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

Financial Statements (with Independent Auditors' Report Thereon)

June 30, 2020 and 2019

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

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

# Independent Auditors' Report

Members of the Board
University of Massachusetts Building Authority:

## Report on the Financial Statements

We have audited the accompanying financial statements of the University of Massachusetts Building Authority (the Authority), a component unit of the University of Massachusetts, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the accompanying table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

## Other Matters

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
December 9, 2020

## Management’s Discussion and Analysis (unaudited)

This section of the annual financial statements of the University of Massachusetts Building Authority (the “Authority”) presents a discussion and analysis of the Authority’s financial activity for the fiscal years ended June 30, 2020 and 2019. 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 $1.25 billion in fiscal year 2020 compared to $1.23 billion in fiscal year 2019.

- Taking advantage of a continuing environment of historically low interest rates, the Authority issued $200.8 million of tax-exempt Project Revenue Bonds, Series 2020-1, and $129.8 million of federally taxable Project Revenue Bonds, Series 2020-2, to finance capital projects at the Amherst, Dartmouth, Lowell, and Worcester campuses. The new borrowings were issued with average interest rates of 5.00% and 2.96%, respectively. The Authority also issued $319.3 million in federally taxable Refunding Bonds in order to refund $254.2 million in existing Authority debt and $26.8 million in existing University debt, achieving future savings of $35.5 million for the University. The net present value savings represent $27.5 million or over 9 percent of the par value of the refunded bonds. These savings will be recognized in the future debt service payments of each campus from 2020 through 2044. The rates secured during this refunding reflect the high regard of the University’s credit among investors and the reaffirmation of our credit rating by the three major bond ratings agencies. These ratings are AA, Aa2, AA- for Fitch Ratings, Moody's Investors Service, and Standard and Poor's Global Rating, respectively.

- Capital spending and contributed construction assets totaled $207.6 million in fiscal year 2020, representing a $6.6 million increase compared to fiscal year 2019. A majority of the capital spending in fiscal year 2020 relates to continued investments in new buildings and renovation projects, which include: Student Union Renovation, Central Campus Core Utility and Landscaping Project, McGuirk Stadium Upgrades, Capacity Expansion of the Central Heating Plant, Whitmore Mechanical Improvements, and the Worcester Commons at the Amherst campus; Renovations to Existing Academic Buildings, and the Substructure Demolition & Quadrangle Development (SDQD) at the Boston campus; the Science & Engineering Building Renovation, and the New Dining Facility at the Dartmouth campus; the Coburn Hall Addition and Renovation, and Olsen Hall Renovations at the Lowell campus; and the VA Outpatient Center at the Worcester campus.

## USING THE ANNUAL FINANCIAL REPORT

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

***Financial statements and notes***

The University's financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), which establishes financial reporting standards for governmental entities. The Authority's financial statements report its activities as business-type using the economic resources measurement focus, and the full accrual basis of accounting. The Authority is a blended component unit of the University. Therefore, the results of the Authority's operations, its net position, and its cash flows are included in the University's financial statements. Further information on the operations of the Authority and significant accounting policies are summarized in Notes 1 and 2 of the accompanying financial statements.

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

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

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

The Statements of Cash Flows are reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., income from contracts) and disbursements (e.g., cash paid to vendors for services), as well as capital and related financing and noncapital financing, if any, and investing activities. The financial statements can be found on pages 10 to 12 of this report.

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 13 to 32 of this report.

## NET POSITION

As noted earlier, over time the Authority's net position may serve as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities by $1.25 billion at the close of the most recent fiscal year.

A portion of the Authority's net position reflects its investment in capital assets (e.g. buildings, equipment and furnishings) less any related debt used to acquire those assets that is still outstanding for the most recent fiscal year. The Authority uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority's primary sources of funds used to repay the debt are receipts related to the Authority's financial contracts with the University. These contracts generally call for the Authority to bill and collect all revenue from the projects and remit to the Trustee under the Authority's trust agreements (the "Bond Trustee") funds sufficient to cover debt service on its bonds, its costs of operations, and its financial obligations with respect to the projects.

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

| **Condensed Statements of Net Position<br>As of June 30, 2020, 2019, 2018<br>($ in thousands)** | **2020** | **2019** | **2018** |
|---|---|---|---|
| ***ASSETS*** | | | |
| Current assets | $ 101,937 | $ 98,931 | $ 93,809 |
| Noncurrent assets | 4,371,392 | 4,196,850 | 4,247,624 |
| ***Total assets*** | **4,473,329** | **4,295,782** | **4,341,433** |
| ***DEFERRED OUTFLOWS OF RESOURCES*** | **125,965** | **95,954** | **85,305** |
| ***LIABILITIES*** | | | |
| Current liabilities | 255,104 | 393,113 | 510,750 |
| Noncurrent liabilities | 3,091,710 | 2,764,157 | 2,691,374 |
| ***Total liabilities*** | **3,346,814** | **3,157,270** | **3,202,124** |
| ***NET POSITION*** | | | |
| Net investment in capital assets | 1,210,312 | 1,193,581 | 1,146,036 |
| Restricted | 22,060 | 18,923 | 75,637 |
| Unrestricted | 20,108 | 21,961 | 2,941 |
| ***Total net position*** | **$ 1,252,480** | **$ 1,234,465** | **$ 1,224,614** |

Current assets increased by $3.0 million in fiscal year 2020 compared to 2019 primarily due to an increase in loans receivable of $1.5 million and an increase in restricted receivables of $2.4 million, offset by a decrease in cash and cash equivalents of $1.4 million. Current assets increased by $5.1 million in fiscal year 2019 compared to 2018 primarily due to an increase in intergovernmental receivables of $7.2 million, an increase in loan receivables of $0.5 million and an increase in lease receivables of $1.8 million offset by a decrease to cash of $4.6 million.

Non-current assets increased by $174.5 million in fiscal year 2020 compared to fiscal year 2019 due an increase in restricted cash of $124.0 million related to the issuance of new bonds and an increase in net capital assets of $50.1 million. Non-current assets decreased $50.8 million in fiscal year 2019 compared to fiscal year 2018 due to additional spending on new and existing projects. This spending resulted in a decrease of $85.3 million in restricted cash offset by an increase of $58 million in capital assets, net of depreciation. In addition, there was a decrease of $15.8 million and $7.8 million in loan and lease receivables, respectively.

Deferred outflows of resources totaled $126.0 million, $96.0 million, and $85.3 million at the end of fiscal year 2020, 2019, and 2018, respectively. These amounts relate to the Authority's effective hedging relationship related to its outstanding interest rate swap agreements and for the recording of deferred accounting loss on bond refundings.

Current liabilities decreased in fiscal year 2020 compared to 2019 by $138.0 million primarily due to a decrease of $132 million of commercial paper notes payable, a $3.6 million decrease in accounts payable, and a $2.8 million decrease of the current portion of bonds payable. Current liabilities decreased in fiscal year 2019 compared to 2018 by $117.6 million primarily due to a decrease of $169.0 million of the current portion of bonds payable and a $17.0 million decrease in accounts payable, offset by a $67.4 million increase in commercial paper. The decrease in the current portion of bonds payable is primarily due to the timing of the renewal of the liquidity facilities that support the 2008-1 and 2008-A variable rate bonds that were reported as a current liability in fiscal year 2018.

Non-current liabilities increased in fiscal year 2020 compared to 2019 by $327.6 million primarily due to an increase in long term bonds payable of $317.3 million and an increase in the fair value of the interest rate swap agreements of

$17.4 million. This increase is offset by a decrease of $5.0 million in unearned interest income and a decrease of $2.0 million in other noncurrent liabilities. During fiscal year 2020, the Authority issued $330.6 million in new money bonds with $57.1 million of new bond premiums and refunded $254.2 million of existing Authority debt, including $16.2 million of bond premiums, with $319.3 million of new debt. This increase in long term debt includes principal payments of $101.8 million and bond premium amortization of $20.1 million. Non-current liabilities increased in fiscal year 2019 compared to 2018 by $72.8 million primarily due to an increase in long term bonds payable of $58.4 million and an increase in the fair value of the interest rate swap agreements of $14.0 million. During fiscal year 2019, the Authority refunded $254.9 million of debt related to the 2009-2 bonds with $208.7 million of new debt and $47.6 million of new bond premiums. This increase in long term debt includes principal payments of $98.5 million, bond premium amortization of $13.6 million and the shift of $162 million to non-current liabilities for the 2008-1 and 2008-A variable rate bonds as noted 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 debt service. The debt service restricted component of net position represents the funds primarily provided as additional collateral to the bond holders (e.g. debt service reserve funds).

Unrestricted net position represents those funds that are not subject to restrictions, or for which restrictions have expired. In 2020, the Authority reported a $20.1 million surplus in the unrestricted component of net position, a $1.9 million decrease from fiscal year 2019, primarily due to  a decrease of $1.4 million in unrestricted cash. In 2019, the Authority reported a $22.0 million surplus in the unrestricted component of net position, a $19.0 million increase from fiscal year 2018, primarily due to a decrease in accounts payable and an increase in accounts receivable and unrestricted other assets.

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

| Condensed Statements of Revenues, Expenses, and Changes in Net Position<br>As of June 30, 2020, 2019, 2018<br>($ in thousands) | 2020 | 2019 | 2018 |
|---|---|---|---|
| ***OPERATING REVENUES*** | | | |
| Income from contracts for financial assistance, management, and services | $ 219,984 | $ 214,309 | $ 225,376 |
| Interest income and interest subsidies, net | - | - | 23,105 |
| ***Total operating revenues*** | **219,984** | **214,309** | **248,481** |
| ***OPERATING EXPENSES*** | | | |
| Facility operating costs | 9,470 | 8,600 | 15,208 |
| Interest expense | - | - | 117,313 |
| Depreciation and amortization | 150,808 | 140,603 | 127,653 |
| General and administrative expenses | 6,609 | 4,043 | 3,242 |
| ***Total operating expenses*** | **166,887** | **153,246** | **263,416** |
| ***Net operating gain/ (loss)*** | **53,097** | **61,063** | **(14,935)** |
| ***NON-OPERATING INCOME / (EXPENSES)*** | **(95,067)** | **(95,714)** | **(795)** |
| ***CAPITAL CONTRIBUTIONS*** | **59,985** | **44,502** | **182,364** |
| ***TOTAL INCREASE IN NET POSITION*** | **18,015** | **9,851** | **166,634** |
| Net position at the beginning of the year | 1,234,465 | 1,224,614 | 1,057,980 |
| ***Net position at the end of the year*** | **$ 1,252,480** | **$ 1,234,465** | **$ 1,224,614** |

Income from contracts for financial assistance, management, and services are primarily related to contracts the Authority has with the University. The Authority has entered into various contracts with the University, acting by and through the Trustees, related to the management of certain Authority projects and the payment to the Authority of certain fees and operating costs. The Authority fixes fees, rents, rates and other charges for the use of its projects in amounts sufficient to provide for the debt service and other payments related to the Authority’s obligations and for the Authority’s operating expenses. These contracts generally call for the Trustees to bill and collect all revenue derived from the projects and remit to the Authority or to the trustee under the Authority’s trust agreements funds sufficient to cover debt service on its bonds, its costs of operations, and its financial obligations with respect to the projects. The amounts fluctuate based on the debt service requirements of the Authority bonds in any particular year. Revenue increased by $5.7 million in fiscal year 2020 compared to fiscal year 2019 primarily as a result of increases in annual debt service.

Facility operating costs include operating costs of the Authority, rental expenses, and expenses paid by the Authority out of reserves for maintenance of Authority-owned buildings. Facility operating costs increased in fiscal year 2020 compared to fiscal year 2019 due to an increase in Authority operating costs and utilities, which includes costs associated with the novel coronavirus (COVID-19).

Depreciation and amortization increased by $10.2 million in fiscal year 2020 compared to fiscal year 2019 and $13.0 million in fiscal year 2019 versus fiscal year 2018 as additional new capital assets were placed into service during those years.

Interest income and interest subsidy from the U.S. government relates to revenue associated with the interest rate subsidy related to the Authority’s issuance of bonds under the Build America Bond (“BAB”) program. Under the program, the Federal 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. Revenue associated with this program decreased by $4.5 million in fiscal year 2020 compared to fiscal year 2019 due to the refunding of Build America Bonds in fiscal year 2019.

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 fiscal year 2020 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 6.2% and 5.9%, respectively. In fiscal year 2019, the November 1st and May 1st original subsidy payments were reduced by 6.6% and 6.2%, respectively. This reduction accounts for a $0.7 million decrease and a $0.9 million decrease in Interest Subsidy Revenue in fiscal years 2020 and 2019, respectively, compared to the original 35% subsidy.

Interest expense represents interest paid to the holders of Authority issued debt. In fiscal year 2020 interest expense decreased by $7.2 million over fiscal year 2019 primarily due to bond refundings resulting in lower interest payments. In fiscal year 2019 interest expense increased by $0.9 million over fiscal year 2018 primarily due to interest expense related to commercial paper debt issuances as well as a reduction in capitalized interest. The 2019-1 bond series was issued in May 2019, therefore the effect on interest expense of this bond issuance will be seen in subsequent years.

Other non-operating expense was $0.1 million in fiscal year 2020 and $0.3 million in fiscal year 2019 due to the disposal of assets on the Lowell campus.

Capital contributions represent certain grants and gifts provided to the Authority for capital construction at the five campuses. During fiscal year 2020, the Authority received contributions totaling $60.0 million. The University contributed $22.4 million to fund the LSL Lab Renovation, Worcester Dining Commons Renovation, McGuirk Stadium Upgrades, Central Campus Core Utility Project and various other projects at the Amherst campus, as well as Perry Hall and Pasteur Hall projects at the Lowell campus. The Authority also received grants totaling $37.6 million from the Commonwealth's Division of Capital Asset Management and Maintenance ("DCAMM") to fund projects at the Amherst, Boston, Dartmouth and Lowell campuses.

During fiscal year 2019, the Authority received contributions totaling $44.5 million. DCAMM contributed $2.6 million toward construction for the Physical Science Building project at the Amherst campus. The University contributed $23.1 million to fund the Life Science Lab, Physical Science Building, McGuirk Stadium Upgrades, Venture Way Land Acquisition and Campus Center Blue Wall HVAC projects on the Amherst campus, and the Perry Hall and Pasteur Hall projects on the Lowell campus. The Authority also received grants totaling $18.8 million from the Commonwealth to fund the Existing Academic Buildings and Substructure Demolition & Quadrangle Development projects on the Boston campus.

**CAPITAL ASSETS OF THE AUTHORITY**

The Authority's investment in capital assets as of June 30, 2020 and 2019 amounted to $3.7 billion and $3.7 billion, net of accumulated depreciation. This investment in capital assets included land, buildings, improvements, furnishings, equipment and construction in progress.

Net capital assets increased by $50.2 million or 1.4% in fiscal year 2020 as capital improvements and construction in progress outpaced depreciation expenses:

- Buildings and building components decreased by $49.7 million, net of accumulated depreciation, in fiscal year 2020, primarily due to fewer new buildings. Improvements increased by $55.9 million, net of accumulated depreciation, in fiscal year 2020. The increase was primarily due to placing in service renovations of existing buildings on the Amherst, Boston, and Lowell campuses.

- Construction in progress ("CIP") increased $50.0 million in fiscal year 2020 as several major projects will be completed and transferred to depreciable property in subsequent fiscal years. Projects with significant progress, some of which were completed during fiscal year 2020 include: LSL Lab Renovation, McGuirk Stadium Upgrades, Capacity Expansion of the Central Heating Plant, Whitmore Mechanical Improvements, and the Worcester Commons at the Amherst campus; Renovations to Existing Academic Buildings, and the Substructure Demolition & Quadrangle Development (SDQD) at the Boston campus; the Science & Engineering Building Renovation and the New Dining Facility at the Dartmouth campus; and the Coburn Hall Addition and Renovation, and the Olsen Hall Renovation at the Lowell campus.

- Significant projects that remain in progress either in the design or construction phase at the end of fiscal year 2020 included: Central Campus Core Utility and Landscaping Project, Capacity Expansion of the Central Heating Plant, Goessmann Hall School of Health Sciences Renovation, Student Union Renovation, Whitmore Mechanical Improvements, Fine Arts Center Bridge Renovation, the Office/Lab/Academic Renovations and the new Worcester Commons at the Amherst campus; the Substructure Demolition & Quadrangle Development (SDQD) Project at the Boston campus; the Science & Engineering Building Renovation and the New Dining Facility at the Dartmouth campus; and the VA Outpatient Center at the Worcester campus.

**DEBT OF THE AUTHORITY**

The Authority carries debt in the form of bond obligations. This debt was $3.2 billion and $2.9 billion at June 30, 2020 and 2019, respectively. The increase of $314.4 million in fiscal year 2020 is primarily attributable to the issuance of $649.9 million of new bonds and $254.2 million of bonds refunded, as further described below, as well as $57.1 million in new premiums, $16.2 million of premiums refunded, $101.8 million of principal payments and the amortization of $20.1 million of bond premiums.

During fiscal year 2020, the Authority issued $10.5 million in commercial paper to finance projects at the Amherst, Lowell, and Dartmouth campuses. The interest rates ranged from 1.17% to 2.70%. Proceeds from bonds issued during the fiscal year were used to pay down all outstanding commercial paper.

On January 23, 2020, the Authority issued $200.8 million of tax-exempt Project Revenue Bonds, Series 2020-1 and $129.8 million of federally taxable Project Revenue Bonds, Series 2020-2. The 2020-1 Bonds included a premium of $57.1 million. The Authority also issued $319.3 million of federally taxable Refunding Bonds, Series 2020-3, to refund $254.2 million in existing Authority debt and $26.8 million of existing University debt.

The amount of bond obligation guaranteed by the Commonwealth on bonds outstanding Series 2008-A and 2011-2 was $108.9 million and $111.1 million at June 30, 2020 and June 30, 2019, respectively. Refer to Note 9 of the financial statements for more information.

As of June 30, 2020, the ratings assigned to the Authority’s bonds are as follows: Aa2 by Moody’s Investor Service, AA by Fitch Ratings, and AA- by Standard and Poor’s Global Rating.

**THE UNIVERSITY OF MASSACHUSETTS CLUB**

The Authority operates the University of Massachusetts Club (the “Club”). The Club is a private club open to membership for alumni, faculty, staff and friends of the University and is located on the 32nd floor of One Beacon in Boston, Massachusetts.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority’s finances for all those with an interest in them. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, University of Massachusetts Building Authority, One Beacon Street, 31st Floor, and 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, 2020 and 2019
## ($ in thousands)

| ***ASSETS*** | **2020** | **2019** |
|---|---|---|
| ***Current assets*** | | |
| Cash and cash equivalents | $ 20,665 | $ 22,092 |
| Restricted investments | 5,318 | - |
| Accounts receivable (net of allowances of $3 at June 30, 2020 and $4 at June 30, 2019) | 1,670 | 1,370 |
| Intergovernmental receivables | | |
| Commonwealth of Massachusetts | 4,660 | 10,323 |
| U.S. government | 1,261 | 1,257 |
| University of Massachusetts | 625 | 625 |
| Loans receivable, current portion | 11,230 | 9,730 |
| EMKI lease receivable, current portion | 5,066 | 5,355 |
| Prepaids and other current assets | 2,443 | 1,567 |
| Restricted receivables- University of Massachusetts | 48,999 | 46,612 |
| ***Total current assets*** | **101,937** | **98,931** |
| | | |
| ***Noncurrent assets*** | | |
| Restricted cash and cash equivalents | 320,044 | 196,041 |
| Restricted investments | - | 5,318 |
| Loans receivable, non-current portion | 227,173 | 213,981 |
| EMKI lease receivable, non-current portion | 101,694 | 109,281 |
| Capital assets, net | 3,721,176 | 3,671,005 |
| Other assets | 1,305 | 1,224 |
| ***Total noncurrent assets*** | **4,371,392** | **4,196,850** |
| ***Total assets*** | **4,473,329** | **4,295,781** |
| | | |
| ***DEFERRED OUTFLOWS OF RESOURCES*** | | |
| Debt refunding | 72,987 | 61,691 |
| Change in fair value of interest rate swap agreements | 52,978 | 34,263 |
| ***Total deferred outflows of resources*** | **125,965** | **95,954** |
| ***Total assets and deferred outflows of resources*** | **4,599,294** | **4,391,735** |
| | | |
| ***LIABILITIES*** | | |
| ***Current liabilities*** | | |
| Accounts payable | 13,290 | 16,905 |
| Retainage payable to contractors | 7,738 | 6,495 |
| Bonds payable, current portion | 192,210 | 195,053 |
| Commercial paper notes | - | 131,947 |
| Accrued bond interest payable | 21,832 | 20,530 |
| Unearned interest income | 2,414 | 2,724 |
| Other current liabilities | 17,620 | 19,459 |
| ***Total current liabilities*** | **255,104** | **393,113** |
| | | |
| ***Noncurrent liabilities*** | | |
| Bonds payable, net of current portion and unamortized bond premium | 2,979,124 | 2,661,873 |
| Derivative instruments, interest rate swaps | 72,981 | 55,622 |
| Unearned interest income | 28,257 | 33,290 |
| Other noncurrent liabilities | 11,348 | 13,372 |
| ***Total noncurrent liabilities*** | **3,091,710** | **2,764,157** |
| ***Total liabilities*** | **3,346,814** | **3,157,270** |
| | | |
| ***NET POSITION:*** | | |
| Net investment in capital assets | 1,210,312 | 1,193,581 |
| Restricted for: | | |
| Debt service | 22,060 | 18,923 |
| Unrestricted | 20,108 | 21,961 |
| ***Total net position*** | **$ 1,252,480** | **$ 1,234,465** |

*See accompanying notes to the financial statements.*

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Revenues, Expenses, and Changes in Net Position
## For the Years Ended June 30, 2020 and 2019
## ($ in thousands)

| | 2020 | 2019 |
|---|---|---|
| ***OPERATING REVENUES*** | | |
| Income from contracts for financial assistance, management, and services | $ 219,984 | $ 214,309 |
| ***Total operating revenues*** | **219,984** | **214,309** |
| | | |
| ***OPERATING EXPENSES*** | | |
| Facility operating costs | 9,470 | 8,600 |
| Depreciation | 150,808 | 140,603 |
| Insurance | 2,195 | 1,721 |
| Professional fees | 4,325 | 2,166 |
| General and administrative expenses | 89 | 156 |
| ***Total operating expenses*** | **166,887** | **153,246** |
| ***Operating income*** | **53,097** | **61,063** |
| | | |
| ***NONOPERATING REVENUES / (EXPENSES)*** | | |
| Interest subsidy - U.S. government | 7,560 | 12,068 |
| Interest income | 8,470 | 10,742 |
| Interest expense | (110,990) | (118,214) |
| Other revenues/ (expenses) | (107) | (310) |
| ***Total nonoperating revenues/ (expenses)*** | **(95,067)** | **(95,714)** |
| | | |
| ***CAPITAL CONTRIBUTIONS*** | | |
| University of Massachusetts | 22,399 | 25,685 |
| Commonwealth of Massachusetts | 37,586 | 18,817 |
| ***Total capital contributions*** | **59,985** | **44,502** |
| ***Total increase in net position*** | **18,015** | **9,851** |
| | | |
| ***NET POSITION*** | | |
| Net position at beginning of year | 1,234,465 | 1,224,614 |
| ***Net position at end of year*** | **$ 1,252,480** | **$ 1,234,465** |

*See accompanying notes to the financial statements.*

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Statements of Cash Flows
## June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Cash received from income from contracts for financial assistance | $ 217,297 | $ 212,463 |
| Payments to vendors and suppliers | (12,088) | (7,333) |
| Payments of salaries and benefits | (4,604) | (3,700) |
| ***Net cash provided by operating activities*** | **200,605** | **201,430** |
| ***CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES*** | | |
| Capital asset expenditures | (207,663) | (198,021) |
| Repayment of bond principal | (356,472) | (353,415) |
| Interest payments to bondholders | (158,602) | (138,587) |
| Repayment of commercial paper obligations | (142,447) | (1,650) |
| Build America Bonds interest subsidy | 7,555 | 12,967 |
| Capital lease receipts | 7,875 | 6,673 |
| Loans receivable receipts/ (advances) | (14,692) | 12,712 |
| Commercial paper advances | 10,500 | 69,062 |
| Capital contribution receipts | 65,649 | 34,718 |
| Proceeds from bond obligations | 650,015 | 208,725 |
| Proceeds from premiums | 57,127 | 47,633 |
| ***Net cash used in capital financing activities*** | **(81,155)** | **(299,183)** |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Interest income | 3,126 | 7,849 |
| ***Net cash provided by investing activities*** | **3,126** | **7,849** |
| ***NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS*** | **122,576** | **(89,904)** |
| **Cash and cash equivalents - beginning of the year** | **218,133** | **308,037** |
| **Cash and cash equivalents - end of the year** | **$ 340,709** | **$ 218,133** |
| ***RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES*** | | |
| Operating income | 53,097 | 61,063 |
| *Adjustments:* | | |
| Depreciation, amortization and other | 150,808 | 142,533 |
| *Changes in assets and liabilities:* | | |
| Accounts receivable, net | (2,686) | (1,268) |
| Prepaids and other current assets | (319) | 43 |
| Accounts payable - non-construction related | (295) | (941) |
| ***Net cash provided by operating activities*** | **200,605** | **201,430** |
| **SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Capital assets acquired and included in accounts and retainage payable and other liabilities | 40,654 | 46,593 |
| Capital assets transferred from Amherst campus and the Commonwealth of Massachusetts, as part of capital contribution | - | 2,567 |

*See accompanying notes to the financial statements.*

## Notes to 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 purposes of the Authority are to provide dormitories, dining commons and other buildings and structures for use by the University of Massachusetts (the “University”), its students, staff and their dependents and other entities associated with the University as requested by authority of the Trustees of the University (the “Trustees”).

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

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

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

The Authority is exempt from federal and state income tax under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. The Authority qualifies as a public charity under Section 170(b)(1)(A)(iv) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

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

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a) Basis of accounting***

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

Under the economic resources measurement focus, the Authority distinguishes operating revenues and expenses from 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 income from contracts for financial assistance, which represents amounts needed for debt service and related expenses received from the University, and fees charged to the University for services. Operating expenses for the Authority include facility operating costs, depreciation of capital assets, professional fees and other administrative costs. All revenues and expenses not categorized as operating revenues and expenses are reported as 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.

***b) 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.

***c) Restricted Assets***

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

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

| | 2020 | 2019 |
|---|---|---|
| Restricted cash and cash equivalents: | | |
| Capital projects fund | $ 303,302 | $ 182,436 |
| Debt service fund | 16,742 | 13,605 |
| Total restricted cash and cash equivalents | $ 320,044 | $ 196,041 |
| Restricted investments: | | |
| Debt service fund | $ 5,318 | $ 5,318 |

***d) 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 | 12 to 50 years |
| Building, leasehold and land improvements | 3 to 20 years |
| Equipment | 3 to 10 years |
| Furnishings | 3 to 10 years |

***e) 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, 2020 and 2019, totaled $5.9 million and $8.7 million, respectively, net of interest income of $1.3 million and $1.3 million, respectively.

***f) Cash and Cash Equivalents***

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

***g) Investments***

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.

***h) 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. 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.

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

***i) 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.

***j) Insurance***

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

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

This exposure is partially secured by and paid out of an escrow trust fund set up for this purpose as a requirement of the stop-loss insurer. The total deductible exposure, plus unpaid OCIP-related insurance premiums and expenses committed to the OCIP, is addressed by the Authority with an OCIP reserve of $4.0 million and $5.7 million as of June 30, 2020 and June 30, 2019, respectively, which is presented as Other Liabilities in the accompanying Statements of Net Position.

***k) 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 2020, the Authority's November 1, 2019 and May 1, 2020 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 6.2% and 5.9%, respectively. In fiscal year 2019, the Authority's November 1, 2018 and May 1, 2019 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 6.6% and 6.2%, respectively. This reduction was $0.49 million in fiscal year 2020 and $0.89 million in fiscal year 2019.

***l) Lease Accounting***

For operating leases, the Authority recognizes rental income and expenses using a systematic and rational approach over the lease term. For capital leases, unearned interest is amortized to revenue over the lease term.

***m) Newly implemented accounting standards***

Effective for fiscal year 2020, the Authority implemented GASB Statement No. 84, *Fiduciary Activities*, which addresses the identification and financial reporting of fiduciary activities. Adoption of the standard had no effect on the Authority's financial statements.

**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 ($ in thousands):

| | 2020 | 2019 |
|---|---|---|
| Cash | $ 5,506 | $ 3,869 |
| MMDT | 330,712 | 209,896 |
| Permitted money market accounts | 4,491 | 4,368 |
| Total cash and cash equivalents | $ 340,709 | $ 218,133 |

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, 2020 and 2019, the bank balances of uninsured deposits totaled $5.5 million and $3.6 million, respectively.

***Investments***
As of June 30, 2020, the Authority's investments consisted of the following ($ in thousands):

| | Investment Maturities (in Years) | | |
|---|---|---|---|
| | **Total** | **Less than 1** | **1 to 5** |
| Investment type | | | |
| Debt Securities: | | | |
| Repurchase agreements | $ 5,318 | $ 5,318 | $ - |
| Total | $ 5,318 | $ 5,318 | $ - |

As of June 30, 2019, the Authority's investments consisted of the following ($ in thousands):

| | Investment Maturities (in Years) | | |
|---|---|---|---|
| | **Total** | **Less than 1** | **1 to 5** |
| Investment type | | | |
| Debt Securities: | | | |
| Repurchase agreements | $ 5,318 | $ - | $ 5,318 |
| Total | $ 5,318 | $ - | $ 5,318 |

***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 MMDT. Additionally, in accordance with the Authority investment policy, the Authority's Bond Trustee may invest some of the Authority's funds in money market accounts, permitted and collateralized by Treasuries.

The Authority's investments in repurchase agreements are not rated but are fully collateralized by Treasuries and Agencies.

***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.

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.

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

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

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, and include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

All of the Authority's investments at June 30, 2020 and 2019 consist of repurchase agreements, which are measured at amortized cost.

## 4) CAPITAL ASSETS

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

| | Balance June 30, 2018 | Additions | Retirements/ Adjustments | Balance June 30, 2019 | Additions | Retirements/ Adjustments | Balance June 30, 2020 |
|---|---|---|---|---|---|---|---|
| Land | $ 116,558 | $ 1,243 | $ - | $ 117,801 | $ - | $ - | $ 117,801 |
| Buildings | 3,130,102 | 497,919 | (13,479) | 3,614,542 | 54,080 | - | 3,668,622 |
| Building and land improvements | 705,978 | 64,447 | (5,267) | 765,158 | 96,946 | (2,349) | 859,755 |
| Equipment and furnishings | 83,214 | 110 | (504) | 82,820 | 21 | - | 82,841 |
| Construction in progress | 502,484 | 198,546 | (549,532) | 151,498 | 191,181 | (141,142) | 201,537 |
| Subtotal | 4,538,336 | 762,265 | (568,782) | 4,731,819 | 342,228 | (143,491) | 4,930,556 |
| Less: accumulated depreciation | | | | | | | |
| Buildings | (635,461) | (97,635) | 168 | (732,928) | (103,824) | - | (836,752) |
| Building and land improvements | (251,313) | (36,785) | 4,997 | (283,101) | (40,847) | 2,242 | (321,705) |
| Equipment and furnishings | (38,578) | (6,707) | 500 | (44,785) | (6,137) | - | (50,923) |
| Subtotal | (925,352) | (141,127) | 5,665 | (1,060,814) | (150,808) | 2,242 | (1,209,380) |
| **Total capital assets, net** | **$ 3,612,984** | **$ 621,138** | **$ (563,117)** | **$ 3,671,005** | **$ 191,420** | **$ (141,249)** | **$ 3,721,176** |

In fiscal 2019, the Authority charged $67 thousand and $72.7 thousand to facility costs related to certain projects that were discontinued at the Lowell and Boston campuses, respectively.

### 5) BONDS PAYABLE

The following is a summary of bonds outstanding for the year ended June 30, 2020 and the related activity during the fiscal year ($ in thousands):

| Bond Description | Original borrowing | Maturity Year | Interest Rate | Outstanding June 30, 2019 | Additions | Reductions | Outstanding June 30, 2020 | Insured | Commonwealth Guaranteed (Note 9) | Callable | Call Date Beginning |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project Revenue Bonds, Senior Series 2008-1 | $ 232,545 | 2038 | Variable | $ 154,480 | $ - | $ (8,965) | $ 145,515 | No | No | At Par | Anytime |
| Facility Revenue Bonds, Senior Series 2008-A | 26,580 | 2038 | Variable | 17,120 | - | (1,070) | 16,050 | No | Yes | At Par | Anytime |
| Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer) | 271,855 | 2039 | 6.42% to 6.57% | 16,945 | - | - | 16,945 | No | No | At Par | Anytime |
| Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable) | 28,570 | 2039 | 5.82% to 6.17% | 24,480 | - | (655) | 23,825 | No | No | * | Anytime |
| Project Revenue Bonds, Senior Series 2010-1 | 118,985 | 2020 | 5.00% | 31,055 | - | (15,155) | 15,900 | No | No | No | - |
| Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer) | 430,320 | 2040 | 3.80% to 5.45% | 430,320 | - | - | 430,320 | No | No | * | Anytime |
| Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable) | 3,005 | 2040 | 5.75% | 2,615 | - | (60) | 2,555 | No | No | * | Anytime |
| Refunding Revenue Bonds, Senior Series 2011-1 | 135,040 | 2034 | Variable | 123,540 | - | (1,530) | 122,010 | No | No | At Par | Anytime |
| Refunding Revenue Bonds, Senior Series 2011-2 | 101,700 | 2034 | Variable | 93,955 | - | (1,155) | 92,800 | No | Yes | At Par | Anytime |
| Project Revenue Bonds, Senior Series 2013-1 | 212,585 | 2043 | 2.00% to 5.00% | 188,675 | - | (93,505) | 95,170 | No | No | At Par | Nov-22 |
| Project Revenue Bonds, Senior Series 2013-2 (Federally Taxable) | 71,970 | 2043 | 0.43% to 4.26% | 60,530 | - | (2,330) | 58,200 | No | No | At Par | Nov-23 |
| Project and Refunding Revenue Bonds, Senior Series 2013-3 | 24,640 | 2043 | 4.00% to 5.00% | 24,240 | - | (22,860) | 1,380 | No | No | At Par | May-23 |

# UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
## (A Component Unit of the University of Massachusetts)
## Notes to the Financial Statements (Continued)
## June 30, 2020 and 2019

| Bond Description | Original borrowing | Maturity Year | Interest Rate | Outstanding June 30, 2019 | Additions | Reductions | Outstanding June 30, 2020 | Insured | Commonwealth Guaranteed (Note 9) | Callable | Call Date Beginning |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project Revenue Bonds, Senior Series 2014-1 | 293,890 | 2044 | 3.00% to 5.00% | 291,890 | - | (144,215) | 147,675 | No | No | At Par | Nov-24 |
| Project Revenue Bonds, Senior Series 2014-2 | 14,085 | 2019 | 0.44% to 2.11% | 2,905 | - | (2,905) | - | No | No | * | Anytime |
| Refunding Revenue Bonds, Senior Series 2014-3 | 67,635 | 2029 | 2.00% to 5.00% | 54,555 | - | (3,875) | 50,680 | No | No | At Par | Nov-24 |
| Refunding Revenue Bonds, Senior Series 2014-4 | 157,855 | 2025 | 0.20% to 3.38% | 61,600 | - | (31,060) | 30,540 | No | No | * | Anytime |
| Project Revenue Bonds, Senior Series 2015-1 | 298,795 | 2045 | 4.00% to 5.00% | 298,795 | - | - | 298,795 | No | No | At Par | Nov-25 |
| Refunding Revenue Bonds, Senior Series 2015-2 | 191,825 | 2036 | 3.00% to 5.00% | 186,075 | - | (6,270) | 179,805 | No | No | At Par | Nov-25 |
| Refunding Revenue Bonds, Senior Series 2017-1 | 165,130 | 2047 | 4.00% to 5.25% | 165,130 | - | - | 165,130 | No | No | At Par | Nov-27 |
| Refunding Revenue Bonds, Senior Series 2017-2 | 19,510 | 2027 | 1.58% to 3.37% | 18,065 | - | (1,470) | 16,595 | No | No | No | - |
| Refunding Revenue Bonds, Senior Series 2017-3 | 187,680 | 2038 | 3.00% to 5.00% | 178,945 | - | (18,930) | 160,015 | No | No | At Par | Nov-27 |
| Direct Placement Project Revenue Bonds, Senior Series 2018-1 | 37,650 | 2043 | 2.00% to 2.93% | 37,650 | - | - | 37,650 | No | No | At Par | Anytime |
| Refunding Revenue Bonds, Senior Series 2019-1 | 208,725 | 2039 | 5.00% | 208,725 | - | - | 208,725 | No | No | At Par | May-29 |
| Project Revenue Bonds, Senior Series 2020-1 | 200,840 | 2050 | 5.00% | - | 200,840 | - | 200,840 | No | No | At Par | Nov-29 |
| Project Revenue Bonds, Senior Series 2020-2 (Federally Taxable) | 129,830 | 2050 | 1.76-3.54% | - | 129,830 | - | 129,830 | No | No | At Par | Nov-29 |
| Refunding Revenue Bonds, Senior Series 2020-3 (Federally Taxable) | 319,345 | 2044 | 1.71-3.50% | - | 319,345 | - | 319,345 | No | No | At Par | Nov-29 |
| Unamortized bond premium | | | | 184,173 | 57,147 | (36,281) | 205,039 | | | | |
| **Total** | | | | **2,856,463** | **707,162** | **(392,291)** | **3,171,334** | | | | |

*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).

The following is a summary of bonds outstanding for the year ended June 30, 2019 and the related activity during the fiscal year ($ in thousands):

| Bond Description | Outstanding June 30, 2018 | Additions | Reductions | Outstanding June 30, 2019 |
|---|---|---|---|---|
| Project Revenue Bonds, Senior Series 2008-1 | $ 163,115 | $ - | $ (8,635) | $ 154,480 |
| Facility Revenue Bonds, Senior Series 2008-A | 18,150 | - | (1,030) | 17,120 |
| Project Revenue Bonds, Senior Series 2009-1 | 15,285 | - | (15,285) | - |
| Project Revenue Bonds, Senior Series 2009-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer) | 271,855 | - | (254,910) | 16,945 |
| Project Revenue Bonds, Senior Series 2009-3 (Federally Taxable) | 25,100 | - | (620) | 24,480 |
| Project Revenue Bonds, Senior Series 2010-1 | 45,485 | - | (14,430) | 31,055 |
| Project Revenue Bonds, Senior Series 2010-2 (Federally Taxable - Build America Bonds - Direct Pay to Issuer) | 430,320 | - | - | 430,320 |
| Project Revenue Bonds, Senior Series 2010-3 (Federally Taxable) | 2,675 | - | (60) | 2,615 |
| Refunding Revenue Bonds, Senior Series 2011-1 | 124,990 | - | (1,450) | 123,540 |
| Refunding Revenue Bonds, Senior Series 2011-2 | 95,055 | - | (1,100) | 93,955 |
| Project Revenue Bonds, Senior Series 2013-1 | 193,745 | - | (5,070) | 188,675 |
| Project Revenue Bonds, Senior Series 2013-2 (Federally Taxable) | 62,825 | - | (2,295) | 60,530 |
| Project and Refunding Revenue Bonds, Senior Series 2013-3 | 24,640 | - | (400) | 24,240 |
| Project Revenue Bonds, Senior Series 2014-1 | 292,490 | - | (600) | 291,890 |
| Project Revenue Bonds, Senior Series 2014-2 | 5,750 | - | (2,845) | 2,905 |
| Refunding Revenue Bonds, Senior Series 2014-3 | 58,160 | - | (3,605) | 54,555 |
| Refunding Revenue Bonds, Senior Series 2014-4 | 92,095 | - | (30,495) | 61,600 |

| Bond Description | Outstanding June 30, 2018 | Additions | Reductions | Outstanding June 30, 2019 |
|---|---|---|---|---|
| Project Revenue Bonds, Senior Series 2015-1 | 298,795 | - | - | 298,795 |
| Refunding Revenue Bonds, Senior Series 2015-2 | 189,000 | - | (2,925) | 186,075 |
| Refunding Revenue Bonds, Senior Series 2017-1 | 165,130 | - | - | 165,130 |
| Refunding Revenue Bonds, Senior Series 2017-2 | 19,510 | - | (1,445) | 18,065 |
| Refunding Revenue Bonds, Senior Series 2017-3 | 184,760 | - | (5,815) | 178,945 |
| Direct Placement Project Revenue Bonds, Senior Series 2018-1 | 37,650 | - | - | 37,650 |
| Refunding Revenue Bonds, Senior Series 2019-1 | - | 208,725 | - | 208,725 |
| Unamortized bond premium | 150,131 | 47,633 | (13,591) | 184,173 |
| **Total** | **2,966,711** | **256,358** | **(366,606)** | **2,856,463** |

Aggregate annual maturities of principal and interest on bonds outstanding as of June 30, 2020 are as follows ($ in thousands):

| | Bonds | | | Direct Placement Bonds | | Total |
|---|---|---|---|---|---|---|
| | Principal | Interest | Interest Subsidy* | Principal | Interest | |
| **Fiscal year end** | | | | | | |
| 2021 | $ 107,160 | $ 127,178 | $ (7,543) | $ - | $ 763 | $ 227,558 |
| 2022 | 102,170 | 123,109 | (7,439) | - | 763 | 218,603 |
| 2023 | 106,435 | 119,011 | (7,224) | - | 763 | 218,985 |
| 2024 | 111,140 | 114,852 | (6,993) | 1,655 | 754 | 221,408 |
| 2025 | 100,515 | 110,713 | (6,729) | 1,690 | 718 | 206,907 |
| 2026-2030 | 547,435 | 484,351 | (29,222) | 8,480 | 3,573 | 1,014,617 |
| 2031-2035 | 562,150 | 358,424 | (20,318) | 8,785 | 3,244 | 912,285 |
| 2036-2040 | 631,040 | 216,551 | (8,891) | 10,175 | 1,846 | 850,721 |
| 2041-2045 | 482,035 | 84,257 | (258) | 6,865 | 344 | 573,243 |
| 2046-2050 | 154,480 | 19,711 | - | - | - | 174,191 |
| 2051-2055 | 24,085 | 507 | - | - | - | 24,592 |
| | $ 2,928,645 | $ 1,758,664 | $ (94,617) | $ 37,650 | $ 12,768 | $ 4,643,110 |

*These interest rate subsidies are provided by the United States Government related to the Authority's issuance of bonds under the Build America Bond ("BAB") program. Under the BAB program, the Government provides a direct subsidy of the interest rate paid to bondholders up to 35%. The Authority's November 1, 2019, and May 1, 2020 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 32.83% and 32.94%, respectively. For Fiscal Year 2021 through Fiscal Year 2041, the estimated subsidy reflected in the table above is 32.94%.

The Authority classifies variable rate bonds subject to remarketing as current, unless supported by liquidity arrangements such as lines of credit or standby bond purchase agreements that extend beyond the following fiscal year. For fiscal 2020, the 2008-1 and 2008-A variable rate bonds, with a combined outstanding principal balance of $161,565,000, and the 2011-1 variable rate bonds, with an outstanding principal balance of $122,010,000, are classified as a non-current debt obligation due to the supporting liquidity facilities expiring in July 2022 and June 2022, respectively. In the event that variable rate bonds are put back to the Authority by the debt holder, management believes that the Authority's strong credit rating will ensure that the bonds will be remarketed within a reasonable period of time. As a result, these variable rate bonds are listed in the table above at their original maturities. The 2011-2 window bonds with a principal outstanding balance of $92,800,000 have no supporting liquidity facility and therefore are classified as a current debt obligation.

***Variable Rate Bonds***

On April 15, 2016, the Authority entered into a standby purchase agreement with Barclays Bank PLC ("Barclays") for the 2008-1 bonds 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. The agreement expired in April 2019. The Authority and Barclays executed a first amendment to the agreement and extended the agreement until July 6, 2022. 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 29 basis points (or higher, under certain circumstances) of the commitment amount. In fiscal years 2020 and 2019, the Authority incurred fees in connection with the Barclays agreement in the amount of $478,784 and $522,241, 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 amount. On March 7, 2019, the agreement was extended with Barclays until July 6, 2022 and may be extended if a mutual interest exists between both the Authority and Barclays. Under the second amendment to the standby 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 initial commitment. Fees incurred by the Authority in connection with the Barclays agreement totaled $53,021 and $30,783 for the years ended June 30, 2020 and June 30, 2019, 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. The initial commitment 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. On May 17, 2017, the agreement was extended with Wells until June 9, 2019. The facility fee under the extended agreement is 32 basis points. On June 29, 2018, the agreement was extended with Wells until July 9, 2019. The facility fee under the extended agreement is 32 basis points. On April 4, 2019, the agreement was extended with Wells until July 9, 2022. The facility fee under the extended agreement is 32 basis points. Fees incurred by the Authority in connection with the Wells agreement totaled $421,706 and $425,700 for the years ended June 30, 2020 and 2019, 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. Window Bondholders receive an interest rate on the Window Bonds at a fixed spread over the Securities Industry and Financial Markets Association Municipal Swap IndexTM ("SIFMA"). The initial spread to the SIFMA index is 9 basis points.

***Bond Refundings***

In fiscal year 2020, the Authority issued $319,345,000 of Senior Series 2020-3 bonds, which advance refunded $22.68 million of the bonds issued under the Massachusetts Health and Academic Facilities Authority (MHEFA) Series 2011 and $4.09 million of the Series 2011 bonds. The Series 2020-3 bonds also refunded $88.25 million of the Authority's 2013-1 bonds, $22.44 million of the Authority's 2013-3 bonds, and $143.54 million of the Authority's 2014-1 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. The total loss on refunding was $16,353 million with cash flow savings of $35.5 million.

As of June 30, 2020, approximately $281 million of bonds outstanding from advance refunding activities is considered defeased.

In fiscal year 2019, the Authority issued $208,725,000 of Senior Series 2019-1 bonds. These bond proceeds were used to partially refund the 2009-2 Senior Series Build America Bonds. This transaction was a current refunding.

***Other Current Year Debt Activity***

In fiscal year 2020, the Authority issued $330.67 million of Senior Series 2020-1 and 2020-2 Project Revenue bonds.

***Bond Premium and Issuance Expenses***

In fiscal year 2020, the Authority received premiums at issuance totaling $57,147,013. The Authority amortizes the premiums received as a reduction of interest expense over the life of the respective bond issue. In fiscal year 2019, the Authority received premiums at issuance totaling $47,633,494.

In connection with the Authority's bond issues, the Authority incurred certain issuance costs associated with the bond offerings. In fiscal year 2020 issuance costs were $3,595,967 and in fiscal year 2019, these costs amounted $1,424,843 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, 2020 and 2019 were as follows ($ in thousands):

| | Derivative Instruments - Liability June 30, 2019 | Net Change in Liability | Derivative Instruments - Liability June 30, 2020 | Type of Hedge | Financial Statement Classification for Changes in Liability |
|---|---|---|---|---|---|
| **Series 2008-1 Swap** | $ (23,308) | $ (8,760) | $ (32,068) | Cash Flow | Non-current liability |
| **Series 2008-A Swap** | (2,720) | (1,075) | (3,795) | Cash Flow | Non-current liability |
| **Series 2006-1 Swap** | (29,594) | (7,524) | (37,118) | Cash Flow | Non-current liability |
| Total | $ (55,622) | $ (17,359) | $ (72,981) | | |

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2020 are summarized in the table below ($ in thousands):

| | Type | Effective Date | Termination Date | Rate Authority Pays | Authority Receives | Current Notional Value |
|---|---|---|---|---|---|---|
| **Series 2008-1 Swap** | Synthetic Fixed | May 1, 2008 | May 1, 2038 | 3.39% | 70% of 1-Month LIBOR | $ 145,515 |
| **Series 2008-A Swap** | Synthetic Fixed | Nov 13, 2008 | May 1, 2038 | 3.38% | 70% of 1-Month LIBOR | 16,050 |
| **Series 2006-1 Swap** | Synthetic Fixed | Apr 20, 2006 | Nov 1, 2034 | 3.48% | 60% of 3-Month LIBOR + .18% | 214,810 |

*Fair values* - 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.

*Credit risk* - As of June 30, 2020 and 2019, 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, 2020 are as follows:

| | Credit Ratings | | |
|---|---|---|---|
| | **Moody's** | **S&P** | **Fitch** |
| UBS AG | Aa3 | A+ | AA- |
| Deutsche Bank AG | A3 | BBB+ | BBB |
| Citibank NA | Aa3 | 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 above.

*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, 2020; therefore, no collateral was required to be posted.

*Termination of hedge accounting* – In prior years, the Authority refunded the underlying hedged debt related to its Series 2006-1 Swap. As part of the refundings, the Series 2006-1 Swap was ultimately re-assigned to the new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. In accordance with GASB No. 53 at the time of the refundings, the balance in the deferred outflows originally totaling $32.3 million was included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. As of June 30, 2020, the unamortized balance included in debt refunding deferred outflows was $20 million and is being amortized over the remaining term of the 2011-1 and 2011-2 Bonds. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2020 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2020.

*Swap payments and associated debt* - Using rates as of June 30, 2020, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows ($ in thousands):

| | Variable Rate Debt | | Interest Rate Swap | |
|---|---|---|---|---|
| **Fiscal Year End** | **Principal** | **Interest** | **Net** | **Total** |
| 2021 | $ 28,390 | $ 7,000 | $ 11,712 | $ 47,102 |
| 2022 | 29,545 | 6,453 | 10,799 | 46,797 |
| 2023 | 33,915 | 5,855 | 9,798 | 49,568 |
| 2024 | 35,200 | 5,204 | 8,710 | 49,114 |
| 2025 | 28,625 | 4,602 | 7,703 | 40,930 |
| 2026 - 2030 | 148,230 | 14,489 | 24,257 | 186,976 |
| 2031 - 2035 | 70,085 | 3,329 | 5,574 | 78,988 |
| 2036 - 2040 | 2,385 | 94 | 158 | 2,637 |
| **Total** | **$ 376,375** | **$ 47,026** | **$ 78,711** | **$ 502,112** |

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

### 6) COMMERCIAL PAPER

The maximum aggregate principal amount of commercial paper which may be outstanding at one time is $200,000,000. The Series 2013-A are secured by standby liquidity facility agreement that expires on August 12, 2022. The Series 2013-B are secured by a standby liquidity facility agreement that expires on August 12, 2022.

The following is a summary of commercial paper issues for the year ended June 30, 2020 ($ in thousands):

| | Balance June 30, 2019 | Issues | Repayments | Balance June 30, 2020 |
|---|---|---|---|---|
| CP series 2013-A tax exempt | $ 111,947 | $ 500 | $ 112,447 | $ - |
| CP series 2013-B tax exempt | 20,000 | 10,000 | 30,000 | - |
| | **$ 131,947** | **$ 10,500** | **$ 142,447** | **$ -** |

| | Balance June 30, 2018 | Issues | Repayments | Balance June 30, 2019 |
|---|---|---|---|---|
| CP series 2013-A tax exempt | $ 64,535 | $ 47,412 | $ - | $ 111,947 |
| CP series 2013-B tax exempt | - | 20,000 | - | 20,000 |
| CP series 2013-A taxable | - | 1,650 | 1,650 | - |
| | **$ 64,535** | **$ 69,062** | **$ 1,650** | **$ 131,947** |

The Authority incurred fees of $692,184 and $745,114 for fiscal years 2020 and 2019, respectively, associated with its commercial paper credit facilities.

## 7) PLEDGED REVENUES

The Authority has pledged as security for its revenue bonds payments made by the University to the Authority to pay the debt service on its outstanding revenue bonds. The general purpose of such revenue bonds issued by the Authority is to finance the University's capital projects, and are payable through fiscal year 2051. Such pledges remain in place until the revenue bonds outstanding are defeased or paid. The total amount of pledged revenues and interest rate subsidies received in fiscal year 2020 was $218.4 million. Total debt service (principal and interest) paid during fiscal year 2020 on outstanding revenue bonds was $213.8 million, representing 98% of pledged revenues.

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

During fiscal year 2020, the Authority received capital contributions from the University in the amount of $22.4 million to fund the LSL Lab Renovation, Worcester Dining Commons Renovation, McGuirk Stadium Upgrades, Central Campus Core Utility Project and various other projects at the Amherst campus, as well as Perry Hall and Pasteur Hall projects at the Lowell campus. In fiscal year 2019, the Authority received capital contributions from the University in the amount of $23.1 million to fund the Life Science Lab, Physical Science Building, and various other projects at the Amherst campus, as well as the Perry Hall and Pasteur Hall projects at the Lowell campus.

The Authority also recorded in fiscal years 2020 and 2019, $0 and $2.6 million, respectively, of construction costs incurred by the Division of Capital Asset Management and Maintenance ("DCAMM") in connection with an on-going construction projects at the Amherst campus.

During fiscal year 2020, the Authority received grants totaling $37.6 million from the Commonwealth. These grants were from DCAMM to fund projects at the Amherst, Boston, Dartmouth and Lowell campuses. In fiscal year 2019, the Authority received grants totaling $18.8 million from DCAMM to fund projects at the Boston 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.

## 9) 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 $108.9 million and $111.1 million at June 30, 2020 and June 30, 2019, respectively.

## 10) PUBLIC PRIVATE PARTNERSHIPS AND LEASES

### *a) Public Private Partnerships*

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

The Boston Project was financed with $130.08 million of revenue bonds issued on October 26, 2016 (Series

2016 Bonds) by the Massachusetts Development Finance Agency ("MassDevelopment") pursuant to a Loan and Trust Agreement between MassDevelopment and PCER. The Authority, University nor UMass Boston have pledged revenues to secure the payment of the Series 2016 bonds or have any obligation with respect to payment of the Series 2016 bonds.

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

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

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

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

Management evaluated the applicability of relevant GASB guidance (including GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, Statement No. 60, *Accounting for Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*) against the underlying Boston and Dartmouth Project agreements and indentures and has concluded that the associated debt should not be recognized on the financial statements of the Authority.

***b) Capital Leases***

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

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

On October 27, 2009, the Authority also entered into an agreement whereby the Authority sub-leased land, ground-leased to the Authority by the Commonwealth, to EMKI. The sublease agreement provides for an initial term of ninety-nine years commencing in October 2009, and thereafter, at the option of EMKI, may be extended for two additional, ninety-nine years. At the time of signing, the Authority received payment of $10,000 in full payment of rent due for the initial term of the sublease.

### c) *Other Leases*

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, 2020, all leases with the Commonwealth were in good standing and any leases requiring action by the Authority during the year to facilitate their renewals were properly renewed.

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

On April 1, 2014, the Authority entered into a lease, as lessee, with Massachusetts Mutual Life Insurance Company, as lessor, for space at Tower Square, 1500 Main Street, Springfield, Massachusetts. The initial lease began August 1, 2014 and ended July 31, 2019. In fiscal 2019, the Authority exercised its option to extend the lease for a period of five years. The lease ends on July 31, 2024. Annual rent payments range from $297 thousand to $320 thousand. The Authority subleases the space to the University to be used as classroom space for its Springfield Satellite campus.

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. The lease ends December 31, 2030. Annual rent payments range from $2.10 million to $2.55 million. The Authority subleases office space at One Beacon Street to the University.

Future minimum lease receivables and payments for all leasing activity are as follows ($ in thousands):

| | **Lessor** (minimum lease payments to receive) | | | | | **Lessee** (minimum lease payments to pay) | | |
|---|---|---|---|---|---|---|---|---|
| | Direct Financing Lease | Operating Leases | | | | Operating Leases | | |
| **Fiscal Year Ended** | EMKI | Boston PPP | Dartmouth PPP | Other | Totals | Mass Mutual | One Beacon | Totals |
| 2021 | 5,066 | 1,025 | 313 | 889 | 7,293 | 321 | 2,181 | 2,502 |
| 2022 | 5,072 | 1,025 | 625 | 901 | 7,623 | 321 | 2,222 | 2,543 |
| 2023 | 5,073 | 1,025 | 625 | 912 | 7,635 | 321 | 2,264 | 2,585 |
| 2024 | 2,665 | 1,025 | 625 | 872 | 5,187 | 321 | 2,305 | 2,626 |
| 2025 | 5,002 | 1,025 | 625 | 641 | 7,293 | 27 | 2,347 | 2,374 |
| 2026-2030 | 25,387 | 5,125 | 3,209 | 3,237 | 36,958 | - | 12,357 | 12,357 |
| 2031-2035 | 25,921 | 5,125 | 3,306 | 398 | 34,750 | - | 1,298 | 1,298 |
| 2036-2040 | 23,695 | 5,125 | 3,405 | - | 32,225 | - | - | - |
| 2041-2045 | 8,879 | 5,125 | 3,507 | - | 17,511 | - | - | - |
| 2046-2050 | - | 5,125 | 3,612 | - | 8,737 | - | - | - |
| 2051-2055 | - | 5,125 | 3,721 | - | 8,846 | - | - | - |
| 2056-2060 | - | 1,367 | 3,832 | - | 5,199 | - | - | - |
| 2061-2065 | - | - | 2,628 | - | 2,628 | - | - | - |
| | 106,760 | 37,242 | 30,033 | 7,850 | 181,885 | 1,311 | 24,974 | 26,285 |
| Less amounts representing interest: | (30,671) | | | | | | | |
| Net Investment in Direct Financing Lease | 76,089 | | | | | | | |

For the years ended June 30, 2020 and 2019, the Authority recognized $2.5 million and $2.8 million, respectively, of interest income related to its EMKI direct financing lease.

For the years ended June 30, 2020 and 2019, the Authority recognized $2.40 million and $1.90 million, respectively, of rental income related to its lessor operating leases, which is included in income from contracts for financial assistance, management and services in the accompanying financial statements.

For the years ended June 30, 2020 and 2019, the Authority recognized $2.35 million and $2.29 million, respectively, of rental expense related to its lessee operating leases, which is included in facility and operating costs in the accompanying financial statements.

## 11) COMMITMENTS AND CONTINGENCIES

On June 28, 2019, the Authority entered into an agreement to lease property located at 200 Mount Vernon Street in Dorchester, Massachusetts to Bayside Property Owner, LLC ("Bayside"), a Delaware limited liability company. The developer plans to build a mixed-use urban innovation campus at the site. Bayside deposited $7.0 million into an escrow account on July 2, 2019. In June 2020, Bayside deposited an additional $1.0 million into an escrow account in order to extend the agreement. These funds will be applied to the initial fixed rent payment at closing. Under the terms of the agreement, the developer, subject to certain contingencies, may enter into a 99-year ground lease for an upfront payment of up to $235 million, with a minimum lease price of $192 million. The agreement provides a 60-day inspection period during which the developer could terminate the agreement for any reason. The developer can extend the term of the agreement up to four consecutive periods of six months each. Additionally, the Authority has the ability to terminate the agreement at any time via its default provision.

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2020 and 2019 of $100.0 million and $197.2 million respectively.

As of June 30, 2020 and 2019, the Authority had a working capital deficiency of $153.2 million and $294.2 million, 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.

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

## 12) RELATED PARTY TRANSACTIONS

Related party transactions not previously disclosed are:

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

| | 2020 | 2019 |
|---|---|---|
| **Campus** | | |
| Amherst Campus | $ 456 | $ 64 |
| Boston Campus | - | 1 |
| Dartmouth Campus | 194 | 1,398 |
| Lowell Campus | 317 | 611 |
| Worcester Campus | 3,596 | - |
| **Total** | **$ 4,563** | **$ 2,074** |

The Authority has issued debt, the proceeds of which were loaned to the Worcester City Campus Corporation ("WCCC") for the purpose of University capital improvements. The current and non-current balance of the outstanding WCCC loan receivable amounted to $11.2 million and $203.5 million as of June 30, 2020 and $9.7 million and $214.0 million as of June 30, 2019. In fiscal year 2020, the Authority has issued debt, the proceeds of which were loaned to the University for the purpose of University capital improvements. The current and non-current balance of the outstanding University loan receivable amounted to $0 and $23.7 million as of June 30, 2020.

In May 2016, the Authority entered into an agreement with the University to loan $3.7 million to the Authority for a term of fourteen years for the purposes of lease improvements. The current and non-current balance of the outstanding loan payable amounted to $0.06 million and $3.6 million as of June 30, 2020 and $0.06 million and $3.6 million as of June 30, 2019.

**13) SUBSEQUENT EVENT**

On January 30, 2020, the World Health Organization declared a novel strain of coronavirus (COVID-19) to constitute a "Public Health Emergency of International Concern" and characterized it as a pandemic. Federal and state governments have implemented numerous restrictions on daily life, including quarantine requirements and travel restrictions in connection with the outbreak. The extent of the impact of COVID-19 on the Authority's operations and financial performance will depend on future developments, including the duration and spread of the outbreak, related government restrictions and the impact of COVID-19 on education institutions. All of these items are highly uncertain and cannot be predicted.

During the fiscal year ended June 30, 2020, the Authority charged $363.4 thousand and $243.3 thousand to facility costs related to COVID-19 at the Amherst and Boston campuses, respectively. These expenses ensured construction could continue during the pandemic.

On October 28, 2020 the Authority issued federally taxable Revenue Refunding Bonds, Series 2020-4, for $329.9 million in order to refund $234 million of existing debt for Series 2013-1, 2013-2, 2014-1, 2014-3 and 2015-1 and defer the November 1, 2020 principal payment on outstanding debt until November 2021. Principal and interest payments are due each May 1 and November 1, commencing May 1, 2021, with interest rates varying between 0.43% and 3.01%.

On November 13, 2020 the Authority borrowed approximately $31 million of taxable commercial paper that matures on February 11, 2021 with an interest rate of .22% in order to fund construction projects.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2020 and through December 9, 2020, the date on which the financial statements were available to be issued.

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

# Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
University of Massachusetts Building Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of Massachusetts Building Authority (the Authority), a component unit of the University of Massachusetts, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2020.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

*Purpose of this Report*

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

KPMG LLP

Boston, Massachusetts
December 9, 2020