# 2008 Annual Financial Report

University of Massachusetts

Amherst • Boston • Dartmouth • Lowell • Worcester • UMassOnline

This publication is distributed by the University Controller's Office to present audited financial statements to the community, governmental bodies, investors and creditors.

Photos on the front cover and of President Wilson on page 2 were provided by the University of Massachusetts President's Office.

Tiger Press of Northampton, Massachusetts printed this publication.

# Table of Contents

# University Administration
## as of September 25, 2008

### Board of Trustees:



### Officers of the University:

Jack M. Wilson, Ph.D., President
Robert C. Holub, Ph.D., Chancellor, Umass Amherst
J. Keith Motley, Ph.D., Chancellor, Umass Boston
Jean F. MacCormack, Ed.D., Chancellor, Umass Dartmouth
Martin T. Meehan, J.D., Chancellor, Umass Lowell
Michael F. Collins, M.D., Chancellor, Umass Worcester
and Senior Vice President for Health Sciences
James R. Julian, J.D., Executive Vice President
Marcellette G. Williams, Ph.D., Senior Vice President for Academic Affairs
and International Relations
Thomas Chmura, Vice President for Economic Development
David J. Gray, Vice President for Information Services and Chief Information Officer
and CEO of Umass Online
Stephen W. Lenhardt, Vice President for Management & Fiscal Affairs and
University Treasurer
Katherine V. Smith, Vice President for University Advancement and
Chief Operating Officer of the University of Massachusetts Foundation, Inc.
Lawrence T. Bench, J.D., Interim General Counsel
Barbara F. DeVico, Secretary to the Board of Trustees

# A Message from President Jack Wilson

Fiscal year 2008 saw many wonderful achievements for the University of Massachusetts. We finished two searches and each of our five campuses now has an extraordinary chancellor appointed to lead it. UMass saw unprecedented support from the State as we worked with our elected officials to advance legislation that provided $1 billion in capital support to the University and $1 billion to support life sciences research. On each of our campuses, we continue to have record numbers of increasingly accomplished students applying for admission. Unfortunately, what has now become an international financial crisis began to unfold during this period as well.

In the last year, I have been called upon frequently to discuss the special role that public research universities play as the gateway to opportunity for our citizens. This is a mission that we at the University of Massachusetts take seriously, and it is one with special resonance during times of economic distress. Never has our commitment to academic excellence and affordability been more important.

The students are our first priority. Despite the challenges we face, the Chancellors and I are committed to protecting the excellence of our academic programs and the student experience. We must continue to make progress in three key areas

1. **To maintain access to UMass for the most talented students regardless of their ability to pay.** In FY2008, UMass provided scholarship aid totaling approximately $85 million and met 92 percent of Massachusetts resident undergraduates' need. Since 2002, the University has increased total institutional financial aid by $47.2 million or 150 percent. This is an extraordinary commitment to students because these funds must also support day-to-day operating expenses—from salaries and benefits to utilities and insurance. In order to continue to maintain—and hopefully to increase—our commitment to affordability, we must continue to increase scholarship aid.

2. **To continue attracting the highest caliber faculty.** It is crucial to attract and retain the best people in order to advance knowledge and educate students who will compete and lead in our global economy. We owe it to the people of our Commonwealth and our nation to support and advance the very best public University system possible. Innovation is the engine, not only of our economy, but of our University. Research at the frontiers of academic disciplines is the foundation for excellent teaching and learning experiences for our students.

3. **To continue our capital program and provide for our students and faculty the 21st century facilities that they need and deserve**. In order for the University to sustain and build its academic competitiveness and to create a robust and well-supported environment that is an attractive destination for the best faculty members and students, we must continue to work to provide for them the best learning and campus life facilities possible.

In an environment where the competition for resources is increasing, a sustained record of academic excellence and of commitment to affordability will distinguish UMass as an exceptional value among its competitors. Our trustees have been vigilant stewards of our University, and we are grateful for their many contributions. The chancellors have demonstrated excellent leadership on their campuses, and we are committed to maintaining and building on their record of success.

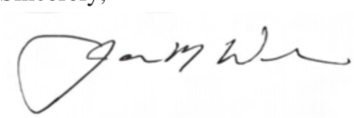
As this report details, we continue to manage the financial resources of UMass in a way that ensures the long-term success of the University. To guide our financial decision-making, our Trustees have set five key financial indicators to measure our progress. In the fiscal year ending June 30, 2008, we met or exceeded our targets for all five indicators:

- Operating Margin,
- Financial Cushion,
- Return on Net Assets,
- Debt Service to Operations, and
- Endowment per Student.

Clearly, the road to realizing our ambitious goals for UMass is more difficult to navigate today than it was a year ago. The economic outlook for our Commonwealth and our nation present some very real challenges. The current economy may also present new opportunities while we move forward with long-planned initiatives for strengthening the University.

I would like to express my gratitude to the many elected officials, donors, parents, and other friends of UMass who have done so much to sustain and advance the University in the last year. We continue to count on your support and advocacy as we work to achieve our shared aspirations for the Commonwealth's public research University.

Sincerely,



Jack M. Wilson, President
University of Massachusetts

University *of* Massachusetts
UMASS Amherst • Boston • Dartmouth • Lowell • Worcester • UMassOnline

Office of the President

November 19, 2008

To the Board of Trustees
and President Jack M. Wilson

We are pleased to submit the annual Financial Report of the University of Massachusetts for the year ended June 30, 2008. The enclosed financial statements incorporate all financial activity of the University and its five campuses. This statement has been audited by an independent auditing firm and is fully represented in the financial report of the Commonwealth of Massachusetts. Detailed information about each campus is provided as supplemental information.

The financial information presented in the Financial Report is designed to aid a wide variety of readers to assess the effectiveness of the University's management of its resources in meeting its primary mission of instruction, research, and public service. This report is intended to form a comprehensive and permanent record of the finances of the University of Massachusetts, and it is submitted as the public accounting of the University's financial affairs for the fiscal year ended June 30, 2008 including comparative information as of June 30, 2007.

The University's net assets increased $89.1 million from $1.56 billion in fiscal year 2007 to $1.65 billion in fiscal year 2008. The major components of the increase are related to increases in student fee revenues across the campuses and physical plant improvements.

Each year, the Board of Trustees approves five-year targets for five key financial indicators that are likely to determine the success of the University over the long term. Those key indicators are operating margin, financial cushion, return on net assets, debt service to operations, and endowment per student. During 2008, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2008 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

Stephen W. Lenhardt
Vice President, Management
and Fiscal Affairs & Treasurer

Christine M. Wilda
Assistant Vice President & University Controller

225 Franklin Street | 12th Floor | Boston, MA 02110 | P: (617) 287-7000 | F: (617) 287-7044 | www.massachusetts.edu

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

**Report of Independent Auditors**

To the Board of Trustees of the
University of Massachusetts

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated statements of net assets and the related statements of revenues, expenses and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of the University of Massachusetts (the "University"), and its discretely presented component units at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Massachusetts Building Authority, (a blended component unit included in the column titled University) or the University of Massachusetts Dartmouth Foundation, Inc. (a discretely presented component unit included in the column titled University Related Organizations), which statements reflect total net assets of $217 million of the University and $33 million of the University Related Organizations, and $200 million of the University and $30 million of the University Related Organizations as of June 30, 2008 and 2007 respectively, and total revenues of $66 million of the University and $6 million of the University Related Organizations and $121 million of the University and $9 million of the University Related Organizations, for the years then ended, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these components of the University, is based on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management' Discussion and Analysis included in this document is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

December 5, 2008

# Management's Discussion and Analysis

## June 30, 2008

**Introduction**

This unaudited section of the University of Massachusetts (the "University") Annual Financial Report presents our discussion and analysis of the financial position and performance of the University and its component units during the fiscal year ended June 30, 2008 with comparative information as of June 30, 2007, and June 30, 2006. This discussion and analysis has been prepared by management along with the accompanying financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

The University of Massachusetts is a state coeducational institution for higher education with separate campuses at Amherst, Boston, Dartmouth, Lowell and Worcester all located in the Commonwealth of Massachusetts (the "Commonwealth"). The University was established in 1863 in Amherst, under the provisions of the 1862 Morrill Land Grant Acts, as the Massachusetts Agricultural College. It became known as the Massachusetts State College in 1932 and in 1947 became the University of Massachusetts. The Boston campus was opened in 1965 and the Worcester campus, Medical School, was opened in 1970. The Lowell and Dartmouth campuses (previously the University of Lowell and Southeastern Massachusetts University, respectively) were made a part of the University by a legislative act of the Commonwealth, effective September 1, 1991.

The University's mission is to provide an affordable and accessible education of high quality and to conduct programs of research and public service that advance knowledge and improve the lives of the people of the Commonwealth, the nation and the world. In the fall of 2007, the University enrolled approximately 51,069 full-time equivalent ("FTE") students. The University is committed to providing, without discrimination, diverse program offerings to meet the needs of the whole of the state's population. The University's five campuses are geographically dispersed throughout Massachusetts and possess unique and complementary missions.

**Basis of Presentation**

The annual financial report and statements include the University and certain other organizations that have a significant relationship with the University. The statements include the University's blended component units, which are the University of Massachusetts Building Authority (the "Building Authority"), a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960 of the Commonwealth, Worcester City Campus Corporation ("WCCC"), a not-for-profit 501(C)(3) organization and the University of Massachusetts Amherst Foundation, Inc. (the "UMass Amherst Foundation") which was established in fiscal year 2003. The purpose of the Building Authority is to provide dormitories, dining commons and other buildings and structures for use by the University and entities associated with the University and to issue bonds to finance such projects. On November 4, 1992, the University created WCCC as a Massachusetts not-for-profit corporation to purchase various assets of Worcester City Hospital, to operate as a real estate holding company and to foster and promote the growth, progress and general welfare of the University. WCCC includes the Worcester Foundation for Biomedical Research, Inc. (WFBR) as a subsidiary. The University's discrete component units are the University of Massachusetts Foundation, Inc. (the "Foundation") and the University of Massachusetts Dartmouth Foundation, Inc. (the "Dartmouth Foundation"). These foundations are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and to solicit, receive, and administer gifts and donations for such purposes. The University of Massachusetts Foundation manages the majority of the University's endowment.

**Financial Highlights**

The University's combined net assets increased $89.1 million from $1.56 billion in fiscal year 2007 to $1.65 billion in fiscal year 2008. The major components of this increase relate to positive operating margins due primarily to increased student fee revenues as a result of increased enrollment and fees along with significant physical plant improvements.

**Using the Annual Financial Report**

One of the most important questions asked about University finances is whether the University as a whole is better off or worse off as a result of the year's activities. The key to understanding this question are the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by private sector companies. The University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of an institution's financial health when considered with non-financial facts such as enrollment levels, operating expenses, and the condition of the facilities.

The statement of net assets includes all assets and liabilities of the University. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Net assets are further broken down into three categories: Investment in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt represents the historical cost of property and equipment, reduced by the balance of related debt outstanding and depreciation expense charged over the years. Net assets are reported as restricted when constraints are imposed by third parties, such as donors, or enabling legislation. Restricted net assets are either non-expendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds to be spent on scholarships and research. All other assets are unrestricted; however, they may be committed for use under contract or designation by the Board of Trustees.

The statement of revenues, expenses and changes in net assets presents the revenues earned or received and expenses incurred during the year. Activities are reported as either operating or nonoperating. Operating revenues and expenses include tuition and fees, grant and contract activity, auxiliary enterprises and activity for the general operations of the institution not including appropriations from state and federal sources. Non-operating revenues and expenses include appropriations, capital grants and contracts, endowment, gifts and investment income. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. That is because the prescribed financial reporting model classifies state appropriations and gifts as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation expense, which amortizes the cost of a capital asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and non-capital, financing and investing activities.

The footnotes provide additional information that is essential to understanding the information provided in the external financial statements.

**Reporting Entity**

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The financial statements of the University are separated between University (including its blended component units) and its discretely presented Component Unit activities. The University's discretely presented Component Units (or Related Organizations) are the University of Massachusetts Foundation, Inc., and the University of Massachusetts Dartmouth Foundation, Inc.

**Condensed Financial Information**

**University of Massachusetts**
**Condensed Statement of Net Assets**
**As of June 30, 2008, 2007 and 2006**
**(in thousands of dollars)**

| | University June 30, 2008 | University June 30, 2007 | Change | University June 30, 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $494,957 | $475,147 | $19,810 | $504,691 |
| Noncurrent Assets | | | | |
| Investment in Plant Net of Accumulated Depreciation | 1,918,770 | 1,719,316 | 199,454 | 1,499,607 |
| All Other Noncurrent Assets | 1,119,528 | 964,875 | 154,653 | 900,789 |
| ***Total Assets*** | **$3,533,255** | **$3,159,338** | **$373,917** | **$2,905,087** |
| **Liabilities** | | | | |
| Current Liabilities | $431,664 | $472,682 | ($41,018) | $508,972 |
| Noncurrent Liabilities | 1,448,144 | 1,122,339 | 325,805 | 1,046,337 |
| ***Total Liabilities*** | **$1,879,808** | **$1,595,021** | **$284,787** | **$1,555,309** |
| **Net Assets** | | | | |
| Invested in Capital Assets Net of Related Debt | $1,027,045 | $884,138 | $142,907 | $804,053 |
| Restricted | | | | |
| Nonexpendable | 16,605 | 16,264 | 341 | 16,136 |
| Expendable | 161,732 | 212,302 | (50,570) | 146,903 |
| Unrestricted | 448,065 | 451,613 | (3,548) | 382,686 |
| ***Total Net Assets*** | **$1,653,447** | **$1,564,317** | **$89,130** | **$1,349,778** |

**University of Massachusetts**
**Condensed Statement of Net Assets for Related Organizations**
**As of June 30, 2008, 2007 and 2006**
**(in thousands of dollars)**

| | University Related Organizations June 30, 2008 | University Related Organizations June 30, 2007 | Change | University Related Organizations June 30, 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $8,344 | $6,841 | $1,503 | $4,594 |
| Noncurrent Assets | | | | |
| Investment in Plant Net of Accumulated Depreciation | 979 | 992 | (13) | 1,003 |
| All Other Noncurrent Assets | 301,506 | 289,812 | 11,694 | 249,525 |
| ***Total Assets*** | **$310,829** | **$297,645** | **$13,184** | **$255,122** |
| **Liabilities** | | | | |
| Current Liabilities | $9,263 | $7,746 | $1,517 | $6,136 |
| Noncurrent Liabilities | 3,636 | 2,983 | 653 | 2,914 |
| ***Total Liabilities*** | **$12,899** | **$10,729** | **$2,170** | **$9,050** |
| **Net Assets** | | | | |
| Invested in Capital Assets Net of Related Debt | $979 | $992 | ($13) | $1,003 |
| Restricted | | | | |
| Nonexpendable | 212,017 | 193,100 | 18,917 | 178,692 |
| Expendable | 77,192 | 85,809 | (8,617) | 61,091 |
| Unrestricted | 7,742 | 7,015 | 727 | 5,286 |
| ***Total Net Assets*** | **$297,930** | **$286,916** | **$11,014** | **$246,072** |

At June 30, 2008, total University assets were $3.53 billion, an increase of $373.9 million over the $3.16 billion in assets recorded for fiscal year 2007. Much of the increase can be attributed to increases in the cash and securities held by the trustees, investment in plant assets, and investments. The receivable from UMass Memorial to the University decreased by $118.4 million between June 30, 2008 and 2007 primarily due to the timing of payments. The University's largest asset continues to be its net investment in its physical plant of $1.92 billion at June 30, 2008 ($1.72 billion in fiscal year 2007).

At June 30, 2007, total University assets were $3.16 billion, an increase of $254.3 million over the $2.91 billion in assets recorded for fiscal year 2006. Much of the increase was attributed to increases in investment in plant assets, accounts receivable from UMass Memorial and investments. The University's largest asset was its net investment in its physical plant of $1.72 billion at June 30, 2007 ($1.50 billion in fiscal year 2006).

University liabilities totaled $1.88 billion at June 30, 2008, an increase of $284.8 million over fiscal year 2007 ($1.60 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to $1.43 billion at June 30, 2008. This represents an increase of approximately $328.3 million over long-term debt obligations of $1.10 billion in fiscal year 2007. This increase reflects new debt issued by the Building Authority. Other Liabilities decreased $45.5 million due to timing of payments at year end.

University liabilities totaled $1.60 billion at June 30, 2007, an increase of $39.7 million over fiscal year 2006 ($1.56 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to $1.10 billion at June 30, 2007. This represents an increase of approximately $90.7 million over long-term debt obligations of $1.01 billion in fiscal year 2006. This increase reflects new debt issued by WCCC and draw downs on a new line of credit at the Building Authority. Other Liabilities decreased $54.2 million primarily due to a decline in payables to the Commonwealth of Massachusetts at Worcester in the amount of $45.0 million. In addition, the liability for Securities on Loan decreased $2.6 million.

The University's current assets as of June 30, 2008 of $495.0 million were sufficient to cover current liabilities of $431.7 million, as the current ratio was 1.15 dollars in assets to every one-dollar in liabilities. June 30, 2007 current assets of $475.1 million were sufficient to cover current liabilities of $472.7 million, a current ratio of was 1.01. At June 30, 2006, the current ratio was 0.99 ($504.7 million in assets for $509.0 million in liabilities).

The unrestricted and restricted expendable net assets totaled $609.8 million in fiscal year 2008, which represents 27.7% of total operating expenditures of $2.20 billion. The unrestricted and restricted expendable net assets totaled $663.9 million in fiscal year 2007, which represents 30.5% of total operating expenditures of $2.18 billion. In fiscal year 2006, expendable net assets of $529.6 million to $2.06 billion of total operating expenditures resulted in a ratio of 25.8%.

**University of Massachusetts**
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**
**For the Year Ended June 30, 2008, 2007 and 2006**
**(in thousands of dollars)**

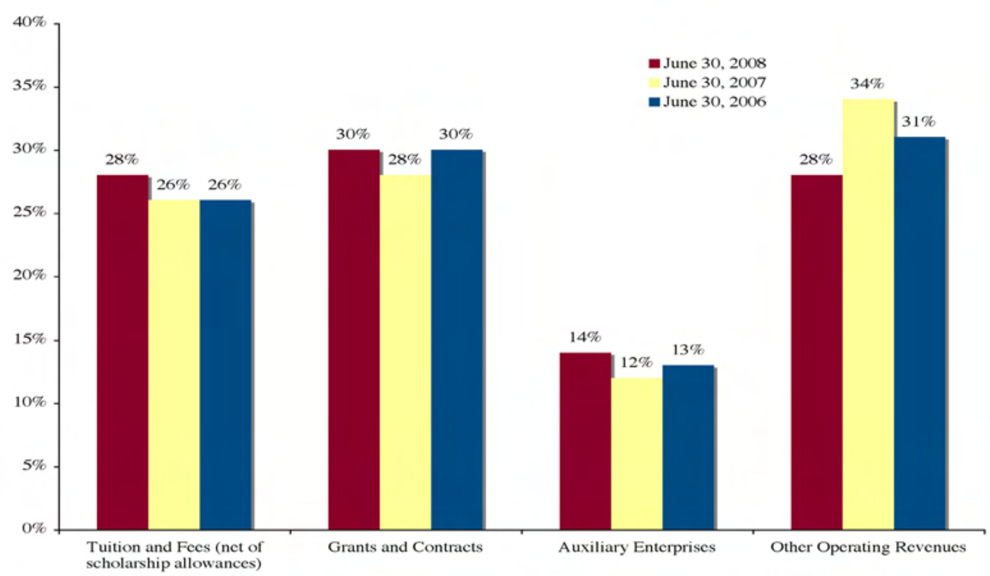
| | University June 30, 2008 | University June 30, 2007 | Change | University June 30, 2006 |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Tuition and Fees (net of scholarship allowances of $113,738 at June 30, 2008, $105,414 at June 30, 2007 and $88,628 at June 30, 2006) | $458,439 | $429,528 | $28,911 | $401,636 |
| Grants and Contracts | 492,171 | 459,890 | 32,281 | 452,837 |
| Auxiliary Enterprises | 231,306 | 205,312 | 25,994 | 196,957 |
| Other Operating Revenues | 470,768 | 557,278 | (86,510) | 474,818 |
| **Total Operating Revenues** | **1,652,684** | **1,652,008** | **676** | **1,526,248** |
| **Operating Expenses** | **2,199,067** | **2,178,558** | **20,509** | **2,056,484** |
| **Operating Loss** | **(546,383)** | **(526,550)** | **(19,833)** | **(530,236)** |
| **Nonoperating Revenues** | | | | |
| Federal Appropriations | 7,099 | 5,777 | 1,322 | 7,044 |
| State Appropriations | 617,271 | 579,416 | 37,855 | 526,749 |
| Other Nonoperating Income | 9,678 | 85,660 | (75,982) | 44,166 |
| **Net Nonoperating Revenues** | **634,048** | **670,853** | **(36,805)** | **577,959** |
| **Income/(Loss) Before Other Revenues, Expenses, Gains or Losses** | **87,665** | **144,303** | **(56,638)** | **47,723** |
| Capital Appropriations | 21,170 | 73,590 | (52,420) | 27,147 |
| Capital Grants and Contracts | 1,500 | 4,000 | (2,500) | - |
| Disposal of Plant Funds | (10,462) | (6,964) | (3,498) | (11,276) |
| University Related Organization Transactions nd Other | (10,743) | (390) | (10,353) | (5,345) |
| **Total Other Revenues, Expenses, Gains and Losses** | **1,465** | **70,236** | **(68,771)** | **10,526** |
| **Total Increase in Net Assets** | **89,130** | **214,539** | **(125,409)** | **58,249** |
| **Net Assets** | | | | |
| Net Assets at Beginning of Year | 1,564,317 | 1,349,778 | 214,539 | 1,291,529 |
| **Net Assets at End of Year** | **$1,653,447** | **$1,564,317** | **$89,130** | **$1,349,778** |

**University of Massachusetts**
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets for University Related Organizations**
**For the Year Ended June 30, 2008, 2007 and 2006**
**(in thousands of dollars)**

| | University Related Organizations June 30, 2008 | University Related Organizations June 30, 2007 | Change | University Related Organizations June 30, 2006 |
|---|---|---|---|---|
| **Operating Expenses** | $19,104 | $16,064 | $3,040 | $16,939 |
| **Operating Loss** | (19,104) | (16,064) | (3,040) | (16,939) |
| **Nonoperating Revenues** | | | | |
| Other Nonoperating Income | 11,111 | 36,646 | (25,535) | 28,844 |
| **Net Nonoperating Revenues** | 11,111 | 36,646 | (25,535) | 28,844 |
| **Income/(Loss) Before Other Revenues, Expenses, Gains or Losses** | (7,993) | 20,582 | (28,575) | 11,905 |
| Additions for Permanent Endowments | 19,935 | 19,684 | 251 | 14,401 |
| University Related Organization Transactions and Other | (928) | 578 | (1,506) | 4,071 |
| **Total Other Revenues, Expenses, Gains and Losses** | 19,007 | 20,262 | (1,255) | 18,472 |
| **Total Increase in Net Assets** | 11,014 | 40,844 | (29,830) | 30,377 |
| **Net Assets** | | | | |
| Net Assets at Beginning of Year | 286,916 | 246,072 | 40,844 | 215,695 |
| **Net Assets at End of Year** | $297,930 | $286,916 | $11,014 | $246,072 |

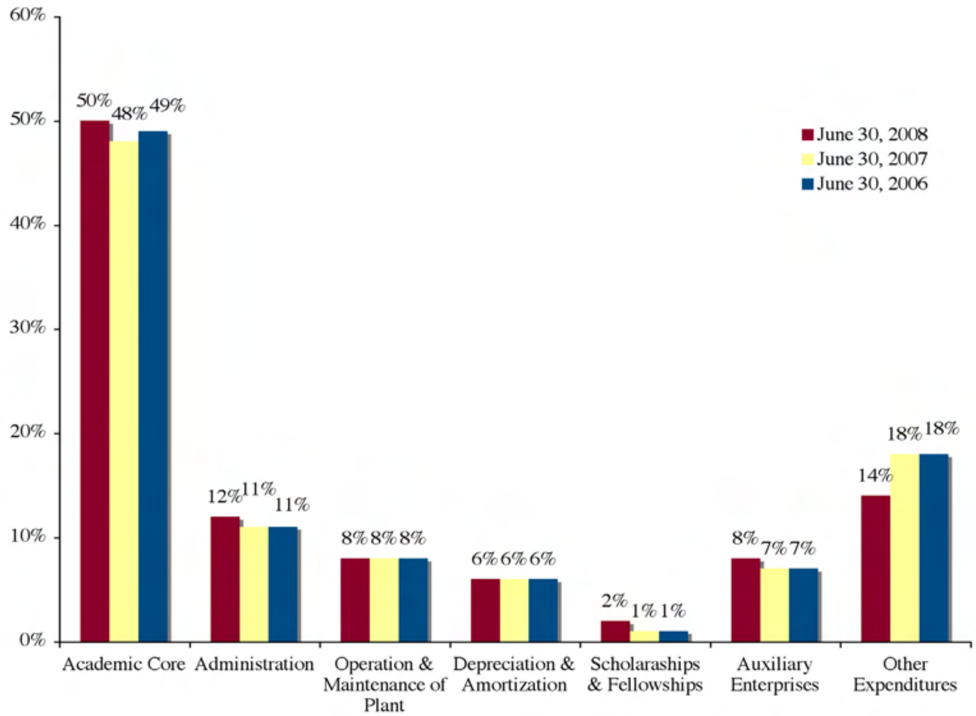
Total operating revenues for fiscal year 2008 were $1.65 billion. This is consistent with the $1.65 billion in operating revenues in fiscal year 2007. The most significant sources of revenue for the University are tuition and fees, grants and contracts, auxiliary services and public service activities at the Worcester Medical School campus categorized in the following chart as "Other Operating Revenues". The following chart displays operating revenues by source for the University in fiscal years 2008, 2007 and 2006. Total operating revenues for fiscal year 2007 were $1.65 billion, $125.8 million more than the fiscal year 2006 operating revenues of $1.53 billion.

**Sources of Operating Revenues in Relation to Total Revenues, Fiscal Year 2006 to Fiscal Year 2008**




In fiscal year 2008, operating expenditures, including depreciation and amortization of $126.9 million, totaled $2.20 billion. Of this total, $1.11 billion or 50% was used to support the academic core activities of the University, including $342.1 million in research. The chart below displays fiscal year 2008, 2007 and 2006 operating spending.

**Operating Expenses in Relation to Total Expenses, Fiscal Year 2006 to Fiscal Year 2008**




**Public Service Activities**

Public Service Activities consist largely of sales and services provided to third parties by the UMass Medical School campus under its Commonwealth Medicine (CWM) programs, which provide public consulting and services in health financing, administration and policy to federal, state and local agencies and not-for-profit health and policy organizations. Included in this category of activities are Commonwealth Medicine revenues of $323.2 million and $324.6 million for the years ended June 30, 2008 and 2007, respectively. Included in expenditures are Commonwealth Medicine expenditures of $300.2 million and $296.5 million for the years ended June 30, 2008 and 2007, respectively.

In addition to CWM activities, Public Service Activities also includes payments received by the Medical School for educational services it provides to its clinical affiliate UMass Memorial as required by the enabling legislation enacted by the Commonwealth in 1997. Educational services revenues included in public service revenues were $75.0 million and $143.7 million for the years ended June 30, 2008, and 2007, respectively. The decline in revenue activity relative to the educational services is predicated on an annually negotiated amount which may vary from period to period. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $20.4 million and $95.0 million for the years ended June 30, 2008 and 2007, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts. Payments made to the Commonwealth are negotiated annually and may fluctuate year to year.

**State Appropriations**

State appropriations represent approximately 27% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees.

In fiscal year 2008, the net state appropriation increased $37.9 million over fiscal year 2007 amounts. This increase is attributed to increased state fringe benefit support as well as an increase for general operations.

Unless otherwise permitted by the Massachusetts Legislature, the University is required to remit tuition revenue received to the Commonwealth. Therefore, the University collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. During fiscal year 2004, the Amherst campus was able to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. This pilot program was extended indefinitely in 2005. The amount of tuition retained by the University during 2008, 2007, and 2006 was $32.7 million, $31.1 million, and $27.8 million, respectively.

The following details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2008, 2007 and 2006 (in thousands):

| | June 30, 2008 | June 30, 2007 | June 30, 2006 |
|---|---|---|---|
| Gross Commonwealth Appropriations | $485,199 | $474,909 | $450,324 |
| ***Plus: Fringe Benefits**** | 178,236 | 151,106 | 123,949 |
| | $663,435 | $626,015 | $574,273 |
| Less: Tuition Remitted | ($46,164) | ($46,599) | ($47,524) |
| ***Net Commonwealth Support*** | **$617,271** | **$579,416** | **$526,749** |

*The Commonwealth pays the fringe benefit cost for University employees paid from Commonwealth operating appropriations. Therefore, such fringe benefit support is added to the "State Appropriations" financial statement line item as presented in the above table. The University pays the Commonwealth for the fringe benefit cost of the employees paid from funding sources other than Commonwealth operating appropriations.

**Capital Appropriations from the Commonwealth**

The University faces a financial challenge to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. In order to have a successful capital program, the University must rely on a combination of revenue sources to fund its investment in capital improvements, including appropriations provided by the Commonwealth of Massachusetts. In fiscal year 2008, the $27.1 million of capital appropriations provided to the University were $52.4 million less than the appropriations provided in fiscal year 2007. This variance is primarily due to the fact that in July of 2006 the Commonwealth finalized a supplemental funding bill, Chapter 122 of the Acts of 2006, which approved the transfer of $50.0 million to the University to address the rehabilitation, renovation and maintenance of facilities and infrastructure. The fiscal year 2007 capital appropriations of $73.6 million were $46.5 million greater than the $27.1 million appropriated from the Commonwealth in fiscal year 2006. Although fiscal year 2008 capital appropriations represent approximately .46% of all revenues, this form of state support plays an important role in the University's efforts to address deferred maintenance projects at our campuses.

**Grant and Contract Revenue**

The University's Amherst Campus and Medical School campus in Worcester have been the primary catalyst in the University's research funding growth in recent years accounting for approximately 75% of University grant and contract activity collectively. However, each of the other campuses has also experienced growth in sponsored research activity in recent years.

The following table details the University's grant and contract revenues (in millions) for the fiscal years ended June 30, 2008, 2007 and 2006:

| | June 30, 2008 | June 30, 2007 | June 30, 2006 |
|---|---|---|---|
| Federal Grants and Contracts | $318,288 | $297,647 | $300,685 |
| State Grants and Contracts | 72,034 | 66,775 | 66,172 |
| Local Grants and Contracts | 2,507 | 2,815 | 3,746 |
| Private Grants and Contracts | 99,342 | 92,653 | 82,234 |
| ***Total Grants and Contracts*** | **$492,171** | **$459,890** | **$452,837** |

**Discretely Presented Component Units**

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately $407.1 million at June 30, 2008 up from $354.5 million at June 30, 2007 and up from $258.4 million at June 30, 2006.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of approximately 5% of their beginning market value as of July 1 subject to review and approval by the Foundation's Board of Directors. The distribution amount will be made available at the beginning of the following fiscal year. The actual spending rate was 4% for fiscal years 2008, 2007 and 2006. The total investment returns of the Foundation for fiscal year 2008, including realized and unrealized investment activity, was a net loss of approximately $1.2 million as compared to a net gain of $37.8 million in 2007.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were $25.1 million at June 30, 2008 up from $23.7 million in fiscal year 2007 and $18.7 million in fiscal year 2006 which are held by the University of Massachusetts Foundation, Inc. The increase was primarily due to new gifts. The Dartmouth Foundation total investment returns for fiscal year 2008, including realized and unrealized investment activity, was a net gain of approximately $171,585 as compared to a net gain of approximately $3.0 million in 2007.

**Tuition and Fees**

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in Commonwealth appropriations. Starting in fiscal year 2004, the University has followed the practice of limiting the annual increases in total mandatory student charges (tuition and mandatory fees) for resident undergraduate students to rate increases of no greater than the rate of inflation.

**Enrollment**

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99); admission to the University is open to residents and non-residents of the Commonwealth on a competitive basis. In the fall 2007 semester, Massachusetts residents accounted for approximately 80% and 41% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2007 was 51,069 FTE (61,034 headcount students).

Enrollments at the University have shown modest increases overall since 1997 (44,853 FTE). The enrollment changes are consistent with the University's efforts to manage housing and class enrollment. In the fall of 2007, freshman applications were up at the Amherst campus 21%, up at Boston 15%, up at Dartmouth 6% and up 8% at the Lowell campus. Transfer applications were up at the Amherst and Dartmouth campuses by 5%, steady at the Boston Campus, and down approximately 7% at the Lowell campus.

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1053 to 1142 at the University's campuses in the fall of 2007. The 2007 national average SAT composite score was 1017.

**Degrees Awarded**

The University awards four levels of degrees, including associate, bachelors, masters and doctoral/professional degrees. A total of 11,704 degrees were awarded in 2006-2007: 162 associate degrees, 8,191 bachelor degrees, 2,785 master degrees, 478 doctoral degrees and 88 MD degrees.

**Bonds Payable**

As of June 30, 2008, the University had outstanding bonds of approximately $1.385 billion representing $978.0 million of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), $84.0 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority (the "UMass HEFA Bonds"), and $323.0 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2008 and 2007. Projects initially financed by the Building Authority Bonds consisted primarily of dormitories, apartments, dining commons, athletic and multi purpose facilities and parking garages at the University campuses. The Building Authority's active projects include dormitory rehabilitations, renovation of general education buildings, and construction of academic and science facilities. The proceeds from the UMass HEFA Bonds were used to create a revolving loan program and to fund the construction of two new campus centers at the Boston and Lowell campuses (funded jointly with the Commonwealth).

In fiscal year 2008, the Authority issued $381.5 million of bonds and refunded $242.5 million of previously issued bonds in a series of transactions. The proceeds were to be used for various construction and renovation projects for the Amherst, Dartmouth, Lowell, and Worcester campuses. Further, in fiscal year 2008,

- The Building Authority issued its Series 2008-1 bonds. The bonds were issued in the amount of $232.5 million and the proceeds were to be used for various construction and renovation projects for the Amherst and Lowell campuses.
- The Building Authority issued Series 2008-A bonds. The bonds were issued in the amount of $26.6 million and the proceeds were to be used for various construction and renovation projects for the Dartmouth and Lowell campuses.
- The Building Authority issued Series 2008-2 bonds. The bonds were issued in the amount of $120.6 million and the proceeds were to be used for various construction and renovation projects for the University's Amherst and Worcester campuses.
- The Building Authority issued its Series 2008-3 bonds. The bonds were issued in the amount of $138.6 million and the proceeds were used to currently refund a portion of the 2006-1 bonds.
- The Building Authority issued Series 2008-4 bonds. The bonds were issued in the amount of $104.0 million and the proceeds were used to currently refund a portion of the 2006-1 bonds.
- In connection with the Series 2008-1 bonds, the Building Authority entered into an interest rate swap (the 2008-1 Swap). The intention of the swap is to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 3.388%.

**Capitalized Lease Obligations**

At June 30, 2008, the University had capital lease obligations with remaining principal payments of approximately $42.4 million which is a decrease from fiscal year 2007 of $54.6 million. The capital leases primarily consist of telecommunications, software and co-generation systems, and campus energy conversions. The decrease in obligations is due to scheduled debt service payments.

**University Rating**

As of June 30, 2008, the credit ratings for the University of Massachusetts bonds are "A+" as rated by Fitch IBCA and Standard & Poor's rating agencies. The highest achievable rating is "AAA" based upon the scale used in the University's rating. The University's rating is two tiers below the "AA" rating of the Commonwealth of Massachusetts.

**Limitations on Additional Indebtedness**

The University may, without limit, issue additional indebtedness or request the Building Authority to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all available funds of the University. However, the University may request that the Building Authority issue additional indebtedness not payable from all available funds of the University provided that the additional indebtedness is secured by certain pledged revenues and the maximum annual debt service on all revenue indebtedness does not exceed 10% of the University's available revenues.

The Building Authority is authorized by its enabling act to issue bonds with the unconditional guarantee of the Commonwealth of Massachusetts for the punctual payment of the interest and principal payments on the guaranteed bonds. The full faith and credit of the Commonwealth are pledged for the performance of its guarantee. The enabling act, as amended, presently limits to $200 million the total principal amount of notes and bonds of the Building Authority that may be Commonwealth guaranteed and outstanding at any one time.

**Capital Plan**

In September of 2008, the University Trustees approved of an approximately $3.43 billion five-year (fiscal years 2009-2013) update to its capital plan to be financed from all available funding including projects already in process with prior approval of the University Trustees, as well as new projects. The University generally has funded its capital plans through a combination of funding received from University operations, bonds issued by the Building Authority, Massachusetts Health and Educational Facilities Authority financing, Commonwealth appropriations, and private fund raising. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The University's five-year capital plan for fiscal years 2009-2013 includes both new projects and major projects that were previously approved by the University Trustees in prior year capital plans. The major projects in the 2009-2013 capital plan and their estimated total project cost include:

Amherst campus

- deferred maintenance and new construction on the central heating plant for approximately $133.3 million
- the construction of a laboratory science building for approximately $100.0 million
- the construction of an academic classroom building for approximately $85 million
- renovations to the Lederle Graduate Research Complex totaling approximately $41.3 million
- the construction of a life sciences facility for approximately $95 million
- the construction of an integrated science building to provide modern teaching laboratory facilities for chemistry and life sciences for approximately $109.0 million
- the construction of a new student recreation center for $53.3 million
- student housing renovation and repair projects of $22.5 million
- upgrades to residential housing sprinkler systems for $32.0 million
- projects focusing on deferred maintenance for approximately $30.0 million
- renovations to increase capacity at the Worcester Dining Commons for $20.0 million
- construction of swing buildings in order to support renovation and construction activity for $50.0 million
- design and construction of a new police facility for $12.0 million
- renovations to the interior space of the DuBois Library for $13 million
- renovations and systems upgrades to the Morrill Buildings Complex totaling approximately $51.3 million

Boston campus

- major interim stabilization work to ensure the safety of the campus substructure and to allow for continuity of operations for $21.8 million is the most pressing capital concern for the campus
- the implementation of phase 1 of the Campus Master Plan for $60 million will include improvements such as utility relocation, roadway relocation, and plaza and building demolition needed to reconstruct the existing center of the Campus
- the construction of a two new academic buildings for $252.0 million
- the construction of a 1,200 vehicle parking garage to meet current demand for approximately $35 million
- the purchase of new and replacement instructional and scientific equipment for existing programs for approximately $15.0 million
- construction of a 1,000-bed living and learning center to enrich the student experience on Campus for $88.0 million

Dartmouth campus

- in order to accommodate a growing enrollment and to deal with deteriorating housing units the campus plans to expend $97.0 million for the renovation and replacement of student housing
- the construction of a facilities building and the retrofit of vacated space to centralize functions and to create more academic space for approximately $12.7 million
- the construction of an addition to the Campus Center to meet the needs of the expanding student population for approximately $16.4 million
- the construction of a multipurpose field house for approximately $20.8 million
- library renovations to address deferred maintenance and to improve services for approximately $18.0 million
- an energy/water conservation project for $14.6 million
- expansion of the Charlton College of Business for $14.0 million

Lowell campus

- construction of the Emerging Technology Innovation Center for approximately $90.0 million
- the construction of an academic building on the South Campus for $40.0 million
- upgrading of laboratory space for approximately $19.3 million
- the modernization of the North Quad area to include security improvements, systems upgrades, and access enhancements for $21.3 million
- acquisition of several properties neighboring the Campus for $55 million
- renovation of Fox Hall to increase the amount of dormitory rooms on the Campus for $15.0 million
- construction of a parking garage on the north campus to increase capacity for approximately $15.0 million

Worcester campus

- construction of a new science facility to support new programs in stem cell research, RNAI therapies, and gene silencing for approximately $330.0 million
- construction of a medical education and clinical practice building for $115.0 million
- expansion of the existing power plant to improve efficiency and meet the energy requirements of the growing Campus for approximately $35.0 million
- HVAC upgrades and replacements for approximately $30.0 million
- the construction of a parking garage to meet increased demand for $26.4 million
- the construction of a new building to support vaccine production and product warehousing for $35.0 million
- the construction of a mixed-use building for office space and research and development work for $50.0 million
- addressing deferred maintenance priorities at the Jamaica Plain and Shriver campuses for $25.9 million.

In 1996, the University initiated a more active program to address deferred maintenance needs at its campuses. As a result, the University has made investments to repair and renovate facilities at the University's campuses from a combination of University sources and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2009-2013 capital plan includes approximately $678.4 million of deferred maintenance projects. During fiscal year 2008, the University expended approximately $178.9 million on plant operations and maintenance activities.

**Factors Impacting Future Periods**

There are a number of issues of University-wide importance that directly impact the financial operations of the University. Many of these issues such as improving academic quality and financial performance, investing in capital assets, expanding fundraising capacity, and measuring performance are ongoing activities of continuous importance to the Board of Trustees and University leadership that impact the financial and budget planning each year.

The level of state support, the impact of collectively bargained wage increases, and the ability of student fee supported activities to meet inflationary pressures determine the limits of program expansion, new initiatives and strategic investments, as well as the ability of the University to meet its core mission and ongoing operational needs.

The ability to address priority capital needs and requirements for deferred maintenance, technology, repairs and adaptation, and selected new construction projects is one of the largest challenges facing the University in years to come. The commitment of operating funds for servicing debt and/or funding capital expenditures has an ongoing impact on the overall financial picture of the University.

In recent years the University's UMASS On-Line program has shown significant growth in enrollments, course offerings and revenue generation benefiting the campuses and raising the profile of the University throughout this important sector of the higher education market.

The University has recently launched a coordinated effort in international activities to develop partnerships and programs to bring faculty, visiting scholars and students from other countries to the University; to integrate study abroad opportunities into the undergraduate and graduate curriculum; and to encourage faculty to engage in research, teaching and service activities around the world.

Since July of 2007, the University had appointed new Chancellors for the Amherst, Boston, Lowell, and Worcester campuses. These appointments further strengthen a leadership team already focused on expanding the University's impact on the Commonwealth and the world as a leader in research, teaching and public service.

The University of Massachusetts Medical School's (UMMS) Craig C. Mello, PhD, and his colleague Andrew Fire, PhD, of Stanford University, were awarded the 2006 Nobel Prize in Physiology or Medicine for their discoveries related to ribonucleic acid (RNA). The findings of Drs. Mello and Fire demonstrated that a particular form of RNA, the cellular material responsible for the transmission of genetic information, can silence (RNAi process) targeted genes. Due to these findings, companies worldwide at the forefront of pharmaceutical innovation have purchased licenses to RNAi technology, co-owned by the UMMS, to aid in their development of treatments for disease. In addition, UMMS researchers are using RNAi technology to speed investigation into a variety of diseases. The work of Dr. Mello has not only produced revenue streams for the University and aided the work of his fellow researchers, but it has also enhanced the overall view of the University of Massachusetts. This recognition highlights the strength of UMMS research and can enhance the overall reputation of the entire University.

In July of 2007, Governor Patrick launched a significant new initiative to stimulate the Life Sciences industry in Massachusetts. As a result, the Commonwealth passed a $1 billion Life Sciences Investment Bill that will provide at least $240 million of capital support to the University over the next 10 years. The Medical School and Amherst campuses are well positioned to take a lead in the development of new technologies in the life sciences and the University has been identified to play a significant role in the development of a stem cell bank for researchers throughout the world.

Also, in the fall of 2007 Governor Patrick filed a higher education bond bill to fund capital improvements and new facilities at all University campuses over the next ten years. The Commonwealth passed the largest higher education bond bill, Chapter 258 of the Acts of 2008, on August 6, 2008, which included over $1 billion for University projects to be funded over the next 10 years.

On October 15, 2008, faced with an estimated state budget deficit of $1.4 billion, Governor Deval Patrick started implementing a fiscal action plan to close the gap that includes more than $1 billion in immediate cuts and spending controls across state government, identifying additional revenues and a draw on state reserves. These steps were taken because state tax revenue estimates have had to be revised as the state reacts to the effects of the national financial crisis and slow down in the state and national economy. As part of this action plan, the administration reduced the University's fiscal year 2009 state appropriation by 5% or approximately $24.6 million. The University has taken appropriate steps to manage this mid-fiscal year reduction in state support and is working with state officials to understand the impacts of further changes to the economic environment on state support for the operating requirements and capital priorities of the University.

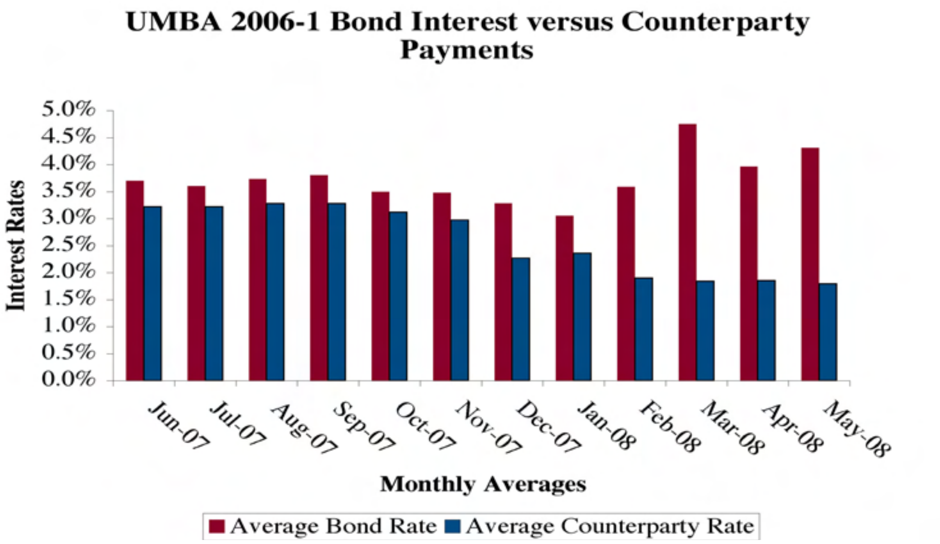
<u>Market Dislocation and the Authority's 2006-1 Bonds</u>

During fiscal 2008 a number of economic factors caused unusual events in the capital markets of the United States and abroad. Chief among these factors was the slow down in the U.S. housing market. Normally, this slowdown would have little direct impact on the University. However, the decrease in market values of certain housing assets raised questions related to the companies that provided insurance related to those investments. During calendar 2008 the nationally known rating agencies began issuing negative reports relating to these insurance companies, which also insured tax-exempt bonds. Bonds insured by these companies began trading unfavorably in the secondary markets when compared to uninsured bonds or bonds supported by non-insurance credit enhancements. Long-term bonds issued at a fixed rate of interest declined in value during this time but, while detrimental to the bondholders, generally did not directly impact bond issuers. Short-term variable rate or auction rate bonds, which trade generally at par, were also impacted as their interest rates began to rise. This increase in interest rates directly raised the cost of debt to bond issuers.

In fiscal 2006 the Building Authority issued its Series 2006-1 bonds. The bonds were issued in a variable-rate mode with interest rates reset each week. To hedge against interest rate fluctuations, the Building Authority entered into an interest rate swap whereby it agreed to pay a fixed rate of interest to the swap counterparty and received a variable rate equal to 60% of the 3-month LIBOR rate plus .18%. The primary purpose for the bond issue was to refund certain outstanding fixed rate bonds. The net-present-value savings from this refunding was in excess of $15 million.

In January, 2008 the variable rate due to the 2006-1 bondholders increased significantly when Fitch, Inc., one of the nationally known rating agencies, downgraded the 2006-1 bond insurer, Ambac Assurance Corporation (AMBAC). In addition to facing higher interest costs, the Building Authority also was required to pay higher fees for the Standby Bond Purchase Agreement (SBPA) for the bonds with Depfa Bank plc (DEPFA). At the same time overall interest rates began to decrease and the variable rate payments due from the swap counterparty, Citigroup, based on the London Interbank Offered Rate (LIBOR), also decreased, further widening the Building Authority's exposure.

The chart below illustrates the increased costs of the debt obligations related to the market conditions.




In March of 2008 the Bond Trustee informed the Building Authority that some of the 2006-1 bonds had been tendered by the bondholders and the remarketing agent had been unable to remarket the bonds. Under the SBPA, the bonds were then purchased by the standby bank, DEPFA. During the month of March a total of $40.4 million in bonds were tendered to the bank. While the bonds were held by the bank the interest on the bank's bonds, per the terms of the SBPA, was the bank's prime interest rate. The remarketing agent was able to successfully remarket all of the bank bonds prior to the current refunding of the 2006-1 bonds.

In June of 2008, due to the ongoing issues with the bond insurer, the Building Authority currently refunded the 2006-1 bonds by issuing its Series 2008-3 and Series 2008-4 bonds. The Series 2008-3 bonds are credit enhanced by a Letter of Credit from Bank of America, N.A. while the Series 2008-4 bonds are backed by the Building Authority's available Commonwealth Guarantee. The Commonwealth Guarantee, as explained in Note 10, allows the Building Authority to issue bonds that receive the credit rating of the Commonwealth of Massachusetts.

Additionally, the Series 2008-3 and Series 2008-4 bonds may be insured by AMBAC three years after the issue date at the option of the Building Authority. The cost of the insurance policy, if the option is exercised, will be paid out of the unused premium paid at the closing of the 2006-1 bond issue.

The Building Authority estimates that the cost of the "AMBAC penalty" to the Building Authority was approximately $1.786 million. This amount does not include the additional amount borrowed over and above the outstanding par amount of the 2006-1 bonds at the time of the refunding. This additional amount totaled $1.815 million.

# Statement of Net Assets

## As of June 30, 2008 and 2007

(in thousands of dollars)

| ASSETS | University June 30, 2008 | University Related Organizations June 30, 2008 | University June 30, 2007 | University Related Organizations June 30, 2007 |
|---|---|---|---|---|
| ***Current Assets*** | | | | |
| Cash and Cash Equivalents | $29,499 | | $50,028 | |
| Cash Held By State Treasurer | 10,965 | | 9,834 | |
| Accounts, Grants and Loans Receivable | 195,363 | $22 | 202,666 | $22 |
| Pledges Receivable | 1,002 | 7,293 | 1,922 | 5,520 |
| Short Term Investments | 212,483 | | 62,873 | |
| Inventories | 14,387 | | 13,283 | |
| Accounts Receivable UMass Memorial | 4,138 | | 122,508 | |
| Due From Related Organizations | 111 | 990 | 191 | 1,280 |
| Other Assets | 27,009 | 39 | 11,842 | 19 |
| ***Total Current Assets*** | **494,957** | **8,344** | **475,147** | **6,841** |
| ***Noncurrent Assets*** | | | | |
| Cash and Cash Equivalents | | 3,753 | | 3,040 |
| Cash Held By State Treasurer | 7,272 | | 6,311 | |
| Cash and Securities Held By Trustees | 642,210 | | 437,494 | |
| Accounts, Grants and Loans Receivable | 34,749 | | 34,949 | |
| Pledges Receivable | 1,854 | 5,179 | 4,900 | 6,267 |
| Investments | 420,234 | 292,526 | 470,900 | 280,459 |
| Other Assets | 13,209 | 48 | 10,321 | 46 |
| Investment In Plant Net of Accumulated Depreciation | 1,918,770 | 979 | 1,719,316 | 992 |
| ***Total Noncurrent Assets*** | **3,038,298** | **302,485** | **2,684,191** | **290,804** |
| ***Total Assets*** | **$3,533,255** | **$310,829** | **$3,159,338** | **$297,645** |
| ***LIABILITIES*** | | | | |
| ***Current Liabilities*** | | | | |
| Accounts Payable | $83,974 | $266 | $96,767 | $1,171 |
| Accrued Salaries and Wages | 64,835 | | 56,979 | |
| Accrued Liability for Compensated Absences | 67,375 | | 62,446 | |
| Accrued Liability for Workers' Compensation | 3,125 | | 3,733 | |
| Arbitrage Rebate Payable | 956 | | 641 | |
| Accrued Interest Payable | 9,912 | | 9,690 | |
| Bonds Payable | 45,915 | | 40,070 | |
| Capital Lease Obligations | 8,251 | | 12,285 | |
| Accounts Payable UMass Memorial | 3,056 | | 3,339 | |
| Due To Related Organizations | 990 | 111 | 1,280 | 191 |
| Deferred Revenues and Credits | 61,373 | 8,886 | 56,566 | 6,384 |
| Advances and Deposits | 8,552 | | 10,576 | |
| Other Liabilities | 73,350 | | 118,310 | |
| ***Total Current Liabilities*** | **431,664** | **9,263** | **472,682** | **7,746** |
| ***Noncurrent Liabilities*** | | | | |
| Accrued Liability for Compensated Absences | 21,707 | | 21,936 | |
| Accrued Liability for Workers' Compensation | 11,274 | | 11,140 | |
| Arbitrage Rebate Payable | 519 | | 493 | |
| Bonds Payable | 1,339,110 | | 1,004,539 | |
| Capital Lease Obligations | 34,177 | | 42,300 | |
| Deferred Revenues and Credits | 13,556 | | 12,885 | |
| Advances and Deposits | 27,383 | | 28,087 | |
| Other Liabilities | 418 | 3,636 | 959 | 2,983 |
| ***Total Noncurrent Liabilities*** | **1,448,144** | **3,636** | **1,122,339** | **2,983** |
| ***Total Liabilities*** | **$1,879,808** | **$12,899** | **$1,595,021** | **$10,729** |
| ***Net Assets:*** | | | | |
| Invested in Capital Assets Net of Related Debt | $1,027,045 | $979 | $884,138 | $992 |
| Restricted | | | | |
| Nonexpendable | 16,605 | 212,017 | 16,264 | 193,100 |
| Expendable | 161,732 | 77,192 | 212,302 | 85,809 |
| Unrestricted | 448,065 | 7,742 | 451,613 | 7,015 |
| ***Total Net Assets*** | **$1,653,447** | **$297,930** | **$1,564,317** | **$286,916** |

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

# Statements of Revenues, Expenses and Changes in Net Assets

## For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

| REVENUES | University June 30, 2008 | University Related Organizations June 30, 2008 | University June 30, 2007 | University Related Organizations June 30, 2007 |
|---|---|---|---|---|
| ***Operating Revenues*** | | | | |
| Tuition and Fees (net of scholarship allowances of $113,738 at June 30, 2008 and $105,414 at June 30, 2007) | $458,439 | | $429,528 | |
| Federal Grants and Contracts | 318,288 | | 297,647 | |
| State Grants and Contracts | 72,034 | | 66,775 | |
| Local Grants and Contracts | 2,507 | | 2,815 | |
| Private Grants and Contracts | 99,342 | | 92,653 | |
| Sales & Service, Educational | 20,657 | | 17,150 | |
| Auxiliary Enterprises | 231,306 | | 205,312 | |
| Other Operating Revenues: | | | | |
| Sales & Service, Independent Operations | 65,588 | | 99,344 | |
| Sales & Service, Public Service Activities | 325,758 | | 381,214 | |
| Other | 58,765 | | 59,570 | |
| ***Total Operating Revenues*** | **1,652,684** | | **1,652,008** | |
| ***EXPENSES*** | | | | |
| ***Operating Expenses*** | | | | |
| *Educational and General* | | | | |
| Instruction | 548,850 | | 526,781 | |
| Research | 342,109 | | 320,889 | |
| Public Service | 79,213 | $13,349 | 75,058 | $10,961 |
| Academic Support | 130,293 | | 120,240 | |
| Student Services | 91,157 | | 87,085 | |
| Institutional Support | 174,358 | | 156,014 | |
| Operation and Maintenance of Plant | 178,940 | | 166,082 | |
| Depreciation and Amortization | 126,896 | 19 | 141,360 | 18 |
| Scholarships and Fellowships | 28,111 | 5,736 | 25,714 | 5,085 |
| *Auxiliary Enterprises* | 182,379 | | 162,134 | |
| *Other Expenditures* | | | | |
| Independent Operations | 49,562 | | 66,870 | |
| Public Service Activities | 267,199 | | 330,331 | |
| ***Total Operating Expenses*** | **2,199,067** | **19,104** | **2,178,558** | **16,064** |
| ***Operating Loss*** | **(546,383)** | **(19,104)** | **(526,550)** | **(16,064)** |
| ***NONOPERATING REVENUES/(EXPENSES)*** | | | | |
| Federal Appropriations | 7,099 | | 5,777 | |
| State Appropriations | 617,271 | | 579,416 | |
| Gifts | 20,654 | 12,304 | 18,621 | 5,226 |
| Investment Income | 7,494 | (11,189) | 87,106 | 23,876 |
| Endowment Income | 11,036 | 9,996 | 7,031 | 7,544 |
| Interest on Indebtedness | (40,990) | | (36,737) | |
| Other Nonoperating Income | 11,484 | | 9,639 | |
| ***Net Nonoperating Revenues*** | **634,048** | **11,111** | **670,853** | **36,646** |
| ***Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses*** | **87,665** | **(7,993)** | **144,303** | **20,582** |
| Capital Appropriations | 21,170 | | 73,590 | |
| Capital Grants and Contracts | 1,500 | | 4,000 | |
| Additions to Permanent Endowments | | 19,935 | | 19,684 |
| Disposal of Plant Facilities | (10,462) | | (6,964) | |
| Other Additions/Deductions | (10,743) | (928) | (390) | 578 |
| ***Total Other Revenues, Expenses, Gains, and Losses*** | **1,465** | **19,007** | **70,236** | **20,262** |
| ***Total Increase in Net Assets*** | **89,130** | **11,014** | **214,539** | **40,844** |
| ***NET ASSETS*** | | | | |
| Net Assets at Beginning of Year | 1,564,317 | 286,916 | 1,349,778 | 246,072 |
| ***Net Assets at End of Year*** | **$1,653,447** | **$297,930** | **$1,564,317** | **$286,916** |

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



UMASS

# Statements of Cash Flows

## For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

| | University June 30, 2008 | University June 30, 2007 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Tuition and Fees | $494,210 | $455,658 |
| Grants and Contracts | 483,167 | 436,775 |
| Payments to Suppliers | (745,330) | (778,444) |
| Payments to Employees | (1,059,274) | (1,035,469) |
| Payments for Benefits | (266,863) | (227,503) |
| Payments for Scholarships and Fellowships | (28,111) | (28,200) |
| Loans Issued to Students and Employees | (5,733) | (8,146) |
| Collections of Loans to Students and Employees | 4,253 | 8,259 |
| Auxiliary Enterprises Receipts | 232,694 | 212,545 |
| Sales and Service, Educational | 25,230 | 24,400 |
| Sales & Service, Independent Operations | 87,052 | 104,254 |
| Sales & Service, Public Service Activities | 451,119 | 351,655 |
| ***Net Cash Used for Operating Activities*** | **(327,586)** | **(484,216)** |
| ***CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*** | | |
| State Appropriations | 673,134 | 636,372 |
| Tuition Remitted to the State | (46,164) | (46,599) |
| Federal Appropriations | 7,099 | 5,777 |
| Gifts and Grants for Other Than Capital Purposes | 22,675 | 18,018 |
| Private Gifts for Endowment Purposes | 1,557 | 1,076 |
| Student Organization Agency Transactions | 151 | (290) |
| ***Net Cash Provided by Noncapital Financing Activities*** | **658,452** | **614,354** |
| ***CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES*** | | |
| Proceeds from Capital Debt | 393,037 | 232,079 |
| Bond Issuance Costs Paid | (1,129) | (824) |
| Capital Appropriations | 20,246 | 73,590 |
| Capital Grants and Contracts | 1,250 | 2,750 |
| Purchases of Capital Assets and Construction | (143,596) | (214,763) |
| Principal Paid on Capital Debt and Leases | (65,588) | (148,229) |
| Interest Paid on Capital Debt and Leases | (42,871) | (38,993) |
| Use of Debt Proceeds on Deposit with Trustees | (188,045) | (150,568) |
| ***Net Cash Used for Capital Financing Activities*** | **(26,696)** | **(244,958)** |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Proceeds from Sales and Maturities of Investments | 1,532,642 | 1,489,153 |
| Interest on Investments | 23,810 | 31,628 |
| Purchase of Investments | (1,674,343) | (1,419,361) |
| ***Net Cash (Used for)/Provided by Investing Activities*** | **(117,891)** | **101,420** |
| ***NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS*** | **186,279** | **(13,400)** |
| **Cash and Cash Equivalents - Beginning of the Year** | **503,667** | **517,067** |
| **Cash and Cash Equivalents - End of Year** | **$689,946** | **$503,667** |
| ***RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES*** | | |
| Operating Loss | ($546,383) | ($526,550) |
| *Adjustments to reconcile loss to net cash used by Operating Activities:* | | |
| Depreciation and Amortization Expense | 126,896 | 141,360 |
| *Changes in Assets and Liabilities:* | | |
| Receivables, net | 11,469 | (17,245) |
| Inventories | (1,104) | 3,870 |
| Due to/from Related Organizations | (210) | (130) |
| Accounts Receivable/Payable UMass Memorial | 118,087 | (11,823) |
| Other Assets | (2,118) | 1,337 |
| Accounts Payable (non-capital) | (17,368) | (17,675) |
| Accrued Liabilities | 12,082 | 7,176 |
| Deferred Revenue | 5,478 | 14,067 |
| Advances and Deposits | (2,728) | 4,693 |
| Other Liabilties | (31,687) | (83,296) |
| **Net Cash Used for Operating Actvities** | **($327,586)** | **($484,216)** |
| ***NONCASH CAPITAL FINANCING ACTIVITY*** | | |
| Assets acquired and included in accounts payable | $38,061 | $33,145 |
| Assets acquired through capital leases | 713 | 754 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The financial statements herein present the financial position, results of operations, changes in net assets, and cash flows of the University of Massachusetts (University), a federal land grant institution. The financial statements of the University include the Amherst, Boston, Dartmouth, Lowell and Worcester Medical School campuses, and the Central Administration office of the University, Worcester City Campus Corporation (WCCC), the University of Massachusetts Amherst Foundation (UMass Amherst Foundation), as well as the University of Massachusetts Building Authority (Building Authority).

The Building Authority is a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960, whose purpose is to provide dormitories, dinning commons, and other buildings and structures for use by the University. WCCC, of which the Worcester Foundation for Biomedical Research, Inc. (WFBR) is a subsidiary, is a tax exempt organization founded to support research and real property activities for the University. The UMass Amherst Foundation was established in 2003 as a tax exempt organization founded to foster and promote the growth, progress, and general welfare of the University. These component units are included in the financial statements of the University because of the significance and exclusivity of their financial relationships with the University.

The University Related Organizations' column in the financial statements includes the financial information of the University's discretely presented component units. The University of Massachusetts Foundation, Inc. (Foundation) and the University of Massachusetts Dartmouth Foundation, Inc. (the Dartmouth Foundation) are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and are reported in a separate column to emphasize that they are Massachusetts not-for-profit organizations legally separate from the University. These component units are included as part of the University's financial statements because of the nature and the significance of their financial relationship with the University. The financial statement presentation of the discretely presented component units has been reclassified to conform to the University presentation.

The University is a component unit of the Commonwealth of Massachusetts. The financial balances and activities included in these financial statements are, therefore, also included in the Commonwealth's comprehensive annual financial report.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. These statements are reported on a combined basis, and all intra-University transactions are eliminated. In accordance with GASB Statement No. 20, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Operating revenues consist of tuition and fees, grants and contracts, sales and services of educational activities (including royalties from licensing agreements) and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, subcontracts on grants and contracts, supplies and services, and depreciation and amortization. All other revenues and expenses of the University are reported as non-operating revenues and expenses including state general appropriations, non-capital gifts, short term investment income, endowment income used in operations, interest expense, and capital additions and deductions. Capital items represent all other changes in long term plant and endowment net assets. Revenues are recognized when earned and expenses are recognized when incurred with the exception of revenue earned on certain public service activities (see Note 5). Restricted grant revenue is recognized only when all eligibility requirements have been met, that is to the extent grant revenues are expended or in the case of fixed price contracts, when the contract terms are met or completed. Contributions, including unconditional promises to give (pledges) for non-endowment or non-capital purposes, are recognized as revenues in the period received. Promises of additions to non-expendable endowments are not recognized until cash or other assets are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The University applies restricted net assets first when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Significant estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts, valuation of certain investments and depreciation expense. Actual results could differ from those estimates.

The University reports its financial statements as a "business-type activity" ("BTA") under GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (GASB 35). BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the University are maintained internally in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are maintained in separate funds in accordance with the activities or objectives specified. GASB 35 requires that external financial statements to be reported on a consolidated basis and establishes standards for external financial reporting by public colleges and universities that resources be classified into the following net asset categories:

- **Invested in capital assets, net of related debt**: Capital assets, at historical cost, or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted Nonexpendable**: Net assets subject to externally imposed stipulations that they be maintained permanently by the University.

- **Restricted Expendable:** Net assets whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants and contracts, the accumulated net gains/losses on true endowment funds, as well as restricted funds loaned to students, restricted gifts and endowment income, and other similar restricted funds.

- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

Revenues are reported net of discounts and allowances. As a result, student financial aid expenditures are reported as an allowance against tuition and fees revenue while stipends and other payments made directly to students are recorded as scholarship and fellowship expenditures on the statement of revenues, expenses, and other changes to net assets, and included in supplies and services on the statement of cash flows. Discounts and allowances for tuition and fees and auxiliary enterprises are calculated using the Alternate Method.

<u>NEW ACCOUNTING PRONOUNCEMENTS</u>

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations - This standard provides guidance on the accounting and reporting of obligations and costs related to existing pollution remediation, such as obligations to clean up spills of hazardous wastes or to remove contamination (e.g., asbestos). This standard also sets forth triggers that would signal when the University should determine if it has to estimate and report a remediation liability. The requirements of this Statement are effective for financial statements of periods beginning after December 15, 2007 (fiscal 2009 for the University). The University is currently evaluating the effect that GASB Statement No. 49 will have on its financial statements.

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets - This standard was issued in June 2007 and is effective for financial statements for periods beginning after June 15, 2009 (fiscal 2010 for the University). This standard requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This standard also provides authoritative guidance that specifically addresses the nature of these intangible assets which should be applied in addition to the existing authoritative guidance for capital assets. The guidance specific to intangible assets also includes guidance on recognition and requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this standard establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. If there are no factors that limit the useful life of an intangible asset, this standard provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances. The provisions of this standard generally are required to be applied retroactively. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this standard and those considered to be internally generated. The University is currently evaluating the effect that GASB Statement No. 51 will have on its financial statements.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments - This standard was issued in June 2008 and is effective for periods beginning after June 15, 2009 (fiscal 2010 for the University) and encourages earlier application. This standard requires that for potential hedging derivative instruments existing prior to the fiscal period during which this Statement is implemented, the evaluation of effectiveness should be performed as of the end of the current period. If determined to be effective, hedging derivative instruments are reported as if they were effective from their inception. If determined to be ineffective, the potential hedging derivative instrument is then evaluated as of the end of the prior reporting period. The implementation guide on the standard is expected to be issued by GASB in Q1, 2009. The University is currently evaluating the effect that Statement No. 53 will have on its financial statements.

CLASSIFICATION OF ASSETS AND LIABILITIES

The University presents current and non-current assets and liabilities in the statement of net assets. Assets and liabilities are considered current if they mature in one year or less, or are expected to be received, used, or paid within one year or less. Investments with a maturity of greater than one year and balances that have externally imposed restrictions as to use are considered non-current. Cash held by state treasurer includes balances with restrictions as to use and balances that may be rolled forward for use toward the restricted purposes in future years, and such balances are classified as non-current. Cash held by trustees is presented based upon its expected period of use and to the restrictions imposed on the balances by external parties.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value approximates carrying value for cash and cash equivalents, cash held by state treasurer, investments, accounts receivable, accounts payable, accrued expenses and interest, and deposits. The estimated fair values of bonds payable are disclosed in footnote 8.

CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts, with a maturity of three months or less when purchased.

Investments are carried at fair value. Short-term investments consist of deposits with original maturities of less than one year and are available for current use. Securities received as a gift are recorded at estimated fair value at the date of the gift. The University holds certain investment securities in publicly traded and privately held companies as the result of agreements entered into by the University’s Commercial Ventures and Intellectual Property (CVIP) program. Securities received or purchased as the result of these agreements are recorded at fair value, where readily determinable by quoted market prices, or if fair value is not known or practicable to estimate, the investment is carried at cost which is deemed to be the estimated fair value.

Certain securities held by the Foundation do not have readily determinable quoted market prices and are carried at valuations provided by third-party investment managers. The Foundation believes that the carrying amount of these investments are a reasonable estimate of fair value, however, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Venture capital investments represent initial investments made to certain funds and are reported at cost until distributions are made from the funds or until market values are reported on the funds.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statement of net assets.

Investment income includes dividends and interest income and is recognized on the accrual basis. In computing realized gains and losses, cost is determined on a specific identification basis.

RESTRICTED GRANTS AND CONTRACTS

The University receives monies from federal and state government agencies under grants and contracts for research and other activities including medical service reimbursements. The University records the recovery of indirect costs applicable to research programs, and other activities which provide for the full or partial reimbursement of such costs, as revenue. Recovery of indirect costs for the years ended June 30, 2008 and 2007 was $99.6 million and $89.3 million, respectively, and is a component of grants and contracts revenue. The costs, both direct and indirect, charged to these grants and contracts are subject to audit by the granting agency. The University believes that any audit adjustments would not have a material effect on the University's financial statements.

PLEDGES AND ENDOWMENT SPENDING

Pledges for non-endowment purposes are presented net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Because of uncertainties with regard to their realizability and valuation, bequests and intentions and other conditional promises are not recognized as assets until the specified conditions are met.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of approximately 5% of their beginning market value as of July 1 subject to review and approval by the Foundation's Board of Directors. The distribution amount will be made available at the beginning of the following fiscal year. The actual spending rate was 4% for fiscal years 2008 and 2007. Future utilization of gains is dependent on market performance. Deficiencies for donor-restricted endowment funds, resulting from declines in market value, would be offset by an allocation from unrestricted net assets to restricted expendable net assets within the Foundation. The Foundation believes that, if applicable, these adjustments would be temporary and will not require permanent funding. In fiscal year 2008 and 2007 there were no deficiencies.

INVENTORIES

The University's inventories consist of books, general merchandise, central stores, vaccines, and operating supplies which are carried at the lower of cost (first-in, first-out and average cost methods) or market.

INVESTMENT IN PLANT

Capital assets are stated at cost. Net interest costs incurred during the construction period for major capital projects are added to the cost of the asset. Repairs and maintenance costs are expensed as incurred, whereas major improvements that extend the estimated useful lives of the assets are capitalized as additions to property and equipment. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets. The University records a full year of depreciation in the year of acquisition. Land is not depreciated. The University does not capitalize works of art or historical treasures.

Following is the range of useful lives for the University's depreciable assets:

| | |
|---|---|
| Buildings | 20-50 years |
| Building Improvements | 5-20 years |
| Equipment and Furniture | 3-15 years |
| Software | 5 years |
| Library Books | 15 years |
| Land Improvements | 20 years |

COMPENSATED ABSENCES

Employees earn the right to be compensated during absences for annual vacation leave and sick leave. The accompanying statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits as of the end of the fiscal year. The accrual equates to the entire amount of vacation time earned and an actuarially determined liability for the sick leave component of compensated absences. Employees are only entitled to 20% of their sick leave balance upon retirement. The actuarial calculation utilized the probability of retirement for this estimated accrual.

DEFERRED REVENUE

Deferred revenue consists of amounts billed or received in advance of the University providing goods or services. Deferred revenue is recognized as revenue as expenses are incurred and therefore earned.

ADVANCES AND DEPOSITS

Advances from the U.S. Government for Federal Perkins Loans to students are reported as part of advances and deposits. Future loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon.

TUITION AND STATE APPROPRIATIONS

The combined financial statements for the years ended June 30, 2008 and 2007 record as tuition revenue approximately $46.2 million and $46.6 million, respectively, of tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts. During fiscal year 2004, the Amherst campus was granted authority to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. This pilot program was extended indefinitely in 2005. The amount of tuition retained by the University during 2008 and 2007 was $32.7 million and $31.1 million, respectively. The recorded amount of State Appropriations received by the University has been reduced by a corresponding amount of tuition remitted as shown below (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Gross Commonwealth Appropriations | $485,199 | $474,909 |
| Plus: Fringe Benefits | 178,236 | 151,106 |
| | 663,435 | 626,015 |
| Less: Tuition Remitted | (46,164) | (46,599) |
| State Appropriations, Net | $617,271 | $579,416 |

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of $231.3 million and $205.3 million for the years ended June 30, 2008 and 2007 respectively are stated net of room and board charge allowances of $1.2 million and $1.7 million, respectively.

OTHER OPERATING REVENUES AND EXPENDITURES, SALES AND SERVICES, PUBLIC SERVICE ACTIVITIES

Public Service Activities consist largely of sales and services provided to third parties by the UMass Medical School campus under its Commonwealth Medicine (CWM) programs, which provide public consulting and services in health financing, administration and policy to federal, state and local agencies and not-for-profit health and policy organizations. Included in this category of activities are Commonwealth Medicine revenues of $323.2 million and $324.6 million for the years ended June 30, 2008 and 2007, respectively. Included in expenditures are Commonwealth Medicine expenditures of $300.2 million and $296.5 million for the years ended June 30, 2008 and 2007, respectively.

In addition to CWM activities, Public Service Activities also includes payments received by the Medical School for educational services it provides to its clinical affiliate UMass Memorial as required by the enabling legislation enacted by the Commonwealth in 1997. Educational services revenues included in public service revenues were $75.0 million and $143.7 million for the years ended June 30, 2008, and 2007, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $20.4 million and $95.0 million for the years ended June 30, 2008 and 2007, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

FRINGE BENEFITS FOR CURRENT EMPLOYEES AND POST EMPLOYMENT OBLIGATIONS – PENSION AND NON-PENSION

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post – employment health insurance, unemployment, pension, and workers' compensation benefits. Health insurance and pension costs for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth and currently the liability is borne by the Commonwealth. Consequently, no amounts have been reported by the University under GASB Statement No. 45. Workers' compensation costs are assessed separately based on actual University experience.

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Commonwealth's Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and a small amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the University.

The GIC administers a plan included within the State Retiree Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios.

The GIC is a quasi-independent state agency governed by an eleven-member body (the Commission) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year that ended on June 30, 2008, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

Pursuant to the provisions of Paragraph (e), Section 5 of Chapter 163 of the Acts of 1997 and consistent with the September 22, 1992 Memorandum of Understanding between the Commonwealth of Massachusetts Executive Office of Administration and Finance and the University of Massachusetts, the University's Worcester Medical School campus has assumed the obligation for the cost of fringe benefits provided by the Commonwealth to University employees (other than those employees paid from state appropriated funds) for all periods on or after July 1, 1989. The University determines the actual costs for the health insurance benefits and actuarially calculates the incurred service costs for pensions and retiree health insurance.

INCOME TAX STATUS

The University of Massachusetts is an agency of the Commonwealth of Massachusetts and is exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. The University Related Organizations are 501(c)(3) organizations and are exempt from Federal Income tax under the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying combined financial statements.

COMPARATIVE INFORMATION AND RECLASSIFICATIONS

The University's financial statements include prior year comparative information. Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications, revised classification and adjustments have no effect on total net assets at June 30, 2008.

During 2008, the University determined that it had incorrectly reported unrealized gains on investments in the 2007 financial statements in the amount of $19.1 million. Management believes that this amount is immaterial to the 2007 financial statements, and has corrected the impacted investment related accounts in the 2008 financial statements by the same amount. In addition, subsequent to the original issuance of this report, an error was detected and corrected in the Statements of Cash Flows. A correction in the amount of $4.7 million was made to decrease the Operating Loss in the reconciliation section of the statement with offsetting corrections made to Net Cash Used for Operating Activities and Net Cash Used for Capital Financing Activities.

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

As of June 30, 2005, the University implemented the disclosures which are required by the Governmental Accounting Standards Board, Statement No. 40, Deposit and Investment Risk Disclosures (GASB 40). For fiscal years ending June 30, 2008 and 2007, the University assessed and completed the following statements: Custodial Credit Risk, Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash, Cash Equivalents and Investments.

The University's investments are made in accordance with the Investment Policy and Guidelines Statement adopted in May 2005 by the Board of Trustees (the Investment Policy). The goals of the Investment Policy are to preserve capital, provide liquidity, and generate investment income. The University of Massachusetts has statutory authority under Massachusetts General Laws Chapter 75 to collect, manage and disburse trust funds of the University.

The Investment Policy and Guidelines Statement adopted by the Board of Trustees in May of 2005 set forth the diversification limits for each asset class as shown below:

| Asset Class | Target Allocation | Exposure Range |
|---|---|---|
| Equities | 20% | 15% - 25% |
| Fixed Income | 57% | 50% - 65% |
| Cash | 23% | 15% - 30% |

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Private equities and certain other non-marketable securities are valued using current estimates in fair value by management based on information provided by the general partner or investment manager for the respective securities. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. Private equities and other non-marketable securities represent approximately 6.8% and 12.0% of the Universities investments at June 30, 2008 and 2007, respectively.

**Custodial Credit Risk** - Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2008 and 2007, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustee's name.

The University maintains depository accounts with Bank of America N.A., Bank North, Fifth Third, and U.S. Bank. The University maintains payroll, disbursement and receipt and imprest accounts with Bank of America N.A. None of these accounts are collateralized. Accounts carry FDIC insurance up to $100,000 per account. The following balances on deposit on June 30, 2008 were $45.5 million in Bank of America, $1.6 million in Bank North, $1.2 million in Fifth Third Bank, $.9 million in BNY Mellon, $.1 million in US Bank, and $.3 million in Citizens. The following comparable balances on deposit on June 30, 2007 were $51.0 million in Bank of America, $1.1 million in Bank North, $.2 million in Citizens, $.2 million in Fifth Third Bank, and $.1 million in US Bank. At June 30, 2008 and 2007, the carrying amount of the University's bank account deposits were $29.5 million and $50.0 million, respectively, as compared to bank balances of $49.6 million and $52.6 million, respectively. In 2008 and 2007, the differences between the carrying amount and bank balances were primarily caused by outstanding checks, deposits in-transit, and securities lending of $19.2 million and $29.8 million, respectively. Of such said bank balances, $2.8 million at June 30, 2008 and $3.0 million at June 30, 2007 are covered by federal deposit insurance. The remaining $46.8 million at June 30, 2008 and $49.6 million at June 30, 2007 are uninsured and uncollateralized and therefore subject to custodial credit risk.

In addition to bank account deposits, at June 30, 2008, the University held money market instruments which are classified as investments. At June 30, 2008 and 2007, the carrying amounts of the University's money market accounts were $173.1 million and $42.6 million, respectively, as compared to bank balances of $173.1 million and $42.6 million, respectively. The difference between the carrying amount and bank balances were primarily caused by outstanding checks. Of such said money market balances, $.7 million at June 30, 2008 and $.5 million at June 30, 2007 are covered by federal deposit insurance. The remaining $172.4 million at June 30, 2008 and $42.1 million at June 30, 2007 are uninsured and uncollateralized, therefore subject to custodial credit risk. At June 30, 2008, the University maintained money market accounts of $84.8 million in American Beacon Funds, $45.1 million in Bank of America N.A., $40.1 million in Fidelity Investors, $1.0 million in Janus Intech, $1.0 million in Commonfund, and $.1 million in Berkshire. In addition to money market fair market value, the University held $5.3 million of cash to be used to settle open trades at June 30, 2008 and $19.1 million at June 30, 2007. On September 18, 2008, American Beacon Funds temporarily suspended fund redemptions. Fund redemptions of 100% of ownership interest will be available no later than December 12, 2008.

At June 30, 2008 the University held a carrying and fair market value of $285.2 million in non-money market investments compared to a carrying and fair market value of $406.7 million at June 30, 2007. In the event of negligence due to the University's custodian and/or investment manager(s), investment balances of $285.2 million and $406.7 million at June 30, 2008 and 2007, respectively, would be fully recovered. However, these amounts are subject to both interest rate risk and credit risk. Custody of assets is held with The Bank of New York Mellon or with the individual Investment Manager who is responsible for executing investment transactions.

**Concentration of Credit Risk** - Concentration of Credit Risk is assumed to arise when the amount of investments that the University has with one issuer exceeds 5 percent or more of the total value of the University's investments.

As of June 30, 2008 there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio. As of June 30, 2007, there was no portion of the University portfolio excluding U. S. Government guaranteed obligations, which exceeded 5% of the portfolio.

As of June 30, 2008 three fund managers had aggregate portfolio responsibility of 46% of the total investment portfolio.

**Credit Risk** - Credit risk is the risk that the University will lose money because of the default of the security issuer or investment counterparty. The University's Investment Policy and Guidelines Statement gives each Portfolio Manager full discretion within the parameters of the investment guidelines specific to that manager.

The table below shows the fair value (in thousands) and average credit quality of the fixed income component of the University's investment portfolio as of June 30, 2008 and 2007, respectively:

| Asset Class | June 30, 2008 Fair Value | Average Credit Quality | June 30, 2007 Fair Value | Average Credit Quality |
|---|---|---|---|---|
| Shoı Duration | $337,748 | AAA | $102,314 | AAA |
| Intermediate Duration | 151,406 | A | 225,858 | A |
| Convertible Bonds | - | NA | 14,575 | A |
| High Yields Bonds | 138 | BB | 20,681 | BB |

The table below shows the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2008 and 2007, respectively:

**Rated Debt Investments - 2008**
(in thousands)

| | | S&P Quality Ratings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fair Value | AAA | AA | A | BBB | BB | B | CCC | D | Unrated |
| U.S. Agencies | $21,847 | $1,132 | $912 | - | - | - | $20 | - | - | $19,783 |
| U.S. Government | 18,571 | 18,571 | - | - | - | - | - | - | - | - |
| Corporate Debt | 106,816 | 46,025 | 9,382 | $20,529 | $15,110 | $2,321 | 1,033 | $725 | $287 | 11,404 |
| Money Market Funds | 342,058 | 203,615 | - | 15,014 | - | - | - | - | - | 123,429 |
| | $489,292 | $269,343 | $10,294 | $35,543 | $15,110 | $2,321 | $1,053 | $725 | $287 | $154,616 |


UMASS

**Rated Debt Investments - 2007**
(in thousands)

| | S&P Quality Ratings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair Value | AAA | AA | A | BBB | BB | B | CCC | Unrated |
| U.S. Agencies | $34,492 | $33,234 | - | - | - | - | - | - | $1,258 |
| U.S. Government | 21,910 | 21,910 | - | - | - | - | - | - | - |
| Corporate Debt | 177,879 | 68,606 | $19,397 | $27,687 | $19,146 | $10,406 | $12,988 | $1,006 | 18,643 |
| Money Market Funds | 129,147 | 43,602 | - | - | - | - | - | - | 85,545 |
| | $363,428 | $167,352 | $19,397 | $27,687 | $19,146 | $10,406 | $12,988 | $1,006 | $105,446 |

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Investment Policy establishes targets for the preferred duration of the fixed income component of the investment portfolio by asset class by limiting investments through targeted allocations to different asset classes.

The table below shows the current target allocation for each asset class and the fair value (in thousands) for each as of June 30, 2008 and 2007, respectively:

| Asset Class | 6/30/08 Target Allocation | 6/30/08 Fair Value | 6/30/07 Target Allocation | 6/30/07 Fair Value |
|---|---|---|---|---|
| Short Duration | 45% | $337,748 | 45% | $102,314 |
| Intermediate Duration | 25% | 151,406 | 25% | 225,858 |
| Convertible Bonds | 3% | - | 3% | 14,575 |
| High Yield Bonds | 5% | 138 | 5% | 20,681 |
| Alternative Assets | 8% | 91,701 | 8% | 63,456 |
| Equities | 9% | 45,501 | 9% | 101,439 |
| Real Estate | 0% | 6,223 | 0% | 5,450 |

**Investments - 2008**
(in thousands)

| **Investment Type:** | Investment Maturity (in Years) | | | | |
|---|---|---|---|---|---|
| **Debt Securities** | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| U.S. Government | $18,571 | - | $16,494 | $2,055 | $22 |
| U.S. Agencies | 19,531 | $420 | 1,621 | 1,818 | 15,672 |
| Corporate Debt | 106,816 | 3,102 | 36,599 | 11,844 | 55,271 |
| Municipal/Public Bonds | 2,316 | - | 1,881 | - | 435 |
| Money Market Mutual Funds | 342,058 | 342,058 | - | - | - |
| | $489,292 | $345,580 | $56,595 | $15,717 | $71,400 |

| **Other Investments** | Fair Value |
|---|---|
| Alternative Assets | $91,701 |
| Equity Securities - Domestic | 26,876 |
| Equity Securities - International | 18,625 |
| Real Estate | 6,223 |
| | $143,425 |

**Investments - 2007**
(in thousands)

| Investment Type: | Investment Maturity (in Years) | | | | |
|---|---|---|---|---|---|
| **Debt Securities** | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| U.S. Government | $21,910 | - | - | $21,519 | $391 |
| U.S. Agencies | 31,822 | - | $3,100 | 5,762 | 22,960 |
| Corporate Debt | 177,879 | $5,312 | 61,264 | 19,481 | 91,822 |
| Municipal/Public Bonds | 2,670 | 821 | 1,250 | 599 | - |
| Money Market Mutual Funds | 129,147 | 129,147 | - | - | - |
| | $363,428 | $135,280 | $65,614 | $47,361 | $115,173 |

| **Other Investments** | Fair Value |
|---|---|
| Alternative Assets | $63,456 |
| Equity Securities - Domestic | 57,753 |
| Equity Securities - International | 43,686 |
| Real Estate | 5,450 |
| | $170,345 |

**Securities Lending**: In efforts to offset custodian fees, the University participates in a securities lending program to generate income. The University's custodian, The Bank of New York Mellon, conducts business on behalf of the University with potential borrowers who are prescreened for creditworthiness prior to transactions. In exchange for the use of a particular security, cash collateral of 101-105% of the security's fair market value is collected from the potential borrower to offset any likelihood of loss. If a loss occurs, The Bank of New York Mellon will promptly replace the security in question with an exact or similar security of the same value. Also, any potential earnings lost will also be credited back to the University.

The University of Massachusetts has been participating in a securities lending program since March 18, 2005. Administration of securities lending is overseen by the University's custodian, The Bank of New York Mellon Strict controls are set in place to minimize losses and substantiate gains. The purpose of this program is to generate additional revenue for the University at minimal risk. As indicated before, earned income is used to partially offset custodian fees, increase cash flows, and reduce operating expenses. The amount of securities on loan at fiscal year end are reported as investments in the statement of net assets and the collateral is reported as cash and cash equivalents and an equal amount as other liabilities.

All lending opportunities are initiated through The Bank of New York Mellon. The Bank of New York Mellon maintains a reputable list of clients and borrowers, who are matched up when lending opportunities arise. To ensure fairness, The Bank of New York Mellon maintains a mathematically regulated client queue. When a particular security is desired by a borrower, the first client in queue who holds the security is given the opportunity to lend.

As of June 30, 2008 the University held a fair market value of $89.2 million in lendable securities, compared to $162.0 million in 2007, respectively. Out of these lendable securities, as of June 30, 2008, $18.8 million was out on loan with 23 borrowers compared to $29.2 million with 71 borrowers on June 30, 2007. The loans were outstanding for an average of 46 days in 2008, compared to 86 days in 2007.

**Securities Lending 2008 (in thousands)**

| Securities Lent | Underlying Security Value | Cash Collateral Rec'd Value | Collateral Percentage |
|---|---|---|---|
| Corporate Debt | $1,773 | $1,821 | 102.70% |
| Equity Securities | 438 | 455 | 103.88% |
| U.S. Govt. - T-Notes | 16,621 | 16,904 | 101.70% |
| | $18,832 | $19,180 | 101.85% |

**Securities Lending 2007 (in thousands)**

| Securities Lent | Underlying Security Value | Cash Collateral Rec'd Value | Collateral Percentage |
|---|---|---|---|
| U.S. Agencies | $5,455 | $5,568 | 102.07% |
| Corporate Debt | 8,103 | 8,318 | 102.65% |
| Equity Securities | 790 | 815 | 103.17% |
| U.S. Govt. - TIPS | 2,035 | 2,067 | 101.58% |
| U.S. Govt. - T-Bonds | 10,737 | 10,913 | 101.63% |
| U.S. Govt. - T-Notes | 2,106 | 2,148 | 102.01% |
| | $29,226 | $29,829 | 102.06% |

The cost and fair value of cash, cash equivalents and investments of the University Related Organizations at June 30, 2008 and 2007, respectively are as follows (in thousands):

| University Related Organizations: | Total Fair Value 6/30/08 | Total Cost 6/30/08 | Total Fair Value 6/30/07 | Total Cost 6/30/07 |
|---|---|---|---|---|
| Cash and Cash Equivalents | $3,753 | $3,753 | $3,040 | $3,040 |
| Money Market Instruments | 207,322 | 188,151 | 144,872 | 125,818 |
| Corporate and Municipal Bonds | 40,557 | 38,976 | 51,917 | 51,185 |
| Common and Preferred Stock | 39,127 | 35,173 | 73,244 | 52,958 |
| Mutual Funds | 29 | 29 | 658 | 484 |
| Other | 5,491 | 6,732 | 9,768 | 9,618 |
| | $296,279 | $272,814 | $283,499 | $243,103 |

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately $514.9 million at June 30, 2008 and $281.1 million at June 30, 2007) shall be continuously maintained for the benefit of the Building Authority and Registered owners of the Bonds. All investments shall be (a) held with a bank or trust company approved by the Trustees and the Building Authority, as custodians, or (b) in such other manner as may be required or permitted by applicable state and Federal laws and regulations. Investments shall consist of (a) direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America, or any other agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality thereof; or (b) other marketable securities eligible as collateral for the deposit of trust funds under regulations of the Comptroller of the Currency having a market value not less than the amount of such deposit. Direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America or any other agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality thereof may be subject to repurchase upon demand by the owner pursuant to a repurchase agreement with a bank or trust company.

## 3. CASH HELD BY STATE TREASURER

Accounts payable, accrued salaries and outlays for future capital projects to be funded from state-appropriated funds totaled approximately $18.2 million at June 30, 2008 and $16.1 million at June 30, 2007. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which will be subsequently utilized to pay for such liabilities.

## 4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent bond proceeds and amounts held for the future payment of debt service on such borrowings. At June 30, 2008 and June 30, 2007, there are investments of $13.3 million and $14.2 million, respectively, available from Master Lease agreements entered into by the University for capital asset purchases at the Amherst and Boston campuses. Additionally, there is $27.5 million and $21.7 million, respectively, available from the Revolving Loan Fund established with 2000 Series A bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8) and $514.9 million and $281.1 million, respectively, held by trustees related to the Building Authority. In addition, at June 30, 2008 and 2007, $86.5 million and $120.4 million, respectively were available to be used by WCCC for capital construction purposes.

Funds deposited with trustees include $232.9 million and $5.3 million of investments in repurchase agreements at June 30, 2008 and 2007, respectively. These repurchase agreements are collateralized by cash or investments with a fair market value between 100% and 105% of the repurchase price, depending on the type of assets used as security. These repurchase agreements can be redeemed at any time for the repurchase price provided the redemption proceeds are used for the purpose permitted by the respective repurchase agreement.

**5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE**

Accounts, grants and loans receivable at June 30 consist of the following (in thousands):

**University:**

| | 2008 | 2007 |
|---|---|---|
| Students Accounts Receivable | $29,569 | $27,260 |
| Less allowance for uncollectible accounts | (11,532) | (10,167) |
| | 18,037 | 17,093 |
| Grants and Contracts Recivable | 92,850 | 91,186 |
| Less allowance for uncollectible accounts | (2,107) | (1,936) |
| | 90,743 | 89,250 |
| Students Loans Receivable | 42,309 | 41,483 |
| Less allowance for uncollectible accounts | (2,879) | (3,236) |
| | 39,430 | 38,247 |
| Commonwealth Medicine | 50,974 | 61,375 |
| Less allowance for uncollectible accounts | (604) | (2,754) |
| | 50,370 | 58,621 |
| Other | 33,630 | 53,062 |
| Less allowance for uncollectible accounts | (2,098) | (18,658) |
| | 31,532 | 34,404 |
| Total, net | $230,112 | $237,615 |
| Less current portion, net | (195,363) | (202,666) |
| Long-term, net | $34,749 | $34,949 |

**Related Organizations:**

| | 2008 | 2007 |
|---|---|---|
| Other Accounts Receivable | $22 | $22 |
| Less allowance for uncollectible accounts | - | - |
| | 22 | 22 |
| Less current portion | (22) | (22) |
| Long-term | $- | $- |

Effective March 31, 1998, the former University of Massachusetts Clinical Services Division (which was comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School - Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust), was merged into a separate Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (UMass Memorial). UMass Memorial is not a component of these financial statements. In connection with the merger of UMass Memorial and the former Clinical Services Division of the University in 1998, the University and UMass Memorial have the following ongoing agreements:

- UMass Memorial has been granted the right to occupy portions of the University's Worcester Medical School campus for a period of 99 years and UMass Memorial has agreed to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial has also agreed to contribute to capital improvements to shared facilities.

- UMass Memorial has agreed to make certain payments to the University and its related organizations, including: 1) an annual fee of $12.0 million (plus an inflation adjustment), for 99 years as long as the University continues to operate a medical school; 2) a percentage of net operating income of UMass Memorial based upon an agreed upon formula which revenue is recognized by the University when the amounts are agreed; and 3) a $31.5 million contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with the University, the final payment of which was received during April 2001.

- The University will lease certain employees to UMass Memorial or its affiliates during a transition period ending in 2008.

The University is reimbursed by, and reimburses UMass Memorial for shared services, leased employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2008 and 2007, the reimbursement for services provided to UMass Memorial were $120.4 million and $118.1 million, respectively. Included in these amounts is payroll paid by the University on behalf of UMass Memorial in an agency capacity in the amount of $72.5 million for fiscal year 2008 and $72.0 million for fiscal year 2007. At June 30, 2008 and 2007, the University has recorded a net receivable in the amount of $4.1 million and $122.5 million, respectively from UMass Memorial consisting of $0.2 million, respectively related to capital projects at the Medical School, and $3.9 million and $122.3 million, respectively in payroll and related fringe charges. The receivable amount also contains $(4.8) million at June 30, 2008 and $113.4 million at June 30, 2007 representing the negotiated amount under the agreed upon formula noted above. The University has recorded a payable at June 30, 2008 and 2007 of $3.1 million and $3.3 million, respectively for amounts due to UMass Memorial for capital projects and cross-funded payroll.

**6. RELATED ORGANIZATIONS**

Related party activity with the Foundation includes advances under a line of credit, loan and lease agreements, and investment of the University's endowment assets with the Foundation. As of June 30, 2008, the net assets of the Foundation included as related organizations in the combined financial statements of the University are $317.8 million, of which $309.6 million are restricted funds and $8.2 million are unrestricted funds. During the fiscal year ended June 30, 2008, the University received approximately $6.9 million from the Foundation, and disbursed approximately $87.6 million to the Foundation of which $84.0 was for the establishment of quasi-endowment. At June 30, 2008, the University's investments include approximately $0.3 million current restricted funds and $174.2 million of endowment funds held in a custodial relationship at the Foundation.

As of June 30, 2007, the net assets of the Foundation included as related organizations in the combined financial statements of the University are $300.7 million, of which $293.2 million are restricted funds and $7.5 million are unrestricted funds. During the fiscal year ended June 30, 2007, the University received approximately $6.5 million from the Foundation, and disbursed approximately $42.6 million to the Foundation of which $40.0 was for the establishment of quasi-endowment. At June 30, 2007, the University's investments include approximately $0.3 million current restricted funds and $84.1 million of endowment funds held in a custodial relationship at the Foundation.

The University leases office space from the Foundation for an annual rent of approximately $0.5 million.

During 2001, the Worcester Medical School and UMass Memorial Health Ventures, Inc. formed Public Sector Partners (PSP). PSP is a Massachusetts not-for-profit corporation organized to provide administrative support to agencies of state and local governments that provide health care and health related services to recipients under the auspices of government sponsored and funded health care programs and initiatives. PSP is governed by a board of trustees that are comprised equally of representatives from the Worcester Medical School and UMass Memorial Health Ventures, Inc. (an subsidiary of UMass Memorial). Neither entity has an equity interest in PSP; therefore, for financial reporting purposes the University treats PSP as a joint venture for which there is no equity interest. Accordingly, PSP's results of operations, statement of position, and cash flows are not included herein. A separate financial statement for PSP is published and is available upon request of the UMass Medical School.

Condensed, summary financial information for 2008 and 2007 is a follows (in thousands):

| | 2008 Unaudited | 2007 Audited |
|---|---|---|
| Total assets | $38,222 | $38,590 |
| Total liabilities | 20,123 | 17,931 |
| Total net assets | $18,099 | $20,659 |
| | | |
| Total revenues | $148,878 | $123,189 |
| Total expenses | 152,223 | 119,915 |
| Cancellation of indebtedness | 285 | - |
| Change in net assets | ($3,060) | $3,274 |
| | | |
| Net cash provided from/(used in) operating activities | ($8,866) | $14,611 |
| Net cash used in investing activities | (416) | (479) |

Subsequent to June 30, 2008, the Bylaws of PSP have been amended to remove UMass Memorial Health Ventures, Inc. as the Class B Member and naming Worcester City Campus Corporation as the sole member of the Corporation. On October 3, 2008, the Worcester City Campus Corporation Board of Trustees voted to become the sole member of Public Service Partners, Incorporated.

The Building Authority and the Commonwealth of Massachusetts have entered into various lease agreements under which the Commonwealth leases to the Building Authority certain property for nominal amounts.

In August 2005, the Building Authority executed a contract with UMass Management, LLC, a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for The University of Massachusetts Club (the Club), a private social club for alumni and friends of the University. Under the contract, the Authority is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Building Authority is responsible for any shortfall in the operating budget and will benefit from any operating profits. The contract calls for a minimum management fee payable to the Manager of $0.2 million or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club initiation fees and 25 percent of operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Building Authority after 3 years if the Building Authority decides to close the Club for a minimum of 18 months. The Building Authority is the tenant on the sublease for the Club space and the lease does not terminate should the Building Authority close the Club. As of June 30, 2008 and 2007, the Authority had provided operating support for the Club of approximately $0.5 million and $0.8 million, respectively.

## 7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2008 is comprised of the following (in thousands):

| University: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|---|---|---|---|---|
| Land | $34,623 | - | - | $34,623 |
| Buildings and Improvements | 2,070,438 | $97,433 | ($320) | 2,167,551 |
| Equipment and Furniture | 550,098 | 83,607 | (73,484) | 560,221 |
| Software | 105,502 | 3,915 | - | 109,417 |
| Library Books | 107,452 | 8,001 | (8,509) | 106,944 |
| | 2,868,113 | 192,956 | (82,313) | 2,978,756 |
| Accumulated Depreciation | (1,429,890) | (125,761) | 74,753 | (1,480,898) |
| Sub-Total | 1,438,223 | 67,195 | (7,560) | 1,497,858 |
| Construction in Progress | 281,093 | 218,803 | (78,984) | 420,912 |
| Total | $1,719,316 | $285,998 | ($86,544) | $1,918,770 |

| University Related Organizations: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|---|---|---|---|---|
| Land | $576 | - | - | $576 |
| Buildings and Improvements | 594 | - | - | 594 |
| Equipment and Furniture | 122 | $6 | - | 128 |
| | 1,292 | 6 | - | 1,298 |
| Accumulated Depreciation | (300) | (19) | - | (319) |
| Total | $992 | ($13) | - | $979 |

Investment in plant activity for the year ended June 30, 2007 is comprised of the following (in thousands):

| University: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|---|---|---|---|---|
| Land | $21,693 | $12,930 | - | $34,623 |
| Buildings and Improvements | 1,878,229 | 234,042 | ($41,833) | 2,070,438 |
| Equipment and Furniture | 518,037 | 54,412 | (22,351) | 550,098 |
| Software | 98,797 | 6,714 | (9) | 105,502 |
| Library Books | 105,708 | 8,236 | (6,492) | 107,452 |
| | 2,622,464 | 316,334 | (70,685) | 2,868,113 |
| Accumulated Depreciation | (1,354,247) | (133,332) | 57,689 | (1,429,890) |
| Sub-Total | 1,268,217 | 183,002 | (12,996) | 1,438,223 |
| Construction in Progress | 231,390 | 207,893 | (158,190) | 281,093 |
| Total | $1,499,607 | $390,895 | ($171,186) | $1,719,316 |

| University Related Organizations: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|---|---|---|---|---|
| Land | $576 | - | - | $576 |
| Buildings and Improvements | 594 | - | - | 594 |
| Equipment and Furniture | 115 | $7 | - | 122 |
| | 1,285 | 7 | - | 1,292 |
| Accumulated Depreciation | (282) | (18) | - | (300) |
| Total | $1,003 | ($11) | - | $992 |

At June 30, 2008 and 2007, investment in plant included capital lease assets of approximately $82.6 million and $82.9 million, respectively, net of accumulated depreciation on capital lease assets of approximately $58.7 million and $54.9 million, respectively (see Note 9).

On July 19, 2006, the Boston campus closed the interior parking facilities that were part of the substructure of the original campus buildings constructed in 1974. While regular inspections and reports had indicated that the facility was structurally sound, the campus determined that the loss of parking spaces, the continual rerouting of pedestrian and vehicular traffic and the associated costs no longer made it a viable parking option. The net impairment loss reported as depreciation expenses is $6.3 million in 2007. The University has not reported any impairment during 2008.

The University has capitalized interest on borrowings, net of interest earned on related debt reserve funds, during the construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets being constructed, and is amortized over the useful lives of the assets. For the years ended June 30, 2008 and 2007, the University capitalized net interest costs of $8.5 million and $6.0 million respectively.

In 2007, WCCC acquired a two-story office building at 3 Centennial Drive in Grafton and two mixed-use buildings located at 333 South Street in Shrewsbury. The cost of the acquisition and interior finish for these facilities is $6.3 million and $28.9 million, respectively. These facilities are partially occupied by third-party tenants but primarily used for support of University operations and programs.

**8. BONDS PAYABLE**

Amounts outstanding at June 30, 2008 are as follows:

| Issue Borrowing | Original Borrowing | Maturity Date | Interest Rate | Amount Outstanding |
|---|---|---|---|---|
| University of Massachusetts Building Authority: | | | | |
| Series 2000-A | $46,980 | 2011 | 4.5-5.25% | $6,140 |
| Series 2000-1 | 24,145 | 2010 | 4.5-5.25% | 3,290 |
| Series 2000-2 | 132,155 | 2010 | 4.5-5.5% | 16,245 |
| Series 2003-1 | 137,970 | 2014 | 2.625-5.25% | 38,020 |
| Series 2004-A | 96,025 | 2015 | 3.125-4.5% | 16,225 |
| Series 2004-1 | 183,965 | 2016 | 3.125-5.375% | 57,265 |
| Series 2005-1 | 25,595 | 2016 | 5.0% | 19,030 |
| Series 2005-2 | 212,550 | 2025 | 3.0-5.25% | 204,210 |
| Series 2006-2 | 21,240 | 2014 | 5.29-5.49% | 16,315 |
| Series 2008-A | 26,580 | 2038 | variable | 26,580 |
| Series 2008-1 | 232,545 | 2038 | variable | 232,545 |
| Series 2008-2 | 120,560 | 2038 | 4.0-5.0% | 120,560 |
| Series 2008-3 | 138,635 | 2034 | variable | 138,635 |
| Series 2008-4 | 104,000 | 2034 | variable | 104,000 |
| Revolving Line of Credit | 30,000 | 2009 | variable | 120 |
| | | | | 999,180 |
| | | | Unamortized Bond Premium | 22,343 |
| | | | Less Deferred Loss on Refunding | (43,478) |
| | | | ***Subtotal*** | 978,045 |
| University of Massachusetts HEFA: | | | | |
| 2000 Series A | $40,000 | 2,030 | variable | 40,000 |
| 2001 Series B | 11,970 | 2,031 | 3.75-4.45% | 1,045 |
| 2002 Series C | 35,000 | 2,034 | 2.35-5.17% | 32,640 |
| 2007 Series D | 10,435 | 2,031 | 3.75-4.25% | 10,280 |
| | | | ***Subtotal*** | 83,965 |
| WCCC HEFA: | | | | |
| Series 2001-B | $52,020 | 2,023 | 4.00-5.25% | 15,875 |
| Series 2005-D | 99,325 | 2,029 | 3.0-5.25% | 95,785 |
| Series 2007-E | 118,750 | 2,031 | 3.5-5.0% | 117,215 |
| Series 2007-F | 101,745 | 2,031 | 4.0-4.5% | 98,990 |
| | | | | 327,865 |
| | | | Unamortized Bond Premium | 9,810 |
| | | | Less Deferred Loss on Refunding | (14,660) |
| | | | ***Subtotal*** | 323,015 |
| | | | ***TOTAL*** | $1,385,025 |

Bonds payable activity for the year ended June 30, 2008 is summarized as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| University of Massachusetts Building Authority: | | | | |
| Series 2000-A | $7,525 | - | ($1,385) | $6,140 |
| Series 2000-1 | 4,300 | - | (1,010) | $3,290 |
| Series 2000-2 | 21,150 | - | (4,905) | $16,245 |
| Series 2003-1 | 42,740 | - | (4,720) | $38,020 |
| Series 2004-A | 17,940 | - | (1,715) | $16,225 |
| Series 2004-1 | 62,645 | - | (5,380) | $57,265 |
| Series 2005-1 | 20,935 | - | (1,905) | $19,030 |
| Series 2005-2 | 206,190 | - | (1,980) | $204,210 |
| Series 2006-1 | 242,470 | - | (242,470) | - |
| Series 2006-2 | 18,855 | - | (2,540) | $16,315 |
| Series 2008-A | | $26,580 | - | 26,580 |
| Series 2008-1 | | 232,545 | - | 232,545 |
| Series 2008-2 | | 120,560 | - | 120,560 |
| Series 2008-3 | | 138,635 | - | 138,635 |
| Series 2008-4 | | 104,000 | - | 104,000 |
| Revolving Line of Credit | 4,070 | 13,481 | (17,431) | 120 |
| Plus: Unamortized Bond Premium | 24,454 | 668 | (2,779) | 22,343 |
| Less: Deferred Loss on Refunding | (44,149) | - | 671 | (43,478) |
| ***Subtotal*** | 629,125 | 636,469 | (287,549) | 978,045 |
| University of Massachusetts HEFA: | | | | |
| 2000 Series A | 40,000 | - | - | 40,000 |
| 2001 Series B | 1,280 | - | (235) | 1,045 |
| 2002 Series C | 33,255 | - | (615) | 32,640 |
| 2007 Series D | 10,435 | - | (155) | 10,280 |
| ***Subtotal*** | 84,970 | - | (1,005) | 83,965 |
| WCCC HEFA: | | | | |
| WCCC 2001 Series B | 16,900 | - | (1,025) | 15,875 |
| WCCC 2005 Series D | 98,275 | - | (2,490) | 95,785 |
| WCCC 2007 Series E | 118,750 | - | (1,535) | 117,215 |
| WCCC 2007 Series F | 101,745 | - | (2,755) | 98,990 |
| Plus: Unamortized Bond Premium | 10,201 | - | (391) | 9,810 |
| Less: Deferred Loss on Refunding | (15,357) | - | 697 | (14,660) |
| ***Subtotal*** | 330,514 | - | (7,499) | 323,015 |
| ***TOTAL*** | $1,044,609 | $636,469 | ($296,053) | $1,385,025 |

Maturities and interest, which is estimated using rates in effect at June 30, 2008, on bonds payable for the ext five fiscal years and in subseuent five-year periods are as follows (in thousands):

| | Principal | Interest |
|---|---|---|
| 2009 | $45,915 | $58,497 |
| 2010 | 46,725 | 58,361 |
| 2011 | 49,295 | 56,373 |
| 2012 | 50,970 | 54,196 |
| 2013 | 51,970 | 51,907 |
| 2014-2018 | 265,890 | 223,191 |
| 2019-2023 | 289,965 | 159,532 |
| 2024-2028 | 275,935 | 101,501 |
| 2029-2033 | 261,585 | 47,296 |
| 2034-2038 | 72,760 | 7,610 |
| Total | $1,411,010 | $818,464 |

Bonds payable activity for the year ended June 30, 2007 is summarized as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| University of Massachusetts Building Authority: | | | | |
| Series 2000-A | $8,850 | - | ($1,325) | $7,525 |
| Series 2000-1 | 5,265 | - | (965) | 4,300 |
| Series 2000-2 | 26,130 | - | (4,980) | 21,150 |
| Series 2003-1 | 47,365 | - | (4,625) | 42,740 |
| Series 2004-A | 17,940 | - | - | 17,940 |
| Series 2004-1 | 64,485 | - | (1,840) | 62,645 |
| Series 2005-1 | 22,495 | - | (1,560) | 20,935 |
| Series 2005-2 | 208,100 | - | (1,910) | 206,190 |
| Series 2006-1 | 243,830 | - | (1,360) | 242,470 |
| Series 2006-2 | 21,240 | - | (2,385) | 18,855 |
| Revolving Line of Credit | | $4,070 | - | 4,070 |
| Plus: Unamortized Bond Premium | 27,233 | - | (2,779) | 24,454 |
| Less: Deferred Loss on Refunding | (44,754) | - | 605 | (44,149) |
| ***Subtotal*** | 648,179 | 4,070 | (23,124) | 629,125 |
| University of Massachusetts HEFA: | | | | |
| 2000 Series A | 40,000 | - | - | 40,000 |
| 2001 Series B | 11,140 | - | (9,860) | 1,280 |
| 2002 Series C | 33,850 | - | (595) | 33,255 |
| 2007 Series D | | 10,435 | - | 10,435 |
| ***Subtotal*** | 84,990 | 10,435 | (10,455) | 84,970 |
| WCCC HEFA: | | | | |
| WCCC 2001 Series B | 48,650 | - | (31,750) | 16,900 |
| WCCC 2002 Series C | 66,340 | - | (66,340) | - |
| WCCC 2005 Series D | 99,325 | - | (1,050) | 98,275 |
| WCCC 2007 Series E | - | 118,750 | - | 118,750 |
| WCCC 2007 Series F | - | 101,745 | - | 101,745 |
| Plus: Unamortized Bond Premium | 3,353 | 7,117 | (269) | 10,201 |
| Less: Deferred Loss on Refunding | (8,956) | (7,378) | 977 | (15,357) |
| ***Subtotal*** | 208,712 | 220,234 | (98,432) | 330,514 |
| ***TOTAL*** | $941,881 | $234,739 | ($132,011) | $1,044,609 |

**University of Massachusetts Building Authority**

The bond agreements related to the Building Authority bonds generally provide that the net revenues of the Building Authority are pledged as collateral on the bonds and also provide for the establishment of bond reserve funds, bond funds, and maintenance reserve funds.

The University is obligated under its contracts for financial assistance, management and services with the Building Authority to collect rates, rents, fees and other charges with respect to such facilities sufficient to pay principal and interest on the Building Authority's bonds and certain other costs such as insurance on such facilities.

Pursuant to the authority given by the Building Authority's enabling act, the Commonwealth, acting by and through the Trustees of the University, has guaranteed the payment of principal of and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation.) The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed $200 million. The Building Authority issued bonds are all Commonwealth guaranteed with the exception of Series 2000-2, Series 2003-1, Series 2004-1, Series 2005-1, Series 2005-2, Series 2006-1, and Series 2006-2 (federally taxable), Series 2008-1, Series 2008-2, and Series 2008-3.

When the Building Authority no longer has any bonds outstanding, its properties revert to the Commonwealth, and all its funds (other than funds pledged to bondholders) are required to be paid into the Treasury of the Commonwealth.

In fiscal year 2008, the Authority currently refunded the UMBA Project and Refunding Revenue Bonds, Senior Series 2006-1 bonds. The variable rate bonds were called on an interest payment date and immediately defeased.

In fiscal year 2006 the Building Authority issued Series 2006-1 taxable bonds. The bonds were issued in the amount of $243.8 million and the proceeds were used for various construction and renovation projects for the University at its Lowell campus and to partially advance refund the 2003-1 Series bonds, the 2004-1 Series bonds and the 2004-A Series bonds. As of June 30, 2007 the bonds payable amount was $242.5 million. In June 2008 the Building Authority used the proceeds of its Series 2008-3 and 2008-4 bonds (described below) to currently refund the Series 2006-1 Bonds. Therefore as of June 30, 2008 there were no bonds outstanding.

The bonds carried a variable interest rate and were callable at any time at par. The principal and interest payments on the bonds were insured by AMBAC. The Building Authority also entered into a standby bond purchase agreement with Depfa Bank plc (DEPFA) which required the DEPFA to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 190 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority was required to pay the Bank in quarterly installments a facility fee in the amount of 9.5 (or higher under certain circumstances) basis points of the commitment amount. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled $270,600 and $248,600 for the years ended June 30, 2008 and 2007, respectively. At the time of the bond closing the Building Authority entered into an interest rate swap agreement with Citigroup, N.A., as swap counterparty for the term of the bond issue. The agreement calls for the Building Authority to pay a fixed rate of 3.482% and receive a floating rate based on a percentage of London Interbank Offered Rate (LIBOR), plus a spread (see below). The interest rate swap remains in place with an allocable portion going to the 2008-3 and 2008-4 bonds, respectively (see below).

In fiscal year 2008, the Building Authority issued its Series 2008-1 bonds. The bonds were issued in the amount of $232.5 million and the proceeds were to be used for various construction and renovation projects for the Amherst and Lowell campuses. As of June 30, 2008 the bonds payable amount was $232.5 million. The bonds are payable annually on May 1 through 2038. The bonds are supported with an irrevocable direct ay letter of credit (the Lloyds LOC) issued by Lloyds TSB Bank plc (Lloyds). The Lloyds LOC, upon presentation of required documentation, will pay the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The Lloyds LOC expires in 2013 and may be extended at the option of Lloyds. Under the terms of the Lloyds LOC, the Building Authority is required to pay the Bank in quarterly installments a facility fee in the amount of 26.5 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Building Authority in connection with the Lloyds LOC totaled $65,800 for the years ended June 30, 2008. In December 2007 the Building Authority entered into an interest rate swap agreement with UBS AG, as swap counterparty, beginning May 1, 2008 and extending for the term of the bond issue. The agreement calls for the Building Authority to pay a fixed rate of 3.388% and receive a floating rate based on a percentage of LIBOR (see below).

In fiscal year 2008, the Building Authority issued Series 2008-A bonds. The bonds were issued in the amount of $26.6 million and the proceeds were to be used for various construction and renovation projects for the Dartmouth and Lowell campuses. As of June 30, 2008 the bonds payable amount was $26.6 million. The bonds are payable annually on May 1 through 2038. The Building Authority also entered into a standby bond purchase agreement with Bank of America, N.A. (BofA) which requires BofA to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 184 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority is required to pay BofA in quarterly installments a facility fee in the amount of 12 basis points of the initial commitment. The initial commitment under the agreement was set at $28.0 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2013 and may be extended at the option of the BofA. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled $1,900 for the year ended June 30, 2008. In December 2007 the Building Authority entered into an interest rate swap agreement with Lehman Brothers Special Financing Inc., as swap counterparty, beginning May 1, 2008 and extending for the term of the bond issue. The agreement calls for the Building Authority to pay a fixed rate of 3.378% and receive a floating rate based on a percentage of LIBOR (see below).

In fiscal year 2008, the Building Authority issued Series 2008-2 bonds. The bonds were issued in the amount of $120.6 million and the proceeds were to be used for various construction and renovation projects for the University's Amherst and Worcester campuses. As of June 30, 2008 the bonds payable amount was $120.6 million. The bonds are payable annually on May 1 through 2038. The bonds carry interest rates that range from 4% to 5% and are callable beginning May 1, 2018 at par. The Authority was paid a premium of $668,100 for these bonds. Some of the principal and interest payments on the bonds have been insured by Financial Security Assurance Inc. (FSA).

In fiscal year 2008 UMBA issued its Series 2008-3 bonds. The bonds were issued in the amount of $138.6 million and the proceeds were used to currently refund a portion of the 2006-1 bonds. As of June 30, 2008 the bonds payable amount was $138.6 million. The bonds are payable annually on November 1 through 2034. The bonds carry a variable interest rate and are callable at any time at par. The bonds are supported with an irrevocable direct ay letter of credit (the BofA LOC) issued by Bank of America NA (BofA). The BofA LOC, upon presentation of required documentation, will pay the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The BofA LOC expires in 2011 and may be extended at the option of BofA. Under the terms of the BofA LOC, the Building Authority is required to pay BofA in quarterly installments a facility fee in the amount of 55 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Building Authority in connection with the BofA LOC totaled $47,500 for the years ended June 30, 2008. The original interest rate swap with Citigroup from the 2006-1 bonds remains in place, with an allocable portion assigned to the 2008-3 bonds.

In fiscal year 2008, the Building Authority issued Series 2008-4 bonds. The bonds were issued in the amount of $104.0 million and the proceeds were used to currently refund a portion of the 2006-1 bonds. As of June 30, 2008 the bonds payable amount was $104.0 million. The bonds are payable annually on November 1 through 2034. The bonds carry a variable interest rate and are callable at any time at par. The Building Authority also entered into a standby bond purchase agreement with Bank of America, N.A. (BofA) which requires BofA to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 184 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority is required to pay BofA in quarterly installments a facility fee in the amount of 35 basis points of the initial commitment. The initial commitment under the agreement was set at $110.0 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2011 and may be extended at the option of the BofA. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled $21,400 for the year ended June 30, 2008. The original interest rate swap with Citigroup from the 2006-1 bonds remains in place, with an allocable portion assigned to the 2008-4 bonds.

In connection with the Series 2008-1 bonds, the Building Authority entered into an interest rate swap (the 2008-1 Swap). The intention of the swap is to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 3.388%.

*Terms*. The bonds and the related swap agreement mature on May 1, 2038, and the swap's notional amount of $232.5 million matches the amount of the variable rate bonds. The swap was entered in December 2007 with a start date of May 1, 2008. The notional value of the swap and the principal amount of the associated debt decline over time as the bond principal payments are made to the bondholders. Under the swap, the Building Authority pays the counterparty a fixed payment of 3.388% and receives a variable payment computed as 70% of the one-month LIBOR. Conversely, the variable interest rate on the bonds is based on actual weekly remarketing rates which are expected to roughly track the Securities Industry and Financial Markets Association Municipal Swap Index™ (SIFMA) as successor to the Bond Market Association Municipal Swap Index™ (BMA).

*Fair value*. As of June 30, 2008 the 2008-1 Swap had a negative fair market value of approximately $1.2 million due to a decrease in interest rates since execution of the swap. Because the Building Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk*. As of June 30, 2008 the Building Authority was exposed to credit risk in the amount of the 2008-1 Swap's fair value. The swap's counterparty, UBS AG, was rated Aa1, AA- and AA- by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively, as of June 30, 2008. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

*Basis risk*. The 2008-1 Swap exposes the Building Authority to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.388%) and the synthetic rate as of June 30, 2008 (3.098%). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 1.55%, whereas 70% of the one-month LIBOR was 1.74%.

*Termination risk*. The Building Authority or the counterparty may terminate the 2008-1 Swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Building Authority if the counterparty's credit quality rating falls below BBB+ as issued by Standard & Poor's Rating Service or Fitch Inc. or if the counterparty fails to have such a rating. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Building Authority would be liable to the counterparty for a payment equal to the swap's fair value.

In connection with the Building Authority's Series 2008-A bonds, the Building Authority entered into an interest rate swap (the 2008-A Swap). The intention of the swap is to effectively change the Building Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.378%.

*Terms*. The bonds and the related swap agreement mature on May 1, 2038, and the swap's notional amount of $26.6 million matches the amount of the variable rate bonds. The swap was entered in December 2007 with a start date of May 1, 2008. The notional value of the swap and the principal amount of the associated debt decline over time as the bond principal payments are made to the bondholders. Under the swap, the Building Authority pays the counterparty a fixed payment of 3.378% and receives a variable payment computed as 70% of the one-month LIBOR. Conversely, the variable interest rate on the bonds is based on actual weekly remarketing rates which are expected to roughly track SIFMA.

*Fair value*. As of June 30, 2008 the 2008-A Swap had a negative fair market value of approximately $119,000 due to a decrease in interest rates since execution of the swap. Because the Building Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk*. As of June 30, 2008 the Building Authority was exposed to credit risk in the amount of the 2008-A Swap's fair value. The swap's counterparty, Lehman Brothers Special Financing Inc., was rated A1, A and A+ by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively, as of June 30, 2008. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

*Basis risk*. The 2008-A Swap exposes the Building Authority to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.378%) and the synthetic rate as of June 30, 2008 (3.088%). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 1.55%, whereas 70% of the one-month LIBOR was 1.74%.

*Termination risk*. The Building Authority or the counterparty may terminate the 2008-1 Swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Building Authority if the counterparty's credit quality rating falls below BBB+ as issued by Standard & Poor's Rating Service or Baa1 as issued by Moody's Investor's Service or if the counterparty fails to have such a rating. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Building Authority would be liable to the counterparty for a payment equal to the swap's fair value.

In connection with the Building Authority's Series 2006-1 bonds, the Building Authority entered into an interest rate swap (the 2006-1 Swap). The intention of the swap is to effectively change the Building Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.482%. In fiscal 2008 the Building Authority currently refunded the Authority's Series 2006-1 bonds with the Building Authority's Series 2008-3 and 2008-4 bonds. The interest swap remains outstanding and is matched on a pro-rata basis with the Series 2008-3 and 2008-4 bonds.

*Terms*. The bonds and the related swap agreement mature on November 1, 2034, and the swap's notional amount of $243.8 million matches most of the amount of the variable rate bonds. The swap was entered at approximately the same time the bonds were issued (April 2006). The notional value of the swap and the principal amount of the associated debt decline as principal payments are made to the bondholders over time. Under the swap, the Building Authority pays the counterparty a fixed payment of 3.482% and receives a variable payment computed as 60% of the three-month LIBOR plus .18%. Conversely, the variable interest rate on the bonds is based on actual weekly remarketing rates which are expected to roughly track SIFMA.

*Fair value*. As of June 30, 2008, the 2006-1 Swap had a negative fair market value of approximately $11.3 million. As of June 30, 2007, the swap had a positive fair market value of approximately $2.4 million. The change in fair value of the swap is due to interest rates changes since execution of the swap. If interest rates increase over time from the date of issuance the swap will have a positive fair value while if rates fall the fair value will be negative. Because the Building Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk*. As of June 30, 2008 and 2007 the Building Authority was exposed to credit risk in the amount of the 2006-1 Swap's fair value. The swap's counterparty, Citibank, N.A., was rated Aa1, AA and AA+ by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively, as of June 30, 2008. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A2/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

*Basis risk*. The 2006-1 Swap exposes the Building Authority to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.482%) and the synthetic rate as of June 30, 2008 (3.152%) and 2007 (3.826%). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 3.73%, whereas 60% of the three-month LIBOR plus .18% was 3.40%. As of June 30, 2007, the SIFMA rate was 1.55%, whereas 60% of the three-month LIBOR plus .18% was 1.87%.

*Termination risk*. The Building Authority or the counterparty may terminate the 2006-1 Swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Building Authority if the counterparty's credit quality rating falls below Baa1 as issued by Moody's Investor Service or BBB+ as issued by Standard & Poor's or if the counterparty fails to have such a rating. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap payments and associated debt*. Using rates as of June 30, 2008, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Aggregate future principal payments of the total University of Massachusetts Building Authority debt for the years ended June 30 are: 2009 - $37.5 million, 2010 - $38.1 million, 2011 - $40.3 million, 2012 - $41.6 million, 2013 - $42.2 million, and thereafter, $799.4 million. As rates vary, variable-rate bond interest payments and net swap payments will vary.

In connection with the Building Authority's bond refunding undertaken in fiscal year 2006 noted above, the Building Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately $42.6 million. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in amortization expense over the original life of the refunded bonds. The refundings reduced the University's debt service payments in future years by approximately $33.6 million and resulted in an economic gain (the present value of savings) of approximately $21.6 million.

In prior years, the Building Authority refunded all bonds outstanding issued by the Building Authority prior to May 1, 1984. Accordingly, the Building Authority deposited into trust accounts sufficient funds to provide for all future debt service payments on the refunded bonds. Assets held in trust accounts had an aggregate market value of approximately $4.6 million and $5.8 million at June 30, 2008 and 2007, respectively. The outstanding amount of the refunded bonds at June 30, 2008 and 2007 total approximately $4.9 million and $6.4 million, respectively.

On January 5, 2007 the Authority closed on a $35.0 million Revolving Line of Credit (the Line) with Bank of America, N.A (the Bank). The Line matures on the first anniversary of the date of the agreement and can be extended or renewed at the option of the Bank. At the time of each draw on the Line the Authority must elect to have the interest on the draw calculated based on (a) 75% of the one-month, two-month or three-month LIBOR rate (LIBOR Rate) or (b) 75% of the higher of the Federal Funds Rate plus .5% or 75% of the Bank's "prime rate" (Base Rate). Interest is due at the end of the one, two or three month period under a LIBOR Rate draw, the first business day of the calendar quarter for Base Rate draws or the Line's maturity date, whichever comes first. Except at the Line's maturity date, the Authority can elect to have the interest charges incorporated into a subsequent draw. In November 2007 the Authority renewed the Line for an additional 12 months. At the time of the renewal the total Line was reduced to $30.0 million and the LIBOR Rate and Base Rate factor was increased from 75% to 77%. At the time Line was closed the Authority entered into a contract with the University that obligates the University to make payments to the Authority sufficient to cover the costs of the Line. The Authority expects to pay all principal and interest charges related to the Line by issuing long-term bonds at the appropriate time. As of June 30, 2008 the Authority had $0.1 million outstanding under the Line. The interest terms on the draws were one-month LIBOR and the interest rates ranged from 1.84% to 4.37%. As of June 30, 2007 the Authority had $4.1 million outstanding under the Line in four separate draws. The interest terms on the draws were either one-month or three-month LIBOR and the interest rates ranged from 3.99% to 4.02%.

**Massachusetts Health and Educational Facilities Authority**

*University of Massachusetts Series C*

In June 2002, the University issued $35.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series C (the "Series C Bonds"). The proceeds from this issuance were used to fund a portion of the costs associated with the construction of a new student center at the Boston campus which opened in April 2004. The Commonwealth's Division of Capital Asset Management and Maintenance ("DCAMM") managed the project and the Commonwealth has provided additional funds for the project. The Series C Bonds mature October 1, 2034 and the remaining outstanding debt bears interest at fixed interest rates ranging from 3.375% to 5.17%. The Series C Bonds were issued at a net discount of approximately $488,000. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. The University is required to make deposits in this debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The Series C Bonds are redeemable prior to maturity beginning on October 1, 2012, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. The outstanding principal balance on the Series C Bonds is $32.6 million and $33.3 million at June 30, 2008 and 2007, respectively.

*University of Massachusetts Series B*

In June 2001, the University issued $12.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series B (the "Series B Bonds"). The proceeds from this issuance were used to fund a portion of the costs associated with the construction of a new student center at the Lowell campus which was opened in September 2002. The Commonwealth's Division of Capital Asset Management and Maintenance (DCAMM) managed the project and the Commonwealth provided additional funds for the project. The Series B Bonds mature on October 1, 2031 and the remaining outstanding debt bears interest at fixed interest rates ranging from 4.0% to 4.45%. The Series B Bonds were issued at a net discount of approximately $127,000. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. The University is required to make deposits in this debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The Series B Bonds are redeemable prior to maturity beginning on October 1, 2011, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. At June 30, 2008 and 2007, the outstanding principal balance on the Series B Bonds is $1.0 million and $1.3 million, respectively.

*University of Massachusetts Series D*

In January 2007, the University issued $10.4 million of MHEFA Revenue Bonds, University of Massachusetts Issue Series D. The proceeds from this issuance were used to refund a portion of the Series B Bonds. The Series D Bonds mature on October 1, 2031, and the remaining outstanding series bear interest at fixed interest rates ranging from 3.5% to 4.25%.

The Series D Bonds were issued at a discount of approximately $203,000. Debt covenants include the maintenance of a debt service fund outlined in the related debt agreement. The University is required to make deposits in the debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The refunding of the bonds resulted in a difference between the reacquisition price and net carrying amount of the old debt of approximately $0.8 million. This difference is reported in the accompanying financials statements as an increase to bonds payable. As a result of this partial refunding, the University will reduce its aggregate debt service payments by approximately $0.8 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of $0.5 million. At June 30, 2008 and 2007, the outstanding principal balance on the Series D Bonds is $10.3 million and $10.4 million, respectively.

*University of Massachusetts Series A*

In March 2000, the University issued $40.0 million of MHEFA Variable Rate Demand Revenue Bonds, University of Massachusetts Issue, Series A (the "Series A Bonds"). The proceeds from this issuance are being used to fund certain projects including the acquisition and implementation of various administrative technology projects at the University. The Series A Bonds mature on November 1, 2030 and bear interest at a variable weekly rate intended to set the market value equal to the principal amount of the Series A Bonds. Average interest rates during fiscal year 2008 and 2007 were approximately 2.83% and 3.60%, respectively. The University is also obligated for certain ongoing administrative costs including letter of credit, remarketing and trustee fees. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. Interest payments are made monthly and due on the first business day of each month. Principal payments of $40.0 million are due upon maturity. The Series A Bonds were issued at par. At June 30, 2008 and 2007, the outstanding principal balance on Series A Bonds is $40.0 million.

The Series A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Under an irrevocable letter of credit for $40.6 million, the trustee or remarketing agent is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit extends through March 29, 2009, and carries a variable interest rate equal to the bank rate plus 2% on any unreimbursed amounts. The bank rate was 5.0% at June 30, 2008 and 10.25% at June 30, 2007. At June 30, 2008, there are no amounts outstanding under the letter of credit.

Aggregate principal payments on the Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds for the years ended June 30 are; 2009 - $0.9 million, 2010 - $1.0 million, 2011 - $1.0 million, 2012 - $1.0 million, 2013 - $1.0 million, thereafter - $79.1 million. At June 30, 2008 and 2007, the estimated fair value of the Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds is approximately $81.0 million and $85.2 million, respectively.

*Worcester City Campus Corporation Series E*

In January 2007, WCCC issued $118.8 million of Series E bonds. The Series E Bonds were issued at a premium of $3.9 million. WCCC has deposited $32.4 million of the proceeds to an irrevocable trust fund to provide for partial advanced refunding of the Series B Bonds. A portion of the Series B Bonds totaling $30.8 million and the irrevocable trust has been derecognized by WCCC. WCCC incurred a loss on advanced refunding and defeasance of $2.3 million which will be amortized over the life of the debt. This portion of the bonds bear interest at various fixed rates ranging from 3.50% to 4.5% and mature on October 1, 2031. As of June 30, 2008 and 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was $32.6 million and $33.1 million, respectively. Further, $85.7 million of the Series E Bonds proceeds are being used to finance the construction of the Advanced Center for Clinical Education and Science (ACCES) at the Worcester Campus. These funds have been invested with the Royal Bank of Canada while construction progresses and earn interest at 4.92%. Periodically, WCCC requests reimbursement from this fund for qualified costs of construction that consists of building supplies, materials and labor. At June 30, 2008 and 2007, the balance of this construction fund totaled $49.5 million and $84.9 million, respectively including accrued interest earned. These bonds bear interest at various fixed rates ranging from 3.5% to 5.0% and mature October 1, 2036. As of June 30, 2008 and 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was $84.7 million and $85.7 million, respectively.

*Worcester City Campus Corporation Series C refunded by Series F*

In January 2007, WCCC issued $101.7 million of Series F bonds. The Series F Bonds were issued at a premium of $2.8 million. WCCC has deposited $68.8 million of the proceeds to an irrevocable trust fund to provide for payment of the WCCC C Bonds. The Series C Bonds were issued by WCCC in April 2002 for $70.0 million. The proceeds from this issuance are being used to finance the construction of the Jamaica Plains Biolabs. The WCCC C Bonds totaling $65.0 million and the irrevocable trust have been derecognized by WCCC. This portion of the bonds bear interest at various fixed rates ranging from 4.0% to 4.5% and mature on October 1, 2031. As of June 30, 2008 and 2007, the aggregate principal payments outstanding on this portion of Series F Bonds was $66.2 million and $68.5 million, respectively. WCCC incurred a loss on the advanced refunding and defeasance of $5.0 million which will be amortized over the life of the debt. Further, $34.6 million of the Series F Bonds proceeds are being used to finance the construction of the Biologics Laboratory Phase II Project at the Mattapan location of the Worcester Campus. These funds have been invested with the Royal Bank of Canada while construction progresses and earn interest at 4.92%. Periodically, WCCC requests reimbursement from this fund for qualified costs of construction that consists of building supplies, materials and labor. At June 30, 2008 and 2007, the balance of this construction fund totaled $37.0 million and $35.4 million, respectively including accrued interest earned. These bonds bear interest at various fixed rates ranging from 4.0% to 5.0% and mature October 1, 2036. As of June 30, 2008 and 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was $32.8 million and $33.2 million, respectively.

*Worcester City Campus Corporation Series B*

In June 2001, the Foundation transferred ownership of its medical research development facility known as Two Biotech Park to WCCC. In exchange for the building, WCCC assumed from the Foundation the remaining debt of $17.8 million, net (the “Foundation Bonds”), and received the proceeds of the related debt service funds. Concurrent with the transfer, WCCC issued $52.0 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), Series B (the “WCCC B Bonds”). WCCC deposited approximately $19.1 million ($17.0 million from the proceeds of the WCCC Series B Bonds and $2.1 million from debt service reserves) in an irrevocable trust fund to provide for the payment of interest and principal on the Foundation Bonds. The Foundation Bonds and the funds held in the irrevocable trust fund were derecognized by WCCC. The remaining $35.0 million of the WCCC B Bonds are being used to finance the construction of a parking garage and the acquisition and installation of equipment at the Worcester campus. The remaining portion of the Series B Bonds bear interest at various fixed rates ranging from 4.00% to 5.25% and mature on October 1, 2023. Debt covenants include the maintenance of a debt service fund as outlined in the debt agreement. The bonds were issued at a net discount of approximately $0.4 million. The Series B Bonds are redeemable prior to maturity beginning on October 1, 2011, at the option of MHEFA and WCCC, at par plus accrued interest. The outstanding balance at June 30, 2008 and 2007 is $15.9 million and $16.9 million, respectively.

*Worcester City Campus Corporation Series D*

In April 2005, WCCC issued $99.3 million of MHEFA Revenue Bonds (the “WCCC D Bonds”). WCCC has deposited the proceeds to an irrevocable trust fund to provide for payment of the MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project) Series A (the “WCCC A Bonds” or the “refunded bonds”). The WCCC D bonds bear interest at various fixed rates ranging from 3.00% to 5.25% per year and mature October 1, 2029. The WCCC D Bonds were issued at a premium of $4.1 million. The WCCC D Bonds represent a transfer obligation of the University whereby, subject to the terms of the financing agreement, the University will be notified upon WCCC’s failure to make any payments required by the trust agreement and the University will promptly transfer any amounts unpaid and due by WCCC under such agreement. Assets held in the refunding trust fund had an aggregate market value of approximately $97.0 million and $102.0 million at June 30, 2008 and 2007, respectively. The outstanding amount of the refunded bonds totaled approximately $89.1 million and $91.2 million at June 30, 2008 and 2007, respectively. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $8.9 million. This difference, reported in the accompanying financial statements as a reduction in bonds payable, is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, WCCC will reduce its aggregate debt service payments by approximately $4.0 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of $3.9 million. The outstanding principal balance on the WCCC Series D Bonds at June 30, 2008 and 2007 is $95.8 million and $98.3 million, respectively.

The WCCC A Bonds were issued by WCCC in March 2000 for $100.0 million. The proceeds from this issuance were used to fund the construction of the Lazare Research Building on the Worcester Medical School campus of the University. The

WCCC A Bonds have been legally defeased. Accordingly, the WCCC A Bonds and the irrevocable trust have been derecognized by WCCC.

Aggregate principal payments on the WCCC B Bonds, WCCC D Bonds, WCCC E Bonds and WCCC F Bonds for the years ended June 30 are; 2009 - $7.4 million, 2010 - $7.7 million, 2011 - $8.0 million, 2012 - $8.4 million, 2013 - $8.7 million, thereafter $287.7 million. At June 30, 2008 and 2007, the fair value of the WCCC B Bonds, WCCC D Bonds, WCCC E Bonds and WCCC F Bonds was approximately $320.5 million and $339.8 million, respectively.

Pledged Revenues

WCCC is obligated under the terms of indebtedness to make debt service payments from revenues received from certain facility leases. Total applicable pledged revenues were $4.7 million for fiscal years 2008 and 2007.

Pursuant to the projects administered by the University of Massachusetts Building Authority, the Authority sets fees, rents, rates and other charges for the use of the projects in an amount for each fiscal year that produces revenues in excess of the amounts needed in such fiscal year for debt service on the related bonds, required contributions to the related Section 10 Reserve Fund, expenses for the Bond trustee and any escrow agent. Such excess revenues are held by the University for the account of and on behalf of the Authority. Total applicable pledged revenues were $52.6 million for 2008 and $47.3 million for 2007.

## 9. LEASES

The University leases certain equipment and facilities under operating leases with terms exceeding one year, which are cancelable at the University's option with 30 days notice. The rent expense related to these operating leases amounted to approximately $17.7 million and $13.5 million for the years ended June 30, 2008 and 2007, respectively. The University also leases space to third party tenants. During 2008 and 2007, the amount reported as rental income was $7.4 million and $1.4 million, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following are a schedule of future minimum payments under capital and non-cancelable operating leases and a schedule of principal and interest payments on capital lease obligations for the next five years and in subsequent five-year periods for the University as of June 30, 2008 (in thousands):

| | University Capital Leases | | | |
|---|---|---|---|---|
| Year | Master Leases | Other Leases | TOTAL | Operating Leases |
| 2009 | $8,978 | $677 | $9,655 | $12,939 |
| 2010 | 8,974 | 542 | 9,516 | 11,817 |
| 2011 | 7,264 | 121 | 7,385 | 10,957 |
| 2012 | 6,496 | 13 | 6,509 | 9,878 |
| 2013 | 6,496 | 1 | 6,497 | 9,419 |
| 2014-2016 | 7,679 | - | 7,679 | 53,020 |
| Total Payments | 45,887 | 1,354 | 47,241 | $108,030 |
| Less: Amount Representing Interest | (4,697) | (116) | (4,813) | |
| Present Value of Minimum Lease Payment: | $41,190 | $1,238 | $42,428 | |

| June 20, 2008 | University Capital Leases | |
|---|---|---|
| Year | Principal | Interest |
| 2009 | $8,168 | $1,487 |
| 2010 | 8,354 | 1,162 |
| 2011 | 6,536 | 849 |
| 2012 | 5,881 | 628 |
| 2013 | 6,075 | 422 |
| 2014-2016 | 7,414 | 265 |
| Total Payments | $42,428 | $4,813 |

**10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES**

During the year ended June 30, 2008 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

| | Beginning Balance | Additions/ Adjustments* | Reductions/ Adjustments* | Ending Balance |
|---|---|---|---|---|
| **University:** | | | | |
| Capital Lease Obligations | $42,300 | $82 | ($8,205) | $34,177 |
| Compensated Absences | 21,936 | - | (229) | 21,707 |
| Workers' Compensation | 11,140 | 134 | - | 11,274 |
| Deferred Revenues and Credits | 12,885 | 7,278 | (6,607) | 13,556 |
| Advances and Deposits | 28,087 | 117 | (821) | 27,383 |
| Other Liabilities | 959 | - | (541) | 418 |
| **University Related Organization:** | | | | |
| Other Liabilities | $2,983 | $653 | - | $3,636 |

**Adjustments include changes in estimates*

During the year ended June 30, 2007 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

| | Beginning Balance | Additions/ Adjustments* | Reductions/ Adjustments* | Ending Balance |
|---|---|---|---|---|
| **University:** | | | | |
| Capital Lease Obligations | $54,379 | $139 | ($12,218) | $42,300 |
| Compensated Absences | 22,230 | - | (294) | 21,936 |
| Workers' Compensation | 12,737 | - | (1,597) | 11,140 |
| Deferred Revenues and Credits | 10,553 | 7,586 | (5,254) | 12,885 |
| Advances and Deposits | 28,650 | - | (563) | 28,087 |
| Other Liabilities | 570 | 484 | (95) | 959 |
| **University Related Organization:** | | | | |
| Other Liabilities | $2,914 | $69 | - | $2,983 |

**Adjustments include changes in estimates*

**11. FRINGE BENEFITS**

Expenditures for the years ended June 30, 2008 and 2007 include $269.6 million and $228.0 million, respectively, for the employer portion of fringe benefit costs (pension expense, health insurance for active employees and retirees, and unemployment) that was paid directly by the Commonwealth of Massachusetts. Of this amount, $91.4 million for 2008 and $76.8 million for 2007 was reimbursed to the Commonwealth and $178.2 million and $151.1 million respectively is included in revenue as state appropriations.

The University has recorded a liability for future expected costs of its workers' compensation claims of approximately $14.4 million as of June 30, 2008 and $14.9 million as of June 30, 2007. Estimated future payments related to such costs have been discounted at a rate of 6% in computing such liability.

**12. MEDICAL SCHOOL LEARNING CONTRACTS**

The University's Medical School enters into learning contracts with certain medical students. These contracts give students the option of deferring a portion of their tuition until after residency training, and canceling all or a portion of their tuition if they practice medicine in the Commonwealth for one year, or for students matriculating after 1990, two or four (depending on conditions) full years in primary care. The University does not record as revenue the portion of tuition deferred under these learning contracts until actual cash repayments are received. The cumulative amount granted under such learning contracts plus accrued interest totaled $54.6 million and $52.4 million at June 30, 2008 and 2007, respectively. Cumulative repayments totaled approximately $35.8 million and $33.6 million as of June 30, 2008 and 2007, respectively.

**13. RETIREMENT PLANS**

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of University employees who participate in the State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all non-student employees. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to approximately $56.2 million and $50.1 million for the years ended June 30, 2008 and 2007, respectively. The annuity portion of the SERS is funded by employees, who contribute a percentage of their regular compensation. Annual covered payroll approximated 76.9% for the years ended June 30, 2008 and 2007, respectively of annual total payroll for the University. Non-vested faculty and certain other employees of the University can opt out of SERS and participate in a defined contribution plan, the Massachusetts Optional Retirement Plan (ORP). At June 30, 2008 and 2007, there were approximately 1,699 and 1,687 University employees, respectively participating in ORP. The Commonwealth matches 5% of ORP contributions. SERS issues stand-alone financial statements that can be obtained from the Commonwealth.

The University of Massachusetts Foundation, Inc. has a defined contribution plan (the "Plan") for eligible employees through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF) retirement programs. The Plan is designed, and contributions are made, in accordance with the provisions of 403(b) of the Internal Revenue Code. Eligibility begins immediately and the Foundation contribution, based upon a percentage of salaries, was approximately $32,000 and $34,000 for the years ended June 30, 2008 and 2007, respectively. The Foundation has no liability for benefits paid under the Plan.

**14. CONCENTRATION OF CREDIT RISK**

The financial instrument that potentially subjects the University to concentrations of credit risk is the receivable from UMass Memorial which is uncollateralized. The receivable from UMass Memorial represents 0.5% and 33.4% of total accounts receivable for the University at June 30, 2008 and 2007, respectively. The University also has receivables from two organizations comprising approximately 8.7% and 5.6% of the total outstanding receivables at June 30, 2008.

**15. COMMITMENTS AND CONTINGENCIES**

The Building Authority, University, and WCCC have outstanding purchase commitments under construction contracts in amounts aggregating approximately $371.8 million and $518.2 million at June 30, 2008 and 2007, respectively.

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

From time to time the University and/or its affiliated organizations are subject to audits of programs that are funded through either federal and/or state agencies. The Medical School has become aware that the Office of the Inspector General for the U.S. Department of Health and Human Services is performing an audit of Medicaid Supplemental Revenues (MSR) received by UMMMC.

The eventual outcome of this audit is currently unknown. However, depending on the eventual outcome, UMMMC may be required to repay any MSR received deemed to be disallowed as a result of the audit. Dependent on the outcome, UMMS, consistent with the Agreement for Medical Educational Services, made part of the Definitive Agreement between the Medical School and UMass Memorial Medical Center, and its subsequent amendments and the indemnification provisions in these Agreements, may be required to indemnify UMMMC. Although the eventual outcome of this audit is currently unknown, and management believes that as of the date of the financial statements it is not probable that a liability exists, management concludes it is reasonably possible that amounts could be repaid and that those amounts may be material to the Statement of Revenues, Expense and Changes in Net Assets and the Statement of Cash Flow in a future period.

**16. SEGMENT INFORMATION**

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The University has two segments that meet the reporting requirements under GASB 35.

The Worcester City Campus Corporation is organized to receive, take title to, hold, manage, develop, improve, demolish, renovate, lease for terms up to 99 years, or otherwise transfer, convey, or deal with any real or personal property conveyed to it including, without limitation, real and personal property utilized at or in connection with the operations of the University. WCCC outstanding revenue bonds were issued pursuant to specific bond indentures which provide that the revenue bonds are to be paid by certain revenues that are pledged to pay debt service.

The following summary financial information for WCCC is presented before elimination of certain intra-University transactions:

**Statement of Net Assets at June 30:**

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current Assets | $11,076 | $19,104 |
| Noncurrent Assets | 429,727 | 425,101 |
| Total Assets | $440,803 | $444,205 |
| **Liabilities** | | |
| Current Liabilities | $28,816 | $26,788 |
| Noncurrent Liabilities | 315,635 | 322,708 |
| Total Liabilities | $344,451 | $349,496 |
| **Net Assets** | $96,352 | $94,709 |

**Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30:**

| | 2008 | 2007 |
|---|---|---|
| Operating Revenues | $35,466 | $25,118 |
| Operating Expenses | 24,128 | 19,145 |
| Operating Income | $11,338 | $5,973 |
| Increase in Net Assets | $1,643 | ($826) |
| Beginning Net Assets | 94,709 | 95,535 |
| Ending Net Assets | $96,352 | $94,709 |

**Statement of Cash Flows for the Year Ended June 30:**

| | 2008 | 2007 |
|---|---|---|
| Net Cash Provided by Operating Activities | $32,090 | $18,088 |
| Net Cash Provided by Noncapital Financing Activities | 1,484 | 770 |
| Net Cash Provided by/(Used in) Financing Activities | (67,440) | 101,515 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (33,866) | 120,373 |
| Beginning Cash and Cash Equivalents | 120,392 | 19 |
| Ending Cash and Cash Equivalents | $86,526 | $120,392 |

The University of Massachusetts Building Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Building Authority's Enabling Act authorizes it to acquire property from the Commonwealth or others (but the Building Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons and to enter into contracts. In addition, the Enabling Act authorizes the Building Authority to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes therefore which are payable solely from its revenues.

The following summary financial information for the Building Authority is presented before elimination of certain intra-University transactions:

**Statement of Net Assets at June 30:**

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current Assets | $12,628 | $22,271 |
| Noncurrent Assets | 1,219,529 | 837,531 |
| Total Assets | $1,232,157 | $859,802 |
| **Liabilities** | | |
| Current Liabilities | $74,008 | $61,471 |
| Noncurrent Liabilities | 940,953 | 598,358 |
| Total Liabilities | $1,014,961 | $659,829 |
| **Net Assets** | $217,196 | $199,973 |

**Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30:**

| | 2008 | 2007 |
|---|---|---|
| Operating Revenues | $55,520 | $50,369 |
| Operating Expenses | 25,742 | 26,218 |
| Operating Income | $29,778 | $24,151 |
| Increase in Net Assets | $17,223 | $69,590 |
| Beginning Net Assets | 199,973 | 130,383 |
| Ending Net Assets | $217,196 | $199,973 |

**Statement of Cash Flows for the Year Ended June 30:**

| | 2008 | 2007 |
|---|---|---|
| Net Cash Provided by Operating Activities | $48,556 | $37,984 |
| Net Cash Provided by Noncapital Financing Activities | - | 54,000 |
| Net Cash Provided by/(Used in) Investing Activities | (151,992) | 316,326 |
| Net Cash Provided by/(Used in) Capital and Related Financing Activities | 174,145 | (242,946) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 70,709 | 165,364 |
| Beginning Cash and Cash Equivalents | 203,604 | 38,240 |
| Ending Cash and Cash Equivalents | $274,313 | $203,604 |

## 17. SUBSEQUENT EVENT

On October 3, 2008 LBSF filed for bankruptcy with the United States Bankruptcy Court for the Southern District of New York. Under the terms of the swap agreement related to the Building Authority Series 2008-A bonds, the Building Authority has the right to terminate the swap at its option as the filing constitutes a default. At the time of the filing there were no funds owed by LBSF to the Building Authority. As of the report date of these financial statements the Building Authority was assessing its options and expected to find an acceptable replacement counterparty to LBSF under similar terms to the original agreement.

On October 15, 2008, faced with an estimated state budget deficit of $1.4 billion, Governor Deval Patrick started implementing a fiscal action plan to close the gap that includes more than $1 billion in immediate cuts and spending controls across state government, identifying additional revenues and a draw on state reserves. These steps were taken because state tax revenue estimates have had to be revised as the state reacts to the effects of the national financial crisis and slow down in the state and national economy. As part of this action plan, the administration reduced the University's fiscal year 2009 state appropriation by 5% or approximately $24.6 million. The University has taken appropriate steps to manage this mid-fiscal year reduction in state support and is working with state officials to understand the impacts of further changes to the economic environment on state support for the operating requirements and capital priorities of the University.

# Supplemental Financial Information

## Table of Contents

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LL
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

**Report of Independent Auditors on Accompanying Information**

To the Board of Trustee's of the
University of Massachusetts:

The report on our audits of the basic financial statements of the University of Massachusetts as of June 30, 2008 and 2007 and for the years then ended, which references the work of other auditors, appears in this document. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed on the accompanying index is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 5, 2008

# Combining Statements of Net Assets for University Related Organizations

## As of June 30, 2008 and 2007

(in thousands of dollars)

## Supplemental Schedule I

| *ASSETS* | Total June 30, 2008 | Eliminations and Adjustments June 30, 2008 | The University of Massachusetts Foundation, Inc. June 30, 2008 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2008 | Total June 30, 2007 | Eliminations and Adjustments June 30, 2007 | The University of Massachusetts Foundation, Inc. June 30, 2007 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2007 |
|---|---|---|---|---|---|---|---|---|
| *Current Assets* | | | | | | | | |
| Accounts, Grants and Loans Receivable | $22 | | $22 | | $22 | | $22 | |
| Pledges Receivable | 7,293 | ($3,405) | 8,120 | $2,578 | 5,520 | ($2,294) | 6,475 | $1,339 |
| Due From Related Organizations | 990 | 827 | | 163 | 1,280 | 955 | | 325 |
| Other Assets | 39 | | | 39 | 19 | | | 19 |
| ***Total Current Assets*** | **8,344** | **(2,578)** | **8,142** | **2,780** | **6,841** | **(1,339)** | **6,497** | **1,683** |
| *Noncurrent Assets* | | | | | | | | |
| Cash and Cash Equivalents | 3,753 | | | 3,753 | 3,040 | | | 3,040 |
| Pledges Receivable | 5,179 | (25,491) | 27,785 | 2,885 | 6,267 | (19,373) | 23,666 | 1,974 |
| Investments | 292,526 | (200,841) | 468,305 | 25,062 | 280,459 | (107,651) | 364,324 | 23,786 |
| Other Assets | 48 | | | 48 | 46 | | | 46 |
| Investment In Plant Net of Accumulated Depreciation | 979 | | 979 | | 992 | | 992 | |
| ***Total Noncurrent Assets*** | **302,485** | **(226,332)** | **497,069** | **31,748** | **290,804** | **(127,024)** | **388,982** | **28,846** |
| ***Total Assets*** | **$310,829** | **($228,910)** | **$505,211** | **$34,528** | **$297,645** | **($128,363)** | **$395,479** | **$30,529** |
| ***LIABILITIES*** | | | | | | | | |
| *Current Liabilities* | | | | | | | | |
| Accounts Payable | $266 | | $236 | $30 | $1,171 | | $1,119 | $52 |
| Due To Related Organizations | 111 | ($1,223) | | 1,334 | 191 | ($131) | | 322 |
| Assets Held on Behalf of the University | | (174,764) | 174,764 | | | (84,524) | 84,524 | |
| Deferred Revenues and Credits | 8,886 | | 8,886 | | 6,384 | | 6,384 | |
| ***Total Current Liabilities*** | **9,263** | **(175,987)** | **183,886** | **1,364** | **7,746** | **(84,655)** | **92,027** | **374** |
| *Noncurrent Liabilities* | | | | | | | | |
| Other Liabilities | 3,636 | 159 | 3,477 | | 2,983 | 131 | 2,732 | 120 |
| ***Total Noncurrent Liabilities*** | **3,636** | **159** | **3,477** | | **2,983** | **131** | **2,732** | **120** |
| ***Total Liabilities*** | **$12,899** | **($175,828)** | **$187,363** | **$1,364** | **$10,729** | **($84,524)** | **$94,759** | **$494** |
| ***Net Assets:*** | | | | | | | | |
| Invested in Capital Assets Net of Related Debt | $979 | $979 | | | $992 | $992 | | |
| Restricted | | | | | | | | |
| Nonexpendable | 212,017 | (53,082) | $235,152 | $29,947 | 193,100 | (43,839) | $210,077 | $26,862 |
| Expendable | 77,192 | | 74,404 | 2,788 | 85,809 | | 83,087 | 2,722 |
| Unrestricted | 7,742 | (979) | 8,292 | 429 | 7,015 | (992) | 7,556 | 451 |
| ***Total Net Assets*** | **$297,930** | **($53,082)** | **$317,848** | **$33,164** | **$286,916** | **($43,839)** | **$300,720** | **$30,035** |

# Combining Statements of Revenues, Expenses, and Changes in Net Assets for University Related Organizations

## For the Years Ended June 30, 2008 and 2007

(in thousands of dollars)

## Supplemental Schedule II

| | Total June 30, 2008 | Eliminations and Adjustments June 30, 2008 | The University of Massachusetts Foundation, Inc. June 30, 2008 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2008 | Total June 30, 2007 | Eliminations and Adjustments June 30, 2007 | The University of Massachusetts Foundation, Inc. June 30, 2007 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2007 |
|---|---|---|---|---|---|---|---|---|
| ***EXPENSES*** | | | | | | | | |
| ***Operating Expenses*** | | | | | | | | |
| *Educational and General* | | | | | | | | |
| Public Service | $13,349 | ($1,043) | $11,800 | $2,592 | $10,961 | ($1,338) | $9,853 | $2,446 |
| Depreciation | 19 | | 19 | | 18 | | 18 | |
| Scholarships and Fellowships | 5,736 | (755) | 6,188 | 303 | 5,085 | (543) | 5,243 | 385 |
| ***Total Operating Expenses*** | **19,104** | **(1,798)** | **18,007** | **2,895** | **16,064** | **(1,881)** | **15,114** | **2,831** |
| ***Operating Income/(Loss)*** | **(19,104)** | **1,798** | **(18,007)** | **(2,895)** | **(16,064)** | **1,881** | **(15,114)** | **(2,831)** |
| ***NONOPERATING REVENUES/(EXPENSES)*** | | | | | | | | |
| Gifts | 12,304 | (4,298) | 13,666 | 2,936 | 5,226 | (7,876) | 12,627 | 475 |
| Investment Income | (11,189) | 2,810 | (14,002) | 3 | 23,876 | (6,506) | 27,613 | 2,769 |
| Endowment Income | 9,996 | (2,287) | 12,283 | | 7,544 | (1,834) | 9,378 | |
| Interest on Indebtedness | | | | | | | | |
| ***Net Nonoperating Revenues*** | **11,111** | **(3,775)** | **11,947** | **2,939** | **36,646** | **(16,216)** | **49,618** | **3,244** |
| ***Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses*** | **(7,993)** | **(1,977)** | **(6,060)** | **44** | **20,582** | **(14,335)** | **34,504** | **413** |
| Additions to Permanent Endowments | 19,935 | (5,207) | 22,057 | 3,085 | 19,684 | (4,930) | 18,849 | 5,765 |
| University Related Organization Transactions | | | | | | | | |
| Less: Amounts Earned/Received on Behalf of the University | | 6,220 | (6,220) | | | 2,748 | (2,748) | |
| Less: Amounts Paid on Behalf of the University | | | | | | 1,966 | (1,966) | |
| Other Additions/Deductions | (928) | (8,279) | 7,351 | | 578 | (164) | 742 | |
| ***Total Other Revenues, Expenses, Gains, and Losses*** | **19,007** | **(7,266)** | **23,188** | **3,085** | **20,262** | **(380)** | **14,877** | **5,765** |
| ***Total Increase in Net Assets*** | **11,014** | **(9,243)** | **17,128** | **3,129** | **40,844** | **(14,715)** | **49,381** | **6,178** |
| ***NET ASSETS*** | | | | | | | | |
| Net Assets at Beginning of Year | 286,916 | (43,839) | 300,720 | 30,035 | 246,072 | (29,124) | 251,339 | 23,857 |
| ***Net Assets at End of Year*** | **$297,930** | **($53,082)** | **$317,848** | **$33,164** | **$286,916** | **($43,839)** | **$300,720** | **$30,035** |