Financial Statements and Report of
Independent Certified Public Accountants

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY

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

June 30, 2016 and 2015

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

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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 June 30, 2016 and 2015, and the related statements of revenues, 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 June 30, 2016 and 2015, 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 matter

### 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 15, 2016

This section of the annual financial statements of the University of Massachusetts Building Authority (the "Authority") presents a discussion and analysis of the Authority's financial activity for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis has been prepared by management and should be read in conjunction with the Authority's financial statements and related note disclosures, which follow.

## INTRODUCTION

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

The Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct, remodel and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Enabling Act authorizes the Authority to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes which are payable solely from its revenues. The Authority's assets and projects are located on all five campuses of the University. The 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 $954.1 million in fiscal year 2016 compared to $865.4 million in fiscal year 2015.
- Capital spending and contributed construction assets totaled $313.3 million in fiscal year 2016, representing a $92.5 million decrease as compared to fiscal year 2015. A majority of the capital spending in fiscal year 2016 relates to investments in new buildings and renovation projects including the Historic Chapel Renovation, South College Renovation and Expansion, Design Building, and DuBois Library Renovations at the Amherst Campus; University Hall, Healey Library Roof and Envelope Repair, and Utility Corridor and Roadway Relocation Project at the Boston Campus; Expansion of the Charlton Business School and construction of the new School of Marine Sciences at the Dartmouth Campus; and Phase 1 of the North Quad Renovations and the McGauvran Hall Renovation at the Lowell 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.

***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, deferred outflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

The *statements of cash flows* are reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., income from contracts) and disbursements (e.g., cash paid to vendors for services), as well as capital and related financing and, noncapital financing, if any, and investing activities.

The financial statements can be found on pages 11 to 14 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 15 to 39 of this report.

***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 $954.1 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, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|---|
| Current assets | $ 86,174 | $ 89,980 | $ 78,300 |
| Non-current assets | 3,770,032 | 3,756,141 | 3,243,826 |
| Total assets | 3,856,206 | 3,846,121 | 3,322,126 |
| Deferred outflows of resources | 136,910 | 121,395 | 112,880 |
| Current liabilities | 409,795 | 477,674 | 318,417 |
| Non-current liabilities | 2,629,255 | 2,624,454 | 2,382,357 |
| Total liabilities | 3,039,050 | 3,102,128 | 2,700,774 |
| Net position: | | | |
| Net investment in capital assets | 891,768 | 808,333 | 681,352 |
| Restricted | 59,270 | 57,655 | 47,721 |
| Unrestricted (deficit) | 3,028 | (600) | 5,159 |
| Total net position | $ 954,066 | $ 865,388 | $ 734,232 |

*Current assets* decreased in fiscal year 2016 compared to 2015 primarily due to a decrease in intergovernmental receivables of $7.5 million, partially offset by an increase in prepaid expenses of $1.0 million and accounts receivables of $2.5 million. Current assets increased in fiscal year 2015 compared to 2014 primarily due to increases in cash of approximately $1.2 million and increases in receivables of $7.8 million.

*Non-current assets* totaled $3.77 billion, $3.76 billion and $3.24 billion as of June 30, 2016, 2015, and 2014, respectively. The increase in non-current assets of $13.9 million in fiscal year 2016 compared to fiscal year 2015 is due to additional spending on new and existing projects of $235.2 million partially offset by a decrease in restricted cash of $216.1 million and a loan receivable of $5.4 million from Worcester City Corporation ("WCCC"). Non-current assets increased in fiscal year 2015 from fiscal year 2014 primarily due to additional spending on new and existing projects.

*Deferred outflows of resources* totaled $136.9 million, $121.4 million, and $112.9 million at the end of fiscal years 2016, 2015, and 2014, 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 Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective July 1, 2012.

*Current liabilities* decreased in fiscal year 2016 compared to 2015 by $67.9 million primarily due to a decrease of $72.2 million for the current portion of bonds payable partially offset by a $3.0 million increase in retainage liability and $4.0 million in other liabilities.

The decrease in the current portion of bonds payable is primarily due to two liquidity facilities that supported the 2008-1 and 2008-A variable rate bonds that were renewed in fiscal year 2016 but reported as current liabilities in fiscal year 2015. This decrease was partially offset by an increase in current liabilities resulting from the expiration of the liquidity facility that supports the 2011-1 bonds which will occur in June of 2017. While the Authority intends to extend the liquidity facility and redeem the 2011-1 variable rate bonds on their original principal amortization schedule which extends through fiscal year 2035, these bonds must be classified as current liabilities in the current year in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Current liabilities increased in fiscal year 2015 compared to 2014 by $159.3 million primarily due to an increase of $206.0 million in the current portion of bonds payable which was partially offset by a $44.0 million net paydown of commercial paper. The increase in the current portion of bonds payable was primarily due to the entire balance of 2008-1 and 2008-A bonds being classified as a current liability as the liquidity facilities supporting these bonds expired during fiscal year 2016.

*Non-current liabilities* increased in fiscal year 2016 compared to 2015 by $4.8 million primarily due to an increase in the fair value of interest rate swap agreements of $19.4 million, partially offset by a decrease in long-term bonds payable of $22.9 million.

*Non-current liabilities* increased in fiscal year 2015 compared to 2014 by $242.1 million primarily due to an increase in long-term debt of $240.3 million. During 2015, the Authority issued $558.0 million of new debt and $81.6 million of new bond premiums. This increase in long-term debt was offset by a $107.0 million decrease in the bonds payable associated with the partial refunding of the 2009-1 and the 2008-2 bonds, principal payments of $76.4 million, bond premium amortization of $9.8 million, and the reclass of $208.2 million described above.

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

*Restricted* net position represents funds primarily restricted for 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).

*Unrestricted* net position represents those funds that are not subject to restrictions, or for which restrictions have expired. In fiscal year 2016 the Authority reported a $3.0 million surplus in the unrestricted component of net position, a $3.6 million increase from fiscal year 2015, primarily due to nearly $2.0 million of loss on disposal of certain assets and a $2.7 million decrease in operating income in fiscal year 2015.

The Authority's changes in net position (in thousands) are presented in the table below:

| | For The Year Ended June 30, 2016 | For The Year Ended June 30, 2015 | For The Year Ended June 30, 2014 |
|---|---|---|---|
| Operating revenues: | | | |
| Financing income and fees for services | $ 208,557 | $ 193,959 | $ 159,417 |
| Interest income and interest subsidies, net | 16,726 | 15,751 | 15,420 |
| Total operating revenues | 225,283 | 209,710 | 174,837 |
| Operating expenses: | | | |
| Facility operating costs | 7,366 | 5,566 | 5,554 |
| Interest expense | 101,058 | 91,014 | 74,773 |
| Depreciation and amortization | 108,849 | 93,237 | 72,462 |
| General and administrative expenses | 3,783 | 6,754 | 6,163 |
| Total operating expenses | 221,056 | 196,571 | 158,952 |
| Net operating income | 4,227 | 13,139 | 15,885 |
| Total non-operating income (expenses) | (525) | (1,877) | 2,995 |
| Total capital contributions | 84,976 | 119,894 | 133,446 |
| Change in net position | 88,678 | 131,156 | 152,326 |
| Net position at the beginning of the year | 865,388 | 734,232 | 581,906 |
| Net position at the end of the year | $ 954,066 | $ 865,388 | $ 734,232 |

*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 $14.6 million in fiscal year 2016 compared to fiscal year 2015 primarily because the Authority charged the campuses more in debt service than in the prior year for the same reason. Revenue increased by $34.5 million in fiscal year 2015 compared to fiscal year 2014 primarily because the Authority charged the campuses more in debt service than the prior year.

*Interest income and Interest subsidy - United States Government* remained relatively flat in fiscal year 2016 versus fiscal year 2015. Interest income increased by $937 thousand in fiscal year 2016 compared to fiscal year 2015 due to larger daily cash balances kept during the fiscal year 2016 compared to the prior year. Interest income decreased by $291 thousand in fiscal year 2015 compared to fiscal year 2014 due to lower investments compared to the prior year.

In fiscal year 2016, 2015 and 2014, 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 1st and May 1st 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 6.8% and 7.3% in fiscal years 2016 and 2015, respectively. This reduction accounts for the $471.0 thousand decrease in Interest Subsidy Revenue in fiscal year 2016 compared to the original 35% subsidy.

*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 2016 compared to fiscal year 2015 due to an increase in Authority operating costs and utilities. Facility operating costs remained relatively flat in fiscal year 2015 compared to fiscal year 2014.

*Interest expense* represents interest paid to the holders of Authority issued debt. In fiscal year 2016, interest expense increased by $10.0 million compared to the prior year. This increase is primarily due to an increase in associated interest expense due to the 2015-1 and 2015-2 debt issuances. These bonds were issued in March of 2015, and therefore accrued interest expense for less than four months in fiscal year 2015, while the interest expense reported for these bonds in fiscal year 2016 represents a full year. In fiscal year 2015, interest expense increased by $16.2 million compared to fiscal year 2014 primarily due to new 2014-3, 2015-1 and 2015-2 debt issuances. (See Note 5 for more information on fiscal year 2015 and 2014 bond issues).

*Depreciation and amortization* increased by $15.6 million in fiscal year 2016 compared to fiscal year 2015 and $20.8 million in fiscal year 2015 versus 2014 as additional new capital assets were placed into service during those years.

*General and administrative expenses* decreased by $3.0 million in current fiscal year compared to fiscal year 2015 as the Authority did not issue any new debt or refund bonds, and thus incurred no corresponding bond issuance expenses in fiscal year 2016.

*Non-operating income (expense)* is $(0.5) million and $(1.9) million in fiscal year 2016 and fiscal year 2015, respectively. In fiscal year 2016, the Authority disposed of one parking lot at the Boston campus to allow for further campus expansion. The campus disposed of two parking lots in fiscal 2015. The recorded loss from these disposals was $0.5 and $1.9 million in fiscal 2016 and 2015. 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 an effort to consolidate academic and core campus activities on its main campus.

*Capital contributions* represent certain grants and gifts provided to the Authority for capital construction at the five campuses. In fiscal year 2016 and fiscal year 2015, the University and the state's Division of Capital Asset Management and Maintenance ("DCAMM") contributed $0.5 million and $73.0 million worth of construction, respectively, to the Authority for the Integrated Learning Center project at the Amherst campus. In 2016, the Authority received a $25.0 million grant from the Commonwealth to fund a capital infrastructure project, "Road and Transportation Improvements at Umass Boston", located on the Boston campus. In 2016, the Authority also received $31.4 million from the University to fund the construction of Tillson electrical substation project at the Amherst campus, University Hall at Boston campus, Charlton College of Business at Dartmouth campus, and McGauvran Dining Renovation on the Lowell campus.

## CAPITAL ASSETS OF THE AUTHORITY

The Authority's investment in capital assets as of June 30, 2016 and 2015 amounted to $3.1 billion and $2.9 billion, net of accumulated depreciation. This investment in capital assets included land, buildings, improvements, furnishings and equipment. Net capital assets increased by $235.2 million or 8.1% in fiscal year 2016. This increase was primarily due to capital improvements and construction in progress outpacing depreciation expenses:

- Buildings and building components increased by $69.5 million, net of accumulated depreciation, in fiscal year 2016. The increase was primarily due to placing in service newly constructed and renovations of existing buildings on the Amherst, Boston, Dartmouth, and Lowell campuses. During fiscal year 2016, improvements decreased by $6.6 million, net of accumulated depreciation, primarily due to fewer new improvements.
- Construction in progress ("CIP") increased $149.2 million in fiscal year 2016 as the Authority added new construction costs for the following projects: Mass Life Science Center Laboratories Buildout, Chapel Renovation, Design Building, and South College Academic Facility at the Amherst campus; University Hall and Utility Corridor and Roadway Relocation projects at the Boston campus; Charlton College of Business Expansion and SMAST facility at the Dartmouth campus; North Quad Infrastructure Renewal at the Lowell campus. These CIP additions were partially offset by a number of projects transferred from CIP to depreciable property, namely: the Champions Center, Furcolo Hall Renovations, and Tillson Electrical Substation at the Amherst campus; McGauvran Dining renovations and various smaller projects at the Lowell campus.

## DEBT OF THE AUTHORITY

The Authority carries debt in the form of bond obligations. This debt was approximately $2.8 billion and $2.9 billion at June 30, 2016 and 2015, respectively. The decrease of $95.1 million in fiscal year 2016 is primarily attributable to the Authority's bond payments and premium/discount amortization.

The Authority did not issue or refund any bonds in fiscal year 2016. Accordingly, no bond issuance expense was incurred in fiscal year 2016.

On March 25, 2015, the Authority issued $298,795,000 of Senior Series Project Revenue Bonds (the "2015-1 Bonds"). The 2015-1 Bonds included a premium of $35.7 million. The Authority also issued $191,825,000 of Refunding Revenue Senior Series 2015-2 Bonds which refunded $104.5 million of WCCC bonds, $37,215,000 of the Authority's 2008-1 bonds and $66,750,000 of the Authority's 2009-1 bonds. The 2015-2 Bonds included a premium of $34.0 million.

In July 2014, the Authority issued $67,365,000 of Senior Series 2014-3 bonds. These bond proceeds were used to refund the 2005 Series-D Worcester City Campus Corporation Bonds. The 2014-3 bonds included a premium of $12.0 million.

The amount of bond obligation guaranteed by the Commonwealth on bonds outstanding series 2004-A, 2008-A, and 2011-2 was $117.4 million and $121.6 million at June 30, 2016 and June 30, 2015, respectively. Refer to Note 5 of the financial statements for more information.

As of June 30, 2016, 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.

## THE UNIVERSITY OF MASSACHUSETTS CLUB

The Authority operates the University of Massachusetts Club (the "Club"). The Club is a private club open to membership for alumni, faculty, staff and friends of the University and is located on the 32nd floor of One Beacon in Boston, Massachusetts. Through July 31, 2015, the Club was managed by UMass Club Management, LLC, a wholly owned subsidiary of ClubCorp USA, a nationally known business club management company. As of August 1, 2015, the Club was managed by the not-for-profit organization University Services, Inc. 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, One Beacon Street, 31st Floor, Boston, Massachusetts 02108. Additional information on the Authority can be found on its web site, www.umassba.net.

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Net Position
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Notes 2 and 3) | $ 18,086,094 | $ 17,913,245 |
| Accounts receivable, net of allowance of $97,365 and $46,175, respectively | 2,768,084 | 232,314 |
| Intergovernmental receivables | | |
| Massachusetts Life Sciences Center | 16,888,231 | 24,386,222 |
| U.S. Government | 2,149,652 | 2,151,961 |
| University of Massachusetts | 40,296,673 | 40,260,308 |
| Interest receivable | 49,826 | 49,826 |
| WCCC loan receivable - current portion | 2,830,000 | 2,895,000 |
| Prepaid expenses and other current assets | 3,105,424 | 2,091,590 |
| Total current assets | 86,173,984 | 89,980,466 |
| NON-CURRENT ASSETS | | |
| Restricted | | |
| Cash and cash equivalents (Notes 2 and 3) | 461,730,701 | 677,861,158 |
| Investments (Notes 2 and 3) | 5,318,056 | 5,318,056 |
| Capital assets, net of accumulated depreciation (Note 4) | 3,127,728,751 | 2,892,547,529 |
| WCCC loan receivable - non-current portion | 173,546,958 | 178,905,219 |
| Other assets | 1,707,232 | 1,508,585 |
| Total non-current assets | 3,770,031,698 | 3,756,140,547 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Fair value of interest rate swap agreements | 71,481,000 | 44,647,852 |
| Loss on debt refunding | 65,428,900 | 76,747,462 |
| Total assets and deferred outflows of resources | 3,993,115,582 | 3,967,516,327 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 49,605,600 | 50,880,364 |
| Retainage payable to contractors | 13,774,246 | 10,749,676 |
| Bonds payable, current portion (Note 5) | 308,430,000 | 380,590,000 |
| Commercial paper notes (Note 6) | 5,000,000 | 6,000,000 |
| Accrued bond interest payable | 20,617,620 | 21,167,834 |
| Other liabilities | 12,367,439 | 8,286,605 |
| Total current liabilities | 409,794,905 | 477,674,479 |
| NON-CURRENT LIABILITIES | | |
| Bonds payable, net of current portion, and unamortized bond premium (Note 5) | 2,520,421,352 | 2,543,338,624 |
| Derivative instruments - interest rate swap agreements (Note 5) | 90,477,813 | 71,053,497 |
| Other liabilities | 18,355,393 | 10,061,314 |
| Total non-current liabilities | 2,629,254,558 | 2,624,453,435 |
| Total liabilities | 3,039,049,463 | 3,102,127,914 |
| **NET POSITION** | | |
| Net investment in capital assets | 891,767,403 | 808,333,475 |
| Restricted for | | |
| Capital projects | 3,041,783 | 2,675,978 |
| Debt service | 56,228,630 | 54,979,218 |
| Unrestricted | 3,028,303 | (600,258) |
| Total net position | $ 954,066,119 | $ 865,388,413 |

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

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Revenues, Expenses and Changes in Net Position
**For the years ended June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| OPERATING REVENUE | | |
| Financing income and fees for services | $ 208,556,993 | $ 193,958,690 |
| Interest income | 3,835,958 | 2,899,037 |
| Interest subsidy - U.S. Government | 12,890,323 | 12,851,734 |
| Total operating revenues | 225,283,274 | 209,709,461 |
| OPERATING EXPENSES | | |
| Facility operating costs | 7,365,684 | 5,566,444 |
| Interest expense | 101,058,029 | 91,013,906 |
| Depreciation | 108,849,312 | 93,236,856 |
| Insurance | 1,247,597 | 1,247,967 |
| Professional fees | 2,382,654 | 5,367,176 |
| Office, administration and miscellaneous | 152,943 | 138,376 |
| Total operating expenses | 221,056,219 | 196,570,725 |
| Net operating income | 4,227,055 | 13,138,736 |
| NON-OPERATING REVENUES | | |
| Gain (loss) on disposal or sale of assets | (524,748) | (1,876,490) |
| Total non-operating income | (524,748) | (1,876,490) |
| CAPITAL CONTRIBUTIONS | | |
| University of Massachusetts (Note 7) | 31,452,558 | 75,787,441 |
| Massachusetts Life Sciences Center | 28,009,924 | 42,185,745 |
| Commonwealth of Massachusetts | 25,512,917 | 1,921,065 |
| Total capital contributions | 84,975,399 | 119,894,251 |
| Change in net position | 88,677,706 | 131,156,497 |
| Net position at beginning of year | 865,388,413 | 734,231,916 |
| Net position at end of year | $ 954,066,119 | $ 865,388,413 |

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

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Cash Flows
### For the years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from financing income, fees for services and other income | $ 207,718,569 | $ 187,610,825 |
| Cash from U.S. Government for BABs interest subsidy | 12,892,632 | 12,842,499 |
| Cash from investments | 2,479,227 | 1,543,064 |
| Payments to bondholders for interest | (125,014,115) | (111,876,320) |
| Payments to vendors and suppliers | (8,752,026) | (10,784,371) |
| Payments of salaries and benefits | (3,379,290) | (2,602,669) |
| Net cash provided by operating activities | 85,944,997 | 76,733,028 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital asset expenditures | (312,740,085) | (329,141,458) |
| Repayment of bond principal | (83,795,000) | (76,405,000) |
| Repayment of commercial paper obligations | (6,000,000) | (75,000,000) |
| Bond issuance expenses paid | 2,179 | (789,188) |
| Proceeds from commercial papers | 5,000,000 | 31,000,000 |
| Proceeds from capital contributions | 91,962,253 | 39,089,478 |
| Proceeds from bond obligations | 3,668,048 | 298,795,000 |
| Proceeds from bond premium | - | 35,705,932 |
| Net cash used in capital and related financing activities | (301,902,605) | (76,745,236) |
| Net decrease in cash and cash equivalents | (215,957,608) | (12,208) |
| Cash and cash equivalents - beginning of year | 695,774,403 | 695,786,611 |
| Cash and cash equivalents - end of year | $ 479,816,795 | $ 695,774,403 |

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

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Cash Flows
**For the years ended June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Net operating income | $ 4,227,055 | $ 13,138,736 |
| Adjustments to reconcile net operating income to net cash provided by operating activities | | |
| Capitalized interest | (22,105,124) | (23,637,978) |
| Depreciation and amortization | 105,509,764 | 90,867,976 |
| Effect of non-cash transactions (deferred rent income and expense) | (450,224) | - |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in | | |
| Prepaid expenses and other current assets | (1,013,833) | (764,556) |
| Accounts receivable | 359,230 | 3,155,158 |
| Other assets | (198,647) | (1,388,350) |
| Increase (decrease) in | | |
| Accounts payable - non-construction related | 203,355 | (296,357) |
| Accrued bond interest payable | (550,215) | 3,008,516 |
| Accounts receivable (University billing) | (36,364) | (7,350,116) |
| Net cash provided by operating activities | $ 85,944,997 | $ 76,733,029 |
| Supplemental disclosure of cash flow information | | |
| Non-cash capital and related financing activities | | |
| Capital assets acquired and included in accounts and retainage payable and other liabilities | $ 73,145,494 | $ 68,332,058 |
| Capital assets transferred from Amherst campus and the Commonwealth of Massachusetts, as part of capital contribution | $ 513,445 | $ 75,180,427 |
| In fiscal year 2015, the Authority issued Project and Refunding revenue bonds to refund certain debt issued in 2008 and 2009, as described in the Note 5 of the financial statements. | $ - | $ 302,388,231 |

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

## 1. OPERATIONS OF THE AUTHORITY

The University of Massachusetts Building Authority (the "Authority" or "UMBA") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Authority was created by Chapter 773 of the Acts of 1960 of the Commonwealth, as amended (the "Enabling Act"). The 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 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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") as applied to governmental 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 US GAAP 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.

### Restricted Assets

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

The following sets forth the restricted cash and cash equivalent and investment balances as of June 30:

| | 2016 | 2015 |
|---|---|---|
| Restricted cash and cash equivalents | | |
| Capital projects fund | $ 450,049,626 | $ 667,393,130 |
| Debt service fund | 11,681,075 | 10,468,028 |
| Total restricted cash and cash equivalents | $ 461,730,701 | $ 677,861,158 |
| Restricted investments | | |
| Debt service fund | $ 5,318,056 | $ 5,318,056 |

### 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 | 15 to 50 years |
| Building, leasehold and land improvements | 3 to 20 years |
| Equipment | 4 to 10 years |
| Furnishings | 3 to 10 years |

### Capitalized Interest

The Authority capitalizes interest costs incurred during the construction period of qualifying property assets. The amount of 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, 2016 and 2015 totaled $22,105,124 and $23,638,000, respectively, net of interest income of $1,820,967 and $1,015,280, 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, if any, 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.

**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 accompanying 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 as respective expenditures are incurred.

**Insurance**

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

This exposure is partially secured by and paid out of an escrow trust fund set up for this purpose as a requirement of the stop-loss insurer. The total deductible exposure, plus unpaid OCIP-related insurance premiums and expenses committed to the OCIP is addressed by the Authority with an OCIP reserve of $8,804,531 and $10,061,315 as of June 30, 2016 and June 30, 2015, respectively, which is presented as Other Liabilities in the accompanying statements of net position.

**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.

**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.

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, in fiscal year 2016, the Authority's November 1, 2015 and May 1, 2016 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 6.8%. In fiscal year 2015, the Authority's November 1, 2014 and May 1, 2015 original subsidy payments related to these bonds were reduced by 7.3%. This reduction was approximately $471,030 in fiscal year 2016 and $505,665 in fiscal year 2015.

**Adoption of New Accounting Standards**

In February 2015, the GASB issued Statement 72, "Fair Value measurements and Application" ("GASB 72"). The statement is effective for periods beginning after June 15, 2015. This statement addresses the accounting and financial reporting issues related to fair value measurements, as well as requires certain disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for determining a fair value measurement for financial reporting purposes, as well as for applying fair value to certain investments and swap counterparties at the measurement date. As disclosed in Note 3 and Note 5, the Authority assessed the impact of GASB No. 72 on its financial statements and has added required disclosures of assets and liabilities reported at fair value in the accompanying financial statements. The determination of fair value as it relates to the interest rate swaps was also impacted by the adoption of GASB 72. As amounts were immaterial, the Authority did not adjust the fair value of this laibility as of June 30, 2015. Implementation of GASB No. 72 did not have any impact on the net position of the Authority.

## 3. 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 held on deposit consisted of the following as of June 30:

| | 2016 | 2015 |
|---|---|---|
| Cash | $ 4,577,357 | $ 3,580,191 |
| Permitted money market accounts | 475,239,438 | 692,194,212 |
| Total cash and cash equivalents | $ 479,816,795 | $ 695,774,403 |

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, 2016 and June 30, 2015, the bank balances of uninsured deposits totaled $4,077,357 and $3,261,076, 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, 2016, 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 | $ - |
| Money Market Accounts | 475,239,438 | 475,239,438 | - | - |
| Total | $ 480,557,494 | $ 475,239,438 | $ 5,318,056 | $ - |

As of June 30, 2015, 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 |
| Money Market Accounts | 692,194,212 | 692,194,212 | - | - |
| Total | $ 697,512,268 | $ 692,194,212 | $ - | $ 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.

**Investments - Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's Enabling Act does not contain legal or policy requirements that would limit the 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, 2016, the Authority had 98.0% of its investments in MMDT. As of June 30, 2015, the Authority had 98.7% of its investments in MMDT.

**Fair Value Measurements**

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

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly and include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable fir the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement. Unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

The following table presents the investments carried at fair value, as of June 30, 2016 and 2015, by the GASB 72 valuation hierarchy defined above:

| | Fair value measurements at June 30, 2016 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investment type | | | | |
| Debt Securities | | | | |
| Repurchase Agreements | $ - | $ 5,318,056 | $ - | $ 5,318,056 |
| Money Market Accounts | 475,239,438 | - | - | 475,239,438 |
| Total | $ 475,239,438 | $ 5,318,056 | $ - | $ 480,557,494 |

| | Fair value measurements at June 30, 2015 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investment type | | | | |
| Debt Securities | | | | |
| Repurchase Agreements | $ - | $ 5,318,056 | $ - | $ 5,318,056 |
| Money Market Accounts | 692,194,212 | - | - | 692,194,212 |
| Total | $ 692,194,212 | $ 5,318,056 | $ - | $ 697,512,268 |

Fair value for Level 1 is based upon quoted prices in active markets the Authority has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Authority does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

## 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

| | Balance June 30, 2014 | Additions/ (Transfers) | Balance June 30, 2015 | Additions/ (Transfers) | Balance June 30, 2016 |
|---|---|---|---|---|---|
| Land | $ 24,688,209 | $ 2,726,715 | $ 27,414,924 | $ 9,689,568 | $ 37,104,492 |
| Buildings | 1,967,156,003 | 471,348,244 | 2,438,504,247 | 145,917,062 | 2,584,421,309 |
| Building and land improvements | 477,747,622 | 98,024,020 | 575,771,642 | 19,754,083 | 595,525,725 |
| Equipment and furnishings | 36,053,924 | 4,908,809 | 40,962,733 | 17,625,977 | 58,588,710 |
| Construction in progress | 565,330,373 | (171,182,936) | 394,147,437 | 149,240,730 | 543,388,167 |
| Subtotal | 3,070,976,131 | 405,824,852 | 3,476,800,983 | 342,227,420 | 3,819,028,403 |
| Less: accumulated depreciation | | | | | |
| Buildings | (337,595,686) | (60,099,285) | (397,694,971) | (76,402,251) | (474,097,222) |
| Building and land improvements | (138,851,689) | (23,760,124) | (162,611,813) | (26,387,036) | (188,998,849) |
| Equipment and furnishings | (32,216,328) | 8,269,658 | (23,946,670) | (4,256,911) | (28,203,581) |
| Subtotal | (508,663,703) | (75,589,751) | (584,253,454) | (107,046,198) | (691,299,652) |
| Total capital assets, net | $ 2,562,312,428 | $ 330,235,101 | $ 2,892,547,529 | $ 235,181,222 | $ 3,127,728,751 |

In fiscal year 2016 certain fully depreciated assets were retired and disposed of to allow for further campus expansion as part of the capital plan, resulting in a loss on disposal of $524,748. In fiscal year 2015, certain fixed assets were retired and one asset was disposed of to allow for further campus expansion as part of the capital plan, resulting in a loss on disposal of $1,876,490. There were no other retirements or disposals of fixed assets in fiscal years 2016 and 2015.

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2016 and 2015 of $157,332,000 and $205,666,000, respectively.

## 5. BONDS PAYABLE

The following is a summary of bond transactions for the years ended June 30, 2016 and 2015:

| | Bonds Payable | Unamortized Original Issue Premiums | Total |
|---|---|---|---|
| **Beginning balance - July 1, 2014** | $ 2,412,885,000 | $ 64,807,213 | $ 2,477,692,213 |
| Issuances | 557,985,000 | 81,639,000 | 639,624,000 |
| Refundings | (103,965,000) | (3,233,742) | (107,198,742) |
| Payments/amortization | (76,405,000) | (9,783,847) | (86,188,847) |
| **Ending balance - June 30, 2015** | $ 2,790,500,000 | $ 133,428,624 | 2,923,928,624 |
| Less: Due within one year | | | (380,590,000) |
| Non-current balance | | | $ 2,543,338,624 |
| **Beginning balance - July 1, 2015** | $ 2,790,500,000 | $ 133,428,624 | $ 2,923,928,624 |
| Payments/amortization | (83,795,000) | (11,282,272) | (95,077,272) |
| **Ending balance - June 30, 2016** | $ 2,706,705,000 | $ 122,146,352 | 2,828,851,352 |
| Less: Due within one year | | | (308,430,000) |
| Non-current balance | | | $ 2,520,421,352 |

Aggregate annual maturities of principal and interest on long-term debt as of June 30, 2016 are as follows:

| | Principal | Interest* | Total |
|---|---|---|---|
| **Year Ending June 30,** | | | |
| 2017 | $ 85,775,000 | $ 109,151,359 | $ 194,926,359 |
| 2018 | 89,325,000 | 106,547,666 | 195,872,666 |
| 2019 | 94,065,000 | 103,634,098 | 197,699,098 |
| 2020 | 97,280,000 | 100,221,610 | 197,501,610 |
| 2021 | 100,980,000 | 96,117,847 | 197,097,847 |
| 2022-2026 | 472,760,000 | 426,658,232 | 899,418,232 |
| 2027-2031 | 463,465,000 | 335,314,102 | 798,779,102 |
| 2032-2036 | 456,815,000 | 244,697,067 | 701,512,067 |
| 2037-2041 | 545,790,000 | 127,121,423 | 672,911,423 |
| 2042-2046 | 300,450,000 | 27,901,448 | 328,351,448 |
| Total | $ 2,706,705,000 | $ 1,677,364,852 | $ 4,384,069,852 |

***** 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 subsidy of the interest rate paid to bondholders up to 35%. As a result, the Authority's November 1, 2015, and May 1, 2016 subsidy payments related to the Senior Series 2009-2 Project Revenue Build America Bonds and the Senior Series 2010-2 Project Revenue Build America Bonds were 32.62%

The 2011-1 variable rate bonds have an outstanding principal balance of $128,245,000 and are classified as a current debt obligation as a result of the supporting liquidity facility expiring in June 2017. The Authority expects to redeem these variable rate bonds on their original principal amortization schedule. The 2011-2 window bonds with a principal outstanding balance of $97,265,000 have no supporting liquidity facility and therefore are classified as a current debt obligation. Consistent with prior years, the Authority expects to redeem this bond based on its original amortization schedule and based on annual maturities on that schedule.

The following is a summary of bonds outstanding for the years ended June 30, 2016 and 2015 (bond amounts in thousands):

| Bond Description | Outstanding June 30, 2016 | Outstanding June 30, 2015 | Interest Rate | Maturity Year | Amount Issued | Insured | Commonwealth Guaranteed (Note 8) | Callable | Call Date Beginning |
|---|---|---|---|---|---|---|---|---|---|
| Project Refunding Bonds, Senior Series 2004-1 | $ 1,515 | $ 8,300 | 5.250 % | 2016 | $ 183,965 | AMBAC | No | At Par | Nov-14 |
| Project Revenue Bonds, Senior Series 2004-A | - | 2,340 | 4.20% to 4.50% | 2015 | 96,025 | MBIA | Yes | At Par | Nov-14 |
| Refunding Revenue Bonds, Senior Series 2005-1 | - | 2,805 | 5.00 % | 2016 | 25,595 | AMBAC | No | At Par | May-15 |
| Refunding Revenue Bonds, Senior Series 2005-2 | - | 16,005 | 5.000 % | 2025 | 212,500 | AMBAC | No | At Par | Nov-15 |
| Taxable Refunding Revenue Project Revenue Bonds, Senior Series 2008-1 | 179,425 | 187,125 | Variable | 2038 | 232,545 | No | No | At Par | Anytime |
| Project Revenue Bonds, Senior Series 2008-2 | 63,025 | 65,835 | 4.00% to 5.00% | 2038 | 120,560 | FSA (Partial) | No | At Par | May-18 |
| Project Revenue Bonds, Senior Series 2008-A | 20,105 | 21,035 | Variable | 2038 | 26,580 | No | Yes | At Par | Anytime |
| Project Revenue Bonds, Senior Series 2009-1 | 108,365 | 120,575 | 3.00% to 5.00% | 2039 | 247,810 | No | No | At Par | May-19 |

| Bond Description | Outstanding June 30, 2016 | Outstanding June 30, 2015 | Interest Rate | Maturity Year | Amount Issued | Insured | Guaranteed (Note 8) | Callable | Call Date Beginning |
|---|---|---|---|---|---|---|---|---|---|
| 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) | 26,235 | 26,755 | 5.823% to 6.173% | 2039 | 28,570 | No | No | * | Anytime |
| Project Revenue Bonds, Senior Series 2010-1 | 72,310 | 84,775 | 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 |
| Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable) | 2,785 | 2,835 | 5.75 % | 2040 | 3,005 | No | No | * | Anytime |
| Refunding Revenue Bonds, Senior Series 2011-1 | 128,245 | 129,690 | Variable | 2034 | 135,040 | No | No | At Par | Anytime |
| Refunding Revenue Bonds, Senior Series 2011-2 | 97,265 | 98,220 | Variable | 2034 | 101,700 | No | Yes | At Par | 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 plus 25 basis points (2009 Series Bonds) or 30 basis points (2010 Series Bonds).

| Bond Description | Outstanding June 30, 2016 | Outstanding June 30, 2015 | Interest Rate | Maturity Year | Amount Issued | Insured | Commonwealth Guaranteed (Note 8) | Callable | Call Date Beginning |
|---|---|---|---|---|---|---|---|---|---|
| Project Revenue Bonds, Senior Series 2013-1 | $ 203,420 | $ 208,060 | 2.00% to 5.00% | 2043 | $ 212,585 | No | No | At Par | Nov-22 |
| Project Revenue bonds, Senior Series 2013-2 (Federally Taxable) | 67,335 | 69,570 | 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 | 24,640 | 4.0%-5.0% | 2043 | 24,640 | No | No | At Par | May-23 |
| Project Revenue bonds, Senior Series 2014-1 | 293,465 | 293,890 | 3%- 5.0% | 2044 | 293,890 | No | No | At Par | Nov-24 |
| Project Revenue bonds, Senior Series 2014-2 | 11,330 | 14,085 | .44% - 2.1% | 2019 | 14,085 | No | No | * | Anytime |
| Refunding Revenue bonds, Senior Series 2014-4 | 149,975 | 153,800 | .20% - 3.381% | 2025 | 157,855 | No | No | * | Anytime |
| Refunding Revenue Bonds, Senior Series 2014-3 | 64,470 | 67,365 | 2.00% to 5.00% | 2029 | 67,635 | No | No | At Par | Nov-24 |
| Project Revenue Bonds, Senior Series 2015-1 | 298,795 | 298,795 | 4.00% to 5.00% | 2036 | 298,795 | No | No | At Par | Nov-25 |
| Refunding Revenue Bonds Senior Series 2015-2 | 191,825 | 191,825 | 3.00% to 5.00% | 2036 | 191,825 | No | No | At Par | Nov-25 |
| Total | $ 2,706,705 | $ 2,790,500 | | | | | | | |

* 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 Treasury Rate plus 25 basis points (2009 Series Bonds) or 30 basis points (2010 Series Bonds) or 10 basis points (2014-2 Series Bonds).

### Variable Rate Bonds

On April 15, 2016, the Authority entered into a standby 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 29 basis points (or higher, under certain circumstances) of the commitment amount. In fiscal year 2016 the Authority incurred fees in connection with the Barclays agreement in the amount of $123,205. The agreement expires on April 22, 2019 and may be extended if a mutual interest exists between the Authority and Barclays. Previously, the 2008-1 bonds were supported with a standby purchase agreement with J.P. Morgan Chase Bank, N.A. ("J.P. Morgan"). Fees incurred by the Authority in connection with J.P. Morgan totaled $404,964 and $523,400 for the year ended June 30, 2016 and June 30, 2015, respectively.

The 2008-A bonds are supported by a standby bond purchase agreement with 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 was 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 expired in April 2016. The Authority and Barclays executed a first amendment to the agreement and extended the agreement until April 15, 2019. Under the first amendment to the standby purchase agreement, the Authority is required to pay Barclays in quarterly installments a facility fee in the amount of 27.5 basis points (or higher, under certain circumstances) of the initial commitment 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 $84,230 and $87,072 for the year ended June 30, 2016 and June 30, 2015, respectively.

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 $349,700 and $350,000 for the years ended June 30, 2016 and 2015, respectively.

### Window Bonds

In fiscal year 2011, the Authority issued its 2011-2 bonds in a variable rate Window Bond mode. As with the Authority's other variable rate bonds, the Window Bondholders can tender the bonds at any time. 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**

There was no refunding of bonds in fiscal year 2016.

In fiscal year 2015, the Authority also issued $191,825,000 of Refunding Revenue Senior Series 2015-2 Bonds which advance refunded $104.5 million of the WCCC bonds series, $37,215,000 of the Authority's 2008-2 bonds and $66,750,000 of the Authority's 2009-1 bonds. 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.

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 refundings, the Authority recorded a difference between the reacquisition price and the net carrying amount of the refunded debt of $95,436,000. 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 the remaining term of the original life of the refunded bonds. These refundings reduced the Authority's debt service payments in future years by $73,803,706 and resulted in an economic gain (the present value of the savings) of $56,237,836.

**Bond Premium and Issuance Expenses**

There were no new bond issues in fiscal year 2016, thus no bond premiums were recorded in the current year. In fiscal year 2015, the Authority received premiums at issuance totaling $190,623,334. 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 year 2015, these costs amounted $3,524,027 and were expensed in accordance with the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

**Interest Rate Swaps**

The Authority uses derivative instruments 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 were as follows:

| | Derivative Instruments - Liability June 30, 2015 | Net Change in Liability | Derivative Instruments - Liability June 30, 2016 | Type of Hedge | Financial Statement Classification for Changes in Liability |
|---|---|---|---|---|---|
| Series 2008-1 Swap | $ (29,348,996) | $ (8,878,207) | $ (38,227,203) | Cash Flow | Non-current liability |
| Series 2008-A Swap | (3,366,797) | (970,865) | (4,337,662) | Cash Flow | Non-current liability |
| Series 2006-1 Swap | (38,337,704) | (9,575,244) | (47,912,948) | Cash Flow | Non-current liability |
| Total | $ (71,053,497) | $ (19,424,316) | $ (90,477,813) | | |

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2016 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* - As discussed in the Note 3, the Authority implemented GASB 72 in fiscal year 2016. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between swap counterparties at the measurement date, which includes the non-performance risk. The Authority engaged an independent party to perform the valuations. The expected swap cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of non-performance associated with the cash flows, and time value of money. Where applicable under the income approach, the option pricing model technique, such as the Black-Derman-Toy model, or other appropriate option pricing model is used. As the interest rate swaps are valued using the LIBOR swap rate observed at commonly quoted intervals for the full term of the swaps, the measurement results in the swap fair values being categorized as Level 2.

As of June 30, 2016 and 2015, the Authority's swaps had a negative fair value of $90,477,813 and $71,053,497, respectively, and as such are presented as noncurrent liabilities.

*Credit risk* - As of June 30, 2016, 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, 2016 are as follows:

| | Credit Ratings | | |
|---|---|---|---|
| | **Moody's** | **S&P** | **Fitch** |
| UBS AG | A1 | A | A |
| Deutsche Bank AG | Baa2 | BBB+ | A- |
| Citibank NA | A1 | 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.

*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, 2015; therefore, no collateral was required to be 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, 2016 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2016.

*Swap payments and associated debt.* Using rates as of June 30, 2016, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

| | Principal | Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| **Fiscal Year Ending June 30,** | | | | |
| 2017 | $ 11,625,000 | $ 387,382 | $ 12,600,726 | $ 24,613,108 |
| 2018 | 11,770,000 | 378,731 | 12,269,692 | 24,418,423 |
| 2019 | 12,215,000 | 369,358 | 11,912,155 | 24,496,513 |
| 2020 | 12,720,000 | 359,212 | 11,522,334 | 24,601,546 |
| 2021 | 17,955,000 | 226,171 | 5,987,375 | 24,168,546 |
| 2022-2026 | 151,915,000 | 1,221,046 | 39,465,694 | 192,601,740 |
| 2027-2031 | 138,310,000 | 570,726 | 19,335,957 | 158,216,683 |
| 2032-2036 | 54,235,000 | 109,437 | 3,687,250 | 58,031,687 |
| 2037-2040 | 1,620,000 | 13,188 | 503,970 | 2,137,158 |
| Total | $ 412,365,000 | $ 3,635,251 | $ 117,285,153 | $ 533,285,404 |

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

## 6. COMMERCIAL PAPER

On May 3, 2016, the Authority issued Commercial Paper Notes, Series 2013-A in the amount of $5,000,000. 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, were secured by an irrevocable letter of credit ("LOC") provided by State Street Bank and Trust Company ("State Street") which expired on August 12, 2016. The letter of credit was replaced with a standby liquidity facility agreement that expires in August 12, 2019. 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 was extended in fiscal year 2016 and now expires in August 12, 2019.

The following is a summary of commercial paper issues for the year ended June 30, 2016:

| | Balance June 30, 2015 | Issues | Repayments | Balance June 30, 2016 |
|---|---|---|---|---|
| Commercial paper series 2013-A tax exempt | $ - | $ 5,000,000 | $ - | $ 5,000,000 |
| Commercial paper series 2013-B tax exempt | - | - | - | - |
| Commercial paper series 2013-A taxable | 6,000,000 | - | (6,000,000) | - |
| | $ 6,000,000 | $ 5,000,000 | $ (6,000,000) | $ 5,000,000 |

The Authority incurred fees of $400,470 and $434,500 for fiscal years 2016 and 2015, respectively, associated with the State Street LOC. Fees in connection with the U.S. Bank National Association Standby Liquidity Facility Agreement amounted to $236,940 and $260,100, respectively, for fiscal year 2016 and fiscal year 2015.

## 7. GRANTS FROM THE UNIVERSITY OF MASSACHUSETTS AND THE COMMONWEALTH OF MASSACHUSETTS

During the year ended June 30, 2016, the Authority received capital contributions from the University in the amount of $31,452,558 to fund various campus projects, including the University Hall project at the Boston campus and McGauvran Dining Hall renovation at the Lowell campus. In fiscal year 2015, the Authority received $75,787,441 primarily to fund projects on the Amherst campus and various other projects. The Authority expended funds in the respective fiscal years for these purposes.

During the year ended June 30, 2016, the Authority received a $24,999,472 grant from the Commonwealth to fund a capital infrastructure project, "Road and Transportation Improvements at Umass Boston", located on the Boston campus. The Authority also recorded $513,445 of construction costs incurred by the Commonwealth Capital Asset Management Division in connection with an on-going construction project at the Amherst campus.

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.

## 8. 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 $117.4 million and $121.6 million at June 30, 2016 and June 30, 2015, respectively.

## 9. 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, 2016, 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 ended December 15, 2015 and included 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. In September 2014, Oxford Management took over the Equity lease and assumed all rights under the lease.

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 began August 1, 2014 and ends July 31, 2019.

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 began on July 15, 2015 and ends December 31, 2030. The lease commencement date was November 1, 2015 and included an initial four months period of no rental payments.

For the years ended June 30, 2016 and 2015, lease operating costs were $2,428,473 and $2,035,992, respectively, which are included in facility operating costs in the accompanying statements of revenues, expenses and changes in net position.

Approximate future payments (excluding Lessor's costs and taxes and including the base rent escalation of $2 per square foot for every other year) under the lease agreements are as follows:

| **Year Ending June 30,** | |
|---|---|
| 2017 | $ 2,330,069 |
| 2018 | 2,371,625 |
| 2019 | 2,413,181 |
| 2020 | 2,165,315 |
| 2021 | 2,180,561 |
| 2022 and thereafter | 22,793,125 |
| Total | $ 34,253,876 |

The Authority is a defendant in a lawsuit 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.

## 10. THE UNIVERSITY OF MASSACHUSETTS CLUB

Through July 31, 2015, the University of Massachusetts Club (the "Club") was managed by UMass Club Management, LLC, a wholly owned subsidiary of ClubCorp USA. The Authority provided operating support for the Club of approximately $102,000 in fiscal year 2016. On August 1, 2015, management of the Club was transitioned to the not-for-profit organization University Services, Inc. The Authority did not provide additional operating support in fiscal year 2016 once University Services, Inc. took over management of the Club.

The Authority provided $187,700 in operating support to ClubCorp USA in fiscal 2015.

## 11. 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:

| | 2016 | 2015 |
|---|---|---|
| Campus | | |
| Amherst Campus | $ 4,774,665 | $ 3,044,286 |
| Boston Campus | 321,393 | 759,511 |
| Dartmouth Campus | 828,871 | 1,169,409 |
| Lowell Campus | 4,031,547 | 6,302,897 |
| Worcester Campus | - | 448,267 |
| Total | $ 9,956,476 | $ 11,724,370 |

As disclosed in the Note 5, in July 2014 and March 2015, the Authority issued debt to refund certain portions of outstanding debt of Worcester City Campus Corporation ("WCCC"). Notes payables from WCCC are presented within bonds payable balances with offsetting loan receivable from WCCC. As of June 30, 2016, the current and non-current balance of outstanding WCCC loan receivable amounted to $2,830,000 and $173,546,958, respectively.

## 12. WORKING CAPITAL OF THE AUTHORITY

As of June 30, 2016 and 2015, the Authority had a working capital deficiency of $323,620,921 and $387,694,013, 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, 2016 and beyond.

## 13. SUBSEQUENT EVENTS

On November 8, 2016, the Authority entered into an agreement whereby the Authority sub-leased property on the University of Massachusetts Boston campus to Provident Commonwealth Educational Resources Inc., a Massachusetts not-for-profit corporation. The land is leased to the Authority by the Commonwealth. Provident Commonwealth Educational Resources Inc. will engage a contractor to construct a 1,082-bed student housing facility on the site. The Authority will sub-lease the property to Provident Commonwealth Educational Resources Inc. for a term of approximately 40 years. Commencing approximately one year following the completion of the project (estimated completion is August 2018), the annual rental amount payable to the Authority under the ground lease will $1.025 million.

Pursuant to the Dining Facility Sublease dated November 8, 2016 between Provident Commonwealth Educational Resources Inc., as sub-lessor and the Building Authority, as sub-lessee, the Provident Commonwealth Educational Resources Inc. shall lease the dining facility, located within the residential hall, to the Authority and the Authority shall operate or cause to be operated the Dining Facility.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2016 and through December 15, 2016, the date on which the financial statements were available to be issued and, determined that there were no other matters requiring recognition or disclosure to the accompanying financial statements.