

2014

Annual Financial

Report



The University of Massachusetts
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University Administration

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December 18, 2014

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, 2014. 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, 2014 including comparative information as of June 30, 2013.

The University's net assets increased \$203.9 million from \$2.61 billion in fiscal year 2013 to \$2.82 billion in fiscal year 2014. 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 2014, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2014 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

A handwritten signature in blue ink that reads "Christine M. Wilda".

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

A handwritten signature in blue ink that reads "Sarah B. Mongeau".

Sarah B. Mongeau
University Controller

**University of Massachusetts
2014 Annual Financial Report
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees of the
University of Massachusetts

Report on the financial statements

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic consolidated financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the basic consolidated 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 of Massachusetts as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A) 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. 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the MD&A information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Boston, Massachusetts
December 18, 2014

**University of Massachusetts
Management's Discussion and Analysis (unaudited)
June 30, 2014**

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, 2014 with comparative information as of June 30, 2013. 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 2013, the University enrolled 61,336 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 position increased \$203.9 million from \$2.61 billion in fiscal year 2013 to \$2.82 billion in fiscal year 2014. The major components of the increase in fiscal year 2014 relate to investments in infrastructure and greater student fee revenues. From fiscal year 2013 to fiscal year 2014, the University's operating revenue increased by \$56.5 million and operating expenditures increased by \$146.1 million. The increase in operating revenue is primarily due to the increase in fee and auxiliary revenue associated with the enrollment increases and fee increases in categories other than in state undergraduates and auxiliary revenue to support related expenditures.

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 Position, Statement of Revenues, Expenses and Changes in Position 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 position (the difference between assets and liabilities) is one indicator of the University's financial health. Over time, increases or decreases in net position 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 Position includes all assets, liabilities, as well as deferred inflows and outflows of resources 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 incurred, regardless of when cash is exchanged. Net Position is 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 Position is reported as restricted when constraints are imposed by third parties, such as donors or enabling legislation. Restricted net position is 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 Position 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 support from the state, 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.

Condensed Financial Information

| University of Massachusetts | | | |
|---|----------------------|----------------------|-------------------|
| Condensed Statement of Net Position | | | |
| As of June 30, 2014 and 2013 | | | |
| (in thousands of dollars) | | | |
| | University | University | FY13-14 |
| | June 30, 2014 | June 30, 2013 | Change |
| ASSETS | | | |
| Current Assets | \$ 592,750 | \$ 579,824 | \$ 12,926 |
| Noncurrent Assets | | | |
| Investment in Plant Net of Accumulated Depreciation | 4,064,786 | 3,705,517 | 359,269 |
| All Other Noncurrent Assets | 1,543,391 | 1,403,449 | 139,942 |
| Total Assets | 6,200,927 | 5,688,790 | 512,137 |
| DEFERRED OUTFLOWS OF RESOURCES | 112,880 | 114,286 | (1,406) |
| LIABILITIES | | | |
| Current Liabilities | 674,330 | 772,922 | (98,592) |
| Noncurrent Liabilities | 2,821,182 | 2,415,798 | 405,384 |
| Total Liabilities | 3,495,512 | 3,188,720 | 306,792 |
| NET POSITION | | | |
| Invested in Capital Assets Net of Related Debt | 1,800,767 | 1,682,173 | 118,594 |
| Restricted | | | |
| Nonexpendable | 17,387 | 18,058 | (671) |
| Expendable | 174,530 | 156,469 | 18,061 |
| Unrestricted | 825,611 | 757,656 | 67,955 |
| Total Net Position | \$ 2,818,295 | \$ 2,614,356 | \$ 203,939 |

| University of Massachusetts | | | |
|--|----------------------|----------------------|------------------|
| Condensed Statement of Net Position for Related Organizations | | | |
| As of June 30, 2014 and 2013 | | | |
| (in thousands of dollars) | | | |
| | University | University | FY13-14 |
| | Related | Related | Change |
| | Organizations | Organizations | |
| | June 30, 2014 | June 30, 2013 | |
| ASSETS | | | |
| Current Assets | \$ 1,678 | \$ 3,830 | \$ (2,152) |
| Noncurrent Assets | | | |
| Investment in Plant Net of Accumulated Depreciation | 8,478 | 8,619 | (141) |
| All Other Noncurrent Assets | 454,646 | 391,699 | 62,947 |
| Total Assets | 464,802 | 404,148 | 60,654 |
| LIABILITIES | | | |
| Current Liabilities | 15,525 | 14,604 | 921 |
| Noncurrent Liabilities | 3,483 | 3,332 | 151 |
| Total Liabilities | 19,008 | 17,936 | 1,072 |
| NET POSITION | | | |
| Invested in Capital Assets Net of Related Debt | 8,477 | 8,619 | (142) |
| Restricted | | | |
| Nonexpendable | 309,718 | 290,858 | 18,860 |
| Expendable | 101,195 | 74,706 | 26,489 |
| Unrestricted | 26,404 | 12,029 | 14,375 |
| Total Net Position | \$ 445,794 | \$ 386,212 | \$ 59,582 |

At June 30, 2014, total University net position was \$2.82 billion, an increase of \$203.9 million over the \$2.61 billion in net position for fiscal year 2013. The University's largest asset continues to be its net investment in its physical plant of \$4.06 billion at June 30, 2014 (\$3.71 billion in fiscal year 2013).

University liabilities totaled \$3.49 billion at June 30, 2014, an increase of \$306.8 million over fiscal year 2013. Long-term liabilities represent 81% of the total liabilities which primarily consist of bonds payable amounting to \$2.62 billion at June 30, 2014.

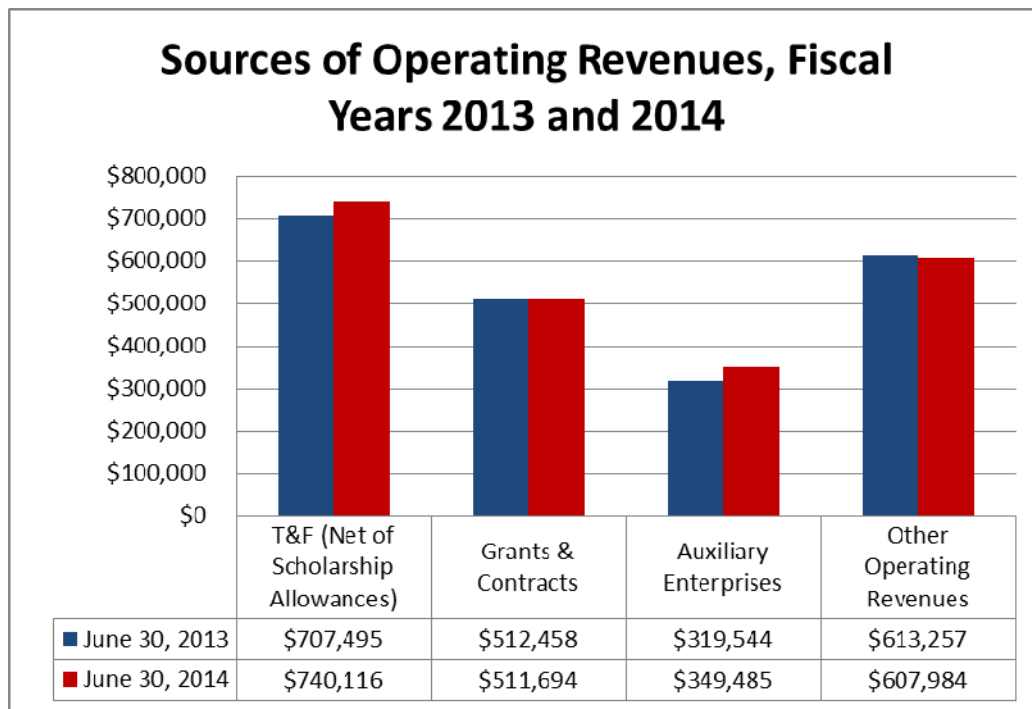
The University's current assets as of June 30, 2014 of \$592.8 million were below the current liabilities of \$674.3 million, as a result the current ratio was 0.88 dollars in assets to every one dollar in liabilities. June 30, 2013 current assets of \$579.9 million were below the current liabilities of \$772.9 million, resulting in a current ratio of 0.75.

The unrestricted and restricted expendable net position totaled \$1.0 billion in fiscal year 2014, which represents 36% of total operating expenditures of \$2.81 billion for fiscal year 2014. The unrestricted and restricted expendable net position totaled \$914.1 million in fiscal year 2013, which represents 34% of total operating expenditures of \$2.66 billion.

| University of Massachusetts | | | |
|---|----------------------|----------------------|-------------------|
| Condensed Statement of Revenues, Expenses, and Changes in Net Position | | | |
| For the Year Ended June 30, 2014 and 2013 | | | |
| (in thousands of dollars) | | | |
| | University | University | FY13-14 |
| | June 30, 2014 | June 30, 2013 | Change |
| Operating Revenues | | | |
| Tuition and Fees (net of scholarship allowances) | \$ 740,116 | \$ 707,495 | \$ 32,621 |
| Grants and Contracts | 511,694 | 512,458 | (764) |
| Auxiliary Enterprises | 349,485 | 319,544 | 29,941 |
| Other Operating Revenues | 607,984 | 613,257 | (5,273) |
| Total Operating Revenues | 2,209,279 | 2,152,754 | 56,525 |
| Operating Expenses | 2,809,900 | 2,663,837 | 146,063 |
| Operating Loss | (600,621) | (511,083) | (89,538) |
| Nonoperating Revenues / (Expenses) | | | |
| Federal Appropriations | 7,020 | 6,774 | 246 |
| State Appropriations | 570,618 | 519,311 | 51,307 |
| Interest on Indebtedness | (89,496) | (91,364) | 1,868 |
| Other Nonoperating Income | 133,386 | 100,697 | 32,689 |
| Nonoperating Federal Grants | 74,279 | 70,586 | 3,693 |
| Net Nonoperating Revenues | 695,807 | 606,004 | 89,803 |
| Income Before Other Revenues, Expenses, Gains and Losses | 95,186 | 94,921 | 265 |
| Capital Appropriations, Grants and Other Sources | 134,369 | 156,442 | (22,073) |
| Disposal of Plant Facilities | (6,198) | (8,802) | 2,604 |
| Other Additions / (Deductions) | (19,418) | 2,939 | (22,357) |
| Total Other Revenues, Expenses, Gains, and Losses | 108,753 | 150,579 | (41,826) |
| Total Increase in Net Position | 203,939 | 245,500 | (41,561) |
| Net Position | | | |
| Net Position at the Beginning of the Year | 2,614,356 | 2,389,377 | 224,979 |
| <i>Cumulative effect of change in accounting principle **</i> | | (20,521) | |
| <i>Net Position at the Beginning of the Year, adjusted</i> | | 2,368,856 | |
| Net Position at the End of the Year | \$ 2,818,295 | \$ 2,614,356 | \$ 183,418 |

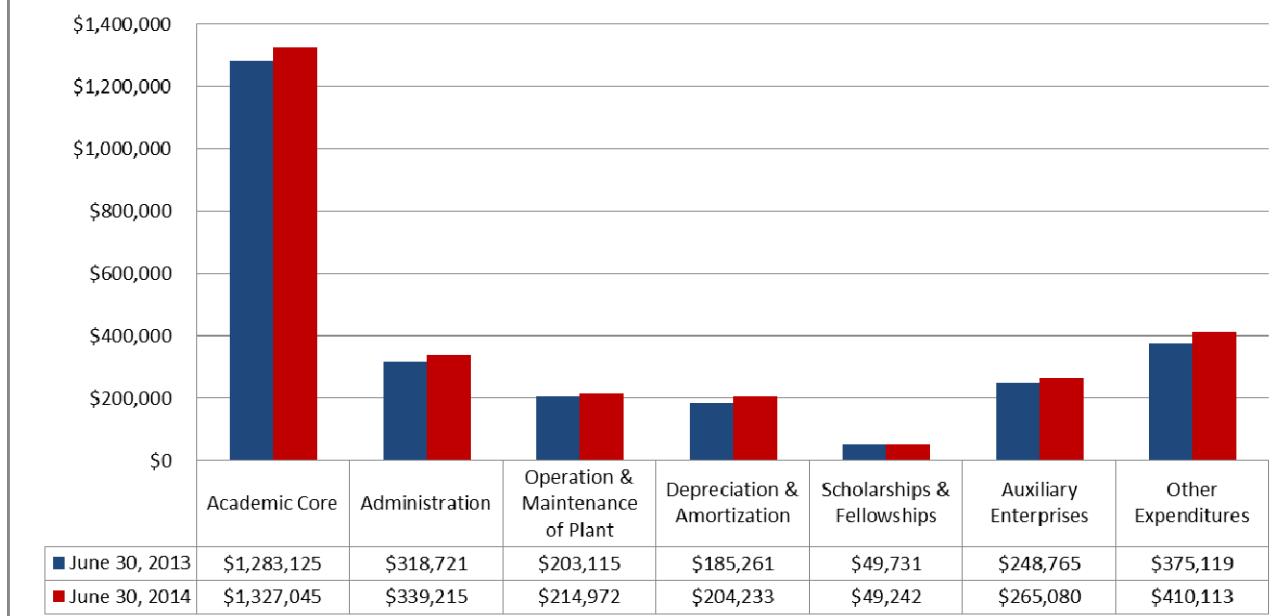
**This reflects the retroactive adoption of GASB 65. Please see *Footnote 1, Summary of Significant Accounting Policies- New GASB Pronouncements* for further details regarding this item.

| University of Massachusetts | | | |
|---|---|---|-------------------|
| Condensed Statement of Revenues, Expenses, and Changes in Net Position for University Related Organizations | | | |
| For the Year Ended June 30, 2014 and 2013 | | | |
| (in thousands of dollars) | | | |
| | University Related Organizations June 30, 2014 | University Related Organizations June 30, 2013 | FY13-14 Change |
| Operating Expenses | \$ 11,443 | \$ 12,852 | \$ (1,409) |
| Operating Loss | (11,443) | (12,852) | (1,409) |
| Nonoperating Revenues / (Expenses) | | | |
| Other Nonoperating Income | 54,982 | 35,152 | 19,830 |
| Net Nonoperating Revenues | 54,982 | 35,152 | 19,830 |
| Income Before Other Revenues, Expenses, Gains and Losses | 43,539 | 22,300 | 21,239 |
| Additions to Permanent Endowments | 17,566 | 16,056 | 1,510 |
| Other Additions | (1,523) | (9,979) | 8,456 |
| Total Other Revenues, Expenses, Gains, and Losses | 16,043 | 6,077 | 9,966 |
| Total Increase in Net Position | 59,582 | 28,377 | 31,205 |
| Net Position | | | |
| Net Position at the Beginning of the Year | 386,212 | 357,835 | 28,377 |
| Net Position at the End of the Year | \$ 445,794 | \$ 386,212 | \$ 59,582 |



Total operating revenues for fiscal year 2014 were \$2.21 billion. This represents a \$56.5 million increase from the \$2.15 billion in operating revenues in fiscal year 2013. 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 2014 and 2013.

Operating Expenses by Category, Fiscal Years 2013 and 2014



In fiscal year 2014, operating expenditures, including depreciation and amortization of \$204.2 million, totaled \$2.81 billion. Of this total, \$1.33 billion or 47% was used to support the academic core activities of the University, including \$407.4 million in research. In fiscal year 2013, operating expenditures, including depreciation and amortization of \$185.3 million, totaled \$2.66 billion. The chart above displays fiscal year 2014 and 2013 operating spend.

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 \$349.0 million and \$358.7 million for the years ended June 30, 2014 and 2013, respectively. Included in expenditures are CWM expenditures of \$318.2 million and \$347.4 million for the years ended June 30, 2014 and 2013, 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 \$163.8 million and \$153.0 million for the years ended June 30, 2014 and 2013, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of \$120 million and \$65.0 million for the years ended June 30, 2014 and 2013, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

State Appropriations

In fiscal year 2014, state appropriations represent approximately 20% 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 \$51.3 million from fiscal year 2013, with the increase attributable to a higher level of State Appropriation and related fringe benefit support through the State’s investment in the University’s 50/50 plan. This plan, to be phased in over FY14 and FY15, has the State providing additional State Appropriation in order to bring State funding levels closer to historical amounts that will allow for the State to support 50% of the educational costs of an in state undergraduate while the student funds the remaining 50%. In return for this State investment, the University and the Board committed to freezing the in state undergraduate curriculum fee during this same time period.

In the year ended June 30, 2014 the University reported tuition revenue of approximately \$34.3 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 \$35.1 million in fiscal year 2013. 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 out-of-state students. The amount of tuition retained by the University during 2014 and 2013 was \$75.8 million and \$74.5 million, respectively.

The following table details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2014 and 2013:

| | FY2014 | FY2013 |
|-----------------------------------|-------------------|-------------------|
| Gross Commonwealth Appropriations | \$ 486,656 | \$ 447,837 |
| Plus: Fringe Benefits* | 141,881 | 130,005 |
| | 628,537 | 577,842 |
| Less: Tuition Remitted | (34,325) | (35,103) |
| Less: Mandatory Waivers | (23,594) | (23,428) |
| Net Commonwealth Support | \$ 570,618 | \$ 519,311 |

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

Capital Appropriations from the Commonwealth

The University faces a financial challenge to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. In order to have a successful capital program, the University must rely on a combination of revenue sources to fund its investment. In fiscal year 2014, there was \$112.1 million of capital support provided to the University through appropriations and grants from the Commonwealth. This is consistent with capital appropriations provided in fiscal year 2013. This funding is attributed to the Commonwealth's Division of Capital Asset Management ("DCAM") which funded several large capital projects in fiscal year 2013 and 2014 through the State's Higher Education Bond Bill and Life Sciences Bond Bill, both passed in 2008 and have projects funded on each of the campuses. The University projects that although capital support will fluctuate from year to year, the level of capital appropriations from the Commonwealth will continue to be significant. Although the completion of major construction projects managed by DCAM are underway at all five of the University's campuses. The current bond support from the State has been fully programmed and therefore the University is now working to secure the next round of funding to ensure continuity of the capital program beyond FY18.

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. The Boston, Dartmouth, and Lowell campuses continue to have significant sponsored research activity.

The following table details the University's grant and contract revenues (in thousands) for the fiscal years ended June 30, 2014 and 2013:

| | FY2014 | FY2013 |
|-----------------------------------|-------------------|-------------------|
| Federal Grants and Contracts | \$ 322,047 | \$ 334,697 |
| State Grants and Contracts | 74,996 | 68,794 |
| Local Grants and Contracts | 2,223 | 2,253 |
| Private Grants and Contracts | 112,428 | 106,714 |
| Total Grants and Contracts | \$ 511,694 | \$ 512,458 |

Discretely Presented Component Units

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately \$757.5 million at June 30, 2014 from \$664.7 million at June 30, 2013.

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 to limit spending from a particular endowment fund to no lower than 93% of its book value. The Foundation distributed \$17.7 million (4%) and \$15.1 million (4%) in fiscal years 2014 and 2013, respectively.

The total investment return of the Foundation for fiscal year 2014 was \$112.2 million as compared to 2013, which, including realized and unrealized investment activity, was a net gain of approximately \$64.0 million. This is consistent with investment return performance at other institutions.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were \$53.5 million at June 30, 2014 up from \$47.9 million at June 30, 2013, 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 2014, including realized and unrealized investment activity, was a net gain of \$4.9 million as compared to a net gain of \$2.9 million in 2013.

Tuition and Fees

Due to declining State Appropriations, 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. For academic years 2013-2014 and 2014-2015, the Board of Trustees voted to freeze the mandatory curriculum fee for in state undergraduate students based on the increase to the State appropriation known as the 50/50 described above. Affordability will continue to be a priority of the University and increases in fees will be considered in conjunction with State support on an annual basis.

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 2013 semester, Massachusetts residents accounted for approximately 82% and 54% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2013 was 61,336 FTE (71,941 headcount students). Enrollments at the University have shown significant increases over the last five years (53,140 FTE in fall 2008). 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.

Degrees Awarded

The University awards four levels of degrees, as follows: associate, bachelors, masters and doctoral/professional degrees. A total of 16,447 degrees were awarded in the 2012-2013 academic year reflecting a 5% increase from the previous year. Of these awards, 66% were at the undergraduate level and 30% were at the graduate level. The remaining were associates degrees and undergraduate certificates.

Bonds Payable

As of June 30, 2014, the University had outstanding bonds of approximately \$2.81 billion representing \$2.48 billion of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), \$59.3 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 \$275.5 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2014. 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. 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).

On March 8, 2013, the Building Authority issued \$212,585,000 of Senior Series 2013-1 Project Revenue Bonds (the "2013-1 Bonds") and \$71,790,000 of Senior Series 2013-2 Project Revenue Bonds (the "2013-2 Bonds"). The 2013-1 Bonds are tax-exempt and mature at various dates through 2043. The interest on the bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 2% to 5%. The 2013-2 bonds are taxable, mature at various dates through 2043 and the interest on the bonds is payable semi-annually each November 1st and May 1st. The interest rates on the bonds range from 0.43% to 2.686%. The 2013-1 Bonds and 2013-2 Bonds will be used to finance capital projects in the University's Capital Plan.

On August 8, 2013, the Authority issued its \$24,640,000 Project and Refunding Revenue Bonds, Senior Series 2013-3 (the "2013-3 bonds"). The 2013-3 bonds were issued to finance and refinance a project set forth in the University's capital plan, the Edward M. Kennedy Institute for the United States Senate on the Boston campus of the University (the "EMK Project"). The proceeds of the 2013-3 bonds were used to finance the costs of such project, to fund capitalized interest on a portion of the 2013-3 Bonds, to refund a portion of the Authority's Project Revenue Bonds, Senior Series 2009-1 allocable to the construction of the EMK Project, and to pay costs of issuing the 2013-3 Bonds. The 2013-3 Bonds are due (serially) through 2043 with fixed interest rates ranging from 4.0% to 5.0%.

On August 13, 2013, the Authority issued Commercial Paper Note, Series 2013 A and 2013 B in the amount of \$25.0 million for each respective series, with a total amount outstanding of \$50.0 million. The maximum aggregate principal amount of commercial paper which may be outstanding at one time is \$200.0 million. A portion of these notes are secured by an Irrevocable Letter of Credit ("LOC") provided by State Street Bank and Trust Company ("State Street") with respect to the \$125 million Commercial Paper Notes, Series 2013 A, which expires in August of 2016. The remaining \$75 million Commercial Paper Notes, Series 2013 B are secured by a Standby Liquidity Facility Agreement provided by U.S. Bank National Association, which expires in August 2016.

On February 25, 2014, the Building Authority issued \$293,890,000 of Project Revenue Bonds, Senior Series 2014-1 (the "2014-1 Bonds") and \$14,085,000 of Project Revenue Bonds, Senior Series 2014-2 (the "2014-2 Bonds"). The 2014-1 Bonds included a premium of \$21.8 million. The 2014-1 Bonds are tax-exempt and mature at various dates through 2044. The interest on the bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 3% to 5%. The 2014-2 Bonds are federally taxable and mature at various dates through 2019. The interest on the bonds is payable semi-annually each November 1st and May 1st and interest rates on the bonds range from 0.440% to 2.109%. The 2014-1 and 2014-2 Bonds will

be used to finance capital projects in the University's Capital Plan.

On June 3, 2014, the Building Authority issued \$157,855,000 of Refunding Revenue Bonds, Senior Series 2014-4 (the "2014-4 Bonds"). The 2014-4 Bonds are federally taxable and mature at various dates through 2025. The interest on the bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 0.2% to 3.381%. The 2014-4 Bonds were issued to refinance the Building Authority's Refunding Revenue Bonds, Senior Series 2005-2.

Capitalized Lease Obligations

At June 30, 2014, the University had capital lease obligations with remaining principal payments of approximately \$2.2 million which is a \$4.3 million decrease from the remaining principal payments of \$6.5 million at June 30, 2013. 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 8% 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, 2014 and 2013 was \$125.6 million and \$129.5 million, respectively.

Capital Plan

In September 2013, the University's Trustees approved a \$5.5 billion five-year (fiscal years 2014-2018) update to its capital plan with \$3.8 billion of projects approved to continue or commence over the next 24 months. 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 financing, Commonwealth appropriations, and private fundraising. The execution of many projects from the University's capital plan is from funding from the Commonwealth through the Higher Education and Life Sciences Bond Bills.

| Campus | Total 5-Year Plan FY14 - FY18 | Total Approved Projects (as of Sept 2014) |
|----------------------|----------------------------------|--|
| Amherst | \$1,417,236 | \$1,453,445 |
| Boston | \$1,291,935 | \$962,585 |
| Dartmouth | \$721,328 | \$438,510 |
| Lowell | \$1,516,400 | \$865,400 |
| Worcester | \$523,598 | \$153,340 |
| TOTAL | \$5,470,497 | \$3,873,280 |
| # of Projects | 255 | 191 |

The University's five-year capital plan for fiscal years 2014-2018 includes both new projects and major projects that were previously approved by the University Trustees in prior-year capital plans. Over the last year the University has been working with the Board to enhance its policy regarding its approval of capital projects to ensure a clear process for the review and approval of projects and to provide for multiple reviews during the process so that the President's Office, Building Authority and the Board of Trustees (the Board) are actively involved. Since the capital program requires significant investment, the President's office and the Board wanted to ensure that the proper steps were in place for reviewing and approving projects so that the University continues to live within its current capital and debt policies. The capital plan is currently being reviewed and is set to go before the Board for its biennial review at the December Board meeting.

Factors Impacting Future Periods

There are a number of issues of University-wide importance that directly impact the financial operations of the University. Many of these issues, such as improving academic quality, 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 has expanded and acquired several strategic properties in the past few fiscal years:

- The Massachusetts Accelerator for Biomanufacturing (MAB) is a new 35,000 square foot bioprocessing facility located on a four acre site within the newly developed South Coast Life Sciences & Technology Park in Fall River. The facility looks to enhance the University's program offerings to assist small companies developing therapeutic biologic products with the transition from scientific protocol to large scale production processes that meet both industry and regulatory quality standards.
- In the fall of 2014, the University opened the Springfield Satellite Center to offer bachelor and master level courses associated with a variety of existing academic degrees and certificates that are already available to citizens of Greater Springfield at nearby locations and/or online. The Center will also house selected outreach, research, and economic development programs and activities.
- A satellite campus associated with the Umass Lowell, in Haverhill, is currently being explored to better serve its student population. A permanent site is being explored and a temporary site is being utilized in the current year in partnership with Northern Essex Community College.

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 FY14-18 capital plan projects spending another \$5.5 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 position of the University. In order to support the University's capital plan, the University of Massachusetts Building Authority will be issuing new bonds for renovations, new construction, and deferred maintenance projects at the Amherst, Boston, Dartmouth, Lowell, and Worcester campuses in support of the capital plan. The University is currently working with the Building Authority to determine the timing of the next bond issuance in support of the FY14 – FY18 Capital Plan.

The University, as well as Legislative and Executive Leadership in the Commonwealth, understand that 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 universities, 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. To date the \$1 billion dedicated by the State to the University has been programmed toward funding critical capital projects at all of the campuses and we are currently working with the Commonwealth to secure additional authorizations for the future.

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 the Sherman Center at the University's Medical School in Worcester. Additionally \$95 million has been provided for a 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 \$112 million in fiscal years 2014 and 2013.

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.

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 almost complete on 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. The Institute will add significant prominence to the Boston Campus and the University.

Research funding for the University of Massachusetts was strong despite Federal sequestration of funds. For the University, research expenditures were \$591.1 million in fiscal year 2013 and \$597.5 million in fiscal year 2012. 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 130 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 2014, UMass Online and the Continuing Education units at the five campuses collaboratively generated tuition revenue in excess of \$85.1 million and supported 63,496 course enrollments, an increase of 8.7% for revenue and an increase of 7.3% for course enrollments as compared to fiscal year 2013.

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.

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 fiscal year 2013 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. In January of 2013, the Governor imposed mid-year budget reductions to bring the State budget into balance. As part of the reductions, the University received a 1% reduction equating to \$4.2 million. Through working with the Legislature, the University was able to utilize revenues to meet the reduction so that there would be no impact on the fringe support provided by the State. Each campus and the central office absorbed the reduction into operations for fiscal year 2013.

The fiscal year 2014 budget approved in July 2013 included a new funding model that would have the State assume 50% of the cost to educate a Massachusetts student at the University. The 50:50 funding proposal required an investment by the Commonwealth of \$39.1 million in each of the next two fiscal years, 2014 and 2015). This investment, along with the additional fringe support of \$10.8 million gained from the increase in the State appropriation will provide the University with \$100 million in additional appropriation over the next two fiscal years. The 2014 State budget included language (outside section 162) providing for the second year commitment to reach the goal of 50:50. This initiative has had an immediate and meaningful impact on thousands of Massachusetts residents who have not had an increase in their tuition and mandatory curriculum fees for the upcoming academic year. It also provides them with more long-term relief by allowing them to graduate and enter the workforce with less student debt. The total appropriation for fiscal year 2014 is \$478.7 million. These State funds are used entirely to support salary costs and the associated fringe benefit from having employees funded using the State appropriation.

Despite increased State support for fiscal year 2014, the University continues to examine our operations and implement meaningful, financially impactful improvements wherever possible. Understanding that the current fiscal environment poses significant challenges for the University and its students, the responsibility to be a good steward of limited resources is taken seriously. The University, through its Board of Trustees, created a permanent Task Force on Efficiencies and Effectiveness charged with helping to ensure that improving quality through more efficient and effective operations continues to be a priority for the University. The Task Force, along with the President's Office and the campuses is working to promote a more standardized approach for cross campus collaboration and oversight of the entire effort, track and report progress, and quantify the benefits to the University and its campuses. Over the last few years the University has achieved measureable savings and efficiencies and expects current efforts to yield additional savings going forward.

The fiscal year 2015 budget approved in July 2014 provided for a base state appropriation of \$519.0 million which represents the second installment of the 50:50 plan which began in fiscal year 2014. This investment along with the additional fringe support allowed the University to freeze the mandatory curriculum fee for the second consecutive year for in state undergraduate students. However, the State did not fund the first year of collective bargaining contracts to date that cost approximately \$13 million in State support. The University continues to advocate for these funds as negotiations using State set parameters continue.

As the University begins planning for fiscal year 2016, we continue to monitor State revenues and advance work in efficiency and effectiveness efforts wherever possible. In addition, as the campuses continue to make progress on capital projects, the University is looking to the State for its next round of bond funding in support of new and deferred maintenance projects in support of the plan. Meanwhile, each campus continues their fundraising efforts and capital campaigns.

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.

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University of Massachusetts
Consolidated Statement of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)

| | University June 30, 2014 | University Related Organizations June 30, 2014 | University June 30, 2013 (adjusted) | University Related Organizations June 30, 2013 |
|--|-----------------------------|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$63,752 | | \$93,939 | |
| Cash Held By State Treasurer | 27,867 | | 23,883 | |
| Accounts, Grants and Loans Receivable, net | 231,156 | | 235,988 | |
| Pledges Receivable, net | 11,320 | 785 | 12,461 | 887 |
| Short Term Investments | 192,957 | | 170,916 | |
| Inventories, net | 16,298 | | 19,769 | |
| Accounts Receivable from UMass Memorial | 40,807 | | 12,734 | |
| Due From Related Organizations | 181 | 354 | 230 | 380 |
| Other Assets | 8,412 | 539 | 9,904 | 2,563 |
| Total Current Assets | 592,750 | 1,678 | 579,824 | 3,830 |
| Noncurrent Assets | | | | |
| Cash and Cash Equivalents | | 1,378 | | 1,041 |
| Cash Held By State Treasurer | 8,429 | | 9,339 | |
| Cash and Securities Held By Trustees | 704,186 | | 622,791 | |
| Accounts, Grants and Loans Receivable, net | 40,498 | | 39,388 | |
| Pledges Receivable, net | 6,465 | 677 | 3,907 | 1,109 |
| Investments | 775,953 | 452,529 | 717,729 | 389,376 |
| Other Assets | 7,860 | 62 | 10,295 | 173 |
| Investment In Plant, net | 4,064,786 | 8,478 | 3,705,517 | 8,619 |
| Total Noncurrent Assets | 5,608,177 | 463,124 | 5,108,966 | 400,318 |
| Total Assets | \$6,200,927 | \$464,802 | \$5,688,790 | \$404,148 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Change in Fair Value of Interest Rate Swaps | \$41,082 | | \$40,207 | |
| Loss on Debt Refunding | 71,798 | | 74,079 | |
| Total Deferred Outflows of Resources | \$ 112,880 | | \$ 114,286 | |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts Payable | \$113,650 | \$174 | \$129,238 | \$94 |
| Accrued Salaries and Wages | 110,464 | | 106,016 | |
| Accrued Compensated Absences | 74,092 | | 73,118 | |
| Accrued Workers' Compensation | 4,352 | | 4,198 | |
| Accrued Interest Payable | 21,872 | | 22,316 | |
| Bonds Payable | 196,608 | | 328,126 | |
| Capital Lease Obligations | 2,232 | | 4,302 | |
| Accelerated variable rate debt, current | 50,000 | | | |
| Assets Held on behalf of Others | | 13,797 | | 12,307 |
| Accounts Payable to UMass Memorial | 3,864 | | 4,364 | |
| Due To Related Organizations | 354 | 181 | 380 | 230 |
| Unearned Revenues and Credits | 40,923 | 1,373 | 40,388 | 1,973 |
| Advances and Deposits | 6,912 | | 7,946 | |
| Other Liabilities | 49,007 | | 52,530 | |
| Total Current Liabilities | 674,330 | 15,525 | 772,922 | 14,604 |
| Noncurrent Liabilities | | | | |
| Accrued Compensated Absences | 31,779 | | 30,410 | |
| Accrued Workers' Compensation | 10,811 | | 10,429 | |
| Bonds Payable | 2,617,149 | | 2,213,722 | |
| Capital Lease Obligations | | | 2,238 | |
| Derivative Instruments, Interest Rate Swaps | 68,843 | | 69,325 | |
| Unearned Revenues and Credits | 21,243 | | 20,199 | |
| Advances and Deposits | 28,094 | | 27,943 | |
| Other Liabilities | 43,263 | 3,483 | 41,532 | 3,332 |
| Total Noncurrent Liabilities | 2,821,182 | 3,483 | 2,415,798 | 3,332 |
| Total Liabilities | \$3,495,512 | \$19,008 | \$3,188,720 | \$17,936 |
| Net Position: | | | | |
| Invested in Capital Assets Net of Related Debt | \$1,800,767 | \$8,477 | \$1,682,173 | \$8,619 |
| Restricted | | | | |
| Nonexpendable | 17,387 | 309,718 | 18,058 | 290,858 |
| Expendable | 174,530 | 101,195 | 156,469 | 74,706 |
| Unrestricted | 825,611 | 26,404 | 757,656 | 12,029 |
| Total Net Position | \$2,818,295 | \$445,794 | \$2,614,356 | \$386,212 |

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

University of Massachusetts
Consolidated Statement of Revenues, Expenses, and Changes in Net Position
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)

| | University June 30, 2014 | University Related Organizations June 30, 2014 | University June 30, 2013 (adjusted) | University Related Organizations June 30, 2013 |
|---|-----------------------------|---|---|---|
| REVENUES | | | | |
| Operating Revenues | | | | |
| Tuition and Fees (net of scholarship allowances of \$201,186 at June 30, 2014 and \$189,753 at June 30, 2013) | \$740,116 | | \$707,495 | |
| Federal Grants and Contracts | 322,047 | | 334,697 | |
| State Grants and Contracts | 74,996 | | 68,794 | |
| Local Grants and Contracts | 2,223 | | 2,253 | |
| Private Grants and Contracts | 112,428 | | 106,714 | |
| Sales and Service, Educational | 21,792 | | 19,237 | |
| Auxiliary Enterprises | 349,485 | | 319,544 | |
| Other Operating Revenues: | | | | |
| Sales and Service, Independent Operations | 44,296 | | 46,062 | |
| Sales and Service, Public Service Activities | 448,478 | | 447,119 | |
| Other | 93,418 | | 100,839 | |
| Total Operating Revenues | 2,209,279 | | 2,152,754 | |
| EXPENSES | | | | |
| Operating Expenses | | | | |
| <i>Educational and General</i> | | | | |
| Instruction | 690,635 | | 657,841 | |
| Research | 407,425 | | 405,223 | |
| Public Service | 77,985 | \$11,066 | 74,510 | \$12,573 |
| Academic Support | 151,000 | | 145,551 | |
| Student Services | 119,295 | | 108,746 | |
| Institutional Support | 219,920 | | 209,975 | |
| Operation and Maintenance of Plant | 214,972 | | 203,115 | |
| Depreciation and Amortization | 204,233 | 200 | 185,261 | 202 |
| Scholarships and Fellowships | 49,242 | 177 | 49,731 | 77 |
| <i>Auxiliary Enterprises</i> | 265,080 | | 248,765 | |
| <i>Other Expenditures</i> | | | | |
| Independent Operations | 44,861 | | 47,826 | |
| Public Service Activities | 365,252 | | 327,293 | |
| Total Operating Expenses | 2,809,900 | 11,443 | 2,663,837 | 12,852 |
| Operating Loss | (600,621) | (11,443) | (511,083) | (12,852) |
| NONOPERATING REVENUES/(EXPENSES) | | | | |
| Federal Appropriations | 7,020 | | 6,774 | |
| State Appropriations | 570,618 | | 519,311 | |
| Gifts | 29,013 | 11,063 | 30,044 | 9,452 |
| Investment Income | 86,685 | 42,849 | 56,037 | 24,540 |
| Endowment Income | 16,642 | 1,070 | 13,614 | 1,160 |
| Interest on Indebtedness | (89,496) | | (91,364) | |
| Nonoperating Federal Grants | 74,279 | | 70,586 | |
| Other Nonoperating Income | 1,046 | | 1,002 | |
| Net Nonoperating Revenues | 695,807 | 54,982 | 606,004 | 35,152 |
| Income Before Other Revenues, Expenses, Gains, and Losses | 95,186 | 43,539 | 94,921 | 22,300 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | | | |
| Capital Appropriations | 112,132 | | 112,581 | |
| Capital Grants and Contracts | 21,987 | | 39,347 | |
| Additions to Permanent Endowments | | 17,566 | | 16,056 |
| Net Amounts Earned/Received on Behalf of Others | | (1,555) | | (928) |
| Capital Contribution | 250 | | 4,514 | |
| Disposal of Plant Facilities | (6,198) | | (8,802) | |
| University Related Organization Transactions | | | | |
| Other Additions/(Deductions) | (19,418) | 32 | 2,939 | (9,051) |
| Total Other Revenues, Expenses, Gains, and Losses | 108,753 | 16,043 | 150,579 | 6,077 |
| Total Increase in Net Position | 203,939 | 59,582 | 245,500 | 28,377 |
| NET POSITION | | | | |
| Net Position at Beginning of Year, as reported | 2,614,356 | 386,212 | 2,389,377 | 357,835 |
| Cummulative effect of change in accounting principle | | | (20,521) | |
| Net Position at Beginning of Year, as adjusted | | | 2,368,856 | |
| Net Position at End of Year | \$2,818,295 | \$445,794 | \$2,614,356 | \$386,212 |

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

University of Massachusetts
Consolidated Statements of Cash Flows
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)

| | University June 30, 2014 | University June 30, 2013 |
|--|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and Fees | \$793,246 | \$780,540 |
| Grants and Contracts | 798,973 | 695,492 |
| Payments to Suppliers | (1,273,331) | (1,038,532) |
| Payments to Employees | (1,298,736) | (1,292,185) |
| Payments for Benefits | (288,286) | (283,775) |
| Payments for Scholarships and Fellowships | (49,236) | (49,725) |
| Loans Issued to Students and Employees | (7,212) | (7,230) |
| Collections of Loans to Students and Employees | 5,302 | 5,755 |
| Auxiliary Enterprises Receipts | 336,456 | 305,907 |
| Sales and Service, Educational | 21,613 | 19,372 |
| Sales and Service, Independent Operations | 49,781 | 69,181 |
| Sales and Service, Public Service Activities | 471,119 | 466,113 |
| Net Cash Used in Operating Activities | (440,311) | (329,088) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Appropriations | 628,537 | 577,841 |
| Tuition Remitted to the State | (34,325) | (35,103) |
| Federal Appropriations | 7,020 | 6,774 |
| Gifts and Grants for Other Than Capital Purposes | 25,990 | 23,047 |
| Nonoperating Federal Grants | 74,279 | 70,586 |
| Student Organization Agency Transactions | 31 | (518) |
| Net Cash Provided by Noncapital Financing Activities | 701,533 | 642,627 |
| CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES | | |
| Proceeds from Capital Debt | 587,555 | 303,752 |
| Bond Issuance Costs Paid | (3,647) | (2,151) |
| Capital Appropriations | 112,132 | 112,582 |
| Capital Grants and Contracts | 37,584 | 40,324 |
| Purchases of Capital Assets and Construction | (208,444) | (273,885) |
| Principal Paid on Capital Debt and Leases | (257,837) | (76,347) |
| Interest Paid on Capital Debt and Leases | (104,441) | (95,550) |
| Use of Debt Proceeds on Deposit with Trustees | (357,204) | (537,050) |
| Net Cash Used in Capital Financing Activities | (194,302) | (528,325) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sales and Maturities of Investments | 1,141,204 | 1,067,591 |
| Interest on Investments | 8,959 | 9,172 |
| Purchase of Investments | (1,162,801) | (1,022,629) |
| Net Cash (Used in)/Provided by Investing Activities | (12,638) | 54,134 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 54,282 | (160,652) |
| Cash and Cash Equivalents - Beginning of the Year | 749,952 | 910,604 |
| Cash and Cash Equivalents - End of Year | \$804,234 | \$749,952 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | (\$600,621) | (\$511,083) |
| <i>Adjustments to reconcile loss to net cash used by Operating Activities:</i> | | |
| Depreciation and Amortization Expense | \$204,233 | 185,261 |
| <i>Changes in Assets and Liabilities:</i> | | |
| Receivables, net | 2,305 | (14,984) |
| Inventories | 3,471 | 1,673 |
| Due to/from Related Organizations | (75) | (105) |
| Accounts Receivable/Payable UMass Memorial | (28,573) | (6,175) |
| Other Assets | (16,748) | (2,090) |
| Accounts Payable (non-capital) | (10,550) | (7,039) |
| Accrued Liabilities | 7,327 | 13,632 |
| Deferred Revenue | 1,579 | (2,162) |
| Advances and Deposits | (883) | (962) |
| Other Liabilities | (1,777) | 14,948 |
| Net Cash Used in Operating Activities | (440,312) | (329,086) |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES: | | |
| Assets acquired and included in accounts payable and other liabilities | \$56,705 | \$61,743 |
| Loss on disposal of capital assets | (\$6,198) | (8,802) |
| Unrealized gain on investments | 50,353 | 7,932 |

University of Massachusetts
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The consolidated financial statements herein present the financial position, results of operations, changes in net position, and cash flows of the University of Massachusetts (“the 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 (“the 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 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. (“the Foundation”) and the University of Massachusetts Dartmouth Foundation, Inc. (“the Dartmouth Foundation”) are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and are reported in a separate column to emphasize that they are Massachusetts not-for-profit organizations legally separate from the University. These component units are included as part of the University’s financial statements because of the nature and the significance of their financial relationship with the University. The financial statement presentation of the discretely presented component units has been reclassified to conform to the University presentation. The financial reports of all above mentioned component units are available upon request from the University.

The University is an enterprise fund of the Commonwealth of Massachusetts (“the 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. Pledges to restricted non-expendable endowments are recognized as revenues in the period 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 establishes standards for external financial reporting by public colleges and universities that resources be classified into the following net position 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:** Resources subject to externally imposed stipulations that they be maintained permanently by the University.
- **Restricted Expendable:** Resources 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:** Resources 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 in net position, and included in supplies and services in 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.

NEW GASB PRONOUNCEMENTS

In November of 2011, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The objective of GASB 60 is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. A SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. GASB 60 applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The implementation of GASB 60 in 2013 had no impact on the University.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). GASB 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The adoption of GASB 63 resulted in the separate presentation of deferred outflows of resources on the Statement of Net Position. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB 63 in 2013 required the University to change the reference of net assets to net position.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

The University adopted GASB 65 effective July 1, 2012. In connection with the adoption of this new standard all accounts were analyzed by management in order to assess the impact on the financial statements. The implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the University's numerous bond issuances, commitment and financing fees received by the University in connection with the bonds, and the expense and costs incurred on the bond refundings to be expensed as incurred, rather than capitalized, and amortized over the life of the debt. In accordance with the requirements of this new standard, the University's Fiscal 2013 statement of net position and the University's statement of revenues,

expenses and changes in net position were adjusted to reflect the required adjustments. As a result, the following adjustments have been made to the University's financial statements.

| <u>As of July 1, 2012:</u> | <u>As Previously</u> | | |
|--|----------------------|-------------------|---------------------|
| | <u>Reported</u> | <u>Adjustment</u> | <u>As Adjusted</u> |
| Net Position | \$ 2,389,376 | \$ (20,521) | \$ 2,368,855 |
| <u>For the year ended June 30, 2013:</u> | | | |
| Other Nonoperating Income/(Expense) | 2,366 | (1,363) | \$ 1,003 |
| Net Position at June 30, 2013 | <u>\$ 2,636,241</u> | <u>(21,884)</u> | <u>\$ 2,614,356</u> |

Additionally, the deferred losses on refunded bonds in the amount of \$68.9 million at June 30, 2013 were reclassified from long term debt to deferred outflows of resources on the statement of net position.

CLASSIFICATION OF ASSETS AND LIABILITIES

The University presents current and non-current assets and liabilities in the statements of net position. 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 of 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 amounts 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 statements.

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, 2014 and 2013 was \$114.0 million and \$113.9 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 2014 and 2013. 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 position to restricted expendable net position, and would be recorded in realized and unrealized gains (losses) on sale of investments. In fiscal years 2014 and 2013, the deficiencies were \$0 million and \$0.1 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 value.

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, historical treasures or library books.

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 |
| 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 position 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 estimate.

UNEARNED REVENUE

Unearned revenue consists of amounts billed or received in advance of the University providing goods or services. Unearned 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, 2014 and 2013 present as tuition revenue approximately \$34.3 million and \$35.1 million, respectively, of in-state tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts. The amount of tuition retained by the University related to out-of-state students during 2014 and 2013 was \$75.8 million and \$74.5 million, respectively. The recorded amount of State Appropriations received by the University has been reduced by a corresponding amount of tuition remitted as shown below (in thousands):

| | 2014 | 2013 |
|-----------------------------------|------------------|------------------|
| Gross Commonwealth Appropriations | \$486,656 | \$447,837 |
| Plus: Fringe Benefits | 141,881 | 130,005 |
| | <u>628,537</u> | <u>577,842</u> |
| Less: Tuition Remitted | (34,325) | (35,103) |
| Less: Mandatory Waivers | (23,594) | (23,428) |
| Net Commonwealth support | <u>\$570,618</u> | <u>\$519,311</u> |

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of \$349.5 million and \$319.5 million for the years ended June 30, 2014 and 2013, respectively, are stated net of room and board charge allowances of \$1.0 million and \$0.7 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 \$349.0 million and \$358.7 million for the years ended June 30,

2014 and 2013, respectively. Included in expenditures are Commonwealth Medicine expenditures of \$318.2 million and \$347.4 million for the years ended June 30, 2014 and 2013, respectively.

Public Service Activities also include 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 \$163.8 million and \$153.0 million for the years ended June 30, 2014, and 2013, respectively. Finally, Public Service Activity expenditures include payments made to the Commonwealth of Massachusetts of \$120 million and \$65 million for the years ended June 30, 2014 and 2013, 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 compensation, 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, 2014 and June 30, 2013, 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 Medical School campus has assumed the obligation for the cost of fringe benefits provided by the Commonwealth to University Medical School employees (other than those employees paid from state appropriated funds) for all periods on or after July 1, 1989. The Medical School 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 and the Building Authority are component units of the Commonwealth of Massachusetts and are exempt from Federal and state income tax under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. The University qualifies as a public charity eligible to receive charitable contributions under Section 170(b)(1)(A)(ii) of the Internal Revenue Code, as amended (the Code). The Building Authority qualifies as a public charity under Section 170(b)(1)(A)(iv) of the Code.

The Worcester City Campus Corporation (WCCC), and the University Related Organizations are organizations described in Section 501(c)(3) of the Code, and are generally exempt from income taxes pursuant to Section 501(a) of the Code. WCCC and the University Related Organizations are required to assess uncertain tax positions and have determined that there were no such positions that are material to the financial statements.

COMPARATIVE INFORMATION AND RECLASSIFICATIONS

The University's financial statements include prior year comparative information. Certain reclassifications were made in prior year to conform to current year presentation. These amounts were determined to be immaterial to the financial statements by management.

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 27.4% and 24.5% of the University's investments at June 30, 2014 and 2013, 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 related to mitigation of 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, 2014 and 2013, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustees' 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. None of the accounts are collateralized above the FDIC insured amounts. The University also invested in individual CDs and BNY Mellon's CDARS program. These funds are invested in individual CDs in \$250,000 increments and are therefore fully insured by the FDIC.

At June 30, 2014 and 2013, the carrying amounts, bank balances and FDIC insured amounts were as follows (in thousands):

| | 2014 | | | 2013 | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Book Balance | Bank Balance | FDIC Insured | Book Balance | Bank Balance | FDIC Insured |
| Depository Accounts | 57,360 | 65,410 | 1,007 | 73,056 | 86,519 | 5,938 |
| Certificates of Deposit | 650 | 650 | 400 | 30,650 | 30,650 | 30,400 |
| Money Market | 180,601 | 180,601 | 2,251 | 129,004 | 129,004 | 2,251 |
| Total | 238,611 | 246,661 | 3,658 | 232,710 | 246,173 | 38,589 |

At June 30, 2014 the University held a carrying and fair market value of \$743.2 million in non-money market investments compared to a carrying and fair market value of \$723.5 million at June 30, 2013. In the event of negligence due to the University's custodian and/or investment manager(s), it is expected that investment balances of \$743.2 million and \$723.5 million at June 30, 2014 and 2013, 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, 2014 and June 30, 2013, respectively, there is no concentration of investments with one issuer 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 presents the fair value (in thousands) and average credit quality of the fixed income component of the University's investment portfolio as of June 30, 2014 and 2013, respectively:

| <u>Asset Class</u> | <u>June 30, 2014 Fair Value</u> | <u>Average Credit Quality</u> | <u>June 30, 2013 Fair Value</u> | <u>Average Credit Quality</u> |
|-----------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Short duration | \$240,550 | AAA | \$230,161 | AAA |
| Intermediate duration | \$282,030 | A | \$282,837 | A |

The table below presents the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2014 and 2013, respectively:

Rated Debt Investments - 2014

(in thousands)

| | S&P Quality Ratings | | | | | | | | |
|-------------------------|---------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-----------------|------------------|
| | Fair Value | AAA | AA | A | BBB | BB | B | <B | Unrated |
| U.S Agencies | \$ 12,195 | \$ - | \$ 12,195 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S Government | 34,522 | - | 34,522 | - | - | - | - | - | - |
| Foreign Gov'n't Bonds | - | - | - | - | - | - | - | - | - |
| Certificates of Deposit | 500 | 500 | - | - | - | - | - | - | - |
| Corporate Debt | 90,284 | 17,627 | 12,830 | 24,742 | 22,199 | - | 131 | 1,426 | 11,329 |
| Municipal/Public Bonds | 4,253 | - | 1,614 | 1,500 | 1,139 | - | - | - | - |
| Bond Mutual Funds | 152,806 | 56,581 | 6,657 | 19,463 | 31,222 | 15,940 | 11,282 | 3,375 | 8,286 |
| Money Market Funds | 228,021 | 225,764 | - | - | - | - | - | - | 2,257 |
| | \$ 522,581 | \$ 300,472 | \$ 67,818 | \$ 45,705 | \$ 54,560 | \$ 15,940 | \$ 11,413 | \$ 4,801 | \$ 21,872 |

Rated Debt Investments - 2013

(in thousands)

| | S&P Quality Ratings | | | | | | | | |
|-------------------------|---------------------|-------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
| | Fair Value | AAA | AA | A | BBB | BB | B | <B | Unrated |
| U.S Agencies | \$ 20,463 | \$ - | \$ 20,463 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S Government | 20,334 | - | 19,218 | 1,116 | - | - | - | - | - |
| Certificates of Deposit | 30,500 | 30,500 | - | - | - | - | - | - | - |
| Corporate Debt | 99,737 | 20,886 | 11,087 | 36,377 | 15,602 | 966 | 353 | 1,851 | 12,615 |
| Municipal/Public Bonds | 2,248 | - | 289 | 1,959 | - | - | - | - | - |
| Bond Mutual Funds | 173,923 | 66,575 | 11,235 | 25,369 | 40,202 | 15,299 | 8,310 | 1,238 | 5,695 |
| Money Market Funds | 165,793 | 165,183 | 222 | - | - | - | - | - | 388 |
| | \$ 512,998 | \$ 283,144 | \$ 62,514 | \$ 64,821 | \$ 55,804 | \$ 16,265 | \$ 8,663 | \$ 3,089 | \$ 18,698 |

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 University's Investment Policy and Guidelines Statement 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, 2014 and 2013, respectively:

| <u>Asset Class</u> | <u>6/30/14 Allocation</u> | <u>6/30/14 Fair Value</u> | <u>6/30/13 Allocation</u> | <u>6/30/13 Fair Value</u> |
|-----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Short Duration | 25% | \$240,551 | 26% | \$230,161 |
| Intermediate Duration | 29% | 282,030 | 32% | 282,837 |
| Alternative Assets | 27% | 265,499 | 25% | 217,442 |
| Equities | 15% | 147,500 | 14% | 130,175 |
| Commodities | 3% | 24,592 | 2% | 21,020 |
| Real Estate | 1% | 8,738 | 1% | 7,010 |

Investments - 2014
(in thousands)

| Investment Type: | Investment Maturity (in Years) | | | | |
|---------------------------|--------------------------------|-------------------|-------------------|------------------|------------------|
| | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| Debt Securities | | | | | |
| US Agencies | \$ 12,195 | \$ 4,307 | \$ 3,999 | \$ 825 | \$ 3,064 |
| US Government | 34,522 | - | 29,557 | 4,965 | - |
| Certificates of Deposit | 500 | 500 | - | - | - |
| Corporate Debt | 90,284 | 7,722 | 40,361 | 14,119 | 28,082 |
| Municipal/Public Bonds | 4,253 | - | 4,017 | 236 | - |
| Bond Mutual Funds | 152,806 | 17,395 | 81,561 | 36,503 | 17,347 |
| Money Market Mutual Funds | 228,021 | 228,021 | - | - | - |
| Sub Total Debt | \$ 522,581 | \$ 257,945 | \$ 159,495 | \$ 56,648 | \$ 48,493 |

| Other Investments | |
|----------------------------------|-------------------|
| Alternative Assets | \$ 265,499 |
| Equity Securities- International | 81,358 |
| Equity Securities- Domestic | 66,142 |
| Commodities | 24,592 |
| Real Estate | 8,738 |
| Grand Total | \$ 968,910 |

Investments - 2013
(in thousands)

| Investment Type: | Investment Maturity (in Years) | | | | |
|---------------------------|--------------------------------|-------------------|-------------------|------------------|------------------|
| | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| Debt Securities | | | | | |
| US Agencies | \$ 20,463 | \$ 5,611 | \$ 5,103 | \$ 881 | \$ 8,868 |
| US Government | 20,334 | - | 12,333 | 8,001 | - |
| Certificates of Deposit | 30,500 | 30,500 | - | - | - |
| Corporate Debt | 99,737 | 13,083 | 51,898 | 10,726 | 24,030 |
| Municipal/Public Bonds | 2,248 | 470 | 1,489 | 289 | - |
| Bond Mutual Funds | 173,923 | 14,704 | 72,774 | 47,857 | 38,588 |
| Money Market Mutual Funds | 165,793 | 165,793 | - | - | - |
| Sub Total Debt | \$ 512,998 | \$ 230,161 | \$ 143,597 | \$ 67,754 | \$ 71,486 |

| Other Investments | |
|----------------------------------|-------------------|
| Alternative Assets | \$ 217,442 |
| Equity Securities- International | 21,020 |
| Equity Securities- Domestic | 71,086 |
| Commodities | 59,089 |
| Real Estate | 7,010 |
| Grand Total | \$ 888,645 |

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 \$36.5 million at June 30, 2014 and \$33.2 million at June 30, 2013. 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 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, 2014 and June 30, 2013 there are investments of \$0 and \$7,000, respectively, available from Master Lease agreements entered into by the University for capital asset purchases at the Amherst and Boston campuses. Additionally, there is \$3 million and \$13.6 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 \$701.1 million and \$608.5 million, respectively, held by trustees related to the Building Authority.

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately \$700 million at June 30, 2014 and \$600 million at June 30, 2013) 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 consisted of the following as of June 30, 2014 and 2013 (in thousands):

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Cash | \$ 4,406 | \$ 5,130 |
| Permitted money market accounts ("MMA") | <u>691,381</u> | <u>518,739</u> |
| Total cash and cash equivalents | <u>\$ 695,787</u> | <u>\$ 523,869</u> |

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, 2014, the bank balances of uninsured deposits totaled \$4.1 million. 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, 2014, the Building Authority's investments consisted of the following:

| Investment type | Investment Maturities (in Years) | | | |
|-----------------------|----------------------------------|-------------------|-------------|-----------------|
| | Fair value | Less than 1 | 1 to 5 | 6 to 10 |
| Debt Securities | | | | |
| Repurchase Agreements | \$ 5,318 | | | \$ 5,318 |
| MoneyMarket funds | <u>691,381</u> | <u>691,381</u> | | |
| Total | <u>\$ 696,699</u> | <u>\$ 691,381</u> | <u>\$ -</u> | <u>\$ 5,318</u> |

As of June 30, 2013, the Building Authority's investments consisted of the following:

| Investment type | Investment Maturities (in Years) | | | |
|-----------------------|----------------------------------|-------------------|------------------|-----------------|
| | Fair value | Less than 1 | 1 to 5 | 6 to 10 |
| Debt Securities | | | | |
| US Treasuries | \$ 10,324 | \$ 10,324 | \$ - | \$ - |
| US Agencies | 69,461 | 50,383 | 19,078 | - |
| Repurchase Agreements | 5,318 | - | - | 5,318 |
| MoneyMarket funds | <u>518,739</u> | <u>518,739</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 603,842</u> | <u>\$ 579,446</u> | <u>\$ 19,078</u> | <u>\$ 5,318</u> |

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 certificate 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 (the "MMDT"), a money market account sponsored by the Treasurer of the Commonwealth and managed by Federated Investors, Inc. Additionally, the Building Authority's Bond Trustee invests some of the Building Authority's funds in money market accounts that are permitted and collateralized by Treasuries.

No credit risk disclosures are required under GASB 40 relating to the Building Authority's investment in Treasuries. The Building Authority's investments in Agencies are highly rated by Standard & Poor's Rating Services and Moody's Investors Service, Inc. The Building Authority's investments in repurchase agreements are not rated but are fully collateralized by Treasuries and Agencies. 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, 2014, the Building Authority had 98.6% of its investments in MMDT. As of June 30, 2013, the Building Authority had 5.9% of its investments with the Federal Home Loan Mortgage Corporation and 85.1% of its investments in MMDT.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable as of June 30, 2014 and 2013 are as follows (in thousands):

| | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Student Accounts Receivable | \$ 53,383 | \$ 51,449 |
| Less allowance for uncollectible accounts | (21,814) | (18,319) |
| | <u>31,569</u> | <u>33,130</u> |
| Grants and Contracts Receivable | 82,157 | 85,028 |
| Less allowance for uncollectible accounts | (1,151) | (2,989) |
| | <u>81,006</u> | <u>82,039</u> |
| Student Loans Receivable | 46,869 | 44,257 |
| Less allowance for uncollectible accounts | (296) | (302) |
| | <u>46,573</u> | <u>43,955</u> |
| Commonwealth Medicine | 65,586 | 64,094 |
| Less allowance for uncollectible accounts | (824) | (825) |
| | <u>64,762</u> | <u>63,269</u> |
| Other | 48,154 | 53,537 |
| Less allowance for uncollectible accounts | (410) | (554) |
| | <u>47,744</u> | <u>52,983</u> |
| Total, net | 271,654 | 275,376 |
| Less current portion, net | (231,156) | (235,988) |
| Long-term, net | <u>\$ 40,498</u> | <u>\$ 39,388</u> |

UMASS MEMORIAL

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, 2014 and 2013, the reimbursements for services provided to UMass Memorial were \$107.1 million and \$124.0 million, respectively. Included in these amounts are payroll paid by the University on behalf of UMass Memorial in an agency capacity in the amount of \$62.8 million and \$73.8 million for fiscal years 2014 and 2013, respectively. At June 30, 2014 and 2013, the University has recorded a receivable in the amount of \$38.8 million and \$12.7 million, respectively from UMass Memorial which includes \$23.8 million and \$5.8 million, respectively, in payroll and related fringe charges. The University has recorded a payable at June 30, 2014 of \$3.9 million primarily for cross-funded payroll. At June 30, 2013, the University had a payable of \$4.4 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, 2014, the net position of the Foundation included as related organizations in the accompanying financial statements of the University are \$455.1 million, of which \$423.0 million are restricted funds and \$32.1 million are unrestricted funds. During the fiscal year ended June 30, 2014, the University received \$21.6 million from the Foundation, and \$13.1 million to the Foundation of which \$3.4 million related to the establishment of quasi-endowment. At June 30, 2014, the University's investments include \$346.1 million of endowment funds held in a custodial relationship at the Foundation, and \$295.7 million in ITIF.

As of June 30, 2013, the net position of the Foundation included as related organizations in the accompanying financial statements of the University were \$394.3 million, of which \$366.7 million were restricted funds and \$27.5 million were unrestricted funds. During the fiscal year ended June 30, 2013, the University received \$49.9 million from the Foundation, and disbursed \$121.8 million to the Foundation of which \$52.1 million related to the establishment of quasi-endowment. At June 30, 2013, the University's investments include \$311.4 million of endowment funds held in a custodial relationship at the Foundation, and \$272.5 million in ITIF.

The University leases office space from the Foundation for an annual rent of approximately \$0.5 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 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. The Authority had provided operating support for the Club of \$0.2 million for both years ending June 30, 2014 and 2013.

7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2014 is comprised of the following (in thousands):

| University: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|--------------------------|----------------------------|---------------------------|-----------------------------|----------------|
| | Buildings and Improvements | \$4,058,559 | \$643,091 | (\$7,001) |
| Equipment and Furniture | 587,478 | 35,542 | (13,234) | 609,786 |
| Software | 134,558 | 2,374 | (28) | 136,904 |
| Library Books | 93,091 | | (8,776) | 84,315 |
| | 4,873,686 | 681,007 | (29,039) | 5,525,654 |
| Accumulated Depreciation | (2,122,993) | (200,256) | 14,122 | (2,309,127) |
| Sub-Total | 2,750,693 | 480,751 | (14,917) | 3,216,527 |
| Land | 65,886 | 3,484 | (518) | 68,852 |
| Construction in Progress | 888,937 | 589,512 | (699,042) | 779,407 |
| Sub-Total | 954,823 | 592,996 | (699,560) | 848,259 |
| Total | \$3,705,516 | \$1,073,747 | (\$714,477) | \$4,064,786 |

| University Related Organizations: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|-----------------------------------|----------------------------|---------------------------|-----------------------------|----------------|
| | Buildings and Improvements | \$7,942 | | |
| Equipment and Furniture | 168 | | | 168 |
| | 8,110 | | | 8,110 |
| Accumulated Depreciation | (851) | (\$202) | | (1,053) |
| Sub-Total | 7,259 | (202) | | 7,057 |
| Land | 1,360 | 61 | | 1,421 |
| Total | \$8,619 | (\$141) | | \$8,478 |

Investment in plant activity for the year ended June 30, 2013 is comprised of the following (in thousands):

| University: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|--------------------------|----------------------------|---------------------------|-----------------------------|----------------|
| | Buildings and Improvements | \$3,322,211 | \$754,586 | (\$18,238) |
| Equipment and Furniture | 604,487 | 30,339 | (47,348) | 587,478 |
| Software | 134,082 | 4,036 | (3,560) | 134,558 |
| Library Books | 101,618 | - | (8,527) | 93,091 |
| | 4,162,398 | 788,961 | (77,673) | 4,873,686 |
| Accumulated Depreciation | (1,990,577) | (182,252) | 49,836 | (2,122,993) |
| Sub-Total | 2,171,821 | 606,709 | (27,837) | 2,750,693 |
| Land | 57,831 | 8,055 | - | 65,886 |
| Construction in Progress | 868,534 | 583,748 | (563,344) | 888,938 |
| Sub-Total | 926,365 | 591,803 | (563,344) | 954,824 |
| Total | \$3,098,186 | \$1,198,512 | (\$591,181) | \$3,705,517 |

| University Related Organizations: | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|-----------------------------------|----------------------------|---------------------------|-----------------------------|----------------|
| | Buildings and Improvements | \$7,942 | - | - |
| Equipment and Furniture | 170 | - | (\$2) | 168 |
| | 8,112 | - | (2) | 8,110 |
| Accumulated Depreciation | (650) | (\$201) | - | (851) |
| Sub-Total | 7,462 | (201) | (2) | 7,259 |
| Land | 1,360 | - | - | 1,360 |
| Total | \$8,822 | (\$201) | (\$2) | \$8,619 |

At June 30, 2014 and 2013, investment in plant included capital lease assets of \$54.6 million and \$54.6 million, respectively, net of accumulated depreciation on capital lease assets of \$52.3 million and \$48.1 million, respectively (see Note 9).

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, 2014 and 2013, the University capitalized net interest costs of \$29.7 million and \$27.4 million respectively.

8. BONDS PAYABLE

Amounts Outstanding at June 30, 2014 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% | \$ 6,155 |
| Series 2004-A | 96,025 | 2015 | 4.2-4.5% | 4,575 |
| Series 2004-1 | 183,965 | 2016 | 5.25% | 16,600 |
| Series 2005-1 | 25,595 | 2016 | 5.0% | 5,480 |
| Series 2005-2 | 212,550 | 2025 | 5.0% | 25,200 |
| Series 2008-A | 26,580 | 2038 | variable | 21,930 |
| Series 2008-1 | 232,545 | 2038 | variable | 194,530 |
| Series 2008-2 | 120,560 | 2038 | 4.0-5.0% | 105,725 |
| Series 2009-1 | 247,810 | 2039 | 3.0-5.0% | 198,670 |
| Series 2009-2 | 271,855 | 2039 | 6.423-6.573% | 271,855 |
| Series 2009-3 | 28,570 | 2039 | 5.283-6.173% | 27,250 |
| Series 2010-1 | 118,985 | 2020 | 5.0% | 96,645 |
| Series 2010-2 | 430,320 | 2040 | 3.8-5.45% | 430,320 |
| Series 2010-3 | 3,005 | 2040 | 5.75% | 2,880 |
| Series 2011-1 | 135,040 | 2034 | variable | 131,090 |
| Series 2011-2 | 101,700 | 2034 | variable | 99,135 |
| Series 2013-1 | 212,585 | 2043 | 2.00%-5.00% | 212,585 |
| Series 2013-2 | 71,790 | 2043 | .43-2.686% | 71,790 |
| Series 2013-3 | 24,640 | 2043 | 4.0% - 5.0% | 24,640 |
| Series 2014-1 | 293,890 | 2045 | 3.0% - 5.0% | 293,890 |
| Series 2014-2 | 14,085 | 2020 | .44%-2.1% | 14,085 |
| Series 2014-4 | 157,855 | 2026 | .20% - 3.381% | 157,855 |
| | | | | <u>2,412,885</u> |
| | | | Unamortized Bond Premium | <u>64,807</u> |
| | | | SUBTOTAL | <u>2,477,692</u> |
| University of Massachusetts HEFA/MDFA: | | | | |
| 2000 Series A | \$ 20,000 | 2030 | variable | 20,000 |
| 2007 Series D | 10,435 | 2031 | 3.5-4.25% | 9,395 |
| Series 2011 | 29,970 | 2034 | 2.5-4.0% | 28,880 |
| | | | | <u>58,275</u> |
| | | | Unamortized Bond Premium | <u>1,056</u> |
| | | | | <u>59,331</u> |
| WCCC HEFA/MDFA: | | | | |
| Series 2005-D | \$ 99,325 | 2029 | 5.0-5.25% | 73,033 |
| Series 2007-E | 118,750 | 2036 | 3.5-5.0% | 104,348 |
| Series 2007-F | 101,745 | 2036 | 4.0-5.0% | 80,893 |
| Series 2011 | 10,495 | 2023 | 2.0-5.0% | 8,819 |
| | | | | <u>267,093</u> |
| | | | Unamortized Bond Premium | <u>8,398</u> |
| | | | SUBTOTAL | <u>275,491</u> |
| MDFA: | | | | |
| Clean Renewable Energy Bonds | \$ 1,625 | 2027 | 3.5% | 1,243 |
| | | | TOTAL | <u>\$ 2,813,757</u> |

Bond Payable activity for the year ended June 30, 2014 is summarized as follows (in thousands):

| | <u>Beginning Balance</u> | <u>Additions/ Amortization</u> | <u>Retirements/ Repayments</u> | <u>Ending Balance</u> |
|---|--------------------------|------------------------------------|------------------------------------|-----------------------|
| University of Massachusetts Building Authority: | | | | |
| Series 2003-1 | \$ 12,035 | - | \$ (5,880) | \$ 6,155 |
| Series 2004-A | 6,715 | - | (2,140) | 4,575 |
| Series 2004-1 | 24,500 | - | (7,900) | 16,600 |
| Series 2005-1 | 8,020 | - | (2,540) | 5,480 |
| Series 2005-2 | 180,195 | - | (154,995) | 25,200 |
| Series 2006-2 | 2,760 | - | (2,760) | - |
| Series 2008-A | 22,795 | - | (865) | 21,930 |
| Series 2008-1 | 201,655 | - | (7,125) | 194,530 |
| Series 2008-2 | 108,300 | - | (2,575) | 105,725 |
| Series 2009-1 | 216,870 | - | (18,200) | 198,670 |
| Series 2009-2 | 271,855 | - | - | 271,855 |
| Series 2009-3 | 27,715 | - | (465) | 27,250 |
| Series 2010-1 | 107,950 | - | (11,305) | 96,645 |
| Series 2010-2 | 430,320 | - | - | 430,320 |
| Series 2010-3 | 2,925 | - | (45) | 2,880 |
| Series 2011-1 | 132,450 | - | (1,360) | 131,090 |
| Series 2011-2 | 100,020 | - | (885) | 99,135 |
| Series 2013-1 | 212,585 | - | - | 212,585 |
| Series 2013-2 | 71,790 | - | - | 71,790 |
| Series 2013-3 | - | 24,640 | - | 24,640 |
| Series 2014-1 | - | 293,890 | - | 293,890 |
| Series 2014-2 | - | 14,085 | - | 14,085 |
| Series 2014-4 | - | 157,855 | - | 157,855 |
| Plus: unamortized bond premium | 54,033 | 10,774 | - | 64,807 |
| Subtotal | 2,195,488 | 501,244 | (219,040) | 2,477,692 |
| UMass HEFA/MDFA: | | | | |
| 2000 Series A | 20,000 | - | - | 20,000 |
| 2007 Series D | 9,750 | - | (355) | 9,395 |
| Series 2011 | 29,810 | - | (930) | 28,880 |
| Plus: unamortized bond premium | 1,161 | - | (105) | 1,056 |
| Subtotal | 60,721 | - | (1,390) | 59,331 |
| WCCC HEFA/MDFA: | | | | |
| WCCC 2005 Series D | 81,860 | - | (8,826) | 73,034 |
| WCCC 2007 Series E | 108,135 | - | (3,787) | 104,348 |
| WCCC 2007 Series F | 87,110 | - | (6,217) | 80,893 |
| Series 2011 | 9,765 | - | (946) | 8,819 |
| Plus: unamortized bond premium | 8,889 | - | (491) | 8,398 |
| Subtotal | 295,759 | - | (20,267) | 275,492 |
| MDFA: | | | | |
| Clean Renewable Energy Bonds | 1,338 | - | (96) | 1,242 |
| Total | \$ 2,553,306 | \$ 501,244 | \$ (240,793) | \$ 2,813,757 |

Principal and interest, which is estimated using rates in effect at June 30, 2014, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|---------------------|
| 2015 | \$ 87,321 | \$ 108,792 |
| 2016 | 92,261 | 105,353 |
| 2017 | 94,796 | 102,580 |
| 2018 | 95,381 | 99,603 |
| 2019 | 100,456 | 96,356 |
| 2020-2024 | 525,588 | 424,214 |
| 2025-2029 | 483,982 | 327,128 |
| 2030-2034 | 417,320 | 242,843 |
| 2035-2039 | 492,430 | 141,492 |
| 2040-2044 | 327,130 | 42,592 |
| 2045-2049 | 22,831 | 837 |
| Total | \$ 2,739,496 | \$ 1,691,790 |

Bond payable activity for the year ended June 30, 2013 is summarized as follows (in thousands):

| | <u>Beginning Balance</u> | <u>Additions/ Amortization</u> | <u>Retirements/ Repayments</u> | <u>Ending Balance</u> |
|---|--------------------------|------------------------------------|------------------------------------|-----------------------|
| University of Massachusetts Building Authority: | | | | |
| Series 2003-1 | \$ 17,665 | | \$ (5,630) | \$ 12,035 |
| Series 2004-A | 8,765 | | (2,050) | 6,715 |
| Series 2004-1 | 32,195 | | (7,695) | 24,500 |
| Series 2005-1 | 10,440 | | (2,420) | 8,020 |
| Series 2005-2 | 189,645 | | (9,450) | 180,195 |
| Series 2006-2 | 5,375 | | (2,615) | 2,760 |
| Series 2008-A | 23,630 | | (835) | 22,795 |
| Series 2008-1 | 208,515 | | (6,860) | 201,655 |
| Series 2008-2 | 110,750 | | (2,450) | 108,300 |
| Series 2009-1 | 228,665 | | (11,795) | 216,870 |
| Series 2009-2 | 271,855 | | | 271,855 |
| Series 2009-3 | 28,155 | | (440) | 27,715 |
| Series 2010-1 | 114,275 | | (6,325) | 107,950 |
| Series 2010-2 | 430,320 | | | 430,320 |
| Series 2010-3 | 2,965 | | (40) | 2,925 |
| Series 2011-1 | 133,765 | | (1,315) | 132,450 |
| Series 2011-2 | 100,875 | | (855) | 100,020 |
| Series 2013-1 | | 212,585 | | 212,585 |
| Series 2013-2 | | 71,790 | | 71,790 |
| Plus: unamortized bond premium | 35,946 | 19,376 | (1,290) | 54,032 |
| Subtotal | 1,953,801 | 303,751 | (62,065) | 2,195,487 |
| UMass HEFA/MDFA: | | | | |
| 2000 Series A | 20,000 | | | 20,000 |
| 2002 Series C | 740 | | (740) | - |
| 2007 Series D | 10,090 | | (340) | 9,750 |
| Series 2011 | 29,970 | | (160) | 29,810 |
| Plus: unamortized bond premium | 1,161 | | (49) | 1,112 |
| Subtotal | 61,961 | | (1,289) | 60,672 |
| WCCC HEFA/MDFA: | | | | |
| WCCC 2005 Series D | 84,895 | | (3,035) | 81,860 |
| WCCC 2007 Series E | 110,520 | | (2,385) | 108,135 |
| WCCC 2007 Series F | 89,695 | | (2,585) | 87,110 |
| Series 2011 | 10,495 | | (730) | 9,765 |
| Plus: unamortized bond premium | 9,381 | | (492) | 8,889 |
| Less: deferred loss on refunding | (12,129) | 721 | | (11,408) |
| Subtotal | 292,857 | 721 | (9,227) | 284,351 |
| MDFA: | | | | |
| Clean Renewable Energy Bonds | 1,434 | | (96) | 1,338 |
| Total | \$ 2,310,053 | \$ 304,472 | \$ (72,677) | \$ 2,541,848 |

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 and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation). The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed \$200 million. The amount of bond obligations guaranteed by the Commonwealth was \$125.6 million and \$129.5 million at June 30, 2014 and June 30, 2013, respectively.

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 On April 23, 2013, the Authority entered into a standby bond purchase agreement with J.P. Morgan Chase Bank, N.A. ("J.P. Morgan") which requires J.P. Morgan to purchase bonds that are tendered and not remarketed. Under the terms of the J.P. Morgan standby bond purchase agreement, the Authority is required to pay J.P. Morgan in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Authority in connection with the J.P. Morgan agreement totaled \$0.5 million and \$0.1 million for the year ended June 30, 2014 and June 30, 2013, respectively. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Authority and J.P. Morgan. Previously, the 2008-1 bonds were supported with an irrevocable direct pay letter of credit (the "Lloyds LOC") issued by Lloyds TSB Bank PLC. Fees accrued by the Authority in connection with the Lloyds LOC totaled \$0.5 million for the year ended June 30, 2013.

On April 16, 2013, the Authority entered into a standby bond purchase agreement with Barclays Bank PLC ("Barclays") which requires Barclays to purchase bonds that are tendered and not remarketed. Under the terms of the Barclays standby bond purchase agreement, the Authority is required to pay Barclays in quarterly installments a facility fee in the amount of 32.5 basis points (or higher, under certain circumstances) of the commitment amount. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Authority and Barclays. Fees accrued by the Authority in connection with the Barclays agreement totaled \$0.1 million and \$0.1 million for the year ended June 30, 2014 and June 30, 2013, respectively. Previously, the 2008-A bonds were supported by a standby bond purchase agreement with Bank of America, N.A. ("BofA"). Fees accrued by the Authority in connection with BofA standby bond purchase agreement totaled \$24,800 for the year ended June 30, 2013.

The 2011-1 bonds are supported by a standby bond purchase agreement with Wells Fargo Bank, N.A. ("Wells") which requires Wells to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 185 days at an annual interest rate not to exceed 12 percent. The standby purchase agreement expired on June 9, 2014 and was extended until June 9, 2017. Under the agreement, the Authority was 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 \$143.3 million and was subject to adjustment from time to time in accordance with the provisions of the agreement. Under the first amendment to the standby purchase agreement, the Authority is required to pay Wells in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the first amendment to the standby purchase agreement was set at \$139.1 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. Fees accrued by the Authority in connection with the Wells agreement totaled \$0.6 million and \$0.7 million for the years ended June 30, 2014 and 2013, respectively.

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

Bond Refundings In fiscal year 2014, the Authority refunded \$5.4 million of its 2009-1 series bonds with 2013-3 series bonds. The Authority also refunded \$146.2 million of its 2005-2 series bonds with 2014-4 series bonds. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds are called. These advanced refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt are not recorded in the Authority's financial statements.

In connection with the Authority's prior advanced refundings, the Authority recorded a difference between the reacquisition price and the net carrying amount of the refunded debt of approximately \$84.5 million. This balance is being reported as a component of deferred outflows, loss on debt refunding, and will be amortized as an increase in interest expense over the remaining term of the original life of the refunded bonds. These refundings reduced the Authority's debt service payments in future years by approximately \$36.9 million and resulted in an economic gain (the present value of the savings) of approximately \$25.5 million.

Bond Premium and Issuance Expenses In connection with the Authority's bond issues, the Authority received premiums at issuance totaling approximately \$109.7 million. The Authority amortizes the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Authority's bond issues, the Authority incurred certain issuance costs associated with the bond offerings. In fiscal years 2014 and 2013 these costs amounted to \$3.6 million and \$2.2 million, respectively, and were expensed in accordance with the provisions of GASB Statement No 65.

Interest Rate Swaps The Authority uses derivative instruments to attempt to manage the impact of interest rate changes on its cash flows and net position by mitigating its exposure to certain market risks associated with operations, and does not use derivative instruments for trading or speculative purposes.

The Authority's contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53") to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate risk exposures. The Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB No. 53 are referred to as hedging derivative instruments. Under hedge accounting, the fair value of the hedging derivative instruments are reported as a deferred inflow or deferred outflow in the statement of net position until the contract is settled or terminated.

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

The Authority's hedging derivative instruments at June 30, 2014 and 2013 were as follows:

| | Fair Value June 30, 2013 | Net Change in Fair Value | Fair Value June 30, 2014 | Type of Hedge | Financial Statement Classification |
|--------------------|--------------------------------|-----------------------------|--------------------------------|------------------|---------------------------------------|
| Series 2008-1 Swap | \$ (28,125) | \$ 192 | \$ (27,933) | Cash Flow | Deferred outflow |
| Series 2008-A Swap | (3,232) | 32 | (3,200) | Cash Flow | Deferred outflow |
| Series 2006-1 Swap | (37,969) | 259 | (37,710) | Cash Flow | Deferred outflow |
| Total | \$ (69,326) | \$ 483 | \$ (68,843) | | |

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2014 are summarized in the table below:

| Type | Effective Date | Termination Date | Rate Authority Pays | Authority Receives | Original Notional Value |
|--------------------|----------------------------------|---------------------|---------------------------|-----------------------------|-------------------------------|
| Series 2008-1 Swap | Synthetic Fixed May 1, 2008 | May 1, 2038 | 3.388% | 70% of 1-Month LIBOR | \$ 232,545 |
| Series 2008-A Swap | Synthetic Fixed Nov 13, 2008 | May 1, 2038 | 3.378% | 70% of 1-Month LIBOR | \$ 26,580 |
| Series 2006-1 Swap | Synthetic Fixed Apr. 20, 2006 | Nov. 1, 2034 | 3.482% | 60% of 3-Month LIBOR + .18% | \$ 243,830 |

Fair Values - The fair values of the swaps are 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. As of June 30, 2014 and 2013, the Authority's swaps had a negative fair value of \$68,800,000 and \$69,300,000, respectively, and as such are presented as a deferred outflow.

Credit risk - As of June 30, 2014, the Authority was not exposed to credit risk on the swaps as the fair value was negative. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive which would expose the Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Authority's counterparties at June 30, 2014 are as follows:

| | Credit Ratings | | |
|------------------|----------------|-------|-------|
| | Moody's | S & P | Fitch |
| UBS AG | A2 | A | A |
| Deutsche Bank AG | A2 | A | A+ |
| Citi Bank NA | A2 | A | A |

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

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

Contingencies - All of the Authority's swaps include provisions that require the Authority to post collateral in the event its credit rating falls below certain levels. In the event the Authority is rated A2 by Moody's Investors Service or A by Standard & Poor's, the Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above \$10,000,000. In the event the Authority is not rated or rated below A3 by Moody's Investors Service or below A- by Standard & Poor's, the Authority must post collateral in the amount of the fair value of the swaps in liability positions. The collateral posted is to be in the form of cash obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The University's credit rating is Aa2 from Moody's Investors Service, AA from Fitch Ratings, and AA- from Standard and Poor's at June 30, 2014; therefore, no collateral has been posted.

Termination of Hedge Accounting - In June of 2011, the 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 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 \$22,200,000. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2014 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2014.

Swap payments and associated debt. Using rates as of June 30, 2014, 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:

| Fiscal Year Ending June 30, | Principal | | Interest | | Interest Rate Swaps, Net | | Total |
|--------------------------------|-----------|---------|----------|-------|--------------------------|---------|------------|
| | | | | | | | |
| 2015 | \$ | 10,430 | \$ | 381 | \$ | 14,251 | \$ 25,062 |
| 2016 | | 10,845 | | 374 | | 13,932 | 25,151 |
| 2017 | | 11,625 | | 365 | | 13,536 | 25,526 |
| 2018 | | 11,770 | | 358 | | 13,182 | 25,310 |
| 2019 | | 12,215 | | 349 | | 12,800 | 25,364 |
| 2020-2024 | | 139,770 | | 1,465 | | 53,568 | 194,803 |
| 2025-2029 | | 149,550 | | 767 | | 29,068 | 179,385 |
| 2030-2034 | | 90,205 | | 212 | | 8,344 | 98,761 |
| 2035-2039 | | 9,570 | | 8 | | 361 | 9,939 |
| Total | \$ | 445,980 | \$ | 4,279 | \$ | 159,042 | \$ 609,301 |

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

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 were 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, D and 2011

The University, through MassDevelopment, has issued bonds in order to construct new student centers on the Boston and Lowell campuses; to create a pool of funds to acquire telecommunications, electronics, computer, office, research, equipment and administrative systems; and to 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. The Series A Bonds were remarketed on April 1, 2013 and now bear interest at the long term rate of 0.70%. The newest long term rate period will end on March 31, 2016 and the Remarketed Series A Bonds will be subject to mandatory tender for purchase on April 1, 2016. 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 newest 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. At June 30, 2014 and 2013, the outstanding principal balance on the Bonds is \$20.0 million.

Debt covenants The University of Massachusetts Series A, D, and 2011 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 into an irrevocable trust fund to provide for payment of the MHEFA Revenue Bonds, University of Massachusetts Issue, 2002 Series C (the "Series C Bonds"). This payment was made as a lump sum in October 2012. The Series 2011 bonds were issued at a premium of \$1.2 million. These bonds bear interest at various fixed rates ranging from 2.5% to 4.0% and mature on October 1, 2034. At June 30, 2014, the aggregate principal payments outstanding on these bonds were \$28.8 million. As a result of the change in future payments, 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 MHEFA Revenue Bonds, University of Massachusetts Issue, 2001 Series B (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 included in the University's financial statements.

Worcester City Campus Corporation Series 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 "WCCC Series 2011 Bonds"). The WCCC 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, 2014 and 2013, the aggregate principal payments outstanding on these bonds were \$9.0 million and \$9.8 million, respectively. The proceeds of the WCCC Series 2011 Bonds were used to refund the remaining outstanding portion of the MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), 2001 Series B (the "WCCC 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 \$118.8 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), 2007 Series E (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 into an irrevocable trust fund to provide for partial advanced refunding of outstanding MHEFA WCCC Series B Revenue Bonds. In accordance with the applicable guidance, a portion of the WCCC Series B Bonds totaling \$30.8 million and the related irrevocable trust has been derecognized by the Corporation. At June 30, 2014 and June 30, 2013, the aggregate principal payments outstanding on the Series E Bonds were \$105.7 million and \$108.1 million, respectively.

In January 2007, WCCC issued \$101.7 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), 2007 Series F (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, 2014 and June 30, 2013, the aggregate principal payments outstanding on this portion of the Series F Bonds were \$29.1 million and \$29.8 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, 2014 and 2013, the aggregate principal payments outstanding on this portion of the Series F Bonds were \$55.3 million and \$57.4 million, respectively.

In April 2005, WCCC issued \$99.3 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), 2005 Series D (the "WCCC Series D Bonds"). The Corporation deposited the proceeds into an irrevocable trust fund to provide for payment of the MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), 2000 Series A (the "WCCC Series A Bonds"). In accordance with the applicable guidance, the WCCC 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 WCCC Series D Bonds were issued at a premium of \$4.1 million. At June 30, 2014 and 2013, the aggregate principal payment outstanding on the WCCC Series D Bonds was \$78.7 million and \$81.9 million, respectively. The proceeds from the WCCC 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 included 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 2014 and 2013, 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 as of June 30, 2014 and 2013.

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 \$22.1 million and \$16.8 million for the years ended June 30, 2014 and 2013, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems. The University also leases space to third party tenants. During 2014 and 2013, the amount reported as rental income was \$21.0 million and \$17.7 million, respectively.

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, 2014 (in thousands):

| Year | University Capital Leases | | | Operating Leases | June 30, 2014 | University Capital Lease Obligations | |
|---|---------------------------|--------------|---------|------------------|----------------|--------------------------------------|-----------|
| | Master Leases | Other Leases | Total | | | Year | Principal |
| 2015 | 2,186 | 86 | 2,272 | 14,700 | 2015 | \$2,232 | \$40 |
| 2016 | - | - | - | 15,657 | 2016 | - | - |
| 2017 | - | - | - | 13,725 | Total Payments | \$2,232 | \$40 |
| 2018 | - | - | - | 12,326 | | | |
| 2019 and thereafter | - | - | - | 130,142 | | | |
| Total Payments | 2,186 | 86 | 2,272 | \$186,550 | | | |
| Less: Amount representing interest | (38) | (2) | (40) | | | | |
| Present Value of Minimum Lease Payments | \$2,148 | \$84 | \$2,232 | | | | |

10. OTHER LONG-TERM LIABILITIES

During the year ended June 30, 2014 the following changes occurred in long-term liabilities as recorded in the statements of net position (in thousands):

| | Beginning Balance | Additions/ Adjustments | Reductions/ Adjustments | Ending Balance |
|---|-------------------|------------------------|-------------------------|----------------|
| University: | | | | |
| Capital lease obligations | \$2,238 | - | (\$2,238) | - |
| Compensated absences | 30,410 | 1,369 | - | 31,779 |
| Workers' compensation | 10,429 | 382 | - | 10,811 |
| Unearned revenues and credits | 20,199 | 10,542 | (9,498) | 21,243 |
| Advances and deposits | 27,943 | 694 | (543) | 28,094 |
| Other Liabilities | 41,532 | 5,312 | (3,581) | 43,263 |
| University Related Organization: | | | | |
| Other Liabilities | \$3,332 | \$ 151 | - | \$3,483 |

During the year ended June 30, 2013 the following changes occurred in long-term liabilities as recorded in the statement of net position (in thousands):

| | Beginning Balance | Additions/ Adjustments | Reductions/ Adjustments | Ending Balance |
|---|----------------------|---------------------------|----------------------------|-------------------|
| University: | | | | |
| Capital lease obligations | \$6,539 | \$ - | (\$4,301) | \$2,238 |
| Compensated absences | 30,820 | - | (410) | 30,410 |
| Workers' compensation | 9,805 | 624 | - | 10,429 |
| Unearned revenues and credits | 16,501 | 10,354 | (6,656) | 20,199 |
| Advances and deposits | 26,698 | 1,486 | (241) | 27,943 |
| Other Liabilities | 18,993 | 23,184 | (645) | 41,532 |
| University Related Organization: | | | | |
| Other Liabilities | \$3,487 | \$ - | (\$155) | \$3,332 |

11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2014 and 2013 include \$244.6 million and \$229.5 million, respectively, for the employer portion of fringe benefit costs (pension expense, health insurance for active employees and retirees, and unemployment compensation) that was paid directly by the Commonwealth of Massachusetts. Of this amount, \$102.8 million for 2014 and \$99.5 million for 2013 was reimbursed to the Commonwealth and \$141.9 million and \$130.0 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 primary care medicine for two or four full years (depending on conditions) in the Commonwealth. 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 \$68.6 million and \$66.3 million at June 30, 2014 and 2013, respectively. Cumulative repayments totaled approximately \$51.2 million and \$48.8 million as of June 30, 2014 and 2013, respectively.

13. RETIREMENT PLANS

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of University employees who participate in the Massachusetts State Employees' Retirement System ("MSERS"). MSERS, 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 benefit up to a maximum of 80% of the average of a member's highest consecutive three years of regular compensation, if membership started before April 2, 2012, or of the average of a member's highest consecutive five years of regular compensation, if membership started after April 2, 2012. 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 (at any age), or upon reaching the age of 55 with 10 years of service, if membership started before April 2, 2012, or upon reaching age 60 with ten years of service, if membership started on or after April 2, 2012. Members contribute 5%, 7%, 8% and 9% of regular compensation for membership start dates prior to January 1, 1975, from January 1, 1975 to December 31, 1983, from January 1, 1984 to June 30, 1996 and on or after July 1, 1996, respectively. Employees whose membership began on or after January 1, 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 \$ 63.6 million and \$52.2 million for the years ended June 30, 2014 and 2013, respectively. Annual covered payroll approximated 76.4% and 75.4% for the years ended June 30, 2014 and 2013, 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 MSERS and participate in a defined contribution plan, the Massachusetts Optional Retirement Program ("ORP"), administered by the Commonwealth's Department of Higher Education. At June 30, 2014 and 2013, there were approximately 4,031 and 4,433 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 \$8.9 million and \$8.7 million in 2014 and 2013, respectively. University employees contributed \$28.0 million and \$20.6 million in 2014 and 2013, respectively.

The MSERS and ORP retirement contributions of employees who become members of MSERS or ORP after January 1, 2011 are subject to a state compensation limit. Effective January 1, 2011, the University established a defined contribution plan, the University of Massachusetts 401(a) Retirement Gap Plan ("the Gap Plan"), administered by the University's Treasury Office.

Employees with MSERS or ORP membership dates after January 1, 2011 are eligible employees for the Gap Plan. Eligible employees begin participation in the Gap Plan when their regular compensation exceeds the state compensation limit in effect for the plan year, at which point their contributions to MSERS or ORP are required to stop for the remainder of the plan year. Employee contributions to the Gap Plan are mandatory and at the same rate as MSERS and ORP; the University contributes 5%. At June 30, 2014 plan assets totaled approximately \$506,000.

14. CONCENTRATION OF CREDIT RISK (Other than Cash and Investments)

The financial instrument that potentially subjects the University to concentrations of credit risk is the receivable from UMass Memorial Medical Center (UMMMC) which is uncollateralized. The receivable from UMass Memorial represents 12.2% and 4.4% of total accounts receivable for the University at June 30, 2014 and 2013, respectively. The University also had uncollateralized receivables from three other organizations comprising approximately 4.8%, 6.5% and 6.0% of the total outstanding receivables at June 30, 2014 and 5.8%, 5.5% and 5.7% of the total outstanding receivables at June 30, 2013.

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 \$148.2 million and \$171.1 million at June 30, 2014 and 2013, respectively. In connection with the investments in certain limited partnership agreements, the Foundation has \$22.4 million and \$26.5 million in committed calls as of June 30, 2014 and 2013, 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, 2014 and 2013 in the amount of \$29.7 million and \$30.2 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 \$15.1 million as of June 30, 2014 and \$14.6 million as of June 30, 2013. Estimated future payments related to such costs have been discounted at a rate of 4.0%.

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 UMMC, 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, UMMC 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 UMMC, and its subsequent amendments and the indemnification provisions in these Agreements, may be required to indemnify UMMC 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 2012, respectively, to construct and operate a research computing center located in Holyoke, Massachusetts. MGHPCC and MGHPCC Holyoke, Inc. are tax-exempt organizations under Internal Revenue Code section 501(c) (3). Each respective university agreed to contribute \$10.0 million and as of June 30, 2013, each university had contributed the required amounts. The University's unamortized \$8.0 million investment is included in its Statement of Financial Position within Other Assets.

16. SUBSEQUENT EVENTS

On July 3, 2014, the Authority issued its \$67.4 million Refunding Revenue Bonds, Senior Series 2014-3 (the "2014-3 bonds"). The 2014-3 bonds were issued to refinance the University's Worcester City Campus Corporation 2005-Series D bonds and to pay costs of issuing the 2014-3 bonds. The 2014-3 bonds are due (serially) through 2030 and the interest rate ranges from 2.0% to 5.0%.

On July 8, 2014, the Authority extended \$25.0 million of Series 2013-A commercial paper and issued an additional \$15.0 million of Series 2013-A commercial paper. The Authority also extended \$25.0 million of Series 2013-B commercial paper and issued an additional \$10.0 million of Series B commercial paper.

On July 17, 2014, the Authority entered into a lease, as lessee, with One Beacon Street Limited Partnership, as lessor, for space at One Beacon Street, Boston, Massachusetts to be used primarily as office space by the Authority, the UMASS Club and the University. The lease begins July 15, 2015 and ends December 31, 2030.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2014 and through December 18, 2014, the date on which the financial statements were available to be issued.

**University of Massachusetts
2014 Annual Financial Report
Supplemental Financial Information
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees of the
University of Massachusetts

Report on the financial statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, 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, 2014 and 2013, and our report thereon dated December 18, 2014 expressed an unmodified opinion on these basic consolidated financial statements as a whole.

The accompanying supplementary schedules of Supplemental Financial Information for University campuses and University related organizations is presented for purposes of additional analysis and is not a required part of the basic consolidated 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statement and certain additional procedures. These additional procedures included comparing and reconciling information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Boston, Massachusetts
December 18, 2014

**University of Massachusetts
CENTRAL ADMINISTRATION
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$10,717 | \$13,554 |
| Cash Held By State Treasurer | 3,297 | 542 |
| Accounts, Grants and Loans Receivable, net | 2,487 | 2,996 |
| Short Term Investments | 46,347 | 41,890 |
| Due From Other Campuses | 207 | 500 |
| Other Assets | 3,964 | 4,268 |
| Total Current Assets | 67,019 | 63,750 |
| Noncurrent Assets | | |
| Cash and Securities Held By Trustees | 29,940 | 44,470 |
| Cash Held By State Treasurer | 1,904 | |
| Investments | 121,329 | 121,082 |
| Other Assets | 7,120 | 8,129 |
| Investment In Plant, net | 91,930 | 54,762 |
| Total Noncurrent Assets | 252,223 | 228,443 |
| Total Assets | \$319,242 | \$292,193 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Loss on Debt Refinancing | \$482 | \$5,134 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$10,011 | \$7,125 |
| Accrued Salaries and Wages | 1,748 | 1,566 |
| Accrued Compensated Absences | 4,332 | 3,991 |
| Accrued Interest Payable | 597 | 453 |
| Bonds Payable | | 16,770 |
| Due To Campuses | 46,748 | 50,290 |
| Due To Related Organizations | 400 | 539 |
| Unearned Revenues and Credits | 1,634 | 1,243 |
| Advances and Deposits | 710 | 942 |
| Other Liabilities | 5,671 | 3,609 |
| Total Current Liabilities | 71,851 | 86,528 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences | 553 | 475 |
| Bonds Payable | 80,712 | 56,488 |
| Unearned Revenues and Credits | 62 | 5 |
| Other Liabilities | 10,446 | 5,134 |
| Total Noncurrent Liabilities | 91,773 | 62,102 |
| Total Liabilities | \$163,624 | \$148,630 |
| Net Position: | | |
| Invested in Capital Assets Net of Related Debt | \$15,953 | \$20,312 |
| Restricted | | |
| Nonexpendable | 1,606 | 2,206 |
| Expendable | 31,302 | 24,372 |
| Unrestricted | 107,239 | 101,807 |
| Total Net Position | \$156,100 | \$148,697 |

**University of Massachusetts
CENTRAL ADMINISTRATION
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|----------------|-----------------------------|
| REVENUES | | |
| Operating Revenues | | |
| Tuition and Fees | \$6,330 | \$7,024 |
| Federal Grants and Contracts | 4,172 | 2,450 |
| State Grants and Contracts | 4,615 | 2,983 |
| Local Grants and Contracts | 119 | 173 |
| Private Grants and Contracts | 3,174 | 3,691 |
| Sales and Service, Educational | 2,067 | 2,023 |
| Allocation from Campuses | 68,831 | 60,710 |
| Other Operating Revenues: | | |
| Other | 3,874 | 8,772 |
| Total Operating Revenues | 93,182 | 87,826 |
| EXPENSES | | |
| Operating Expenses | | |
| <i>Educational and General</i> | | |
| Instruction | 10,414 | 12,507 |
| Research | 5,159 | 3,084 |
| Public Service | 2,823 | 1,144 |
| Institutional Support | 61,850 | 60,064 |
| Operation and Maintenance of Plant | 449 | 6,288 |
| Scholarships and Fellowships | 6 | 6 |
| Depreciation and Amortization | 5,987 | 5,641 |
| Total Operating Expenses | 86,688 | 88,734 |
| Operating Income/(Loss) | 6,494 | (908) |
| NONOPERATING REVENUES/(EXPENSES) | | |
| State Appropriations | | 10,847 |
| Investment Return | 8,310 | 4,760 |
| Endowment Return | 233 | 224 |
| Interest on Indebtedness | (103) | (680) |
| Other Nonoperating Income | 32 | 345 |
| Net Nonoperating Revenues | 8,472 | 15,496 |
| Income Before Other Revenues, Expenses, Gains, and Losses | 14,966 | 14,588 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | |
| Capital Appropriations | 5,200 | |
| Other Additions/(Deductions) | (12,764) | 1,327 |
| Total Other Revenues, Expenses, Gains, and Losses | (7,564) | 1,327 |
| Total Increase in Net Position | 7,402 | 15,915 |
| NET POSITION | | |
| Net Position at Beginning of Year, as reported | 148,698 | 133,049 |
| Cummulative effect of change in accounting principle | | (266) |
| Net Position at Beginning of Year, as adjusted | 148,698 | 132,783 |
| Net Position at End of Year | 156,100 | 148,698 |

**University of Massachusetts
AMHERST CAMPUS
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|--------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$28,998 | \$27,226 |
| Cash Held By State Treasurer | 10,920 | 11,299 |
| Accounts, Grants and Loans Receivable, net | 45,219 | 36,083 |
| Pledges Receivable, net | 2,090 | 1,761 |
| Short Term Investments | 68,440 | 57,465 |
| Inventories, net | 4,651 | 5,196 |
| Due From Other Campuses | 21,511 | 23,276 |
| Other Assets | 501 | 605 |
| Total Current Assets | 182,330 | 162,911 |
| Noncurrent Assets | | |
| Cash Held By State Treasurer | 1,508 | 4,738 |
| Cash and Securities Held By Trustees | 155,484 | 155,081 |
| Accounts, Grants and Loans Receivable, net | 18,904 | 18,852 |
| Pledges Receivable, net | 3,481 | 2,318 |
| Investments | 276,025 | 249,222 |
| Other Assets | | 5 |
| Investment In Plant, net | 1,605,787 | 1,472,369 |
| Total Noncurrent Assets | 2,061,189 | 1,902,585 |
| Total Assets | \$2,243,519 | \$2,065,496 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Change in Fair Value of Interest Rate Swaps | \$28,199 | \$27,820 |
| Loss on Debt Refunding | 38,242 | 36,565 |
| Total Deferred Outflows of Resources | \$ 66,441 | \$ 64,385 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$44,759 | \$51,032 |
| Accrued Salaries and Wages | 44,575 | 42,386 |
| Accrued Compensated Absences | 24,713 | 24,305 |
| Accrued Workers' Compensation | 1,927 | 2,020 |
| Accrued Interest Payable | 5,709 | 6,501 |
| Bonds Payable | 84,950 | 147,295 |
| Accelerated variable rate debt, current | 16,300 | |
| Capital Lease Obligations | 2,148 | 4,184 |
| Unearned Revenues and Credits | 14,035 | 13,426 |
| Advances and Deposits | 1,149 | 690 |
| Other Liabilities | 6,666 | 8,034 |
| Total Current Liabilities | 246,931 | 299,873 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences | 12,345 | 11,876 |
| Accrued Workers' Compensation | 4,787 | 5,017 |
| Bonds Payable | 789,293 | 667,466 |
| Derivative Instrument , Interest Rate Swap | 41,552 | 41,838 |
| Capital Lease Obligations | | 2,148 |
| Unearned Revenues and Credits | 11,827 | 11,307 |
| Advances and Deposits | 13,386 | 13,348 |
| Total Noncurrent Liabilities | 873,190 | 753,000 |
| Total Liabilities | \$1,120,121 | \$1,052,873 |
| Net Position: | | |
| Invested in Capital Assets Net of Related Debt | \$851,475 | \$777,589 |
| Restricted | | |
| Nonexpendable | 3,973 | 3,971 |
| Expendable | 52,821 | 48,526 |
| Unrestricted | 281,570 | 246,922 |
| Total Net Position | \$1,189,839 | \$1,077,008 |

**University of Massachusetts
AMHERST CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|--------------------|-----------------------------|
| REVENUES | | |
| Operating Revenues | | |
| Tuition and Fees (net of scholarship allowances of \$ 95,477 at June 30, 2014 and \$89,345 at June 30, 2013) | \$337,767 | \$323,331 |
| Federal Grants and Contracts | 98,157 | 97,930 |
| State Grants and Contracts | 15,753 | 12,734 |
| Local Grants and Contracts | 346 | 316 |
| Private Grants and Contracts | 30,950 | 30,547 |
| Sales and Service, Educational | 8,089 | 8,615 |
| Auxiliary Enterprises | 214,759 | 195,577 |
| Other Operating Revenues: | | |
| Other | 16,137 | 19,225 |
| Total Operating Revenues | 721,958 | 688,275 |
| EXPENSES | | |
| Operating Expenses | | |
| <i>Educational and General</i> | | |
| Instruction | 312,844 | 294,707 |
| Research | 108,825 | 103,727 |
| Public Service | 26,140 | 24,882 |
| Academic Support | 58,108 | 56,305 |
| Student Services | 52,163 | 49,763 |
| Institutional Support | 64,305 | 59,033 |
| Operation and Maintenance of Plant | 84,162 | 77,610 |
| Depreciation and Amortization | 82,687 | 71,594 |
| Scholarships and Fellowships | 20,991 | 22,115 |
| <i>Auxiliary Enterprises</i> | 174,666 | 164,212 |
| Total Operating Expenses | 984,891 | 923,948 |
| Operating Loss | (262,933) | (235,673) |
| NONOPERATING REVENUES/(EXPENSES) | | |
| Federal Appropriations | 7,020 | 6,774 |
| State Appropriations | 272,676 | 241,423 |
| Gifts | 16,139 | 13,950 |
| Investment Return | 29,868 | 19,471 |
| Endowment Return | 8,424 | 6,258 |
| Interest on Indebtedness | (25,609) | (25,427) |
| Nonoperating Federal Grants | 25,338 | 23,867 |
| Other Nonoperating Income | (2) | (477) |
| Net Nonoperating Revenues | 333,854 | 285,839 |
| Income Before Other Revenues, Expenses, Gains, and Losses | 70,921 | 50,166 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | |
| Capital Appropriations | 46,191 | 52,934 |
| Capital Grants and Contracts | 8,473 | 3,226 |
| Disposal of Plant Facilities | (4,053) | (3,978) |
| Other Additions/(Deductions) | (8,701) | (2,718) |
| Total Other Revenues, Expenses, Gains, and Losses | 41,910 | 49,464 |
| Total Increase in Net Position | 112,831 | 99,630 |
| NET POSITION | | |
| Net Position at Beginning of Year, as reported | 1,077,008 | 983,791 |
| Cummulative effect of change in accounting principle | | (6,413) |
| Net Position at the Beginning of the Year, as adjusted | 1,077,008 | 977,378 |
| Net Position at End of Year | \$1,189,839 | \$1,077,008 |

University of Massachusetts
BOSTON CAMPUS
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$5,308 | \$7,951 |
| Cash Held By State Treasurer | 3,817 | 3,649 |
| Accounts, Grants and Loans Receivable, net | 24,323 | 22,803 |
| Pledges Receivable, net | 684 | 331 |
| Short Term Investments | 24,648 | 23,983 |
| Inventories, net | 811 | 766 |
| Due From Other Campuses | 4,900 | 5,617 |
| Other Assets | 194 | 298 |
| Total Current Assets | 64,685 | 65,398 |
| Noncurrent Assets | | |
| Cash Held By State Treasurer | 1,377 | 885 |
| Cash and Securities Held By Trustees | 349,620 | 302,781 |
| Accounts, Grants and Loans Receivable, net | 8,321 | 7,696 |
| Pledges Receivable, net | 1,514 | 718 |
| Investments | 97,566 | 94,117 |
| Other Assets | | 376 |
| Investment In Plant, net | 401,843 | 302,084 |
| Total Noncurrent Assets | 860,241 | 708,657 |
| Total Assets | \$924,926 | \$774,055 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Change in Fair Value of Interest Rate Swaps | \$1,218 | \$1,102 |
| Loss on Debt Refunding | 7,336 | 7,028 |
| Total Deferred Outflows of Resources | \$ 8,554 | \$ 8,130 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$12,682 | \$14,902 |
| Accrued Salaries and Wages | 19,515 | 17,764 |
| Accrued Compensated Absences | 11,484 | 10,827 |
| Accrued Workers' Compensation | 424 | 328 |
| Accrued Interest Payable | 3,889 | 3,657 |
| Bonds Payable | 23,968 | 37,172 |
| Accelerated variable rate debt, current | 306 | |
| Capital Lease Obligations | 84 | 118 |
| Unearned Revenues and Credits | 4,875 | 5,585 |
| Advances and Deposits | 2,250 | 2,001 |
| Other Liabilities | 5,243 | 6,101 |
| Total Current Liabilities | 84,720 | 98,455 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences | 4,230 | 3,978 |
| Accrued Workers' Compensation | 1,054 | 816 |
| Bonds Payable | 476,603 | 367,350 |
| Capital Lease Obligations | | 90 |
| Derivative Instrument, Interest Rate Swap | 4,412 | 4,442 |
| Unearned Revenues and Credits | 1,478 | 783 |
| Advances and Deposits | 4,420 | 4,545 |
| Other Liabilities | 1,775 | 1,889 |
| Total Noncurrent Liabilities | 493,972 | 383,893 |
| Total Liabilities | \$578,692 | \$482,348 |
| Net Position: | | |
| Invested in Capital Assets Net of Related Debt | \$237,546 | \$187,018 |
| Restricted | | |
| Nonexpendable | 6,699 | 6,673 |
| Expendable | 22,222 | 18,387 |
| Unrestricted | 88,321 | 87,759 |
| Total Net Position | \$354,788 | \$299,837 |

**University of Massachusetts
BOSTON CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|---|------------------|-----------------------------|
| REVENUES | | |
| Operating Revenues | | |
| Tuition and Fees (net of scholarship allowances of \$33,020 at June 30, 2014 and \$31,413 at June 30, 2013) | \$160,317 | \$153,084 |
| Federal Grants and Contracts | 26,730 | 27,142 |
| State Grants and Contracts | 10,151 | 10,089 |
| Local Grants and Contracts | 724 | 1,127 |
| Private Grants and Contracts | 9,830 | 10,832 |
| Sales and Service, Educational | 3,433 | 3,000 |
| Auxiliary Enterprises | 9,981 | 9,743 |
| Other Operating Revenues: | | |
| Other | 998 | 749 |
| Total Operating Revenues | 222,164 | 215,766 |
| EXPENSES | | |
| Operating Expenses | | |
| <i>Educational and General</i> | | |
| Instruction | 140,539 | 130,378 |
| Research | 29,176 | 30,465 |
| Public Service | 11,478 | 11,015 |
| Academic Support | 29,014 | 28,876 |
| Student Services | 22,867 | 20,782 |
| Institutional Support | 46,159 | 40,376 |
| Operation and Maintenance of Plant | 25,238 | 22,692 |
| Depreciation and Amortization | 13,284 | 12,770 |
| Scholarships and Fellowships | 11,654 | 11,832 |
| <i>Auxiliary Enterprises</i> | 11,353 | 10,565 |
| Total Operating Expenses | 340,762 | 319,751 |
| Operating Loss | (118,598) | (103,985) |
| NONOPERATING REVENUES/(EXPENSES) | | |
| State Appropriations | 100,553 | 89,435 |
| Gifts | 4,535 | 3,767 |
| Investment Return | 11,306 | 8,692 |
| Endowment Return | 1,997 | 1,718 |
| Interest on Indebtedness | (6,665) | (9,570) |
| Nonoperating Federal Grants | 21,173 | 20,817 |
| Other Nonoperating Income/(Expense) | 275 | (636) |
| Net Nonoperating Revenues | 133,174 | 114,223 |
| Income Before Other Revenues, Expenses, Gains, and Losses | 14,576 | 10,238 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | |
| Capital Appropriations | 42,978 | 26,401 |
| Capital Grants and Contracts | 1,856 | |
| Disposal of Plant Facilities | (1,157) | (1,039) |
| Other Additions/(Deductions) | (3,302) | (2,029) |
| Total Other Revenues, Expenses, Gains, and Losses | 40,375 | 23,333 |
| Total Increase in Net Position | 54,951 | 33,571 |
| NET POSITION | | |
| Net Position at Beginning of Year, as reported | 299,837 | 268,958 |
| Cummulative Effect of Accounting Principle | | (2,692) |
| Net Position at the Beginning of Year, as adjusted | 299,837 | 266,266 |
| Net Position at End of Year | 354,788 | 299,837 |

University of Massachusetts
DARTMOUTH CAMPUS
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$1,023 | \$2,412 |
| Cash Held By State Treasurer | 2,895 | 1,680 |
| Accounts, Grants and Loans Receivable, net | 12,306 | 23,753 |
| Short Term Investments | 3,172 | 3,879 |
| Inventories, net | | 792 |
| Due From Other Campuses | 1,141 | 1,310 |
| Due From Related Organizations | 181 | 230 |
| Other Assets | 280 | 32 |
| Total Current Assets | 20,998 | 34,088 |
| Noncurrent Assets | | |
| Cash Held By State Treasurer | 2,118 | 766 |
| Cash and Securities Held By Trustees | 49,581 | 54,725 |
| Accounts, Grants and Loans Receivable, net | 2,638 | 2,340 |
| Investments | 13,200 | 14,666 |
| Other Assets | | 7 |
| Investment In Plant, net | 335,741 | 318,533 |
| Total Noncurrent Assets | 403,278 | 391,037 |
| Total Assets | \$424,276 | \$425,125 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Change in Fair Value of Interest Rate Swaps | \$5,845 | \$5,496 |
| Loss on Debt Refunding | 23,148 | 21,474 |
| Total Deferred Outflows of Resources | \$ 28,993 | \$ 26,970 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$5,861 | \$6,490 |
| Accrued Salaries and Wages | 11,069 | 10,357 |
| Accrued Compensated Absences | 5,918 | 5,829 |
| Accrued Workers' Compensation | 536 | 344 |
| Accrued Interest Payable | 1,308 | 1,505 |
| Bonds Payable | 46,765 | 89,332 |
| Accelerated variable rate debt, current | 102 | |
| Due To Other Campuses | 200 | 500 |
| Unearned Revenues and Credits | 1,739 | 1,147 |
| Advances and Deposits | 1,171 | 1,191 |
| Other Liabilities | 1,562 | 3,660 |
| Total Current Liabilities | 76,231 | 120,355 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences | 3,829 | 3,724 |
| Accrued Workers' Compensation | 1,331 | 855 |
| Bonds Payable | 177,684 | 145,287 |
| Derivative Instrument, Interest Rate Swap | 15,408 | 15,522 |
| Unearned Revenues and Credits | 54 | 295 |
| Advances and Deposits | 3,032 | 2,749 |
| Other Liabilities | 29,720 | 30,255 |
| Total Noncurrent Liabilities | 231,058 | 198,687 |
| Total Liabilities | \$307,289 | \$319,042 |
| Net Position: | | |
| Invested in Capital Assets Net of Related Debt | \$136,286 | \$118,144 |
| Restricted | | |
| Expendable | 8,999 | 7,516 |
| Unrestricted | 695 | 7,393 |
| Total Net Position | \$145,980 | \$133,053 |

**University of Massachusetts
DARTMOUTH CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|---|------------------|-----------------------------|
| REVENUES | | |
| Operating Revenues | | |
| Tuition and Fees (net of scholarship allowances of \$ 33,161 at June 30, 2014 and \$31,279 June 30, 2013) | \$72,885 | \$76,821 |
| Federal Grants and Contracts | 8,632 | 9,421 |
| State Grants and Contracts | 5,683 | 6,268 |
| Local Grants and Contracts | 577 | 315 |
| Private Grants and Contracts | 4,000 | 3,850 |
| Sales and Service, Educational | 125 | 125 |
| Auxiliary Enterprises | 48,220 | 48,405 |
| Other Operating Revenues: | | |
| Other | 5,932 | 5,079 |
| Total Operating Revenues | 146,054 | 150,284 |
| EXPENSES | | |
| Operating Expenses | | |
| <i>Educational and General</i> | | |
| Instruction | 68,583 | 68,426 |
| Research | 17,013 | 18,274 |
| Public Service | 4,503 | 5,513 |
| Academic Support | 26,073 | 25,687 |
| Student Services | 11,574 | 10,971 |
| Institutional Support | 17,600 | 14,104 |
| Operation and Maintenance of Plant | 25,015 | 19,604 |
| Depreciation and Amortization | 15,064 | 13,438 |
| Scholarships and Fellowships | 6,659 | 6,011 |
| <i>Auxiliary Enterprises</i> | 30,424 | 30,055 |
| Total Operating Expenses | 222,508 | 212,083 |
| Operating Loss | (76,454) | (61,799) |
| NONOPERATING REVENUES/(EXPENSES) | | |
| State Appropriations | 64,633 | 57,242 |
| Investment Return | 2,602 | 2,190 |
| Endowment Income | 1,733 | 1,509 |
| Interest on Indebtedness | (8,617) | (8,434) |
| Nonoperating Federal Grants | 11,987 | 10,492 |
| Other Nonoperating Income | 587 | 685 |
| Net Nonoperating Revenues | 72,925 | 63,684 |
| Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses | (3,529) | 1,885 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | |
| Capital Appropriations | 14,556 | 16,037 |
| Capital Grants and Contracts | 5,815 | 13,813 |
| Disposal of Plant Facilities | (1,293) | (1,140) |
| Other Additions/(Deductions) | (2,622) | (593) |
| Total Other Revenues, Expenses, Gains, and Losses | 16,456 | 28,117 |
| Total Increase in Net Position | 12,927 | 30,002 |
| NET POSITION | | |
| Net Position at Beginning of Year, as reported | 133,053 | 105,585 |
| Cummulative effect of change in accounting principle | | (2,534) |
| Net Position at Beginning of Year, as adjusted | | 103,051 |
| Net Position at End of Year | \$145,980 | 133,053 |

**University of Massachusetts
LOWELL CAMPUS
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$5,718 | \$6,996 |
| Cash Held By State Treasurer | 5,345 | 5,088 |
| Accounts, Grants and Loans Receivable, net | 29,338 | 31,100 |
| Pledges Receivable, net | 1,001 | 659 |
| Short Term Investments | 23,842 | 17,186 |
| Due From Other Campuses | 5,235 | 5,732 |
| Other Assets | 616 | 706 |
| Total Current Assets | 71,095 | 67,467 |
| Noncurrent Assets | | |
| Cash Held By State Treasurer | 1,099 | 2,787 |
| Cash and Securities Held By Trustees | 114,045 | 35,345 |
| Accounts, Grants and Loans Receivable, net | 5,009 | 4,874 |
| Pledges Receivable, net | 1,470 | 871 |
| Investments | 78,339 | 64,665 |
| Other Assets | 740 | 1,777 |
| Investment In Plant, net | 574,746 | 478,769 |
| Total Noncurrent Assets | 775,448 | 589,088 |
| Total Assets | \$846,543 | \$656,555 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Change in Fair Value of Interest Rate Swaps | \$5,820 | \$5,789 |
| Loss on Debt Refunding | 2,590 | 3,878 |
| Total Deferred Outflows of Resources | \$ 8,410 | \$ 9,667 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$16,111 | \$17,910 |
| Accrued Salaries and Wages | 17,652 | 16,402 |
| Accrued Compensated Absences | 9,253 | 8,676 |
| Accrued Workers' Compensation | 462 | 404 |
| Accrued Interest Payable | 3,260 | 2,856 |
| Bonds Payable | 20,947 | 20,272 |
| Accelerated variable rate debt, current | 33,292 | |
| Unearned Revenues and Credits | 6,377 | 4,388 |
| Advances and Deposits | 1,365 | 1,516 |
| Other Liabilities | 12,065 | 7,919 |
| Total Current Liabilities | 120,784 | 80,343 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences | 5,239 | 5,014 |
| Accrued Workers' Compensation | 1,147 | 1,003 |
| Bonds Payable | 411,125 | 281,451 |
| Derivative Instruments, Interest Rate Swap | 7,471 | 7,523 |
| Unearned Revenues and Credits | 1,297 | 3,238 |
| Advances and Deposits | 3,808 | 3,854 |
| Other Liabilities | 250 | 250 |
| Total Noncurrent Liabilities | 430,337 | 302,333 |
| Total Liabilities | \$551,121 | \$382,676 |
| Net Position: | | |
| Invested in Capital Assets Net of Related Debt | \$199,226 | \$193,871 |
| Restricted | | |
| Nonexpendable | 3,957 | 4,185 |
| Expendable | 20,485 | 14,946 |
| Unrestricted | 80,164 | 70,544 |
| Total Net Position | \$303,832 | \$283,546 |

**University of Massachusetts
LOWELL CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

| | June 30, 2014 | June 30, 2013 (adjusted) |
|--|------------------|-----------------------------|
| REVENUES | | |
| Operating Revenues | | |
| Tuition and Fees (net of scholarship allowances of \$ 37,245 at June 30, 2014 and \$34,956 at June 30, 2013) | \$152,563 | \$139,748 |
| Federal Grants and Contracts | 24,362 | 23,151 |
| State Grants and Contracts | 5,121 | 5,091 |
| Local Grants and Contracts | 457 | 322 |
| Private Grants and Contracts | 10,073 | 10,160 |
| Sales and Service, Educational | 33 | 129 |
| Auxiliary Enterprises | 45,101 | 36,188 |
| Other Operating Revenues: | | |
| Other | 6,726 | 6,046 |
| Total Operating Revenues | 244,436 | 220,835 |
| EXPENSES | | |
| Operating Expenses | | |
| <i>Educational and General</i> | | |
| Instruction | 111,203 | 105,148 |
| Research | 36,624 | 35,921 |
| Public Service | 830 | 1,321 |
| Academic Support | 26,112 | 22,656 |
| Student Services | 27,033 | 21,280 |
| Institutional Support | 43,222 | 39,316 |
| Operation and Maintenance of Plant | 34,453 | 30,056 |
| Depreciation and Amortization | 23,926 | 19,657 |
| Scholarships and Fellowships | 9,932 | 9,767 |
| <i>Auxiliary Enterprises</i> | 26,276 | 21,176 |
| Total Operating Expenses | 339,611 | 306,298 |
| Operating Loss | (95,175) | (85,463) |
| NONOPERATING REVENUES/(EXPENSES) | | |
| State Appropriations | 88,136 | 79,228 |
| Gifts | 3,484 | 2,170 |
| Investment Return | 8,284 | 6,440 |
| Endowment Return | 1,720 | 1,554 |
| Interest on Indebtedness | (12,311) | (9,625) |
| Nonoperating Federal Grants | 15,781 | 15,410 |
| Other Nonoperating Income/(Expense) | 8 | (239) |
| Net Nonoperating Revenues | 105,102 | 94,938 |
| Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses | 9,927 | 9,475 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | |
| Capital Appropriations | 2,788 | 17,164 |
| Capital Grants and Contracts | 5,843 | 5,613 |
| Capital Contribution | | 3,000 |
| Disposal of Plant Facilities | 1,550 | (1,388) |
| Other Additions/(Deductions) | 178 | (379) |
| Total Other Revenues, Expenses, Gains, and Losses | 10,359 | 24,010 |
| Total Increase in Net Position | 20,286 | 33,485 |
| NET POSITION | | |
| Net Position at Beginning of Year, as reported | 283,546 | 251,973 |
| Cummulative effect of change in accounting principle | | (1,912) |
| Net Position at Beinning of Year, as adjusted | | 250,061 |
| Net Position at End of Year | \$303,832 | 283,546 |

University of Massachusetts
WORCESTER CAMPUS
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands of dollars)

| | Worcester Campus June 30, 2014 | Worcester Campus June 30, 2013 (adjusted) | Worcester City Campus Corporation June 30, 2014 | Worcester City Campus Corporation June 30, 2013 (adjusted) | Eliminations June 30, 2014 | Eliminations June 30, 2013 | Combined Totals Memorandum Only June 30, 2014 | Combined Totals Memorandum Only June 30, 2013 (adjusted) |
|--|--------------------------------------|--|--|--|-------------------------------|-------------------------------|--|--|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Cash Equivalents | \$5,742 | \$8,696 | \$6,246 | \$27,104 | | | \$11,988 | \$35,800 |
| Cash Held By State Treasurer | 1,593 | 1,625 | | | | | 1,593 | 1,625 |
| Accounts, Grants and Loans Receivable, net | 115,344 | 118,558 | 2,139 | 695 | | | 117,483 | 119,253 |
| Pledges Receivable, net | 7,545 | 9,710 | | | | | 7,545 | 9,710 |
| Short Term Investments | 26,508 | 26,513 | | | | | 26,508 | 26,513 |
| Inventories, net | 10,836 | 13,015 | | | | | 10,836 | 13,015 |
| Accounts Receivable UMass Memorial | 38,762 | 12,690 | 2,045 | 44 | | | 40,807 | 12,734 |
| Due From Other Campuses | 13,960 | 14,355 | | | | | 13,960 | 14,355 |
| Due From Related Organizations | 3,881 | 1,907 | 81,623 | 48,343 | (85,504) | (49,711) | | 539 |
| Other Assets | 2,529 | 3,456 | 328 | 539 | | | 2,857 | 3,995 |
| Total Current Assets | 226,700 | 210,525 | 92,381 | 76,725 | (85,504) | (49,711) | 233,577 | 237,539 |
| Noncurrent Assets | | | | | | | | |
| Cash Held By State Treasurer | 423 | 163 | | | | | 423 | 163 |
| Cash and Securities Held By Trustees | 5,484 | 30,365 | 32 | 24 | | | 5,516 | 30,389 |
| Accounts, Grants and Loans Receivable, net | 5,626 | 5,626 | | | | | 5,626 | 5,626 |
| Investments | 189,494 | 173,977 | | | | | 189,494 | 173,977 |
| Investment In Plant, net | 659,834 | 664,682 | 394,905 | 414,318 | | | 1,054,739 | 1,079,000 |
| Total Noncurrent Assets | 860,861 | 874,813 | 394,937 | 414,342 | | | 1,255,798 | 1,289,155 |
| Total Assets | \$1,087,561 | \$1,085,338 | \$487,318 | \$491,067 | (\$85,504) | (\$49,711) | \$1,489,375 | \$1,526,694 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| Deferred Outflows of Resources | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts Payable | \$19,932 | \$27,562 | \$4,294 | \$4,217 | | | \$24,226 | \$31,779 |
| Accrued Salaries and Wages | 15,905 | 17,541 | | | | | 15,905 | 17,541 |
| Accrued Compensated Absences | 18,392 | 19,490 | | | | | 18,392 | 19,490 |
| Accrued Workers' Compensation | 1,003 | 1,102 | | | | | 1,003 | 1,102 |
| Accrued Interest Payable | 3,651 | 3,697 | 3,458 | 3,647 | | | 7,109 | 7,344 |
| Bonds Payable | 8,781 | 8,195 | 11,197 | 9,090 | | | 19,978 | 17,285 |
| Accounts Payable UMass Memorial | 3,864 | 4,364 | | | | | 3,864 | 4,364 |
| Due to Related Organizations | 81,974 | 48,184 | 3,484 | 1,907 | (85,504) | (49,711) | (46) | 380 |
| Due to Other Campuses | 6 | | | | | | 6 | |
| Unearned Revenues and Credits | 12,263 | 14,599 | | | | | 12,263 | 14,599 |
| Advances and Deposits | 267 | 1,606 | | | | | 267 | 1,606 |
| Other Liabilities | 14,114 | 19,759 | 3,686 | 3,448 | | | 17,800 | 23,207 |
| Total Current Liabilities | 180,152 | 166,099 | 26,119 | 22,309 | (85,504) | (49,711) | 120,767 | 138,697 |
| Noncurrent Liabilities | | | | | | | | |
| Accrued Compensated Absences | 5,583 | 5,343 | | | | | 5,583 | 5,343 |
| Accrued Workers' Compensation | 2,492 | 2,738 | | | | | 2,492 | 2,738 |
| Bonds Payable | 387,218 | 390,198 | 294,514 | 305,482 | | | 681,732 | 695,680 |
| Unearned Revenues and Credits | 6,525 | 4,571 | | | | | 6,525 | 4,571 |
| Advances and Deposits | 3,448 | 3,447 | | | | | 3,448 | 3,447 |
| Other Liabilities | 603 | 3,500 | 469 | 504 | | | 1,072 | 4,004 |
| Total Noncurrent Liabilities | 405,869 | 409,797 | 294,983 | 305,986 | | | 700,852 | 715,783 |
| Total Liabilities | \$586,021 | \$575,896 | \$321,102 | \$328,295 | (\$85,504) | (\$49,711) | \$821,619 | \$854,480 |
| Net Position: | | | | | | | | |
| Invested in Capital Assets Net of Related Debt | \$272,937 | \$288,219 | \$87,344 | \$97,020 | | | \$360,281 | \$385,239 |
| Restricted | | | | | | | | |
| Nonexpendable | 1,152 | 1,023 | | | | | 1,152 | 1,023 |
| Expendable | 38,674 | 39,775 | 27 | 2,947 | | | 38,701 | 42,722 |
| Unrestricted | 188,777 | 180,425 | 78,845 | 62,805 | | | 267,622 | 243,230 |
| Total Net Position | \$501,540 | \$509,442 | \$166,216 | \$162,772 | | | \$667,756 | \$672,214 |

University of Massachusetts
WORCESTER CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2014 and June 30, 2013
(in thousands of dollars)

| | Worcester Campus June 30, 2014 | Worcester Campus June 30, 2013 | Worcester City City Campus Corporation June 30, 2014 | Worcester City City Campus Corporation June 30, 2013 | Eliminations June 30, 2014 | Eliminations June 30, 2013 | Combined Totals Memorandum Only June 30, 2014 | Combined Totals Memorandum Only June 30, 2013 |
|---|--------------------------------------|--------------------------------------|---|---|-------------------------------|-------------------------------|--|--|
| REVENUES | | | | | | | | |
| Operating Revenues | | | | | | | | |
| Tuition and Fees (net of scholarship allowances of \$2,283 at June 30, 2014 and \$2,760 at June 30, 2013) | \$16,245 | \$14,367 | | | | | \$16,245 | \$14,367 |
| Federal Grants and Contracts | 159,994 | 174,603 | | | | | 159,994 | 174,603 |
| State Grants and Contracts | 35,930 | 33,140 | | | | | 35,930 | 33,140 |
| Private Grants and Contracts | 55,070 | 48,391 | | | | | 55,070 | 48,391 |
| Sales and Service, Educational | 8,045 | 5,345 | | | | | 8,045 | 5,345 |
| Auxiliary Enterprises | 31,424 | 33,101 | | | | (3,470) | 31,424 | 29,631 |
| Other Operating Revenues: | | | | | | | | |
| Sales and Service, Independent Operations | 44,296 | 46,062 | | | | | 44,296 | 46,062 |
| Sales and Service, Public Service Activities | 446,557 | 446,925 | 44,908 | 33,277 | (42,987) | (33,083) | 448,478 | 447,119 |
| Other | 37,384 | 42,674 | 59,110 | 57,238 | (36,743) | (38,944) | 59,751 | 60,968 |
| Total Operating Revenues | 834,945 | 844,608 | 104,018 | 90,515 | (79,730) | (75,497) | 859,233 | 859,626 |
| EXPENSES | | | | | | | | |
| Operating Expenses | | | | | | | | |
| <i>Educational and General</i> | | | | | | | | |
| Instruction | 53,538 | 53,969 | | | (72) | (74) | 53,466 | 53,895 |
| Research | 213,221 | 215,744 | | | (90) | (86) | 213,131 | 215,658 |
| Public Service | 32,211 | 30,657 | | | | | 32,211 | 30,657 |
| Academic Support | 11,693 | 12,129 | | | (102) | (102) | 11,591 | 12,027 |
| Student Services | 5,760 | 5,950 | | | | | 5,760 | 5,950 |
| Institutional Support | 55,909 | 58,067 | | | (294) | (275) | 55,615 | 57,792 |
| Operation and Maintenance of Plant | 45,695 | 50,956 | 24,382 | 26,100 | (24,422) | (30,191) | 45,655 | 46,865 |
| Depreciation and Amortization | 43,157 | 41,582 | 20,128 | 20,579 | | | 63,285 | 62,161 |
| <i>Auxiliary Enterprises</i> | 24,161 | 24,557 | | | (1,800) | (1,800) | 22,361 | 22,757 |
| <i>Other Expenditures</i> | | | | | | | | |
| Independent Operations | 51,461 | 54,434 | | | (6,600) | (6,608) | 44,861 | 47,826 |
| Public Service Activities | 367,226 | 334,845 | 44,376 | 28,809 | (46,350) | (36,361) | 365,252 | 327,293 |
| Total Operating Expenses | 904,032 | 882,890 | 88,886 | 75,488 | (79,730) | (75,497) | 913,188 | 882,881 |
| Operating Income/(Loss) | (69,087) | (38,282) | 15,132 | 15,027 | | | (53,955) | (23,255) |
| NONOPERATING REVENUES/(EXPENSES) | | | | | | | | |
| State Appropriations | 44,620 | 41,136 | | | | | 44,620 | 41,136 |
| Gifts | 4,855 | 10,157 | | | | | 4,855 | 10,157 |
| Investment Return | 25,858 | 13,933 | 457 | 551 | | | 26,315 | 14,484 |
| Endowment Return | 2,535 | 2,351 | | | | | 2,535 | 2,351 |
| Interest on Indebtedness | (21,871) | (23,759) | (14,320) | (13,869) | | | (36,191) | (37,628) |
| Other Nonoperating Income | 146 | 1,385 | | (59) | | | 146 | 1,326 |
| Net Nonoperating Revenues | 56,143 | 45,203 | (13,863) | (13,377) | | | 42,280 | 31,826 |
| Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses | (12,944) | 6,921 | 1,269 | 1,650 | | | (11,675) | 8,571 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | | | | | | | |
| Capital Appropriations | 419 | 45 | | | | | 419 | 45 |
| Capital Grants and Contracts | | 16,695 | | | | | | 16,695 |
| Disposal of Plant Facilities | (1,179) | (1,248) | (66) | (9) | | | (1,245) | (1,257) |
| Contributions for Capital Expenditures | (4,976) | | 5,226 | 1,514 | | | 250 | 1,514 |
| Other Additions/Deductions | 10,778 | 8,548 | (2,985) | (1,216) | | | 7,793 | 7,332 |
| Total Other Revenues, Expenses, Gains, and Losses | 5,042 | 24,040 | 2,175 | 289 | | | 7,217 | 24,329 |
| Total Increase in Net Position | (7,902) | 30,961 | 3,444 | 1,939 | | | (4,458) | 32,900 |
| NET POSITION | | | | | | | | |
| Net Position at Beginning of Year, as reported | 509,442 | 482,328 | 162,772 | 163,691 | | | 672,214 | 646,019 |
| Cummulative effect of change in accounting principle | | (3,847) | | (2,858) | | | | (6,705) |
| Net Position at Beginning of Year, as adjusted | | 478,481 | 162,772 | 160,833 | | | | 639,314 |
| Net Position at End of Year | \$501,540 | \$509,442 | \$166,216 | 162,772 | | | \$667,756 | 672,214 |

Combining Statements of Net Position for University Related Organizations as of June 30, 2014 and 2013
(in thousands of dollars)

Supplemental Schedule I

| | Total June 30, 2014 | Eliminations and Adjustments June 30, 2014 | The University of Massachusetts Foundation, Inc. June 30, 2014 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2014 | Total June 30, 2013 | Eliminations and Adjustments June 30, 2013 | The University of Massachusetts Foundation, Inc. June 30, 2013 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2013 |
|--|------------------------|---|---|--|------------------------|---|---|--|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Accounts, Grants and Loans Receivable, net | | | | | | | | |
| Pledges Receivable, net | \$785 | (\$6,368) | \$6,045 | \$1,108 | \$887 | (\$6,114) | \$6,513 | \$488 |
| Due From Related Organizations | 354 | 354 | | | 380 | 380 | | |
| Other Assets | 539 | | 535 | 4 | 2,563 | | 2,550 | 13 |
| Total Current Assets | 1,678 | (6,014) | 6,580 | 1,112 | 3,830 | (5,734) | 9,063 | 501 |
| Noncurrent Assets | | | | | | | | |
| Cash and Cash Equivalents | 1,378 | | 158 | 1,220 | 1,041 | | 81 | 960 |
| Pledges Receivable, net | 677 | (12,676) | 10,634 | 2,719 | 1,109 | (9,333) | 8,978 | 1,464 |
| Investments | 452,529 | (692,318) | 1,091,312 | 53,535 | 389,376 | (628,633) | 970,061 | 47,948 |
| Other Assets | 62 | | | 62 | 173 | | 113 | 60 |
| Investment In Plant, net | 8,478 | | 8,478 | | 8,619 | | 8,619 | |
| Total Noncurrent Assets | 463,124 | (704,994) | 1,110,582 | 57,536 | 400,318 | (637,966) | 987,852 | 50,432 |
| Total Assets | \$464,802 | (\$711,008) | \$1,117,162 | \$58,648 | \$404,148 | (\$643,700) | \$996,915 | \$50,933 |
| LIABILITIES | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts Payable | \$174 | | \$154 | \$20 | \$94 | | \$13 | \$81 |
| Due To Related Organizations | 181 | \$(5,954) | | 6,135 | 230 | (\$5,409) | | 5,639 |
| Assets Held on Behalf of the University | | (643,224) | 643,224 | | 0 | (585,005) | 585,005 | |
| Assets Held on Behalf of Others | 13,797 | | 13,797 | | 12,307 | | 12,307 | |
| Unearned Revenues and Credits | 1,373 | | 1,373 | | 1,973 | | 1,973 | |
| Total Current Liabilities | 15,525 | (649,178) | 658,548 | 6,155 | 14,604 | (590,414) | 599,298 | 5,720 |
| Noncurrent Liabilities | | | | | | | | |
| Other Liabilities | 3,483 | | 3,483 | | 3,332 | | 3,332 | |
| Total Noncurrent Liabilities | 3,483 | | 3,483 | | 3,332 | 0 | 3,332 | |
| Total Liabilities | \$19,008 | (\$649,178) | \$662,031 | \$6,155 | \$17,936 | (\$590,414) | \$602,630 | \$5,720 |
| Net Position: | | | | | | | | |
| Invested in Capital Assets Net of Related Debt | \$8,477 | \$8,477 | | | \$8,619 | \$8,619 | | |
| Restricted | | | | | | | | |
| Nonexpendable | 309,718 | (47,808) | \$324,579 | \$32,947 | 290,858 | (43,525) | \$303,973 | \$30,410 |
| Expendable | 101,195 | (14,022) | 98,409 | 16,808 | 74,706 | (9,761) | 71,889 | 12,578 |
| Unrestricted | 26,404 | (8,477) | 32,143 | 2,738 | 12,029 | (8,619) | 18,423 | 2,225 |
| Total Net Position | \$445,794 | (\$61,830) | \$455,131 | \$52,493 | \$386,212 | (\$53,286) | \$394,285 | \$45,213 |

**Combining Statements of Revenues, Expenses, and Changes in Net Position for University Related Organizations
For The Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

Supplemental Schedule II

| | Total June 30, 2014 | Eliminations and Adjustments June 30, 2014 | The University of Massachusetts Foundation, Inc. June 30, 2014 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2014 | Total June 30, 2013 | Eliminations and Adjustments June 30, 2013 | The University of Massachusetts Foundation, Inc. June 30, 2013 | University of Massachusetts Dartmouth Foundation, Inc. June 30, 2013 |
|---|------------------------|---|---|--|------------------------|---|---|--|
| EXPENSES | | | | | | | | |
| Operating Expenses | | | | | | | | |
| <i>Educational and General</i> | | | | | | | | |
| Public Service | \$11,066 | (\$658) | \$8,872 | \$2,852 | \$12,573 | (\$732) | \$10,308 | \$2,997 |
| Depreciation | 200 | | 200 | | 202 | | 202 | |
| Scholarships and Fellowships | 177 | (1,326) | 642 | 861 | 77 | (1,175) | 561 | 691 |
| Total Operating Expenses | 11,443 | (1,984) | 9,714 | 3,713 | 12,852 | (1,907) | 11,071 | 3,688 |
| Operating Income/(Loss) | (11,443) | 1,984 | (9,714) | (3,713) | (12,852) | 1,907 | (11,071) | (3,688) |
| NONOPERATING REVENUES/(EXPENSES) | | | | | | | | |
| Gifts | 11,063 | (2,019) | 6,257 | 6,825 | 9,452 | 217 | 6,300 | 2,935 |
| Investment Income | 42,849 | (65,246) | 103,882 | 4,213 | 24,540 | (35,589) | 57,662 | 2,467 |
| Endowment Income | 1,070 | (16,625) | 17,695 | | 1,160 | (13,936) | 15,096 | |
| Net Nonoperating Revenues | 54,982 | (83,890) | 127,834 | 11,038 | 35,152 | (49,308) | 79,058 | 5,402 |
| Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses | 43,539 | (81,906) | 118,120 | 7,325 | 22,300 | (47,401) | 67,987 | 1,714 |
| OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | | | | | | | | |
| Additions to Permanent Endowments | 17,566 | (1,746) | 19,312 | | 16,056 | (844) | 16,457 | 443 |
| Less: Amounts Earned/Received on Behalf of the University | | 54,746 | (54,746) | | | (637) | 637 | |
| Less: Amounts Earned/Received on Behalf of Others | (1,555) | | (1,555) | | (928) | | (928) | |
| Distribution to University | | 20,268 | (20,268) | | | 46,764 | (46,764) | |
| Other Additions/Deductions | 32 | 94 | (17) | (45) | (9,051) | (1,656) | (8,554) | 1,159 |
| Total Other Revenues, Expenses, Gains, and Losses | 16,043 | 73,362 | (57,274) | (45) | 6,077 | 43,627 | (39,152) | 1,602 |
| Total Increase/(Decrease) in Net Assets | 59,582 | (8,544) | 60,846 | 7,280 | 28,377 | (3,774) | 28,835 | 3,316 |
| NET POSITION | | | | | | | | |
| Net Position at Beginning of Year | 386,212 | (53,286) | 394,285 | 45,213 | 357,835 | (49,512) | 365,450 | 41,897 |
| Net Position at End of Year | \$445,794 | (\$61,830) | \$455,131 | \$52,493 | \$386,212 | (\$53,286) | \$394,285 | \$45,213 |