contributions are generally grants for capital asset acquisition, facility development and long-term planning studies are reported in the statements of revenues, expenses and change in net assets after non-operating revenues and expenses as capital contributions when such items are capitalized. Non-capital grants are recognized as non-operating revenue. Revenue from these grants and similar items are recognized when all eligibility requirements imposed by the grantor have been met.

Risk Management

Significant losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage, and settlement amounts have not exceeded insurance coverage, for the current year or the three prior years. In fiscal 2010, the Authority created an Owners Controlled Insurance Program (the “OCIP”). The OCIP provides insurance coverage for companies working on certain Authority construction projects. There were no significant insurance claims under the OCIP for the current or prior year.

Reclassifications

Certain prior year amounts have been reclassified in the accompanying financial statements to conform to the current year presentation.

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.

Adoption of New Accounting Standard

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The adoption of this standard has no retroactive or current year impact on the Authority.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE C – CASH DEPOSITS AND INVESTMENTS

Cash Deposits – Custodial Credit Risk

The Authority holds a majority of its cash and cash equivalents in high quality money market mutual funds that invest in securities that are permitted investments under the Authority’s Enabling Act or in money market mutual funds that have been specifically permitted by state legislation. The Authority’s cash and cash equivalents consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fully insured bank accounts	\$ 56,075	\$ 70,483
Permitted money market accounts (MMA)	<u>575,202,981</u>	<u>506,073,647</u>
Total cash and cash equivalents	<u>\$ 575,259,056</u>	<u>\$ 506,144,130</u>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2012 and 2011, the Authority’s cash deposits of \$56,075 and \$70,483, respectively, were not subject to custodial credit risk as they were fully insured. For purposes of disclosure under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, money market accounts investing in debt securities are considered investments and therefore, are included in the investment disclosures that follow.

Investments

As of June 30, 2012, the Authority’s investments consisted of the following:

<u>Investment type</u>	<u>Investment Maturities (in Years)</u>			
	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Debt Securities				
US Treasuries	\$ 10,246,900	\$ -	\$ 10,246,900	\$ -
US Agencies	214,500,089	30,495,174	184,004,914	-
Repurchase Agreements	5,318,057	-	-	5,318,057
MMA	<u>575,202,981</u>	<u>575,202,981</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 805,268,027</u>	<u>\$ 605,698,155</u>	<u>\$ 194,251,814</u>	<u>\$ 5,318,057</u>

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE C – CASH DEPOSITS AND INVESTMENTS - Continued

As of June 30, 2011, the Authority’s investments consisted of the following:

<u>Investment type</u>	<u>Investment Maturities (in Years)</u>			
	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Debt Securities				
US Treasuries	\$ 70,961	\$ 70,961	\$ -	\$ -
US Agencies	642,201,493	103,036,767	519,234,526	19,930,200
Repurchase Agreements	5,318,056	-	-	5,318,056
MMA	506,073,647	506,073,647	-	-
Total	<u>\$ 1,153,664,157</u>	<u>\$ 609,181,375</u>	<u>\$ 519,234,526</u>	<u>\$ 25,248,256</u>

Because money market funds are highly liquid, they are presented as investments with maturities of less than one year.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the Authority holds its investments until maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Enabling Act specifies the permitted investments of the Authority. These permitted investments include direct obligations of or obligations which are unconditionally guaranteed by the United States of America (“Treasuries”), obligations of an agency or organization created pursuant to an act of Congress of the United States as an agency or instrumentality thereof (“Agencies”), time deposits or certificates of deposits fully secured by Treasuries or Agencies, and Treasuries and Agencies subject to repurchase agreements. Other legislation allows the Authority to invest in the Massachusetts Municipal Depository Trust (the “MMDT”), a money market account sponsored by the Treasurer of the Commonwealth and managed by Fidelity Investments. Additionally, the Authority’s Bond Trustee invests some of the Authority’s funds in money market accounts that are permitted and collateralized by Treasuries.

No credit risk disclosures are required under GASB 40 relating to the Authority’s investment in Treasuries. The Authority’s investments in Agencies are at highly rated by Standard & Poor’s Rating Services and Moody’s Investors Service, Inc. The Authority’s investments in repurchase agreements are not rated but are fully collateralized by Treasuries and Agencies. MMDT is unrated.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE C – CASH DEPOSITS AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's Enabling Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk, except that, interest-bearing time deposits or certificates of deposit of banking institutions or trust companies must be continuously and fully secured by Treasuries or Agencies.

Custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds or government investment pools (such as MMDT). Direct investments in marketable securities are held by the Authority's Bond Trustee as the Authority's agent. In accordance with the Authority's repurchase agreements, collateral for the agreements is held in segregated accounts with market values between 100% and 105% of the repurchase price, depending on the type of asset used as security and the specific repurchase agreement.

Concentrations of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. As of June 30, 2012, the Authority had 10.1% of its investments with the Federal Home Loan Mortgage Corporation. As of June 30, 2011, the Authority had 16.1% of its investments with the Federal Home Loan Mortgage Corporation, 16.1% of its investments with the Federal Home Loan Bank and 21.6% of its investments with the Federal National Mortgage Association.

NOTE D – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2010	Additions/ Transfers	Balance June 30, 2011	Additions/ Transfers	Balance June 30, 2012
Land	\$ 20,240,000	\$ 1,545,000	\$ 21,785,000	\$ -	\$ 21,785,000
Buildings	900,357,747	35,584,205	935,941,952	6,327,847	942,269,799
Building improvements	257,727,015	70,374,769	328,101,784	64,705,980	392,807,764
Equipment and furnishings	30,334,446	1,441,290	31,775,736	424,599	32,200,335
Construction in progress	89,943,496	174,121,299	264,064,795	397,787,715	661,852,510
	<u>1,298,602,704</u>	<u>283,066,563</u>	<u>1,581,669,267</u>	<u>469,246,141</u>	<u>2,050,915,408</u>
Less: accumulated depreciation	<u>299,047,283</u>	<u>40,220,231</u>	<u>339,267,514</u>	<u>44,291,941</u>	<u>383,559,455</u>
Total capital assets, net	<u>\$ 999,555,421</u>	<u>\$ 242,846,332</u>	<u>\$ 1,242,401,753</u>	<u>\$ 424,954,200</u>	<u>\$ 1,667,355,953</u>

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE D – CHANGES IN CAPITAL ASSETS - Continued

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2012 and 2011 of approximately \$306,800,700 and \$478,584,700, respectively.

NOTE E – BONDS PAYABLE

The following is a summary of bond transactions of the Authority for the years ended June 30, 2012 and 2011:

	<u>Bonds payable</u>	<u>Unamortized original issue premiums</u>	<u>Unamortized deferred amount from refundings</u>	<u>Total</u>
Beginning balance - July 1, 2010	\$ 1,468,320,000	\$ 29,786,619	\$ (42,048,254)	\$ 1,456,058,365
Increases	789,050,000	21,177,979	(32,266,688)	777,961,291
Decreases	<u>281,325,000</u>	<u>6,933,221</u>	<u>(1,937,875)</u>	<u>286,320,346</u>
Ending balance - June 30, 2011	<u>\$ 1,976,045,000</u>	<u>\$ 44,031,377</u>	<u>\$ (72,377,067)</u>	1,947,699,310
Less: Due within one year				<u>159,065,000</u>
Non-Current balance				<u>\$ 1,788,634,310</u>
Beginning balance - July 1, 2011	\$ 1,976,045,000	\$ 44,031,377	\$ (72,377,067)	\$ 1,947,699,310
Increases	-	-	-	-
Decreases	<u>58,190,000</u>	<u>8,085,358</u>	<u>(2,656,716)</u>	<u>63,618,642</u>
Ending balance - June 30, 2012	<u>\$ 1,917,855,000</u>	<u>\$ 35,946,019</u>	<u>\$ (69,720,351)</u>	1,884,080,668
Less: Due within one year				<u>385,244,999</u>
Non-Current balance				<u>\$ 1,498,835,669</u>

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Aggregate annual maturities of principal and interest on long-term debt as of June 30, 2012 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,775,000	\$ 78,297,373	\$ 139,072,373
2014	67,375,000	75,536,500	142,911,500
2015	66,860,000	72,492,822	139,352,822
2016	68,340,000	69,353,954	137,693,954
2017	70,765,000	66,117,539	136,882,539
2018-2022	381,290,000	278,423,501	659,713,501
2023-2027	385,220,000	200,462,689	585,682,689
2028-2032	355,695,000	129,521,961	485,216,961
2033-2037	292,805,000	65,174,808	357,979,808
2038-2040	168,730,000	11,903,364	180,633,364
Total	<u>\$ 1,917,855,000</u>	<u>\$ 1,047,284,511</u>	<u>\$ 2,965,139,511</u>

The 2008-1 and 2008-A variable rate bonds are classified as a current long term debt obligations as a result of the liquidity facilities expiring in April 2013. The Authority expects to redeem these variable rate bonds on their original principal amortization schedule. In addition, the 2011-2 window bonds have no supporting liquidity facility and are also classified as a current long term debt obligation. Consistent with prior years, the Authority expects to redeem those bonds based on their original amortization schedule.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

The following is a summary of bonds outstanding for the years ended June 30, 2012 and 2011 (bond amounts in thousands):

Bond Description	Outstanding, June 30,		Interest Rate	Maturity Year	Amount Issued	Insured	Commonwealth Guaranteed (Note D)	Callable	Call Date Beginning
	2012	2011							
Facilities Revenue Bonds, Senior 2000-A	\$ -	\$ 1,645	4.750%	2011	\$ 46,980	No	Yes	No	-
Project Revenue Bonds, Senior Series 2003-1	17,665	23,045	3.875% to 5.25%	2014	137,970	AMBAC	No	At Par	Nov-13
Project Refunding Bonds, Senior Series 2004-1	32,195	39,935	5.250%	2016	183,965	AMBAC	No	At Par	Nov-14
Project Revenue Bonds, Senior Series 2004-A	8,765	10,735	4.20% to 4.50%	2015	96,025	MIBIA	Yes	At Par	Nov-14
Refunding Revenue Bonds, Senior Series 2005-1	10,440	12,745	5.00%	2016	25,595	AMBAC	No	At Par	May-15
Refunding Revenue Bonds, Senior Series 2005-2	189,645	197,825	5.000%	2025	212,550	AMBAC	No	At Par	Nov-15
Taxable Refunding Revenue Bonds, Senior Series 2006-2	5,375	7,860	5.47% to 5.49%	2014	21,240	AMBAC	No	No	-
Project Revenue Bonds, Senior Series 2008-1	208,515	215,120	Variable	2038	232,545	No	No	At Par	Anytime
Project Revenue Bonds, Senior Series 2008-2	110,750	113,105	4.00% to 5.00%	2038	120,560	USA (Partial)	No	At Par	May-18

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE – Continued

Bond Description	Outstanding June 30, 2012	Outstanding June 30, 2011	Interest Rate	Maturity Year	Amount Issued	Insured	Commonwealth Guaranteed (Note 11)	Callable	Call Date Beginning
Project Revenue Bonds, Senior Series 2008-A	\$ 23,630	\$ 24,435	Variable	2038	\$ 26,580	No	Yes	At Par	Anytime
Project Revenue Bonds, Senior Series 2009-1	228,665	240,120	3.00% to 5.00%	2039	247,810	No	No	At Par	May-19
Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	271,855	271,855	6.423% to 6.573%	2039	271,855	No	No	At Par	May-18
Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable)	28,155	28,570	5.823% to 6.173%	2039	28,570	No	No	*	Anytime
Project Revenue Bonds, Senior Series 2010-1	114,275	118,985	5.00%	2020	118,985	No	No	No	-
Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	430,320	430,320	3.80% to 5.45%	2040	430,320	No	No	*	Anytime

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Bond Description	Outstanding June 30,		Interest Rate	Maturity Year	Amount Issued	Insured	Commonwealth Guaranteed (Note H)	Callable	Call Date Beginning
	2012	2011							
Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable)	\$ 2,965	\$ 3,005	5.75%	2040	\$ 3,005	No	No	*	Anytime
Refunding Revenue Bonds, Senior Series 2011-1	133,765	135,040	Variable	2034	135,040	No	No	At Par	Anytime
Refunding Revenue Bonds, Senior Series 2011-2	100,875	101,700	Variable	2034	101,700	No	Yes	At Par	Anytime
Total	<u>\$ 1,917,855</u>	<u>\$ 1,976,045</u>							

* = These series of bonds are callable at the Make-Whole Redemption Price which equals the greater of the outstanding principal balance or the present value of the scheduled future principal and interest payments, which payments are discounted at the Treasury Rate plus 25 basis points (2009 Series Bonds) or 30 basis points (2010 Series Bonds)

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)

Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Variable Rate Bonds

The 2008-1 bonds are supported with an irrevocable direct pay letter of credit (the “Lloyds LOC”) issued by Lloyds TSB Bank plc (“Lloyds”). Upon presentation of required documentation, the Lloyds LOC will pay the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The Lloyds LOC expires in April 2013 and may be extended at the option of Lloyds. Under the terms of the Lloyds LOC, the Authority is required to pay Lloyds in quarterly installments a facility fee in the amount of 26.5 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Authority in connection with the Lloyds LOC totaled \$570,000 and \$585,500 for the years ended June 30, 2012 and 2011, respectively.

The 2008-A bonds are supported by a standby bond purchase agreement with Bank of America, N.A. (“BofA”) which requires BofA to purchase bonds tendered, and not remarketed, in an amount not to exceed the principal on the bonds plus accrued interest up to 184 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Authority is required to pay BofA in quarterly installments a facility fee in the amount of 12 basis points of the initial commitment. The initial commitment under the agreement was set at \$28 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in April 2013 and may be extended at the option of BofA. Fees accrued by the Authority in connection with the standby bond purchase agreement totaled \$43,600 and \$37,600 for the years ended June 30, 2012 and 2011, respectively.

The 2008-3 bonds were supported with an irrevocable direct pay letter of credit (the “BofA LOC”) issued by Bank of America NA (“BofA”). Upon presentation of required documentation, the BofA LOC would have paid the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The BofA LOC expired in 2011 and could have been extended at the option of BofA. Under the terms of the BofA LOC, the Authority was required to pay BofA in quarterly installments a facility fee in the amount of 55 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Authority in connection with the BofA LOC totaled \$0 and \$762,700 for the years ended June 30, 2012 and 2011, respectively. The BofA LOC terminated when the 2008-3 bonds were refunded in June of 2011.

The 2008-4 bonds were supported by a standby bond purchase agreement with Bank of America, N.A. (“BofA”) which required BofA to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 184 days at an annual interest rate not to exceed 12%. Under this agreement, the Authority was required to pay BofA in quarterly installments a facility fee in the amount of 35 basis points of the initial commitment. The initial commitment under the agreement was set at \$110,000,000 and was subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expired in 2011 and could have been extended at the option of the BofA. Fees accrued by the Authority in connection with the standby bond purchase agreement totaled \$0 and \$361,700 for the years ended June 30, 2012 and 2011, respectively. The agreement terminated when the 2008-4 bonds were refunded in June of 2011.

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Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

The 2011-1 bonds are supported by a standby bond purchase agreement with Wells Fargo Bank, N.A. (“Wells”) which requires Wells to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 185 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Authority is required to pay Wells in quarterly installments a facility fee in the amount of 40 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the agreement was set at \$135,040,000 and is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2014 and may be extended at the option of the Wells. Fees accrued by the Authority in connection with the standby bond purchase agreement totaled \$674,600 and \$33,400 for the years ended June 30, 2012 and 2011, respectively.

Window Bonds

In fiscal year 2011, the Authority issued its 2011-2 bonds in a variable rate Window Bond mode. As with the Authority’s other variable rate bonds, the Window Bondholders can tender the bonds at any time. But unlike the Authority’s other variable rate bonds, where the bondholders will receive payment on any tendered bonds 7 days from the tender, Window Bondholders are not required to receive funds for the tender until after a 30 day remarketing period and an additional 180 day funding window period. Due to this 210 day funding period, the Authority is not required to obtain any type of liquidity support for the 2011-2 bonds and the bonds are considered supported with self-liquidity. Window Bondholders receive an interest rate on the Window Bonds at a fixed spread over the Securities Industry and Financial Markets Association Municipal Swap Index™ (“SIFMA”). The initial spread to the SIFMA index is 9 basis points (.09%).

Bond Refundings

In fiscal year 2011, the Authority refunded the 2008-3 and 2008-4 series bonds with its 2011-1 and 2011-2 series bonds. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds, which were fully repaid in August 2012 when the 2008-3 and 2008-4 series bonds were called.

In previous fiscal years, the Authority has advanced refunded various bonds by depositing into various trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds could be called. Assets held in the trust accounts for this purpose had an aggregate market values of approximately of \$311,733,800 and \$315,699,600 as of June 30, 2012 and 2011, respectively. The unpaid principal amount of the refunded bonds totaled \$292,010,000 and \$294,300,000 as of June 30, 2012 and 2011, respectively.

These advanced refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt have not been recorded in the Authority’s financial statements.

In connection with the Authority’s prior advanced refundings, the Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$45,462,000. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in interest expense over the original life of the refunded bonds. The refundings reduced the Authority’s debt service payments in future years by approximately \$26,206,000 and resulted in an economic gain (the present value of the savings) of approximately \$16,021,100.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Bond Premium and Issuance Expenses

In connection with the Authority's bond issues, the Authority received premiums at issuance totaling approximately \$67,328,400. The Authority will amortize the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Authority's bonds issues, the Authority incurred certain issuance costs associated with the bond offerings totaling approximately \$23,987,700. These issuance costs have been capitalized by the Authority and will be amortized over the life of the respective bond issue.

Interest Rate Swaps

The Authority uses derivative instruments to attempt to manage the impact of interest rate changes on its cash flows and net assets. The Authority utilizes these instruments in an attempt to mitigate its exposure to certain market risks associated with operations, and does not use derivative instruments for trading or speculative purposes.

The Authority's contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB Statement No. 53") to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate risk exposures.

The Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB Statement No. 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow on the Statement of Net Assets until the contract is settled or terminated.

All settlement payments or receipts for hedging derivative instruments are recorded as interest expense in the period settled.

The Authority's hedging derivative instruments at June 30, 2012 and 2011 were as follows:

	Fair Value June 30, 2012	Net Change in Fair Value	Fair Value June 30, 2011	Type of Hedge	Financial Statement Classification for Changes in Fair Value
Series 2008-1 Swap	\$ (44,721,136)	\$ (24,877,264)	\$ (19,843,872)	Cash Flow	Deferred outflow
Series 2008-A Swap	(5,126,392)	(2,807,890)	(2,318,502)	Cash Flow	Deferred outflow
Series 2006-1 Swap	<u>(56,262,525)</u>	<u>(27,082,757)</u>	<u>(29,179,768)</u>	Cash Flow	Deferred outflow
Total	<u>\$ (106,110,053)</u>	<u>\$ (54,767,911)</u>	<u>\$ (51,342,142)</u>		

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2012 are summarized in the table below:

	Type	Effective Date	Termination Date	Rate Authority Pays	Authority Receives	Original Notional Value
Series 2008-1 Swap	Synthetic Fixed	May 1, 2008	May 1, 2038	3.388%	70% of 1-Month LIBOR	\$ 232,545,000
Series 2008-A Swap	Synthetic Fixed	Nov 13, 2008	May 1, 2038	3.378%	70% of 1-Month LIBOR	\$ 26,580,000
Series 2006-1 Swap	Synthetic Fixed	Apr. 20, 2006	Nov. 1, 2034	3.482%	60% of 3-Month LIBOR + .18%	\$ 243,830,000

Fair Values. The fair values of the swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements. As of June 30, 2012 and 2011, the Authority's swaps had a negative fair value of \$106.1 million and \$54.8 million, respectively.

Credit risk. As of June 30, 2012, the Authority was not exposed to credit risk on the swaps with as the fair value was negative. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive which would expose the Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Authority's counterparties at June 30, 2012 are as follows:

	Credit Ratings		
	Moody's	S & P	Fitch
UBS AG	A2	A	A
Deutsche Bank AG	A2	A+	A+
Citi Bank NA	A3	A	A

Basis risk. The Authority is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payment received by the Authority (a percent of LIBOR) on these hedging derivative instruments are based on indexes other than the actual interest rates the Authority pays on its hedged variable rate debt. Should the relationship between LIBOR and the actual variable rate interest payments on the bonds converge, the expected cost savings may not materialize. The terms of the related hedging fixed rate swap transactions are summarized in the chart above.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Termination risk. The Authority's swaps are governed under the International Swap Dealers Association Master Agreement (the "Master Agreement"), which includes standard termination events, such as failure to pay and bankruptcy. Additionally, the Master Agreement was amended so that the swap may be terminated by the Authority if the counterparty's credit quality rating falls below certain levels or the counterparty fails to have a rating. Further, the swap may be terminated by the counterparties if the long-term, unsecured, unenhanced senior debt rating of any bonds issued by the Authority is withdrawn, suspended or falls below certain levels or the Authority fails to have a rating. The Authority or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The Authority may also terminate the swaps at its option. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate and the Authority's interest payment will be based solely upon the rate required by the related bonds as issued. When a termination event occurs, a mark-to-market (or "fair market value") calculation is performed to determine whether the Authority is owed or must pay cash to close out the swap position. A negative fair value means the Authority would incur a loss and need to make a termination payment to settle the swap position. A positive fair value means the Authority would realize a gain and receive a termination payment in settlement of the swap position.

Contingencies. All of the Authority's swaps include provisions that require the Authority to post collateral in the event its credit rating falls below certain levels. In the event the Authority is rated A2 by Moody's Investors Service or A by Standard & Poor's, the Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above \$10 million. In the event the Authority is not rated or rated below A3 by Moody's Investors Service or below A- by Standard & Poor's, the Authority must post collateral in the amount of the fair value of the swaps in liability positions. The collateral posted is to be in the form of cash, obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The Authority's credit rating is Aa2 from Moody's Investors Service and AA from Fitch Ratings at June 30, 2012; therefore, no collateral has been posted.

Termination of Hedge Accounting. In June of 2011, the Authority undertook an advance refunding of the 2008-3 and 2008-4 variable rate bonds hedged by the Series 2006-1 Swap. As part of the refunding, the Series 2006-1 swap was re-assigned to a new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. This refunding and reassignment effectively terminated the original hedge. At June 30, 2011, the Series 2006-1 Swap was considered a hedging derivative instrument. In accordance with GASB Statement No. 53, at the time of a termination event related to an advance refunding of the hedged debt, the balance of the amounts in deferred outflows is to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. The balance of the deferred outflows that was included in the net carrying amount of the refunded debt at the time of the refunding was \$22.2 million. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2012 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2012.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE E – BONDS PAYABLE - Continued

Swap payments and associated debt. Using rates as of June 30, 2012, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As actual rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2013	\$ 9,680,000	\$ 394,580	\$ 14,871,309	\$ 24,945,889
2014	10,050,000	388,284	14,577,503	25,015,787
2015	10,430,000	381,187	14,251,251	25,062,438
2016	10,845,000	374,329	13,931,574	25,150,903
2017	11,625,000	365,448	13,535,733	25,526,181
2018-2022	94,640,000	1,668,369	60,971,643	157,280,012
2023-2027	158,250,000	1,044,987	38,932,475	198,227,462
2028-2032	124,330,000	397,463	15,578,055	140,305,518
2033-2037	35,035,000	48,224	1,813,515	36,896,739
2038	825,000	495	26,809	852,304
Total	<u>\$ 465,710,000</u>	<u>\$ 5,063,366</u>	<u>\$ 188,489,867</u>	<u>\$ 659,263,233</u>

NOTE F – DUE TO BANK OF AMERICA

The Authority maintains a Revolving Line of Credit (the “Line”) with Bank of America, N.A (the “Bank”). The Line matures on the anniversary of the date of the agreement and can be extended or renewed at the option of the Bank. At the time of each draw on the Line, the Authority must elect to have the interest on the draw calculated based on (a) a percentage of the one-month, two-month or three-month LIBOR rate (“LIBOR Rate”) plus a fixed rate or (b) the higher of 75% Federal Funds Rate plus 0.5% or 75% the Bank’s “prime rate” (“Base Rate”). Interest is due at the end of the one, two or three month period under a LIBOR Rate draw, the first business day of the calendar quarter for Base Rate draws or the Line’s maturity date, whichever comes first. During the term of the Line, the Authority can elect to have the interest charges incorporated into a subsequent draw.

In November 2008, the Authority renewed the Line for an additional 12 months. At the time of the renewal, the Line was increased to \$35,000,000 from \$30,000,000, the percentage of the various LIBOR rates was set at 77% with an additional rate of 0% and a fee was added equal to 0.08% of any unborrowed portion of the Line paid quarterly in arrears. In November 2009, the line was renewed again until January 2012 and decreased back to \$30,000,000, the unborrowed fee was increased to 0.25% and the interest rate set at 65% of LIBOR plus 0.85%.

In 2012, the Authority paid \$30,000 related to charges for the Line.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE F – DUE TO BANK OF AMERICA - Continued

As of June 30, 2012 and 2011, the Authority had no amounts outstanding under the Line. The interest terms on the draws made under the Line were one-month LIBOR plus a fixed rate of .85%. There were no draws made under the line in fiscal 2012. The interest terms on the draws made under the Line in fiscal 2011 were one-month LIBOR plus a fixed rate of .85%, resulting in effective interest rates ranging from 1.015% to 1.076%.

NOTE G – GRANTS FROM THE UNIVERSITY OF MASSACHUSETTS

During fiscal 2012 and 2011, the Authority received grants from the University in the amount of \$2,700,311 and \$12,734,221, respectively, to partially fund projects including the Edward M. Kennedy Institute for the United States Senate at the Boston campus and various projects at the Amherst campus. The Authority expended funds in the respective fiscal years for these purposes.

As per the Authority's policy, these grants are shown on the Statements of Revenues, Expenses and Changes in Net Assets as a capital contribution.

NOTE H – GUARANTY OF THE COMMONWEALTH OF MASSACHUSETTS

Section 10 of the Enabling Act authorizes the Commonwealth, acting by and through the Trustees, to enter into contracts with the Authority for state financial assistance in the form of a guaranty by the Commonwealth of the payment of the principal and interest as they become due and payable up to a maximum of \$200,000,000 principal amount of outstanding bonds and notes of the Authority. The full faith and credit of the Commonwealth are pledged for the payment of the guaranty. As is generally the case with other full faith and credit obligations of the Commonwealth, funds with which to honor such guaranty would be provided by appropriation.

NOTE I – LEASE OBLIGATIONS

The Authority has executed long-term leases with the Commonwealth, acting by and through the Trustees, covering the land on which facilities owned by the Authority are located on the University's campuses. These leases call for nominal annual payments to the Commonwealth. Certain of these leases renew automatically for subsequent five or ten year periods unless the Authority notifies the University that it does not wish to renew. Other leases require the Authority to notify the University of its desire to renew. As of June 30, 2012, all leases with the Commonwealth were in good standing and any leases requiring action by the Authority during the year to facilitate their renewals were properly renewed.

As provided in the Enabling Act, each of the above-referenced leases also terminates when the Authority no longer has any bonds outstanding, at which time all Authority property becomes the property of the Commonwealth.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE I – LEASE OBLIGATIONS - Continued

The Authority entered into a sublease agreement, as lessee, dated December 14, 2004 with SSB Realty, LLC, as lessor (the “Lessor”), for space at 225 Franklin Street, Boston, Massachusetts to be used primarily by the University, the Authority, The University of Massachusetts Foundation, Inc. and The University of Massachusetts Club. The agreement requires the Authority to pay a base rent plus a proportionate share of any increase over the base year of the Lessor’s costs and taxes. The lease began April 1, 2005 and ends December 15, 2015 and includes an initial three month period of no rental payments. In July 2007, SSB Realty, LLC notified the Authority that the lease with the Authority had been assigned to Equity Office Management, LLC (Equity) and that Equity had assumed all rights under the lease.

For the years ended June 30, 2012 and 2011, lease operating costs were approximately \$1,654,000 and \$1,733,100, respectively, which are included in facility operating costs in the accompanying statement of revenues, expenses and changes in net assets.

Approximate future payments (excluding Lessor’s costs and taxes) under the agreements are as follows:

Year Ending June 30,	
2013	\$ 1,654,000
2014	1,654,000
2015	1,654,000
2016	<u>758,000</u>
Total	<u>\$ 5,720,000</u>

NOTE J – THE UNIVERSITY OF MASSACHUSETTS CLUB

In August 2005, the Authority executed a contract with UMass Club Management, LLC (the “Manager”), a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for the University of Massachusetts Club (the “Club”), a private social club for alumni and friends of the University. The Club, located on the 33rd floor of 225 Franklin Street in Boston Massachusetts, was opened on October 31, 2005.

Under the terms of the contract, the Authority, acting as owner of the Club, is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Authority is responsible for any operating shortfall and will benefit from any operating profits. The contract calls for a minimum annual management fee payable to the Manager of \$150,000 or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club’s initiation fees and 25% of the operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Authority after 3 years if the Authority decides to close the Club for a minimum of 18 months. As tenant on the sublease for the 33rd floor, the Authority would be responsible for the rental charges should it decide to close the Club.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
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Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE J – THE UNIVERSITY OF MASSACHUSETTS CLUB - Continued

As of June 30, 2012 and 2011 the Authority had provided operating support for the Club of approximately \$218,000 and \$714,700.

NOTE K – RELATED PARTY TRANSACTIONS

The following table details the amounts due to the various campuses of the University at June 30, which were recorded as part of accounts payable in the Statements of Net Assets:

<u>Campus</u>	<u>2012</u>	<u>2011</u>
Amherst Campus	\$ 3,487,830	\$ 3,641,919
Boston Campus	385	194,593
Dartmouth Campus	1,029,887	511,246
Lowell Campus	8,212,695	3,130,918
Worcester Campus	<u>1,794,049</u>	<u>241,970</u>
Total	<u>\$ 14,524,846</u>	<u>\$ 7,720,646</u>

NOTE L – WORKING CAPITAL OF THE AUTHORITY

As of June 30, 2012 and 2011, the Authority had a working capital deficiency of \$447,929,545 and \$182,241,588, respectively. However, as stated in the various contracts between the Authority and the University, the University is required to provide necessary funding to the Authority to meet its obligations through June 30, 2012 and beyond.