Financial Statements and Report of Independent Certified Public Accountants

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

June 30, 2014 and 2013

Contents

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Report of Independent Certified Public Accountants

Members of the Board
University of Massachusetts Building Authority

We have audited the accompanying financial statements of the University of Massachusetts Building Authority (the "Authority"), a component unit of the University of Massachusetts, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") as listed in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financing reporting for placing the financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the MD&A information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Boston, Massachusetts
December 18, 2014

This section of the annual financial statements of 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, 2014 and 2013. This discussion and analysis has been prepared by management and should be read in conjunction with, and is qualified in its entirety by, the Authority's financial statements and related note disclosures.

INTRODUCTION

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

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

FINANCIAL HIGHLIGHTS

- The net position of the Authority continued to grow, reaching $734.2 million in fiscal year 2014 compared to $581.9 million in fiscal year 2013.
- Capital spending totaled $459.0 million in fiscal year 2014 which represents a $102.1 million decrease as compared to fiscal year 2013. A majority of the capital spending in fiscal year 2014 relates to investments in new buildings and renovation projects, which include the McGuirk Stadium, the Lincoln Campus Center Dining Renovations and the Champions Center at the Amherst campus, the University Crossing Campus Center and renovations to the Leitch and Bourgeois dormitories at the Lowell campus, and the General Academic Building and Utility Corridor and Roadway Relocation Project at the Boston campus.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The Financial Statements

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

The *statements of net position* present information on all of the Authority's assets, liabilities, and deferred outflows, 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 activities.

The financial statements can be found on pages 12 to 15 of this report.

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

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

Notes to the Financial Statements

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

The notes to the financial statements can be found on pages 16 to 41 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis

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 by $734.2 million 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.

University of Massachusetts Building Authority's net position (in thousands) is as follows:

	June 30, 2014	June 30, 2013	June 30, 2012
Current assets	$ 78,300	$ 69,363	$ 55,061
Non-current assets	3,243,826	2,765,143	2,462,075
Total assets	3,322,126	2,834,506	2,517,136
Deferred outflows of resources	112,880	109,152	145,355
Current liabilities	318,417	389,404	479,064
Non-current liabilities	2,382,357	1,972,348	1,674,666
Total liabilities	2,700,774	2,361,752	2,153,730
Net position:			
Net investment in capital assets	681,352	535,356	470,821
Restricted	47,721	43,460	36,975
Unrestricted	5,159	3,090	965
Total net position	$ 734,232	$ 581,906	$ 508,761

Note: The impact of adoption of GASB Statement 65 has been applied retroactively to all periods presented within MD&A. In addition, all adjustments related to contract revenues and related accounts receivables has been reflected in all periods processed. Refer to Note B of the financial statements for further discussions.

Current assets increased in the fiscal year 2014 compared to 2013 primarily due to increases in cash of approximately $1.2 million and increases in receivables of $7.8 million. Current assets increased in the fiscal year 2013 compared to 2012 primarily due to increases in cash of approximately $5.7 million and increases in receivables of $8.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Non-current assets continued to increase in fiscal year 2014 and fiscal year 2013 due to additional spending on new and existing projects. Capital assets, net of depreciation, totaled $2.6 billion as of June 30, 2014 compared to $2.2 billion as of June 30, 2013.

Deferred outflows of resources totaled $112.9 million, $109.2 million, and $145.4 million at the end of fiscal year 2014, 2013 and 2012, respectively. These amounts relate to the Authority's effective hedging relationship related to its outstanding interest rate swap agreements ("swaps"). In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"), the Authority is able to defer the related changes in fair value as a deferred outflow at year-end. In addition, the Authority adopted GASB 65 effective July 1, 2012. In connection with this new standard any loss on refunding of debt is now reported as a component of deferred outflows. It was previously reported as a reduction of bonds payable.

Current liabilities decreased in fiscal year 2014 compared to 2013 by $71.0 million primarily due to a decrease of $123.0 million in the current portion of bonds payable which was partially offset by an increase in commercial paper of $50.0 million and an increase in other liabilities of $8.1 million. The $123.0 million decrease in the current portion of bonds payable in fiscal year 2014 compared to 2013 is primarily due to the Senior Series 2011-1 bonds ("2011-1 bonds). In fiscal year 2013, the entire balance of the 2011-1 bonds was classified as a current liability because the stand-by bond purchase agreement supporting these bonds expired during fiscal year 2014. This agreement was extended during fiscal year 2014 and the entire balance totaling $131.0 million was classified as long-term as of June 30, 2014.

Current liabilities decreased in fiscal year 2013 compared to fiscal year 2012 by $89.6 million primarily due to a decrease of $87.6 million in the current portion of bonds payable. In fiscal year 2012, the 2008-1 and 2008-A variable rate bonds were classified as current because the liquidity facilities supporting the 2008-1 and 2008-A bonds expired in April 2013. During fiscal year 2013, the Authority entered into new standby bond purchase agreements to support the 2008-1 and 2008-A variable rate bonds. These agreements expire in April 2016 and, as a result of the new agreements, the Authority classified these bonds as long-term debt in fiscal year 2013. This decrease was offset by the classification of the 2011-1 bonds as current as described in the preceding paragraph. Also, in fiscal year 2014, 2013, and 2012, the Authority classified its 2011-2 window bonds as current because the 2011-2 window bonds have no supporting liquidity facility. Consistent with prior years, the Authority expects to redeem this bond based on its original amortization schedule which calls for principal reductions each year through 2034.

Non-current liabilities increased in fiscal year 2014 compared to 2013 by $410.0 million primarily due to an increase in long-term debt of $405.2 million. During 2014, the Authority issued $490.5 million of new debt, and classified the 2011-1 as long-term from current liabilities. These increases in long-term debt were offset by a $151.7 million decrease in the bonds payable associated with the partial refunding of the 2009-1 and the 2005-2 bonds and principal payments of $67.3 million. In fiscal year 2013 compared to fiscal year 2012, non-current liabilities increased by $297.6 million primarily due to an increase in long-term debt of $330.1 million due to issuances of new debt.

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 that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted net position represents funds primarily restricted for capital projects and debt service. Capital project restricted net assets are funds primarily provided by debt financing for the completion of University projects. 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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

The Authority's changes in net position (in thousands) are presented in the table below. It should be noted that, primarily due to the implementation of GASB Statement 65 during fiscal year 2014 as described in Note B, the net position at the beginning of fiscal year 2013 was adjusted and certain reclassifications have been made to the fiscal year 2013 and 2012 balances to conform to the presentation used in fiscal year 2014:

	For the year ended June 30, 2014	For the year ended June 30, 2013	For the year ended June 30, 2012
Operating revenues:			
Financing income and fees for services	$ 159,417	$ 146,518	$ 132,234
Interest income and interest subsidies, net	15,420	16,737	19,795
Grants from HUD and other income	-	-	15
Total operating revenues	174,837	163,255	152,044
Operating expenses:			
Facility operating costs	5,554	5,176	4,508
Interest expense	74,773	70,105	48,028
Depreciation and amortization	72,462	53,877	43,528
General and administrative expenses	6,163	4,113	1,759
Total operating expenses	158,952	133,271	97,823
Net operating income	15,885	29,984	54,221
Total non-operating income (expenses)	2,995	2,850	19,000
Total capital contributions	133,446	40,311	38,152
Change in net position	152,326	73,145	111,373
Net position at the beginning of the year	581,906	508,761	397,388
Net position at the end of the year	$ 734,232	$ 581,906	$ 508,761

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financing income and fees for 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 $12.9 million in fiscal year 2014 compared to fiscal year 2013 primarily because the Authority charged the campuses more in debt service than the prior year. Revenue increased by $14.3 million in fiscal year 2013 compared to fiscal year 2012 for the same reason.

Interest income, and Interest subsidy - United States Government decreased by 7.9%, or $1.3 million, in fiscal year 2014 compared to fiscal year 2013 due to lower investments compared to the prior year. Interest income decreased by $1.0 million in fiscal year 2014 compared to fiscal year 2013 due to a reduction in the balance of investments at June 30, 2014 compared to the prior year. Cash and cash equivalents increased by $171.9 million and investments decreased by $79.8 million in fiscal year 2014 compared to fiscal year 2013. Interest income and interest subsidies, net decreased by $3.0 million in fiscal year 2013 compared to fiscal year 2012 due to lower cash, cash equivalents and investments compared to the prior year. Cash and cash equivalents and investments decreased by $51.4 million and $145.0 million, respectively in fiscal year 2013 compared to fiscal year 2012, in order to fund current capital activities.

In fiscal year 2014, 2013 and 2012, the Authority recorded revenue associated with the interest rate subsidy provided by the United States Government related to the Authority's issuance of bonds under the Build America Bond ("BAB") program. Under the program, the Government provides a direct 35% subsidy of the interest rate paid to bondholders. The interest paid to bondholders is based on the taxable, rather than the tax-exempt, debt market and the interest received by the bondholders is fully taxable to them. During fiscal year 2013, the federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. As a result, the Authority's November 1, 2013 and May 1, 2014 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 8.7% and 7.2%, respectively. The Authority's May 1, 2013 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 8.7% due to sequestration. This reduction accounts for the $664,982 and $602,000 decrease in Interest Subsidy Revenue in fiscal years 2014 and 2013 compared to fiscal year 2012.

Facility operating costs primarily reflect the operating costs of the UMass Club, certain operating costs of the Authority, rental expenses and expenses paid by the Authority out of reserves for maintenance of Authority-owned buildings. Facility operating costs increased in fiscal year 2014 compared to fiscal year 2013 due to an increase in Authority operating costs and utilities. In fiscal year 2013, costs increased compared to the prior year due to an increase in Authority operating costs and an increase in rental agreements.

Interest expense represents interest paid to the holders of Authority issued debt. In fiscal year 2014, interest expense increased by $4.6 million compared to the prior year. This increase is primarily due to an increase of $282.2 million in total bonds payable during fiscal year 2014, and an increase in associated interest expense due to the new 2013-3, 2014-1, 2014-2, and 2014-4 debt issuances. In fiscal year 2013, expenses increased by $22.1 million compared to the prior year. (See Note E for more information on fiscal year 2013 and 2014 issues).

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Depreciation and amortization in fiscal years 2014, 2013 and 2012 increased as additional new capital assets were placed into service during those years.

Non-operating income is $3.0 million and $2.9 million in fiscal year 2014 and fiscal year 2013, respectively. In fiscal year 2014 the Authority sold two buildings at the Lowell campus with a net book value of $214,000 for proceeds of $3.2 million in the effort to consolidate academic and core campus activities on its main campus. Non-operating income in fiscal year 2013 related to an appropriation from the Commonwealth to fund the construction of the ETIC project at the Lowell campus.

Capital contributions represent certain grants and gifts provided to the Authority for capital construction at the five campuses. In fiscal year 2014, the University and the state Division of Capital Asset Management and Maintenance ("DCAMM") contributed $85.3 million and $10.0 million worth of construction, respectively, to the Authority for the Life Sciences Laboratory project at the Amherst campus. In 2014, the Authority also received $14.6 million from the University to fund the construction of the following projects at the Amherst campus: Lincoln Campus Center Dining, Commonwealth Honors College residence and walkway, Hampshire Dining Commons, Furcolo Hall renovations, and McGuirk Stadium improvements. During fiscal years 2010-2013, the Authority was receiving payments under a $90 million funding agreement with the Massachusetts Life Sciences Center ("MLSC") for the Sherman Center Project on the Worcester campus. The Authority received the final $16.7 million payment of that grant during fiscal year 2013. In 2013, the Authority also recorded MLSC grant revenue of $13.8 million related to the Bioprocessing Center at the Dartmouth campus and $4.3 million related to the Emerging Technology Innovation Center ("ETIC") on the Lowell campus. In 2013, the Authority received $3.0 million from the University to fund the construction of Fox Hill Dining in Lowell. In 2013, Amherst contributed $1.9 million to the Authority to fund the Life Sciences Laboratory at the Amherst campus. In fiscal year 2012, the Authority received a grant from the Commonwealth of Massachusetts of $420,000.

CAPITAL ASSETS OF THE AUTHORITY

The Authority's investment in capital assets as of June 30, 2014 and 2013 amounted to $2.6 billion and $2.2 billion, net of accumulated depreciation, respectively. This investment in capital assets includes land, buildings, improvements, furnishings and equipment. Net capital assets increased by $387.7 million or 17.8% in fiscal year 2014. This increase was primarily due to capital improvements and construction in progress outpacing depreciation expenses as follows:

- Buildings and building components increased by $447.2 million, net of accumulated depreciation, in fiscal year 2014. The increase was primarily due to placing in service of newly constructed and renovations of existing buildings on the Amherst, Boston, Dartmouth, and Lowell campuses.

- Construction in progress ("CIP") decreased $68.4 million in fiscal year 2014 as the Authority transferred a number of significant projects from CIP to depreciable property as follows: the Commonwealth Honors College Residence, Power Plant Project, Hampshire Dining Commons and the Life Science Laboratories at the Amherst campus; South Campus Garage and University Suites at the Lowell campus; completed first stages of Healey Library Roof Replacement/Repairs and Bayside Parking Development at the Boston campus as well as the Tripp Fitness Center Expansion at the Dartmouth campus were transferred from CIP to depreciable property. These transfers offset new additions to CIP in fiscal year 2014 which include the McGuirk Stadium, the Lincoln Campus Center Dining Renovations and the Champions Center at the Amherst campus; University Crossing and renovations to the Leitch and Bourgeois dormitory at the Lowell campus; and the General Academic Building and Utility Corridor and Roadway Relocation Project at the Boston campus.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

DEBT OF THE AUTHORITY

The Authority carries debt in the form of bond obligations. This debt was approximately $2.5 billion and $2.2 billion at June 30, 2014 and 2013, respectively. The increase of $282.2 million in fiscal year 2014 is primarily attributable to the Authority's issuance of new debt totaling $490.5 million (with an associated premium of $23.0 million) during fiscal year 2014 offset by refundings totaling $151.7 million and by $12.2 million of bond payments and premium/discount amortization. On July 17, 2013, the Building Authority issued $24.7 million of Senior Series 2013-3 Project and Refunding Revenue Bonds (the "2013-3 Bonds"). The 2013-3 Bonds included a premium of $1.2 million. The 2013-3 Bonds are tax-exempt and mature at various dates through 2043. The interest on these bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 4.00% to 5.00%. The 2013-3 bonds were issued to finance and refinance a project set forth in the University's capital plan, the Edward M. Kennedy Institute for the United States Senate on the Boston campus of the University (the "EMK Project").

On February 5, 2014, the Building Authority issued $293.9 million of Senior Series 2014-1 Project Revenue Bonds (the "2014-1 Bonds"). The 2014-1 Bonds include a premium of $21.8 million. The 2014-1 Bonds are tax-exempt and mature at various dates through 2044. The interest on these bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 3.00% to 5.00%. On February 5, 2014, the Building Authority issued $14.1 million of Senior Series 2014-2 Project Revenue Bonds (the "2014-2 Bonds"). The 2014-2 Bonds are tax-exempt and mature at various dates through 2019. The interest on these bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 0.44% to 2.109%. The 2014-1 and 2014-2 bonds will be used to finance capital projects located on the Amherst, Boston, and Lowell campuses included in the University's capital plan.

On May 20, 2014, the Building Authority issued $157.9 million of Senior Series 2014-4 Project Revenue Bonds (the "2014-4 Bonds"). The 2014-4 Bonds are tax-exempt and mature at various dates through 2025. The interest on these bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 0.2% to 3.381%. The 2014-4 bonds were issued to refinance a portion of the Senior Series 2005-2 bonds.

In fiscal year 2014, the Authority initiated a commercial paper program; commercial paper is a low-cost alternative financing vehicle that allows the Authority to draw on funds on short notice. On August 13, 2013, the Authority issued Commercial Paper Notes, Series 2013A and 2013B in the amount of $50.0 million. The maximum aggregate principal amount of commercial paper which may be outstanding at any one time is $200.0 million. A portion of these notes is secured by an Irrevocable Letter of Credit ("LOC") provided by State Street Bank and Trust Company ("State Street") with respect of the $125.0 million Commercial Paper Notes, Series 2013A, which expires in August 2016. The remaining $75.0 million Commercial Paper Notes, Series 2013B are secured by a Standby Liquidity Facility Agreement provided by U.S. Bank National Association, which also expires in August 2016.

The amount of bond obligation guaranteed by the Commonwealth on bonds outstanding series 2004-A, 2008-A, and 2011-2 was $125.6 million and $129.5 million at June 30, 2014 and June 30, 2013, respectively. Refer to Note E of the financial statements for more information.

As of June 30, 2014, the ratings assigned to the Authority's bonds are as follows: Aa2 by Moody's Investor Services, AA by Fitch Ratings, and AA- by Standard and Poor's Investor Services.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

THE UNIVERSITY OF MASSACHUSETTS CLUB

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

REQUESTS FOR INFORMATION

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

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)
Statements of Net Position
June 30, 2014 and 2013

	2014	2013 *adjusted (Note B)*
Current assets		
Cash and cash equivalents (Notes B and C)	$ **19,711,223**	$ 18,565,616
Accounts receivable, net of allowance of $15,697 and $7,900, respectively	**215,590**	218,557
Intergovernmental receivables:		
Massachusetts Life Sciences Center	**18,771,110**	16,860,547
United States Government	**2,142,726**	2,308,971
University of Massachusetts	**36,082,074**	29,780,169
Interest receivable	**49,826**	301,777
Prepaid expenses and other current assets	**1,327,034**	1,326,799
Total current assets	**78,299,583**	69,362,436
Non-current assets		
Restricted		
Cash and cash equivalents (Notes B and C)	**676,075,388**	505,303,700
Investments (Notes B and C)	**5,318,056**	85,103,420
Capital assets, net of accumulated depreciation (Note D)	**2,562,312,428**	2,174,606,458
Other assets	**120,235**	129,374
Total non-current assets	**3,243,826,107**	2,765,142,952
Total assets	$ **3,322,125,690**	$ 2,834,505,388
Deferred Outflows of Resources		
Fair value of interest rate swap agreements	**41,081,628**	40,206,773
Loss on debt refunding	**71,798,692**	68,945,116
Total deferred outflows of resources	**112,880,320**	109,151,889
Total assets and deferred outflows of resources	**3,435,006,010**	2,943,657,277
Liabilities		
Current liabilities		
Accounts payable	$ **48,776,535**	$ 46,223,227
Retainage payable to contractors	**11,115,976**	19,481,032
Bonds payable, current portion (Note E)	**174,625,001**	297,599,998
Commercial paper notes (Note F)	**50,000,000**	-
Accrued bond interest payable	**18,159,319**	18,453,957
Other liabilities	**15,739,780**	7,645,370
Total current liabilities	**318,416,611**	389,403,584
Non-current liabilities		
Bonds payable, net of current portion and unamortized bond premium (Note E)	**2,303,067,212**	1,897,887,824
Derivative instruments - interest rate swap agreements (Note E)	**68,844,006**	69,325,882
Other liabilities	**10,446,265**	5,133,889
Total non-current liabilities	**2,382,357,483**	1,972,347,595
Total liabilities	**2,700,774,094**	2,361,751,179
Net Position		
Net investment in capital assets	**681,352,339**	535,355,372
Restricted for:		
Capital projects	**319,481**	1,958,830
Debt service	**47,401,152**	41,501,694
Unrestricted	**5,158,944**	3,090,202
Total net position	**$ 734,231,916**	**$** 581,906,098

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

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013 *adjusted (Note B)*
Operating revenue:		
Financing income and fees for services	$ **159,416,714**	$ 146,518,006
Interest income	**3,190,394**	4,213,757
Interest subsidy - United States Government	**12,586,204**	13,251,186
Realized and unrealized (losses) gains on investments, net	**(356,384)**	(727,859)
Total operating revenues	**174,836,928**	163,255,090
Operating expenses:		
Facility operating costs	**5,553,922**	5,175,549
Interest expense	**74,772,551**	70,105,170
Depreciation and amortization	**72,462,481**	53,877,408
Insurance	**1,321,405**	1,166,619
Professional fees	**4,676,129**	2,785,232
Office, administration and miscellaneous	**165,983**	160,338
Total operating expenses	**158,952,471**	133,270,316
Net operating income	**15,884,457**	29,984,774
Non-operating revenues:		
State appropriations	**-**	2,850,000
Gain on sale of assets	**2,994,977**	-
Total non-operating income	**2,994,977**	2,850,000
Capital contributions:		
University of Massachusetts (Note G)	**102,612,330**	4,944,000
Massachusetts Life Sciences Center	**20,866,666**	35,366,481
Commonwealth of Massachusetts	**9,967,388**	-
Total capital contributions	**133,446,384**	40,310,481
Change in net position	**152,325,818**	73,145,255
Net position at beginning of year	**581,906,098**	508,760,843
Net position at end of year	$ **734,231,916**	$ 581,906,098

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

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013 adjusted (Note B)
Cash flows from operating activities		
Cash received from financing income, fees for services and other income	$ 153,126,680	$ 142,124,783
Cash from U.S. Government for BABs interest subsidy	12,752,449	13,251,186
Cash from investments	2,167,772	2,956,485
Payments to bondholders for interest	(104,105,987)	(92,970,340)
Payments to vendors and suppliers	(12,129,555)	(4,881,577)
Payments of salaries and benefits	(2,517,610)	(2,246,972)
Net cash provided by operating activities	49,293,749	58,233,565
Cash flows from capital and related financing activities		
Capital asset expenditures	(337,343,809)	(533,567,577)
Repayment of bond principal	(67,375,000)	(60,775,000)
Repayment of commercial paper obligations	(20,000,000)	-
Bond issuance expenses paid	(3,646,915)	(2,151,423)
Proceeds from commercial papers	70,000,000	-
Proceeds from state appropriation	-	2,850,000
Proceeds from capital contributions	36,462,950	36,035,189
Proceeds from bond obligations	338,805,000	284,375,000
Proceeds from bond premium	23,067,206	19,376,741
Net cash provided by (used in) capital and related financing activities	39,969,432	(253,857,070)
Cash flows from investing activities		
Proceeds from sale of investments	79,339,914	144,233,765
Proceeds from sale of capital assets	3,314,200	-
Net cash provided by investing activities	82,654,114	144,233,765
Net increase (decrease) in cash and cash equivalents	171,917,295	(51,389,740)
Cash and cash equivalents - beginning of year	523,869,316	575,259,056
Cash and cash equivalents - end of year	$ 695,786,611	$ 523,869,316

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

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
(A Component of the University of Massachusetts)
Statements of Cash Flows - Continued
For the Years Ended June 30, 2014 and 2013

	2014	2013 *adjusted (Note B)*
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	**$ 15,884,457**	$ 29,984,774
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Capitalized interest	**(27,917,500)**	(27,410,615)
Depreciation and amortization	**68,909,715**	57,591,448
Unrealized (gain) loss from investments	**356,384**	(607,133)
Change in bad debt reserve	**(7,782)**	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Interest receivable	**251,951**	99,460
Prepaid expenses and other current assets	**(235)**	167,964
Accounts receivable	**(2,426,697)**	(92,159)
Other assets	**9,139**	9,139
Increase (decrease) in:		
Accounts payable - non-construction related	**(1,591,022)**	8,471
Accrued bond interest payable	**(294,638)**	2,960,423
Accounts receivable (University billing)	**(3,880,023)**	(4,478,207)
Net cash provided by operating activities	**$ 49,293,749**	$ 58,233,565

Supplemental disclosure of cash flow information

	2014	2013
Non-cash capital and related financing activities:		
Capital assets acquired and included in accounts and retainage payable and other liabilities	**$ 80,366,251**	$ 77,079,980
Capital assets transferred from Amherst campus and the Commonwealth of Massachusetts, as part of capital contribution	**$ 95,239,116**	-
In fiscal year 2014, the Authority issued Project and Refunding revenue bonds to refund certain debt issued in 2005 and 2009, as described in the Note E of the financial statements.	**$ 151,665,000**	-

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

NOTE A – OPERATIONS OF THE AUTHORITY

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

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

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

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

The Authority is a component unit of the University of Massachusetts which is a component unit of the Commonwealth of Massachusetts and is exempt from federal and state income tax under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. The Building 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

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

Use of Estimates

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 statement 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, 2014 and 2013:

	2014	2013
Cash and cash equivalents		
Capital projects fund	$ 666,902,484	$ 497,525,400
Debt service fund	9,172,904	7,778,300
Total restricted cash and cash equivalents	$ 676,075,388	$ 505,303,700
Investments		
Capital projects fund	$ -	$ 79,785,364
Debt service fund	5,318,056	5,318,056
Total restricted investments	$ 5,318,056	$ 85,103,420

Capital Assets and Depreciation

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 which are not yet completed are charged to construction in progress until such time as the projects are completed and placed in operation.

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capitalized Interest

The Authority capitalizes interest costs incurred during the construction period of qualifying property assets. The amount of capitalized interest costs consists of all interest costs of the borrowing relating to the qualifying assets less any related interest earned from the date of the borrowing until the assets are ready for their intended use. Interest capitalized during the years ended June 30, 2014 and 2013 totaled approximately $27,917,500 and $27,410,600, respectively, net of interest income of $1,582,200 and $1,821,300, respectively.

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.

Investments

Investments in marketable securities are stated at fair value.

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

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

Net Position

Net position is reported in three 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 external restrictions imposed by creditors, grantors, contributors and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation. Capital project restricted assets are funds primarily provided by debt financing for the completion of University projects. Debt service restricted assets are funds primarily provided as additional collateral to the bond holders (e.g. debt service reserve funds).

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Grants and Capital Contributions

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

Insurance

The Owner-controlled Consolidated Insurance Program (OCIP) was established in March 2010 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 so-called 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 $10,446,265 and $5,133,889 as of June 30, 2014 and June 30, 2013, respectively, which is classified as Other Liabilities on the statement of net position. The OCIP reserve was netted against related capital assets in the fiscal year 2013 and reclassified to other liabilities to conform to the current year presentation.

Post-retirement benefits

The Commonwealth of Massachusetts is statutorily responsible for the pension benefits for members of the State Employees' Retirement System (SERS), including employees of the University. The Authority's staff is employed by the University, and as such, the Authority's employees can participate in SERS, a single employer defined benefit public retirement system, covering substantially all employees of the Commonwealth and certain employees of independent authorities and agencies. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. SERS does not issue stand-alone financial statements; however, SERS financial information is contained in the Commonwealth Comprehensive Annual Financial Report and can be obtained by contacting the State Comptroller, One Ashburton Place, 9th floor, Boston, MA 02108.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue recognition

The Authority's major revenue source is the financing income and 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 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. Revenue is recognized when earned consistent with the accrual basis of accounting and is included in financing income and fees for services line item on the statement of revenues, expenses and changes in net position. In fiscal year 2014, the Authority has changed the process of estimating its financing fees and retroactively applied that change to the fiscal year 2013 presentation as shown in the table following the discussion of adoption of new accounting standards as "financing income adjustment". The June 30, 2013 statement of revenues, expenses and changes in net position was adjusted to increase financing income and fees for services by $4,478,000. The effect of this change is shown as an adjustment to beginning net position with a corresponding adjustment to the carrying value of the assets affected by the change, specifically intergovernmental receivables – University of Massachusetts.

It should be noted that, since the Authority is a blended component unit of the University, financing fees recognized as revenue on the Authority's financial statements are eliminated in consolidation in the University's financial statements. Thus, this change has no impact on the University's financial statements.

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. As a result, the Authority's November 1, 2013 and May 1, 2014 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 8.7% and 7.2%, respectively. This reduction was approximately $665,000 in fiscal year 2014 and $602,000 as the Authority's May 1, 2013 subsidy payments related to the same bonds were reduced by 8.7% due to sequestration.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Adoption of New Accounting Standards

In April 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB No. 65"). The statement is effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Authority adopted GASB No. 65 effective July 1, 2012. In connection with the adoption of this new standard all accounts were analyzed by management in order to assess the impact on the financial statements. The implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the Authority's numerous bond issuances, commitment and financing fees received by the Authority in connection with the bonds, and the expenses and costs incurred in connection with the bond refundings. In accordance with the retroactive restatement requirements of this standard, the Authority's fiscal year 2013 statement of net position and the Authority's fiscal year 2013 statement of revenues, expenses and changes in net position were restated to reflect the required adjustments. Expenses related to the cost of issuances are included in professional fees on the statement of revenues, expenses, and changes in net position.

As a result, the following adjustments have been made to the Authority's financial statements.

	As previously reported	GASB 65 restatement	Financing income adjustment	As adjusted
Net position as of July 1, 2012	$ 502,496,703	$ (17,663,032)	$ 23,927,172	$ 508,760,843
For the year ended June 30, 2013:				
Financing income and fees for services	142,039,839		4,478,167	146,518,006
Professional fees	633,809	2,151,423		2,785,232
Depreciation and amortization	54,722,951	(845,543)		53,877,408
Increase in net position	69,972,968	(1,305,880)	4,478,167	73,145,255
Net position as of June 30, 2013	$ 572,469,671	$ (18,968,912)	$ 28,405,339	$ 581,906,098

Additionally, the deferred losses on refunded bonds in the amount of $68,945,120 and $69,720,351 at June 30, 2013 and 2012, respectively, were reclassified from long-term debt to deferred outflows of resources on the statement of net position.

NOTE C – CASH DEPOSITS AND INVESTMENTS

Cash Deposits – Custodial Credit Risk

The Authority holds a majority of its cash and cash equivalents in high quality money market mutual funds that invest in securities that are permitted investments under the Authority's Enabling Act or in money market mutual funds that have been specifically permitted by state legislation. The Authority's cash and cash equivalents consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Cash	$ 4,406,083	$ 5,130,189
Permitted money market accounts ("MMA")	691,380,528	518,739,127
Total cash and cash equivalents	$ 695,786,611	$ 523,869,316

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, 2014 and June 30, 2013, the bank balances of uninsured deposits totaled $4,139,190 and $4,880,187, respectively. For purposes of disclosure under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, money market accounts investing in debt securities are considered investments and therefore, are included in the investment disclosures that follow.

Investments

As of June 30, 2014, the Authority's investments consisted of the following:

		Investment Maturities (in Years)		
	Total	Less than 1	1 to 5	6 to 10
Investment type				
Debt Securities				
Repurchase Agreements	$ 5,318,056	$ -	$ -	$ 5,318,056
MMA	691,380,528	691,380,528	-	-
Total	$ 696,698,584	$ 691,380,528	$ -	$ 5,318,056

NOTE C – CASH DEPOSITS AND INVESTMENTS - Continued

As of June 30, 2013, the Authority's investments consisted of the following:

		Investment Maturities (in Years)		
	Total	Less than 1	1 to 5	6 to 10
Investment type				
Debt Securities				
US Treasuries	$ 10,324,219	$ 10,324,219	$ -	$ -
US Agencies	69,461,145	50,383,163	19,077,982	-
Repurchase Agreements	5,318,056	-	-	5,318,056
MMA	518,739,127	518,739,127	-	-
Total	$ 603,842,547	$ 579,446,509	$ 19,077,982	$ 5,318,056

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

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 which are unconditionally guaranteed by the United States of America ("Treasuries"), obligations of an agency or organization created pursuant to an act of Congress of the United States as an agency or instrumentality thereof ("Agencies"), time deposits or certificates of deposits fully secured by Treasuries or Agencies, and Treasuries and Agencies subject to repurchase agreements. Other legislation allows the Authority to invest in the Massachusetts Municipal Depository Trust (the "MMDT"), a money market account sponsored by the Treasurer of the Commonwealth and managed by Federated Investors, Inc. 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.

No credit risk disclosures are required under GASB No. 40 relating to the Authority's investment in Treasuries. The Authority's investments in repurchase agreements are not rated but are fully collateralized by Treasuries and Agencies. MMDT is unrated.

NOTE C – CASH DEPOSITS AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of 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 exposure to custodial credit risk, except that interest-bearing time deposits or certificates of deposit of banking institutions or trust companies must be continuously and fully secured by Treasuries or Agencies.

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

Concentrations of Credit Risk

The Authority does not place a credit limit on the amount it may invest in any one issuer. As of June 30, 2014, the Authority had 98.6% of its investments in MMDT. As of June 30, 2013, the Authority had 5.9% of its investments with the Federal Home Loan Bank and 85.1% in MMDT.

NOTE D – CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2012	Additions/ (Transfers)	Balance June 30, 2013	Additions/ (Transfers)	Balance June 30, 2014
Land	$ 21,785,000	$ -	$ 21,785,000	$ 2,903,209	$ 24,688,209
Buildings	942,269,799	529,531,800	1,471,801,599	495,354,404	1,967,156,003
Building improvements	392,807,764	58,656,575	451,464,339	26,283,283	477,747,622
Equipment and furnishings	32,200,335	998,792	33,199,127	2,854,797	36,053,924
Construction in progress	661,852,510	(28,081,046)	633,771,464	(68,441,091)	565,330,373
Subtotal	2,050,915,408	561,106,121	2,612,021,529	458,954,602	3,070,976,131
Less: accumulated depreciation					
Buildings	(257,495,955)	(31,972,696)	(289,468,651)	(48,127,035)	(337,595,686)
Building improvements	(97,751,689)	(19,628,601)	(117,380,290)	(21,471,399)	(138,851,689)
Equipment and furnishings	(28,311,811)	(2,254,319)	(30,566,130)	(1,650,198)	(32,216,328)
Subtotal	(383,559,455)	(53,855,616)	(437,415,071)	(71,248,632)	(508,663,703)
Total capital assets, net	$ 1,667,355,953	$ 507,250,505	$ 2,174,606,458	$ 387,705,970	$ 2,562,312,428

In fiscal year 2014 certain fixed assets were sold with a net book value of $214,209 resulting in a gain of $2,994,977. There were no other retirements or disposals of fixed assets in fiscal years 2014 and 2013.

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2014 and 2013 of approximately $148,161,900 and $171,138,200, respectively.

NOTE E – BONDS PAYABLE

The following is a summary of bond transactions for the years ended June 30, 2014 and 2013:

	Bonds payable	Unamortized original issue premiums	Total
Beginning balance - July 1, 2012 *	$ 1,917,855,000	$ 35,946,019	$ 1,953,801,019
Issuances	284,375,000	19,376,741	303,751,741
Payments/amortization	(60,775,000)	(1,289,938)	(62,064,938)
Ending balance - June 30, 2013	$ 2,141,455,000	$ 54,032,822	2,195,487,822
Less: Due within one year			(297,599,998)
Non-current balance			$ 1,897,887,824
Beginning balance - July 1, 2013	$ 2,141,455,000	$ 54,032,822	$ 2,195,487,822
Issuances	490,470,000	23,067,206	513,537,206
Refundings	(151,665,000)	(5,661,542)	(157,326,542)
Payments/amortization	(67,375,000)	(6,631,273)	(74,006,273)
Ending balance - June 30, 2014	$ 2,412,885,000	$ 64,807,213	2,477,692,213
Less: Due within one year			(174,625,001)
Non-current balance			$ 2,303,067,212

* Restated to reflect reclassification of deferred loss on refunding ($69,720,351) to deferred outflows of resources as required by GASB Statement 65. Refer to note B for additional details.

NOTE E – BONDS PAYABLE - Continued

Aggregate annual maturities of principal and interest on long-term debt as of June 30, 2014 are as follows:

Year ending June 30,	Principal	Interest*	Total
2015	$ 76,405,000	$ 94,296,456	$ 170,701,456
2016	80,900,000	91,332,022	172,232,022
2017	82,945,000	88,505,812	171,450,812
2018	83,020,000	86,070,693	169,090,693
2019	87,535,000	83,399,701	170,934,701
2020-2024	451,585,000	368,268,366	819,853,366
2025-2029	390,745,000	290,102,417	680,847,417
2030-2034	329,350,000	220,872,754	550,222,754
2035-2039	469,750,000	139,628,451	609,378,451
2040-2044	327,130,000	42,592,354	369,722,354
2045-2049	33,520,000	837,141	34,357,141
Total	$ 2,412,885,000	$ 1,505,906,167	$ 3,918,791,167 *

* These interest payments are presented net of 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. As a result, the Authority's November 1, 2013 and May 1, 2014 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 8.7% and 7.2%, respectively.

The 2011-2 window bonds with a principal outstanding balance of $99,135,000 have no supporting liquidity facility and are classified as a current debt obligation. Consistent with prior years, the Authority expects to redeem this bond based on its original amortization schedule.

NOTE E – BONDS PAYABLE - Continued

The following is a summary of bonds outstanding for the years ended June 30, 2014 and 2013 (bond amounts in thousands):

Bond Description	Outstanding June 30, 2014	Outstanding June 30, 2013	Interest Rate	Maturity Year	Amount Issued	Insured	Commonwealth Guaranteed (Note H)	Callable	Call Date Beginning
Project Revenue Bonds, Senior Series 2003-1	$ 6,155	$ 12,035	3.875% to 5.25%	2014	$ 137,970	AMBAC	No	At Par	Nov-13
Project Refunding Bonds, Senior Series 2004-1	16,600	24,500	5.250%	2016	183,965	AMBAC	No	At Par	Nov-14
Project Revenue Bonds, Senior Series 2004-A	4,575	6,715	4.20% to 4.50%	2015	96,025	MBIA	Yes	At Par	Nov-14
Refunding Revenue Bonds, Senior Series 2005-1	5,480	8,020	5.00%	2016	25,595	AMBAC	No	At Par	May-15
Refunding Revenue Bonds, Senior Series 2005-2	25,200	180,195	5.000%	2025	212,500	AMBAC	No	At Par	Nov-15
Taxable Refunding Revenue Bonds, Senior Series 2006-2	-	2,760	5.47% to 5.49%	2014	21,240	AMBAC	No	No	-
Project Revenue Bonds, Senior Series 2008-1	194,530	201,655	Variable	2038	232,545	No	No	At Par	Anytime
Project Revenue Bonds, Senior Series 2008-2	105,725	108,300	4.00% to 5.00%	2038	120,560	FSA (Partial)	No	At Par	May-18

NOTE E – BONDS PAYABLE – Continued

Bond Description	Outstanding June 30, 2014	Outstanding June 30, 2013	Interest Rate	Maturity Year	Amount Issued	Insured	Commonwealth Guaranteed (Note H)	Callable	Call Date Beginning
Project Revenue Bonds, Senior Series 2008-A	$ 21,930	$ 22,795	Variable	2038	$ 26,580	No	Yes	At Par	Anytime
Project Revenue Bonds, Senior Series 2009-1	198,670	216,870	3.00% to 5.00%	2039	247,810	No	No	At Par	May-19
Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	271,855	271,855	6.423% to 6.573%	2039	271,855	No	No	At Par	May-18
Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable)	27,250	27,715	5.823% to 6.173%	2039	28,570	No	No	*	Anytime
Project Revenue Bonds, Senior Series 2010-1	96,645	107,950	5.000%	2020	118,985	No	No	No	-
Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer)	430,320	430,320	3.80% to 5.45%	2040	430,320	No	No	*	Anytime

* = These series of bonds are callable at the Make-Whole Redemption Price which equals the greater of the outstanding principal balance or the present value of the scheduled future principal and interest payments, which payments are discounted at the Treasury Rate (2014-4 Series Bonds), or at the Treasury Rate plus 25 basis points (2009 Series Bonds), or 30 basis points (2010 Series Bonds), or 10 basis points (2014-2 Series Bonds).

NOTE E – BONDS PAYABLE - Continued

Bond Description		Outstanding June 30, 2014		2013	Interest Rate	Maturity Year		Amount Issued	Insured	Commonwealth Guaranteed (Note H)	Callable	Call Date Beginning
Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable)	$	2,880	$	2,925	5.75%	2040	$	3,005	No	No	*	Anytime
Refunding Revenue Bonds, Senior Series 2011-1		131,090		132,450	Variable	2034		135,040	No	No	At Par	Anytime
Refunding Revenue Bonds, Senior Series 2011-2		99,135		100,020	Variable	2034		101,700	No	Yes	At Par	Anytime
Project Revenue Bonds, Senior Series 2013-1		212,585		212,585	2.00% to 5.00%	2043		212,585	No	No	At Par	Nov-22
Project Revenue bonds, Senior Series 2013-2 (Federally Taxable)		71,790		71,790	0.43% to 2.686%	2043		71,970	No	No	At Par	Nov-23
Project and Refunding Revenue bonds, Senior Series 2013-3		24,640		-	4.0%-5.0%	2043		24,640	No	No	At Par	May-23
Project Revenue bonds, Senior Series 2014-1		293,890		-	3.0%-5.0%	2044		293,890	No	No	At Par	Nov-24
Project Revenue bonds, Senior Series 2014-2		14,085		-	.44% - 2.1%	2019		14,085	No	No	*	Anytime
Refunding Revenue bonds, Senior Series 2014-4		157,855		-	.20% - 3.381%	2025		157,855	No	No	*	Anytime
Total	$	2,412,885	$	2,141,455								

* = These series of bonds are callable at the Make-Whole Redemption Price which equals the greater of the outstanding principal balance or the present value of the scheduled future principal and interest payments, which payments are discounted at the Treasury Rate (2014-4 Series Bonds), or at the Treasury Rate plus 25 basis points (2009 Series Bonds), or 30 basis points (2010 Series Bonds), or 10 basis points (2014-2 Series Bonds).

NOTE E – BONDS PAYABLE - Continued

Variable Rate Bonds

On April 23, 2013, the Authority entered into a standby bond purchase agreement with J.P. Morgan Chase Bank, N.A. ("J.P. Morgan") which requires J.P. Morgan to purchase bonds that are tendered and not remarketed. Under the terms of the J.P. Morgan standby bond purchase agreement, the Authority is required to pay J.P. Morgan in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the commitment amount. Fees incurred by the Authority in connection with the J.P. Morgan agreement totaled $536,300 and $106,100 for the year ended June 30, 2014 and June 30, 2013, respectively. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Authority and J.P. Morgan. Previously, the 2008-1 bonds were supported with an irrevocable direct pay letter of credit (the "Lloyds LOC") issued by Lloyds TSB Bank PLC. Fees incurred by the Authority in connection with the Lloyds LOC totaled $492,500 for the year ended June 30, 2013.

On April 16, 2013, the Authority entered into a standby bond purchase agreement with Barclays Bank PLC ("Barclays") which requires Barclays to purchase bonds that are tendered and not remarketed. Under the terms of the Barclays standby bond purchase agreement, the Authority is required to pay Barclays in quarterly installments a facility fee in the amount of 32.5 basis points (or higher, under certain circumstances) of the commitment amount. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Authority and Barclays. Fees incurred by the Authority in connection with the Barclays agreement totaled $79,700 and $132,500 for the year ended June 30, 2014 and June 30, 2013, respectively. Previously, the 2008-A bonds were supported by a standby bond purchase agreement with Bank of America, N.A. ("BofA"). Fees incurred by the Authority in connection with BofA standby bond purchase agreement totaled $24,800 for the year ended June 30, 2013.

The 2011-1 bonds are supported by a standby bond purchase agreement with Wells Fargo Bank, N.A. ("Wells") which requires Wells to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 185 days at an annual interest rate not to exceed 12 percent. Under the agreement, the Authority was required to pay Wells in quarterly installments a facility fee in the amount of 40 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the agreement was set at $143,253,392 and was subject to adjustment from time to time in accordance with the provisions of the agreement. The standby bond purchase agreement expired on June 9, 2014. The Authority and Wells executed a first amendment to the standby bond purchase agreement to extend the agreement until June 9, 2017. Under the first amendment to the standby purchase agreement, the Authority is required to pay Wells in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the first amendment to the standby bond purchase agreement was set at $139,063,145 and is subject to adjustment from time to time in accordance with the provisions of the agreement. Fees incurred by the Authority in connection with the Wells agreement totaled $553,800 and $665,500 for the years ended June 30, 2014 and 2013, respectively.

NOTE E – BONDS PAYABLE - Continued

Window Bonds

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

Bond Refundings

In fiscal year 2014, the Authority refunded $5,415,000 of its 2009-1 series bonds with 2013-3 series bonds. The Authority also refunded $146,250,000 of its 2005-2 series bonds with 2014-4 series bonds. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds are called. There were no advanced refundings in fiscal year 2013.

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 connection with the Authority's advanced refundings, the Authority recorded a difference between the reacquisition price and the net carrying amount of the refunded debt of approximately $84,531,726. This balance is being reported as a component of deferred outflows, loss on debt refunding, and will be amortized as an increase in interest expense over remaining term of the original life of the refunded bonds. These refundings reduced the Authority's debt service payments in future years by approximately $36,884,000 and resulted in an economic gain (the present value of the savings) of approximately $25,453,000.

NOTE E – BONDS PAYABLE - Continued

Bond Premium and Issuance Expenses

In connection with the Authority's bond issues, the Authority received premiums at issuance totaling approximately $109,652,400. The Authority amortizes the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Authority's bond issues, the Authority incurred certain issuance costs associated with the bond offerings. In fiscal years 2014 and 2013 these costs amounted to $3,646,914 and $2,151,424, respectively, and were expensed in accordance with the provisions of GASB Statement No 65.

Interest Rate Swaps

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

The Authority's contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53") to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate risk exposures. The Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB No. 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument are reported as a deferred inflow or deferred outflow in the statement of net position until the contract is settled or terminated.

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

The Authority's hedging derivative instruments at June 30, 2014 and 2013 were as follows:

	Fair Value June 30, 2013	Net Change in Fair Value	Fair Value June 30, 2014	Type of Hedge	Financial Statement Classification for Changes in Fair Value
Series 2008-1 Swap	$ (28,124,526)	$ 191,704	$ (27,932,822)	Cash Flow	Deferred outflow
Series 2008-A Swap	(3,232,469)	31,017	(3,201,452)	Cash Flow	Deferred outflow
Series 2006-1 Swap	(37,968,887)	259,155	(37,709,732)	Cash Flow	Deferred outflow
Total	$ (69,325,882)	$ 481,876	$ (68,844,006)		

NOTE E – BONDS PAYABLE - Continued

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2014 are summarized in the table below:

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

Fair Values - The fair values of the swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements. As of June 30, 2014 and 2013, the Authority's swaps had a negative fair value of $68,800,000 and $69,300,000, respectively, and as such are presented as a deferred outflow.

Credit risk - As of June 30, 2014, the Authority was not exposed to credit risk on the swaps as the fair value was negative. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive which would expose the Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Authority's counterparties at June 30, 2014 are as follows:

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

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

NOTE E – BONDS PAYABLE - Continued

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

Contingencies - All of the Authority's swaps include provisions that require the Authority to post collateral in the event its credit rating falls below certain levels. In the event the Authority is rated A2 by Moody's Investors Service or A by Standard & Poor's, the Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above $10,000,000. In the event the Authority is not rated or rated below A3 by Moody's Investors Service or below A- by Standard & Poor's, the Authority must post collateral in the amount of the fair value of the swaps in liability positions. The collateral posted is to be in the form of cash obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The Authority's credit rating is Aa2 from Moody's Investors Service, AA from Fitch Ratings, and AA- from Standard and Poor's at June 30, 2014; therefore, no collateral has been posted.

Termination of hedge accounting - In June of 2011, the Authority undertook an advance refunding of the 2008-3 and 2008-4 variable rate bonds hedged by the Series 2006-1 Swap. As part of the refunding, the Series 2006-1 swap was re-assigned to a new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. This refunding and reassignment effectively terminated the original hedge. At June 30, 2011, the Series 2006-1 Swap was considered a hedging derivative instrument. In accordance with GASB No. 53, at the time of a termination event related to an advance refunding of the hedged debt, the balance of the amounts in deferred outflows is to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. The balance of the deferred outflows that was included in the net carrying amount of the refunded debt at the time of the refunding was $22,200,000. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2014 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2014.

NOTE E – BONDS PAYABLE - Continued

Swap payments and associated debt. Using rates as of June 30, 2014, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2015	$ 10,430,000	$ 381,187	$ 14,251,251	$ 25,062,438
2016	10,845,000	374,329	13,931,574	25,150,903
2017	11,625,000	365,448	13,535,733	25,526,181
2018	11,770,000	357,759	13,181,926	25,309,685
2019	12,215,000	349,417	12,799,760	25,364,177
2020-2024	139,770,000	1,464,899	53,568,068	194,802,967
2025-2029	149,550,000	767,313	29,067,412	179,384,725
2030-2034	90,205,000	211,803	8,344,475	98,761,278
2035-2039	9,570,000	8,347	360,856	9,939,203
Total	$ 445,980,000	$ 4,280,502	$ 159,041,055	$ 609,301,557

As actual rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE F – COMMERCIAL PAPER

On August 13, 2013, the Authority issued Commercial Paper Notes, Series 2013 A and 2013 B in the amount of $50,000,000. The maximum aggregate principal amount of commercial paper which may be outstanding at one time is $200,000,000. The $125,000,000 Commercial Paper Notes, Series 2013 A, are secured by an irrevocable letter of credit (“LOC”) provided by State Street Bank and Trust Company (“State Street”) which expires in August 2016. The remaining $75,000,000 Commercial Paper Notes, Series 2013 B are secured by a Standby Liquidity Facility Agreement provided by U.S. Bank National Association, which also expires in August 2016.

The following is a summary of commercial paper issues for the year ended June 30, 2014:

	Balance June 30, 2013	Issues	Repayments	Balance June 30, 2014
Commercial paper series 2013-A tax exempt	$ -	$ 25,000,000	$ -	$ 25,000,000
Commercial paper series 2013-B tax exempt	-	45,000,000	20,000,000	25,000,000
	$ -	$ 70,000,000	20,000,000	50,000,000

Fees, accrued by the Authority in connection with the State Street LOC and U.S. Bank National Association Standby Liquidity Facility Agreement amounted to $349,600 and $209,300, respectively, for fiscal year 2014.

NOTE G – GRANTS FROM THE UNIVERSITY OF MASSACHUSETTS

During the year ended June 30, 2014, the Authority received capital contributions from the University in the amount of $102,612,330 primarily to fund projects including the Life Science Laboratory building at the Amherst campus and various other projects. In fiscal year 2013, the Authority received $4,944,000 to fund projects on the Amherst and Lowell campuses. The Authority expended funds in the respective fiscal years for these purposes.

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.

NOTE H – GUARANTY OF THE COMMONWEALTH OF MASSACHUSETTS

Section 10 of the Enabling Act authorizes the Commonwealth, acting by and through the Trustees, to enter into contracts with the Authority for state financial assistance in the form of a guaranty by the Commonwealth of the payment of the principal and interest as they become due and payable up to a maximum of $200,000,000 principal amount of outstanding bonds and notes of the Authority. The full faith and credit of the Commonwealth are pledged for the payment of the guaranty. As is generally the case with other full faith and credit obligations of the Commonwealth, funds with which to honor such guaranty would be provided by appropriation. The amount of bond obligation guaranteed by the Commonwealth was $125.6 million and $129.5 million at June 30, 2014 and June 30, 2013, respectively.

NOTE I – COMMITMENTS AND CONTINGENCIES

The Authority has executed long-term leases with the Commonwealth, acting by and through the Trustees, covering the land on which facilities owned by the Authority are located on the University's campuses. These leases call for nominal annual payments to the Commonwealth. Certain of these leases renew automatically for subsequent five or ten year periods unless the Authority notifies the University that it does not wish to renew. Other leases require the Authority to notify the University of its desire to renew. As of June 30, 2014, 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.

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

NOTE I – COMMITMENTS AND CONTINGENCIES - Continued

For the years ended June 30, 2014 and 2013, lease operating costs were approximately $1,757,400 and $1,757,100, respectively, which are included in facility operating costs in the accompanying statements of revenues, expenses and changes in net position.

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 to be used by the University primarily as classroom space for its Springfield Satellite campus. The lease begins August 1, 2014 and ends July 31, 2019.

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

Year ending June 30,		
2015	$	1,942,950
2016		1,073,600
2017		315,732
2018		315,732
2019		315,732
2020 - 2030		26,311
Total	$	3,990,057

The Authority is a defendant in various lawsuits and is subject to various contractual matters; however, Authority management is of the opinion that the ultimate outcome of all litigation or potential contractual obligations will not have a material effect on the financial position, financial results or cash flows of the Authority.

NOTE J – THE UNIVERSITY OF MASSACHUSETTS CLUB

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

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

As of June 30, 2014 and 2013 the Authority had provided operating support for the Club of approximately $216,900 and $196,200, respectively.

NOTE K – RELATED PARTY TRANSACTIONS

The following table details the amounts due to the various campuses of the University at June 30, which were recorded as part of accounts payable and other liabilities in the statements of net position:

Campus	2014	2013
Amherst Campus	$ 9,095,906	$ 6,152,944
Boston Campus	1,967,796	1,456,045
Dartmouth Campus	1,527,364	434,256
Lowell Campus	9,121,131	4,687,945
Worcester Campus	195,588	-
Total	$ 21,907,785	$ 12,731,190

NOTE L – WORKING CAPITAL OF THE AUTHORITY

As of June 30, 2014 and 2013, the Authority had a working capital deficiency of $240,117,028 and $320,041,148, respectively. However, as stated in the various contracts between the Authority and the University, the University is required to provide necessary funding to the Authority to meet its obligations through June 30, 2014 and beyond.

NOTE M – SUBSEQUENT EVENT

On July 3, 2014, the Authority issued its $67,365,000 Refunding Revenue Bonds, Senior Series 2014-3 (the “2014-3 bonds”). The 2014-3 bonds were issued to refinance the University’s Worcester City Campus Corporation 2005-Series D bonds and to pay costs of issuing the 2014-3 bonds. The 2014-3 bonds are due (serially) through 2030 and the interest rate ranges from 2.0% to 5.0%.

On July 8, 2014, the Authority extended $25,000,000 of Series 2013-A commercial paper and issued an additional $15,000,000 of Series 2013-A commercial paper. The Authority also extended $25,000,000 of Series 2013-B commercial paper and issued an additional $10,000,000 of Series B commercial paper.

NOTE M – SUBSEQUENT EVENT - Continued

On July 17, 2014, the Authority entered into a lease, as lessee, with One Beacon Street Limited Partnership, as lessor, for space at One Beacon Street, Boston, Massachusetts to be used primarily as office space by the Authority, the UMASS Club and the University. The lease begins July 15, 2015 and ends December 31, 2030. Approximate future lease payments are summarized in the table below:

Year Ending June 30,	
2015	$ -
2016	1,091,063
2017	1,138,500
2018	1,161,500
2019	1,184,500
2020 - 2030	14,547,500
Total	$ 19,123,063

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2014 and through December 18, 2014, the date on which the financial statements were available to be issued.