MASSACHUSETTS SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required
Supplementary Information

June 30, 2022

(With Independent Auditor's Report Thereon)

MASSACHUSETTS SCHOOL BUILDING AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

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Independent Auditor's Report

Board Members
Massachusetts School Building Authority

Report on the Audit of the Financial Statements

Opinions
We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Massachusetts School Building Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

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

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8, and the Schedule of Changes in Net Other Post-Employment Benefits Liability (Assets) and Related Ratios, Schedule of Employer Contributions, and the Schedule of Investment Returns on pages 38-40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 15, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
December 15, 2022

This section of the Massachusetts School Building Authority's (the MSBA) annual financial report presents a discussion and analysis of the MSBA's financial performance during the fiscal year ended June 30, 2022. Please read it in conjunction with the MSBA's financial statements, which follow this section.

Background

The MSBA was created by statute in 2004 (the Act) to service the former grant obligations for school building projects approved by the Department of Elementary and Secondary Education (Prior Grant) and to fund a new program (New Program) for grants to cities, towns, and regional school districts for school construction and renovation projects. The MSBA is a component unit of the Commonwealth of Massachusetts (the Commonwealth).

The MSBA's major revenue source is the portion of the Commonwealth's sales tax revenue dedicated to the MSBA (the dedicated sales tax revenue). A one percent (1%) statewide sales tax (drawn from the existing statewide 6.25% sales tax, with some exclusions) is available to the MSBA without further appropriation or allotment. The dedicated sales tax revenue is pledged for payment of debt service. The Commonwealth has covenanted that the dedicated sales tax revenue will not be diverted from the control of the MSBA and has pledged not to reduce the sales tax rate below that prescribed by the Act. The Act states that, under the New Program, no project can be approved for funding unless the MSBA determines that the school project is within the capacity of the MSBA to finance with revenues projected to be available to the MSBA.

In fiscal year 2008, the MSBA began approving grants under the New Program for school construction and renovation projects. Under the New Program, no city, town, or regional school district or independent agricultural and technical school has any entitlement to funds from the MSBA. Grants approved by the MSBA for projects may range from 31% to 80% of approved eligible project costs.

Financial Highlights

- Total liabilities and deferred inflows exceed the total assets and deferred outflows of the authority by $4.5 billion at June 30, 2022. This net deficit exists as a result of the inherited grant liability and the issuance of debt for funding grants. Over time, sales tax revenue coupled with the extinguishment of the inherited grant liability is expected to eliminate the deficit.
- Total assets increased by $125 million, due to strong sales tax receipts offset by investment losses.
- Total liabilities decreased $215 million, primarily due to the scheduled amortization of debt, reduced grants payable liabilities and write-off of bond premiums due to defeasance and refundings. Debt outstanding declined by $112 million through regular debt service and a refunding transaction, combined with strong sales tax revenue eliminating the need to issue new bonds for grant payments. The Authority reduced grants payable overall by $27 million, mainly by the payment of former programs and reduced reimbursement requests by capital pipeline projects. Bond premiums declined by $72 million due to normal amortiztion and the issuance of refunding bonds.
- General revenues increased $93 million over FY2021 driven by strong sales tax growth offset by investment loss. Sales tax revenues increased by $118 million over the prior year with gains in most revenue categories. Investment income declined by $22 million over the prior year due to volitility in the market over inflation fears.
- Total expenses decreased $182 million over FY2021 primarily due to reduced volume of grant payments and a lack of defeasance activity. Projects at the end of the grant cycle are held at 95% payment until the final audit is approved by the Authority's Board of Directors (Board). The MSBA Board approved 42 final audits during FY2022 of which 8 were major construction projects and 34 were smaller accelerated repair

projects. Projects at the beginning of the grant cycle have smaller payment requests until such time as the project enters contruction. At June 30, 2022, there were 48 projects in the construction phase with total estimated construction costs of $3.24 billion. At June 30, 2021, there were 60 projects in the construction phase with total estimated construction costs of $1.79 billion.

- During FY2022, the MSBA made a contribution of $250 thousand from the special revenue fund to the other post-employment benefits (OPEB) trust fund.

Overview of the Financial Statements

The financial section of this report consists of the following parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

This report consists of six financial statements presented on three pages. The first two financial statements are the governmental fund balance sheet/statement of net position (deficit) found on page 9. The second two financial statements are the statement of revenues, expenditures, and changes in fund balance/statement of activities found on page 10. The final two financial statements are the statement of fiduciary net position and the statement of changes in fiduciary net position found on page 11. The https://calc.pokemonshowdown.com/randoms.html?mode=randoms trust fund is an irrevocable trust fund established for the purpose of accumulating assets to pay for future OPEB costs. The assets are funded from operations and accumulate to provide future payment of health care and other related OPEB. In FY2022, the MSBA had six retirees for which benefits were incurred; thus, the direct payment of benefits is not material relative to the assets of the trust. See Note 10 for additional information related to OPEB.

Required Supplementary Information (RSI)

In addition to the basic financial statements and accompanying notes, this report also presents certain RSI concerning the Authority's OPEB plan.

Reporting the MSBA's Governmental Funds

The fund financial statements provide detailed information about the MSBA's governmental funds – not the MSBA as a whole. The fund financial statements are prepared using a different approach than the government-wide financial statements discussed on pages 5 and 6. The MSBA's expenditures are reported in its governmental funds and focus on cash inflows and outflows in the funds as well as residual balances left at year-end that are available for current spending. The governmental funds are reported using the current financial resources measurement focus and modified accrual accounting, which measures revenues as they become both measurable and available, and per MSBA policy are those amounts expected to be collected within 60 days of the end of the fiscal year. Expenditures are recorded in the period the liability is due and payable. The governmental fund statements provide a detailed short-term view (less than one year) of the MSBA's government operating requirements as of and for the year ended June 30, 2022.

The MSBA as a Whole

The statement of net position (deficit) and the statement of activities provide information about the activities of the MSBA as a whole using the economic resources measurement focus and accrual basis of accounting and present a longer-term view of the MSBA's finances by focusing on total available resources and changes therein.

These statements report the MSBA's net position (deficit) and changes to the MSBA's net position (deficit). Annual changes in the MSBA's net position (deficit) – the difference between assets and deferred outflows, and liabilities and deferred inflows – are one way to measure the MSBA's health or financial position. Over time, increases or decreases in the MSBA's net position (deficit) are one indicator of whether its financial health is improving or deteriorating.

The MSBA reports a deficit in its net position primarily due to the fact that the MSBA has approximately $6 billion of dedicated sales tax bonds outstanding for the purposes of funding school construction and renovation projects. The MSBA also assumed responsibility for funding the Commonwealth's share of the 17 remaining Waiting List and 9 remaining Prior Grant school construction and renovation projects. This net deficit of $4.5 billion will be eliminated primarily through the receipt of dedicated sales tax revenues. The difference between currently expendable resources reported as a fund balance in governmental funds and total available resources reported as net position (deficit) in the governmental activities financial statements is identified in the adjustment columns found in the financial statements (pages 9 and 10). To arrive at the statement of net position (deficit), there are adjustments for deferred inflows and outflows of resources as well as long-term and short-term liabilities that are not reported as fund assets and liabilities. Further, to arrive at the statement of activities, transactions relating to assets and long-term liabilities are added to or eliminated from the statement of revenues, expenditures, and changes in fund balances. Amounts relating to the aforementioned transactions are displayed in the adjustments column to the left of the statement of net position (deficit) and the statement of activities and in note 6 to the basic financial statements.

Financial Analysis

Condensed Financial Information

Summary of Net Position (Deficit)

(In thousands)

	2022	2021	Change	%
Cash and investments	$ 1,728,541	$ 1,605,726	$ 122,815	8%
Receivables and other assets	234,977	232,828	2,149	1%
Total assets	1,963,518	1,838,554	124,964	7%
Deferred outflows of resources	90,268	95,806	(5,538)	-6%
Total assets and deferred outflows of resources	2,053,786	1,934,360	119,426	6%
Current liabilities	402,700	403,869	(1,169)	0%
Noncurrent liabilities	6,149,941	6,363,692	(213,751)	-3%
Total liabilities	6,552,641	6,767,561	(214,920)	-3%
Deferred inflows of resources	20,484	23,317	(2,833)	-12%
Total liabilities and deferred inflows of resources	6,573,125	6,790,878	(217,753)	-3%
Net position (deficit)	$ (4,519,339)	$ (4,856,518)	$ 337,179	7%

The Authority's net deficit at June 30, 2022 improved by $337 million (7%) over the net deficit at June 30, 2021. Significant changes are described below:

- Cash and investments increased $123 million (8%) year over year, as strong sales tax receipts and lower grant payments were offset by mark-to-market losses on investments.
- Receivables and other assets increased by $2 million (1%). Increases of $2 million in SMART funds receivable were combined with increases of $4 million in grants receivable and $3 million in capital assets offset by the reductions of $6 million in loans receivable.
- Current liabilities decreased $1 million. The Authority reduced grants payable, bond premium, and accrued interest by $7 million, $6 million, and $4 million, respectively. The current portion of long-term debt increased by $15 million and other liability by $1 million.
- Noncurrent liabilities decreased $214 million (3%) with reductions in long-term debt of $127 million, grants payable of $20 million and bond premium of $67 million. Debt and bond premium reductions were the result of bond refunding in conjunction with normal amortization. The decline in grants payable is the result of paying down the prior grant and wait list projects, combined with a lower volume of capital pipeline requests.

Summary of Activities

(In thousands)

	2022	2021	Change	%
Dedicated sales tax	$ 1,189,633	$ 1,071,686	$ 117,947	11%
Investment income (loss)	(46,298)	(24,554)	(21,744)	89%
Grant income	22,833	23,161	(328)	-1%
Gain on defeasance	-	924	(924)	-100%
Realized gain (loss) on investments	-	(407)	407	-100%
Intergovernmental revenue	749	2,731	(1,982)	-73%
Total general revenues	1,166,917	1,073,541	93,376	9%
Grant payments and operations	624,611	714,508	(89,897)	-13%
Debt service and related expenses	204,378	205,555	(1,177)	-1%
Loss on defeasance and refunding	-	89,462	(89,462)	-100%
Pension expense	749	2,731	(1,982)	-73%
Total expenses	829,738	1,012,256	(182,518)	-18%
Change in net position (deficit)	337,179	61,285	275,894	450%
Net position (deficit), beginning of year	(4,856,518)	(4,917,803)	61,285	-1%
Net position (deficit), end of year	$ (4,519,339)	$ (4,856,518)	$ 337,179	7%

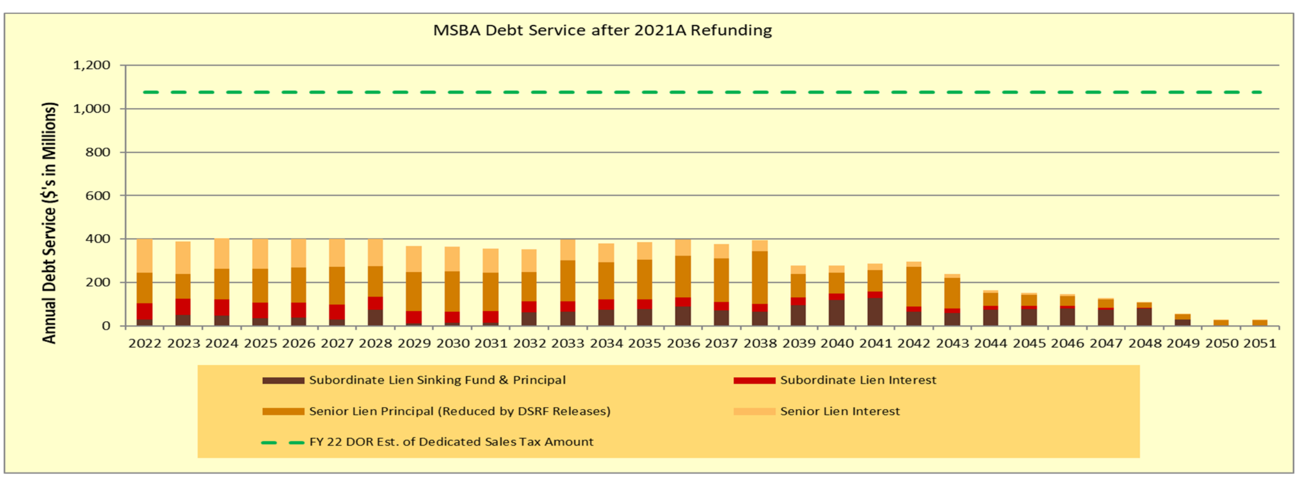
- General revenues increased $93 million (9%) over FY2021 driven by strong sales tax growth offset by investment losses.
    - Dedicated sales tax revenue increased $118 million (11%). Year-over-year growth in general sales tax and sales tax on motor vehicles were the key drivers of this increase.

  - Investment income decreased $22 million (89%) due to mark-to-market on U.S. Treasuries.
  - Grant income in the form of Federal subsidies on Build America Bonds and Qualified School Construction Bonds held steady, while intergonvernmental revenues related to pension declined by $2 million (73%) mirroring declines in pension expense.
- Total expenses decreased $182 million (18%) over FY2021 primarily due to a decrease in grant payments and reduced bond refunding and defeasance activity.
  - Grant payments decreased $90 million (13%). This decrease pertains to New Program grants that submit periodic requests for reimbursement throughout the project life-cycle. Grant payments on Prior Grant and Waiting List projects are recorded as a reduction of the grant payable liability.
  - Operations expenses increased $800K (6%) over FY2021 spending.
  - Debt service costs, including costs of issuance, decreased $1 million in FY2022. Reduced issuance and interest costs were offset by increased bond premium amortization.
  - The lack of defeasance activity accounts for an $89 million reduction in losses on defeasance over FY2021.
  - Pension expense, which is covered by the Commonwealth, decreased $2 million.

Debt

The Act provides the MSBA with the power to issue bonds and notes. The MSBA may issue either general obligation or special obligation bonds. Pursuant to the Act, the aggregate outstanding principal amount of the bonds shall not exceed $10 billion. To date, the MSBA has issued a total of $14 billion of dedicated sales tax bonds, including $5.5 billion of refunding bonds, for the purpose of funding school construction and renovation projects.

As of June 30, 2022, the MSBA had approximately $6 billion of dedicated sales tax bonds outstanding plus approximately $332 million of unamortized bond premiums. As shown in the chart below, the Authority seeks to manage its debt service requirements to be approximately half of the predicted SMART fund revenue. See Note 5 for additional information related to outstanding debt.



As of June 30, 2022, the ratings assigned to the MSBA's dedicated sales tax bonds are as follows: AAA by Fitch Ratings, Aa2 by Moody's Investor Services, and AA+ by Standard & Poor's Investor Services. As of June 30, 2022, the ratings assigned to the MSBA's subordinated dedicated sales tax bonds are as follows: AA+ by Fitch Ratings, Aa3 by Moody's Investor Services, and AA by Standard & Poor's Investor Services.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the MSBA's finances and to show the MSBA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Massachusetts School Building Authority at 40 Broad Street, Suite 500, Boston, MA 02109.

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Governmental Fund Balance Sheet/Statement of Net Position (Deficit)

June 30, 2022

(Dollars in thousands)

Assets	**Special Revenue Fund**	**Debt Service Fund**	**Total Governmental Funds**	**Adjustments (note 6)**	**Statement of Net Position (Deficit)**
Current assets:					
Cash, cash equivalents, and short-term investments	$ 896,679	$ –	$ 896,679	$ –	$ 896,679
Restricted cash and investments	206,104	198,907	405,011	–	405,011
Amount due from Commonwealth	155,310	–	155,310	–	155,310
Interest receivable	5,057	–	5,057	–	5,057
Grant receivable	–	–	–	7,400	7,400
Loan receivable	5,622	–	5,622	–	5,622
Noncurrent assets:					
Loan receivable	56,174	–	56,174	–	56,174
Restricted cash and investments	426,851		426,851		426,851
Net other post employment benefits (OPEB) asset	–	–	–	2,016	2,016
Capital assets	–	–	–	3,398	3,398
Total assets	1,751,797	198,907	1,950,704	12,814	1,963,518
Deferred outflows of resources:					
Loss on bond refunding	–	–	–	90,268	90,268
Total assets and deferred outflows	$ 1,751,797	$ 198,907	$ 1,950,704	$ 103,082	$ 2,053,786
Liabilities					
Current liabilities:					
Accounts payable	$ 767	$ –	$ 767	$ –	$ 767
Accrued interest	–	–	–	69,599	69,599
Current portion of grants payable	37,390	–	37,390	97,090	134,480
Current portion of long-term debt	–	–	–	168,995	168,995
Current portion of compensated absences	–	–	–	744	744
Current portion of lease liabilities	–	–	–	1,087	1,087
Current portion of bond premium	–	–	–	27,028	27,028
Long-term liabilities:					
Long-term debt	–	–	–	5,822,701	5,822,701
Grants payable	–	–	–	17,933	17,933
Bond premium	–	–	–	304,964	304,964
Lease liability	–	–	–	2,367	2,367
Compensated absences	–	–	–	419	419
Arbitrage rebate	–	–	–	1,557	1,557
Total liabilities	38,157	–	38,157	6,514,484	6,552,641
Deferred inflows of resources:					
OPEB	–	–	–	1,056	1,056
Gain on Bond Refunding	–	–	–	19,428	19,428
Total liabilities and deferred inflows	38,157	–	38,157	6,534,968	6,573,125
Fund balance/net position (deficit):					
Restricted for debt service	632,955	198,907	831,862	(831,862)	–
Restricted for OPEB	2,016	–	2,016	(2,016)	–
Assigned	1,078,669	–	1,078,669	(1,078,669)	–
Total fund balance	1,713,640	198,907	1,912,547	$ (1,912,547)	–
Total liabilities and fund balance	$ 1,751,797	$ 198,907	$ 1,950,704		
Commitments and contingencies					
Restricted for debt service					831,862
Restricted for new program					–
Restricted for OPEB					2,016
Unrestricted					(5,353,217)
Net position (deficit)					(4,519,339)
Total liabilities, deferred inflows, and net position (deficit)					$ 2,053,786

See accompanying notes to financial statements.

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

Year ended June 30, 2022

(Dollars in thousands)

	Special Revenue Fund	Debt Service Fund	Total Governmental Funds	Adjustments	Statement of activities
General revenues:					
Dedicated sales tax	$ 1,189,633	$ –	$ 1,189,633	$ –	$ 1,189,633
Investment gain (loss)	(30,294)	(16,004)	(46,298)	–	(46,298)
Grant income	18,940	–	18,940	3,893	22,833
Intergovernmental revenue	749	–	749	–	749
Total revenues	1,179,028	(16,004)	1,163,024	3,893	1,166,917
Expenditures/expenses:					
Grant payments	628,351	–	628,351	(17,533)	610,818
Operations	14,130	–	14,130	(337)	13,793
Bond issuance costs	893	–	893	(632)	261
Debt service	385,913	–	385,913	(191,103)	194,810
Amortization	–	–	–	9,307	9,307
Pension expense	749	–	749	–	749
Total expenditures/expenses	1,030,036	–	1,030,036	(200,298)	829,738
Other financing sources (uses):					
Bond proceeds	342,152	–	342,152	(342,152)	–
Payments to escrow agent	(346,950)		(346,950)	346,950	–
Bond Premium	648	–	648	(648)	–
Transfer to (from) funds	(13,044)	13,044	–	–	–
Total other financing sources (uses)	(17,194)	13,044	(4,150)	4,150	–
Change in fund balance/net position (deficit)	131,798	(2,960)	128,838	208,341	337,179
Fund balance/net position (deficit), beginning of year	1,581,842	201,867	1,783,709	(6,640,227)	(4,856,518)
Fund balance/net position (deficit), end of year	$ 1,713,640	$ 198,907	$ 1,912,547	$ (6,431,886)	$ (4,519,339)

See accompanying notes to financial statements.

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Fund

June 30, 2022

(Dollars in thousands)

Statement of Fiduciary Net Position

		OPEB Trust Fund
Assets:		
Investments - State Retirees Benefits Trust Fund	$	5,947
Total assets	$	5,947
Net Position: Restricted for OPEB benefits	$	5,947

Statement of Changes in Fiduciary Net Position

Additions:		
Contributions:		
Employer	$	250
Total contributions		250
Net investment income:		
Net unrealized investment loss		(209)
Total investment expense		(33)
Net investment income		(242)
Total additions		8
Deductions:		
Benefit payments		(38)
Total deductions		(38)
Net increase (decrease) in fiduciary net position		(30)
Net position restricted for OPEB benefits, beginning of period		5,977
Net position restricted for OPEB benefits, end of period	$	5,947

See accompanying notes to financial statements.

(1) Organization and Background

Chapter 208 of the Acts of 2004 (Chapter 208, together with Chapter 70B of the Massachusetts General Laws (MGL), Section 35BB of Chapter 10 of the MGL and Chapter 210 of the Acts of 2004, all as most recently amended, (collectively referred to as the Act), eliminated the former school building assistance program (the Former Program) and created the Massachusetts School Building Authority (MSBA) to administer and fund a new program (the New Program) for grants to cities, towns, and regional school districts for school construction and renovation projects.

The MSBA is mandated with achieving the effective planning, management, and financial sustainability of a school building assistance program. The MSBA is an independent public authority not subject to the supervision and control of any other executive office, department, agency, or political subdivision of the Commonwealth of Massachusetts (the Commonwealth). The MSBA is funded by a dedicated portion of the Commonwealth's statewide sales tax revenue (the dedicated sales tax revenue). The Commonwealth has covenanted that the dedicated sales tax revenue will not be diverted from the control of the MSBA and has pledged not to reduce the sales tax rate below that prescribed by the Act. The Act prohibits the MSBA from filing for bankruptcy. The Act provides the MSBA with the power to issue bonds and notes. The MSBA may issue either general obligation or special obligation bonds. Pursuant to the Act, the aggregate outstanding principal amount of the bonds shall not exceed $10 billion.

Under the former program, the Commonwealth was reimbursing cities, towns, and regional school districts for its share of 728 previously approved projects (Prior Grant projects). In addition, under the former program, 428 school projects were maintained on a waiting list for funding (the Waiting List). Pursuant to the Act, the MSBA became responsible for funding the Commonwealth's share of the 728 Prior Grant projects and 428 Waiting List projects. The Commonwealth's share ranged from 50% to 90% of approved eligible costs. As of June 30, 2022, the MSBA had paid in full its share of 411 of the 428 Waiting List projects and 719 of the 728 Prior Grant projects.

Under the New Program, no city, town, regional school district, or independent agricultural and technical school has any entitlement to funds from the MSBA. Grants approved by the MSBA for projects may range from 31% to 80% of approved eligible project costs. Under the New Program, the MSBA is limited in the amount of grants it can approve within a fiscal year; this limit may change by the lesser of 4.5% of the limit for the prior fiscal year or the percentage change in the dedicated sales tax revenue amount over the prior fiscal year. During FY2020, the Commonwealth enacted the Student Opportunity Act, which is legislation that increased the annual cap for new program grants from $600 million to $800 million. The annual growth provisions on the limit remain the same.

Under the Act, the MSBA Board of Directors (Board) shall consist of the Treasurer and Receiver General of the Commonwealth (the Treasurer), the Secretary of Administration and Finance, and the Commissioner of Education, each *ex officio*, or such persons' designees, and four other members appointed by the Treasurer, each of whom shall serve two-year terms and shall be eligible for reappointment. Of the four members appointed by the Treasurer, two are required to have practical experience in educational facilities planning, school building construction, or architecture and school design, and two are required to be persons in the field of education with demonstrated knowledge of the Commonwealth's curriculum frameworks and other relevant federal and state educational standards. The Treasurer serves as the chairperson of the MSBA. The Executive Director of the MSBA serves as Secretary of the MSBA Board, *ex officio*.

(2) Summary of Significant Accounting Policies

(a) Reporting entity and basis of presentation

The accompanying financial statements of the MSBA have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). The MSBA has prepared government-wide financial statements titled “Statement of Net Position (Deficit)” and “Statement of Activities.” The MSBA also prepares the fund financial statements, which are the special revenue fund and debt service fund “Balance Sheet” and “Statement of Revenues, Expenditures and Changes in Fund Balance.” The MSBA’s basic financial statements include both the government-wide and the fund financial statements.

Governmental Fund Financial Statements – The MSBA utilizes the current resources measurement focus and modified accrual basis of accounting in the preparation of the governmental fund financial statements. Revenues and related receivables are recognized when they become both measurable and available. “Available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period, which is 60 days after year end. Expenditures and related liabilities are generally recorded in the period in which the liability is incurred. However, expenditures related to debt service, compensated absences, and grants payable are recorded only to the extent that the liabilities mature (come due for payment).

Operating expenditures are direct costs incurred by the MSBA and are categorized into administrative expenditures, such as payroll related benefits and legal fees, and project related expenditures, such as professional consultants and other related costs.

Other financing sources (uses) primarily relate to the issuance of long-term debt.

The MSBA reports the following funds:

Special revenue fund (major) - This is the MSBA’s primary operating fund. This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Funds granted from this fund are utilized by grantees for the construction and improvement of public school facilities. This fund accounts for all financial resources of the MSBA, except those required to be accounted for in another fund.

Debt service fund (major) - This is a sinking fund related to the 2010 Series A Bonds and 2011 Series A Bonds discussed in Note 5. The amounts in the debt service fund will be used to pay the principal of the 2010 Series A Bonds and 2011 Series A Bonds at maturity. Periodically, funds are transferred from the special revenue fund to the debt service fund to meet sinking fund requirements. During FY2022, there was a transfer of $13 million from the special revenue fund to the debt service fund. As of June 30, 2022, the fund balance in the debt service fund totaled $198.9 million.

Fiduciary fund – During FY2012, the MSBA established the other post-employment benefits (OPEB) trust fund, an irrevocable trust fund established to accumulate assets for the purpose of paying for future OPEB costs. The assets are funded from operations and accumulate to reduce the unfunded actuarial liability of health care and other related OPEB. The OPEB trust fund financial statements utilize the economic resources measurement focus and the accrual basis of accounting.

Government-wide financial statements – The MSBA utilizes the economic resources measurement focus and the accrual basis of accounting, in the preparation of the government-wide financial statements. Accordingly, changes in long-term assets and liabilities are incorporated into these financial statements. Since the governmental fund financial statements are prepared on a different measurement focus and basis of accounting than the government-wide financial statements, an "adjustments column" is presented to convert the fund basis financial statements into the government-wide financial statements. Details supporting amounts in the adjustments column are presented in Note 6.

Due to its relationship with the Commonwealth, the MSBA is considered a blended component unit for financial statement purposes and is presented as a governmental fund in the Commonwealth's financial statements. The MSBA has no relationship with other entities that could be considered component units.

(b) Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less when purchased.

(c) Restricted cash and investments

Restricted assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

MSBA reports restricted assets for debt service funds for regular payment of principal and interest on bonds, as well as bond proceeds held for payment of grants. MSBA also maintains restricted investments pledged for collateral against debt through debt service reserve funds and subordinated debt sinking funds. Additionally, MSBA reports restricted assets related to OPEB.

(d) Investments

The MSBA has investments in U.S. treasuries, money markets, an external investment pool, and a guaranteed investment contract (GIC). The MSBA created a trust for the administration of OPEB investments which is discussed in Note 10.

The MSBA invests a portion of its funds in the Massachusetts Municipal Depository Trust (MMDT or the Trust), an investment pool for political subdivisions of the Commonwealth designed as a legal means to invest temporarily available cash. The Treasurer serves as a trustee of MMDT, and has sole authority pertaining to rules, regulations, and operations of the Trust.

Investment options the MMDT offers are a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seeks the highest possible level of current income consistent with preservation of capital and liquidity, and a short-term bond portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, and offers a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. MSBA's investment balance as of June 30, 2022 at MMDT consisted of $377 million in the cash portfolio and $80.8 million in the short-term bond portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. At June 30, 2022 MSBA's deposits with MMDT totaled $457.8 million. MMDT has no redemption restrictions. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

The MSBA has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires that certain assets, primarily investments, be recorded at fair value, as well as establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the reporting date. The statement excludes certain investments from fair value treatment, including money market accounts and guaranteed investment contracts (GIC) which are valued at amortized cost and contract value respectively (Note 4).

Fluctuations in the fair value of U.S. treasuries and municipal bonds are recorded as investment gain or loss. Investment loss related to fluctuations in value of these investments was $63 million in FY2022. The MSBA intends to hold these investments to maturity.

(e) Accounts receivable

Accounts receivable are comprised of funds due from the Commonwealth, interest receivable on investments, grants receivable from the U.S. Treasury, and loans receivable from municipal districts.

Funds due from the Commonwealth represent dedicated sales tax that has been reported but not received by the MSBA. The grants receivable are also pledged by the U.S. Treasury as reimbursement for the interest paid on Building America Bonds and Qualified School Construction Bonds. These amounts are considered 100% collectible.

Interest receivable on investments represents the accrued interest on collateral held in debt service reserve funds, mainly U.S. Treasury securities.

Loans and related interest receivable from municipal districts carry a 2% interest rate and make annual payments each November. No allowance for doubtful accounts on outstanding loans was deemed necessary.

(f) Capital assets

Capital assets are defined by the MSBA as classes of assets with an initial aggregate cost of more than $50,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

In conjunction with the adoption of GASB 87, *Leases*, the MSBA recorded a lease asset of $4.5 million and associated amortization of $1.1 million. At June 30, 2022, the net book value of the lease asset is $3.4 million which will be amortized over the remaining life of the lease which is 3 years.

Leasehold improvements exceeding $100,000 are capitalized and amortized over the life of the lease which is ten years. The net book value of capitalized leasehold improvements associated with the MSBA's lease totals $38,000 as of June 30, 2022.

(g) Compensated absences

Employees earn the right to be compensated during absences for vacation and illness. Vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and liabilities. Employees are granted vacation and sick leave in varying amounts based on years of service.

Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay. At June 30, 2022, approximately $1.2 million of accrued compensated absences has been recorded in the government-wide financial statements.

(h) Arbitrage rebate

The MSBA has bonds outstanding which are subject to arbitrage limitation. Arbitrage rebate refers to the required payment to the U.S. Treasury when excess earnings are received on tax-exempt bond proceeds that are invested at a higher yield than the yield of the tax-exempt bond issue.

As of June 30, 2022, the liability for arbitrage rebate was calculated at $1.6 million. The liability is due and payable in five-year intervals during the life of debt issues, with final rebate due no later than 60 days after the retirement of the debt issue. Arbitrage rebate expense is presented as a reduction in investment gain (loss).

(i) Deferred inflows of resources and deferred outflows of resources

Deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. This category is presented below assets on the statement of net position (deficit). Deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. This category is presented below liabilities in the statement of net position (deficit). For FY2022, the MSBA has reported deferred outflows pertaining to the losses on its debt refunding transactions that will be amortized over the life of the refunding bonds. For FY2022, the MSBA has reported deferred inflows pertaining to gains on debt refunding transactions that will be amortized over the life of the refunding bonds and for OPEB as a result of actual and projected investment earnings, actual and expected experience, and changes in assumptions.

(j) Revenue recognition

The MSBA's major revenue source is the portion of the Commonwealth's dedicated sales tax revenue. Pursuant to the Act, all monies received by the Commonwealth raised by a one percent (1%) statewide sales tax (drawn from the existing statewide 6.25% sales tax, excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales) are deposited into the School Modernization and Reconstruction Trust (SMART) fund, and are available to the MSBA without further appropriation or allotment. The use of the SMART fund is exclusively restricted for the purposes of the MSBA. Revenue is recognized and a corresponding "amount due from Commonwealth" is recorded to reflect revenue earned in the period of the underlying sale. The dedicated sales tax revenue is pledged for repayment of outstanding debt service.

(k) Grants payable

The MSBA records a liability for its share of total eligible project costs differently depending on the type of project. However, for all projects, the MSBA recognizes a liability for its estimated share of total eligible project costs when the applicable eligibility requirements have been met.

Prior Grants – All of the 728 Prior Grant projects were recognized as a liability once construction has started and receiving an annual payment under the former program. The liability for these projects will be reduced over time through annual payments, and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project.

Waiting List – The MSBA funds Waiting List projects using two different methods, lump sum and progress payments. Each funding method has different eligibility requirements.

Waiting List projects that are under the lump sum method were recognized as a liability once construction started. The liability for these projects will be reduced over time through annual payments and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project. These projects operate like Prior Grant projects.

Under the progress payment method, the MSBA's share of costs incurred are generally recognized as a liability once a grantee requests reimbursement from the MSBA. Of the $15.7 million liability associated with Waiting List projects, none of the liability is related to the progress payment method.

All remaining waiting list projects are recognized as a liability. As of June 30, 2022, there are no commitments outstanding for the Waiting List projects.

New Program – The MSBA funds New Program projects on a progress payment basis. Under this process, communities may submit reimbursement requests no more frequently than once per month. Upon review, audit, and approval, the MSBA processes payments for its share of eligible costs incurred. The MSBA's share of costs incurred for New Program projects are recognized as a liability once a grantee's request for reimbursement is reviewed, audited, and approved by the MSBA. The MSBA has recorded a liability of $37.4 million in the special revenue fund for reimbursement requests received, reviewed, and approved for payment by June 30, 2022. Additionally, a liability of $92 million was recorded for the reimbursements not reviewed or approved for payment prior to June 30, 2022, as well as final project hold back payments subject to final audit and Board approval after year end. The long-term portion of this liability is estimated at $13 million. New program projects that are not currently recognized as a liability are considered commitments of the MSBA. As of June 30, 2022, there are $2.0 billion of commitments outstanding for the New Program projects, which will be funded under the progress payment method.

For all projects, regardless of the funding mechanism, costs incurred by the grantees are subject to audit by the MSBA. Completion of these audits will allow the MSBA to determine the final approved cost of these projects, and the MSBA will adjust the payments it makes for these projects, as necessary, in accordance with the results of those audits.

(l) Employee benefits

The Commonwealth is responsible by statute for the pension benefits for members of the State Employees' Retirement System (MSERS), including employees of the MSBA. The MSERS is a cost-sharing, multi-employer public employee retirement system, covering substantially all employees of the Commonwealth and certain employees of independent authorities and agencies. The MSERS is administered by the Commonwealth and is part of its reporting entity; no stand-alone financial report is issued. MSBA is not required to make employer contributions to MSERS and otherwise has no responsibility for unfunded pension liabilities.

The MSBA provides OPEB, including health care and life insurance benefits for active and retired employees through participation in the Commonwealth's Group Insurance Commission. MSBA employees may become eligible for OPEB if they reach normal retirement age while working for the MSBA and retire from the MSBA. The MSBA currently funds OPEB based on an actuarial funding schedule. As of June 30, 2022, the MSBA had ten retirees, six of whom elected benefits.

(m) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows, and liabilities and deferred inflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.

(n) Fund balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* requires entities to classify fund balances as restricted, committed, assigned, or unassigned. The Board can commit and un-commit funds while financial management of the MSBA has the ability to assign and un-assign funds. Restricted balances are restricted in their use by bond covenants or statute.

As of June 30, 2022, the MSBA had the following fund balances (in thousands):

	Amount
Fund balance:	
Restricted:	
Debt service*	$ 831,862
OPEB	2,016
Subtotal	833,878
Assigned:	
Grants and loans to cities, towns, and regional school districts	1,078,669
Subtotal	1,078,669
Total fund balance	$ 1,912,547

* $198.9 million relates to the Debt Service Fund

(o) Adoption of new GASB pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement was established to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. MSBA adopted this Statement for FY 2022. The impact includes the recognition of a lease asset and associated liability in the government-wide statements.

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like an objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged. This pronouncement had no impact on the financial reporting of the MSBA.

(p) Recent Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The MSBA is currently evaluating the effect that this Statement will have on its financial statements.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements, and (2) accounting and financial reporting for financial guarantees. Certain requirements of this Statement were effective upon issuance. Requirements related to Leases (GASB 87), Public Private Partnerships (GASB 94), and Subscription-Based Information Technology Arrangements (GASB 96) are effective for fiscal years beginning after June 15, 2022. Requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. This pronouncement has no impact on the financial reporting of the MSBA.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by the reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. Earlier application is encouraged. The MSBA is currently evaluating the impact of this Statement on its reporting requirements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged. The MSBA is currently evaluating the impact of this Statement on its reporting requirements.

(3) Amount due from Commonwealth

Coincident with the establishment of the MSBA, the Commonwealth established the SMART fund for the purpose of receiving the transfer of dedicated sales tax revenue and other funds from the Commonwealth to the MSBA. Amounts held in the SMART fund are for the exclusive purpose of the MSBA. In FY2022, $1.2 billion of dedicated sales tax revenue was earned and recorded as revenue. Of that amount, $155.3 million was received after year-end and is recorded as a receivable on the MSBA's financial statements. Dedicated sales tax revenue is pledged for repayment of outstanding debt service.

(4) Cash, Cash Equivalents, and Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that entities disclose essential risk information about deposits and investments.

(a) Investment policy

Pursuant to the Act, the MSBA is authorized to invest in obligations of the U.S. treasury, its agencies and instrumentalities, bonds, or notes of public agencies or municipalities, bank time deposits, GICs, money market accounts, and repurchase agreements. The MSBA has an investment policy that establishes minimum credit quality for certain instruments, outlines investment procedures, and provides for periodic reporting. The MSBA's investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As specified in the OPEB trust agreement, the assets of the MSBA's OPEB trust fund are invested in the State Retiree Benefits Trust Fund, which is managed by the Massachusetts Pension Reserves Investment Trust Fund (PRIT) and follows the investment policy of the PRIT. See Note 10 for more information.

(b) Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the MSBA's deposits may not be returned. The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation, as well as deposits that are fully collateralized. As of June 30, 2022, all MSBA bank balances were fully protected against loss.

(c) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the MSBA's investments. The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The MSBA intends to hold its fixed income investments to maturity.

Investment type	Fair value	Investment maturities < 1 Year	1-5 Years	6-10 Years	>10 Years
Investments held at fair value:					
Money market funds	$ 320,173	$ 320,173	$ —	$ —	$ —
U.S. treasuries/state and local government series (SLGS)	412,614	—	104,534	81,328	226,752
	732,787	320,173	104,534	81,328	226,752
Investments held at other than fair value:					
MMDT, amortized cost	457,804	376,976	80,828	—	—
GIC, contract value	200,099	200,099	—	—	—
Total investments	1,390,690	$ 897,248	$ 185,362	$ 81,328	$ 226,752
Cash and cash equivalents	337,851				
Total cash and investments	$ 1,728,541				

(d) Credit risk

As of June 30, 2022, the MSBA had $200.1 million invested in a GIC. The investment is collateralized at 105% of value. This investment is not rated; however, the issuer is rated AA+.

As of June 30, 2022, the MSBA had $412.6 million invested in treasury strips and other U.S. obligations backed by the full faith and credit of the U.S. government.

As of June 30, 2022, the MSBA had $320.2 million invested in institutional money market funds valued at fair value. These investments were rated AAA.

As of June 30, 2022, the MSBA had $457.8 million invested in MMDT. This investment was not rated.

(e) Concentration of credit risk – investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The issuers where investments as of June 30, 2022 exceeded 5% of the MSBA's total investments, other than investments in U.S. government obligations and money market funds, are as follows:

	Percentage of total Investments
Massachusetts Mutual Life Insurance Company (GIC)	14%

(f) Fair value measurements

The MSBA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022.

Money market funds – Institutional money market investments are valued at $1 per share which approximates fair market value. Money market funds are generally classified as Level 1 of the fair value hierarchy.

U.S. treasuries – Securities issued by the U.S. government, its agencies, authorities, and instrumentalities are valued using quoted prices and a pricing model maximizing the use of observable inputs determined by investment managers. U.S. treasury securities consist principally of U.S. treasury bills, notes, and bonds, which are generally classified as Level 1 of the fair value hierarchy.

SLGS – Securities issued under SLGS securities program consist principally of certificates of indebtedness, notes, or bonds with maturities from 15 days to 40 years. SLGS are generally valued using a pricing model maximizing the use of observable inputs determined by investment managers. SLGS are generally classified as Level 2 of the fair value hierarchy

The MSBA has the following recurring fair value measurements as of June 30, 2022 (amounts in thousands):

Investment type	Total	Level 1	Level 2	Level 3
Money market funds	$ 320,173	$ 320,173	$ —	$ —
U.S. treasuries	403,814	403,814	—	—
State and local government series	8,800	—	8,800	—
Total	$ 732,787	$ 723,987	$ 8,800	$ —

(5) Long and Short-Term Obligations

Following is a summary of the long and short-term obligations of the MSBA as of June 30, 2022 (amounts in thousands):

	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Grants payable:					
Prior Grant projects	$ 29,116	$ —	$ 21,767	$ 7,349	$ 7,349
Waiting List projects	28,232	—	12,534	15,698	10,729
New Program projects	121,951	618,233	610,818	129,366	116,403
	179,299	618,233	645,119	152,413	134,481
Long-term debt:					
Dedicated Sales Tax Bonds (2009B) – Build America Bonds	450,000	—	—	450,000	—
Subordinated Dedicated Sales Tax Bonds (2010A) – Qualified School Construction Bonds	151,000	—	—	151,000	—
Subordinated Dedicated Sales Tax Bonds (2011A) – Qualified School Construction Bonds	142,380	—	—	142,380	—
Dedicated Sales Tax Bonds (2011B)	36,940		36,940	—	—
Dedicated Sales Tax Bonds (2012A)	368,190	—	83,375	284,815	86,520
Dedicated Sales Tax Bonds (2012B)	4,010	—	—	4,010	—
Dedicated Sales Tax Bonds (2015B)	195,115	—	—	195,115	—
Dedicated Sales Tax Bonds (2015C)	490,760	—	—	490,760	—
Dedicated Sales Tax Bonds (2015D)	247,805	—	—	247,805	—
Dedicated Sales Tax Bonds (2016A)	70,225	—	41,945	28,280	—
Dedicated Sales Tax Bonds (2016B)	358,425	—	—	358,425	—
Dedicated Sales Tax Bonds (2016C)	188,625	—	—	188,625	—
Subordinated Dedicated Sales Tax Bonds (2018A)	362,095	—	116,745	245,350	4,365
Subordinated Dedicated Sales Tax Bonds (2018B)	200,000		—	200,000	—
Subordinated Dedicated Sales Tax Bonds (2019A)	292,705	—	146,690	146,015	5,000
Subordinated Dedicated Sales Tax Bonds (2019B)	711,590	—	5,110	706,480	25,155
Dedicated Sales Tax Bonds (2020A)	350,000	—	—	350,000	—
Dedicated Sales Tax Bonds (2020B)	1,094,915	—	20,655	1,074,260	21,735
Dedicated Sales Tax Bonds (2020C)	389,460	—	—	389,460	23,115
Dedicated Sales Tax Bonds (2021A)	—	341,520	2,605	338,915	3,105
	6,104,240	341,520	454,065	5,991,695	168,995
Other liabilities:					
Compensated absences	829	900	567	1,162	743
Bond premium	404,145	648	72,801	331,992	27,028
Arbitrage rebate	3,682	—	2,125	1,557	—
	408,656	1,548	75,493	334,711	27,771
Total obligations	$ 6,692,195	$ 961,301	$ 1,174,677	$ 6,478,819	$ 331,247

Maturity of bond indebtedness

Bond indebtedness outstanding at June 30, 2022 matures as follows (amounts in thousands):

	Principal	Interest	Interest subsidy *	Total
Year ending June 30:				
2023	$ 168,995	$ 222,115	$ (22,833)	$ 368,277
2024	285,065	215,678	(22,833)	477,910
2025	266,305	208,222	(22,833)	451,694
2026	183,865	201,981	(22,833)	363,013
2027	346,225	197,566	(22,833)	520,958
2028-2032	1,135,225	845,724	(51,874)	1,929,075
2033-2037	1,317,500	626,634	(27,408)	1,916,726
2038-2042	1,355,240	329,310	(4,803)	1,679,747
2043-2047	725,910	127,206	-	853,116
2049-2051	207,365	14,527	-	221,892
	$ 5,991,695	$ 2,988,963	$ (198,250)	$ 8,782,408

* Reduced for sequestration as currently published.

As of June 30, 2022, the MSBA had approximately $6.0 billion of outstanding dedicated sales tax bonds, plus approximately $332 million of unamortized premiums, for the purpose of funding school construction and renovation projects. Coupons on the bonds range from 0.29% to 5.715%, and each series is payable semi-annually with the last maturity occurring in fiscal year 2051. The $6.0 billion debt outstanding includes $1.9 billion of subordinated dedicated sales tax bonds. Investments held as collateral on the debt (debt service reserve funds) total $426.9 million at June 30, 2022.

On September 23, 2021, the MSBA advance refunded $41.9 million of 2016 Series A Dedicated Sales Tax Bonds, $113.7 million of 2018 Series A Dedicated Sales Tax Bonds, and $141.7 million of 2019 Series A Dedicated Sales Tax Bonds by issuing $341.5 million of Subordinated Dedicated Sales Tax Refunding Bonds 2021 Series A Bonds (Federally taxable). The Bonds mature at various dates through February 15, 2049, and the interest is payable semi-annually February 15th and August 15th. The coupons on the bonds range from 0.260% to 2.860%. The refunding resulted in reduced debt service of $89.4 million and a net present value savings of $59.5 million over the life of the debt.

In prior years, the MSBA has defeased certain dedicated sales tax bonds by placing the proceeds of new bonds and funds on hand into irrevocable trusts with escrow agents in amounts which will provide for payment of the principal and interest on the defeased bonds to the redemption date. The defeased portion of such debt, accrued interest thereon, and related unamortized issuance costs and bond premiums were removed from the statements of net position (deficit). At June 30, 2022, $2.1 billion of bonds outstanding are considered defeased.

A portion of the interest on the dedicated sales tax bonds is reimbursed by the federal government. Of the $6.0 billion of debt outstanding as of June 30, 2022, $450 million is taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the U. S. Treasury. In addition, $293 million of the Subordinated Dedicated Sales Tax Bonds were issued as "Qualified School Construction Bonds" for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the U. S. Treasury. During FY2013, the Federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. Subsidy payments received from March 1, 2013, through September 30, 2013 were reduced by 8.7% (5.1% on an annualized basis) due to sequestration. Subsequent notices published by the Internal Revenue Service have adjusted the sequestration rate as follows:

Date of notice	Payments affected From	Payments affected To	Sequestration rate
September-2013	October 1, 2013	September 30, 2014	7.20 %
September-2014	October 1, 2014	September 30, 2015	7.30
August-2015	October 1, 2015	September 30, 2016	6.80
August-2016	October 1, 2016	September 30, 2017	6.90
August-2017	October 1, 2017	September 30, 2018	6.60
Februrary-2018	October 1, 2018	September 30, 2019	6.20
July-2019	October 1, 2019	September 30, 2020	5.90
July-2020, extended Sept 2021	October 1, 2020	September 30, 2030	5.70

The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester. Subsidy payments were reduced by approximately $1.3 million due to sequestration during FY2022.

Grants payable

As of June 30, 2022, the liability for future payments related to the Prior Grant, Waiting List, and New Program projects is as follows (amounts in thousands):

	Prior Grants	Waiting List	New Program	Total
Year ending June 30:				
2023	$ 7,349	$ 10,729	$ 116,402	$ 134,480
2024	—	4,969	12,964	17,933
Total	$ 7,349	$ 15,698	$ 129,366	$ 152,413

The amounts to be reimbursed for the Prior Grant and Waiting List projects may decrease because of debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project.

(6) Adjustments Column

(a) Explanation of certain differences between the governmental fund balance sheet and the statements of net position (deficit)

Long-term liabilities of the MSBA's activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Also, some assets used in governmental activities are not financial resources and, therefore, are not reported as fund assets. All assets and liabilities, both current and long-term, are reported in the statements of net position (deficit). The difference between the governmental fund balances and governmental activities net position at June 30, 2022 were as follows (amounts in thousands):

Total fund balance – governmental funds	$	1,912,546
Amounts reported for governmental activities in the statement of net position (deficit) are different because:		
Grants receivable is reported in the government-wide statements		7,400
Other assets are reported in the government-wide statements		3,398
Net OPEB Asset is not reported in the governmental funds		2,016
Loss on bond refundings is classified as deferred outflows of resources in the government-wide statements		90,268
Some liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Those liabilities consist of:		
Dedicated sales tax bonds		(5,991,696)
Grants payable to local communities		(115,023)
Bond premiums		(331,992)
Accrued interest		(69,599)
Lease liability		(2,367)
Arbitrage rebate		(1,557)
Compensated absences		(1,162)
Other current liabilities		(1,087)
Gain on bond refundings is classified as deferred inflows of resources in the government-wide statements		(19,428)
Deferred inflows for OPEB are not included in the governmental funds:		
Difference between actual and expected experience		(84)
Difference between actual and projected investment		36
Changes in assumptions		(1,008)
Net position (deficit) of governmental activities	$	(4,519,339)

(b) Explanation of certain differences between the governmental fund statements of revenues, expenditures, and changes in fund balance and the statements of activities

In the statements of activities all revenues and expenses are recognized in the year they are earned or incurred, regardless of when they are paid. In the governmental funds, payments and receipts contribute to the change in fund balance, while the same payments and receipts decrease and increase liabilities in the statements of net position (deficit). These differences in measurement and recognition affect both the reported fund balance and the reported net position (deficit). Adjustments required to be made to the reported governmental funds to arrive at the statements of activities are as follows (amounts in thousands):

Net change in fund balances – governmental funds	$	128,837
Amounts reported for governmental activities in the statement of activities are different because:		
Payments and adjustments on grants and debt decrease long-term liabilites in the statement of net position (deficit), but are included as expenditures in the governmental funds.		208,636
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change in compensated absences, interest payable, and arbitrage rebate		(8,338)
Proceeds of long-term debt and premiums increase long-term liabilities in the statement of net position (deficit) but, are included in the operating statement of the governmental funds.		346,950
Repayment of commercial paper and bond principal are expenditures in the governmental funds, but reduce long-term liabilities on the statement of net position (deficit).		(342,799)
Adjustment of revenues reported in the statement of activities on a different basis than in the governmental funds.		3,893
Change in net position (deficit) of governmental activities	$	337,179

(7) Commitments and Contingencies

(a) Grant commitments

The MSBA has estimated the amount of outstanding New Program commitments at June 30, 2022 to be $2.0 billion.

(b) Related parties

The MSBA enters various related party transactions with the Commonwealth. All significant or material transactions have been properly disclosed in the accompanying financial statements.

(c) Office lease

The MSBA leases its office space. The lease terminates on June 30, 2025. On July 1, 2022, the MSBA recorded a lease asset and related lease liability of $4.5 million using a discount rate of 3.5%. The lease asset is subject to straight line amortization of $93.3K per month over 48 months. The lease liability amortization schedule for the remaining term is as follows ($ thousands):

Fiscal Year	Beginning Balance	Interest	Principal	Total Payment	Ending Liability
2023	$ 3,454	$ 104	$ 1,087	$ 1,191	$ 2,367
2024	2,367	64	1,151	1,215	1,216
2025	1,216	24	1,216	1,240	-

Variable payments are not included in the basis of the lease asset and are expensed separately. FY22 variable payments totaled $103 thousand for storage ($4K), electricity ($22K), and common area charges ($77K).

(d) Pending Litigation

Amaral et al. v. City of Gloucester, et al., Essex Superior Court, C.A. No. 2077CV013038. In December 2020, the Authority was named as a defendant, along with the City of Gloucester and the Massachusetts Executive Office of Environmental Affairs, in a lawsuit commenced by fourteen residents of Gloucester who object to the use of a playing field as part of a project to replace the adjacent Veterans Memorial Elementary School with a new and expanded elementary school building. As applied to the Authority, the suit alleges that the Authority's consideration and advancement of the City's application for financial assistance prior to the City's obtaining the Secretary's certificate of compliance with state environmental review laws violated both the Massachusetts Environmental Protection Act and certain of the Authority's regulations. The lawsuit seeks only declaratory and injunctive relief; no monetary damages are sought. The defendants, including the Authority, filed dispositive motions, all of which were heard and taken under advisement by the Superior Court on July 22, 2021. On August 2, 2021, the Superior Court ordered the following: defendant City of Gloucester's Motion for Summary Judgment was allowed; defendant Massachusetts Executive Office of Environmental Affairs Motion to Dismiss was allowed; and defendant Authority's Motion for Summary Judgment was allowed. Furthermore, the Plaintiffs' Complaint for Declaratory and Injunctive Relief was dismissed. The plaintiffs' subsequent appeal of the Superior Court's Order of August 2, 2021 was dismissed against the Massachusetts School Building Authority and the Massachusetts Executive Office of Energy and Environmental Affairs on November 22, 2021 without an award of costs or fees to any party. Although the Authority has authorized a Project Funding Agreement (PFA) with Gloucester, pursuant to Authority policy, the PFA has not been executed while the appeal against the City of Gloucester remains pending.

(8) Loans Receivable

The MSBA has entered into various loan agreements with municipalities at a 2% interest rate, with the principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY2043. This program is designed to assist a limited number of school districts with unanticipated inflationary construction costs over the districts' original project budget. The loans outstanding as of June 30, 2022, were $61.8 million, of which $5.6 million is due in FY2023. During FY2022, the MSBA collected $6.2 million of scheduled principal payments.

(9) Retirement Benefits

(a) Plan description

The MSERS is a public employee retirement system (PERS) that administers a cost-sharing, multiple employer defined benefit plan as defined by GASB Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including employees of MSBA.

Management of MSERS is vested in the Massachusetts State Retirement Board (the MSRB) which consists of five members–two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer, and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB.

MSERS Schedule of Employer and Non-employer Allocations and Schedule of Pension Amounts by Employer and Non-employer is a publicly available report that can be obtained by submitting a request to the Commonwealth via email to comptroller.info@state.ma.us or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108.

(b) Benefits provided

MSERS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. MGL establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by MGL Chapter 32. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

(c) Contributions

Member contributions for MSERS vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975–1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of $30,000

In addition, members of Group 1 who join the system on or after April 2, 2012, will have their withholding rate reduced to 6.0% after achieving 30 years of creditable service.

(d) Pension liability and pension expense

The net pension liability was measured as of June 30, 2021 (measurement date). On June 30, 2021, MSBA was considered to have a 100% special funding situation as defined in the GASB Standards. As such, no net pension liability is required to be recognized by the MSBA. Instead, the Commonwealth is legally obligated for the net pension liability that was associated with MSBA, which amounted to $12.3 million at the measurement date.

For the year ended June 30, 2021, MSBA recognized pension expense and intergovernmental revenue of $748.7 thousand, which represents the Commonwealth's total proportionate share of the collective pension expense associated with MSBA.

(e) Actuarial assumptions

The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of January 1, 2021, rolled forward to June 30, 2021. This valuation used the following assumptions:

Inflation	3.5%
Salary increases	Salary increases are based on analyses of past experience, but range from 4% to 9%, depending on group and length of service.
Investment rate of return	7.0%
Cost of living adjustments	3.0% cost of living increase per year
Mortality rates:	
Pre-retirement:	Reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2020 and set forward 1 year for females.
Healthy retiree:	Reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2020 set forward 1 year for females.
Disabled retiree:	Reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2020 set forward 1 year.

Investment assets of MSERS are with the PRIT. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2021 are summarized in the following table:

Asset class	Target allocation (%)	Long-term expected rate of return (%)
Global equity	39.0 %	4.8%
Core fixed income	15.0	0.3
Private equity	13.0	7.8
Portfolio completion strategies	11.0	2.9
Real estate	10.0	3.7
Value added fixed income	8.0	3.9
Timber/natural resources	4.0	4.3
	100.0 %	

(f) Discount rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(g) Sensitivity of the net pension liability to changes in the discount rate

The following presents the MSBA's proportion of the net pension liability to be paid by the Commonwealth, calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current discount rate (amount in thousands):

	1% Decrease (6.0%)	discount (7.0%)	1% Increase (8.0%)
Net pension liability as of June 30, 2021	$ 18,764	$ 12,259	$ 6,912

(10) Other Post-Employment Benefits

(a) Plan description

The MSBA provides post-employment health care, life insurance, and OPEB for employees who meet the eligibility criteria and retire directly from the MSBA through the Group Insurance Commission. The Group Insurance Commission is a state agency that administers an agent multi-employer defined benefit OPEB plan. Separate, audited, GAAP basis OPEB plan reports are not available for the plan. As of December 31, 2021, the actuarial valuation date, the MSBA had 10 retirees and 63 active plan members. There were 11 terminated employees that have a vested interest to benefits.

The OPEB plan is overseen by the OPEB Trust Committee, which consists of five members designated by the MSBA's Executive Director, including four employees of the MSBA and one member who may or may not be an employee of the MSBA. The four employees of the MSBA shall include two members of the MSBA finance staff, one member of the MSBA staff who is an attorney licensed to practice law in the Commonwealth, and one member of the MSBA's senior staff, each ex officio. Committee members shall serve a term of three years. The Executive Director may reappoint any Committee member for additional three-year terms, without limitation.

(b) Benefits provided

As part of the MSBA employee benefits package administered by the Group Insurance Commission, the MSBA provides health and life insurance to employees who retire from the MSBA and their covered dependents. All active employees who retire from the MSBA, meet the eligibility criteria, and opt for the plan will receive these benefits. The OPEB plan pays 80% of the premium for healthcare and up to $5,000 in basic life insurance. The retiree pays 20% of the healthcare premium and the full cost of any optional insurance (life insurance, accidental death and dismemberment, dental, and vision). Annual open enrollment periods allow retirees to choose between offered healthcare plans.

(c) Investment policy

The MSBA's OPEB trust assets are invested with the PRIT, which is managed by the Pension Reserves Investment Management Board (PRIM). The PRIM's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. PRIM maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. There were no changes made to the investment policy during the fiscal year. See page 39 for approved asset allocation.

(d) Contribution information and funding policy

Subject to statutory requirement, future retirees will contribute 20% of the cost of the premium of the health plan, as determined by the Group Insurance Commission, and the MSBA will contribute the remainder of the health plan costs. The MSBA plans to keep the plan fully funded on an annual basis by contributing the actuarially determined contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The actuarially determined contribution represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed one year. MSBA's fiscal year 2022 contribution totaled $250,000, which represents 3.4% of covered payroll ($7.4 million).

(e) Changes in the net OPEB liability/(asset)

The MSBA's net OPEB liability/(asset) was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of December 31, 2021, with standard actuarial techniques used to roll forward the total OPEB liability/(asset) to the Measurement Date.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balance at June 30, 2021	$ 3,024	$ 5,977	$ (2,953)
Changes for the year:			
Service cost	161	-	161
Interest	225	-	225
Difference between expected and actual experience	(92)	-	(92)
Change in assumptions	698	-	698
Employer contributions	-	297	(297)
Net investment income	-	(242)	242
Benefit payments including refunds	(85)	(85)	-
Net change	907	(30)	937
Balance at June 30, 2022	$ 3,931	$ 5,947	$ (2,016)

(f) Sensitivity of the net OPEB liability/(asset) to changes in the discount rate:

The following presents the net OPEB liability/(asset), calculated using the discount rate of 7.0%, as well as what the net OPEB liability/(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current discount rate (amount in thousands):

	1% Decrease (6.0%)	**Current discount (7.0%)**	**1% Increase (8.0%)**
Net OPEB liability/(asset)	$ (1,355)	$ (2,016)	$ (2,547)

(g) Sensitivity of the net OPEB liability/(asset) to changes in the healthcare cost trend rate:

The following presents the net OPEB liability/(asset), calculated using the healthcare cost trend rate of 7.0%, as well as what the net OPEB liability/(asset) would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amount in thousands):

	1% Decrease (5.8%-3.5%)	**Current Trend Rate (6.8% to 4.5%)**	**1% Increase (7.8% to 5.5%)**
Net OPEB liability/(asset)	$ (2,643)	$ (2,016)	$ (1,205)

(h) OPEB expense

OPEB expense recognized by the MSBA for the fiscal year ended June 30, 2022 was ($247) thousand.

(i) OPEB deferred outflows and inflows of resources

At June 30, 2022, the MSBA reported deferred inflows of resources as follows (amounts in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	$ 154	$ 238
Differences between projected and actual investment earnings	36	-
Change in assumptions	672	1,680
	$ 862	$ 1,918

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	Deferred Outflows (Inflows)
2023	$ (188)
2024	(200)
2025	(247)
2026	(43)
2027	(179)
Thereafter	(199)
	$ (1,056)

(j) Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the MSBA and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the MSBA and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2021 actuarial valuation, the entry age normal, level percentage of pay cost method was used. The actuarial value of assets was determined to be $6.7 million based on the fair market value of the assets. The actuarial assumptions included a 7.0% investment rate of return and an initial annual healthcare cost trend rate of 7.0%, which decreases to a 4.5% long-term trend rate for all healthcare benefits after six years. The MSBA has chosen to amortize its AAL over 1 year.

Assumptions:

Measurement date	June 30, 2022
Actuarial valuation date	December 31, 2021
Salary and wage increases	4.0-7.0%
Healthcare cost trend rates:	
Medical	4.5-6.8%
Administrative	not added to fully insured premium rates, as these expenses are a component of the rate.
Discount rate	7.0%
Long-term rate of return	7.0%
Mortality tables used:	
Pre-retirement	PubG-H-2010 General Employee Headcount-Weighted Mortality Table projected generationally with Scale MP-2021
Healthy retiree	PubG-H-2010 General Healthy Retiree Headcount-Weighted Mortality Table projected generationally with Scale MP-2021
Disabled retiree	PubG-H-2010 Non-Safety Retiree Headcount-Weighted Mortality Table projected generationally with Scale MP-2021
Contingent Survivor	PubG-H-2010 Contingent Survivor Headcount-Weighted Mortality Table projected generationally with Scale MP-2021
Date of experience studies on which significant assumptions were based	Demographic assumptions - Commonwealth of Massachusetts (Retirement) Actuarial Valuation as of 1/1/21, dated 10/21/21
	Remaining assumptions - Commonwealth of Massachusetts (OPEB) Actuarial Valuation Report - GASB 74 for the Fiscal Year Ending 6/30/21, dated 01/2022

Healthcare cost trend rate assumptions:

Year Ending June 30:	Annual Rate of Increase: Non-Medicare	Medicare
2022	6.5%	4.5%
2023	6.8%	4.5%
2024	6.6%	4.6%
2025	6.4%	4.7%
2026	6.3%	4.8%
2027	6.0%	4.5%
2028	5.8%	4.5%
2029	5.5%	4.5%
2030	5.3%	4.5%
2031	5.0%	4.5%
2032	4.8%	4.5%
Thereafter	4.5%	4.5%

Assumed rate of return:

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected.

The target allocation as of June 30, 2022 and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expense, used in the derivation of the long-term expected investment rate of return are summarized below:

Asset class	Target allocation (%)	Long-term expected rate of return (%)
Domestic equity	22.0 %	6.1%
International developed markets equity	11.5	6.5
International emerging markets equity	4.5	8.1
Core fixed income	15.0	0.4
High yield fixed income	8.0	2.5
Real estate	10.0	3.7
Timber	4.0	3.4
Hedge fund, global tactical asset allocation, risk parity	10.0	2.6
Private equity	15.0	9.9
	100.0 %	

Notes: Some asset classes in the target allocation have been combined.

Retirement rate assumptions:

	Age				
	50	55	60	65	70
Male	3.0	3.5	9.0	20.0	100.0
Female	3.0	5.0	7.5	20.0	100.0

(11) Subsequent Events

On August 15, 2022, the MSBA called the remaining principal on the 2012 A and 2012 B Refunding bonds. The principal reduction of the $198.3 million (2012 A) and $4 million (2012 B) were funded by the proceeds, including interest, of the matured guaranteed investment contract. The guaranteed investment contract matured on July 25, 2022. By calling the bonds, the MSBA has eliminated scheduled future interest payments by $15.5 million.

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios - Required Supplementary Information - OPEB

Last Ten Fiscal Years *

(Unaudited)

(Dollars in thousands)

	2022	2021	2020	2019	2018	2017
Total OPEB liability:						
Service cost	$ 161	$ 152	$ 242	$ 235	$ 221	$ 215
Interest	225	203	309	275	300	265
Difference between expected and actual experience	(92)	-	212	-	(310)	-
Change in assumptions	698	46	(2,013)	-	(431)	-
Benefit payments, including refunds of member contributions	(85)	(56)	(56)	(61)	(37)	(36)
Net change in total OPEB liability	907	345	(1,306)	449	(257)	444
Total OPEB liability, beginning	3,024	2,679	3,985	3,536	3,793	3,349
Total OPEB liability, ending	$ 3,931	$ 3,024	$ 2,679	$ 3,985	$ 3,536	$ 3,793
Plan fiduciary net position:						
Contributions - Employer	$ 297	$ 218	$ 228	$ 152	$ 537	$ 136
Net investment income	(242)	1,350	82	227	300	323
Benefit payments	(85)	(56)	(56)	(61)	(37)	(36)
Net change in plan fiduciary net position	$ (30)	$ 1,512	$ 254	$ 318	$ 800	$ 423
Plan fiduciary net position, beginning	5,977	4,465	4,211	3,893	3,093	2,670
Plan fiduciary net position, ending	$ 5,947	$ 5,977	$ 4,465	$ 4,211	$ 3,893	$ 3,093
Net OPEB (asset) liability, ending	$ (2,016)	$ (2,953)	$ (1,786)	$ (226)	$ (357)	$ 700
Covered employee payroll	$ 7,446	$ 7,150	$ 6,530	$ 6,300	$ 6,130	$ 5,510
Net OPEB (asset) liability as a percentage of covered employee payroll	-27.1%	-41.3%	-27.4%	-3.6%	-5.8%	12.7%

See accompanying notes to the required supplementary information

* Data reported for fiscal years 2017 thru 2022 is based on the MSBA's plan Measurement Dates of June 30. Changes in the total OPEB liability for the fiscal years prior to 2017, or prior to the Measurement Date of June 30, 2017, were not available and accordingly, not included in the schedule.

Notes to the Schedule:

Actuarial method - At the June 30, 2018 Measurement Date, the actuarial method was changed from the projected unit credit method to the entry age normal (level percentage of pay).

Mortality assumption - The rates used for the pre-retirement, healthy retiree, and disabled retiree were updated to match the Group 1 rates used in the Commonwealth of Massachusetts (Retirement) Actuarial Valuation as of January 1, 2021.

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

Schedule of Employer Contributions – Required Supplementary Information - OPEB

June 30, 2022

(Unaudited)

(Dollars in thousands)

Fiscal year ending June 30	Actuarial Required Contributions	Actual Employer Contributions	Contribution Deficiency/ (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll	Employer Contribution as a Percentage of Actuarial Required Contribution
2022	$ 157	$ 250	$ (93)	$ 7,446	3.4%	159%
2021	159	200	(41)	7,150	2.8%	126%
2020	152	200	(48)	6,530	3.1%	132%
2019	235	100	135	6,300	1.6%	43%
2018	232	500	(268)	6,130	8.2%	216%
2017	700	100	600	5,510	1.8%	14%
2016	(6)	100	(106)	5,964	1.7%	-1667%
2015	16	100	(84)	5,206	1.9%	625%
2014	(9)	–	(9)	4,880	0.0%	0%
2013	(183)	–	(183)	4,490	0.0%	0%

See accompanying notes to the required supplementary information

Valuation date: Actuarial determined contribution rates are calculated as of the actuarial valuation dates identified above.

The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

Notes to the Schedule:

- Methods and assumptions used to determine the contribution rates:

To maintain fully funded status, the MSBA will request a budget of $100,000 unrestricted funds be deposited to the OPEB Trust. Deposits are invested at the beginning of the month, so transfers should be scheduled for the 1st. If a future actuarial report indicates there is an unfunded portion, the MSBA may request a budget allocation annually between $100,000 to $500,000 until fully funded status is reached again. MSBA will be reimbursed annually for actual premiums rather than estimated premiums.

	Actuarial Cost Method	Amortization Method & Period	Healthcare Cost Trend	Investment Rate	Mortality Table	Salary Increases
2022	Entry age normal	Immediate Recognition	7.00%	7.00%	PubG-H-2010	7.00%
2021	Entry age normal	Immediate Recognition	7.00%	7.15%	PubG-H-2010	7.00%
2020	Entry age normal	Immediate Recognition	7.00%	7.25%	PubG-H-2010	7.00%
2019	Entry age normal	Immediate Recognition	8.00%	7.35%	RP-2014	7.00%
2018	Entry age normal	Immediate Recognition	8.00%	7.35%	RP-2014	7.00%
2017	Projected Unit Credit	Immediate Recognition	9.00%	7.50%	RP-2000	7.00%
2016	Projected Unit Credit	Immediate Recognition	6.00%	8.00%	RP-2000	N/A
2015	Projected Unit Credit	Immediate Recognition	7.00%	8.00%	RP-2000	N/A
2014	Projected Unit Credit	Immediate Recognition	7.00%	8.00%	RP-2000	N/A
2013	Projected Unit Credit	Immediate Recognition	7.00%	8.00%	RP-2000	N/A

N/A Not available

MASSACHUSETTS SCHOOL BUILDING AUTHORITY

Schedule of Investment Returns - Required Supplementary Information - OPEB

Last Ten Fiscal Years*

(Unaudited)

Measurement Date Year Ended	Annual money weighted rate on return, net of investment expense
June 30, 2022	-3.96%
June 30, 2021	29.55%
June 30, 2020	1.89%
June 30, 2019	5.74%
June 30, 2018	9.25%
June 30, 2017	12.85%

*The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

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*

Independent Auditor's Report

Board Members
Massachusetts School 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 Massachusetts School Building Authority (the Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 15, 2022.

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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Boston, Massachusetts
December 15, 2022