

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

Financial Statements (with Independent Auditors' Report Thereon)

June 30, 2022 and 2021

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

	Page
Independent Auditors' Report	1
Required Supplementary Information	
Management's Discussion and Analysis (unaudited)	4
Basic Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35



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Independent Auditors' Report

Members of the Board
University of Massachusetts Building Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in note 2(k) to the basic financial statements, in fiscal 2022, the Authority adopted Governmental Accounting Standards Board Statements No. 87 and No. 89, *Leases and Accounting for Interest Cost Incurred before the End of a Construction Period*, respectively. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS 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 audits 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022, 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. The purpose of that report is solely 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 effectiveness of the Authority's 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.

KPMG LLP

Boston, Massachusetts
December 8, 2022

Management's Discussion and Analysis (unaudited)

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, 2022 and 2021. This discussion and analysis have been prepared by management and should be read in conjunction with the Authority's financial statements and related note disclosures, which follow.

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 eleven 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

- The net position of the Authority is \$1.21 billion in fiscal year 2022 compared to \$1.20 billion in fiscal year 2021. The increase in net position is due to an increase in net operating income of \$75 million driven by the increase in the billing to the campuses, partially offset by an increase in depreciation and amortization expense of \$5.7 million, reflecting amortization of lease assets due to the implementation of the GASB Statement 87, *Leases* (GASB 87). The Authority adopted the requirements of GASB 87 effective July 1, 2020 and has applied the provisions of this standard to the beginning of the earliest comparative period presented. As a result of recording right-of-use (ROU) lease assets and related lease liabilities as well as lease receivables and related deferred inflows of resources, the beginning net position in fiscal year 2021 was increased by \$.5 million.
- The Authority issued \$426.2 million of bonds to fund the University's capital program in March of 2022, including \$215.0 million of tax-exempt Project Revenue Bonds with a true interest cost of 3.96%, Series 2022-1 and \$211.2 million of federally taxable Project Revenue Bonds with a true interest cost of 4.03%, Series 2022-2. The 2022-1 bonds included a premium of \$26.3 million.
- Capital spending and contributed construction assets totaled \$224.9 million in fiscal year 2022, representing an \$11.6 million decrease compared to fiscal year 2021. A majority of the capital spending in fiscal year 2022 relates to continued investments in new buildings and renovation projects, which include: North Village Family Housing, Advanced Technology Center renovations at Mt. Ida, Energy Improvements upgrades, Fine Arts Center Bridge renovations, Student Union renovations, Central Campus Core utility and landscaping, Goessmann renovations, expanded capacity of the Central Heating Plant, Whitmore mechanical improvements, New Faculty Hire and Class Lab Renovations/Expansion, and the Worcester Dining Commons at the Amherst campus; the Substructure Demolition & Quadrangle Development at the Boston campus; the Science & Engineering Building renovation and the East Campus Dormitory Demolition at the Dartmouth campus; the Olsen Hall renovations at the Lowell campus; and the New Education and Research Building and VA Outpatient Center at the Chan Medical School campus.

USING THE ANNUAL FINANCIAL REPORT

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

Management's Discussion and Analysis (unaudited)

Financial statements and notes

The University's financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), which establishes financial reporting standards for governmental entities. The Authority's financial statements report its activities as business-type 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 position, and its cash flows are included in the University's financial statements. Further information on the operations of the Authority and significant accounting policies are summarized in Notes 1 and 2 of the accompanying 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.

The Statements of Net Position present information on all of the Authority's assets, deferred outflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information that shows how the Authority's net position changed during the most recent fiscal year. 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 payments to vendors after year-end for services prior to year-end).

The Statements of Cash Flows are 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), as well as capital and related financing and noncapital financing, if any, and investing activities.

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.

NET POSITION

As noted earlier, over time the Authority's net position may serve as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities and deferred inflows by \$1.21 billion at the close of the most recent fiscal year.

A portion of the Authority's net position 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 used to repay the debt are receipts related to the Authority's financial contracts with the University. These contracts generally call for the Authority to bill and collect all revenue from the projects and remit to the Trustee under the Authority's trust agreements (the "Bond Trustee") funds sufficient to cover debt service on its bonds, its costs of operations, and its financial obligations with respect to the projects.

Management's Discussion and Analysis (unaudited)

The Authority's net position (in thousands) is as follows:

Condensed Schedules of Net Position			
As of June 30, 2022, 2021, 2020			
(\$ in thousands)			
	2022	2021	2020 *
ASSETS			
Current assets	\$ 110,594	\$ 113,470	\$ 101,937
Noncurrent assets	4,724,610	4,391,284	4,371,392
Total assets	4,835,204	4,504,754	4,473,329
DEFERRED OUTFLOWS OF RESOURCES	109,949	119,261	125,965
LIABILITIES			
Current liabilities	218,306	208,182	255,104
Noncurrent liabilities	3,452,018	3,160,235	3,091,710
Total liabilities	3,670,324	3,368,417	3,346,814
DEFERRED INFLOWS OF RESOURCES	64,358	58,470	-
NET POSITION			
Net investment in capital assets	1,182,330	1,173,243	1,210,312
Restricted	-	-	22,060
Unrestricted	28,141	23,885	20,108
Total net position	\$ 1,210,471	\$ 1,197,128	\$ 1,252,480
<i>* does not reflect the adoption of GASB 87</i>			

Current assets decreased by \$2.9 million in fiscal year 2022 compared to 2021 mostly as a result of fiscal year 2021 BAB's subsidy for the 2010-2 bonds, received in fiscal year 2022 in the amount of \$3.6M. Also contributed to the decrease was a reduction in intergovernmental receivables of \$17.8 million, offset by the increase in restricted receivables of \$5.8 million, and loans receivable of \$4.0 million. Current assets increased by \$11.5 million in fiscal year 2021 compared to 2020 primarily due to an increase in intergovernmental receivables of \$14.4 million, cash and cash equivalents of \$2.0 million, and an increase in restricted receivables of \$2.4 million, offset by a decrease in restricted investments of \$5.3 million.

Non-current assets increased by \$333.3 million in fiscal year 2022 compared to fiscal year 2021 mostly due to the new bond issuance and corresponding increase in restricted cash of \$87.8 million, restricted investments of \$196 million. Also contributed to the year-over-year change was the increase in net capital assets including lease right-of-use assets of \$69.2 million offset by a decrease in loans receivable \$18.6 million. Non-current assets increased by \$19.9 million in fiscal year 2021 compared to fiscal year 2020 due an increase of \$95.9 million in net capital assets, including lease right-of-use assets, and non-current lease receivable of \$53.7 million due to the GASB 87 implementation, offset by a decrease in restricted cash of \$125.3 million and noncurrent receivables of \$4.2 million.

Deferred outflows of resources totaled \$109.9 million and \$119.3 million at the end of fiscal year 2022 and 2021, respectively. The 2022 decrease relates to amortization of loss on bond refundings. The 2021 decrease relates to the termination of the swap agreement in March 2021, offset by an increase in loss on bond refundings.

Current liabilities increased in fiscal year 2022 compared to 2021 by \$10.1 million primarily due to a \$13.2 million

Management's Discussion and Analysis (unaudited)

increase of the current portion of bonds payable, an increase of \$2.9 million in accrued bond and lease interest payable, and \$3.5 million increase in other liabilities, offset by a decrease of \$11.0 million of commercial paper notes.

Non-current liabilities increased in fiscal year 2022 compared to 2021 by \$291.8 million primarily due to an increase in long term bonds payable of \$287.0 million and lease liability of \$7.1 million. This increase is offset by the decrease of \$2.3 million in unearned interest. During fiscal year 2022, the Authority issued \$399.9 million in new bonds with \$26.3 million of new bond premiums. This increase in long term debt includes principal payments of \$98.9 million and bond premium amortization of \$27.1 million and a reduction in reclass to current bonds payable of \$112.1 million. Non-current liabilities increased in fiscal year 2021 compared to 2020 by \$68.5 million primarily due to increases in long term bonds payable of \$127.4 million and in lease liability of \$20.7 million. This increase is offset by the termination of interest rate swap instruments of 73.0 million, removal of lease incentive liability of \$3.6 million due to GASB 87 implementation, a decrease of \$2.3 million in unearned interest income and a decrease of \$1.0 million in other noncurrent liabilities. During fiscal year 2021, the Authority issued \$688.8 million in new bonds with \$71.8 million of new bond premiums and refunded \$585.3 million of existing Authority debt, including \$13.0 million of bond premiums. This increase in long term debt includes principal payments of \$107 million and bond premium amortization of \$21.3 million and a reduction in reclass to current bonds payable of \$93.3 million.

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt, as well as deferred outflows of resources and deferred inflows of resources, if any, that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted net position represents funds primarily restricted for debt service. The debt service restricted component of net position represents the funds primarily provided as additional collateral to the bond holders (e.g., debt service reserve funds). As of June 30, 2022 and 2021, there were no restricted net position balance.

Unrestricted net position represents those funds that are not subject to restrictions, or for which restrictions have expired. In 2022, the Authority reported a \$28.1 million surplus in the unrestricted component of net position, a \$4.2 million increase from fiscal year 2021. In 2021, the Authority reported a \$23.9 million surplus in the unrestricted component of net position, a \$3.8 million increase from fiscal year 2020.

The Authority's changes in net position (in thousands) are presented in the table below for the years ended June 30:

Management's Discussion and Analysis (unaudited)

Condensed Schedules of Revenues, Expenses, and Changes in Net Position			
As of June 30, 2022, 2021, 2020			
(\$ in thousands)			
	2022	2021	2020 *
OPERATING REVENUES			
Income from contracts for financial assistance, management, and services	\$ 213,074	\$ 131,254	\$ 219,984
Total operating revenues	213,074	131,254	219,984
OPERATING EXPENSES			
Facility operating costs	5,743	4,711	9,470
Depreciation and amortization	164,139	158,488	150,808
General and administrative expenses	7,414	7,319	6,609
Total operating expenses	177,296	170,518	166,887
Net operating gain/ (loss)	35,778	(39,264)	53,097
NON-OPERATING INCOME / (EXPENSES)			
Other non-operating income / (expense)	10,829	10,310	15,923
Interest expense	(114,102)	(109,213)	(110,990)
Total non-operating expenses	(103,273)	(98,903)	(95,067)
CAPITAL CONTRIBUTIONS	80,838	82,329	59,985
TOTAL INCREASE IN NET POSITION	13,343	(55,838)	18,015
Net position at the beginning of the year, as restated	1,197,128	1,252,966	1,234,465
Net position at the end of the year	\$ 1,210,471	\$ 1,197,128	\$ 1,252,480
<i>* does not reflect the adoption of GASB 87</i>			

Income from contracts for financial assistance, management, and services are primarily related to contracts the Authority has 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 funds sufficient to cover debt service on its bonds, its costs of operations, and its financial obligations with respect to the projects. The amounts fluctuate based on the debt service requirements of the Authority bonds in any particular year. Revenue increased by \$81.8 million in fiscal year 2022 compared to fiscal year 2021 primarily as a result of an increase in annual debt service.

Facility operating costs include operating costs of the Authority, rental expenses, and expenses paid by the Authority out of reserves for maintenance of Authority-owned buildings. Facility operating costs increased in fiscal year 2022 compared to fiscal year 2021 due to an increase in Authority operating costs and utilities.

Depreciation and amortization increased by \$5.7 million in fiscal year 2022 compared to fiscal year 2021 and \$7.7 million in fiscal year 2021 versus fiscal year 2020 as additional new capital assets were placed into service during those years and due to GASB 87 implementation.

Interest expense represents interest paid to the holders of Authority issued debt. In fiscal year 2022 interest expense increased by \$4.9 million over fiscal year 2021 primarily due to additional interest payments on the new bond issuances, 2022-1 and 2022-2. In fiscal year 2021 interest expense decreased by \$1.8 million over fiscal year 2020 primarily due to bond refundings resulting in lower interest payments.

Management's Discussion and Analysis (unaudited)

Capital contributions represent certain grants and gifts provided to the Authority for capital construction at the five campuses. During fiscal year 2022, the Authority received contributions totaling \$80.8 million. The University contributed \$15.3 million to fund various projects including, the Goessmann Hall and Worcester Dining Commons renovation at the Amherst campus, East Campus dormitory demolition project at Dartmouth, Olsen Hall Infrastructure Improvements project at Lowell. The Authority also received grants totaling \$65.6 million from the Commonwealth's Division of Capital Asset Management and Maintenance to fund projects at the Amherst, Dartmouth, and Lowell campuses.

During fiscal year 2021, the Authority received contributions totaling \$82.3 million. The University contributed \$39.4 million to fund various projects including, the Newman Center, Worcester Dining Commons renovation at the Amherst campus as well as the Advanced Technology Center Renovations at Mt. Ida, Clark Athletics Offices and Training relocation and the Substructure Demolition & Quadrangle Development project at Boston. The Authority also received grants totaling \$42.9 million from the Commonwealth's Division of Capital Asset Management and Maintenance to fund projects at the Amherst, Boston, Dartmouth, and Lowell campuses.

CAPITAL ASSETS OF THE AUTHORITY

The Authority's investment in capital assets as of June 30, 2022 and 2021 amounted to \$3.9 billion and \$3.8 billion, net of accumulated depreciation and amortization of the Lease ROU asset. This investment in capital assets included land, buildings, improvements, furnishings, equipment, construction in progress as well as various office space leases where the Authority is a lessee.

Net capital assets increased by \$69.2 million or 1.8% in fiscal year 2022 as capital improvements and construction in progress outpaced depreciation expenses. Also contributed to the increase was the ROU assets for new lease at Mt Ida campus and One Beacon additional 10.4 thousand sq ft office space sublease:

- Buildings and building components decreased by \$11.3 million, net of accumulated depreciation, in fiscal year 2022, primarily due to the decrease in projects placed in service during the fiscal year 2022 and an increase in projects in construction phase.
- Construction In Progress ("CIP") increased by \$100.9 million in fiscal year 2022 as capital spending on several major construction projects outpaced the projects which were completed and transferred to depreciable property. Projects with significant progress, some of which were completed during fiscal year 2022 include: North Village Family Housing, Goessmann Hall School of Health Sciences renovations, New Faculty Hire renovations, Energy Improvements, Advanced Technology Center renovations at Mt. Ida, and the Fine Arts Center Bridge renovation at the Amherst campus; Renovations to Existing Academic Buildings, and the Substructure Demolition & Quadrangle Development at the Boston campus; the Science & Engineering Building renovation at the Dartmouth campus; Olsen Hall critical infrastructure capital repairs at the Lowell campus; the New Education and Research Building and Veteran's Affairs Outpatient Center at the Chan Medical School campus.
- Significant projects that remain in progress either in the design or construction phase at the end of the fiscal year 2022 included the North Village Family Housing, Goessmann Hall School of Health Sciences renovation at the Amherst campus; the Substructure Demolition & Quadrangle Development at the Boston campus; the Science & Engineering Building renovation at the Dartmouth campus; and the New Education and Research Building at the Chan Medical School campus.

DEBT OF THE AUTHORITY

The Authority carries debt in the form of bond obligations. This debt was \$3.5 billion and \$3.2 billion as of June 30, 2022 and 2021, respectively. The increase of \$300.0 million in fiscal year 2022 is primarily attributable to the issuance of \$399.9 million of new bonds, as further described below, as well as \$26.3 million in new premiums, \$112.1 million of principal payments, and the amortization of \$27.2 million of bond premiums.

The Authority utilizes the commercial paper program to finance projects until issuing long-term debt. During fiscal year 2022, the Authority issued \$86.7 million in new commercial paper to finance the New Education and Research Building at the Chan Medical School campus, the Substructure Demolition & Quadrangle Development at the Boston campus, and the Science and Engineering Building at the Dartmouth campus with interest rates from .07% to 1.13%.

On March 29, 2022, the Authority issued \$215.0 million of Project Revenue Bonds, Series 2022-1 and \$211.2 million of federally taxable Project Revenue Bonds, Series 2022-2. The 2022-1 bonds included a premium of \$26.3 million. Part of bond proceeds was used to pay off commercial paper, leaving \$20M commercial paper outstanding as of June 30, 2022.

Management's Discussion and Analysis (unaudited)

As of June 30, 2022, the ratings assigned to the Authority's bonds are as follows: Aa2 by Moody's Investor Service, AA by Fitch Ratings, and AA- by Standard and Poor's Global Rating.

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 32nd floor of One Street Beacon in Boston, Massachusetts.

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, 100 Carlson Avenue, Newton, Massachusetts 02459. Additional information on the Authority can be found on its web site, www.umassba.net

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Statements of Net Position
June 30, 2022 and 2021
(\$ in thousands)

ASSETS	2022	2021
Current assets		
Cash and cash equivalents	\$ 23,209	\$ 22,700
Accounts receivable (net of allowances of \$1,536 at June 30, 2022 and \$399 at June 30, 2021)	140	797
Intergovernmental receivables		
Commonwealth of Massachusetts	1,166	15,301
U.S. government	1,411	5,047
University of Massachusetts	625	625
Loans receivable, current portion	15,918	11,868
Lease receivable, current portion	7,624	6,404
Prepays and other current assets	6,463	2,490
Restricted receivables - University of Massachusetts	54,038	48,238
Total current assets	110,594	113,470
Noncurrent assets		
Restricted cash and cash equivalents	282,520	194,710
Restricted investments	195,721	-
Loans receivable, non-current portion	204,293	222,928
Lease receivable, non-current portion	153,559	155,450
Capital assets, net	3,886,205	3,817,027
Other assets	2,312	1,169
Total noncurrent assets	4,724,610	4,391,284
Total assets	4,835,204	4,504,754
DEFERRED OUTFLOWS OF RESOURCES		
Debt refunding	109,949	119,261
Total deferred outflows of resources	109,949	119,261
Total assets and deferred outflows of resources	\$ 4,945,153	\$ 4,624,015

See accompanying notes to the financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Statements of Net Position
June 30, 2022 and 2021
(\$ in thousands)

LIABILITIES

Current liabilities

	2022	2021
Accounts payable	\$ 27,391	\$ 31,513
Retainage payable to contractors	12,447	8,210
Bonds payable, current portion	112,085	98,895
Commercial paper notes	20,000	31,000
Accrued bond and lease interest payable	24,015	21,128
Lease liability, current portion	2,993	1,592
Other current liabilities	19,375	15,844
Total current liabilities	218,306	208,182

Noncurrent liabilities

Bonds payable, net of current portion and unamortized bond premium	3,393,583	3,106,570
Lease liability, net of current portion	27,803	20,728
Other noncurrent liabilities	30,632	32,937
Total noncurrent liabilities	3,452,018	3,160,235
Total liabilities	3,670,324	3,368,417

DEFERRED INFLOWS OF RESOURCES

Leases	64,358	58,470
Total deferred inflows of resources	64,358	58,470
Total liabilities and deferred inflows of resources	\$ 3,734,682	\$ 3,426,887

NET POSITION:

Net investment in capital assets	1,182,330	1,173,243
Unrestricted	28,141	23,885
Total net position	\$ 1,210,471	\$ 1,197,128

See accompanying notes to the financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021
(\$ in thousands)

	<u>2022</u>	<u>2021</u>
REVENUES		
Operating Revenues		
Income from contracts for financial assistance, management, and services	\$ 213,074	\$ 131,254
Total operating revenues	213,074	131,254
EXPENSES		
Operating expenses		
Facility operating costs	5,743	4,711
Depreciation	161,814	156,373
Insurance	3,379	2,535
Amortization of Lease ROU Asset	2,326	2,115
Professional fees	3,970	4,739
General and administrative expenses	64	44
Total operating expenses	177,296	170,518
Operating income/ (loss)	35,778	(39,264)
NONOPERATING REVENUES / (EXPENSES)		
Interest subsidy - U.S. government	7,444	7,578
Interest income	5,528	5,477
Interest expense	(114,102)	(109,213)
Other revenues/ (expenses)	(2,143)	(2,745)
Total nonoperating revenues/ (expenses)	(103,273)	(98,903)
CAPITAL CONTRIBUTIONS		
University of Massachusetts	15,252	39,394
Commonwealth of Massachusetts	65,586	42,935
Total capital contributions	80,838	82,329
Total increase (decrease) in net position	13,343	(55,838)
NET POSITION		
Net position at beginning of year (as restated, see Note 2k)	1,197,128	1,252,966
Net position at end of year	\$ 1,210,471	\$ 1,197,128

See accompanying notes to the financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Statements of Cash Flows
June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from income from contracts for financial assistance	\$ 205,854	\$ 130,415
Payments to vendors and suppliers	(15,946)	(8,745)
Payments of salaries and benefits	(3,734)	(3,173)
Net cash provided by operating activities	186,174	118,497
CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES		
Capital asset expenditures	(216,830)	(222,114)
Repayment of bond principal	(98,895)	(692,105)
Interest payments to bondholders	(129,060)	(159,288)
Repayment of commercial paper obligations	(97,700)	-
Swap termination payment	-	(50,938)
Build America Bonds interest subsidy	11,080	3,792
EMKI lease receipts	5,073	5,072
Cash received from other leases	4,295	2,189
Interest received	414	226
Interest paid on leases payable	(451)	(440)
Principal paid on leases payable	(1,376)	(3,515)
Sublease commission payments	(250)	-
Loans receivable receipts	13,788	3,607
Commercial paper advances	86,700	31,000
Capital contribution receipts	94,972	71,689
Proceeds from bond obligations	399,920	688,845
Proceeds from premiums	26,327	71,803
Net cash provided by (used in) capital financing activities	98,007	(250,177)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(196,710)	-
Proceeds from the sale of investments	-	5,472
Interest income	848	2,909
Net cash provided by (used in) investing activities	(195,862)	8,381
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	88,319	(123,299)
Cash and cash equivalents — beginning of the year	217,410	340,709
Cash and cash equivalents — end of the year	\$ 305,729	\$ 217,410
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income/(loss)	\$ 35,778	\$ (39,264)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities:</i>		
Depreciation, amortization and other	164,139	158,488
Loss on disposal of capital assets	(121)	(2,358)
Rental income	(3,106)	(2,779)
<i>Changes in assets and liabilities:</i>		
Accounts receivable, net	(5,143)	1,633
Prepays and other current assets	(2,640)	525
Accounts payable — non-construction related	(2,733)	2,252
Net cash provided by operating activities	186,174	118,497
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets acquired and included in accounts and retainage payable and other liabilities	\$ 56,424	\$ 52,345
Lease assets acquired in exchange for lease obligations	10,230	-
	\$ 66,654	\$ 52,345

See accompanying notes to the financial statements.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY

(A Component Unit of the University of Massachusetts)

Notes to Financial Statements

June 30, 2022 and 2021

1) 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"). The Authority 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. Two of the other members must be graduates of the University. 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 exempt from federal and state income tax under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. The Authority qualifies as a public charity under Section 170(b)(1)(A)(iv) 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.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Basis of accounting*

The Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") as applied to governmental entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Under the economic resources measurement focus, the Authority distinguishes operating revenues and expenses from nonoperating 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 income from contracts for financial assistance, which represents amounts needed for debt service and related expenses received from the University and fees charged to the University for services. Operating expenses for the Authority include 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 nonoperating.

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.

b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

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.

c) Restricted Assets

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets in the accompanying Statements of Net Position because their use is limited by bond trust agreements.

The following sets forth the restricted cash and cash equivalent and investment balances as of June 30 (\$ in thousands):

	<u>2022</u>	<u>2021</u>
Restricted cash and cash equivalents:		
Capital projects fund	\$ 282,520	\$ 194,710
Total restricted cash and cash equivalents	<u>\$ 282,520</u>	<u>\$ 194,710</u>
Restricted investments:		
Capital projects fund	<u>\$ 195,721</u>	<u>\$ -</u>

d) Capital Assets and Depreciation (excluding intangible right-to-use leases)

Property, plant, and equipment are stated at cost on the date of acquisition or at fair market value 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 that 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	12 to 50 years
Building, leasehold, and land improvements	3 to 20 years
Equipment	3 to 10 years
Furnishings	3 to 10 years

e) 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 with an original maturity date of three months or less. The Authority is authorized to invest in the Massachusetts Municipal Depository Trust ("MMDT"), a pooled money market-like fund, established under General Laws, Chapter 29, Section 38A. MMDT is an external investment pool that meets the criteria established by GASB 79 to report its holdings at amortized cost. As such, the Authority reports its position in MMDT at amortized cost, which approximates the net asset value of \$1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

f) Investments

Investments in marketable securities are stated at fair value.

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

g) Net Position

Net position is reported in the following categories:

Net investment in capital assets — This category consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt, as well as deferred outflows of resources that are attributed to the acquisition, construction, or improvement of those assets.

Restricted component of net position — This category consists of assets whose use is restricted either through

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

external restrictions imposed by creditors, grantors, contributors and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2022 and 2021, there were no restricted net position balance.

Unrestricted component of net position — This category consists of net assets that do not meet the definition of the two preceding categories and are available to support the Authority's operations.

For purposes of net position classification, when both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources.

h) Capital Contributions

Capital contributions are for capital asset acquisition, facility development, and long-term planning studies and are reported in the accompanying Statements of Revenues, Expenses, and Changes in Net Position after nonoperating revenues and expenses as capital contributions when the associated capitalized expenditures are incurred.

i) Insurance

The Authority carries a full complement of third-party insurance, including workers' compensation, property, general liability, hire and non-owned auto coverage, an umbrella policy complemented with an excess policy, director and officers (D&O) complemented with an excess policy, crime coverage, and social engineering coverage.

In addition, the Owner-controlled Consolidated Insurance Program ("OCIP") was established to provide insurance coverage for contractors on selected Authority capital projects. This program provides workers' compensation and general liability insurance coverage for most contractors working on projects in the program. The program has a deductible component that is funded by the Authority. The deductible component is limited on both a per-occurrence basis and an aggregate basis for all OCIP-covered projects by stop-loss insurance.

This exposure is partially secured by and paid out of an escrow trust fund set up for this purpose as a requirement of the stop-loss insurer. The total deductible exposure, plus unpaid OCIP-related insurance premiums and expenses committed to the OCIP, is addressed by the Authority with an OCIP reserve of \$3.9 million and \$3.8 million as of June 30, 2022 and June 30, 2021, respectively, which is presented as other noncurrent liabilities in the accompanying Statements of Net Position.

j) Revenue Recognition

The Authority's major revenue source is fees for services that are primarily related to 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 University 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 funds sufficient to cover debt service on its bonds, its costs of operations, and its financial obligations with respect to the projects. Revenue is recognized when earned consistent with the accrual basis of accounting and is included in income from contracts for financial assistance, management, and in the accompanying statement of revenues, expenses, and changes in net position.

The Authority records 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. During fiscal year 2013, the federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. In fiscal year 2022, the Authority's November 1, 2021 and May 1, 2022 original subsidy payments related to the Senior Series 2009-2 Project Revenue Build America Bonds and the Senior Series 2010-2 Project Revenue Build America Bonds were reduced by 5.7%. In fiscal year 2021, the Authority's November 1, 2020 and May 1, 2021 original subsidy payments related to the Senior Series 2009-2 Project Revenue Build America Bonds and the Senior Series 2010-2 Project Revenue Build America Bonds were reduced by 5.9% and 5.7%, respectively. As of June 30, 2022, the November 1, 2020 payment had not been fully received and a receivable was recorded in the amount of \$0.2 million.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

k) Adoption of New Accounting Standards

- i. In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Authority adopted GASB 87 effective July 1, 2020, which resulted in adjustment to its previously reported net position as follows (\$ in thousands):

Net position as of July 1, 2020, as previously reported	\$ 1,252,480
Plus:	
Implementation of GASB Statement No. 87	486
Net position as of July 1, 2020, as restated	\$ 1,252,966

In addition to the impact on net position as of July 1, 2020, the adoption of GASB 87 also resulted in immaterial reclassifications to previously reported 2021 amounts including capital assets as well as various other net position balances and corresponding revenues and expenses.

- ii. In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Authority adopted GASB 89 effective July 1, 2021. Prior to the adoption of GASB 89, during the year ended June 30, 2021, the Authority capitalized approximately \$7.4 million, net of interest income.

l) Lease Accounting

The Authority is a lessee for various noncancellable real estate leases and a lessor for various real estate and ground leases.

Short-term Leases

For lease arrangements with a maximum possible term of 12 months or less at commencement, the Authority recognizes an expense based on the provisions of the lease contract.

Leases Arrangements Other than Short Term

For all other leases (i.e., those that are not short term) where the Authority is a lessee, the Authority recognizes a lease liability and an intangible right-to-use lease asset.

For leases, where the Authority is a lessor, the Authority recognizes a lease receivable and a deferred inflow of resources.

Measurement of Lease Amounts

As a lessee, at lease commencement, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term.

Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Authority is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

As a lessor, at lease commencement, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflows of resources are initially measured as the initial amount of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Subsequently, the deferred inflows of resources are amortized into lease revenue on a straight-line basis over the shorter of the lease term or the useful life of the underlying lease receivable.

Key Estimates and Judgments

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- The Authority generally uses its estimated incremental borrowing rate (IBR) as the discount rate for leases unless the rate that the lessor/vendor charges is known. The Authority IBR for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease payments, respectively, under similar terms at the commencement or remeasurement date. To determine its IBR, the Authority used historical bond yield curves to determine the appropriate rate. For leases effective July 1, 2020, the Authority applied the IBR ranging from 1.16% to 2.33% based on the lease term. For leases commencing during the fiscal years 2022 and 2021, the Authority applied the rates ranging from 2% to 3.09%.
- The lease includes the noncancellable period of the lease plus any additional periods covered by either the Authority or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Authority and the lessor/vendor/lessee have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by the Authority to determine if they should be included in the measurement of the lease liabilities or lease receivables, including those payments that require a determination of whether they are reasonably certain of being made, such as purchase options, payments for termination penalties, and other payments.

Remeasurement of Lease Amounts

The Authority monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability or lease receivable, the liability or receivable is remeasured, and a corresponding adjustment is made to the lease asset (for lessee arrangements) or deferred inflows of resources (for lessor arrangements).

Presentation in Statement of Net Position

Right-to-use lease assets are reported with capital assets in the accompanying Statements of Net Position. Lease receivables are reported with current assets if lessor payments are due within one year. If lease receivables are greater than one year, they are reported with noncurrent assets.

m) *Deferred Outflows of Resources and Deferred Inflows of Resources*

Deferred outflows of resources are defined as a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, whereas deferred inflows of resources decrease net position, similar to liabilities.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

3) CASH DEPOSITS AND INVESTMENTS

Cash Deposits – Custodial Credit Risk

The Authority's cash and cash equivalents held on deposit consisted of the following as of June 30 (\$ in thousands):

	<u>2022</u>	<u>2021</u>
Cash	\$ 8,726	\$ 7,903
MMDT	297,003	206,695
Permitted money market accounts	-	2,812
Total cash and cash equivalents	<u>\$ 305,729</u>	<u>\$ 217,410</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, 2022 and 2021, the bank balances of uninsured deposits totaled \$8.5 million and \$7.7 million, respectively.

Investments

As of June 30, 2022, the Authority's investments consisted of the following:

Investment type	<u>Investment Maturities (in Years)</u>		
	<u>Total</u>	<u>Less than 1</u>	<u>1 to 5</u>
U.S. Treasuries	<u>\$ 195,721</u>	<u>\$ 180,486</u>	<u>\$ 15,235</u>

The Authority had no investments as of June 30, 2021.

Interest Rate Risk

The Authority has a formal investment policy that establishes minimum credit quality of certain instruments, outlines investment procedures, and provides for periodic reporting. 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 that 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 MMDT. Additionally, in accordance with the Authority investment policy, the Authority's Bond Trustee may invest some of the Authority's funds in money market accounts, permitted and collateralized by Treasuries.

Investments – 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 the 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

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

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.

Fair Value Measurements

GASB No. 72, *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, and include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability; and,
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement. Unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

All the Authority's investments at June 30, 2022 consist of U.S. Treasury notes, which are considered level 1 investments.

4) CAPITAL ASSETS

A summary of changes in capital assets follows (\$ in thousands):

	Balance June 30, 2020	Additions	Retirements/ Adjustments	Balance June 30, 2021	Additions	Retirements/ Adjustments	Balance June 30, 2022
Land	\$ 117,801	\$ 4,016	\$ -	\$ 121,817	\$ 754	\$ (1,093)	\$ 121,478
Buildings	3,668,622	177,525	(2,042)	3,844,105	98,705	(1,324)	3,941,486
Building and land improvements	859,755	64,755	(6,553)	917,957	20,845	(9,322)	929,480
Equipment and furnishings	82,841	401	(270)	82,973	1,593	(1,986)	82,580
Construction in progress	201,537	230,245	(240,443)	191,339	217,962	(117,002)	292,299
Subtotal	4,930,556	476,942	(249,308)	5,158,191	339,859	(130,727)	5,367,323
Less: accumulated depreciation/amortization							
Buildings	(836,752)	(106,657)	2,042	(941,367)	(110,343)	1,616	(1,050,094)
Building and land improvements	(321,705)	(44,117)	4,195	(361,627)	(46,001)	10,355	(397,273)
Equipment and furnishings	(50,923)	(5,599)	271	(56,251)	(5,470)	1,985	(59,736)
Subtotal	(1,209,380)	(156,373)	6,508	(1,359,245)	(161,814)	13,956	(1,507,103)
Total capital assets, net excluding lease assets	\$ 3,721,176	\$ 320,569	\$ (242,800)	\$ 3,798,946	\$ 178,045	\$ (116,771)	\$ 3,860,219
Lease assets, net (Note 9)	\$ 20,196			\$ 18,081			\$ 25,986
Total capital assets, net as reported in the statements of net position	\$ 3,741,372			\$ 3,817,027			\$ 3,886,205

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

5) BONDS PAYABLE

The following is a summary of bonds outstanding for the year ended June 30, 2022 and the related activity during the fiscal year (\$ in thousands):

Bond Description	Original Borrowing	Current Maturity Year	Interest Rate	Outstanding June 30, 2021	Additions	Reductions	Outstanding June 30, 2022	Insured	Callable	Call Date Beginning
Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	271,855	2039	6.42% to 6.57%	16,945	-	-	16,945	No	At Par	Anytime
Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable)	28,570	2039	5.82% to 6.17%	23,135	-	(735)	22,400	No	*	Anytime
Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	430,320	2040	3.80% to 5.45%	430,320	-	(16,710)	413,610	No	*	Anytime
Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable)	3,005	2040	5.75%	2,490	-	(70)	2,420	No	*	Anytime
Project Revenue Bonds, Senior Series 2013-1	212,585	2039	2.00% to 5.00%	13,735	-	(5,325)	8,410	No	At Par	Nov-22
Project Revenue Bonds, Senior Series 2013-2 (Federally Taxable)	71,970	2041	0.43% to 4.26%	32,010	-	(2,420)	29,590	No	At Par	Nov-23
Project and Refunding Revenue Bonds, Senior Series 2013-3	24,640	2023	4.00% to 5.00%	945	-	(460)	485	No	At Par	May-23
Project Revenue Bonds, Senior Series 2014-1	293,890	2044	3.00% to 5.00%	66,825	-	(3,890)	62,935	No	At Par	Nov-24
Refunding Revenue Bonds, Senior Series 2014-3	67,635	2026	2.00% to 5.00%	28,635	-	(4,290)	24,345	No	At Par	Nov-24
Refunding Revenue Bonds, Senior Series 2014-4	157,855	2025	0.20% to 3.38%	13,865	-	(5,165)	8,700	No	*	Anytime
Project Revenue Bonds, Senior Series 2015-1	298,795	2045	4.00% to 5.00%	266,880	-	-	266,880	No	At Par	Nov-25
Refunding Revenue Bonds, Senior Series 2015-2	191,825	2036	3.00% to 5.00%	157,765	-	(24,435)	133,330	No	At Par	Nov-25
Refunding Revenue Bonds, Senior Series 2017-1	165,130	2047	4.00% to 5.25%	165,130	-	-	165,130	No	At Par	Nov-27

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

Bond Description	Original Borrowing	Current Maturity Year	Interest Rate	Outstanding June 30, 2021	Additions	Reductions	Outstanding June 30, 2022	Insured	Callable	Call Date Beginning
Refunding Revenue Bonds, Senior Series 2017-2	19,510	2027	1.58% to 3.37%	15,100	-	(1,530)	13,570	No	No	-
Refunding Revenue Bonds, Senior Series 2017-3 Direct Placement	187,680	2038	3.00% to 5.00%	155,630	-	(3,480)	152,150	No	At Par	Nov-27
Project Revenue Bonds, Senior Series 2018-1	37,650	2043	2.00% to 2.93%	37,650	-	-	37,650	No	At Par	Anytime
Refunding Revenue Bonds, Senior Series 2019-1	208,725	2039	5.00%	208,725	-	-	208,725	No	At Par	May-29
Project Revenue Bonds, Senior Series 2020-1	200,840	2050	5.00%	200,840	-	-	200,840	No	At Par	Nov-29
Project Revenue Bonds, Senior Series 2020-2 (Federally Taxable)	129,830	2050	1.76 to 3.54%	129,830	-	(1,985)	127,845	No	At Par	Nov-29
Refunding Revenue Bonds, Senior Series 2020-3 (Federally Taxable)	319,345	2044	1.71 to 3.50%	317,795	-	(2,130)	315,665	No	At Par	Nov-29
Refunding Revenue Bonds, Senior Series 2020-4 (Federally Taxable)	329,930	2043	.43% to 3.013%	329,930	-	-	329,930	No	*	Anytime
Refunding Revenue Bonds, Senior Series 2021-1 (Federally Taxable)	312,330	2037	5.00%	302,270	-	(10,520)	291,750	No	At Par	May-31
Refunding Revenue Bonds, Senior Series 2021-2 (Federally Taxable)	46,585	2036	0.145% to 2.652%	46,585	-	(15,750)	30,835	No	At Par	May-31
Project Revenue Bonds, Senior Series 2022-1	188,650	2052	5.00%	-	188,650	-	188,650	No	At Par	May-32
Project Revenue Bonds, Senior Series 2022-2 (Federally Taxable)	211,270	2045	2.2% to 4.3%	-	211,270	-	211,270	No	At Par	May-32
Unamortized bond premium				242,430	26,327	(27,149)	241,608			
Total				\$ 3,205,465	\$ 426,247	\$ (126,044)	\$ 3,505,668			

*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; 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
June 30, 2022 and 2021

The following is a summary of bonds outstanding for the year ended June 30, 2021 and the related activity during the fiscal year (\$ in thousands):

Bond Description	Outstanding June 30, 2020	Additions	Reductions	Outstanding June 30, 2021
Project Revenue Bonds, Senior Series 2008-1	\$ 145,515	\$ -	\$ (145,515)	\$ -
Facility Revenue Bonds, Senior Series 2008-A	16,050	-	(16,050)	-
Project Revenue Bonds, Senior Series 2009-1	-	-	-	-
Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	16,945	-	-	16,945
Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable)	23,825	-	(690)	23,135
Project Revenue Bonds, Senior Series 2010-1	15,900	-	(15,900)	-
Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	430,320	-	-	430,320
Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable)	2,555	-	(65)	2,490
Refunding Revenue Bonds, Senior Series 2011-1	122,010	-	(122,010)	-
Refunding Revenue Bonds, Senior Series 2011-2	92,800	-	(92,800)	-
Project Revenue Bonds, Senior Series 2013-1	95,170	-	(81,435)	13,735
Project Revenue Bonds, Senior Series 2013-2 (Federally Taxable)	58,200	-	(26,190)	32,010
Project and Refunding Revenue Bonds, Senior Series 2013-3	1,380	-	(435)	945
Project Revenue Bonds, Senior Series 2014-1	147,675	-	(80,850)	66,825
Refunding Revenue Bonds, Senior Series 2014-3	50,680	-	(22,045)	28,635
Refunding Revenue Bonds, Senior Series 2014-4	30,540	-	(16,675)	13,865

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

Bond Description	Outstanding June 30, 2020	Additions	Reductions	Outstanding June 30, 2021
Project Revenue Bonds, Senior Series 2015-1	298,795	-	(31,915)	266,880
Refunding Revenue Bonds, Senior Series 2015-2	179,805	-	(22,040)	157,765
Refunding Revenue Bonds, Senior Series 2017-1	165,130	-	-	165,130
Refunding Revenue Bonds, Senior Series 2017-2	16,595	-	(1,495)	15,100
Refunding Revenue Bonds, Senior Series 2017-3 Direct Placement	160,015	-	(4,385)	155,630
Project Revenue Bonds, Senior Series 2018-1	37,650	-	-	37,650
Refunding Revenue Bonds, Senior Series 2019-1	208,725	-	-	208,725
Project Revenue Bonds, Senior Series 2020-1	200,840	-	-	200,840
Project Revenue Bonds, Senior Series 2020-2 (Federally Taxable)	129,830	-	-	129,830
Refunding Revenue Bonds, Senior Series 2020-3 (Federally Taxable)	319,345	-	(1,550)	317,795
Refunding Revenue Bonds, Senior Series 2020-4 (Federally Taxable)	-	329,930	-	329,930
Refunding Revenue Bonds, Senior Series 2021-1 (Federally Taxable)	-	312,330	(10,060)	302,270
Refunding Revenue Bonds, Senior Series 2021-2 (Federally Taxable)	-	46,585	-	46,585
Unamortized bond premium	205,039	71,803	(34,412)	242,430
Total	\$ 3,171,334	\$ 760,648	\$ (726,517)	\$ 3,205,465

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

Aggregate annual maturities of principal and interest on bonds outstanding as of June 30, 2022 are as follows (\$ in thousands):

Fiscal year-end	Bonds			Direct Placement Bonds		Total
	Principal	Interest	Interest Subsidy*	Principal	Interest	
2023	\$ 112,085	\$ 138,784	\$ (7,224)	\$ -	\$ 763	\$ 244,408
2024	123,070	132,448	(6,993)	1,655	754	250,934
2025	120,870	127,805	(6,729)	1,690	718	244,354
2026	116,885	122,849	(6,445)	1,725	684	235,698
2027	120,295	117,642	(6,153)	1,760	649	234,193
2028–2032	646,340	505,151	(25,992)	8,355	3,695	1,137,549
2033–2037	670,425	361,359	(15,989)	9,315	2,709	1,027,819
2038–2042	661,135	206,093	(4,110)	10,795	1,225	875,138
2043–2047	427,085	90,157	-	2,355	47	519,644
2048–2052	204,550	27,326	-	-	-	231,876
2053	23,670	592	-	-	-	24,262
	<u>\$ 3,226,410</u>	<u>\$ 1,830,206</u>	<u>\$ (79,635)</u>	<u>\$ 37,650</u>	<u>\$ 11,244</u>	<u>\$ 5,025,875</u>

*These interest rate subsidies are provided by the United States Government related to the Authority's issuance of bonds under the Build America Bond ("BAB") program. Under the BAB program, the Government provides a direct subsidy of the interest rate paid to bondholders up to 35%. The Authority's November 1, 2021, and May 1, 2022 subsidy payments related to the Senior Series 2009-2 Project Revenue Build America Bonds and the Senior Series 2010-2 Project Revenue Build America Bonds were 32.94% and 33.00%, respectively. For fiscal year 2023 through fiscal year 2043, the estimated subsidy reflected in the table above is 33.00%.

Bond Activity

In fiscal year 2022, the Authority issued \$188.7 million of Senior Series 2022-1 Project Revenue Bonds and \$211.3 million of Senior Series 2022-2 Project Revenue Bonds.

In fiscal year 2021, the Authority issued \$312.3 million of Refunding Revenue Bonds, Series 2021-1 and \$376.5 million of federally taxable Refunding Revenue Bonds, Series 2020-4 and 2021-2. The refunding bonds refunded the 2008-1, 2008-A, 2011-1 and the 2011-2 bonds in the amount of \$358.4 million, the 2013-2 and 2014-1 bonds in the amount of \$26.8 million, and the 2013-1, 2013-2, 2014-1, 2014-3 and 2015-1 bonds in the amount of \$200.1 million. The Authority escrowed funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds are called. These advanced refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt are not recorded in the Authority's financial statements.

In fiscal year 2021, the Authority defeased approximately \$619 million of bonds outstanding from refunding activities.

Bond Premium and Issuance Expenses

The Authority amortizes the premiums received as a reduction of interest expense over the life of the respective bond issue. In fiscal years 2022 and 2021, the Authority received premiums at issuance totaling \$26.3 million and \$71.8 million, respectively.

In connection with the Authority's bond issues, the Authority incurred certain issuance costs associated with the bond offerings. In fiscal year 2022, issuance costs were \$2.42 million, and in fiscal year 2021, these costs amounted to \$3.99 million and were expensed in accordance with the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Interest Rate Swaps

During fiscal year 2021, the Authority refunded all of its variable rate debt and terminated the associated interest rate swaps. For the year ended June 30, 2021, the Authority incurred fees related to its variable rate debt program totaling approximately \$582,000.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

6) COMMERCIAL PAPER

The maximum aggregate principal amount of commercial paper which may be outstanding at one time is \$200,000,000. The Series 2013-A2 are secured by a standby liquidity facility agreement that expires on August 12, 2022. As of June 30, 2022, the outstanding commercial paper had a term of 63 days.

The following is a summary of commercial paper issues for the year ended June 30 (\$ in thousands):

	Balance June 30, 2021	Issues	Repayments	Balance June 30, 2022
CP series 2013-A tax exempt	\$ -	\$ 30,700	\$ (10,700)	\$ 20,000
CP series 2013-A taxable	31,000	56,000	(87,000)	-
	\$ 31,000	\$ 86,700	\$ (97,700)	\$ 20,000
	Balance June 30, 2020	Issues	Repayments	Balance June 30, 2021
CP series 2013-A tax exempt	\$ -	\$ -	\$ -	\$ -
CP series 2013-A taxable	-	31,000	-	31,000
	\$ -	\$ 31,000	\$ -	\$ 31,000

The Authority incurred fees associated with its commercial paper credit facility of \$721,512 and \$676,185 for fiscal years 2022 and 2021, respectively.

7) PLEDGED REVENUES

The Authority has pledged as security for its revenue bonds, the payments made by the University to the Authority to pay the debt service on its outstanding revenue bonds. The general purpose of such revenue bonds issued by the Authority is to finance the University's capital projects, and are payable through fiscal year 2053. Such pledges remain in place until the revenue bonds outstanding are defeased or paid. The total amount of pledged revenues in fiscal year 2022 was \$235.7 million. Total debt service (principal and interest) paid during fiscal year 2022 on outstanding revenue bonds was \$222.9 million, representing 94.6% of pledged revenues.

8) CONTRIBUTIONS FROM THE UNIVERSITY OF MASSACHUSETTS AND THE COMMONWEALTH OF MASSACHUSETTS

During fiscal year 2022, the Authority received capital contributions from the University in the amount of \$15.3 million to fund the Goessmann Hall School of Health Sciences renovations at Amherst, the East Campus dormitory demolition project at the Dartmouth campus, the Olsen Hall Infrastructure improvements and various other projects at the Lowell campus. During fiscal year 2021, the Authority received capital contributions from the University in the amount of \$39.4 million to fund the New Education and Research Building at Chan Medical School, the Newman Center purchase, Worcester Dining Commons renovation and various other projects at the Amherst campus, as well as the Advanced Technology Center at Mt. Ida renovation project and the Substructure Demolition & Quadrangle Development project at Boston.

During fiscal years 2022 and 2021, the Authority received grants totaling \$65.6 million and \$42.9 million from the Commonwealth, respectively. These grants were from Division of Capital Asset Management and Maintenance to fund projects at the Amherst, Boston, Dartmouth and Lowell campuses.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

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

9) PUBLIC-PRIVATE PARTNERSHIPS AND LEASES

a) *Public-Private Partnerships*

On November 8, 2016, the Authority entered into an agreement whereby the Authority subleased land on the Boston campus to Provident Commonwealth Educational Resources, Inc. (PCER), a Massachusetts not-for-profit corporation, for a term of 40 years (2056). The land is ground-leased to the Authority by the Commonwealth. PCER engaged a contractor to construct a 1,082-bed student housing facility on the site (the "Boston Project"). The Boston Project reverts to the Authority when the lease terminates. Commencing January 1, 2019, the annual rental amount payable to the Authority, as lessor, under the ground lease is \$1.025 million.

The Boston Project was financed with \$130.08 million of revenue bonds issued on October 26, 2016 (Series 2016 Bonds) by the Massachusetts Development Finance Agency ("MassDevelopment") pursuant to a Loan and Trust Agreement between MassDevelopment and PCER. Neither the Authority, University nor Boston campus have pledged revenues to secure the payment of the Series 2016 bonds or have any obligation with respect to payment of the Series 2016 bonds.

Pursuant to the Dining Facility Sublease dated November 8, 2016 between PCER, as sublessor and the Authority, as sublessee, PCER leased the dining facility, located within the Boston Project, to the Authority and the Authority shall operate or cause to be operated the dining facility. The University funded the construction costs of the dining facility through debt issued by the Authority. This lease only relates to the operations and maintenance of the dining facility. The annual rent payable is \$1.00.

On November 14, 2018, the Authority entered into an agreement whereby the Authority subleased land on the University of Massachusetts Dartmouth campus to Provident Commonwealth Educational Resources II, Inc. (PCER II), a Massachusetts not-for-profit corporation, for a term of 45 years (2064). The land is ground-leased to the Authority by the Commonwealth. PCER II engaged a contractor to construct a 1,210-bed student housing facility on the site (the "Dartmouth Project"). The Dartmouth Project reverts to the Authority when the lease terminates. Commencing on January 1, 2021, the annual rental amount payable to the Authority, as lessor, under the ground lease will be \$625,000, increasing by 3% every five years.

The Dartmouth Project was financed with \$132.19 million of revenue bonds issued on November 14, 2018 (Series 2018 Bonds) by the Massachusetts Development Finance Agency ("MassDevelopment") pursuant to a Loan and Trust Agreement between MassDevelopment and PCER II. The Authority, University nor Dartmouth campus have pledged revenues to secure the payment of the Series 2018 bonds or have any obligation with respect to payment of the Series 2018 bonds.

Pursuant to the Dining Facility sublease dated November 13, 2018, between PCER II, as sublessor and the Authority, as sublessee, PCER II leased the dining facility, located within the Dartmouth Project, to the Authority and the Authority shall operate or cause to be operated the dining facility. The University funded the construction costs of the dining facility through debt issued by the Authority. This lease only relates to the operations and maintenance of the dining facility. The annual rent payable is \$1.00.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

Management evaluated the applicability of relevant GASB guidance against the underlying Boston and Dartmouth Project agreements and indentures and has concluded that the associated debt should not be recognized on the financial statements of the Authority.

b) Direct Financing Lease

In accordance with the GASB 87 transition guidance, the Authority has not restated the underlying assets related to its direct finance lease.

On October 27, 2009, the Authority entered into an agreement to lease its facility located on Morrissey Boulevard in Dorchester, Massachusetts (the Facility) to the Edward M. Kennedy Institute for the United States Senate ("EMKI"), a charitable corporation registered in the District of Columbia. The lease agreement provides for an initial term of ninety-nine years commencing in October 2009, and thereafter, at the option of EMKI, may be extended for two additional ninety-nine-year periods.

EMKI has an option to purchase the Facility for one dollar at any time after the earlier of: (i) payment of no less than 51% or defeasement of the original amount of the associated revenue bonds. The University has right of first refusal in the event EMKI decides to sell or otherwise dispose of the ownership of the Facility.

The project was financed with \$74.38 million of revenue bonds. Rent is equal to the debt service on the outstanding bonds and payable semiannually through fiscal year 2043.

At June 30, 2022 and 2021, the Authority recorded gross lease receivable of approximately \$96.6 million and \$101.7 million, respectively related to the EMKI lease. Also at June 30, 2022 and 2021, the Authority recorded unearned interest income of approximately \$25.9 million and \$28.2 million, respectively related to the EMKI lease. The Authority presents the unearned interest income associated with the EMKI lease as other current liabilities of approximately \$2.2 million and \$2.3 million and other noncurrent liabilities of approximately \$23.7 million and \$25.9 million as of June 30, 2022 and 2021, respectively

For the years ended June 30, 2022 and 2021, the Authority recognized \$2.3 million and \$2.4 million, respectively, of interest income related to its EMKI direct financing lease.

c) Other Leases

The Authority has executed long-term leases, as a lessee, 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 5- or 10-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, 2022, 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.

On April 1, 2014, the Authority entered into a lease, as lessee, with Massachusetts Mutual Life Insurance Company, as lessor, for space at Tower Square, 1500 Main Street, Springfield, Massachusetts. The initial lease began August 1, 2014 and ended July 31, 2019. In fiscal 2019, the Authority exercised its option to extend the lease for a period of five years. The lease ends on July 31, 2024. Annual rent payments range from \$297 thousand to \$320 thousand. The Authority subleases the space to the University, as lessor, to be used as classroom space for its Springfield satellite campus with a monthly payment of \$26,728 through July 31, 2024. On July 17, 2014, the Authority entered into a lease, as lessee, with One Beacon Street Limited Partnership for space at One Beacon Street, Boston, Massachusetts. The lease ends December 31, 2030. Annual rent payments range from \$2.10 million to \$2.55 million.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

In April 2021, the Authority entered into a lease-leaseback agreement with the University. The purpose of which was to allow the Authority to control additional square footage at the One Beacon Street office building in order to facilitate a future sublease of a portion of that space to a third party. The term of the lease-leaseback agreement ends in December 2030. The lease-leaseback agreement was for the same square footage and at the same terms as such no amounts have been recorded on the June 30, 2021, financial statements as a result of this agreement.

In March 2022, the Authority identified and entered into a sublease, as lessor, with a third party (HYM) for certain of the square footage it controlled at the One Beacon Street office building. The HYM lease expires in December 2030 and requires annual rental payments in the range from \$0.6 million to \$0.7 million. Also in March 2022, the amount of square footage in the lease-leaseback agreement with the University was revised such that the Authority became a net lessee to that agreement. Accordingly, at June 30, 2022, the Authority, as net lessee, recorded a lease asset and corresponding lease liability for its net lease-leaseback agreement with the University.

At June 30, 2022, the gross components of the lease-leaseback agreement with the University were as follows. The Authority, as lessee to the lease-sublease agreement, leased 23 thousand square feet of office space for the undiscounted cash payment of \$11.7 million from the University, for the duration of the lease. The Authority, as lessor to the lease-sublease agreement, subleased 10.4 thousand square feet of office space for \$5.3 million (undiscounted cash payment over the term of the lease) to the University.

On May 12, 2022, the Authority entered into a lease agreement, as lessee, with the University to lease office space at Mt Ida for the Authority's use. The lease ends in June 2051, and the annual rent payments range from \$150 thousand to \$600 thousand. Also on May 12, 2022 the Authority entered into a sublease agreement, as lessor, with the University of Massachusetts Foundation (the Foundation), a related party, to sublease 47% of office space at Mt Ida site through June 2051, for an up-front payment of \$3.5 million to cover rent payments from fiscal year 2022 through fiscal year 2039. Thereafter through June 2051, the Foundation's annual rent payment will be \$205 thousand/year.

A summary of lease asset activity during the year ended June 30 is as follows (\$ in thousands):

	Balance at 7/1/2020	Additions	Balance at 6/30/2021	Additions	Balance at 6/30/2022
Lease assets - office space:					
One Beacon - UMBA Lessee	\$ 18,916	\$ -	\$ 18,916	\$ -	\$ 18,916
University (One Beacon) - UMBA Sublessee	-	-	-	4,762	4,762
Mass Mutual (Satellite) - UMBA Lessee	1,280	-	1,280	-	1,280
University (Mt. Ida) - UMBA sublessee	-	-	-	5,468	5,468
Total lease assets	\$ 20,196	\$ -	\$ 20,196	\$ 10,230	\$ 30,426
Less accumulated amortization:					
One Beacon - UMBA Lessee	-	(1,802)	(1,802)	(1,802)	(3,603)
University (One Beacon) - UMBA Sublessee	-	-	-	(180)	(180)
Mass Mutual (Satellite) - UMBA Lessee	-	(313)	(313)	(313)	(627)
University (Mt. Ida) - UMBA sublessee	-	-	-	(30)	(30)
Total accumulated amortization	-	(2,115)	(2,115)	(2,325)	(4,440)
Total lease assets, net	\$ 20,196	\$ (2,115)	\$ 18,081	\$ 7,905	\$ 25,986

Lease assets are reported as capital assets in the accompanying financial statements. See note 4 for rollforward of all of the Authority's capital assets.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

Lease Liabilities

A summary of changes in the related lease liabilities during the year ended June 30, 2022, is as follows (\$ in thousands):

	<u>Balance at 7/1/2021</u>	<u>Additions</u>	<u>Remeasurements/ Deductions</u>	<u>Balance at 6/30/2022</u>	<u>Amounts due within one year</u>
Lease liability - office space:					
One Beacon - UMBA Lessee	\$ 21,349	\$ -	\$ (1,281)	\$ 20,068	\$ 2,231
University (One Beacon) - UMBA Sublessee	-	4,762	(157)	4,605	447
Mass Mutual (Satellite) - UMBA Lessee	971	-	(311)	660	315
University (Mt. Ida) - UMBA sublessee	-	5,468	(5)	5,463	-
Total lease liability	\$ 22,320	\$ 10,230	\$ (1,754)	\$ 30,796	\$ 2,993

A summary of changes in the related lease liabilities during the year ended June 30, 2021, is as follows (\$ in thousands):

	<u>Balance at 7/1/2020</u>	<u>Remeasurements/ Deductions</u>	<u>Balance at 6/30/2021</u>	<u>Amounts due within one year</u>
Lease liability - office space:				
One Beacon - UMBA Lessee	\$ 22,607	\$ (1,258)	\$ 21,349	\$ 1,281
Mass Mutual (Satellite) - UMBA Lessee	1,280	(309)	971	311
Total lease liability	\$ 23,887	\$ (1,567)	\$ 22,320	\$ 1,592

Future annual lease payments are as follows (\$ in thousands):

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 2,993	\$ 649	\$ 3,642
2024	3,179	589	3,768
2025	3,022	526	3,548
2026	2,950	465	3,415
2027	2,904	404	3,308
2028–2032	11,268	1,122	12,390
2033–2037	688	640	1,328
2038–2042	803	525	1,328
2043–2047	732	426	1,158
2048 and thereafter	2,257	140	2,397
Total to maturity	\$ 30,796	\$ 5,486	\$ 36,282

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

A summary of changes in the related lease receivable during the year ended June 30, 2022, is as follows (\$ in thousands):

	Balance at 7/1/2021	Additions	Deductions	Balance at 6/30/2022	Amounts due within one year
Lease receivable					
One Beacon office space lease	\$ 17,257	\$ -	\$ (1,021)	\$ 16,236	\$ 1,788
Dartmouth P3 ground lease	16,951	-	-	16,951	-
Boston P3 ground lease	24,981	-	-	24,981	-
Amherst Satellite office space lease	971	-	(311)	660	315
One Beacon office space HYM sublease	-	4,531	-	4,531	448
Mt Ida, office space Foundation sublease	-	4,702	(3,500)	1,202	-
Subtotal	<u>60,160</u>	<u>9,233</u>	<u>(4,832)</u>	<u>64,561</u>	<u>2,551</u>
EMKI direct financing lease	101,694	-	(5,072)	96,622	5,073
Total lease receivable	<u>\$ 161,854</u>	<u>\$ 9,233</u>	<u>\$ (9,904)</u>	<u>\$ 161,183</u>	<u>\$ 7,624</u>

A summary of changes in the related lease receivable during the year ended June 30, 2021, is as follows (\$ in thousands):

	Balance at 7/1/2020	Deductions	Balance at 6/30/2021	Amounts due within one year
Lease receivable				
One Beacon office space lease	\$ 18,402	\$ (1,145)	\$ 17,257	\$ 1,021
Dartmouth P3 ground lease	16,951	-	16,951	-
Boston P3 ground lease	24,981	-	24,981	-
Amherst Satellite office space lease	1,280	(309)	971	311
Subtotal	<u>61,614</u>	<u>(1,454)</u>	<u>60,160</u>	<u>1,332</u>
EMKI direct financing lease	106,760	(5,066)	101,694	5,072
Total lease receivable	<u>\$ 168,374</u>	<u>\$ (6,520)</u>	<u>\$ 161,854</u>	<u>\$ 6,404</u>

For the years ended June 30, 2022 and 2021, the Authority recognized \$3.2 million and \$2.8 million, respectively, of rental income and \$1.4 million and \$1.3 million, respectively interest revenue related to its lessor operating leases

For the years ended June 30, 2022 and 2021, the Authority recognized \$0.5 million and \$0.4 million, respectively, of interest expense and \$2.3 million and \$2.1 million, respectively amortization of the ROU lease asset related to its lessee operating leases.

COMMITMENTS AND CONTINGENCIES

In June 2019, the Authority entered into an agreement to lease property located at 200 Mount Vernon Street in Dorchester, Massachusetts to an unrelated party (the Developer). The Developer plans to develop a mixed-use opportunity at the site. Under the terms of the agreement, the Developer, subject to certain contingencies, may enter into a 99-year ground lease for an initial fixed rent up-front payment of up to \$235 million, with a minimum payment of \$192.5 million. As of June 30, 2022, pursuant to the agreement, the Developer has made deposits totaling \$11 million into an escrow account that will be applied to the initial fixed rent payment at closing. As of June 30, 2022, the \$11 million in funds would only be returned to the Developer if UMBA failed to perform at closing.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

In October 2022, the \$11 million became a fully nonrefundable deposit that has been withdrawn from escrow and released to the Authority without conditions. Additionally, the Authority has the ability to terminate the agreement at any time subject to the terms of the agreement.

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2022 and 2021 of \$181.5 million and \$162.8 million, respectively.

As of June 30, 2022 and 2021, the Authority had a working capital deficiency of \$107.7 million and \$104.5 million, respectively. 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, 2023 and beyond.

From time to time, the Authority is involved in routine litigation that arises in the ordinary course of business. There are no significant legal proceedings to which the Authority is a party for which management believes the ultimate outcome would have a material adverse effect on the Authority's financial position.

10) RELATED PARTY TRANSACTIONS

Related party transactions not previously disclosed are:

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 and other liabilities in the accompanying Statements of Net Position (\$ in thousands):

Campus	2022	2021
Amherst Campus	\$ 336	\$ 142
Boston Campus	646	-
Dartmouth Campus	45	58
Lowell Campus	2	-
Chan Medical School	1,668	15,380
Total	\$ 2,697	\$ 15,580

The Authority has issued debt, the proceeds of which were loaned to the Worcester City Campus Corporation ("WCCC") for the purpose of University capital improvements. The current and noncurrent balance of the outstanding WCCC loan receivable amounted to \$15.9 million and \$180.6 million as of June 30, 2022, and \$11.9 million and \$199.2 million as of June 30, 2021. In fiscal year 2020, the Authority has issued debt, the proceeds of which were loaned to the University for the purpose of University capital improvements. The noncurrent balance of the outstanding University loan receivable amounted to \$23.7 million as of June 30, 2022 and 2021.

In May 2016, the Authority entered into an agreement with the University to loan \$3.7 million to the Authority for a term of fourteen years for the purposes of lease improvements. The current and noncurrent balance of the outstanding loan payable amounted to \$0.8 million and \$2.9 million as of June 30, 2022 and \$0.4 million and \$3.3 million as of June 30, 2021, reported within current and noncurrent other liabilities.

11) SUBSEQUENT EVENT

Subsequent to the year ended June 30, 2022 and through December 8, 2022, the Authority borrowed \$6.25 million of taxable commercial paper and rolled \$20 million of tax-exempt commercial paper with the interest rates ranging

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component Unit of the University of Massachusetts)
Notes to Financial Statements
June 30, 2022 and 2021

from 2.00% to 4.55% and maturity between December 2022 and January 2023, to fund construction projects at the Boston and Lowell campuses.

On July 7, 2022, the Authority entered into a public-private partnership agreement with Mass Ave Housing Partners LLC, to carry out the design, construction, financing, operation, management, and maintenance of a portion of the Student Housing Project consisting of approximately 600 beds of undergraduate apartment-style housing and related infrastructure, including residential dining commons and parking and approximately 200 beds of graduate student apartment-style housing and related infrastructure, including parking.

The estimated cost of construction of the Student Housing Project is \$250 million.

Mass Ave Housing Partners LLC will manage, maintain, and operate the Student Housing Facilities for a term of 65-years.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2022 and through December 8, 2022, the date on which the financial statements were issued.



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Independent Auditors' 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*

Members of the Board
University of Massachusetts Building Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Massachusetts Building Authority (the Authority), a component unit of the University of Massachusetts, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2022. Our report contains an emphasis of matter paragraph referring to the Authority's adoption, in 2022, of Governmental Accounting Standards Board Statement No. 87 and No. 89, *Leases and Accounting for Interest Cost Incurred before the End of a Construction Period*, respectively.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no



instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

KPMG LLP

Boston, Massachusetts
December 8, 2022