University of Massachusetts 2012 Annual Financial Report

Amherst • Boston • Dartmouth • Lowell • Worcester • UMassOnline

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Worcester Campus

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A Message from President Robert L. Caret

Midway through my second academic year as president of the University of Massachusetts, I am pleased to submit this edition of the Annual Financial Report which provides a clear and comprehensive picture of the University's financial activity for Fiscal Year 2012.

The University of Massachusetts leadership remains committed to advancing our strategic goals to bring about efficiencies through improved accountability and transparency, greater state support, and economic and academic growth.

As part of our efforts to create more accountability and transparency the University has published "UMass Performance: Accountable and on the Move", an easy-to-read report that illustrates our performance goals in six key areas with 21 indicators that will be used to determine whether the University has been successful.

We continue our quest to regain an appropriate level of state financial support, which atrophied during the last fiscal crisis. Legislative support for passage of our proposed 50/50 formula, where the state funds 50% of the University's annual general education budget, will facilitate students' access to an affordable high-quality education and help to reduce student debt.

The University continues to move forward on an ambitious capital program to fund construction and renovation projects on all five campuses. By providing state of the art facilities to both students and researchers the University is positioning itself as a major academic and economic development engine for the Commonwealth.

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

As the University of Massachusetts prepares to celebrate its 150th anniversary this year, Massachusetts can look with pride on its public research university system that has grown from a small, four-building campus in Amherst into a five-campus, 70,000 student statewide university system that today is indispensable to the future of Massachusetts.

Robert L. Caret
President

Letter of Transmittal

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

Office of the President

December 19, 2012

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, 2012. 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, 2012 including comparative information as of June 30, 2011.

The University's net assets increased $248.0 million from $2.14 billion in fiscal year 2011 to $2.39 billion in fiscal year 2012. The major components of the increase are due to physical plant improvements and positive operating results due primarily to greater student fee revenues associated with increased enrollment, cost reductions, and strong market performance for the University's investments.

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 2012, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2012 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

Christine M. Wilda
Senior Vice President for Administration and
Finance & Treasurer

Sarah B. Mongeau
Acting University Controller

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Report of Independent Certified Public Accountants

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 and for the years ended June 30, 2012 and 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 audits.

We conducted our audits 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 audits 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, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Grant Thornton LLP

Boston, Massachusetts
December 19, 2012

Management's Discussion and Analysis
June 30, 2012

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, 2012 with comparative information as of June 30, 2011 and June 30, 2010. 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 2011, the University enrolled approximately 59,480 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 $248.0 million from $2.14 billion in fiscal year 2011 to $2.39 billion in fiscal year 2012. Net Assets at June 30, 2010 were $1.97 billion. The major components of the increase in fiscal year 2012 relate to investments in infrastructure and positive operating margins due primarily to greater student fee revenues and cost reductions. From fiscal year 2011 to fiscal year 2012, the University's operating revenue declined by $173.6 million and operating expenditures declined by $199.2 million. The corresponding decline in both operating revenue and expenditure is primarily due to the 2011 sale of MedMetrics Health Partners ("MHP") which was a wholly-owned subsidiary of U Health Solutions, Inc. (formerly Public Sector Partners) which is a wholly owned subsidiary of Worcester City Campus Corporation which, in turn is a unit of the Medical School.

Amherst Marching Band

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 lies within 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: invested in capital assets, net of related debt, restricted and unrestricted. Amounts reported in invested in capital assets, net of related debt represent 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). With a public University's dependency on state aid, Pell grants, and gifts, it is common for institutions to have operating expenses exceed operating revenues. 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.

Dartmouth Womens Track

Condensed Financial Information

University of Massachusetts
Condensed Statement of Net Assets
For The Year Ended June 30, 2012, 2011 and 2010
(in thousands of dollars)

	University June 30, 2012	University June 30, 2011	FY11-12 Change	University June 30, 2010
ASSETS				
Current Assets	$617,093	$581,207	$35,886	$554,377
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	3,098,186	2,582,651	515,535	2,324,392
All Other noncurrent assets	1,594,140	1,862,508	(268,368)	1,476,628
Total Assets	**$5,309,419**	**$5,026,366**	**$283,053**	**$4,355,397**
LIABILITIES				
Current Liabilities	$880,104	$609,291	$270,813	$584,562
Noncurrent Liabilities	2,039,939	2,275,685	(235,746)	1,801,682
Total Liabilities	**$2,920,043**	**$2,884,976**	**$35,067**	**$2,386,244**
NET ASSETS				
Invested in Capital Assets Net of Related Debt	$1,504,102	$1,283,888	$220,214	$1,133,264
Restricted				
Nonexpendable	17,773	17,112	661	16,899
Expendable	188,083	184,909	3,174	218,517
Unrestricted	679,418	655,481	23,937	600,473
Total Net Assets	**$2,389,376**	**$2,141,390**	**$247,986**	**$1,969,153**

University of Massachusetts
Condensed Statement of Net Assets for Related Organizations
For The Year Ended June 30, 2012, 2011 and 2010
(in thousands of dollars)

	University Related Organizations June 30, 2012	University Related Organizations June 30, 2011	FY11-12 Change	University Related Organizations June 30, 2010
ASSETS				
Current Assets	$2,597	$5,222	($2,625)	$4,562
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	8,822	9,019	(197)	1,699
All Other noncurrent assets	364,516	355,378	9,138	308,057
Total Assets	**$375,935**	**$369,619**	**$6,316**	**$314,318**
LIABILITIES				
Current Liabilities	$14,612	$15,785	($1,173)	$16,063
Noncurrent Liabilities	3,487	3,413	74	3,664
Total Liabilities	**$18,099**	**$19,198**	**($1,099)**	**$19,727**
NET ASSETS				
Invested in Capital Assets Net of Related Debt	$8,822	$9,020	(198)	$1,699
Restricted				
Nonexpendable	273,995	254,625	19,370	240,595
Expendable	60,278	73,995	(13,717)	48,127
Unrestricted	14,740	12,781	1,959	4,170
Total Net Assets	**$357,835**	**$350,421**	**$7,414**	**$294,591**

At June 30, 2012, total University assets were $5.31 billion, an increase of $283.1 million over the $5.03 billion in assets recorded for fiscal year 2011. The University's largest asset continues to be its net investment in its physical plant of $3.10 billion at June 30, 2012 ($2.58 billion in fiscal year 2011 and $2.32 billion in fiscal year 2010).

University liabilities totaled $2.92 billion at June 30, 2012, an increase of $35.1 million over fiscal year 2011. Long-term liabilities represent 70% of the total liabilities which primarily consist of bonds payable amounting to $1.82 billion at June 30, 2012.

The University's current assets as of June 30, 2012 of $617.1 million were below the current liabilities of $880.1 million, as the current ratio was 0.70 dollars in assets to every one-dollar in liabilities. June 30, 2011 current assets of $581.2 million were below current liabilities of $609.3 million, resulting in a current ratio of .95. June 30, 2010 current assets of $554.4 million were below current liabilities of $584.6 million, resulting in a current ratio of 0.95.

The unrestricted and restricted expendable net assets totaled $867.5 million in fiscal year 2012, which represents 33.5% of total operating expenditures of $2.59 billion. 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 for that fiscal year. The increase in expendable net assets is attributed to operating surpluses.

University of Massachusetts
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For The Year Ended June 30, 2012, 2011 and 2010
(in thousands of dollars)

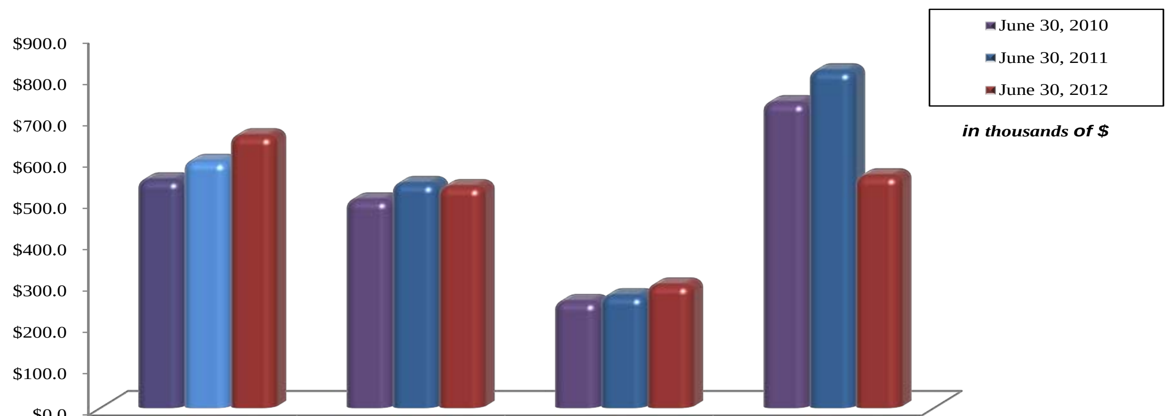
	University June 30, 2012	University June 30, 2011	FY11-12 Change	University June 30, 2010
Operating Revenues				
Tuition and Fees (net of scholarship allowances of $197,319 at June 20, 2012, $178,676 at June 30, 2011 and $177,850 at June 30, 2010)	$659,180	$597,200	$61,980	$552,419
Grants and Contracts	536,031	543,727	(7,696)	504,114
Auxiliary Enterprises	297,956	272,020	25,936	257,852
Other Operating Revenues	562,360	816,166	(253,806)	739,403
Total Operating Revenues	**2,055,527**	**2,229,113**	**(173,586)**	**2,053,788**
Operating Expenses	**2,589,626**	**2,788,784**	**(199,158)**	**2,588,548**
Operating Loss	**(534,099)**	**(559,671)**	**25,572**	**(534,760)**
Nonoperating Revenues / (Expenses)				
Federal Appropriations	6,845	5,826	1,019	5,922
State Appropriations	517,392	505,799	11,593	415,889
State Appropriations - Federal Stimulus Funds	10	37,897	(37,887)	150,639
Interest on Indebtedness	(64,434)	(65,358)	924	(49,113)
Other Nonoperating Income	65,738	119,709	(53,971)	103,917
Nonoperating Federal Grants*	73,908	70,643	3,265	60,324
Net Nonoperating Revenues	**599,459**	**674,516**	**(75,057)**	**687,578**
Income Before Other Revenes, Expenses, Gains or Losses	**65,360**	**114,845**	**(49,485)**	**152,818**
Capital Appropriations, Grants and Other Sources	193,913	62,824	131,089	77,426
Disposal of Plant Facilities	(13,606)	(10,682)	(2,924)	(12,125)
Other Additions / (Deductions)	2,317	5,250	(2,933)	9,729
Total Other Revenues, Expenses, Gains, and Losses	**182,624**	**57,392**	**125,232**	**75,030**
Total Increase in Net Assets	**247,984**	**172,237**	**75,747**	**227,848**
Net Assets				
Net Assets at Beginning of Year	2,141,390	1,969,153	172,237	1,741,305
Net Assets at End of Year	**$2,389,374**	**$2,141,390**	**$247,984**	**$1,969,153**

Lowell Recreation Center

University of Massachusetts
Condensed Statement of Revenues, Expenses, and Changes in Net Assets for University Related Organizations
For The Year Ended June 30, 2012, 2011 and 2010
(in thousands of dollars)

	University Related Organizations June 30, 2012	University Related Organizations June 30, 2011	FY11-12 Change	University Related Organizations June 30, 2010
Operating Expenses				
Operating Loss	**$15,905**	**$12,107**	**$3,798**	**$11,198**
	(15,905)	**(12,107)**	**3,798**	**(11,198)**
Nonoperating Revenues				
Other Nonoperating Income	3,731	52,571	(48,840)	31,148
Net Nonoperating Revenues	**3,731**	**52,571**	**(48,840)**	**31,148**
Gain/(Loss) Before Other Revenues, Expenses, Gains or Losses	**(12,174)**	**40,464**	**(52,638)**	**19,950**
Additions to Permanent Endowments	19,604	15,195	4,409	13,003
Other	(16)	171	(187)	4,867
Total Other Revenues, Expenses, Gains , and Losses	**19,588**	**15,366**	**4,222**	**17,870**
Total Increase/(Decrease) in Net Assets	**7,414**	**55,830**	**(48,416)**	**37,820**
Net Assets				
Net Assets at Beginning of Year	350,421	294,591	55,830	256,771
Net Assets at End of Year	**$357,835**	**$350,421**	**$7,414**	**$294,591**

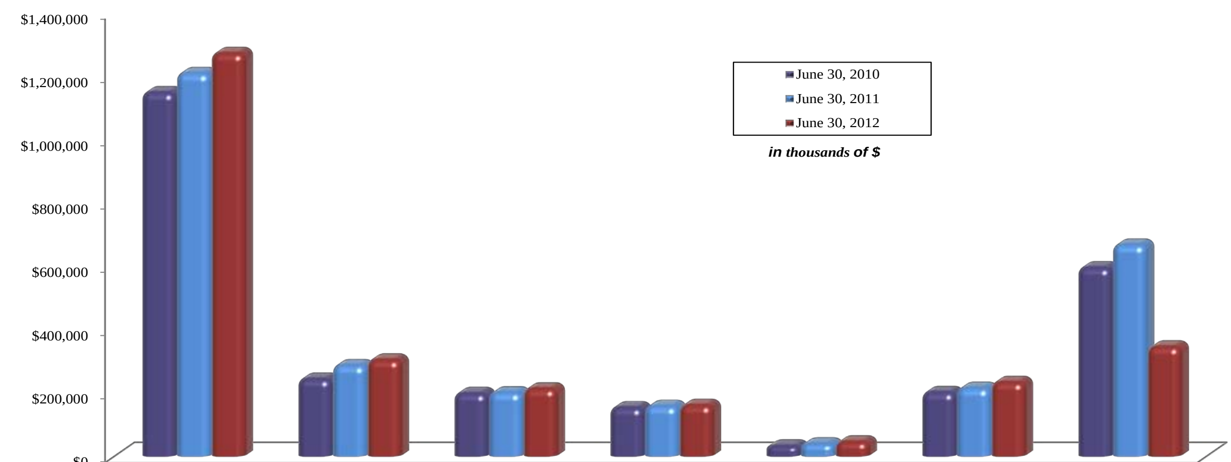
Sources of Operating Revenues, Fiscal Year 2010 to Fiscal Year 2012



	Tuition and Fees (net of scholarship allowances)	Grants and Contracts	Auxiliary Enterprises	Other Operating Revenues
June 30, 2010	$552.4	$504.1	$257.9	$739.4
June 30, 2011	$597.2	$543.7	$272.0	$816.2
June 30, 2012	$659.2	$536.0	$298.0	$562.4

Total operating revenues for fiscal year 2012 were $2.06 billion. This represents a $173.6 million decrease from the $2.23 billion in operating revenues in fiscal year 2011. As mentioned previously, the decline in revenue from fiscal year 2011 to fiscal year 2012 is attributable to the 2011 sale of MedMedtrics Health Partners which was included in the Medical School results. Total operating revenues for fiscal year 2010 were $2.05 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 2012, 2011, and 2010.

Operating Expenses by Category, Fiscal Year 2010 to Fiscal Year 2012



	Academic Core	Administration	Operation & Maintenance of Plant	Depreciation & Amortization	Scholarships & Fellowships	Auxiliary Enterprises	Other Expenditures
June 30, 2010	$1,150,256	$245,830	$200,761	$155,746	$34,634	$204,004	$597,317
June 30, 2011	$1,210,410	$288,588	$202,950	$159,854	$41,238	$216,852	$668,892
June 30, 2012	$1,274,037	$306,187	$215,292	$163,166	$47,626	$235,633	$347,685

In fiscal year 2012, operating expenditures, including depreciation and amortization of $163.2 million, totaled $2.59 billion. Of this total, $1.27 billion or 49% was used to support the academic core activities of the University, including $417.1 million in research. In fiscal year 2011, operating expenditures totaled $2.79 billion. Operating expenditures were $2.59 billion in fiscal year 2010. The chart above displays fiscal year 2012, 2011, and 2010 operating spending.

Public Service Activities

Other operating revenues includes Public Service Activities and consists largely of sales and services provided to third parties by the UMass Medical School campus through 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 CWM revenues of $360.3 million, $345.7 million, and $361.4 million for the years ended June 30, 2012, 2011 and 2010, respectively. Included in expenditures are CWM expenditures of $311.9 million, $316.5 million, and $330.4 million for the years ended June 30, 2012, 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 Health Care, Inc. (“UMass Memorial”) as required by the enabling legislation enacted by the Commonwealth in 1997. Educational services revenues included in public service revenues were $112.3 million, $200.2 million, and $125.9 million for the years ended June 30, 2012, 2011, and 2010, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $60.0 million, $177.0 million, and $92.0 million for the years ended June 30, 2012, 2011, and 2010, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

State Appropriations

In fiscal year 2012, state appropriations represent approximately 19% 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 $11.6 million from fiscal year 2011, with the increase attributable to a higher level of fringe benefit support allocated to University employees paid through the state appropriation.

The financial statements for the years ended June 30, 2012 record as tuition revenue approximately $37.03 million 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. The amount of tuition remitted to the Commonwealth was $49.73 million in fiscal year 2011 and $49.08 million in fiscal year 2010. 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 were authorized to retain tuition from non-resident students. The amount of tuition retained by the University during 2012, 2011, and 2010 was $50.8 million, $34.6 million, and $31.5 million, respectively.

The following table details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Gross Commonwealth Appropriations	$425,656	$434,963	$383,717
Plus: Fringe Benefits*	154,953	147,511	108,634
	580,609	582,474	492,351
Less: Tuition Remitted	(37,029)	(49,731)	(49,084)
Less: Mandatory Waivers	(26,187)	(26,944)	(14,236)
Net Commonwealth support**	$517,392	$505,799	$429,031

*****_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 2012, the $150.4 million of capital support provided to the University through appropriations and grants from the Commonwealth was $122.3 million more than the capital appropriations provided in fiscal year 2011. This increase is attributed to the Commonwealth's Division of Capital Asset Management ("DCAM") funding of several large capital projects which include: the Lab Science Building on the Amherst campus, the Science Complex on the Boston campus, Carney Library improvements on the Dartmouth campus, the Health Social Sciences Building on the Lowell campus and the Albert Sherman Center on the Worcester campus. The University projects that although capital support will fluctuate year to year, the level of capital appropriations from the Commonwealth will continue to be significant 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 following table details the University's grant and contract revenues (in thousands) for the fiscal years ended June 30, 2012, 2011, and 2010:

	2012	**2011**	**2010**
Federal Grants and Contracts	$355,792	$371,426	$333,538
State Grants and Contracts	67,927	62,597	64,328
Local Grants and Contracts	3,077	1,937	1,880
Private Grants and Contracts	109,235	107,767	104,368
Total Grants and Contracts	$536,031	$543,727	$504,114

Discretely Presented Component Units

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately $574.1 million at June 30, 2012 from $517.7 million at June 30, 2011 which was also up from $459.8 million at June 30, 2010.

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 fiscal year 2011 and it went into effect for the fiscal year 2012 distribution. The new policy is to have 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 to limit spending from a particular endowment fund to no lower than 93% of its book value. The Foundation distributed $13.6 million (4%) and $10.3 million (4%) in fiscal years 2012 and 2011, respectively. In fiscal year 2010, the Board of Directors approved an exception to the spending policy due to the significant decrease in market performance in 2008 and 2009. The distribution was 1.5% of the fiscal year 2009 ending fair value or $5.8 million.

The total investment returns of the Foundation for fiscal year 2012, including realized and unrealized investment activity was a net loss of approximately $.2 million as compared to a net gain of $93.3 million in fiscal year 2011 and a net gain of approximately $66.3 million in 2010. The decrease for fiscal year 2012 is consistent with investment return performance at other institutions.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were $43.2 million at June 30, 2012, up from $40.4 million at June 30, 2011, and up from $32.3 million in fiscal year 2010, which are held by the University of Massachusetts Foundation, Inc. The increase was primarily due to favorable market conditions and new gifts. The Dartmouth Foundation total investment return for fiscal year 2012, including realized and unrealized investment activity, was a net loss of approximately $.2 million as compared to a net gain of $4.2 million in 2011 and a net gain of $2.6 million in 2010.

Tuition and Fees

The University strives to provide students with the opportunity to obtain a quality education. 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, 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 to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year and an additional 4.9% for the 2012-2013 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 2011 semester, Massachusetts residents accounted for approximately 85% and 57% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2011 was 59,480 FTE (69,670 headcount students). Enrollments at the University have shown significant increases over the last five years (51,069 FTE in fall 2007). The 15% enrollment growth is consistent with the University's efforts to increase its reach across the Commonwealth and to recruit non-resident students and is reflective of the quality education provided by the University of Massachusetts.

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1043 to 1189 at the University's campuses in the fall of 2011. The average high school G.P.A. of entering freshmen ranged from 3.10 to 3.64. For comparison purposes, the 2011 national average SAT composite score was 1011.

Degrees Awarded

The University awards four levels of degrees, including associate, bachelors, masters and doctoral/professional degrees. A total of 14,711 degrees were awarded in the 2010-2011 academic year: 248 associate degrees, 9,958 bachelor degrees, 3,889 master degrees, 430 doctoral degrees and 186 Professional Practice degrees.

Bonds Payable

As of June 30, 2012, the University had outstanding bonds of approximately $2.24 billion representing $1.88 billion of University of Massachusetts Building Authority bonds (the “Building Authority Bonds”), $62.0 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority which has been merged into MassDevelopment (the “UMass HEFA Bonds*”),* and $292.9 million of bonds financed through the Worcester City Campus Corporation (the “WCCC Bonds”). Bonds payable is the University’s largest liability at June 30, 2012. The Building Authority’s active projects include residence hall construction and renovation, renovation of general education buildings, replacement of core infrastructure, and construction of academic, laboratory, and research facilities 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 and refunded two series as follows:

- 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.
- 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, 2012, the University had capital lease obligations with remaining principal payments of approximately $12.0 million which is a $5.6 million decrease from the remaining principal payments of $17.6 million at June 30, 2011. At June 30, 2010, the University had capital lease obligations with remaining principal payments of approximately $23.1 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 lease 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 has been rewarded for its strategic planning by recent ratings upgrades. Bonds issued by the University of Massachusetts and the University of Massachusetts Building Authority are now AA, Aa2 and AA- as rated by Fitch, Moody’s and Standard & Poor’s rating agencies, respectively.

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, 2012 and 2011 was $ 136.9 million and $138.5 million, respectively.

Capital Plan

In September 2012, the University's Trustees approved a $3.1 billion five-year (fiscal years 2013-2017) 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 University of Massachusetts 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 2013-2017 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 $188.0 million
- construction of the New Life Sciences Laboratory Building for approximately $160.0 million
- construction of a Life Sciences Research Facility for $95.0 million
- construction of an academic classroom building for approximately $91.0 million
- replacement of Bartlett Hall for $50.0 million
- construction of a Physical Sciences Building for $85.0 million
- renovations to the Morrill Science Complex totaling approximately $51.3 million
- repairs to the Lederle Graduate Research Complex for $41.3 million
- construction of a new electrical substation and related upgrades for $40.0 million
- addition to the Isenberg School of Management for $40.0 million
- improvements of McGuirk Stadium for $34.5 million

Boston Campus

- construction of the Integrated Science Complex for $182.0 million
- roadway and utility relocations for $143.0 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 $100.0 million
- construction of a 1,200 vehicle parking garage to meet current demand for approximately $45.0 million
- construction of two new academic building for a total of $213.0 million

Dartmouth Campus

- construction of a new academic building in order to consolidate operations and create more academic space for approximately $75.0 million
- construction of Mass Accelerator for Biomanufacturing for approximately $25.6 million
- extensive library renovations to address deferred maintenance and to improve services for approximately $46.0 million
- an energy/water conservation project for $40.0 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 $81.5 million
- construction of Health and Social Sciences Building on the South Campus for $41.0 million
- reconfiguration of the North Campus science and engineering space for approximately $90.0 million
- construction of two parking garages to increase capacity for approximately $40.0 million
- creation of the University Crossing Complex for $91.4 million to consolidate administration services, student services, and a retail at a prime location
- construction of a new residential hall for $56.0 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 $51.0 million
- HVAC upgrades and replacements for approximately $38.5 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.

Factors Impacting Future Periods

In 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 of Massachusetts System. On January 13, 2011, Robert L. Caret was elected President of the University.

President Caret assumed the presidency of the University of Massachusetts after completing 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.

In his first year of leadership at the University of Massachusetts, President Caret, in coordination with the Board of Trustees, conducted two successful Chancellor searches enabling the University to maintain its positive trajectory with the selection of Dr. Kumble R. Subbaswamy to lead the Amherst Campus and Dr. Divina Grossman to lead the Dartmouth Campus. Both Chancellors assumed their new positions on July 1, 2012.

Prior to his role at the University of Massachusetts, Dr. Subbaswamy, a physicist, served as provost at the University of Kentucky since 2006. He joined Kentucky's physics faculty in 1978 after serving as a post-doctoral fellow at the University of California, Irvine. During his first 18 years at the University of Kentucky, he served as associate dean of Arts and Sciences and as chair of the Department of Physics and Astronomy. Chancellor Subbaswamy was also dean of the college of arts and sciences at the University of Miami from 1997 to 2000, when he left to become dean of arts and sciences at Indiana University in Bloomington, serving until 2006. He was active in promoting life sciences-related economic development efforts in Indiana and Kentucky. He is also active in academia nationally and internationally, serving on a number of panels, including the American Council on Education and the German-American Fulbright Commission. Chancellor Subbaswamy holds a B.S. in physics from Bangalore University, an M.S. in physics from Delhi University and a Ph.D. in physics from Indiana University.

Prior to joining the University of Massachusetts, Dr. Grossman was the Founding Vice President for Engagement at Florida International University where she had also served as Dean of the College of Nursing and Health Sciences and Dean of the School of Nursing. While at Florida International University, Dr. Grossman established the Office of Engagement to provide leadership in implementing the FIU vision of "a public research university that is locally and globally engaged." Dr. Grossman directed the development of major FIU partnerships, including Project ACCESS (Achieving Community Collaboration in Education and Student Success) with Miami Dade County Public Schools; Life Sciences South Florida, a public-private collaborative initiative to develop an industry cluster in South Florida focusing on life sciences and biotechnology; as well as significant expansion of university-wide internships with corporations, community organizations, public and private agencies; and implementation of a service learning initiative. She also executed the merger of the School of Nursing and the School of Health Sciences and spearheaded the growth and expansion of new academic programs. Dr. Grossman holds a PhD in Nursing from the University of Pennsylvania, M.S. in Nursing from the University of Miami, and a BS in Nursing from the University of Santo Tomas (Philippines).

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, realizing strong financial results, investing in capital assets, expanding fundraising capacity, operating more efficiently and being the most effective University for students and the Commonwealth given the available resources, 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 since fiscal year 2009, 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 is on public-service, with a curriculum concentrating on civil and human rights, legal support for businesses, economic justice, and community law. Implementing its strategic plan to receive full accreditation from the American Bar Association, effective June 8, 2012, the School of Law has been provisionally approved by the accrediting Council of the Bar Association. If the Law School continues to meet Bar Association standards over the next three years, it will receive full accreditation.

- 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 has been remodeled and is a vibrant addition to the University and the surrounding communities. The Tsongas Center is host to 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. The Boston Campus will be using the property temporarily for parking and storage space as it completes major capital projects over the next few years but they continue to collaborate with the City of Boston on the master planning around the ideal development of the property in the future.

- In January 2011, the University's Lowell Campus purchased the former Saint Joseph's Hospital in Lowell. When acquired, the property consisted of six buildings totaling 300,000 square feet located within walking distance of University's North, South, and East campuses in Lowell. The Lowell Campus is in the process of converting the property through a combination of new construction and renovation into an important campus connection point focused on student and administrative services to be known as University Crossing.

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. Despite investing more than $2.5 billion on capital improvements over the last decade, the University's FY13-17 capital plan projects spending $3.1 billion over the next five years. 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. While no target date has been set, the University anticipates another bond issuance in calendar year 2013.

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 plans prepared by the Commonwealth's Executive Office for Administration and Finance maintain 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 construct 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.

The impact of this increased level of state capital support from both the Higher Education Bond Bill and the Life Sciences Bond Bill is illustrated on the financial statements where capital appropriations and grants exceeded $193.9 million in fiscal year 2012.

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 helped recruit other distinguished faculty and researchers to the University. This recognition highlights the strength of UMMS research and has enhanced 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. Construction is now underway to develop, adjacent to the campus, the Edward M. Kennedy Institute for the United States Senate. The Kennedy Institute will focus 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.

Research funding for the University of Massachusetts continued its upward growth, approaching the $600 million mark for fiscal year 2011. Research expenditures increased by 8.1% to $586.7 million in Fiscal Year 2011 from $542.7 million in Fiscal Year 2010. Most research at the University is externally funded, with the federal government providing a majority of the funding through the National Institutes of Health, the National Science Foundation, and other sources. Among Massachusetts colleges and universities, UMass ranks third in research and development expenditures, behind only MIT and Harvard. The University, as well as most major public research universities across the United States, is closely monitoring the potential reduction in federal funding for research and development programs.

In recent years the online learning consortium of the University, UMassOnline, 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. UMassOnline provides marketing and technology support for UMass' online offerings that enable students, professionals, and lifelong learners to take courses anywhere, anytime. With over 100 undergraduate and graduate degree, certificate and professional development programs and more than 1,500 courses available from University faculty, UMassOnline is one of the largest accredited online programs available.

For fiscal year 2012, UMassOnline achieved an 11% increase in revenue and a 7% increase in enrollment. Compared to the previous year, revenues increased from approximately $65.2 million to $72.1 million.

In July 2012, University President Caret announced the appointment of Dr. John Cunningham as Interim CEO of UMassOnline. Dr. Cunningham, who has held a series of faculty and university leadership positions at UMass for more than 25 years, is also currently serving as Vice President for Academic Affairs, Student Affairs, and International Relations for the UMass System. He replaces former UMassOnline CEO Dr. Ken Udas who recently joined the private higher education sector.

Dr. Cunningham has been a member of the faculty at UMass Amherst since 1986. During the 90's he was the Principal Investigator on three USDA education grants: incorporating computer-mediated telecommunications in instruction, developing an internet "bulletin board" for nutrition education, and the "Interactive Distance Education and Access (IDEA) Leadership Project." He also served as deputy provost at UMass Amherst for over a decade, working with the academic deans and the Faculty Senate, and supervising the directors of campus-wide undergraduate academic support units to ensure the quality and availability of the general education program. In addition, he oversaw the Division of Continuing and Professional Education and the University Without Walls units with substantial online portfolios delivered through UMassOnline.

The University continues to increase its global reach through 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 provided level funding for the University. This is due to the fact that the Legislature passed a bill that permitted the University's Boston, Dartmouth, Lowell, and Worcester campuses to retain tuition collected from non-resident students starting in fiscal year 2012. The amount of non-resident tuition estimated to be collected by these four campuses totaled $11.6 million for 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 provided 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 included $6.4 million of line item funding specific to the University. However, this positive support was offset by the fact that the University received almost no ARRA stimulus funds in fiscal year 2012. As a result of the flat state support, the elimination of the federal stimulus funding, and the realization that the Commonwealth would 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.

The Commonwealth's fiscal year 2013 budget approved in June 2012 included a base state appropriation amount for the University equal to the base state appropriation received in fiscal year 2012. In addition to the base state appropriation, the budget also provided $25.6 million to cover the FY13 cost of the collective bargaining increases for the University's union employees and $6.6 million of line item funding specific to the University. With state support consistent with the FY11 level despite the fact that enrollment has increased at the University by 15% over the last five years, the University's Board of Trustees approved a 4.9% tuition and fee increase for undergraduate students for the 2012-2013 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 University Controller, Sarah Mongeau, at (774) 455-7520 or by email at smongeau@umassp.edu.

Financial Statements

Statements of Net Assets

As of June 30, 2012 and 2011

(in thousands of dollars)

ASSETS	University June 30, 2012	University Related Organizations June 30, 2012	University June 30, 2011	University Related Organizations June 30, 2011
Current Assets				
Cash and Cash Equivalents	$61,769		$56,751	
Cash Held By State Treasurer	17,167		13,895	
Accounts, Grants and Loans Receivable, net	227,740		224,309	
Pledges Receivable, net	4,199	$1,648	6,071	$4,582
Short Term Investments	268,600		233,392	
Inventories, net	21,442		22,588	
Accounts Receivable from UMass Memorial, net	5,808		10,664	
Due From Related Organizations	173	542	51	632
Other Assets	10,195	407	13,486	8
Total Current Assets	**617,093**	**2,597**	**581,207**	**5,222**
Noncurrent Assets				
Cash and Cash Equivalents		778		684
Cash Held By State Treasurer	11,874		5,793	
Cash and Securities Held By Trustees	819,794		1,170,175	
Accounts, Grants and Loans Receivable, net	41,993		39,162	
Pledges Receivable, net	2,828	8,586	1,180	5,798
Investments	609,242	355,088	596,838	348,791
Other Assets	32,774	64	29,850	105
Deferred Outflows of Resources	75,635		19,510	
Investment In Plant Net of Accumulated Depreciation	3,098,186	8,822	2,582,651	9,019
Total Noncurrent Assets	**4,692,326**	**373,338**	**4,445,159**	**364,397**
Total Assets	**$5,309,419**	**$375,934**	**$5,026,366**	**$369,619**
LIABILITIES				
Current Liabilities				
Accounts Payable	$169,787	$49	$126,532	$61
Accrued Salaries and Wages	93,555		81,075	
Accrued Compensated Absences	71,892		72,753	
Accrued Workers' Compensation	4,467		3,726	
Accrued Interest Payable	20,218		20,681	
Bonds Payable	415,860		188,952	
Capital Lease Obligations	5,502		5,473	
Assets Held on behalf of Others		11,978		11,458
Accounts Payable to UMass Memorial	3,613		16,422	
Due To Related Organizations	542	173	632	51
Deferred Revenues and Credits	46,248	2,412	46,705	4,215
Advances and Deposits	10,154		6,994	
Other Liabilities	38,266		39,346	
Total Current Liabilities	**880,104**	**14,612**	**609,291**	**15,785**
Noncurrent Liabilities				
Accrued Compensated Absences	30,820		26,541	
Accrued Workers' Compensation	9,805		9,821	
Arbitrage Rebate Payable			14	
Bonds Payable	1,824,474		2,122,233	
Capital Lease Obligations	6,539		12,116	
Derivative Instruments, Interest Rate Swaps	106,110		51,342	
Deferred Revenues and Credits	16,501		20,080	
Advances and Deposits	26,697		26,688	
Other Liabilities	18,993	3,487	6,850	3,413
Total Noncurrent Liabilities	**2,039,939**	**3,487**	**2,275,685**	**3,413**
Total Liabilities	**$2,920,043**	**$18,099**	**$2,884,976**	**$19,198**
Net Assets:				
Invested in Capital Assets Net of Related Debt	$1,504,102	$8,822	$1,283,888	$9,020
Restricted				
Nonexpendable	17,773	273,995	17,112	254,625
Expendable	188,083	60,278	184,909	73,995
Unrestricted	679,418	14,740	655,481	12,781
Total Net Assets	**$2,389,376**	**$357,835**	**$2,141,390**	**$350,421**

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, 2012 and 2011
(in thousands of dollars)

REVENUES	University June 30, 2012	University Related Organizations June 30, 2012	University June 30, 2011	University Related Organizations June 30, 2011
Operating Revenues				
Tuition and Fees (net of scholarship allowances of $197,319 at June 30, 2012 and $178,676 at June 30, 2011)	$659,180		$597,200	
Federal Grants and Contracts	355,792		371,426	
State Grants and Contracts	67,927		62,597	
Local Grants and Contracts	3,077		1,937	
Private Grants and Contracts	109,235		107,767	
Sales and Service, Educational	19,311		18,011	
Auxiliary Enterprises	297,956		272,020	
Other Operating Revenues:				
Sales and Service, Independent Operations	61,087		52,619	
Sales and Service, Public Service Activities	383,855		670,557	
Other	98,107		74,979	
Total Operating Revenues	**2,055,527**		**2,229,113**	
EXPENSES				
Operating Expenses				
Educational and General				
Instruction	633,481		596,341	
Research	417,124		414,268	
Public Service	75,665	$15,240	66,548	$11,551
Academic Support	147,767		133,253	
Student Services	107,246		98,361	
Institutional Support	198,941		190,227	
Operation and Maintenance of Plant	215,292		202,950	
Depreciation and Amortization	163,166	203	159,854	127
Scholarships and Fellowships	47,626	462	41,238	429
Auxiliary Enterprises	235,633		216,852	
Other Expenditures				
Independent Operations	53,734		41,911	
Public Service Activities	293,951		626,981	
Total Operating Expenses	**2,589,626**	**15,905**	**2,788,784**	**12,107**
Operating Loss	**(534,099)**	**(15,905)**	**(559,671)**	**(12,107)**
NONOPERATING REVENUES/(EXPENSES)				
Federal Appropriations	6,845		5,826	
State Appropriations	517,392		505,799	
State Appropriations - Federal Stimulus funds	10		37,897	
Gifts	22,143	8,891	26,504	14,308
Investment Income	27,192	(5,255)	77,773	37,049
Endowment Income	15,623	95	10,207	1,214
Interest on Indebtedness	(64,434)		(65,358)	
Nonoperating Federal Grants	73,908		70,643	
Other Nonoperating Income	780		5,225	
Net Nonoperating Revenues	**599,459**	**3,731**	**674,516**	**52,571**
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	**65,360**	**(12,174)**	**114,845**	**40,464**
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES				
Capital Appropriations	150,367		28,109	
Capital Grants and Contracts	43,891		30,354	
Additions to Permanent Endowments		19,604		15,195
Net Amounts Earned/Received on Behalf of Others		107		(1,397)
Capital Contribution	(345)		4,361	1,666
Disposal of Plant Facilities	(13,606)		(10,682)	
Gain from Sale of Discontinued Operations			9,655	
Other Additions/Deductions	2,317	(123)	(4,405)	(98)
Total Other Revenues, Expenses, Gains, and Losses	**182,624**	**19,588**	**57,392**	**15,366**
Total Increase in Net Assets	**247,984**	**7,414**	**172,237**	**55,830**
NET ASSETS				
Net Assets at Beginning of Year	2,141,392	350,421	1,969,153	294,591
Net Assets at End of Year	**$2,389,376**	**$357,835**	**$2,141,390**	**$350,421**

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

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011
(in thousands of dollars)

	University June 30, 2012	University June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$730,873	$668,202
Grants and Contracts	667,310	601,982
Payments to Suppliers	(989,163)	(1,261,310)
Payments to Employees	(1,206,719)	(1,168,247)
Payments for Benefits	(317,157)	(295,311)
Payments for Scholarships and Fellowships	(47,620)	(41,232)
Loans Issued to Students and Employees	(6,308)	(4,409)
Collections of Loans to Students and Employees	5,353	5,439
Auxiliary Enterprises Receipts	301,266	263,276
Sales and Service, Educational	17,769	15,899
Sales and Service, Independent Operations	68,408	75,050
Sales and Service, Public Service Activities	415,292	741,461
Net Cash Used for Operating Activities	**(360,696)**	**(399,200)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	580,609	582,533
State Appropriations - Federal Stimulus Funds	10	37,897
Tuition Remitted to the State	(37,029)	(49,731)
Federal Appropriations	6,845	5,826
Gifts and Grants for Other Than Capital Purposes	24,794	22,376
Nonoperating Federal Grants	73,908	70,643
Student Organization Agency Transactions	(40)	303
Net Cash Provided by Noncapital Financing Activities	**649,097**	**669,847**
CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES		
Proceeds from Capital Debt		539,012
Bond Issuance Costs Paid	(24)	(10,971)
Capital Appropriations	133,653	21,822
Capital Grants and Contracts	46,187	30,099
Purchases of Capital Assets and Construction	(318,942)	(221,979)
Principal Paid on Capital Debt and Leases	(72,885)	(62,239)
Interest Paid on Capital Debt and Leases	(54,929)	(53,469)
Use of Debt Proceeds on Deposit with Trustees	(345,214)	(148,602)
Net Cash (Used for) / Provided by Capital Financing Activities	**(612,154)**	**93,673**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	1,379,520	1,028,009
Interest on Investments	17,872	20,639
Purchase of Investments	(1,409,649)	(1,029,342)
Net Cash (Used for) / Provided by Investing Activities	**(12,257)**	**19,306**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(336,010)**	**383,626**
Cash and Cash Equivalents - Beginning of the Year	**1,246,614**	**862,988**
Cash and Cash Equivalents - End of Year	**$910,604**	**$1,246,614**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	($534,099)	($559,671)
Adjustments to reconcile loss to net cash used by Operating Activities:		
Depreciation and Amortization Expense	163,166	159,854
Changes in Assets and Liabilities:		
Receivables, net	(6,038)	(2,746)
Inventories	1,146	(9,370)
Due to/from Related Organizations	(212)	467
Accounts Receivable/Payable UMass Memorial	(7,953)	16,283
Other Assets	(1,969)	753
Accounts Payable (non-capital)	10,079	(11,551)
Accrued Liabilities	16,623	9,586
Deferred Revenue	(4,036)	6,338
Advances and Deposits	3,169	741
Other Liabilties	(572)	(9,884)
Net Cash Used for Operating Actvities	**($360,696)**	**($399,200)**
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Assets acquired and included in accounts payable and other liabilities	$95,253	$62,091
Loss on disposal of capital assets	(13,606)	(10,932)
Securities lending activity		(2,664)
Unrealized gains on investments	(17,711)	48,623

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

Notes to Financial Statements

Notes to Financial Statements
June 30, 2012 and 2011

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 (referred to as the "Enabling Act"), whose purpose is to provide dormitories, dining commons, and other buildings and structures for use by the University. WCCC, of which U Health Solutions, Inc. (("UHS") 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 ("Commonwealth"). 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.

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 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 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 which reports tuition and fee revenue net of scholarship allowances.

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 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, 2012 and 2011 was $124.7 million and $125.9 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% 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 2012 and 2011. 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. In fiscal years 2012 and 2011, the deficiencies were $1.2 million and $0.4 million, respectively. The Foundation believes that these adjustments are temporary and will not require permanent funding.

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 capitalized. 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. Effective fiscal year 2012, the University no longer capitalizes library book acquisitions.

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

Buildings	20-50 years
Building Improvements	3-20 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 reflect 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, 2012 and 2011 record as tuition revenue approximately $37.0 million and $49.7 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 2012 and 2011 was $50.8 million and $34.6 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):

	2012	2011
Gross Commonwealth Appropriations	$425,656	$434,963
Plus: Fringe Benefits	154,953	147,511
	580,609	582,474
Less: Tuition Remitted	(37,029)	(49,731)
Less: Mandatory Waivers	(26,187)	(26,944)
Net Commonwealth support	$517,392	$505,799

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. 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. These funds were not appropriated to the University in fiscal year 2012.

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of $298.0 million and $272.0 million for the years ended June 30, 2012 and 2011 respectively are stated net of room and board charge allowances of $0.6 million and $1.7 million, respectively.

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

Public Service Activities consist largely of sales and services provided to third parties by the UMass Medical School campus under its Commonwealth Medicine ("CWM") programs, which provide public consulting and services in health 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 $360.3 million and $345.7 million for the years ended June 30, 2012 and 2011, respectively. Included in expenditures are Commonwealth Medicine expenditures of $311.9 million and $316.5 million for the years ended June 30, 2012 and 2011, 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 $112.3 million and $200.2 million for the years ended June 30, 2012, and 2011, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of $60.0 million and $177.0 million for the years ended June 30, 2012 and 2011, 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 applicable GASB standards. 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, 2012 and June 30, 2011, 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, U Health Solutions, 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 2012, the University changed certain information in financial year 2011 classifications which resulted in an increase in Institutional Support of $5.7 million, increase in Interest on Indebtedness of $1.2M, decrease to Research Expense of $5.7 million and decrease in Other Additions and Deductions of $1.2 million. These reclassifications have no effect on the total net assets at June 30, 2011 or changes in net assets for the year then ended. Management considers these errors to be immaterial.

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 22.8% and 21.6% of the University's investments at June 30, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, the carrying amounts, bank balances and FDIC insured amounts are as follows (in thousands):

	2012			2011		
	Book Balance	Bank Balance	FDIC Insured	Book Balance	Bank Balance	FDIC Insured
Depository Accounts	$ 42,057	$ 59,054	$ 58,698	$ 37,400	$ 55,400	$ 54,800
Certificates of Deposit	40,650	40,650	40,400	40,650	40,650	40,650
Money Market	217,006	217,006	1,500	186,730	186,730	1,500
Total	$ 299,713	$ 316,710	$ 100,598	$ 264,780	$ 282,780	$ 96,950

At June 30, 2012 the University held a carrying and fair market value of $638.7 million in non-money market investments compared to a carrying and fair market value of $632.0 million at June 30, 2011. In the event of negligence due to the University's custodian and/or investment manager(s), it is expected that investment balances of $638.7 million and $632.0 million at June 30, 2012 and 2011, 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 concentration of credit risk.

As of June 30, 2012 and June 30, 2011, 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, 2012 and 2011, respectively:

Asset Class	June 30, 2012 Fair Value	Average Credit Quality	June 30, 2011 Fair Value	Average Credit Quality
Short Duration	$304,965	AAA	$263,212	AAA
Intermediate Duration	246,646	A	270,530	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, 2012 and 2011, respectively:

Rated Debt Investments - 2012
(in thousands)

		S&P Quality Ratings							
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
U.S Agencies	$ 19,180	$ 1,124	$ 18,020	$ -	$ -	$ -	$ -	$ 36	$ -
U.S Government	24,244	73	23,053	1,118	-	-	-	-	-
Foreign Govn't Bonds	2,186	1,141	91	26	202	410	-	-	316
Certificates of Deposit	40,500	40,500	-	-	-	-	-	-	-
Corporate Debt	123,489	24,213	11,472	40,316	16,537	4,946	5,685	3,051	17,269
Bond Mutual Funds	96,456	39,924	4,016	13,524	18,308	1,833	694	359	17,798
Municipal/Public Bonds	4,725	752	2,044	1,386	169	-	55	-	319
Money Market Funds	240,831	237,034	1,090	-	-	-	-	-	2,707
	$ 551,611	$ 344,761	$ 59,786	$ 56,370	$ 35,216	$ 7,189	$ 6,434	$ 3,446	$ 38,409

Rated Debt Investments - 2011
(in thousands)

		S&P Quality Ratings							
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
U.S Agencies	$ 29,986	$ -	$ -	$ -	$ -	$ -	$ -	$ 48	$ 29,938
U.S Government	11,172	2,565	-	-	-	-	-	-	8,607
Foreign Govn't Bonds	2,753	1,763	-	141	449	94	-	-	306
Certificates of Deposit	40,500	40,500	-	-	-	-	-	-	-
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
Municipal/Public Bonds	4,340	1,512	531	843	304	36	152	234	728
Money Market Funds	198,776	197,805	-	-	-	-	-	-	971
	$ 533,742	$ 298,343	$ 19,023	$ 51,021	$ 41,899	$ 8,503	$ 7,612	$ 4,528	$ 102,813

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, 2012 and 2011, respectively:

Asset class	6/30/2012 Allocation	6/30/2012 Fair Value	6/30/2011 Allocation	6/30/2011 Fair Value
Short Duration	35%	$304,965	32%	$263,212
Intermediate Duration	28%	246,646	33%	270,530
Alternative Assets	23%	200,219	21%	179,027
Equities	11%	102,895	12%	100,570
Commodities	2%	17,836	2%	14,791
Real Estate	1%	5,281	0%	2,100

Investments - 2012

(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	$ 19,180	$ 5,883	$ 3,130	$ -	$ 10,167
US Government	24,244	1,145	18,005	5,021	73
Foreign Government Bonds	2,186	-	500	691	995
Certificates of Deposit	40,500	40,500	-	-	-
Corporate Debt	123,489	12,187	45,211	22,394	43,697
Bond Mutual Funds	96,456	4,188	67,662	14,017	10,589
Municipal/Public Bonds	4,725	231	865	1,347	2,282
Money Market Mutual Funds	240,831	240,831	-	-	-
Sub Total Debt Securities	**$ 551,611**	**$ 304,965**	**$ 135,373**	**$ 43,470**	**$ 67,803**

Other Investments	
Alternative Assets	$ 200,219
Equity Securities- International	44,472
Equity Securities- Domestic	58,423
Commodities	17,836
Real Estate	5,281
Grand Total	**$ 877,842**

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 Government Bonds	2,753	-	373	2,380	-
Certificates of Deposit	40,500	40,500	-	-	-
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	198,776	198,776	-	-	-
Sub Total Debt Securities	**$ 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**

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 $29.0 million at June 30, 2012 and $19.7 million at June 30, 2011. The University has recorded a comparable 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, 2012 and June 30, 2011 there are investments of $63,000 and $2.0 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 $13.7 million and $11.0 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 $805 million and $1.154 billion, respectively, held by trustees related to the Building Authority. At June 30, 2011, this includes $3.8 million of designated funds awarded by the Commonwealth of Massachusetts for capital projects which are held in trust by the Building Authority. At June 30, 2012 there were no funds designated. Also, at June 30, 2011, there was $3.4 million available to be used by WCCC for capital construction purposes. At June 30, 2012, there were no funds 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 $0.8 billion at June 30, 2012 and $1.2 billion at June 30, 2011) 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, 2012 and 2011 (in thousands):

	2012	2011
Fully insured bank accounts	$56	$70
Permitted money market accounts (MMA)	575,203	506,074
	$575,259	$506,144

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, 2012 and 2011, the Building Authority's cash deposits of $.06 million and $.07 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, 2012 (in thousands):

Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Debt Securities					
US Treasuries	$10,247	-	$10,247	-	-
US Agencies	214,500	30,495	184,005	-	-
Repurchase Agreements	5,318	-	-	-	-
MMA	575,203	575,203	-	5,318	-
	$805,268	$605,698	$194,252	$5,318	$-
Other Investments:					
MDFA Bonds	$673				
Revolving Loan	13,735				
Master Leases	63				
	$819,738				

Investment Maturities (in Years)

As of June 30, 2011 (in thousands):

Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Debt Securities					
US Treasuries	$71	71	-	-	-
US Agencies	642,201	103,037	519,235	19930	-
Repurchase Agreements	5,318	-	-	5318	-
MMA	506,074	506,074	-	-	-
	$1,153,664	$609,182	$519,235	$25,248	$-
Other Investments:					
MDFA Bonds	$3,416				
Revolving Loan	10,987				
Master Leases	2,037				
	$1,170,104				

Investment Maturities (in Years)

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, 2012 the Building Authority had 10.1% of its investments with the Federal Home Loan Mortgage Corporation. 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.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

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

University:

	2012	2011
Students Accounts Receivable	$47,167	$41,534
Less allowance for uncollectible accounts	(16,329)	(15,303)
	30,838	26,231
Grants and Contracts Receivable	82,335	81,391
Less allowance for uncollectible accounts	(2,427)	(3,223)
	79,908	78,168
Students Loans Receivable	42,938	41,822
Less allowance for uncollectible accounts	(309)	(258)
	42,629	41,564
Commonwealth Medicine	56,216	64,599
Less allowance for uncollectible accounts	(1,007)	(947)
	55,209	63,652
Other	62,611	55,218
Less allowance for uncollectible accounts	(1,462)	(1,362)
	61,149	53,856
Total, net	$269,733	$263,471
Less current portion, net	(227,740)	(224,309)
Long-term, net	$41,993	$39,162

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 participation payment based on a percentage of net operating income of UMass Memorial for which revenue is recognized by the University when the amounts are received.

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, 2012 and 2011, the reimbursements for services provided to UMass Memorial were $128.5 million and $127.0 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 $83.1 million and $80.9 million for fiscal years 2012 and 2011, respectively. At June 30, 2012 and 2011, the University has recorded a receivable in the amount of $5.8 million and $10.7 million, respectively from UMass Memorial consisting of $2.8 million and $9.0 million, respectively, in payroll and related fringe charges. The University has recorded a payable at June 30, 2012 of $3.6 million primarily for cross-funded payroll. At June 30, 2011, the University had a payable of $16.4 million for amounts due to UMass Memorial primarily consisting of a prepayment for educational services, capital projects and cross-funded payroll.

6. RELATED ORGANIZATIONS

Related party activity with the Foundation includes loan agreements, and investments of the University's endowment assets and Intermediate Term Investment Fund (ITIF) with the Foundation. As of June 30, 2012, the net assets of the Foundation included as related organizations in the combined financial statements of the University are $365.4 million, of which $342.5 million are restricted funds and $23.0 million are unrestricted funds. During the fiscal year ended June 30, 2012, the University received approximately $40.6 million from the Foundation, and disbursed approximately $42.9 million to the Foundation of which $35.2 million related to the establishment of quasi-endowment. At June 30, 2012, the University's investments include $242.9 million of endowment funds held in a custodial relationship at the Foundation, and $229.9 million in ITIF.

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.

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

UHealthSolutions, Inc. (formerly Public Sector Partners, Inc. "PSP") and its previously wholly-owned subsidiary, MedMetrics Health Partners, Inc., is a corporation that offers a wide range of program management and consulting services to both public sector agencies and nonprofit organizations. UHS is affiliated with Commonwealth Medicine, a division of the Medical School and WCCC is its sole member. The majority of the net assets of MHP were sold to a third party on April 11, 2011, and the remainder of the MHP assets were transferred to UHS. UHS received $12.7 million as consideration and recognized a gain of the sale of the net assets of $9.7 million.

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, 2012 and 2011, the Authority had provided operating support for the Club of approximately $0.2 million and $0.7 million, respectively.

7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2012 is comprised of the following (in thousands):

University:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$3,126,849	$207,543	($12,181)	$3,322,211
Equipment and Furniture	614,625	28,305	(38,443)	604,487
Software	133,264	2,915	(2,097)	134,082
Library Books	110,423	-	(8,805)	101,618
	3,985,161	238,763	(61,526)	4,162,398
Accumulated Depreciation	(1,868,779)	(163,582)	41,784	(1,990,577)
Sub-Total	2,116,382	75,181	(19,742)	2,171,821
Land	56,556	2,216	(941)	57,831
Construction in Progress	409,713	537,862	(79,041)	868,534
Sub-Total	466,269	540,078	(79,982)	926,365
Total	$2,582,651	$615,259	($99,724)	$3,098,186

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	$7,942	-	-	$7,942
Equipment and Furniture	172	-	($2)	170
	8,114	-	(2)	8,112
Accumulated Depreciation	(455)	($195)	-	(650)
Sub-Total	7,659	(195)	(2)	7,462
Land	1,360	-	-	1,360
Total	$9,019	($195)	($2)	$8,822

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
Software	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

At June 30, 2012 and 2011, investment in plant included capital lease assets of approximately $84.7 million and $85.0 million, respectively, net of accumulated depreciation on capital lease assets of approximately $74.0 million and $70.0 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, 2012 and 2011, the University capitalized net interest costs of $41.4 million and $35.2 million respectively.

8. BONDS PAYABLE

Amounts outstanding at June 30, 2012 are as follows (in thousands):

Issue Borrowing		Original Borrowing	Maturity Date	Interest Rate		Amount Outstanding
University of Massachusetts Building Authority:						
Series 2003-1	$	137,970	2014	3.875-5.25%	$	17,665
Series 2004-A		96,025	2015	4.2-4.5%		8,765
Series 2004-1		183,965	2016	5.25%		32,195
Series 2005-1		25,595	2016	5.0%		10,440
Series 2005-2		212,550	2025	5.0%		189,645
Series 2006-2		21,240	2014	5.47-5.49%		5,375
Series 2008-A		26,580	2038	variable		23,630
Series 2008-1		232,545	2038	variable		208,515
Series 2008-2		120,560	2038	4.0-5.0%		110,750
Series 2009-1		247,810	2039	3.0-5.0%		228,665
Series 2009-2		271,855	2039	6.423-6.573%		271,855
Series 2009-3		28,570	2039	5.283-6.173%		28,155
Series 2010-1		118,985	2020	5.0%		114,275
Series 2010-2		430,320	2040	3.8-5.45%		430,320
Series 2010-3		3,005	2040	6%		2,965
Series 2011-1		135,040	2034	variable		133,765
Series 2011-2		101,700	2034	variable		100,875
						1,917,855
				Unamortized Bond Premium		35,946
				Less Deferred Loss on Refunding		(69,719)
				SUBTOTAL		1,884,082
University of Massachusetts HEFA/MDFA:						
2000 Series A	$	20,000	2030	variable	$	20,000
2002 Series C		35,000	2034	4.2%		740
2007 Series D		10,435	2031	3.5-4.25%		10,090
Series 2011		29,970	2034	2.5-4.0%		29,970
						60,800
				Unamortized Bond Premium		1,161
				SUBTOTAL		61,961
WCCC HEFA/MDFA:						
Series 2005-D	$	99,325	2029	5.0-5.25%	$	84,895
Series 2007-E		118,750	2036	3.5-5.0%		110,520
Series 2007-F		101,745	2036	4.0-5.0%		89,695
Series 2011		10,495	2023	2.0-5.0%		10,495
						295,605
				Unamortized Bond Premium		9,381
				Deferred Loss on Refunding		(12,129)
				SUBTOTAL		292,857
MDFA:						
Clean Renewable Energy Bonds		$1,625	2027	3.5%		1,434
				TOTAL	$	2,240,334

Bonds payable activity for the year ended June 30, 2012 is summarized as follows (in thousands):

	Beginning Balance	Additions	Retirements/ Repayments	Ending Balance
University of Massachusetts Building Authority				
Series 2000-A	$1,645		($1,645)	-
Series 2003-1	23,045		(5,380)	$17,665
Series 2004-A	10,735		(1,970)	8,765
Series 2004-1	39,935		(7,740)	32,195
Series 2005-1	12,745		(2,305)	10,440
Series 2005-2	197,825		(8,180)	189,645
Series 2006-2	7,860		(2,485)	5,375
Series 2008-A	24,435		(805)	23,630
Series 2008-1	215,120		(6,605)	208,515
Series 2008-2	113,105		(2,355)	110,750
Series 2009-1	240,120		(11,455)	228,665
Series 2009-2	271,855			271,855
Series 2009-3	28,570		(415)	28,155
Series 2010-1	118,985		(4,710)	114,275
Series 2010-2	430,320			430,320
Series 2010-3	3,005		(40)	2,965
Series 2011-1	135,040		(1,275)	133,765
Series 2011-2	101,700		(825)	100,875
Plus: unamortized bond premium	44,031		(8,085)	35,946
Less: deferred loss on refunding	(72,376)		2,657	(69,719)
Subtotal	1,947,700		(63,618)	1,884,082
Umass HEFA/MDFA:				
2000 Series A	20,000			20,000
2001 Series B	280		(280)	-
2002 Series C	30,660		(29,920)	740
2007 Series D	10,140	$29,970	(50)	40,060
Plus: unamortized bond premium		1,161		1,161
Subtotal	61,080	31,131	(30,250)	61,961
WCCC HEFA/MDFA:				
WCCC 2001 Series B	12,545		(12,545)	-
WCCC 2005 Series D	87,800		(2,905)	84,895
WCCC 2007 Series E	112,295		(1,775)	110,520
WCCC 2007 Series F	92,165		(2,470)	89,695
Series 2011		10,495		10,495
Plus: unamortized bond premium	8,638	1,113	(370)	9,381
Less: deferred loss on refunding	(12,568)		439	(12,129)
Subtotal	300,875	11,608	(19,626)	292,857
MDFA:				
Clean Renewable Energy Bonds	1,530		(96)	1,434
Total	$2,311,185	$42,739	($113,590)	$2,240,334

Maturities and interest, which is estimated using rates in effect at June 30, 2012, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	Principal	Interest
2013	$ 70,846	$ 93,955
2014	77,846	91,093
2015	77,776	87,545
2016	79,701	83,941
2017	82,616	80,179
2018-2022	448,983	340,037
2023-2027	470,323	244,657
2028-2032	467,425	150,945
2033-2037	331,450	68,816
2038-2042	168,728	11,904
Total	$2,275,694	$1,253,072

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)	-
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
MDFA:				
Clean Renewable Energy Bonds		1,625	(95)	1,530
Total	$1,827,109	$779,585	($295,509)	$2,311,185

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 April 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, 2012 and 2011.

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 Authority 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 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in April 2013 and may be extended at the option of the BofA. Fees accrued by the Authority in connection with the standby bond purchase agreement totaled $43,600 and $37,600 for the years ended June 30, 2012 and 2011, respectively.

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 and $362,000 for the years ended June 30, 2012 and 2011, respectively. 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 $674,600 and $33,400 for the years ended June 30, 2012 and 2011, respectively.

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 interest 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%).

Bond Refundings In fiscal year 2011, the Building Authority 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 which were fully repaid in August 2012 when the 2008-3 and 2008-4 series bonds were called.

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 $311.7 million and $315.7 million as of June 30, 2012 and 2011, respectively. The unpaid principal amount of the refunded bonds totaled $292.0 million and $294.3 million as of June 30, 2012 and 2011, 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 Pursuant to the projects administered by the University of Massachusetts Building Authority, the Authority sets fees, rents, rates and other charges for the use of the projects for each fiscal year in an amount 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 $68.4 million for 2012 and $66.5 million for 2011.

Interest Rate Swaps The Building Authority uses derivative instruments 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 are 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, 2012 are as follows (in thousands):

	Fair Value June 30, 2012	Net Change in Fair Value	Fair Value June 30, 2011	Type of Hedge	Financial Statement Classification for Changes in Fair Value
Series 2008-1 Swap	($44,721)	($24,877)	($19,844)	Cash Flow	Deferred Outflow
Series 2008-A Swap	(5,126)	(2,808)	(2,318)	Cash Flow	Deferred Outflow
Series 2006-1 Swap	(56,263)	(27,083)	(29,180)	Cash Flow	Deferred Outflow
Total	($106,110)	($54,768)	($51,342)		

The terms of the Building Authority's financial derivative instruments that were outstanding at June 30, 2012 are summarized below (in thousands):

	Type	Effective Date	Termination Date	Rate Authority Pay	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 2011-1 and 2001-2 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, 2012, the Building Authority was not exposed to credit risk on the swaps with $106.1 million in negative fair value. 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, 2012 are as follows:

	Credit Ratings		
	Moody's	S & P	Fitch
UBS AG	A2	A	A
Deutsche Bank AG	A2	A+	A+
Citi Bank NA	A3	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 Master 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 events 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, 2012; therefore, no collateral has been posted.

Termination of Hedge Accounting In June of 2012 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, 2011, 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, 2012 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2012.

Swap payments and associated debt Using rates as of June 30, 2012, 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
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	11,625	366	13,536	25,527
2018-2022	94,640	1,668	60,972	157,280
2023-2027	158,250	1,045	38,932	198,227
2028-2032	124,330	397	15,578	140,305
2033-2037	35,035	48	1,814	36,897
2038	825	1	27	853
Total	$465,710	$5,063	$188,491	$659,264

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 2009 the Line was renewed until January 2012 for $30.0 million, the unborrowed fee was increased to 0.25% and the interest rate was set at 65% of LIBOR plus 0.85%. In 2012 and 2011 the Building Authority paid $30,000 and $64,700, respectively related to charges for the Line. As of June 30, 2012 and 2011 the Building Authority had $0 and $0 respectively outstanding under the Line. 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%.

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, D and 2011

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, electronics, 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 2012 and 2011 were approximately 2.20% respectively. At June 30, 2012 and 2011, 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 November 2011, the University issued $30.0 million of Massachusetts Development Finance Agency Revenue Refunding Bonds (the "Series 2011 Bonds"). The University deposited the proceeds to an irrevocable trust fund to provide for payment of the University 2002 Series C Bonds. This payment was made as a lump sum in October 2012. The Series 2011 bonds were issued at a premium of $1.2million. These bonds bear interest at various fixed rates ranging from 2.5% to 4% and mature on October 1, 2034. At June 30, 2012, the aggregate principal payment outstanding on these bonds was $30.0 million. As a result of the refunding, the University will reduce its aggregate debt service payments by approximately $4.8 million and achieve an economic gain of $3.4 million.

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. These advance refunded bonds were 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 , F and 2011

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"), two buildings housing the operations of MassBiologics, Two Biotech Park, and to refund previously issued bonds.

Refundings In November 2011, WCCC issued $10.5 million of Massachusetts Development Finance Agency Revenue Refunding Bonds (the "Series 2011 Bonds"). The Series 2011 Bonds were issued at a premium of $1.1 million. These bonds bear interest at various fixed rates ranging from 2.00% to 5.00% and mature October 1, 2023. At June 30, 2012, the aggregate principal payments outstanding on these bonds were $10.5 million. The proceeds of the Series 2011 Bonds were used to refund the MHEFA Series B Bonds, which were used to finance the construction of a parking garage and the acquisition and installation of equipment at the Lazare Research Building.

In January 2007, WCCC issued $101.7 million of Massachusetts Health and Education Facilities Authority ("MHEFA") Revenue Bonds (the "Series F Bonds"). The Series F Bonds were issued at a premium of $2.8 million. These bonds bear interest at various fixed rates ranging from 4.00% to 5.00% and mature October 1, 2036. At June 30, 2012 and June 30, 2011, the aggregate principal payments outstanding on this portion of the Series F Bonds were $30.4 million and $31.1 million, respectively. The remaining portion of the bonds bear interest at various fixed rates ranging from 4.00% to 4.50% and mature October 1, 2031. At June 30, 2012 and 2011, the aggregate principal payments outstanding on this portion of the Series F Bonds were $59.3 million and $61.1 million, respectively.

In January 2007, WCCC issued $118.8 million of MHEFA Revenue Bonds (the "Series E Bonds"). The Series E Bonds were issued at a premium of $3.9 million. The Corporation deposited $32.4 million of the proceeds to an irrevocable trust fund to provide for partial advanced refunding of outstanding MHEFA Series B Revenue Bonds. In accordance with the applicable guidance, a portion of the Series B Bonds totaling $30.8 million and the related irrevocable trust has been derecognized by the Corporation.

In April 2005, WCCC issued $99.3 million of MHEFA Revenue Bonds (the "Series D Bonds"). The Corporation deposited the proceeds to an irrevocable trust fund to provide for payment of the MHEFA Series A Revenue Bonds. In accordance with the applicable guidance, the Series A Bonds and the related irrevocable trust were derecognized by the Corporation. These bonds bear interest at various fixed rates ranging from 3.00% to 5.25% per year and mature October 1, 2029. The Series D Bonds were issued at a premium of $4.1 million. At June 30, 2012 and 2011, the aggregate principal payment outstanding on the Series D Bonds was $84.9 million and $87.8 million, respectively. The proceeds from the Series A Bonds were previously used to fund the construction of the Lazare Research Building.

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 2012 and 2011, 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.

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 $20.0 million and $16.8 million for the years ended June 30, 2012 and 2011, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems. The University also leases space to third party tenants. During 2012 and 2011, the amount reported as rental income was $13.6 million and $12.6 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, 2012 (in thousands):

	University Capital Leases			
Year	Master Leases	Other Leases	TOTAL	Operating Leases
2013	$5,748	$132	$5,880	$14,585
2014	4,372	131	4,503	17,233
2015	2,186	87	2,273	16,847
2016	-	-	-	15,875
2017 and thereafter	-	-	-	34,566
Total Payments	12,306	350	12,656	$99,106
Less: Amount representing interest	(591)	(24)	(615)	
Present Value of Minimum Lease Payments	$11,715	$326	$12,041	

June 30, 2012	University Capital Lease Obligations	
Year	Principal	Interest
2013	$5,502	$378
2014	4,307	196
2015	2,232	41
Total Payments	$12,041	$615

10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES

During the year ended June 30, 2012 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	$12,116	-	($5,577)	$6,539
Compensated absences	26,541	$4,279	-	30,820
Workers' compensation	9,821	-	(16)	9,805
Deferred revenues and credits	20,080	7,270	(10,849)	16,501
Advances and deposits	26,688	367	(357)	26,698
Other Liabilities	6,850	12,459	(316)	18,993
University Related Organization:				
Other Liabilities	$3,413	$74	-	$3,487

** Adjustments include changes in estimates*

During the year ended June 30, 2011 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	$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*

11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2012 and 2011 include $272.7 million and $262.3 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, $117.8 million for 2012 and $110.9 million for 2011 was reimbursed to the Commonwealth and $155.0 million and $151.5 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 $63.8 million and $61.4 million at June 30, 2012 and 2011, respectively. Cumulative repayments totaled approximately $46.4 million and $43.5 million as of June 30, 2012 and 2011, 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 $64.0 million and $35.6 million for the years ended June 30, 2012 and 2011, respectively. Annual covered payroll approximated 75.0% and 74.7% for the years ended June 30, 2012 and 2011, respectively of annual total payroll for the University. SERS does not issue stand-alone financial statements, however, SERS financial information is contained in the Commonwealth Comprehensive Annual Financial Report and can be obtained by contacting the State Comptroller, One Ashburton Place, 9th Floor, Boston, MA 02108.

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, 2012 and 2011, there were approximately 4,060 and 3,574 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 $8.0 million and $7.0 million in 2012 and 2011, respectively. University employees contributed $18.2 million and $16.4 million in 2012 and 2011, 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 2.1% and 3.9% of total accounts receivable for the University at June 30, 2012 and 2011, respectively. The University also had uncollateralized receivables from two other organizations comprising approximately 6.9% and 3.8% of the total outstanding receivables at June 30, 2012 and 6.8% and 6.9% of the total outstanding receivables at June 30, 2011.

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 $306.7 million and $483.3 million at June 30, 2012 and 2011, respectively. In connection with the investments in certain limited partnership agreements, the Foundation has $8.9 million and $10.2 million in committed calls as of June 30, 2012 and 2011, 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 a commitment to the Commonwealth for Clean Energy Investment Program Funds used through June 30, 2012 and 2011 in the amount of $16.2 million and $6.3 million, respectively.

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 $14.3 million as of June 30, 2012 and $13.5 million as of June 30, 2011. Estimated future payments related to such costs have been discounted at a rate of 4%.

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 for a portion of any amounts due. 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 University's financial position and results of operations.

Five Universities in the Commonwealth of Massachusetts jointly formed the Massachusetts Green High Performance Computing Center, Inc. (MGHPCC) and MGHPCC Holyoke, Inc. in May 2010 and April 2011, respectively, to construct and operate a research computing center located in Holyoke, Massachusetts. MGHPCC and MGHPCC Holyoke, Inc. are tax-exempt organizations under the Internal Revenue Code section 501(c)(3). Each respective university agreed to contribute $10M and as of June 30, 2012, each university had contributed the required amounts. The University's $10M is included in their Statement of Financial Position within Prepaids ($1M) and Other Assets ($9M).

16. SUBSEQUENT EVENT

The University has assessed the impact of subsequent events through December 19, 2012, the date of the issuance of the consolidated financial statements, and has concluded that there were no material events that require adjustment to or disclosure in the consolidated financial statements.

Supplemental Financial Information
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Report of Independent Certified Public Accountants on Accompanying Information

Grant Thornton

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Report of Independent Certified Public Accountants on Accompanying Information

Board of Trustees of the
University of Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University of Massachusetts as of and for the years ended June 30, 2012 and 2011, and our report dated December 19, 2012, which is presented in the preceding section, expressed an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming our opinions on these financial statements that collectively comprise the University's financial statements.

Our audits were conducted for the purpose of forming an opinion 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, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Boston, Massachusetts
December 19, 2012

Combining Statements of Net Assets for University Related Organizations

As of June 30, 2012 and 2011
(in thousands of dollars)

Supplemental Schedule I

ASSETS	Total June 30, 2012	Eliminations and Adjustments June 30, 2012	The University of Massachusetts Foundation, Inc. June 30, 2012	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2012	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
Current Assets								
Accounts, Grants and Loans Receivable, net								
Pledges Receivable, net	$1,648	($7,712)	$8,325	$1,034	$4,582	($9,006)	$12,083	$1,505
Due From Related Organizations	542	451		91	632	632		
Other Assets	407		401	6	8			8
Total Current Assets	**2,597**	**(7,261)**	**8,726**	**1,131**	**5,222**	**(8,374)**	**12,083**	**1,513**
Noncurrent Assets								
Cash and Cash Equivalents	778		84	694	684		45	639
Pledges Receivable, net	8,586	(7,755)	14,721	1,619	5,798	(8,526)	12,666	1,658
Investments	355,088	(511,083)	822,949	43,222	348,791	(494,906)	803,273	40,424
Other Assets	64		7	57	105		50	55
Investment In Plant Net of Accumulated Depreciation	8,822		8,822		9,019		9,019	
Total Noncurrent Assets	**373,338**	**(518,838)**	**846,583**	**45,592**	**364,397**	**(503,432)**	**825,053**	**42,776**
Total Assets	**$375,934**	**($526,098)**	**$855,309**	**$46,723**	**$369,619**	**($511,806)**	**$837,136**	**$44,289**
LIABILITIES								
Current Liabilities								
Accounts Payable	$49		$40	$9	$61		$40	$21
Due To Related Organizations	173	(4,644)		4,817	51	($2,519)		2,570
Notes Payable								
Assets Held on Behalf of the University		(472,119)	472,119			(458,198)	458,198	
Assets Held on Behalf of Others	11,978		11,978		11,458		11,458	
Deferred Revenues and Credits	2,412		2,412		4,215		4,215	
Total Current Liabilities	**14,612**	**(476,763)**	**486,549**	**4,826**	**15,785**	**(460,717)**	**473,911**	**2,591**
Noncurrent Liabilities								
Notes Payable								
Other Liabilities	3,487	177	3,310		3,413	172	3,241	
Total Noncurrent Liabilities	**3,487**	**177**	**3,310**		**3,413**	**172**	**3,241**	
Total Liabilities	**$18,099**	**($476,586)**	**$489,859**	**$4,826**	**$19,198**	**($460,545)**	**$477,152**	**$2,591**
Net Assets:								
Invested in Capital Assets Net of Related Debt	$8,822	$8,822			$9,020	$9,020		
Restricted								
Nonexpendable	273,995	(47,539)	$286,266	$35,268	254,625	(47,778)	$268,362	$34,041
Expendable	60,278	(1,973)	56,225	6,026	73,995	(3,483)	70,508	6,970
Unrestricted	14,740	(8,822)	22,959	603	12,781	(9,020)	21,114	687
Total Net Assets	**$357,835**	**($49,512)**	**$365,450**	**$41,897**	**$350,421**	**($51,261)**	**$359,984**	**$41,698**

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

For the Years Ended June 30, 2012 and 2011

(in thousands of dollars)

Supplemental Schedule II

	Total June 30, 2012	Eliminations and Adjustments June 30, 2012	The University of Massachusetts Foundation, Inc. June 30, 2012	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2012	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
EXPENSES								
Operating Expenses								
Educational and General								
Public Service	$15,240	($1,000)	$14,302	$1,938	$11,551	($1,083)	$10,883	$1,751
Depreciation	203		203		127		127	
Scholarships and Fellowships	462	(1,045)	805	702	429	(822)	739	512
Total Operating Expenses	**15,905**	**(2,045)**	**15,310**	**2,640**	**12,107**	**(1,905)**	**11,749**	**2,263**
Operating Income/(Loss)	**(15,905)**	**2,045**	**(15,310)**	**(2,640)**	**(12,107)**	**1,905**	**(11,749)**	**(2,263)**
NONOPERATING REVENUES/(EXPENSES)								
Gifts	8,891	(802)	7,862	1,831	14,308	(1,397)	12,636	3,069
Investment Income	(5,255)	1,346	(6,264)	(337)	37,049	(56,921)	90,100	3,870
Endowment Income	95	(13,592)	13,687		1,214	(9,169)	10,383	
Net Nonoperating Revenues	**3,731**	**(13,048)**	**15,285**	**1,494**	**52,571**	**(67,487)**	**113,119**	**6,939**
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	**(12,174)**	**(11,003)**	**(25)**	**(1,146)**	**40,464**	**(65,582)**	**101,370**	**4,676**
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES								
Additions to Permanent Endowments	19,604	1,466	16,793	1,345	15,195	2,765	12,331	99
Less: Amounts Earned/Received on Behalf of the University		(20,677)	20,677			45,291	(45,291)	
Less: Amounts Earned/Received on Behalf of Others	107		107		(1,397)		(1,397)	
Distribution to University		32,107	(32,107)			15,714	(15,714)	
Capital Contribution					1,666		1,666	
Disposal of Plant Facilities								
Other Additions/Deductions	(123)	(144)	21		(98)	(145)	47	
Total Other Revenues, Expenses, Gains, and Losses	**19,588**	**12,752**	**5,491**	**1,345**	**15,366**	**63,625**	**(48,358)**	**99**
Total Increase/(Decrease) in Net Assets	**7,414**	**1,749**	**5,466**	**199**	**55,830**	**(1,957)**	**53,012**	**4,775**
NET ASSETS								
Net Assets at Beginning of Year	350,421	(51,261)	359,984	41,698	294,591	(49,304)	306,972	36,923
Net Assets at End of Year	**$357,835**	**($49,512)**	**$365,450**	**$41,897**	**$350,421**	**($51,261)**	**$359,984**	**$41,698**