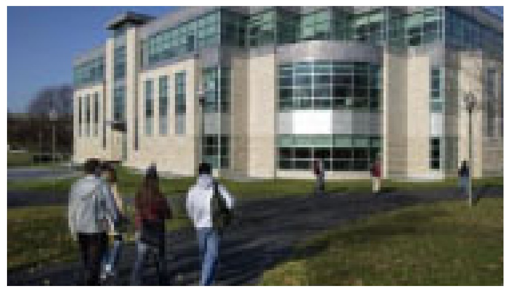
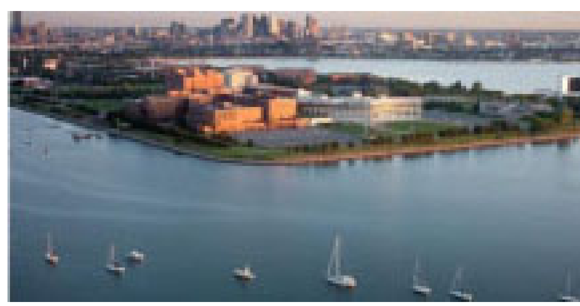





Annual Financial Report

June 30, 2011





UNIVERSITY OF MASSACHUSETTS

Amherst • Boston • Dartmouth • Lowell • Worcester • UMass On-Line

This publication is distributed by the University Controller’s Office to present audited financial statements to the community, governmental bodies, investors and creditors. All photographs are provided by the President’s Office.

Table of Contents

Students at the UMass Boston Campus Center

Inauguration of President Robert L. Caret

University Administration

as of September 19, 2011

Officers of the University:

Robert L. Caret, 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
David J. Gray, Senior Vice President for Administration, Finance & Technology and University Treasurer
Marcellette G. Williams, Ph.D., Senior Vice President for Academic Affairs and International Relations
Thomas Chmura, Vice President for Economic Development
Robert P. Connolly, Vice President for Strategic Communications and University Spokesperson
Robert M. Goodhue, Interim Executive Vice President and Chief Operating Officer of the
University of Massachusetts Foundation, Inc.
Deidre Heatwole, J.D., General Counsel
Barbara F. DeVico, Secretary to the Board of Trustees

A Message from President Robert L. Caret

The University of Massachusetts is pleased to submit this edition of the Annual Financial Report, which gives a clear and comprehensive picture of the University's financial activity for fiscal year 2011.

During my first year as President, I continue to be impressed by the University's growth and achievement, the record number of accomplished students applying for admission, and the enduring relationships the University has formed with partners and colleagues in every corner of the world.

Like other institutions nationwide, the University of Massachusetts coped with pressing financial challenges in the past year and worked hard to bring about academic and administrative efficiencies to deliver on its public mission. While significant progress has been made, we remain committed to advancing initiatives for strengthening the UMass system and the Commonwealth.

Building on this momentum, the University moved forward on an ambitious capital program to fund construction and renovation projects currently underway on all five campuses, where new classrooms, new recreation centers, and state-of-the-art science facilities are taking shape for our deserving students and faculty.

We appreciate the many contributions of our students, faculty and staff, our alumni, our donors, the Governor and the Legislature, the leadership of the Chancellors and their teams, and the encouragement and guidance we have received from our Board of Trustees.

I have often emphasized that in order for Massachusetts to achieve its bright future, it needs a strong and vital University of Massachusetts. We continue to count on your support and advocacy as we work to fulfill the University's service to the Commonwealth through education, research, and public service efforts.

Sincerely,

Robert L. Caret
President

University of Massachusetts
AMHERST • BOSTON • DARTMOUTH • LOWELL • WORCESTER • UMASSONLINE

Office of the President

November 30, 2011

To the Board of Trustees
and President Robert L. Caret

We are pleased to submit the annual Financial Report of the University of Massachusetts for the year ended June 30, 2011. 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, 2011 including comparative information as of June 30, 2010.

The University's net assets increased $172.2 million from $1.97 billion in fiscal year 2010 to $2.14 billion in fiscal year 2011. The major component of the increase is due to physical plant improvements and positive operating results due primarily to greater student fee revenues associated with increased enrollment, cost reductions, strong market performance for the University's investments, a large increase in federally-funded research, and one-time federal stabilization funds.

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 2011, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2011 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

David J. Gray
Senior Vice President for Administration,
Finance & Technology and 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

Report of Independent Auditors

Report of Independent Certified Public Accountants

Audit • Tax • Advisory
Grant Thornton LLP
226 Causeway Street, 6th Floor
Boston, MA 02114-2155

T 617.723.7900
F 617.723.3640
www.GrantThornton.com

Board of Trustees of the
University of Massachusetts

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Massachusetts (the "University"), an enterprise fund of the Commonwealth of Massachusetts, as of June 30, 2011 which collectively comprise the University's basic financial statements as listed in the table of contents. 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 audit. The financial statements of the University as of and for the year ended June 30, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 16, 2010, except for Note 1 as to which is dated October 25, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the accompanying table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

Boston, Massachusetts
December 15, 2011

Management's Discussion and Analysis

June 30, 2011

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, 2011 with comparative information as of June 30, 2010 and June 30, 2009. 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 2010, the University enrolled approximately 58,564 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.

Financial Highlights

The University's combined net assets increased $172.2 million from $1.97 billion in fiscal year 2010 to $2.14 billion in fiscal year 2011. Net Assets at June 30, 2009 were equal to $1.74 billion. The major components of the increase in fiscal year 2011 relate to investments in infrastructure and positive operating margins due primarily to greater student fee revenues associated with increased enrollment, cost reductions, strong market performance for the University's investments, a large increase in federally-funded research, and one-time federal stabilization funds.

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 non-operating. 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, investment income, and non-operating federal grants (Pell Grants). All things being equal, a public University's dependency on state aid. Pell grants, and gifts will result in operating deficits. That is because the prescribed financial reporting model classifies state appropriations, Pell grants, and gifts as non-operating 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, 2011, 2010 and 2009
(in thousands of dollars)

	University June 30, 2011	University June 30, 2010	FY10-11 Change	University June 30, 2009
ASSETS				
Current Assets	$581,207	$554,377	$26,830	$461,594
Noncurrent Assets				
Investment In Plant Net of Accumulated Depreciation	2,582,651	2,324,392	258,259	2,068,485
All other noncurrent assets	1,862,508	1,476,628	385,880	1,047,339
Total Assets	**$5,026,366**	**$4,355,397**	**$670,969**	**$3,577,418**
LIABILITIES				
Current Liabilities	$609,291	$584,562	$24,729	$514,719
Noncurrent Liabilities	2,275,685	1,801,682	474,003	1,321,394
Total Liabilities	**$2,884,976**	**$2,386,244**	**$498,732**	**$1,836,113**
NET ASSETS				
Invested in Capital Assets Net of Related Debt	$1,283,888	$1,133,264	$150,624	$1,069,881
Restricted				
Nonexpendable	17,112	16,899	213	16,699
Expendable	184,909	218,517	(33,608)	156,649
Unrestricted	655,481	600,473	55,008	498,076
Total Net Assets	**$2,141,390**	**$1,969,153**	**$172,237**	**$1,741,305**

UMass Dartmouth in Springtime

University of Massachusetts Condensed Statement of Net Assets for Related Organizations As of June 30, 2011, 2010 and 2009 (in thousands of dollars)	University Related Organizations June 30, 2011	University Related Organizations June 30, 2010	FY10-11 Change	University Related Organizations June 30, 2009
ASSETS				
Current Assets	$5,222	$4,562	$660	$9,081
Noncurrent Assets				
Investment In Plant Net of Accumulated Depreciation	9,019	1,699	7,320	950
All other noncurrent assets	355,378	308,057	47,321	257,720
Total Assets	**$369,619**	**$314,318**	**$55,301**	**$267,751**
LIABILITIES				
Current Liabilities	$15,785	$16,063	($278)	$7,955
Noncurrent Liabilities	3,413	3,664	(251)	3,025
Total Liabilities	**$19,198**	**$19,727**	**($529)**	**$10,980**
NET ASSETS				
Invested in Capital Assets Net of Related Debt	$9,020	$1,699	$7,321	$950
Restricted				
Nonexpendable	254,625	240,595	14,030	225,549
Expendable	73,995	48,127	25,868	41,033
Unrestricted	12,781	4,170	8,611	(10,761)
Total Net Assets	**$350,421**	**$294,591**	**$55,830**	**$256,771**

At June 30, 2011, total University assets were $5.03 billion, an increase of $671.0 million over the $4.36 billion in assets recorded for fiscal year 2010. The increase can be attributed to increases in cash and securities held by Trustees of $355.2 million largely due to a bond issue completed in November 2010, in which proceeds have not yet been spent on capital projects. In addition, there were increases in both short and long-term investments and investment in plant assets. The University's largest asset continues to be its net investment in its physical plant of $2.58 billion at June 30, 2011 ($2.32 billion in fiscal year 2010 and $2.07 billion in fiscal year 2009).

University liabilities totaled $2.88 billion at June 30, 2011, an increase of $498.7 million over fiscal year 2010. Long-term liabilities represent 79% of the total liabilities which primarily consist of bonds payable amounting to $2.12 billion at June 30, 2011.

The University's current assets as of June 30, 2011 of $581.2 million were below the current liabilities of $609.3 million, as the current ratio was 0.95 dollars in assets to every one-dollar in liabilities. June 30, 2010 current assets of $554.3 million were below current liabilities of $584.6 million, resulting in a current ratio of 0.95. June 30, 2009 current assets of $461.6 million were below current liabilities of $514.7 million, resulting in a current ratio of 0.90.

The unrestricted and restricted expendable net assets totaled $840.4 million in fiscal year 2011, which represents 30.1% of total operating expenditures of $2.79 billion. The unrestricted and restricted expendable net assets totaled $819.0 million in fiscal year 2010, which represents 31.6% of total operating expenditures of $2.59 billion. The unrestricted and restricted expendable net assets totaled $654.7 million in fiscal year 2009, which represents 26.8% of total operating expenditures of $2.45 billion.

UMass Medical School Oath Ceremony

University of Massachusetts
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For The Year Ended June 30, 2011, 2010 and 2009
(in thousands of dollars)

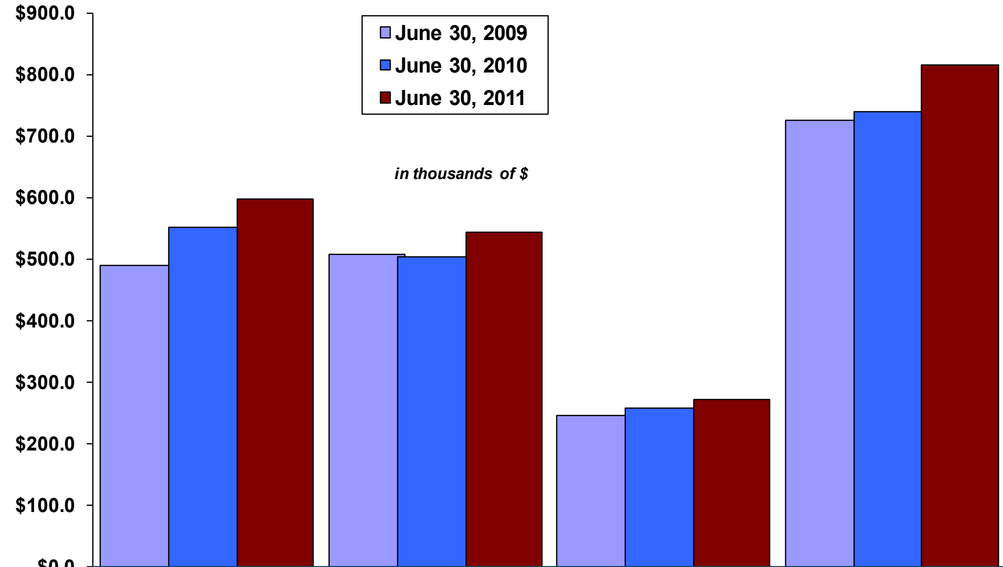
	University June 30, 2011	University June 30, 2010	FY10-11 Change	University June 30, 2009
Operating Revenues				
Tuition and Fees (net of scholarship allowances of $178,676 at June 30, 2011, $177,850 at June 30, 2010, and $126,779 at June 30, 2009.)	$597,200	$552,419	$44,781	$489,230
Grants and Contracts	543,727	504,114	39,613	507,763
Auxiliary Enterprises	272,020	257,852	14,168	246,069
Other Operating Revenues	816,166	739,403	76,763	725,748
Total Operating Revenues	**2,229,113**	**2,053,788**	**175,325**	**1,968,810**
Operating Expenses	**2,788,784**	**2,588,548**	**200,236**	**2,446,653**
Operating Loss	**(559,671)**	**(534,760)**	**(24,911)**	**(477,843)**
Nonoperating Revenues / (Expenses)				
Federal Appropriations	5,826	5,922	(96)	5,574
State Appropriations	505,799	415,889	89,910	540,187
State Appropriations - Federal Stimulus Funds	37,897	150,639	(112,742)	
Interest on Indebtedness	(64,124)	(49,113)	(15,011)	(55,252)
Other Nonoperating Income	119,709	103,917	15,792	32,120
Nonoperating Federal Grants*	70,643	60,324	10,319	
Net Nonoperating Revenues	**675,750**	**687,578**	**(11,828)**	**522,629**
Income Before Other Revenues, Expenses, Gains or Losses	**116,079**	**152,818**	**(36,739)**	**44,786**
Capital Appropriations, Grants and Other Sources	62,824	77,426	(14,602)	32,665
Disposal of Plant Facilities	(10,682)	(12,125)	1,443	(8,553)
Other Additions / (Deductions)	4,016	9,729	(5,713)	1,361
Total Other Revenues, Expenses, Gains, and Losses	**56,158**	**75,030**	**(18,872)**	**25,473**
Total Increase in Net Assets	**172,237**	**227,848**	**(55,611)**	**70,259**
Net Assets				
Net Assets at Beginning of Year	1,969,153	1,741,305	227,848	1,671,046
Net Assets at End of Year	**$2,141,390**	**$1,969,153**	**$172,237**	**$1,741,305**

**Starting in fiscal year 2010, federal Pell Grants are reported as Nonoperating Federal Grants rather than being included in the Operating Grants and Contracts section.*

University of Massachusetts
Condensed Statement of Revenues, Expenses, and Changes in Net Assets for University Related Organizations
For The Year Ended June 30, 2011, 2010 and 2009
(in thousands of dollars)

	University Related Organizations June 30, 2011	University Related Organizations June 30, 2010	FY10-11 Change	University Related Organizations June 30, 2009
Operating Expenses	**$12,107**	**$11,198**	**$909**	**$14,007**
Operating Loss	**(12,107)**	**(11,198)**	**909**	**(14,007)**
Nonoperating Revenues				
Other Nonoperating Income	52,571	31,148	21,423	(31,621)
Net Nonoperating Revenues	**52,571**	**31,148**	**21,423**	**(31,621)**
Gain / (Loss) Before Other Revenues, Expenses, Gains or Losses	**40,464**	**19,950**	**20,514**	**(45,628)**
Additions to Permanent Endowments	15,195	13,003	2,192	12,892
Other	171	4,867	(4,696)	(8,423)
Total Other Revenues, Expenses, Gains, and Losses	**15,366**	**17,870**	**(2,504)**	**4,469**
Total Increase/(Decrease) in Net Assets	**55,830**	**37,820**	**18,010**	**(41,159)**
Net Assets				
Net Assets at Beginning of Year	294,591	256,771	37,820	297,930
Net Assets at End of Year	**$350,421**	**$294,591**	**$55,830**	**$256,771**

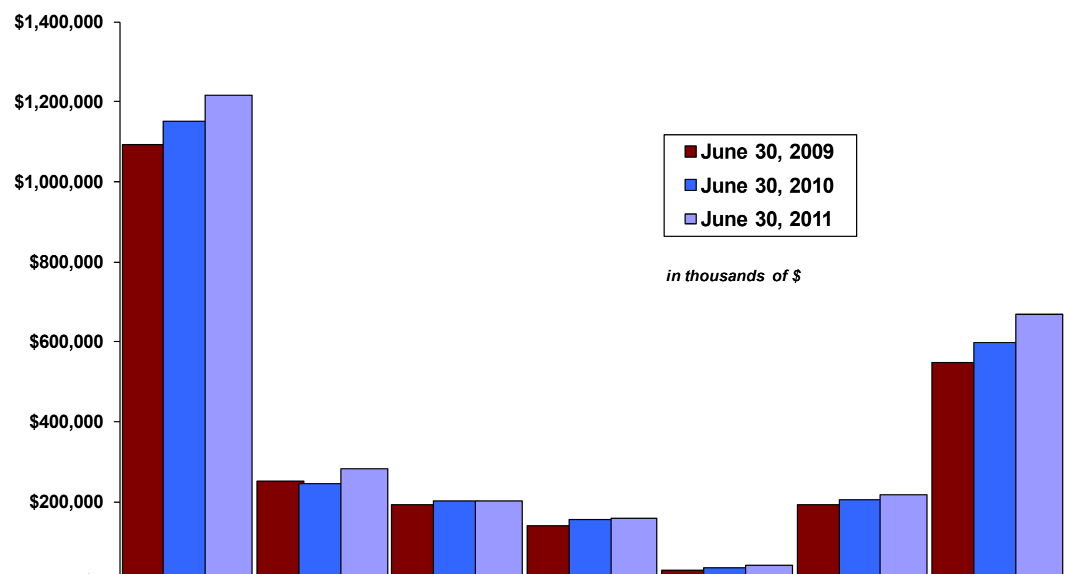
Sources of Operating Revenues*, Fiscal Year 2009 to Fiscal Year 2011



	Tuition and Fees (net of scholarship allowances)	Grants and Contracts	Auxiliary Enterprises	Other Operating Revenues
June 30, 2009	$489.2	$507.8	$246.1	$725.7
June 30, 2010	$552.4	$504.1	$257.9	$739.4
June 30, 2011	$597.2	$543.7	$272.0	$816.2

**The decrease in Grants and Contracts Revenue depicted from FY2009 to FY2010 in not due to declining activity, rather it is caused by a reporting change that now classifies Pell Grant revenue as nonoperating.*

Operating Expenses by Category, Fiscal Year 2009 to Fiscal Year 2011



	Academic Core	Administration	Operation & Maintenance of Plant	Depreciation & Amortization	Scholarships & Fellowships	Auxiliary Enterprises	Other Expenditures
June 30, 2009	$1,092,731	$250,866	$191,761	$140,392	$29,845	$193,568	$547,490
June 30, 2010	$1,150,256	$245,830	$200,761	$155,746	$34,634	$204,004	$597,317
June 30, 2011	$1,216,132	$282,866	$202,950	$159,854	$41,238	$216,852	$668,892

Total operating revenues for fiscal year 2011 were $2.23 billion. This represents a $175.3 million increase over the $2.05 billion in operating revenues in fiscal year 2010. Total operating revenues for fiscal year 2009 were $1.97 billion. The most significant sources of operating 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 chart above as “Other Operating Revenues”. While not classified on the financial statements as operating revenue, state appropriations serve as a primary source for funding the core mission of the University. State appropriation revenue, described in detail in a section below, is used almost exclusively to fund payroll for University employees. The chart above displays operating revenues by source for the University in fiscal years 2011, 2010, and 2009.

In fiscal year 2011, operating expenditures, including depreciation and amortization of $159.9 million, totaled $2.79 billion. Of this total, $1.22 billion or 44% was used to support the academic core activities of the University, including $420.0 million in research. In fiscal year 2010, operating expenditures totaled $2.59 billion. Operating expenditures were $2.45 billion in fiscal year 2009. The chart above displays fiscal year 2011, 2010, and 2009 operating spending.

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 care 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 $345.7 million, $361.4 million and $336.7 million for the years ended June 30, 2011, 2010 and 2009, respectively. Included in expenditures are Commonwealth Medicine expenditures of $316.5 million, $330.4 million and $309.7 million for the years ended June 30, 2011, 2010 and 2009, 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 $200.2 million, $125.9 million and $128.5 million for the years ended June 30, 2011, 2010, and 2009, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $177.0 million, $92.0 million and $73.4 million for the years ended June 30, 2011, 2010 and 2009, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

State Appropriations

In fiscal year 2011, state appropriations, not including federal stimulus funding, represent approximately 17% 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.

The net state appropriation for the University increased by $89.9 million from fiscal year 2010, however this was offset by the $112.7 million decrease in federal stimulus funding from $150.6 million in fiscal year 2010 to $37.9 million in fiscal year 2011.

The combined financial statements for the years ended June 30, 2011 and 2010 record as tuition revenue approximately $49.7 million and $49.1 million, respectively, of tuition the University remits to the State Treasurer’s Office for the general fund of the Commonwealth of Massachusetts. 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. In fiscal year 2004, a pilot program authorized by the Commonwealth enabled the Amherst campus to retain tuition for out-of-state students. This pilot program was extended indefinitely for the Amherst Campus in fiscal year 2005 and starting in fiscal year 2012 all of the University’s campuses are authorized to retain tuition from non-resident students. The amount of tuition retained by the University during 2011, 2010, and 2009 was $34.6 million, $31.5 million and $32.3 million, respectively.

UMass Amherst Marching Band

The following table details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2011, 2010 and 2009 (in thousands).

	June 30, 2011	June 30, 2010	June 30, 2009
Gross Commonwealth Appropriations	$408,019	$356,339	$467,030
Plus: Fringe Benefits*	147,511	108,634	120,264
	$555,530	$464,973	$587,294
Less: Tuition Remitted	($49,731)	($49,084)	($47,107)
Net Commonwealth Support**	**$505,799**	**$415,889**	**$540,187**

**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.*

***It should be highlighted that in fiscal years 2010 and 2011 the Commonwealth distributed federal stimulus funding to the University in addition to the state appropriations. The $150.6 million provided in FY2010 and the $37.9 million provided in FY2011 are not included in the table.*

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 2011, the $28.1 million of capital appropriations provided to the University were $0.5 million less than the capital appropriations provided in fiscal year 2010. Fiscal year 2009 capital appropriations totaled $27.5 million. The University projects that the level of capital appropriations from the Commonwealth will grow significantly in future years as major construction projects managed by the Commonwealth's construction agency are underway at all five of the University's campuses.

Grant and Contract Revenue

Collectively, the University's Amherst Campus and Medical School in Worcester account for approximately 77% of University grant and contract activity. These two campuses have been the primary catalyst in the University's research funding growth in recent years, however, the Boston, Dartmouth, and Lowell campuses continue to experience growth in sponsored research activity. The decline illustrated in the table below from FY2009 to FY2010 is not due to declining activity, rather it is due to a reporting change implemented in FY2010 that now classifies federal Pell Grant revenue as nonoperating.

UMass Medical School

The following table details the University's grant and contract revenues (in thousands) for the fiscal years ended June 30, 2011, 2010, and 2009:

	June 30, 2011	June 30, 2010	June 30, 2009
Federal Grants and Contracts	$371,426	$333,538	$324,100
State Grants and Contracts	62,597	64,328	77,115
Local Grants and Contracts	1,937	1,880	2,149
Private Grants and Contracts	107,767	104,368	104,399
Total Grants and Contracts	***$543,727***	***$504,114***	***$507,763***

Discretely Presented Component Units

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately $517.7 million at June 30, 2011 up from $459.8 million at June 30, 2010 which was up from $372.6 million at June 30, 2009.

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 4% to 6% of the endowment fund's average market value for the preceding twelve quarters on a one-year lag and three-year share average. The Foundation revised its policy during the fiscal year and it will go into effect for the fiscal year 2012 distribution. The new policy is an annual distribution of 4% of the endowment fund's average market value for the preceding twelve quarters on a one year lag. Only quarters with funds on deposit shall be included in the average. In addition, a prudence rule will be utilized limiting spending from a particular endowment fund to no lower than 93% of its book value. The actual spending rate approved was 4% for 2010 (distributed in 2011). The Board of Directors of the Foundation approved an exception to the spending policy due to the significant decrease in market performance of fiscal year 2009. The actual spending rate approved was 1.5% of the fiscal year 2009 ending fair value. Future utilization of gains is dependent on market performance.

The total investment returns of the Foundation for fiscal year 2011, including realized and unrealized investment activity was a net gain of approximately $93.3 million as compared to a net gain of $66.3 million in fiscal year 2010 and a net loss of approximately $55.2 million in 2009.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were $40.4 million at June 30, 2011, up from $32.3 million at June 30, 2010, and up from $28.4 million in fiscal year 2009, which are held by the University of Massachusetts Foundation, Inc. The increase was primarily due to new favorable market conditions and gifts. The Dartmouth Foundation total investment returns for fiscal year 2011, including realized and unrealized investment activity, was a net gain of approximately $4.2 million as compared to a net gain of $2.6 million in 2010 and a net loss of $3.7 million in 2009.

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. In fiscal year 2004, the University established 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. However, with state appropriations declining by $188.3 million over the two year span from fiscal year 2008 to fiscal year 2010, the University's Board approved a $1,500 increase for academic year 2009-2010 in total mandatory student charges for resident undergraduate students. Due to the receipt of $150.6 million of federal stimulus funds in fiscal year 2010, a rebate of $1,100 was provided to resident undergraduate students who had initially paid the $1,500 increase for academic year 2009-2010. Due to the fact that the full $1,500 increase approved for the 2009-2010 academic year stayed in effect for the 2010-2011 academic year ar, the University's Board decided that this in effect served as a significant increase over the prior year student charge level and voted in June 2010 to keep mandatory student charges at the currently approved level. The University's Board of Trustees voted on June 8, 2011 to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year.

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 of the Commonwealth and non-residents on a competitive basis. In the fall 2010 semester, Massachusetts residents accounted for approximately 86% and 58% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2010 was 58,564

FTE (68,315 headcount students). Enrollments at the University have shown significant increases over the last five years (47,874 FTE in fall 2005). The enrollment changes are consistent with the University's efforts to increase its reach across the Commonwealth and to recruit non-resident students.

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1042 to 1167 at the University's campuses in the fall of 2010. The 2010 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 13,803 degrees were awarded in the 2009-2010 academic year: 247 associate degrees, 9,363 bachelor degrees, 3,641 master degrees, 407 doctoral degrees and 147 MD degrees.

UMass Studio Arts Building

Bonds Payable

As of June 30, 2011, the University had outstanding bonds of approximately $2.31 billion representing $1.95 billion of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), $61.1 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority which has subsequently been merged into MassDevelopment (the "UMass HEFA Bonds*"),* and $300.9 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2011. 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 2011, the Building Authority issued bonds in the amount of $552.3 million through three Series:

- The Building Authority issued Series 2010-1 bonds in the amount of $119.0 million, Series 2010-2 Build America bonds in the amount of $430.3 million, and Series 2010-3 bonds in the amount of $3.0 million for various construction and renovation projects at the Amherst, Boston, Dartmouth, and Lowell campuses.
- In fiscal year 2011, the Building Authority refunded two outstanding variable-rate demand bond series that had been issued in 2008. These bonds were being supported by two liquidity agreements with Bank of America that were set to expire on June 10, 2011. The refunding was completed in order to replace the expiring agreements. The Bank of America liquidity support was replaced with a Wells Fargo liquidity facility, Series 2011-1 for $135.0 million and Citibank Window Bonds, Series 2011-2 for $101.7 million. The 2011-1 Bonds were used to redeem the 2008-3 Bonds, and the 2011-2 bonds were used to redeem the 2008-4 Bonds.

In fiscal year 2010, the Building Authority issued bonds in the amount of $548.3 million through three Series:

- The Building Authority issued Series 2009-1 bonds in the amount of $247.8 million for various construction and renovation projects at the Amherst, Boston, Dartmouth, Lowell, and Medical School campuses and for the construction of the Edward M. Kennedy Institute for the United States Senate on the Boston Campus.
- The Building Authority issued Series 2009-2 Build America bonds in the amount of $271.9 million for various construction and renovation projects at the Amherst, Boston, Lowell, and Medical School campuses.
- The Building Authority issued Series 2009-3 bonds in the amount of $28.6 million for construction and renovation projects at the Medical School campus.

Capitalized Lease Obligations

At June 30, 2011, the University had capital lease obligations with remaining principal payments of approximately $17.6 million which is a $5.5 million decrease from the remaining principal payments of $23.1 million at June 30, 2010. At June 30, 2009, the University had capital lease obligations with remaining principal payments of approximately $34.3 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

The University is relying on a carefully planned and executed debt strategy to support master and strategic planning at the campuses and for the University as a whole. The University recently received a credit rating upgrade with bonds issued by the University of Massachusetts and the University of Massachusetts Building Authority are now "AA-" as rated by Fitch IBCA and Standard & Poor's and "Aa2" as rated by Moody's Investors Service.

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. The amount of bond obligation guaranteed by the Commonwealth at June 30, 2011 and 2010 was $138.5 million and $144.7 million, respectively.

Capital Plan

In September 2011, the University Trustees approved a $3.12 billion five-year (fiscal years 2012-2016) update to its capital plan to be financed from all available funding including projects already in process 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, MassDevelopment (formerly 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 2012-2016 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 five-year capital plan and their estimated total project cost include:

Amherst Campus

- study and construction of student-housing of up to1,500 beds for $178.5 million
- construction of the New Laboratory Science Building for approximately $156.5. million
- construction of a Life Sciences Research Facility for $95.0 million
- construction of an academic classroom building for approximately $85.0 million
- replacement of Bartlett Hall for $50.0 million
- construction of a Physical Sciences Building for $80.0 million
- renovations to the Morrill Science Complex totaling approximately $51.3 million

Campus Center at UMass Boston

- repairs to the Lederle Graduate Research Complex for $41.3 million
- upgrades to residential housing sprinkler systems for $32.0 million
- improvements of McGuirk Stadium for $30.0 million
- renovations to increase capacity at the Worcester Dining Commons for $20.0 million
- facility demolitions for $12.8 million
- renovations of Machmer Hall for $12.6 million

Boston Campus

- construction of the Integrated Science Complex for $152.0 million
- roadway and utility relocations for $133.9 million in a move to restructure the entire campus
- renovations of existing campus buildings to address deferred maintenance for $75.0 million
- construction of a Living/Learning Center for $88.0 million
- construction of a 1,200 vehicle parking garage to meet current demand for approximately $35.0 million
- construction of two new academic building for a total of $200.0 million
- construction of a trigeneration facility for $25.0 million

Dartmouth Campus

- construction of a new academic building in order to consolidate operations and create more academic space for approximately $55.0 million
- construction of a Biomanufacturing Building for approximately $26.0 million
- extensive library renovations to address deferred maintenance and to improve services for approximately $46.0 million
- an energy/water conservation project for $34.0 million
- acquisition of the Advanced Technology Manufacturing Center for $11.4 million
- construction or renovation of a marine fisheries research building for 48.0 million
- expansion of the Charlton College of Business for $15.0 million

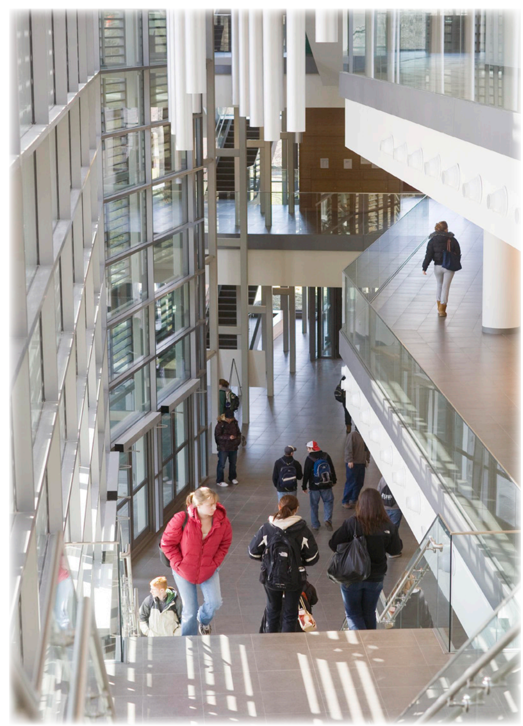
Lowell Campus

- construction of the Emerging Technology Innovation Center for approximately $72.2 million
- construction of Health and Social Sciences Building on the South Campus for $40.0 million
- reconfiguration of the North Campus science and engineering space for approximately $70.0 million
- acquisition of several properties neighboring the Campus for $10.0 million
- construction of two parking garages to increase capacity for approximately $40.0 million
- renovation of the newly acquired University Crossing Complex for $91.4 million to create administration services, student housing, and a bookstore
- renewal of Coburn Hall for $19.0 million
- energy conservation projects and power plant improvements for approximately $30.0 million

Worcester Campus

- construction of a new science facility to support new programs in stem cell research, RNAI therapies, and gene silencing for approximately $350.0 million
- expansion of the existing power plant to improve efficiency and meet the energy requirements of the growing Campus for approximately $50.0 million
- HVAC upgrades and replacements for approximately $30.1 million
- construction of a parking garage to meet increased demand for $40.0 million

Beginning in the late 1990s, the University enhanced its 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 through the use of operational funds, campus borrowing, and state support.



Isenberg School of Management UMass Amherst

Factors Impacting Future Periods

After seven years at the helm of the University, during which there was significant growth in enrollment, research funding, and capital investment, President Wilson announced that he was stepping down at the conclusion of fiscal year 2011. A 23-member committee, comprised of faculty, trustees, alumni, students, academic leaders and community leaders, initiated a wide-ranging, national search to find the best person to lead the University System. On January 13, 2011, Robert L. Caret was elected President of the University.

President Caret assumes the presidency of the University of Massachusetts after completing highly successful presidencies at San Jose State University and Towson University. President Caret presided over periods of significant growth at both universities. His presidency at Towson University in Maryland lasted for eight years where he also served as a faculty member, dean, executive vice president and provost during his more than 25-year tenure at the university. He also served for eight years as the President of San Jose State University in California. He received his PhD in organic chemistry from the University of New Hampshire in 1974 and his Bachelor of Science degree in chemistry and mathematics from Suffolk University in 1969.

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.

Despite challenging economic times in the Commonwealth and throughout the World, the University of Massachusetts continues to focus on improving its competitive position. To meet increased student demand, boost academic credentials, and improve campus infrastructure, the University acquired several strategic properties in fiscal years 2010 and 2011:

- On February 2, 2010, the Massachusetts Board of Higher Education issued approval for UMass Dartmouth to offer the juris doctorate (J.D.) degree and establish the first public law school in the Commonwealth. On November 16, 2010, the Foundation completed the acquisition of the building and land at 333 Faunce Corner Road, Dartmouth, MA, from the Board of Trustees of Southern New England School of Law. This acquisition marks the culmination of the gift of the assets of Southern New England School of Law to the University of Massachusetts Foundation, Inc. and the University of Massachusetts Dartmouth. On July 1, 2010, the University of Massachusetts Dartmouth began operation of the law school, now known as UMass Law School at Dartmouth. The focus of the law school will be public-service, with a curriculum concentrating on civil and human rights, legal support for businesses, economic justice, and community law. The operating plan for the new law school calls for increasing enrollment, recruiting faculty, and improving assets in order to prepare the school for accreditation from the American Bar Association.
- Also in February 2010, the Lowell campus accepted the transfer of the 6,500-seat Tsongas Arena from the City of Lowell. The renamed Tsongas Center at UMass Lowell will host hockey games, concerts, functions, school events and other community activities
- In May 2010, the University's Boston Campus finalized the purchase of the former site of the Bayside Exposition Center, which is located less than one mile from the main campus. This acquisition adds 20 acres of waterfront property to the Campus and includes 1,500 parking spaces.
- Most recently, the University's Lowell Campus purchased the former Saint Joseph's Hospital in Lowell in January 2011. The property consists of six buildings totaling 300,000 square feet located within walking distance of University's North, South, and East campuses in Lowell. To be known as University Crossing, the property will offer an important connection point and will provide much needed space for the growing Lowell Campus.

UMass Dartmouth Women's Field Hockey

Despite these successful acquisitions, 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. 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 order to support the University's capital plan, the University of Massachusetts Building Authority completed a bond issuance in October 2009 to fund approximately $512.5 million of renovations, new construction, and deferred maintenance projects at the Amherst, Boston, Dartmouth, Lowell, and Worcester campuses. In November 2010, the Building Authority issued an additional $552.3 million in bonds to fund a number of new construction and renovation projects across the University.

The University, as well as Legislative and Executive Leadership in the Commonwealth, understand that the despite the significant level of capital activity being financed through University debt, a much higher level of state support needs to be dedicated to higher education facilities. As such, the Massachusetts Legislature passed a higher education bond bill in August 2008 that was filed by Governor Patrick. The Higher Education Improvement Act authorized $2.2 billion for capital improvement spending over the next ten years at community colleges, state colleges, and the University. More than $1 billion of these funds are directed to University projects exclusively. Although the financial challenges faced by the Commonwealth have slowed down the pace of this funding, the capital investment plan released in October 2010 by the Commonwealth's Executive Office for Administration and Finance maintains the commitment to fund $1 billion of capital activity at the University over the ten-year period from FY09-18.

In addition, a major state effort to assist the Commonwealth in increasing its competitive position in the Life Sciences Industry was signed into law by the Governor on June 16, 2008. The $1 billion Life Sciences Industry Investment Act authorized $500 million of capital funding over ten years. It is anticipated that some portion of this funding, possibly as much as $242 million, will be used to support facility improvements at the University. $90 million has already been dedicated to partially fund a major research complex at the University's Medical School in Worcester. Additional funding is anticipated to fund a $95 million research facility at the Amherst Campus and significant capital investments in collaborative facilities and programs involving the Boston, Dartmouth, and Lowell campuses. In addition to capital funding, the life sciences initiative provides a number of opportunities for the University to participate in the planning and program implementation of this important economic development effort.

This focus on the development of life sciences research and business in the Commonwealth dovetails with the fact that 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.

The University's Boston Campus is situated on a peninsula in Boston Harbor which is also home to the John F. Kennedy Presidential Library and the Massachusetts State Archives and Commonwealth Museum. Plans are now underway to develop, adjacent to the campus, the Edward M. Kennedy Institute for the United States Senate. The Institute will include a new building focusing on political study, training sessions for students and politicians, and historical records. Once established, the Institute is likely to add significant prominence to the Boston Campus and the University.

In recent years the University's UMassOnline 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. For fiscal year 2011, UMassOnline achieved a 16% increase in revenue and a 12% increase in enrollment. Compared to the previous year, revenues increased from approximately $56.2 million to $65.2 million.

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.

In keeping with the University's mission to remain accessible, leadership followed a strategy beginning in 2004 which limited the annual increases for mandatory student charges to levels below the estimated current inflation rate. The University believed that this "at or below inflation" approach for student charge increases would provide reasonable stability and predictability for students, their families, and institutional planners. The University was able to maintain these limits on its student charge increases through fiscal year 2009 because of stable support from the Commonwealth. On October 15, 2008, faced with a large state budget deficit, Governor Patrick implemented a fiscal action plan to close the gap that included more than $1.0 billion in immediate cuts and spending controls across state government. As part of this action plan, the administration reduced the University's fiscal year 2009 state appropriation by 5%, or approximately $24.6 million. As the state and national economy continued to deteriorate, the administration reduced the University's fiscal year state appropriation by an additional $2.8 million in January 2009.

In response to these mid-year reductions and the anticipated further reduction of the state appropriation for fiscal year 2010, the University departed from its five-year practice of limiting student charge increases to at or below the rate of inflation. For fiscal year 2010, the University Trustees approved a mandatory student charge increase of up to $1,500 for in-state undergraduate students. The approved increase included specific language that authorized rebates of the charge increases based upon the level of federal support provided by The American Recovery and Reinvestment Act of 2009 ("ARRA").

The Commonwealth's budget for fiscal year 2010 approved on June 29, 2009 reduced the University's state appropriation by $53.5 million in comparison to the final fiscal year 2009 state appropriation after the reductions made in October 2008 and January 2009. The fiscal year 2010 state budget also eliminated $10.2 million of line item funding specific to the University.

To protect the University from the full impact of the budget reductions made in fiscal year 2009 and fiscal year 2010, the Commonwealth's Executive Office of Education distributed to the University in September 2009, $118.6 million of the federal education stabilization funds available to the Commonwealth from ARRA. In October 2009, in response to lower state revenue projections, the state rescinded an additional $32.0 million from the University's state appropriation. The Commonwealth's Executive Office of Education replaced this lost appropriation with an equal amount of ARRA education stabilization funds. The receipt of this federal revenue allowed the University to remain consistent with the Board of Trustee vote on student charges taken on February 27, 2009 and offer a partial rebate of the $1,500 student charge increase.

The fiscal year 2011 budget approved by the Legislature and signed by the Governor on June 30, 2010 included a base state appropriation of approximately $424.1 million for the University; an increase in the base state appropriation of approximately $44.2 million in comparison to fiscal year 2010. In addition, $4.4 million of line item funding specific to the University that was not funded in fiscal year 2010 was restored for fiscal year 2011. The University received an additional $5.5 million from the Commonwealth to support the fiscal year 2011 cost of collective bargaining agreements. Subsequent to the finalization of the Commonwealth's fiscal year 2011 budget, federal legislation was passed that authorized approximately $200 million for protecting education jobs in the Commonwealth. With the receipt of this funding, the Commonwealth's Executive Office of Education distributed $37.8 million of ARRA funds to the University for fiscal year 2011.

The Commonwealth's budget for fiscal year 2012 signed by Governor Patrick included a base state appropriation for the University of approximately $418 million for the current fiscal year. While this appears to be a $6.0 million decline from fiscal year 2011, the Governor's budget is actually proposing level funding. This is due to the fact that the Legislature passed a bill that will allow the University's Boston, Dartmouth, Lowell, and Worcester campuses to retain tuition collected from non-resident students beginning in fiscal year 2012. The amount of non-resident tuition estimated to be collected by these four campuses totals $11.6 million in the initial year. Prior to the legislation, the approximately $11.6 million of non-resident tuition would have been remitted to the Commonwealth. Therefore, the $418 million base state appropriation approved for fiscal year 2012 is equal to the $424.0 million fiscal year 2011 base state appropriation plus a continuation of the $5.5 million of collective bargaining support initially provided in fiscal year 2011 less the $11.6 million of tuition revenue to be retained by the four campuses.

In addition to the level funding of the base state appropriation, the Commonwealth's fiscal year 2012 budget includes $6.4 million of line item funding specific to the University. However, this positive support is offset by the fact that the University does not anticipate receiving any ARRA stimulus funds in fiscal year 2012. As a result of the anticipated flat state support, the elimination of the federal stimulus funding, and the expectation that the Commonwealth will not be providing support for the fiscal year 2012 costs of the collective bargaining contracts signed in fiscal year 2011, the University's Board of Trustees voted on June 8, 2011 to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year.

Contacting the University

This financial report is designed to provide the University, the Commonwealth, the public and other interested parties with an overview of the financial results of the University and an explanation of the University's financial condition. If you have any questions about this report or require additional information, you can contact the University by calling the Assistant Vice President and University Controller, Christine Wilda, at (774) 455-7549 or by email at cwilda@umassp.edu.

Financial Statements

Statements of Net Assets

As of June 30, 2011 and 2010
(in thousands of dollars)

ASSETS	University June 30, 2011	University Related Organizations June 30, 2011	University June 30, 2010	University Related Organizations June 30, 2010
Current Assets				
Cash and Cash Equivalents	$56,751		$31,926	
Cash Held By State Treasurer	13,895		13,736	
Accounts, Grants and Loans Receivable, net	224,309		223,267	
Pledges Receivable, net	6,071	$4,582	7,219	$3,758
Short Term Investments	233,392		230,121	
Inventories, net	22,588		13,218	
Accounts Receivable UMass Memorial, net	10,664		14,562	
Due From Related Organizations	51	632	625	739
Other Assets	13,486	8	19,703	65
Total Current Assets	**581,207**	**5,222**	**554,377**	**4,562**
Noncurrent Assets				
Cash and Cash Equivalents		684		3,611
Cash Held By State Treasurer	5,793		2,423	
Cash and Securities Held By Trustees	1,170,175		814,903	
Accounts, Grants and Loans Receivable, net	39,162		36,429	
Pledges Receivable, net	1,180	5,798	1,061	6,121
Investments	596,838	348,791	538,138	297,055
Other Assets	29,850	105	19,641	1,270
Deferred Outflow s of Resources	19,510		64,033	
Investment In Plant Net of Accumulated Depreciation	2,582,651	9,019	2,324,392	1,699
Total Noncurrent Assets	**4,445,159**	**364,397**	**3,801,020**	**309,756**
Total Assets	**$5,026,366**	**$369,619**	**$4,355,397**	**$314,318**
LIABILITIES				
Current Liabilities				
Accounts Payable	$126,532	$61	$118,424	$106
Accrued Salaries and Wages	81,075		74,554	
Accrued Compensated Absences	72,753		70,035	
Accrued Workers' Compensation	3,726		3,210	
Accrued Interest Payable	20,681		16,647	
Bonds Payable	188,952		194,900	
Capital Lease Obligations	5,473		5,962	
Notes Payable				2
Assets Held on behalf of Others		11,458		9,990
Accounts Payable UMass Memorial	16,422		4,037	
Due To Related Organizations	632	51	739	625
Deferred Revenues and Credits	46,705	4,215	36,880	5,340
Advances and Deposits	6,994		6,434	
Other Liabilities	39,346		52,740	
Total Current Liabilities	**609,291**	**15,785**	**584,562**	**16,063**
Noncurrent Liabilities				
Accrued Compensated Absences	26,541		25,843	
Accrued Workers' Compensation	9,821		10,688	
Arbitrage Rebate Payable	14		551	
Bonds Payable	2,122,233		1,632,209	
Capital Lease Obligations	12,116		17,177	
Notes Payable				618
Derivative Instruments, Interest Rate Sw aps	51,342		64,033	
Deferred Revenues and Credits	20,080		23,567	
Advances and Deposits	26,688		26,507	
Other Liabilities	6,850	3,413	1,107	3,046
Total Noncurrent Liabilities	**2,275,685**	**3,413**	**1,801,682**	**3,664**
Total Liabilities	**$2,884,976**	**$19,198**	**$2,386,244**	**$19,727**
Net Assets:				
Invested in Capital Assets Net of Related Debt	$1,283,888	$9,020	$1,133,264	$1,699
Restricted				
Nonexpendable	17,112	254,625	16,899	240,595
Expendable	184,909	73,995	218,517	48,127
Unrestricted	655,481	12,781	600,473	4,170
Total Net Assets	**$2,141,390**	**$350,421**	**$1,969,153**	**$294,591**

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, 2011 and 2010
(in thousands of dollars)

REVENUES	University June 30, 2011	University Related Organizations June 30, 2011	University June 30, 2010	University Related Organizations June 30, 2010
Operating Revenues				
Tuition and Fees (net of scholarship allowances of $178,676 at June 30, 2011 and $177,850 at June 30, 2010)	$597,200		$552,419	
Federal Grants and Contracts	371,426		333,538	
State Grants and Contracts	62,597		64,328	
Local Grants and Contracts	1,937		1,880	
Private Grants and Contracts	107,767		104,368	
Sales and Service, Educational	18,011		17,530	
Auxiliary Enterprises	272,020		257,852	
Other Operating Revenues:				
Sales and Service, Independent Operations	52,619		50,442	
Sales and Service, Public Service Activities	670,557		596,976	
Other	74,979		74,455	
Total Operating Revenues	**2,229,113**		**2,053,788**	
EXPENSES				
Operating Expenses				
Educational and General				
Instruction	596,341		555,833	
Research	419,990		403,217	
Public Service	66,548	$11,551	67,080	$10,388
Academic Support	133,253		124,126	
Student Services	98,361		88,985	
Institutional Support	184,505		156,845	
Operation and Maintenance of Plant	202,950		200,761	
Depreciation and Amortization	159,854	127	155,746	28
Scholarships and Fellowships	41,238	429	34,634	782
Auxiliary Enterprises	216,852		204,004	
Other Expenditures				
Independent Operations	41,911		58,437	
Public Service Activities	626,981		538,880	
Total Operating Expenses	**2,788,784**	**12,107**	**2,588,548**	**11,198**
Operating Loss	**(559,671)**	**(12,107)**	**(534,760)**	**(11,198)**
NONOPERATING REVENUES/(EXPENSES)				
Federal Appropriations	5,826		5,922	
State Appropriations	505,799		415,889	
State Appropriations - Federal Stimulus funds	37,897		150,639	
Gifts	26,504	21,632	28,603	10,498
Investment Income	77,773	29,725	65,863	19,676
Endowment Income	10,207	1,214	5,583	974
Interest on Indebtedness	(64,124)		(49,113)	
Nonoperating Federal Grants	70,643		60,324	
Other Nonoperating Income	5,225		3,868	
Net Nonoperating Revenues	**675,750**	**52,571**	**687,578**	**31,148**
Income Before Other Revenues, Expenses, Gains, and Losses	**116,079**	**40,464**	**152,818**	**19,950**
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES				
Capital Appropriations	28,109		28,635	
Capital Grants and Contracts	30,354		18,981	
Additions to Permanent Endowments		15,195		13,003
Net Amounts Earned/Received on Behalf of Others		(1,397)		10
Capital Contribution	4,361	1,666	29,810	
Disposal of Plant Facilities	(10,682)		(12,125)	
Gain from Sale of Discontinued Operations	9,655			
Other Additions/Deductions	(5,639)	(98)	9,729	4,857
Total Other Revenues, Expenses, Gains, and Losses	**56,158**	**15,366**	**75,030**	**17,870**
Total Increase in Net Assets	**172,237**	**55,830**	**227,848**	**37,820**
NET ASSETS				
Net Assets at Beginning of Year	1,969,153	294,591	1,741,305	256,771
Net Assets at End of Year	**$2,141,390**	**$350,421**	**$1,969,153**	**$294,591**

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

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010
(in thousands of dollars)

	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$668,202	$628,382
Grants and Contracts	601,982	585,697
Payments to Suppliers	(1,261,310)	(1,207,325)
Payments to Employees	(1,168,247)	(1,122,648)
Payments for Benefits	(295,311)	(255,321)
Payments for Scholarships and Fellow ships	(41,232)	(34,476)
Loans Issued to Students and Employees	(4,409)	(5,156)
Collections of Loans to Students and Employees	5,439	4,116
Auxiliary Enterprises Receipts	263,276	262,234
Sales and Service, Educational	15,899	17,022
Sales and Service, Independent Operations	75,050	59,010
Sales and Service, Public Service Activities	741,461	641,008
Net Cash Used for Operating Activities	**(399,200)**	**(427,457)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	582,533	479,282
State Appropriations - Federal Stimulus Funds	37,897	150,639
Tuition Remitted to the State	(49,731)	(49,084)
Federal Appropriations	5,826	5,922
Gifts and Grants for Other Than Capital Purposes	22,376	20,179
Nonoperating Federal Grants	70,643	60,324
Student Organization Agency Transactions	303	330
Net Cash Provided by Noncapital Financing Activities	**669,847**	**667,592**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt	539,012	565,457
Bond Issuance Costs Paid	(10,971)	(580)
Capital Appropriations	21,822	28,245
Capital Grants and Contracts	30,099	13,924
Purchases of Capital Assets and Construction	(221,979)	(135,656)
Principal Paid on Capital Debt and Leases	(62,239)	(84,549)
Interest Paid on Capital Debt and Leases	(53,469)	(52,096)
Use of Debt Proceeds on Deposit w ith Trustees	(148,602)	(214,479)
Net Cash Provided by Capital Financing Activities	**93,673**	**120,266**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	1,028,009	625,378
Interest on Investments	20,639	21,482
Purchase of Investments	(1,029,342)	(675,216)
Net Cash Provided By/(Used for) Investing Activities	**19,306**	**(28,356)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**383,626**	**332,045**
Cash and Cash Equivalents - Beginning of the Year	**862,988**	**530,943**
Cash and Cash Equivalents - End of Year	**$1,246,614**	**$862,988**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	($559,671)	($534,760)
Adjustments to reconcile loss to net cash used by Operating Activities:		
Depreciation and Amortization Expense	159,854	155,746
Changes in Assets and Liabilities:		
Receivables, net	(2,746)	(29,730)
Inventories	(9,370)	615
Due to/from Related Organizations	467	843
Accounts Receivable/Payable UMass Memorial	16,283	1,649
Other Assets	753	37
Accounts Payable (non-capital)	(11,551)	12,320
Accrued Liabilities	9,586	6,409
Deferred Revenue	6,338	(11,546)
Advances and Deposits	741	(695)
Other Liabilties	(9,884)	(28,345)
Net Cash Used for Operating Actvities	**($399,200)**	**($427,457)**
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Assets acquired and included in accounts payable and other liabilities	$62,091	$42,969
Loss on disposal of capital assets	(10,932)	(12,672)
Securities lending activity	(2,664)	(13,024)
Unrealized gains on investments	48,623	41,687

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, dining commons, and other buildings and structures for use by the University. WCCC, of which Public Sector Partners, Inc. (("PSP") See Note 6) 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 accompanying 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 financial reports of all above mentioned component units are available upon request from the University.

The University is an enterprise fund 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 financial statements are reported on a consolidated 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, federal appropriations, non-capital gifts, short term investment income, endowment income used in operations, interest expense, and capital additions and deductions. Other Revenues, Expenses, Gains and Losses represent all capital items, 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 best estimates of selling price associated with certain multiple element arrangements. 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 statements of revenues, expenses, and other changes to net assets, and included in supplies and services on the statements of cash flows. Discounts and allowances for tuition and fees and auxiliary enterprises are calculated using the Alternate Method.

NEW ACCOUNTING PRONOUNCEMENTS

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. The adoption of GASB Statement No. 51 did not have an effect on the financial statements in fiscal year 2010 or 2011.

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). 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 was issued by the GASB in April 2009. At June 30, 2011 and 2010, the University has recorded the fair value of $19.5 million and $64.0 million, respectively, of the Series 2008-1, 2008-A, and 2006-1 Interest Rate Swap agreements which were determined to be effective derivative hedging instruments at both June 30, 2011 and 2010.

CLASSIFICATION OF ASSETS AND LIABILITIES

The University presents current and non-current assets and liabilities in the statements 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.

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 reported at their respective fair values. 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.

Private equities and certain other non-marketable securities held by the Foundation 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. 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 accompanying financial statement.

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, 2011 and 2010 was $125.9 million and $113.2 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 whether they are realizable, 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 4% to 6% of the endowment fund's average market value for the preceding twelve quarters on a one-year lag and three-year share average. The Foundation revised its policy during the fiscal year and it will go into effect for the fiscal year 2012 distribution. The new policy is an annual distribution of 4% of the endowment fund's average market value for the preceding twelve quarters on a one year lag. Only quarters with funds on deposit shall be included in the average. In addition, a prudence rule will be utilized limiting spending from a particular endowment fund to no lower than 93% of its book value. The actual spending rate approved was 4% for 2010. The Board of Directors of the Foundation approved an exception to the spending policy due to the significant decrease in market performance of fiscal year 2009. The actual spending rate approved was 1.5% of the fiscal year 2009 ending fair value. 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 temporarily restricted net assets, and would be recorded in realized and unrealized gains (losses) on sale of investments. The Foundation believes that, if applicable, these adjustments would be temporary and will not require permanent funding. In fiscal years 2011 and 2010, the deficiencies were $0.4 million and $4.1 million, respectively.

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 or fair value upon receipt as a gift. 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 statements 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 only from repayments of outstanding principal amounts plus accumulated interest received thereon.

TUITION AND STATE APPROPRIATIONS

The accompanying financial statements for the years ended June 30, 2011 and 2010 record as tuition revenue approximately $49.7 million and $49.1 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. This program has been approved effective 2012 for the remaining campuses. The amount of tuition retained by the University during 2011 and 2010 was $34.6 million and $31.5 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):

	2011	2010
Gross Commonwealth Appropriations	$408,019	$356,339
Plus: Fringe Benefits	147,511	108,634
	555,530	464,973
Less: Tuition Remitted	(49,731)	(49,084)
State Appropriations, Net	$505,799	$415,889

As part of the fiscal year 2010 budget process, the University received a budget from the Commonwealth that was $95.7 million less than the previous year. In order to address this significant decrease in funding, Governor Deval Patrick awarded $150.6 million in Education Stabilization Funds to the University. These funds originated from the passage of the American Recovery and Reinvestment Act ("ARRA") of 2009 and were utilized for educational and general expenditures in order to mitigate the need to raise tuition and fees for in-state residents and to modernize, renovate, or repair facilities. Fringe benefits for payroll at the rate of 26.42% were funded by the University as charged to these funds amounting to $14.4 million in 2010. A rebate of $34.9 million in student fees was issued during 2010 as a result of being awarded these ARRA funds subsequent to an approved fee increase being charged to students. The rebate is shown as a discount to tuition and fees in the financial statements. In fiscal year 2011, the University's prior year budget cut was partially restored with an increase of $44.5 million. Additionally, the state awarded $37.9 million in State Fiscal Stabilization funds ("SFSF") to the University. Fringe benefits for payroll at the rate of 31.82% were funded by the University as charged to these funds.

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of $272.0 million and $257.9 million for the years ended June 30, 2011 and 2010 respectively are stated net of room and board charge allowances of $1.7 million and $1.5 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 care 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 $345.7 million and $361.4 million for the years ended June 30, 2011 and 2010, respectively. Included in expenditures are Commonwealth Medicine expenditures of $316.5 million and $330.4 million for the years ended June 30, 2011 and 2010, 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 $200.2 million and $125.9 million for the years ended June 30, 2011, and 2010, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $177.0 million and $92.0 million for the years ended June 30, 2011 and 2010, 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 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 years that ended on June 30, 2011 and June 30, 2010, respectively, 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 and University of Massachusetts Building Authority are agencies of the Commonwealth of Massachusetts and are exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. The Worcester City Campus Corporation, Public Sector Partners, Inc. and the University Related Organizations are 501(c)(3) organizations and are exempt from Federal Income tax under the Internal Revenue Code and similar state provisions. Accordingly, no provision for income taxes has been recorded in the accompanying 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. During 2011, the University determined that it incorrectly reported fiscal year 2010 which resulted in an increase to Tuition and Fee revenue by $13.1 million, increase to Auxiliary Enterprises revenue by $4.8 million, decrease to State Appropriation Revenue by $13.1 million, increase of $3.9 million in Sales & Service and Other Operating Revenues and increase to expenses by $8.7 million. Furthermore, the University has moved $60.3 million from Operating to Non-operating Revenue for Non-operating Federal Grants including PELL. These reclassifications, revised classification and adjustments have no effect on total net assets at June 30, 2010.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The University's investments are made in accordance with the Investment Policy and Guidelines Statement Operating Cash Portfolio adopted in May 2005 and later amended in June 2009 by the Board of Trustees (the Investment Policy) and the Statement of Investment and Spending Policies of the University of Massachusetts Foundation, Inc. The goals of these documents 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.

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 21.6% and 18.4% of the Universities investments at June 30, 2011 and 2010, 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. The University does not have a formal policy for custodial credit risk. 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, 2011 and 2010, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustee's name.

The University maintains depository, payroll, disbursement, receipt, and imprest accounts. In addition to bank account deposits, the University held money market instruments which are classified as investments. . Interest bearing and money market accounts carry Federal Deposit Insurance Corporation (FDIC) insurance up to $250,000 per account; non-interest bearing accounts are fully insured through December 31, 2013. None of the accounts are collateralized above the FDIC insured amounts. The University also invested in individual CD's and BNY Mellon's CDARS program. These funds are invested in individual certificates of deposit in $250,000 increments and are therefore fully insured by the FDIC. At June 30, 2011 and 2010, the carrying amounts, bank balances and FDIC insured amounts are as follows (in thousands):

	2011			2010		
	Book Balance	Bank Balance	FDIC Insured	Book Balance	Bank Balance	FDIC Insured
Depository Accounts	37,400	55,400	54,800	12,900	33,100	32,700
Certificates of Deposit	40,650	40,650	40,650	20,500	20,500	20,500
Money Market	186,730	186,730	1,500	192,100	192,100	1,500
Total	264,780	282,780	96,950	225,500	245,700	54,700

At June 30, 2011 the University held a carrying and fair market value of $632.0 million in non-money market investments compared to a carrying and fair market value of $553.3 million at June 30, 2010. In the event of negligence due to the University's custodian and/or investment manager(s), it is expected that investment balances of $632.0 million and $553.3 million at June 30, 2011 and 2010, respectively, would be fully recovered. However, these amounts are subject to both interest rate risk and credit risk.

***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% or more of the total value of the University's investments. The University does not have a formal policy for custodial credit risk.

As of June 30, 2011 and June 30, 2010, respectively, there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the 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 allows 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, 2011 and 2010, respectively:

Asset Class	June 30, 2011 Fair Value	Average Credit Quality	June 30, 2010 Fair Value	Average Credit Quality
Short Duration	$263,212	AAA	$305,247	AAA
Intermediate Duration	270,530	A	241,252	A

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, 2011 and 2010, respectively:

Rated Debt Investments - 2011
(in thousands)

		S&P Quality Ratings							
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
U.S Agencies	$ 34,326	$ 1,512	$ 531	$ 843	$ 304	$ 36	$ 152	$ 282	$ 30,666
U.S Government	11,172	2,565	-	-	-	-	-	-	8,607
Foreign Govn't Bonds	2,753	1,763	-	141	449	94	-	-	306
Corporate Debt	135,746	32,440	10,533	35,762	25,173	6,716	6,569	3,696	14,857
Bond Mutual Funds	110,469	21,758	7,959	14,275	15,973	1,657	891	550	47,406
Money Market Funds	239,276	238,305	-	-	-	-	-	-	971
	$ 533,742	$ 298,343	$ 19,023	$ 51,021	$ 41,899	$ 8,503	$ 7,612	$ 4,528	$ 102,813

Rated Debt Investments - 2010
(in thousands)

		S&P Quality Ratings							
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
U.S Agencies	$ 11,903	$ 277	$ -	$ 322	$ -	$ -	$ -	$ 6	$ 11,298
U.S Government	26,957	9,214	163	-	-	-	-	-	17,580
Corporate Debt	227,648	22,949	68,261	94,079	18,197	6,752	6,751	3,901	6,758
Money Market Funds	279,991	231,994	-	458	-	-	-	-	47,539
	$ 546,499	$ 264,434	$ 68,424	$ 94,859	$ 18,197	$ 6,752	$ 6,751	$ 3,907	$ 83,175

***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 allocation for each asset class and the fair value (in thousands) for each as of June 30, 2011 and 2010, respectively:

Asset Class	6/30/11 Allocation	6/30/11 Fair Value	6/30/10 Allocation	6/30/10 Fair Value
Short Duration	32%	$263,212	38%	$292,084
Intermediate Duration	33%	270,530	33%	254,415
Alternative Assets	21%	179,027	18%	141,244
Equities	12%	100,570	10%	72,363
Commodities	2%	14,791	1%	8,153
Real Estate	0%	2,100	0%	-

Investments - 2011
(in thousands)

Investment Type:	Investment Maturity (in Years)				
Debt Securities	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US Agencies	$ 29,986	$ 9,968	$ 2,468	$ 1,198	$ 16,352
US Government	11,172	836	6,551	3,476	309
Foreign Govn't Bonds	2,753	-	373	2,380	-
Corporate Debt	135,746	8,254	57,256	26,662	43,574
Bond Mutual Funds	110,469	4,878	53,820	41,892	9,879
Municipal/Public Bonds	4,340	-	612	663	3,065
Money Market Mutual Funds	239,276	239,276	-	-	-
Sub Total Debt	$ 533,742	$ 263,212	$ 121,080	$ 76,271	$ 73,179

Other Investments	
Alternative Assets	$ 179,027
Equity Securities- International	49,558
Equity Securities- Domestic	51,012
Commodities	14,791
Real Estate	2,100
Grand Total	$ 830,230

Investments - 2010
(in thousands)

Investment Type:	Investment Maturity (in Years)				
Debt Securities	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US Agencies	$ 11,304	$ -	$ 1,043	$ 1,502	$ 8,759
US Government	26,957	3,996	13,165	8,540	1,256
Corporate Debt	227,648	7,776	127,840	64,024	28,008
Municipal/Public Bonds	599	279	320	-	-
Money Market Mutual Funds	279,991	280,033	(11)	(61)	30
Sub Total Debt	$ 546,499	$ 292,084	$ 142,357	$ 74,005	$ 38,053

Other Investments	
Alternative Assets	$ 141,244
Equity Securities- International	37,612
Equity Securities- Domestic	34,751
Commodities	8,153
Real Estate	-
Grand Total	$ 768,259

Securities Lending: The University no longer participates in a securities lending program. The University exited this program in September 2010.

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 $19.7 million at June 30, 2011 and $16.2 million at June 30, 2010. 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. The cash is held in the State Treasurer's pooled cash account. The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver – General.

4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent bond proceeds, amounts held for the future payment of debt service on such borrowings and designated funds. At June 30, 2011 and June 30, 2010 there are investments of $2.0 million and $3.4 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 $11.0 million and $8.3 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 $1.154 billion and $0.796 billion, respectively, held by trustees related to the Building Authority. This includes designated funds awarded by the Commonwealth of Massachusetts for capital projects which are held in trust by the Building Authority. At June 30, 2011 and 2010, the amount of designated funds were $3.8 million and $23.2 million, respectively. In addition, at June 30, 2011 and 2010, $3.4 million and $6.9 million, respectively were available to be used by WCCC for capital construction purposes.

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately $1.197 billion at June 30, 2011 and $0.796 billion at June 30, 2010) 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.

Cash Deposits – Custodial Credit Risk The Building Authority holds a majority of its cash and cash equivalents in high quality money market mutual funds that invest in securities that are permitted investments under the Building Authority's Enabling Act or in money market mutual funds that have been specifically permitted by state legislation. The Building Authority's cash and cash equivalents held by Trustees consist of the following as of June 30, 2011 and 2010 (in thousands):

	2011	2010
Fully insured bank accounts	$70	$24
Permitted money market accounts (MMA)	506,074	361,257
	$506,144	$361,281

Custodial credit risk is the risk that, in the event of a bank failure, the Building Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Building Authority does not have a deposit policy for custodial credit risk. As of June 30, 2011 and 2010, the Building Authority's cash deposits of $.07 million and $.02 million, respectively, were not subject to custodial credit risk as they were fully insured. For purposes of disclosure under GASB Statement No. 40, Deposit and Investment Risk Disclosures, money market accounts investing in debt securities are considered investments and therefore, are included in the investment disclosures that follow.

Investments

As of June 30, 2011 (in thousands):	Investment Maturities (in Years)				
	Fair	Less			More
Investment type	value	than 1	1 to 5	6 to 10	than 10
Debt Securities					
US Treasuries	$71	$71	$ -	$ -	$ -
US Agencies	642,201	103,037	519,235	19,930	-
Repurchase Agreements	5,318	-	-	5,318	-
MMA	506,074	506,074	-	-	-
	$1,153,664	$609,182	$519,235	$25,248	$ -
Other Investments:					
Worcester City Campus Corp	$3,416				
Revolving Loan	10,987				
Master Leases	2,037				
	$1,170,104				

As of June 30, 2010 (in thousands):	Investment Maturities (in Years)				
Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Debt Securities					
US Agencies	$429,700	$199,678	$230,022	$ -	$ -
Repurchase Agreements	5,318	-	-	-	5,318
MMA	361,257	361,257	-	-	-
	$796,275	$560,935	$230,022	$ -	$5,318
Other Investments:					
Worcester City Campus Corp	$6,927				
Revolving Loan	8,284				
Master Leases	3,394				
	$814,880				

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

Interest Rate Risk The Building Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the Building Authority holds its investments until maturity.

Credit Risk Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Enabling Act specifies the permitted investments of the Building Authority. These permitted investments include direct obligations of or obligations which are unconditionally guaranteed by the United States of America (Treasuries), obligations of an agency or organization created pursuant to an act of Congress of the United States as an agency or instrumentality thereof (Agencies), time deposits or certificates of deposits fully secured by Treasuries or Agencies, and Treasuries and Agencies subject to repurchase agreements. Other legislation allows the Building Authority to invest in the Massachusetts Municipal Depository Trust (MMDT), a money market account sponsored by the Treasurer of the Commonwealth and managed by Fidelity Investments. Additionally, the Building Authority's Bond Trustee invests some of the Building Authority's funds in money market accounts that are permitted and are collateralized by Treasuries.

No credit risk disclosures are required under GASB 40 related to the Building Authority's investment in Treasuries. The Building Authority's investments in Agencies are rated at the highest level by Standard & Poor's Rating Services and Moody's Investors Service, Inc. The Building Authority's investments in repurchase agreements are fully collateralized by Treasuries and Agencies but are not themselves rated. The MMDT is unrated.

Custodial Credit Risk Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Building Authority's Enabling Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk except that interest-bearing time deposits or certificates of deposit of banking institutions or trust companies must be continuously and fully secured by Treasuries or Agencies.

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

Concentrations of Credit Risk The Building Authority places no limit on the amount it may invest in any one issuer. As of June 30, 2011 the Building Authority had 16.1% of its investments with the Federal Home Loan Mortgage Corporation, 16.1% of its investments with the Federal Home Loan Bank and 21.6% of its investments with the Federal National Mortgage Association. As of June 30, 2010 the Building Authority had 13.5% of its investments with the Federal Home Loan Mortgage Corporation, 15.4% of its investments with the Federal Home Loan Bank and 25.4% of its investments with the Federal National Mortgage Association.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

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

University:

	2011	2010
Students Accounts Receivable	$41,534	$37,349
Less allowance for uncollectible accounts	(15,303)	(13,688)
	26,231	23,661
Grants and Contracts Receivable	81,391	79,140
Less allowance for uncollectible accounts	(3,223)	(2,181)
	78,168	76,959
Students Loans Receivable	41,822	43,025
Less allowance for uncollectible accounts	(258)	(2,270)
	41,564	40,755
Commonwealth Medicine	64,599	67,317
Less allowance for uncollectible accounts	(947)	(1,104)
	63,652	66,213
Other	55,218	53,870
Less allowance for uncollectible accounts	(1,362)	(1,762)
	53,856	52,108
Total, net	$263,471	$259,696
Less current portion, net	(224,309)	(223,267)
Long-term, net	$39,162	$36,429

UMASS MEMORIAL

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, a separate entity, is not under the control of the University, and therefore 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; and 2) a percentage of net operating income of UMass Memorial based on an agreed upon formula which revenue is recognized by the University when the amounts are agreed.

The University is reimbursed by, and reimburses UMass Memorial for shared services, cross-funded employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2011 and 2010, the reimbursement for services provided to UMass Memorial were $127.0 million and $124.1 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 $80.9 million and $77.3 million for fiscal years 2011 and 2010, respectively. At June 30, 2011 and 2010, the University has recorded a net receivable in the amount of $10.7 million and $14.6 million, respectively from UMass Memorial consisting of $9.0 million and $8.1 million, respectively, in payroll and related fringe charges and $0.5 million and $2.2 million, respectively related to capital projects at the Medical School. The University has recorded a payable at June 30, 2011 of $16.4 million primarily consisting of a prepayment for educational services, capital projects and cross-funded payroll. At June 30, 2010, the University had a payable of $4.0 million for amounts due to UMass Memorial for capital projects and cross-funded payroll. The 2011 payable of $16.4 million includes $12.0 million representing the negotiated amount under the agreed upon formula noted above.

6. RELATED ORGANIZATIONS

Related party activity with the Foundation includes loan and lease agreements, and investments of the University’s endowment assets and Intermediate Term Investment Fund (ITIF) with the Foundation. As of June 30, 2011, the net assets of the Foundation included as related organizations in the combined financial statements of the University are $360.0 million, of which

$338.9 million are restricted funds and $21.1 million are unrestricted funds. During the fiscal year ended June 30, 2011, the University received approximately $18.2 million from the Foundation, and disbursed approximately $8.3 million to the Foundation of which none related to the establishment of quasi-endowment. At June 30, 2011, the University's investments include $212.7 million of endowment funds held in a custodial relationship at the Foundation, and $245.5 million in ITIF.

As of June 30, 2010, the net assets of the Foundation included as related organizations in the combined financial statements of the University are $307.0 million, of which $301.4 million are restricted funds and $5.5 million are unrestricted funds. During the fiscal year ended June 30, 2010, the University received approximately $20.9 million from the Foundation, and disbursed approximately $11.9 million to the Foundation of which $7.3 million was for the establishment of quasi-endowment. At June 30, 2010, the University's investments include $187.5 million of endowment funds held in a custodial relationship at the Foundation, and $223.9 million in ITIF.

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. MedMetrics Health Partners, Inc. (MHP), a wholly owned subsidiary of PSP, was created by and is an affiliate of PSP. During the year ended June 30, 2011, MHP determined that it did not qualify as a Section 501(c)(4) not-for-profit pharmacy benefit management company, and rescinded its related application to the IRS. The majority of the net assets of MHP were sold to a third party on April 11, 2011, and the remainder of MHP assets were transferred to PSP. The net assets sold consisted primarily of accounts receivable, restricted cash and other assets. The buyer also assumed certain accounts payable and accrued liabilities. In 2011, PSP received $12.7 million in consideration from the sale and recognized a gain on the sale of the net assets of $9.7 million.

On October 1, 2008, the board of trustees of Public Sector Partners, Inc. ("PSP") a Massachusetts corporation formed under M.G.L.c. 180, which are comprised equally of representation from the UMass Medical School and UMass Memorial Health Ventures, Inc. (a subsidiary of UMass Memorial) voted to amend the bylaws of PSP naming Worcester City Campus Corporation (WCCC) to be the sole member of the Corporation. There was no monetary value give for the transaction and it was accounted for using the "pooling of interests" method as described by APB 16: Business Combinations.

The Building Authority and the Commonwealth 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, 2011 and 2010, the Authority had provided operating support for the Club of approximately $0.7 million and $0.2 million, respectively.

7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2011 is comprised of the following (in thousands):

University:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$2,885,304	$242,806	($1,261)	$3,126,849
Equipment and Furniture	601,564	35,349	(22,288)	614,625
Softw are	128,331	4,933	-	133,264
Library Books	109,968	8,932	(8,477)	110,423
	3,725,167	292,020	(32,026)	3,985,161
Accumulated Depreciation	(1,731,042)	(158,831)	21,094	(1,868,779)
Sub-Total	1,994,125	133,189	(10,932)	2,116,382
Land	52,989	3,567		56,556
Construction in Progress	277,278	277,562	(145,127)	409,713
Sub-Total	330,267	281,129	(145,127)	466,269
Total	$2,324,392	$414,318	($156,059)	$2,582,651

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$1,119	$7,398	($575)	$7,942
Equipment and Furniture	172	-	-	172
	1,291	7,398	(575)	8,114
Accumulated Depreciation	(352)	(126)	23	(455)
Sub-Total	939	7,272	(552)	7,659
Land	760	800	(200)	1,360
Total	$1,699	$8,072	($752)	$9,019

Investment in plant activity for the year ended June 30, 2010 is comprised of the following (in thousands):

University:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$2,586,338	$303,716	($4,750)	$2,885,304
Equipment and Furniture	585,049	40,840	(24,325)	601,564
Software	119,596	8,735	-	128,331
Library Books	104,324	13,446	(7,802)	109,968
	3,395,307	366,737	(36,877)	3,725,167
Accumulated Depreciation	(1,602,389)	(154,507)	25,854	(1,731,042)
Sub-Total	1,792,918	212,230	(11,023)	1,994,125
Land	34,398	20,240	(1,649)	52,989
Construction in Progress	241,169	205,439	(169,330)	277,278
Sub-Total	275,567	225,679	(170,979)	330,267
Total	$2,068,485	$437,909	($182,002)	$2,324,392

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$594	$525	-	$1,119
Equipment and Furniture	120	52	-	172
	714	577	-	1,291
Accumulated Depreciation	(324)	(28)	-	(352)
Sub-Total	390	549	-	939
Land	560	200	-	760
Total	$950	$749	-	$1,699

At June 30, 2011 and 2010, investment in plant included capital lease assets of approximately $85.0 million and $84.6 million, respectively, net of accumulated depreciation on capital lease assets of approximately $70.0 million and $65.7 million, respectively (see Note 9). The University had a capital contribution of $4.4 million during 2011 mostly due to a gift and $29.8 million during 2010 as a result of acquiring assets below fair value.

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, 2011 and 2010, the University capitalized net interest costs of $35.2 million and $23.6 million respectively.

8. BONDS PAYABLE

Amounts outstanding at June 30, 2011 are as follow s (in thousands):

Issue Borrow ing	Original Borrow ing	Maturity Date	Interest Rate	Amount Outstanding
University of Massachusetts Building Authority:				
Series 2000-A	$46,980	2011	4.75%	$1,645
Series 2003-1	137,970	2014	3.625-5.25%	23,045
Series 2004-A	96,025	2015	4.0-4.5%	10,735
Series 2004-1	183,965	2016	4.0-5.375%	39,935
Series 2005-1	25,595	2016	5.0%	12,745
Series 2005-2	212,550	2025	4.0-5.25%	197,825
Series 2006-2	21,240	2014	5.43-5.49%	7,860
Series 2008-A	26,580	2038	variable	24,435
Series 2008-1	232,545	2038	variable	215,120
Series 2008-2	120,560	2038	4.0-5.0%	113,105
Series 2008-3	138,635	2034	variable	-
Series 2008-4	104,000	2034	variable	-
Series 2009-1	247,810	2039	3.0-5.0%	240,120
Series 2009-2	271,855	2039	6.423-6.573%	271,855
Series 2009-3	28,570	2039	5.283-6.173%	28,570
Series 2010-1	118,985	2020	2.5-5.0%	118,985
Series 2010-2	430,320	2040	3.8-5.45%	430,320
Series 2010-3	3,005	2040	6%	3,005
Series 2011-1	135,040	2034	variable	135,040
Series 2011-2	101,700	2034	variable	101,700
				1,976,045
			Unamortized Bond Premium	44,031
			Less Deferred Loss on Refunding	(72,376)
			SUBTOTAL	1,947,700
University of Massachusetts HEFA:				
2000 Series A	$20,000	2030	variable	20,000
2001 Series B	11,970	2031	4.35-5.25%	280
2002 Series C	35,000	2034	4.1-5.125%	30,660
2007 Series D	10,435	2031	3.5-4.25%	10,140
			SUBTOTAL	61,080
WCCC HEFA:				
Series 2001-B	$52,020	2023	4.45-5.125%	12,545
Series 2005-D	99,325	2029	3.0-5.25%	87,800
Series 2007-E	118,750	2036	3.5-5.0%	112,295
Series 2007-F	101,745	2036	4.0-5.0%	92,165
				304,805
			Unamortized Bond Premium	8,638
			Deferred Loss on Refunding	(12,568)
			SUBTOTAL	300,875
Clean Renew able Energy Bonds	$1,625	2027	3.5%	1,530
			TOTAL	2,311,185

Bonds payable activity for the year ended June 30, 2011 is summarized as follows (in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 2000-A	$3,215		($3,215)	
Series 2000-1	1,155		(1,155)	
Series 2000-2	5,680		(4,035)	$1,645
Series 2003-1	28,205		(5,160)	23,045
Series 2004-A	12,630		(1,895)	10,735
Series 2004-1	45,960		(6,025)	39,935
Series 2005-1	14,945		(2,200)	12,745
Series 2005-2	200,040		(2,215)	197,825
Series 2006-2	10,825		(2,965)	7,860
Series 2008-A	25,215		(780)	24,435
Series 2008-1	221,475		(6,355)	215,120
Series 2008-2	115,370		(2,265)	113,105
Series 2008-3	136,275		(136,275)	-
Series 2008-4	102,495		(102,495)	-
Series 2009-1	244,410		(4,290)	240,120
Series 2009-2	271,855			271,855
Series 2009-3	28,570			28,570
Series 2010-1		$118,985		118,985
Series 2010-2		430,320		430,320
Series 2010-3		3,005		3,005
Series 2011-1		135,040		135,040
Series 2011-2		101,700		101,700
Revolving Line of Credit	401		(401)	-
Plus: unamortized bond premium	29,787	21,177	(6,933)	44,031
Less: deferred loss on refunding	(42,048)	(32,267)	1,939	(72,376)
Subtotal	1,456,460	777,960	(286,720)	1,947,700
UMass HEFA:				
2000 Series A	20,000			20,000
2001 Series B	546		(266)	280
2002 Series C	31,345		(685)	30,660
2007 Series D	10,190		(50)	10,140
Subtotal	62,081		(1,001)	61,080
WCCC HEFA:				
WCCC 2001 Series B	13,700		(1,155)	12,545
WCCC 2005 Series D	90,575		(2,775)	87,800
WCCC 2007 Series E	114,000		(1,705)	112,295
WCCC 2007 Series F	94,530		(2,365)	92,165
Plus: unamortized bond premium	9,029		(391)	8,638
Less: deferred loss on refunding	(13,266)		698	(12,568)
Subtotal	308,568		(7,693)	300,875
Clean Renewable Energy Bonds		1,625	(95)	1,530
Total	$1,827,109	$779,585	(295,509)	2,311,185

Maturities and interest, which is estimated using rates in effect at June 30, 2011, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	Principal	Interest
2012	$67,686	$97,371
2013	70,665	94,492
2014	77,696	91,599
2015	77,651	88,023
2016	79,605	84,382
2017-2021	442,693	362,347
2022-2026	464,633	264,181
2027-2031	479,926	170,696
2032-2036	351,295	83,987
2037-2041	231,610	20,513
Total	$2,343,460	$1,357,591

Bonds payable activity for the year ended June 30, 2010 is summarized as follows (in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 2000-A	$4,715		($1,500)	$3,215
Series 2000-1	2,250		(1,095)	1,155
Series 2000-2	11,090		(5,410)	5,680
Series 2003-1	33,180		(4,975)	28,205
Series 2004-A	14,455		(1,825)	12,630
Series 2004-1	51,725		(5,765)	45,960
Series 2005-1	17,035		(2,090)	14,945
Series 2005-2	202,165		(2,125)	200,040
Series 2006-2	13,640		(2,815)	10,825
Series 2008-A	25,910		(695)	25,215
Series 2008-1	227,120		(5,645)	221,475
Series 2008-2	117,550		(2,180)	115,370
Series 2008-3	137,475		(1,200)	136,275
Series 2008-4	103,260		(765)	102,495
Series 2009-1		$247,810	(3,400)	244,410
Series 2009-2		271,855		271,855
Series 2009-3		28,570		28,570
Revolving Line of Credit	16,823	201	(16,623)	401
Plus: unamortized bond premium	19,414	14,164	(3,791)	29,787
Less: deferred loss on refunding	(42,779)		730	(42,049)
Subtotal	955,028	562,600	(61,169)	1,456,459
UMass HEFA:				
2000 Series A	20,000			20,000
2001 Series B	801		(255)	546
2002 Series C	32,005		(660)	31,345
2007 Series D	10,235		(45)	10,190
Subtotal	63,041		(960)	62,081
WCCC HEFA:				
WCCC 2001 Series B	14,810		(1,110)	13,700
WCCC 2005 Series D	93,230		(2,655)	90,575
WCCC 2007 Series E	115,640		(1,640)	114,000
WCCC 2007 Series F	96,805		(2,275)	94,530
Plus: unamortized bond premium	9,419		(390)	9,029
Less: deferred loss on refunding	(13,963)		698	(13,265)
Subtotal	315,941		(7,372)	308,569
Total	$1,334,010	$562,600	($69,501)	$1,827,109

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 $200.0 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 2006-2 (federally taxable), Series 2008-1, Series 2008-2, Series 2009-1, Series 2009-2 (federally taxable), Series 2009-3 (federally taxable), Series 2010-1, Series 2010-2(federally taxable), Series 2010-3 (federally taxable) and Series 2011-1.

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.

Variable Rate Bonds The 2008-1 bonds are supported with an irrevocable direct pay 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 Authority is required to pay Lloyds 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 $0.6 million for the years ended June 30, 2011 and 2010.

The 2008-A bonds are supported by 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 and 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 $37,600 and $31,000 for the years ended June 30, 2011 and 2010, respectively.

The 2008-3 bonds were supported with an irrevocable direct pay letter of credit (the BofA LOC) issued by Bank of America NA (BofA). The BofA LOC, upon presentation of required documentation, would have paid the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The BofA LOC expired in 2011 and could have been extended at the option of BofA. Under the terms of the BofA LOC, the Building Authority was 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 $0.8 million for the years ended June 30, 2011 and 2010. The BofA LOC terminated when the 2008-3 bonds were refunded in June of 2011.

The 2008-4 bonds were supported by a standby bond purchase agreement with Bank of America, N.A. (BofA) which required 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%. Under this agreement, the Building Authority was 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 and was subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expired in 2011 and could have been extended at the option of the BofA. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled $0.4 million for the years ended June 30, 2011 and 2010. The agreement terminated when the 2008-4 bonds were refunded in June of 2011.

The 2011-1 bonds are supported by a standby bond purchase agreement with Wells Fargo Bank, N.A. (Wells) which requires Wells to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 185 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority is required to pay Wells in quarterly installments a facility fee in the amount of 40 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the agreement was set at $135.0 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2014 and may be extended at the option of the Wells. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled $33,400 for the year ended June 30, 2011.

Window Bonds In fiscal year 2011, the Building Authority issued its 2011-2 bonds in a variable rate Window Bond mode. As with the Building Authority's other variable rate bonds, the Window Bondholders can tender the bonds at any time. But unlike the Building Authority's other variable rate bonds, where the bondholders will receive payment on any tendered bonds 7 days from the tender, Window Bondholders are not required to receive funds for the tender until after a 30 day remarketing period and an additional 180 day funding window period. Due to this 210 day funding period, the Building Authority is not required to obtain any type of liquidity support for the 2011-2 bonds and the bonds are considered supported with self-liquidity. Window Bondholders receive an interest rate on the Window Bonds at a fixed spread over the Securities Industry and Financial Markets Association Municipal Swap Index™ (SIFMA). The initial spread to the SIFMA index is 9 basis points (.09%).

Refundings In fiscal year 2011, the Building Authority advanced refunded the 2008-3 and 2008-4 series bonds with its 2011-1 and 2011-2 series bonds. Accordingly, the Building Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds. Assets held in the trust accounts had an aggregate market value of approximately $236.1 million as of June 30, 2011. The unpaid principal amount of the refunded bonds totaled $236.7 million as of June 30, 2011.

In previous fiscal years the Building Authority has advanced refunded various bonds by depositing into various trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds could be called. Assets held in the trust accounts for this purpose had an aggregate market value of approximately of $315,7 million and $450.0 million as of June 30, 2011 and 2010, respectively. The unpaid principal amount of the refunded bonds totaled $294.3 million and $426.7 million as of June 30, 2011 and 2010, respectively.

These advanced refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt have not been recorded in the University's financial statements.

In connection with the Building Authority's prior advanced refundings, the Building Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately $45.5 million. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in interest expense over the original life of the refunded bonds. The refundings reduced the Building Authority's debt service payments in future years by approximately $26.2 million and resulted in an economic gain (the present value of the savings) of approximately $16.0 million.

Bond Premium, Issuance Expenses and Deferred Amount on Refundings In connection with the Building Authority's bond issues, the Building Authority received premiums at issuance totaling approximately $67.3 million. The Building Authority will amortize the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Building Authority's bonds issues, the Building Authority incurred certain issuance costs associated with the bond offerings totaling approximately $24.0 million. These issuance costs have been capitalized by the University and will be amortized over the life of the respective bond issue.

Pledged Revenues *Pu*rsuant 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 $66.5 million for 2011 and $64.0 million for 2010.

Interest Rate Swaps The Building Authority uses derivative instruments to attempt to manage the cash flow impact of interest rate changes on its cash flows and net assets. The Building Authority utilizes financial derivative instruments to attempt to mitigate its exposure to certain market risks associated with operations and does not use derivative instruments for trading or speculative purposes.

The Building Authority's contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53) to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate risk exposures.

The Building Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB Statement No. 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow on the Statement of Net Assets until the contract is settled or terminated.

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

The Building Authority's hedging derivative instruments at June 30, 2011 are as follows (in thousands):

	Fair Value June 30, 2011	Net Change in Fair Value	Fair Value June 30, 2010	Type of Hedge	Financial Statement Classification for Changes in Fair Value
Series 2008-1 Swap	($19,844)	$5,839	($25,675)	Cash Flow	Deferred outflow
Series 2008-A Swap	(2,318)	665	(2,983)	Cash Flow	Deferred outflow
Series 2006-1 Swap	(29,180)	6,196	(35,375)	Cash Flow	Deferred outflow
Total	($51,342)	$12,692	($64,033)		

The terms of the Building Authority's financial derivative instruments that were outstanding at June 30, 2011 are summarized below (in thousands):

	Type	Effective Date	Termination Date	Rate Authority Pays	Authority Receives	Original Notional Value
Series 2008-1 Swap	Synthetic Fixed	5/1/2008	5/1/2038	3.388%	70% of 1-Month LIBOR	$232,545
Series 2008-A Swap	Synthetic Fixed	5/1/2008	5/1/2038	3.378%	70% of 1-Month LIBOR	$26,580
Series 2006-1 Swap	Synthetic Fixed	4/20/2006	11/1/2034	3.482%	60% of 3-Month LIBOR + .18%	$243,830

Fair Values The fair values of the swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements.

Credit risk As of June 30, 2011, the Building Authority was not exposed to credit risk on the swaps with a $51.3 million in negative fair values. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive which would expose the Building Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Building Authority's counterparties at June 30, 2011 are as follows:

	Credit Ratings		
	Moody's	S & P	Fitch
UBS AG	Aa3	A+	A+
Deutsche Bank AG	Aa3	A+	AA-
Citi Bank NA	A1	A+	A+

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

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

Contingencies All of the Building Authority's swaps include provisions that require the Building Authority to post collateral in the event its credit rating falls below certain levels. In the event the Building Authority is rated A2 by Moody's Investors Service or A by Standard & Poor's the Building Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above $10.0 million. In the event the Building Authority is not rated or rated below A3 by Moody's Investors Service or below A- by Standard & Poor's the Building Authority must post collateral in the amount of the fair value of the swaps in liability positions . The collateral posted is to be in the form of cash, obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Building Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The Building Authority's credit rating is Aa2 from Moody's Investors Service and AA from Fitch Ratings at June 30, 2011; therefore, no collateral has been posted.

Termination of Hedge Accounting In June of 2011 the Building Authority undertook an advance refunding of the 2008-3 and 2008-4 variable rate bonds hedged by the Series 2006-1 Swap. As part of the refunding, the Series 2006-1 swap was re-assigned to a new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. This refunding and reassignment effectively terminated the original hedge. At June 30, 2010, the Series 2006-1 Swap was considered a hedging derivative instrument. In accordance with GASB Statement No. 53, at the time of a termination event related to an advance refunding of the hedged debt, the balance of the amounts in deferred outflows is to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. The balance of the deferred outflows that was included in the net carrying amount of the refunded debt at the time of the refunding was $22.2 million. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2011 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2011.

Swap payments and associated debt Using rates as of June 30, 2011, 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 (in thousands).

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2012	$9,325	$402	$15,216	$24,943
2013	9,680	395	14,871	24,946
2014	10,050	388	14,578	25,016
2015	10,430	381	14,251	25,062
2016	10,845	374	13,932	25,151
2017-2021	76,720	1,737	63,673	142,130
2022-2026	156,975	1,188	43,926	202,089
2027-2031	136,500	510	19,757	156,767
2032-2036	52,890	89	3,422	56,401
2037-2038	1,620	1	79	1,700
Total	$475,035	$5,465	$203,705	$684,205

The Building Authority maintains a Revolving Line of Credit (the Line) with BofA. The Line matures on the 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 Building Authority must elect to have the interest on the draw calculated based on (a) a percentage of the one-month, two-month or three-month LIBOR rate (LIBOR Rate) plus a fixed rate or (b) the higher of 75% Federal Funds Rate plus 0.5% or 75% 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. During the term of the Line the Building Authority can elect to have the interest charges incorporated into a subsequent draw. In November 2008 the Building Authority renewed the Line for an additional 12 months. At the time of the renewal the Line was increased to $35.0 million from $30.0 million the percentage of the various LIBOR rates was set at 77% with an additional rate of 0% and a fee was added equal to 0.08% of any unborrowed portion of the Line paid quarterly in arrears. In November 2009 the line was renewed again until January 2011 and decreased back to $30.0 million, the unborrowed fee was increased to 0.25% and the interest rate set at 65% of LIBOR plus 0.85%. In January of 2011 the Building Authority renewed the Line for an additional 12 months and reduced the maximum amount of the line to $20.0 million at that time. In 2011 and 2010 the Building Authority paid $.06 million and $.05 million, respectively, related to charges for the Line. As of June 30, 2010 and 2011 the Building Authority had $.4 million and $0 outstanding under the Line, respectively. The interest terms on the draws made under the Line in fiscal 2011 were one-month LIBOR and the interest rates ranged from 1.015% to 1.076%. The interest terms on the draws made under the Line in fiscal 2010 were one-month LIBOR and the interest rates ranged from 0.187% to 1.078%.

MassDevelopment

Effective October 1, 2010, Massachusetts Health and Educational Facilities Authority ("MHEFA") was merged into the Massachusetts Development Finance Agency ("MassDevelopment"), a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts. As of such date, MHEFA has dissolved and all of its rights, powers and duties, and properties will be exercised and performed by MassDevelopment and any and all obligations and liabilities of MHEFA have become obligations and liabilities of MassDevelopment.

University of Massachusetts Series A, B, C, and D

The University through MassDevelopment has issued bonds in order to construct new student centers on the Boston and Lowell Campuses and to create a pool of funds to acquire telecommunications, electronic, computer, office, research, equipment and administrative systems and fund the related renovation costs and to refund previously issued bonds.

Variable Rate Debt 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") to create a pool of funds from which the University could finance and refinance the acquisition of certain equipment and related renovation costs at the various University campuses on a revolving basis throughout the term of the Series A Bonds. On March 27, 2009 (the "Mandatory Purchase Date"), the Series A Bonds were subject to mandatory tender for purchase due to the expiration of the liquidity facility supporting the Series A Bonds and the conversion of the Series A Bonds from a weekly rate period to a long-term rate period. Only $20.0 million of the Series A Bonds was remarketed on the Mandatory Purchase Date (the "Remarketed Series A Bonds" and together with the Series A Bonds the "Bonds"). The initial long-term rate of 0.85% ended on March 31, 2010. The Remarketed Series A Bonds were remarketed again on April 1, 2010 and now bear interest at the long-term rate of 2.20%. The new long-term rate period will end on March 31, 2013 and the Remarketed Series A Bonds will be subject to mandatory tender for purchase on April 1, 2013. The purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will be obligated to purchase the bonds tendered, up to an aggregate principal amount of $20.0 million. The Remarketed Series A Bonds will mature on November 1, 2030 and are subject to mandatory purchase prior to maturity as described above. Interest on the Remarketed Series A Bonds in the new long-term rate period is payable on October 1 and April 1. The Remarketed Series A Bonds are considered a reissuance for federal tax purposes. The Remarketed Series A

Bonds are not supported by any insurance policy, liquidity facility or other credit enhancement. The Remarketed Series A Bonds are a general obligation of the University payable from all funds of the University permitted to be applied thereto. The University's unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the Remarketed Series A Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Remarketed Series A Bonds. Average interest rates on the Bonds during fiscal year 2011 and 2010 were approximately 2.20% and 1.19%, respectively. At June 30, 2011 and 2010, the outstanding principal balance on the Bonds is $20.0 million.

Debt covenants The University of Massachusetts Series A, B, C and D bonds include a covenant for 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.

Refundings 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 advance refund a portion of the Series B Bonds. At June 30, 2011 and 2010, the outstanding principal balance on the refunded Series B Bonds is $9.63 million and $9.63 million, respectively.

These advance refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt have not been recorded in the University's financial statements.

Worcester City Campus Corporation Series B, D, E and F

The Worcester City Campus Corporation (WCCC) through MassDevelopment has issued bonds to finance the construction or acquisition of the Lazare Research Building, South Road parking garage, Ambulatory Care Center ("ACC"), UMassBiologics Laboratory Projects, Two Biotech Park, and to refund previously issued bonds.

The Worcester City Campus Corporation (WCCC) through MassDevelopment has issued bonds to finance the construction or acquisition of the Jamaica Plains Biolabs, Advanced Center for Clinical Education and Science ("ACCES"), Biologics Laboratory Phase II Project, Two Biotech Park, and to refund previously issued bonds.

Refundings In January 2007, WCCC issued $118.8 million of Series E bonds to provide for partial advanced refunding of the Series B Bonds. WCCC deposited $32.4 million of the proceeds to an irrevocable trust fund to provide for the future debt service payments of the refunded bonds. At June 30, 2011 and 2010, the outstanding principal balance on the refunded Series B Bonds is $30.8 million and $30.8 million, respectively.

In January 2007, WCCC issued $101.7 million of Series F bonds to advance refund the WCCC Series C Bonds. WCCC deposited $68.8 million of the proceeds to an irrevocable trust fund to provide for the future debt service payments of the refunded bonds. At June 30, 2011 and 2010, the outstanding principal balance on the refunded Series C Bonds is $59.2 million and $60.7 million, respectively.

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"). At June 30, 2011 and 2010, the outstanding principal balance on the refunded WCCC Series A bonds is $82.3 million and $84.7 million, respectively.

These advanced refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt have not been recorded in the University's financial statements.

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 $6.6 million for fiscal years 2011 and 2010, respectively.

Clean Renewable Energy Bonds

During 2011, the University entered into an Energy Services agreement for Solar Panel construction with the Commonwealth's Division of Capital Asset Management and Century Bank and Trust Company. The financing arrangement includes $1.6 million in Clean Renewable Energy Bonds. At June 30, 2011, the outstanding obligation on these bonds is $1.5 million.

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 $16.8 million and $15.8 million for the years ended June 30, 2011 and 2010, respectively. The University also leases space to third party tenants. During 2011 and 2010, the amount reported as rental income was $12.6 million and $6.9 million, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following presents 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, 2011 (in thousands):

	University Capital Leases			
Year	Master Leases	Other Leases	TOTAL	Operating Leases
2012	$5,748	$313	$6,061	$13,555
2013	5,748	203	5,951	13,953
2014	4,371	145	4,516	14,729
2015	2,186	73	2,259	15,710
2016 and thereafter			-	42,070
Total Payments	18,053	734	18,787	$100,017
Less: Amount representing interest	(1,137)	(61)	(1,198)	
Present Value of Minimum Lease Payments	$16,916	$673	$17,589	

June 30, 2011	University Capital Leases	
Year	Principal	Interest
2012	$5,473	$588
2013	5,573	378
2014	4,323	193
2015	2,220	39
Total Payments	$17,589	$1,198

10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES

During the year ended June 30, 2011 the following changes occurred in long-term liabilities as recorded in the statements of net assets (in thousands):

	Beginning Balance	Additions/ Adjustments*	Reductions/ Adjustments*	Ending Balance
University:				
Capital lease obligations	$17,177	$412	($5,473)	$12,116
Compensated absences	25,843	698	-	26,541
Workers' compensation	10,688	-	(867)	9,821
Deferred revenues and credits	23,567	9,474	(12,961)	20,080
Advances and deposits	26,507	603	(422)	26,688
Other Liabilities	1,107	6,564	(821)	6,850
University Related Organization:				
Other Liabilities	$3,046	$367	-	$3,413

** Adjustments include changes in estimates*

During the year ended June 30, 2010 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	$22,870	$297	($5,990)	$17,177
Compensated absences	23,593	2,250	-	25,843
Workers' compensation	10,416	272	-	10,688
Deferred revenues and credits	23,668	12,604	(12,705)	23,567
Advances and deposits	26,782	124	(399)	26,507
Other Liabilities	3,301	-	(2,194)	1,107
University Related Organization:				
Other Liabilities	$3,025	$21	-	$3,046

** Adjustments include changes in estimates*

11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2011 and 2010 include $262.3 million and $215.1 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, $110.9 million for 2011 and $92.0 million for 2010 was reimbursed to the Commonwealth and $151.5 million and $123.1 million respectively is included in revenue as state appropriations.

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 $61.4 million and $59.2 million at June 30, 2011 and 2010, respectively. Cumulative repayments totaled approximately $43.5 million and $40.6 million as of June 30, 2011 and 2010, 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 Massachusetts State Retirement Board and covers substantially all non-student employees. Massachusetts General Laws establish the benefit and contribution requirements. These requirements provide for a superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service and group classification. The authority for amending these provisions rests with the Legislature. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Members contribute 5%, 7%, 8% and 9% of regular compensation for hire dates prior to 1975, 1983, June 30, 1996 and after July 1, 1996, respectively. Employees hired after 1979 also contribute an additional 2% of regular compensation in excess of $30,000.

The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to approximately $34.0 million and $38.9 million for the years ended June 30, 2011 and 2010, respectively. Annual covered payroll approximated 74.7% and 75.4% for the years ended June 30, 2011 and 2010, respectively of annual total payroll for the University. SERS does not issue s stand-alone financial statements however, SERS financial information is contained in the Commonwealth Comprehensive Annual Financial Report and can be obtained by contacting the State Comptroller, One Ashburton Place, 9th Floor, Boston, MA 02108.

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") administered by the Commonwealth's Department of Higher Education. At June 30, 2011 and 2010, there were approximately 3,574 and 1,787 University employees, respectively participating in ORP. Employees contribute at the same rate as members in SERS do and the Commonwealth matches 5% of employee contributions. The Commonwealth contributed $7.0 million and $6.6 million in 2011 and 2010, respectively. University employees contributed $16.4 million and $14.9 million in 2011 and 2010, respectively.

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 3.9% and 5.3% of total accounts receivable for the University at June 30, 2011 and 2010, respectively. The University also had uncollateralized receivables from two other organizations comprising approximately 6.8% and 6.9% of the total outstanding receivables at June 30, 2011. The University also had receivables from two organizations comprising approximately 7.5% and 7.1% of the total outstanding receivables at June 30, 2010.

15. COMMITMENTS AND CONTINGENCIES

The Building Authority, University, and WCCC have outstanding purchase commitments under construction contracts and real estate agreements in amounts aggregating approximately $483.3 million and $336.4 million at June 30, 2011 and 2010, respectively. In connection with the investments in certain limited partnership agreements, the Foundation has an additional $10.2 million and $6.9 million in committed calls as of June 30, 2011 and 2010, respectively, which are scheduled to be funded over a number of years. The University has entered an Energy Performance Contract that is being managed by the Commonwealth's Division of Capital Asset Management (DCAM) under its Clean Energy Investment Program. This project includes 32 energy conservation measures. The installation costs will be incurred over 2 phases with Phase 1 being approximately $18.0 million and Phase 2 being approximately $13.5 million. The term of these transactions is 20 years. The University has an obligation to the Commonwealth for Clean Energy Investment Program Funds used through June 30, 2011 in the amount of $6.0 million.

The University, as an agency of the Commonwealth, is self-insured for property loss exposure, subject to appropriation from the state legislature. However, properties owned by the University of Massachusetts Building Authority located on a campus of the University, such as the Mullins Center, dining commons, and most dormitories, are insured by the Building Authority. In addition, certain properties owned by other University Related Organizations and leased to the University are insured by the related organization. The University and its employees are protected against tort claims through sovereign immunity under

Chapter 258 of the Massachusetts General Laws. The University maintains certain liability insurance policies, including Commercial General Liability, leased Automotive Liability, Directors and Officers and Comprehensive Crime policies. Employees of the University are covered for Worker's Compensation protection under Chapter 152 of the Massachusetts General Laws. The University has recorded a liability for future expected costs of its workers' compensation claims of approximately $13.5 million as of June 30, 2011 and $13.9 million as of June 30, 2010. Estimated future payments related to such costs have been discounted at a rate of 6%.

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 University is aware that the Office of the Inspector General for the U.S. Department of Health and Human Services performed an audit of Medicaid Supplemental Revenues ("MSR") received by UMass Memorial Medical Center (UMMMC), the final report for which was issued December 2009.

Portions of this report continue to be contested and the final outcome of this audit is currently unknown. Dependent on the final outcome, UMMMC may be required to repay any MSR received deemed to be disallowed as a result of the audit. Dependent on that outcome, the University, consistent with the Agreement for Medical Educational Services, made part of the Definitive Agreement between the University and UMMMC, and its subsequent amendments and the indemnification provisions in these Agreements, may be required to indemnify UMMMC. Although the final 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. SUBSEQUENT EVENT

The Building Authority plans to issue additional bonds to pay for the fit out of the upper two floors of the Albert Sherman Center. They plan to use a competitive "private placement". The maximum principal amount is $21.0 million which will cover project and issuance costs.

On November 15, 2011, the University refunded the remaining balance of its Series C bonds through the issuance of $30.0 million of Massachusetts Development Finance Agency Revenue Refunding Bonds, University of Massachusetts Issue, Series 2011, which are due serially through 2034 with fixed rates ranging from 2.5% to 4.0%. The University has deposited $30.6 million of the proceeds to an irrevocable trust fund to provide for payment of the University Series C Bonds. As a result of the defeasance, the University will reduce its aggregate debt service payments by approximately $4.8 million and achieve an economic gain (the difference between the present value of the old and new debt service payments) of $3.4 million.

On November 15, 2011, WCCC refunded the remaining balance of its Series B bonds through the issuance of $10.5 million Massachusetts Development Finance Agency Revenue Refunding Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series 2011, which are due serially through 2023, with fixed rates ranging from 2.0% to 5.0%. As a result of the refunding, WCCC will reduce its aggregate debt service payments by approximately $2.0 million and achieve an economic gain (the difference between the present value of the old and new debt service payments) of $1.7 million. The Series B bonds are scheduled to be redeemed on December 15, 2011. The new bonds represent a transfer obligation of the University whereby, subject to the terms of the financing agreement, the University will be notified of 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.

Supplemental Financial Information

Table of Contents

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
226 Causeway Street, 6th Floor
Boston, MA 02114-2155

T 617.723.7900
F 617.723.3640
www.GrantThornton.com

Report of Independent Certified Public Accountants on Accompanying Information

Board of Trustees of the
University of Massachusetts

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the business-type activities and the aggregate discretely presented component units of the University of Massachusetts (the "University") taken as a whole. The supplemental information listed in the accompanying index is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the year ended June 30, 2011 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. The financial statements and supplemental information of the University as of and for the year ended June 30, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 15, 2010, except for Note 1 as to which is dated October 25, 2011.

Grant Thornton LLP

Boston, Massachusetts
December 15, 2011

Combining Statements of Net Assets for University Related Organizations

As of June 30, 2011 and 2010
(in thousands of dollars)

Supplemental Schedule I

ASSETS	Total June 30, 2011	Eliminations and Adjustments June 30, 2011	The University of Massachusetts Foundation, Inc. June 30, 2011	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2011	Total June 30, 2010	Eliminations and Adjustments June 30, 2010	The University of Massachusetts Foundation, Inc. June 30, 2010	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2010
Current Assets								
Accounts, Grants and Loans Receivable, net								
Pledges Receivable, net	$4,582	($9,006)	$12,083	$1,505	$3,758	($10,813)	$12,748	$1,823
Due From Related Organizations	632	632			739	739		
Other Assets	8			8	65			65
Total Current Assets	**5,222**	**(8,374)**	**12,083**	**1,513**	**4,562**	**(10,074)**	**12,748**	**1,888**
Noncurrent Assets								
Cash and Cash Equivalents	684		45	639	3,611		43	3,568
Pledges Receivable, net	5,798	(8,526)	12,666	1,658	6,121	(9,863)	14,372	1,612
Investments	348,791	(494,906)	803,273	40,424	297,055	(442,968)	707,752	32,271
Other Assets	105		50	55	1,270		1,217	53
Investment In Plant Net of Accumulated Depreciation	9,019		9,019		1,699		1,699	
Total Noncurrent Assets	**364,397**	**(503,432)**	**825,053**	**42,776**	**309,756**	**(452,831)**	**725,083**	**37,504**
Total Assets	**$369,619**	**($511,806)**	**$837,136**	**$44,289**	**$314,318**	**($462,905)**	**$737,831**	**$39,392**
LIABILITIES								
Current Liabilities								
Accounts Payable	$61		$40	$21	$106	($406)	$487	$25
Due To Related Organizations	51	(2,519)		2,570	625	(1,819)		2,444
Notes Payable					2		2	
Assets Held on Behalf of the University		(458,198)	458,198			(411,541)	411,541	
Assets Held on Behalf of Others	11,458		11,458		9,990		9,990	
Deferred Revenues and Credits	4,215		4,215		5,340		5,340	
Total Current Liabilities	**15,785**	**(460,717)**	**473,911**	**2,591**	**16,063**	**(413,766)**	**427,360**	**2,469**
Noncurrent Liabilities								
Notes Payable					618		618	
Other Liabilities	3,413	172	3,241		3,046	165	2,881	
Total Noncurrent Liabilities	**3,413**	**172**	**3,241**		**3,664**	**165**	**3,499**	
Total Liabilities	**$19,198**	**($460,545)**	**$477,152**	**$2,591**	**$19,727**	**($413,601)**	**$430,859**	**$2,469**
Net Assets:								
Invested in Capital Assets Net of Related Debt	$9,020	$9,020			$1,699	$1,699		
Restricted								
Nonexpendable	254,625	(47,778)	$268,362	$34,041	240,595	(49,304)	$255,957	$33,942
Expendable	73,995	(3,483)	70,508	6,970	48,127		45,468	2,659
Unrestricted	12,781	(9,020)	21,114	687	4,170	(1,699)	5,547	322
Total Net Assets	**$350,421**	**($51,261)**	**$359,984**	**$41,698**	**$294,591**	**($49,304)**	**$306,972**	**$36,923**

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

For the Years Ended June 30, 2011 and 2010
(in thousands of dollars)

Supplemental Schedule II

	Total June 30, 2011	Eliminations and Adjustments June 30, 2011	The University of Massachusetts Foundation, Inc. June 30, 2011	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2011	Total June 30, 2010	Eliminations and Adjustments June 30, 2010	The University of Massachusetts Foundation, Inc. June 30, 2010	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2010
EXPENSES								
Operating Expenses								
Educational and General								
Public Service	$11,551	($1,083)	$10,883	$1,751	$10,388	($1,559)	$10,703	$1,244
Depreciation	127		127		28		28	
Scholarships and Fellowships	429	(822)	739	512	782	(391)	649	524
Total Operating Expenses	**12,107**	**(1,905)**	**11,749**	**2,263**	**11,198**	**(1,950)**	**11,380**	**1,768**
Operating Income/(Loss)	**(12,107)**	**1,905**	**(11,749)**	**(2,263)**	**(11,198)**	**1,950**	**(11,380)**	**(1,768)**
NONOPERATING REVENUES/(EXPENSES)								
Gifts	21,632	(1,397)	19,960	3,069	10,498	(586)	9,617	1,467
Investment Income	29,725	(56,921)	82,776	3,870	19,676	(41,568)	59,889	1,355
Endowment Income	1,214	(9,169)	10,383		974	(5,402)	6,376	
Net Nonoperating Revenues	**52,571**	**(67,487)**	**113,119**	**6,939**	**31,148**	**(47,556)**	**75,882**	**2,822**
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	**40,464**	**(65,582)**	**101,370**	**4,676**	**19,950**	**(45,606)**	**64,502**	**1,054**
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES								
Additions to Permanent Endowments	15,195	2,765	12,331	99	13,003	3,292	7,416	2,295
Less: Amounts Earned/Received on Behalf of the University		45,291	(45,291)			23,033	(23,033)	
Less: Amounts Earned/Received on Behalf of Others	(1,397)		(1,397)		10		10	
Distribution to University		15,714	(15,714)			16,871	(16,871)	
Capital Contribution	1,666		1,666					
Disposal of Plant Facilities								
Other Additions/Deductions	(98)	(145)	47		4,857	4,325	532	
Total Other Revenues, Expenses, Gains, and Losses	**15,366**	**63,625**	**(48,358)**	**99**	**17,870**	**47,521**	**(31,946)**	**2,295**
Total Increase/(Decrease) in Net Assets	**55,830**	**(1,957)**	**53,012**	**4,775**	**37,820**	**1,915**	**32,556**	**3,349**
NET ASSETS								
Net Assets at Beginning of Year	294,591	(49,304)	306,972	36,923	256,771	(51,219)	274,416	33,574
Net Assets at End of Year	**$350,421**	**($51,261)**	**$359,984**	**$41,698**	**$294,591**	**($49,304)**	**$306,972**	**$36,923**